Mastering the Course of Growth

Annual Report 2020/21

LCB finance

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Mastering the Course of Growth

Even though the events in the year under review stalled much of the country and the world, our Company pushed through the obstacles to continue its momentum into the next phase of development. We kept moving, and kept pace through a united team, a bold and strategic leadership and through safe and efficient processes that kept our engines running smoothly, while many others came to a halt. We also used this time to consolidate and streamline our operations to ensure that what we offer is of the highest standard, ensuring that our stakeholder requirements are fulfilled. And now that we have come through to the other side of a challenging year, we're building our momentum to undertake the uncertainty that lies ahead, as we unceasingly master the course of growth.

LCB Finance LTD
Annual Report
2020/21

ABOUT US

VISION STATEMENT

To be the most popular Financial Service Provider in Sri Lanka.

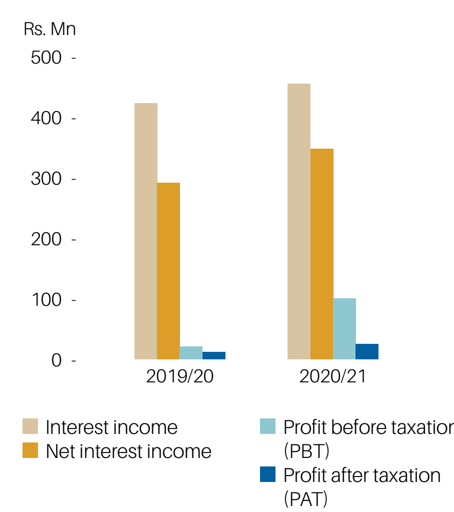
MISSION STATEMENT

To excel in providing Financial Services to the rural communities and small and medium entrepreneurs by developing products and services which are designed, to meet the specific financial requirements relating to the ongoing economic activities in the respective catchment areas of our existing and expanded branch network and be the financier to the growth of the rural economy, whilst continuing to develop our business relationships with corporate clients.

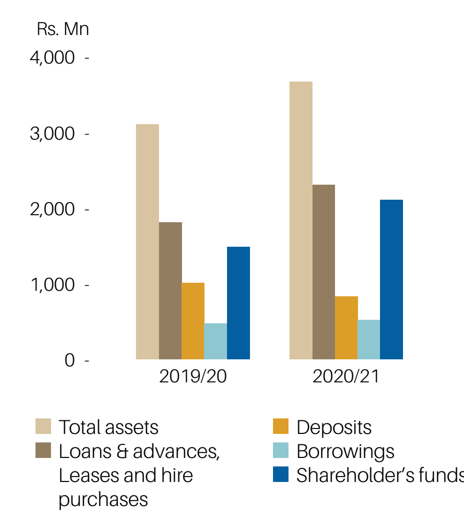
FINANCIAL HIGHLIGHTS

Performance Indicators		2020-2021	2019-2020	Change
Operating Results				
Income	Rs. Mn	**461.38**	456.05	1.2%
Interest income	Rs. Mn	**456.26**	423.69	7.7%
Net interest income	Rs. Mn	**348.06**	292.22	19.1%
Profit before taxation (PBT)	Rs. Mn	**100.29**	20.98	378.0%
Profit after taxation (PAT)	Rs. Mn	**25.00**	11.43	118.7%
Financial Position				
Total assets	Rs. Mn	**3,672.88**	3,105.52	18.3%
Loans & advances, leases and hire purchases	Rs. Mn	**2,305.85**	1,811.61	27.3%
Deposits	Rs. Mn	**831.58**	1,012.24	-17.8%
Borrowings	Rs. Mn	**518.41**	471.90	9.9%
Shareholder's funds	Rs. Mn	**2,106.94**	1,483.37	42.2%
Investor Information				
Net assets value per share	Rs.	**3.17**	0.30	973.0%
Earnings per share (EPS)	Rs.	**0.04**	0.00	65.2%
Statutory Ratios				
Core capital adequacy ratio to risk weighted assets	%	**56.45**	28.68	96.8%
Total capital adequacy ratio to risk weighted assets	%	**56.45**	28.68	96.8%
Capital funds to deposit liabilities ratio	%	**248.07**	116.32	113.3%
Liquid assets ratio	%	**33.05**	15.21	117.3%
Other Ratios				
Return on assets (Before Tax)	%	**2.96**	0.72	311.1%
Return on equity (After Tax)	%	**1.19**	0.77	54.5%
Net interest margin (NIM)	%	**10.27**	10.09	1.8%
Loan to deposits	Times	**2.77**	1.79	54.9%
Net Non - performing loans ratio (Net NPL)	%	**0.35**	3.12	-88.8%

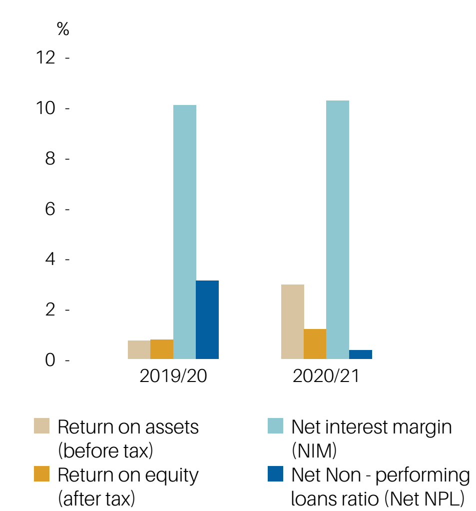
Performance Indicators



Financial Position



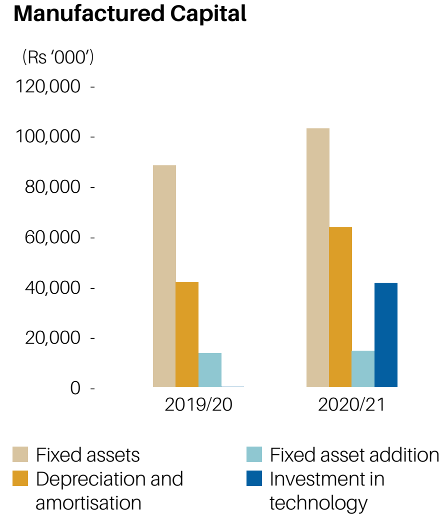
Other Ratios



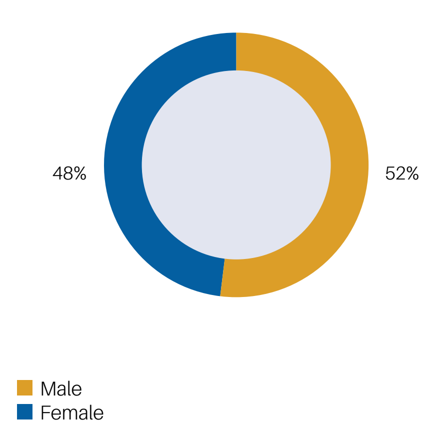
NON-FINANCIAL HIGHLIGHTS

	2020/21	2019/20
Intellectual Capital		
Credit rating (ICRA ratings)	**B + (STABLE)**	B (STABLE)
Human Capital		
Total employees (Number)	**97**	94
New Recruitment (Number)	**37**	40
Staff Remunerations (Rs '000')	**93,716**	76,424
Investment In training and development (Rs '000')	**360**	109
Social and Relationship Capital		
Interest to depositors (Rs '000')	**61,405**	63,463
Employees (Rs '000')	**85,929**	70,629
Community development programme (Number)	**3**	2
Access points (branches)	**8**	8
Manufactured Capital		
Branches (Number)	**8**	7
New branch opening (Number)	**-**	1
Relocated branches (Number)	**-**	1
Fixed assets (Rs '000')	**102,951**	88,447
Depreciation and amortisation (Rs '000')	**63,926**	41,683
Fixed asset addition (Rs '000')	**14,503**	13,473
Investment in technology (Rs '000')	**41,488**	329
Economic Value Distributed to		
Deposit (Rs '000')	**61,405**	63,463
Employment (Rs '000')	**85,929**	70,629
Shares (Rs '000')	**0**	0

Manufactured Capital



Employee Gender Ratio



ABOUT THE REPORT

Lanka Credit and Business Finance Limited (LCB Finance) is pleased to present it third integrated annual report which provides an analysis of the financial and non-financial performance for the financial year ending 31 March, 2021.

This Report provides a balanced view of the financial, manufactured, intellectual, social, natural, and human capital performance during the year, whilst providing concise information on the Company's operating environment, governance and risk management.

It also offers an assessment of LCB's sustainable value creation during the short, medium and long term periods.

It is developed and presented in compliance with the Sri Lanka Financial Reporting Standards, the Companies Act No. 07 of 2007 and Finance Business Act No.42 of 2011. The Management and the Board of Directors undertakes the responsibility for the information included in this report as such adhering to governance practices.

This report is made available to our valued shareholders in printed and digital formats, providing a comprehensive understanding of the business activities and performance of shareholder investments.

www.lcbfinance.lk
Scan this QR Code to view this Annual Report online

OUR MILESTONES

LCB Finance LTD
Annual Report 2020/21

2016

- Incorporation of Lanka Credit & Business Limited under the Companies Act No.07 of 2007 (Reg. No. PB5329)
- Commenced business operations in the Galle branch

2017

- Branch network expanded to 03 new Branches at Karandeniya, Mirissa and Pelawatta
- Branch network expanded to 03 new Branches at Karandeniya, Mirissa and Pelawatta

2018

- Lanka Credit and Business Limited acquired City Finance Corporation Limited with the approval of the Monetary Board of Central Bank of Sri Lanka
- Lanka Credit and Business Finance Limited was incorporated by changing the name of City Finance Corporation LimitedBranch
- Addition of two branches to the branch network – Kohuwala and Rathgama

2019

- Relocation of the Galle branch from Pettigalawatta to Wackwella
- Addition of one more branch at Karapitiya
- Appointed as the CBSL authorised money dealer for currency exchange

2020

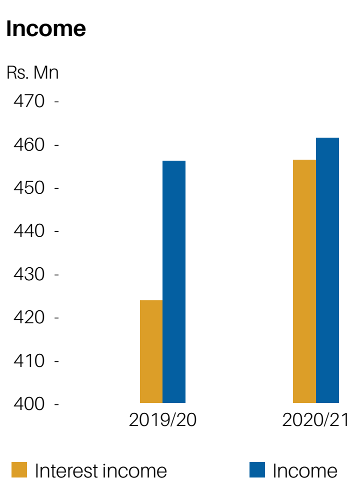
- Receipt of the South Asian Excellence Award 2019 to be the Emerging Finance Company of the year
- Addition of a branch in Negombo and relocation of the Mirissa branch to Matara
- Procured e-Finance, the new core banking system with a revamping of Company's IT infrastructure.

2021

- Successful implementation of e-finance system
- Award received
  Global Economics Awards 2021
  Fastest Growing Financial Firm in Sri Lanka 2020/21
- Obtain SLIP system for direct customer transaction.
- Increased share capital to 2 Bn in compliance with CBSL guidelines.
- Improving ICRA rating from [SL]B stable outlook to [SL] B+ Stable outlook.
- Achieved profit before tax of 100 Mn as at 31/03/2021.
- Achieved a total asset base of 3.6 Bn within a very short period.

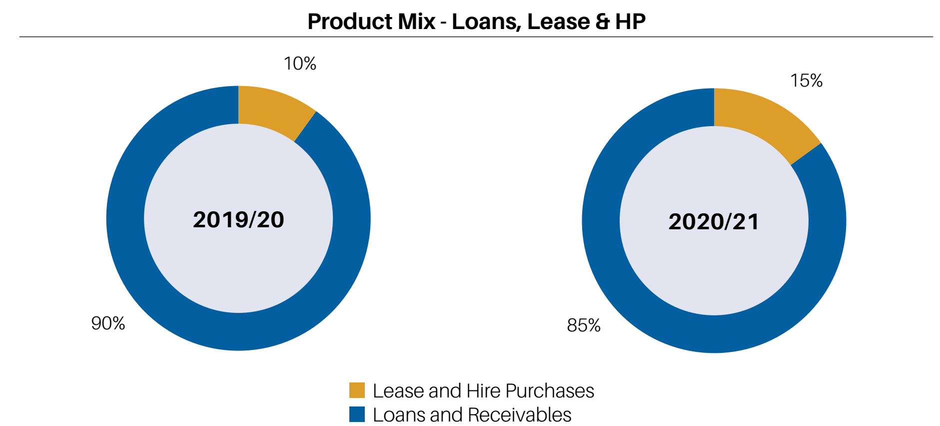
CHAIRMAN'S REVIEW

"LCBF is planning to expand its business volume in the future, as given in its business development plan, by expanding its branch network in strategically selected locations and with the proposed business merger."



I am very pleased to present herewith, the summarised performance review of LCB Finance Ltd. for the financial year ended as at 31/3/2021.

LCBF has recorded an operational profit of Rs. 100 Mn for the year, around 75% of the budgeted profit, and it is a remarkable performance compared to the negative performances of the peer group of small-scale finance companies and within the downward trends in the banking and finance industry as a whole. Without any exceptions, almost all institutions in the Banking and Finance sector have recorded deteriorated financial performances for the year due to unhealthy economic conditions and unsound Macro Economic factors which prevailed in Sri Lanka during the financial year ended as at 31/3/2021 due to COVID 19. The decreased revenue, mainly because of the decreased demand for business and other loans and leases , reduced lending rates by CBSL. The decrease in fee based and Non- interest Income due to decreased volume in imports and exports trade and mandatory postponement of loan and lease recoveries under moratorium granted by CBSL to different sectors, and increased operating costs and additional provisions required on impairments, have jointly contributed for deteriorated profitability of the sector. LCBF, as a small and emerging player, was not in a position to operate with its full capacity to achieve its budgeted profitability targets for the year because of the downward trends. However, implementation of in- built strategies by the Corporate Management, with consultation of Board of Directors, in the areas of effective operating cost controls, recoveries, expanding new gold and business loans to tested customers, and reducing NPL level can be shown as the main contributory factors for the recorded net profits of LCBF in the midst of volatile environment and contraction of the business volume of the banking and financial sector.



Meeting the minimum core capital requirement and Capital Adequacy Ratio imposed by CBSL under the restructuring of the banking and finance sector, maintaining a low NPL Ratio, in order to improve the Credit Rating assigned to LCBF by the Rating Agency, expansion of business volume, as indicated in the business plan submitted to CBSL, repayment of deposits of acquired City Finance Corporation Limited as agreed, were the major problems encountered by LCBF during the year under review. The Core Capital requirement was successfully met through additional new equity capital introduced by LCB (the Holding Company of LCBF) and private placements enabling LCBF to obtain capital complied company under the financial institution restructuring program introduced by CBSL. Implementation of improved recoveries procedures have contributed to reduce the NPL Ratio. Opening of new branches, implementation of new lending policy based on tested Customers, Expansion of Gold Loans have mainly contributed to growth in the business volume during the year. LCBF has, without any defaults, repaid all the claims submitted by the depositors of City Finance as agreed to CBSL.

New organisation structure has been introduced, based on the future business development plan and strategies. Corporate Management was strengthened by recruiting for new vacancies and a new HR policy has been introduced with the aim of providing career development paths and other welfare facilities to the employees considering the problems and requirements created by COVID 19.

Additional Funds were allocated, around Rs. 40 Mn during the year, to establish a new IT system considering the guidelines of CBSL, recommendations of external auditors, and the expected and possible technological developments in the banking sector. The new IT system has improved the quality of customer services as well as the quality and the speed of generating management and other reports improving the efficiency of day to day management.

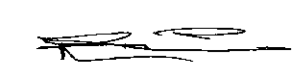
LCBF was able to win "The Emerging Finance Company 2019" and "The Fastest Growing Non-Banking Finance Company 2021" awards based on its management excellence and other criteria evaluated by the awarding agencies. In addition, the rating agency has upgraded LCBF rating from "B Stable" to B+ Stable based on improvements made by LCBF during the year ended as at 31/3/2021.

The Board of Directors of LCBF have contributed immensely with dedication and commitment in providing additional capital, participating effectively in decision making, consulting in developing different manuals and procedures, serving in Board sub committees, and timely completing other special assignments given by the Board following the corporate Governance.

All the employees, including the CEO, have made a unforgettable and remarkable contribution in developing and carrying out day to day activities effectively, responding to a tremendous amount of challenges created by the environment which was beyond their control. The strong customer relationships maintained with the improved quality in providing services have improved the customer confidence and loyalty immensely towards LCBF.

LCBF is planning to expand its business volume in the future, as given in its business development plan, by expanding its branch network in strategically selected locations and with the proposed business merger. All preliminaries have been completed to list the shares of the Company on the Colombo Stock Exchange before end of year 2021 to improve the capital base.

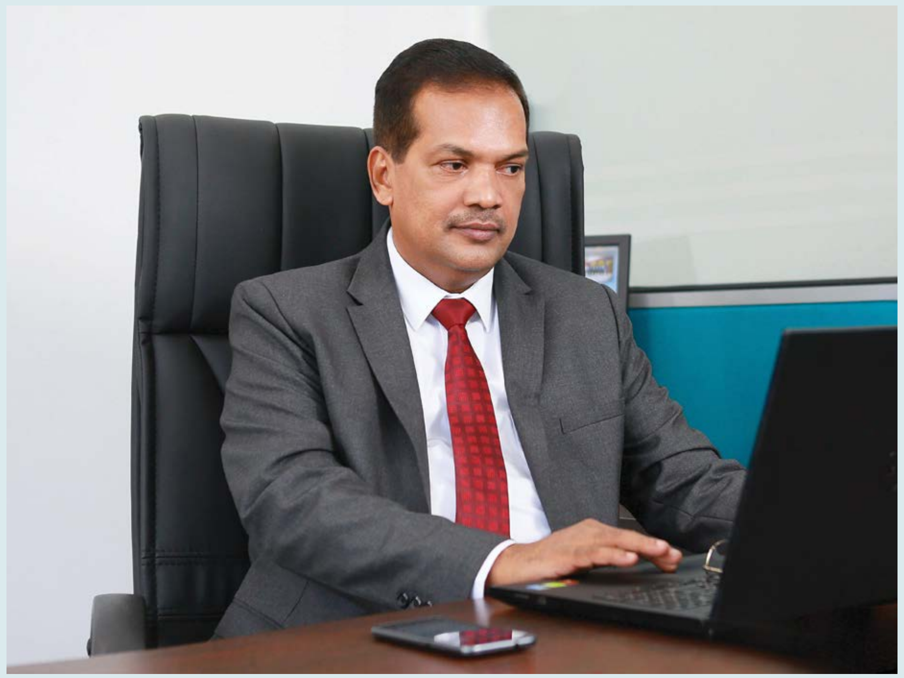
I would like to take this opportunity to thank all our customers who supported by keeping confidence in us, all the sister banking and finance institutions who extended their support and assistance, CBSL for their guidance and advices, all employees including the CEO for their untiring efforts and commitment and finally the members of the Board for their tremendous contribution made in providing capital, dedication, commitment in making decisions and managing all relevant affairs to the Board.

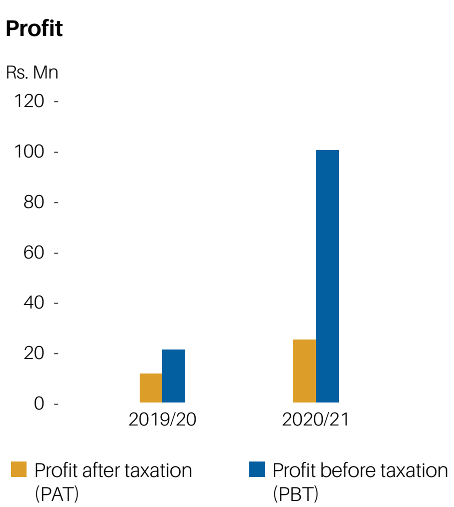


Emeritus Professor W. M. Abeyrathna Bandara
Chairman

CEO'S REVIEW

"We are keen to increase the efficiency of our business and accelerate our growth. With the investments made on enhancing our IT infrastructure as well as our systems and processes."





The 2020/2021 financial year began under the COVID-19 lockdown with economic activities almost at a halt and industrial uncertainty looming over a nation attempting to contain the spread of the pandemic that has weakened even developed nations.

The reporting year proved to be challenging for the finance and non-banking finance sector as economic downturn, government import/export policy shifts and regulatory demands combined with the impacts of the pandemic affected sector performance.

While we faced many challenges in managing the branches and staying profitable, LCB Finance's performance during the year was positive as the Company swiftly adapted to the changing external environment and market needs.

In fact, we are proud to share that the Company's rating improved from [SL] B stable to [SL] B+ Stable position as rated by ICRA Lanka Limited considering LCB Finance's asset quality indicators/core capital requirement especially in its core SME segment, improvement in its capitalisation profile and its comfortable liquidity position in upgrading the Company's rating.

PORTFOLIO PERFORMANCE

The Company's total assets during the year grew by 18.3 per cent to Rs. 3,672.88 Mn, our loan and lease portfolio grew 27 per cent to Rs. 2,305 Mn, and our revenue for the year recorded Rs. 461.38 Mn, a 1.2 per cent growth from Rs. 456.05 Mn last year.

Profits grew as the Company implemented a stringent cost management process across branch and head office premises, and curtailed expansions in selected sectors and segments of the market. LCB Finance's post tax profit increased 118.7 per cent to Rs. 25 Mn versus Rs. 11.43 Mn reported in 2019/2020 FY. Operational profit before tax recorded a 378 per cent growth at Rs. 100 Mn which we consider a great achievement during a tough year.

However, we maintained a growth in the loan book which improved by Rs. 500 Mn supported by our aggressive expansion into business and leasing sectors. Under the existing economic conditions, lease demand escalated offering more opportunities in the leasing sector. Similarly, state imposed vehicle import restrictions increased demand for existing vehicles which saw the demand for leasing also increase as a result. When compared to previous year, both business and leasing have improved. The Company took a strategic decision to avoid new loan disbursements to tourism, small vendors, and new construction segments to protect the health of the loan portfolio.

We are pleased that the Company achieved Central Bank's core capital targets increasing our total equity to Rs. 2,106 Mn, a 42 per cent increase from Rs. 1,483.37 Mn last year. Capital Adequacy regulation was one of the main challenges for the industry during the year. In addition, the investment portfolio of LCB Finance almost doubled during the year to Rs. 662 Mn versus Rs. 338 Mn investments in the previous year. Accordingly, the Company has reached a very high liquid position.

A key challenge during the year was the provision and impairment based on the moratorium system introduced by the Central Bank. Already, the Company has granted three sets of moratoria as instructed by the Central Bank.

BRANCH PERFORMANCE

We faced severe challenges due to the pandemic during the year as we couldn't open the branches during the lockdown periods. Subsequently, our customers had a little or no access to their branches and new customer visits and recoveries were hampered temporarily.

It is however, a happy scenario to have all our existing 8 branches to be operating at a profit. The branch network did experience some difficulties in functioning due to the COVID-19 pandemic with some branch staff having to be quarantined. As a result, selected branches could not perform to the expected levels but all branches reported profits for the year.

To manage this unexpected health crisis we initiated a group-wise human resource strategy which focused on managing the limited staff in a shift/ roster basis in the branches. This allowed one team to work from home while the others worked at the branch on an alternate basis. This helped keep our business in the regions functional while ensuring we manage the pandemic's health impacts efficiently.

In the coming year we hope to increase our branch network by adding 12 branches where we are currently not represented.

STRENGTHENING INTERNAL CONTROLS

The year's profitability and growth were mainly attributable to the cost controls implemented by the Company, under the direction of the Chairman and the Board of Directors. They offered guidance on enhancing the efficiency and the effectiveness of management controls that helped to reduce our operational overheads during the year.

In order to increase the efficiency of our controls, we established a legal department to accelerate and manage recoveries. Three legal officers appointed to the recovery division attended to mediation and recovery of all branches, and the central recoveries at the head office was also strengthened. As a result, our net NPL was below industry standards for the year, and decreased by 88 per cent compared with LCB Finance's previous year's net NPL performance.

RE-STRATEGISING OUR APPROACH

One of our key strategies during the year was re-evaluation of customers. Across the 8 branches of our Company, we had different customer categories. Furthermore, we grouped and identified customers, based on their loyalty, capacity to repay and upgraded their existing credit facilities to increase their liquidity/ cashflow.

We further initiated a savings campaign by activating field team who visited potential customers and encouraged them to save.

Our new strategies helped to improve the Company's loan book by Rs. 500 Mn positive net worth, which is a notable achievement.

TECHNOLOGY PARTNERSHIPS

We are proud to have registered as a SLIP (Sri Lanka Interbank Payments) member through Cargills Bank, during the year under review which has helped our customers to deposit and withdraw their funds in a convenient manner from anywhere in Sri Lanka. We channeled this facility through Cargill's Bank network of ATMs.

Understanding the need to have better access to manage accounts, LCB Finance launched an e-finance platform in 20/21 FY. This helped to improve customer experience, increase payment convenience and improve efficiency of the Company.

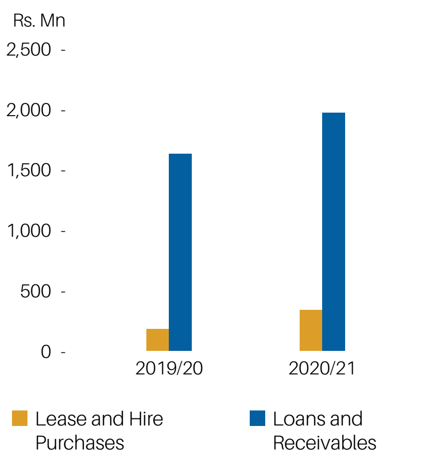
FUTURE OUTLOOK

As one of the main strategies for the coming year, we look forward to opening several new branches, utilising our capacity to increase the current 8 branches up to 12 branches.

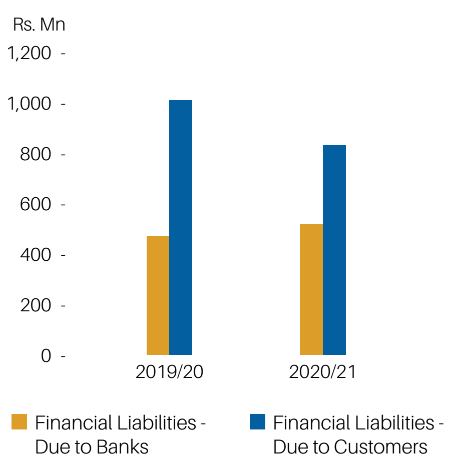
Alongside these plans, we are keen to increase efficiency of our business and accelerate our growth. With the investments made on enhancing our IT infrastructure as well as our systems and process. We are confident that the new branches will be able to immediately generate income despite COVID challenges.

CEO'S REVIEW

Loan, Lease & HP



Deposits & Borrowings



To support our plans of the growth in the coming year, our back-office functions and management functions have also been strengthened with new recruitments of industry experts and increased training/skills development in pre-identified areas such as compliance and risk management.

LCB Finance is planning to list the Company in the Colombo Stock Exchange in the current financial year, with the intention of raising another Rs. 500 Mn to fund its expansion drive. We are excited about this new initiative and have completed the process towards achieving the same.

In addition, in compliance with the Central Bank requirement, LCB Finance has been assigned another Finance Company for acquisition. With this acquisition, our branch network, our operational income as well as our assets will grow in the coming year. This is expected to double our capacity and portfolio.

APPRECIATION

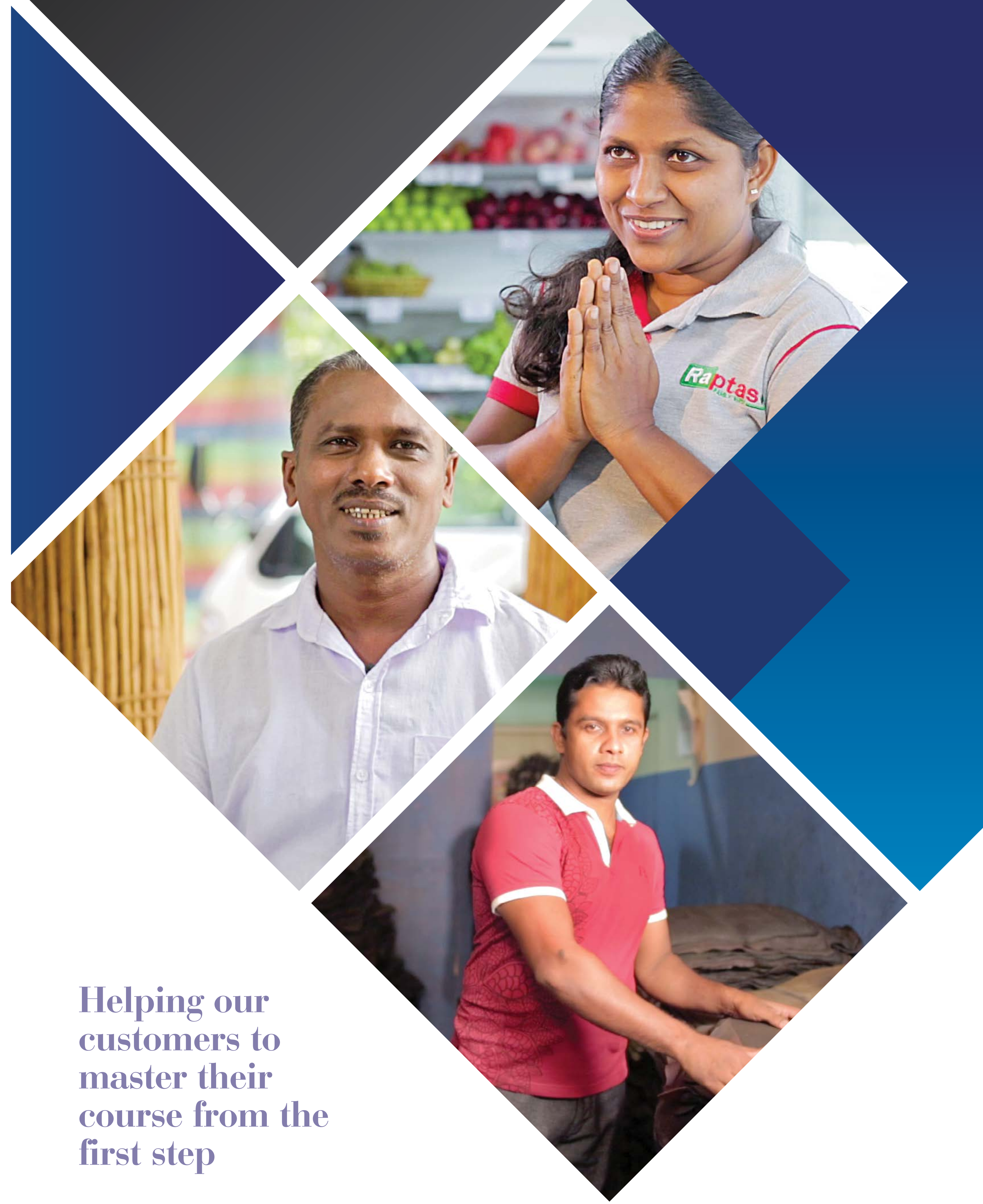
It is with pride I record that at a time when the daunting challenges have slowed finance sector companies, LCB Finance has risen to the top achieving a higher rating and recording profits across our operations. This achievement could not have been possible without the visionary, strategic leadership and guidance of the Chairman and the Board of Directors.

Moreover, I must appreciate my colleagues, the management team and the staff whose commitment and hard work have been undoubtedly key contributors to our success.

A special thank you to our shareholders from down south and island-wide who have supported us during our initial launch up to today, also investing over Rs. 2.1 Bn purely on trust.

Finally, I thank all our customers and regulators for continuing to remain loyal and for their continued support of our expansion and growth.

K. G. Leelananda
Chief Executive Officer/Executive Director



Helping our customers to master their course from the first step

CAPITAL MANAGEMENT REPORT

FINANCIAL CAPITAL

Lanka Credit and Business Finance Ltd's financial performance during the first quarter of the 2020/21 FY was sluggish due to the nationwide lockdown that was imposed to manage the spread of the COVID-19 pandemic in the country. With access to the market being restricted and client footfall into branches dwindling during the year, the Company took prudent measures to provide our services digitally and to ensure business activities continued.

Despite contracted performance which was common to the industry caused by the pandemic and the lockdown that followed, LCB Finance managed to pick up pace during the latter quarters of the year. The Company has performed exceptionally during the year thanks to cost management re-strategising our product portfolio and the reclassification of our customer segments.

We also successfully achieved the Rs. 2.0 Bn core capital requirement of the Central Bank within the target date.

REVENUE

LCB Finance's revenue grew by 1.2 per cent to Rs.461.3 Mn in 2020/21 FY from Rs.456.05 Mn in the previous year. The Company's profit after tax increased 118.7 per cent to Rs.25 Mn during the reporting year against the Rs. 11.43 Mn reported in the corresponding period of the previous year.

The increased revenue was mainly due to adding new products to the portfolio to include gold loans and leasing products, managing non-performing loans through increased efficiency in recoveries, and by stern cost management measures implemented across the branch network.

2021	2020
461,375,089.00	456,046,898.00

PROFITABILITY

LCB Finance's profit before tax (PBT) reported a growth of 378 per cent to Rs.100.29 Mn as against Rs.20.98 Mn profit before tax reported in the corresponding period of previous year. Retained profits of the Company for the year recorded Rs.26 Mn vis a vis Rs. (1,788) Mn reported in 2019/2020.

Profitability was supported by increased interest income and revenue generation. In contrast to the industry performance, LCB Finance had lower NPL and higher interest income as the Company invested in strengthening recovery division. Further we were able to increase our loans, leases and advances through top up facilities to select customers.

Interests and similar incomes gained 19.1 per cent at Rs. 348 Mn during the year under review and impairment for loans and other losses decreased by 77% percent to Rs.22 Mn compared to the previous year.

ASSETS AND LIABILITIES

LCB Finance's total asset base grew by 18.3 percent during the year under review to Rs.3,672.88 Mn as at 31 March, 2021. Loans and other advances account for 63 per cent of the total asset base, which was an improvement from the previous year.

We initiated a new approach to our product portfolio and its offer to clients during the year by identifying 'in-demand' product categories and top existing clientele. Entering into the gold loan, leasing market and re-strategizing loans and advancements to top performing clientele helped increase the Company's asset base in the year.

The Company's liabilities declined by 3.46 per cent to Rs. 1,565 Mn during the year, due to lower customer deposits caused by economic uncertainties and weakening of customer confidence in financial institutions caused by the sudden closure of some.

	2021	2020
Net NPL	0.35%	3.12%
Provision coverage ratio	76.37%	63.52%
Return on Assets (Before tax)	2.96%	0.72%
Net NPL to core capital Ratio	0.46%	6.56%

PORTFOLIO PERFORMANCE

LCB Finance expanded its portfolio during the year to include leasing and gold loan products. In addition, the Company increased its micro finance, SME lending, loans and advances through diverse loan packages and advances offered to a pre-selected customer base. Some of them included agriculture / farming communities as well as top ranking individual customers who were encouraged to top up their personal loans.

Effects of the COVID-19 such as the imposed lockdown and the economic slowdown during the year led to loss of livelihood for many small and medium income earners. This increased the demand for gold loans in the market supported by increasing gold prices in the global gold market. LCB Finance took advantage of this market situation as pawning/ gold loans reported a Rs. 84 Mn portfolio during the period.

Similarly, state imposed import restriction on vehicles created a demand for the used vehicle market which was growing at an unprecedented rate. LCB Finance's lease portfolio also grew during the year as a result to Rs.336 Mn, almost double the Company's previous leasing and hire purchase portfolio.

In addition, the Company also took steps to keep the non-performing loans at a minimum by increasing the rate of recovery despite the pandemic.

Deposits

	31.03.2021	31.03.2020
	Rs.	Rs.
Fixed Deposits	618,181,876.49	848,901,716.29
Savings Deposits	179,453,833.88	140,701,245.78

Leasing and Hire Purchase

	31.03.2021	31.03.2020
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	336,747,405.72	180,419,277.93

Pawning

	31.03.2021	31.03.2020
Gold Loans	84,543,985.00	71,756,637.00

Credit

	31.03.2021	31.03.2020
Term Loans	1,719,661,181.99	1,508,977,286.26
Housing Loans	363,188,451.11	238,796,195.08
Factoring Loans	29,737,000.42	74,053,459.00
Staff Loans	28,400,945.67	6,519,162.82

CAPITAL MANAGEMENT REPORT

SOCIAL AND RELATIONSHIP CAPITAL

Our strong partnerships which are our social and relationship capital have been instrumental in our success. Being a socially responsible organisation, we have ensured that our social capital is built into our sustainability and growth initiatives. Our relationships with our stakeholders such as our customers, employees, investors, suppliers, community and the regulators have been built on mutual respect, trust and accountability.

STAKEHOLDER GROWTH IN VOLUME

Stakeholder	2018/19	2019/20	2020/21
Employees	86	94	97

COMMUNITY ENGAGEMENT IN VALUE (RS)

Stakeholder	2018/19	2019/20	2020/21
Community engagement/CSR initiatives	212,767	744,510	956,836

CUSTOMERS

We are pleased to have served 15,079 customers during the years, supported by the healthy relationships we maintain with our clients. We ensure that communication channels with our clients are always kept open, and that customer requirements are attended to on a timely and efficient manner.

EMPLOYEES

Our employees have been the most valuable resource of our organisation. Our relationship with our 97 employees is nurtured through staff training and development, rewards and recognition, support and welfare activities, health and safety benefits, as well as recreational activities. However, due to the pandemic some of these activities had to be curtailed as a precautionary measure.

INVESTORS

Our shareholders and investors are key partners of our business. We maintain healthy relationships and communications with our investors through frequent information sharing on the Company's performance. Our monthly, quarterly and annual reports are shared with the investors and they are invited to the Annual General Meeting of the Company.

We ensure that our shareholders and investors' interests are safeguarded through strategic and well calculated risks and initiatives that do not compromise the return on their investments.

SUPPLIERS

We maintain cordial relations with multiple suppliers who provide everything from furniture, infrastructure, software and IT, transportation, advertising and promotions among others. They ensure that essential products and services are supplied and maintained for business continuity.

COMMUNITY

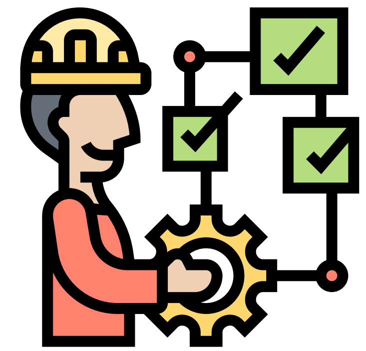
Serving the community that we operate in is an important aspect for LCB Finance Ltd. Each year, the Company supports numerous community projects/ charities that are aimed towards uplifting the community. During the year under review, our total contributions to support the community amounted to Rs. 956,836.

During the year, the Company supported education through school donation projects, charities and welfare programmes through donations to Seelakanda Dayaka Sabha, Karapitiya children's orphanage, Narawala temple, and health sector support through Grant for Blood Donation and Karapitiya Cancer Hospital. These efforts have helped the Company to build its community bond as well as social capital.

REGULATORY AUTHORITY/ GOVERNMENT

Maintaining a positive relationship with our industry regulators is very important to us. This is nurtured by conforming to regulatory frameworks, rules and regulations issued by the Regulatory Authority such as Capital Adequacy Ratio and Best Practices for Finance and Leasing Companies.

LCB Finance LTD
Annual Report 2020/21



MANUFACTURED CAPITAL

Our manufactured capital is the backbone of our business. It provides our Company with the physical infrastructure and assets required to sustain our business operations and our presence island-wide. Investments in our manufactured capital has ensured seamless daily operations, improved efficiency, facilitated business growth, and allowed greater access to our target consumers.

Growth of the manufactured capital:

Manufactured Capital	2019/20	2020/2021	2021/2022 (planned)
Branch offices (Qty)	7	8	8 (Existing) 4 (Proposed)
Equipment and Machinery (Rs.)	5,950,788	3,895,728	40,768,148
Vehicle fleet (Rs)	20,283,536	11,048,485	15,664,708
Land and Building (Rs)	-	-	-
IT and IT infrastructure (Rs)	5,545,076	10,997,149	5,148,347
Other fixed investments (Rs)	356,300,000	-	-

The Company's manufactured capital is aligned to meet the growth targets of the Company. Our future plans include:

NEW ACQUISITIONS

Our acquisitions of a new venture is expected to significantly add to the Company's manufactured capital base. This acquisition will also increase LCB Finance's reach, product portfolio and customer segments, which in turn will increase our manufactured capital in the coming year.

EXPANSION OF BRANCH NETWORK

We plan to increase our regional presence with additional branches in the coming year, to serve a broader consumer segment. These branches will be located in Kuliyapitiya, Tangalle, Deiyandara and Akuressa.

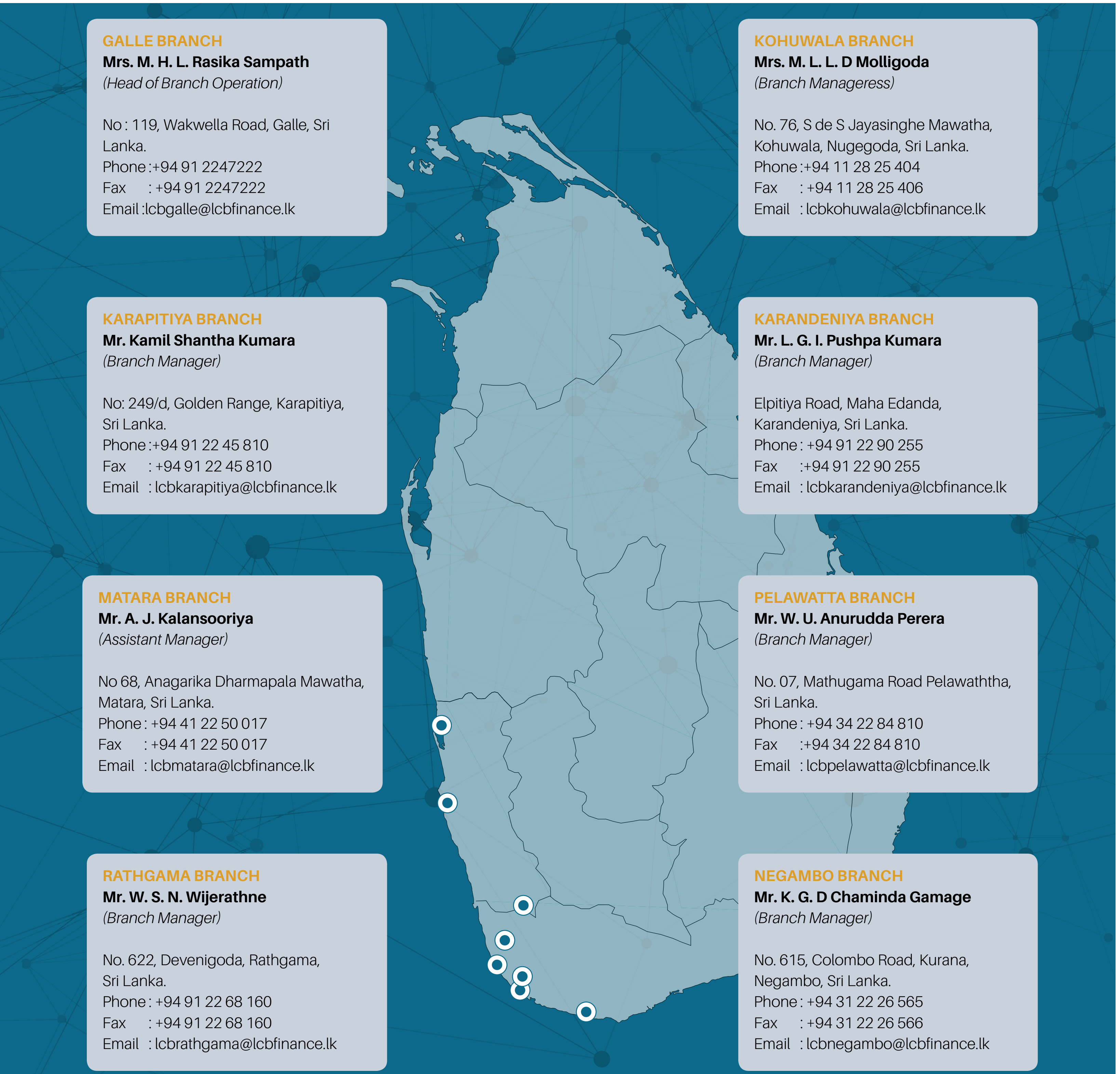
INVESTMENTS IN TECHNOLOGY

With the COVID-19 pandemic's spread, we have invested in increasing our technology infrastructure in all our branches. We plan to further strengthen our network support systems to increase efficiency and productivity of our branches.
The Company will also increase our investments in technology innovations to expand our customer touch-points through hardware purchases (palmtops).

The Company is mindful that higher investments in manufactured capital must be strategically planned and implemented, to provide the expected returns. To address these challenges, we have set in place controls to monitor and manage our manufactured capital ensuring operational efficiency and optimisation of resources.

CAPITAL MANAGEMENT REPORT

BRANCH NETWORK



GALLE BRANCH
Mrs. M. H. L. Rasika Sampath
(Head of Branch Operation)

No : 119, Wakwella Road, Galle, Sri Lanka.
Phone :+94 91 2247222
Fax : +94 91 2247222
Email :lcbgalle@lcbfinance.lk

KOHUWALA BRANCH
Mrs. M. L. L. D Molligoda
(Branch Manageress)

No. 76, S de S Jayasinghe Mawatha, Kohuwala, Nugegoda, Sri Lanka.
Phone :+94 11 28 25 404
Fax : +94 11 28 25 406
Email : lcbkohuwala@lcbfinance.lk

KARAPITIYA BRANCH
Mr. Kamil Shantha Kumara
(Branch Manager)

No: 249/d, Golden Range, Karapitiya, Sri Lanka.
Phone :+94 91 22 45 810
Fax : +94 91 22 45 810
Email : lcbkarapitiya@lcbfinance.lk

KARANDENIYA BRANCH
Mr. L. G. I. Pushpa Kumara
(Branch Manager)

Elpitiya Road, Maha Edanda, Karandeniya, Sri Lanka.
Phone : +94 91 22 90 255
Fax : +94 91 22 90 255
Email : lcbkarandeniya@lcbfinance.lk

MATARA BRANCH
Mr. A. J. Kalansooriya
(Assistant Manager)

No 68, Anagarika Dharmapala Mawatha, Matara, Sri Lanka.
Phone : +94 41 22 50 017
Fax : +94 41 22 50 017
Email : lcbmatara@lcbfinance.lk

PELAWATTA BRANCH
Mr. W. U. Anurudda Perera
(Branch Manager)

No. 07, Mathugama Road Pelawaththa, Sri Lanka.
Phone : +94 34 22 84 810
Fax : +94 34 22 84 810
Email : lcbpelawatta@lcbfinance.lk

RATHGAMA BRANCH
Mr. W. S. N. Wijerathne
(Branch Manager)

No. 622, Devenigoda, Rathgama, Sri Lanka.
Phone : +94 91 22 68 160
Fax : +94 91 22 68 160
Email : lcbrathgama@lcbfinance.lk

NEGAMBO BRANCH
Mr. K. G. D Chaminda Gamage
(Branch Manager)

No. 615, Colombo Road, Kurana, Negambo, Sri Lanka.
Phone : +94 31 22 26 565
Fax : +94 31 22 26 566
Email : lcbnegambo@lcbfinance.lk

HUMAN CAPITAL

Our human capital is one of our most valued resources. We boast a staff strength of 97 dedicated employees who support our management, marketing and sales, branch network, treasury and financial product services as well as our administrative and support functions.

During the year, 37 new staff were recruited and trainings were held to enhance our human resource skills and knowledge.

The Company's Human Resource Policy advocates a non-discriminatory, equal opportunity culture. Towards this end, we maintain a significant gender representation in each level of employment from management, sales, to administration and support staff, ensuring almost a 50:50 ratio of male to female employment within the Company.

The Company's human value creation focuses on:

- Training and Professional Development
- Rewards and Remuneration
- Performance Management
- Preferred Workplace Environment

EMPLOYEE GENDER RATIO

Male	Female	Total
50	47	97

EMPLOYMENT CATEGORY BY CONTRACT TYPE

Permanent	Contract
77	20

TRAINING AND DEVELOPMENT

In the year under review, we continued our training and development programmes providing staff with essential learning and skills enhancement. Specific training sessions on operating the business under COVID-19 health and safety guidelines were also conducted. A total of 12 training sessions were held for teams such as tellers, Recovery, Finance and Legal held by CBSL and CASL.

EMPLOYEE PERFORMANCE EVALUATION

The Company follows a strict performance evaluation mechanism ensuring that staff are recognised and rewarded for their outstanding efforts and target achievements. At the same time, the performance evaluation process is designed to identify gaps in skills and knowledge, and to address them in a timely manner.

HEALTH INSURANCE

We provide a range of staff welfare services to ensure that our employees are well looked after and are happy. One of our key services is the health and insurance cover which provides our field staff with an accident cover that includes disability and death due to accidents.

COVID-19 SUPPORT SCHEMES

The COVID-19 pandemic has increased our need to protect our teams from the virus, especially in our branch operations, which are frequently visited by customers.

The Company took immediate measures to provide sanitisers, hand-wash facilities and branded masks at our main office and branches. At the same time, we monitor the temperature of walk-in customers as well as staff on a daily basis to keep the health of our staff in check.

To prevent the spread of the virus within our premises through contact, we have initiated social distancing plans within our offices. Some of these include rearranging the seating of common facilities such as the lunch room.

For employees who were hospitalised or had to undergo quarantine due to the virus, a Rs.7, 500 dry ration package was donated and their COVID-19 testing fees reimbursed.

As a further measure, a comprehensive awareness campaign was held across all branches to minimise the threats of the virus within the organisation.

CAPITAL MANAGEMENT REPORT

NATURAL CAPITAL

Being an environmentally friendly company is an integral part of our business. We are mindful of the need to protect the limited natural resources around us. We consider all renewable and non-renewable environmental resources as our natural capital.

Our Environment Policy focuses on:
- Conserving energy and supporting deforestation through a paperless environment.
- Educating staff to facilitate more environmentally friendly projects

Towards this goal, at LCB Finance Ltd, we have efficiently reduced our consumption of natural resources through higher technology usage and staff efforts.

OUR CONSERVATION EFFORTS

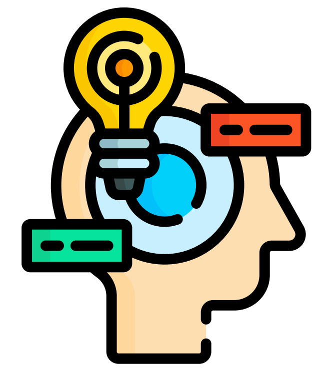
We have implemented multiple environmentally friendly initiatives within the Company to reduce our energy and resource consumption. We have initiated efficient utilisation of water, electricity, and machinery toward energy saving and resource management and encourage staff to opt for the stairs versus an elevator as a means of reducing energy usage.

Further, our employees are continuously requested to limit their air conditioning usage after working hours and are encouraged to use natural light within the office, where ample sunlight is available.

The Company also implements an e-finance system enabling transactions to be processed electronically versus a manual, paper intensive mechanism. Our paper-free policy ensures minimum printing and paper usage within our branch network as well as at the head office. Wherever needed, we do encourage our teams to use digital devices such as palmtops and recycle waste paper as much as possible.

In addition, at LCB Finance Ltd, we encourage agriculture and greener lending facilities as a means of supporting local farmers and encouraging greener enterprises.

	2019/20 (Value in Rs)	2020/21 (Value in Rs)
Energy Consumption	3,132,244	3,096,594
Water Consumption	184,992	230,055
Fuel Consumption	2,271,604	2,302,388



INTELLECTUAL CAPITAL

We believe that our intellectual capital has been instrumental in our growth. Our intellectual capital includes our combined experience, skills and knowledge, strategies and processes, licenses and technology as well as our reputed brand. During the last few years, they have generated multiple revenue paths, giving us a significant edge over our competitors.

LCF BRAND EQUITY

The LCB Finance brand is one of our strongest intellectual capitals. It has been developed to position the Company as a reliable, trust-worthy and customer friendly leasing and finance company. Our brand equity has been a key contributor in our increased customer base over the years, that in turn has enabled our regional expansion and portfolio growth. We will continue to nurture our brand position in the non-banking finance industry through aggressive marketing and branding efforts.

TECHNOLOGY

Our investments in technology has helped us function undisturbed during the pandemic and its subsequent lockdown. The Company has also installed an e-finance system which has automated our processes, increased the efficiency of our business and improved customer service.

In addition, we partnered with the Sri Lanka Interbank Payment System (SLIPS) for digital payment transfers which has increased the convenience and speed of our services.

AWARDS AND RECOGNITION

During the year under review, LCB Finance Ltd received several prestigious recognition awards.

- The Award for the Fastest Growing Financial Firm in Sri Lanka in 2020/21 awarded by The Global Economics Awards - London, UK
- Emerging Finance Company of the Year awarded by The South Asian Business Excellence Awards in 2019

In addition, we have been rated [SL] B+ STABLE by ICRA Lanka Limited taking into account LCB Finance's limited track record, small scale of operations and modest competitive position in the non-banking finance sector. The rating agency noted that it also considered LCB's moderate asset quality indicators especially in its core SME segment, improvement in its capitalisation profile and its comfortable liquidity position in upgrading the Company's rating.

SYSTEMS AND PROCESS

Our Company has benefitted immensely from the systems and processes we have implemented. They have ensured that the Company's business activities progress seamlessly. Having appropriate and efficient systems and processes in place have increased the efficiency of our organisation and minimised room for any fraudulent activities. As a part of our well managed framework, all our systems and processes are assessed for possible gaps. These are also frequently monitored by our teams who ensure that they also abide by regulatory guidelines. We are proud to comply with globally accepted best practices and ethical standards across our business units.

SKILLS, KNOWLEDGE AND EXPERTISE

We are privileged to have a team of experienced, qualified and skilled professionals in each of our operational divisions and branches. The knowledge, experience and skills of our employees have strengthened our organisation and contributed towards our growth.

In nurturing these areas, our Human Resource team continuously provide training and skills development opportunities for the staff. This has helped the Company innovate and adapt during challenging times, in order to develop our business.

MEMBERSHIPS/ ASSOCIATIONS

As a leading and well respected member of the NBFI sector in Sri Lanka, we maintain our membership in the following industry associations:

- Finance House Association
- Micro Finance Association

CAPITAL MANAGEMENT REPORT

OUR PRODUCTS

Traversing across the island and sharing our brand with Sri Lankans from all walks of life

BOARD OF DIRECTORS

Emeritus Professor W. M. Abeyrathne Bandara
Chairman - Non-Executive / Independent

Emeritus Professor Abeyrathna was appointed to the Board of LCBF in April, 2018. Prior to his appointment to the LCBF Board, he has served LCBL for 02 years as Chairman. Emeritus Professor Abeyrathna is a senior academic professor having over 40 years of service in the university system of Sri Lanka. He has experience in the financial services sector having served in both government and private sector organisations. Emeritus Professor Abeyrathna has previously served as the Chairman of Pan Asia Banking Corporation Limited, the Director General of the National Institute of Education and as a Board of Director in LB Finance PLC and Board of Director of Sanasa Development Bank Plc. He currently acts as the chairman of United Engineering Services (Pvt) Ltd. Emeritus Professor Abeyrathna holds a Master of Business Administration (MBA) from the University of Ottawa in Canada and a Bachelor's Degree specialising in Business Administration from the University of Sri Jayawardenapura. He was honored with the title of an emeritus professor in finance by the University of Sri Jayawardenapura.

Mr. Kandegoda Gamage Leelananda
Chief Executive Officer/ Non-Independent Director

Mr. Leelananda was appointed to the Board of LCBF in April, 2018. Previously, he has served at LCBL from April 2016 as the Executive Director/Chief Executive Officer. As a pioneer member of LCBL and thereafter taking the CEO position in LCBF, Mr. Leelananda has been instrumental in turning around the formerly defunct finance company, prior to the acquisition by LCBL to a profitable business. Prior to joining LCBL, Mr. Leelananda worked at Sanasa Development Bank PLC since 2001, contributing towards the growth of the bank, as the Senior Deputy General Manager of the bank. He holds a Management degree from the University of Jayewardenepura and a Diploma in Human Resource Management (HRM) from Aquinas University College. He is also a Chartered Licentiate at the Chartered Institute of Sri Lanka since 1993 and has obtained a Diploma in Intermediate Banking from the Institute of Bankers of Sri Lanka (IBSL). Mr. Leelananda has successfully completed courses on Private Enterprise Development at Harvard United States of America and Management in Finance at NTUC, Singapore University. He has also taken part in the Co-operative banking system course conducted in South Korea, Netherland and Canada and was involved in a system study at Banka Italia, Italy.

Mr. A. G. Maheen Priyantha
Non-Executive/ Non-Independent Director

Mr. Maheen was appointed to the Board of LCBF in May, 2018. He is also a director of LCBL since April 2016. With 25 years of working experience in the marketing field, he is currently serving as the Managing Director & Chairman of Maweli Traders (Pvt) Ltd , Maweli Credit & Investment (Pvt) Ltd. In addition, he is also serving as the Managing Director in Yakkalamulla Tea Factory (Pvt) Ltd. Mr. Maheen currently acts as a director in the board of directors of a number of companies including Maweli Traders (Pvt) Ltd, Yakkalamulla Tea Factory (Pvt) Ltd, Udumullagoda Tea Factory (Pvt) Ltd, Niriella Motors (Pvt) Ltd, Royana Holding (Pvt) Ltd, Binelco Marketing (Pvt) Ltd. LCBL and Singhe Capital Investment Limited. Mr. Maheen holds a degree in Human Resource Management from the National Institute of Business Management (NIBM), Sri Lanka.

Mr. Ranjan Lal Masakorala
Non-Executive/ Non-Independent Director

Mr. Masakorala was appointed to the Board of LCBF in April, 2018. He has been a director of LCBL since April 2016. Mr. Masakorala currently serves as the Managing Director of Hotel Kabalana (Pvt) Ltd and the Director of Udumullagoda Tea Factory (Pvt) Ltd. He is the proprietor of 'The Villa Hotel', 'Vista Tours' and 'Uneth Car Sale'. Mr. Masakorala is also a director of Yakkalamulla Tea Factory (Pvt) Ltd. He has a Diploma in Management from the University of Tokyo in Japan.

Mr. U. K. Harith Ruwan Ranasinghe
Non-Executive/ Non-Independent Director

Mr. Ranasinghe was appointed to the Board of LCBF in April, 2018 and has been a director of LCBL since June 2016. Mr. Ranasinghe currently serves as the Chairman of Sinhaputhra Finance PLC and as a director of L&H Capital Partners (Pvt) Limited and Singhe Capital Investment Limited. His previous work experience includes serving as, an Assistant Superintendent and Superintendent in Sri Lanka State Plantation Corporation, the Managing Director at Thalgampala Tea Company (Pvt) Ltd and the Chairman and promoter of the 'UKG Enterprise'. He also served as the former Secretary of the Galle Business Club and the Chairman of the Tea Factory Owner's Association of Sri Lanka. He was on the board of directors of SL Tea Board and It's audit committee. Former board of director of SL Tea research institute. He has followed a Management Trainee Course (AOTS-LKCM) in Japan and Management Trainee Course from the National Institute of Plantation Management (NIPM).

Mr. S. W. Subasinghe
Non-Executive/ Independent Director

Mr. Subasinghe was appointed to the Board of LCBF in April, 2018. Mr. Subasinghe's previous work experience includes serving as the Divisional Secretary of Galle Four Gravets, G/ Nagoda Division and also the Tawalama Division. He has also held the positions of Assistant Secretary in the Ministry of Youth Affairs and Skills Development, Project Director in the Upgrading of the Niyagama Vocational Training Center project, Director at the HRM Department of Technical Education and Training, Assistant Secretary in the Ministry of Technical Education and Vocational Training (SLAS) and a Graduate Teacher in the Department of Education. He holds a Master of Business Administration degree from the University of Ballarat, Australia and a Post Graduate Diploma in Educational Administration from the University of La Trobe in Melbourne Australia. In addition, he has also completed a B.Sc. Management (Public Administration) specialisation degree from the University of Sri Jayewardenepura, Sri Lanka.

BOARD OF DIRECTORS

Mr. Vijitha Lokunarangodaa

Non-Executive/Non Independent Director

Mr. Lokunarangoda was appointed to the Board of LCBF in May, 2018. Currently, he is serving as the Chairperson to Thurusaviya Fund under Ministry of Finance and as a Director to the Agriculture Sector Modernisation Project under the Ministry of Plantations. Also, Mr.Lokunarangoda serves as the Managing Director of the Galle Highway Express and Narangoda group of companies. He received the Leading Businessmen Award from the Southern Chamber of Commerce in 2019.

Mr. Kapila Indika Weerasinghe

Non-Executive/ Non-Independent Director-

Mr. Weerasinghe was appointed to the Board of LCBF in April, 2018. He has served as a director in LCBL since July 2016. He currently serves as the Managing Director and Chairman of Transline GMBH-Transport and Packaging and RKW Courier Service. Mr. Weerasinghe is a leading-businessman in Germany and holds a Diploma in Chartered Accountancy.

Mr. Gayan Kalahara Nanyakkara

Non-Executive/Non-Independent Director

Mr. Nanayakkara was appointed to the Board of LCBF in June, 2018. He is also currently serving as a director of Etambagahawila Tea Factory, Mahesland Tea Factory, Wijaya Tea Factory, and Naindawa Tea Factory and has also gained experience at the management level during his time at Brandix Lanka Ltd & DIMO. He holds a B.Sc. Degree in Computer Science with Management from the University of Nottingham, United Kingdom.

Mr. Ashwin Welgama Nanayakkara

Non-Executive/Non-Independent Director

Mr. Nanayakkara was appointed to the Board of LCBF in August 2020. He has 18 years work experience in Australia, Sri Lanka and West Africa. He previously worked for global firm Accenture Strategy consulting in Australia and also with other blue chip Australian corporates. Prior to that he started off his career in Sri Lanka as a management trainee at HSBC where he was attached to business banking. Mr. Nanayakkara currently holds a directorship at NEM Construction (Pvt) limited. He holds a M. Sc. in Law and Accounting and a LL.B degree from the London School of Economics in the United Kingdom.

Mr. Dushmantha Thotawatte

Non-Executive/ Independent Director

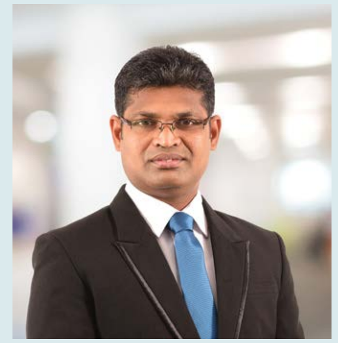
Mr. Thotawatta was appointed to the Board of LCBF in August 2020. Mr. Thotawatta previously held the post of Chief Executive Officer at Lanka Sathosa Limited and also served as the Additional General Manager and Deputy General Manager of Finance at the National Water Supply and Drainage Board. In addition, he has also served as the Finance Director at Samurdhi Authority of Sri Lanka. His academic achievements include a Bachelor of Commerce (Special) degree from the University of Sri Jayawardenapura and a Masters in Arts and Financial Economics from the University of Colombo. He is also a fellow member of the Institute of Chartered Accountants.

MANAGEMENT TEAM

Mr. K. G. Leelananda
Chief Executive Officer/Executive Director

Mr. Aruna Vithanage
DGM - Business Development & Fund Mobilisation

Ms. Rasika Sampath
Head of Branch Operation



Mr. R. M. Gnanarathna
Head of Risk

Mr. K. G. S. Suranga
Head of IT

Ms. W. L. I. Dinushani
Senior Manager - Legal

Ms. Kokila Perera
Head of Finance & Strategic Planning

Mr. Ranga Chandranath
Head of Compliance

Ms. M. L. L. D. Molligoda
Manager - Kohuwala

Mr. W. S. N. Wijerathne
Manager -Rathgama

Mr. L. G. I. Pushpakumara
Manager - Karandeniya

Mr. W. U. A. Perera
Manager - Pelawatte

Mr. W. M. T. Bandara
Manager - Credit

Mr. Thilina Abeysiri Gunawardana
Manager -IT

Mr. K. Shantha Kumara
Manager - Karapitiya

Mr. K. G. D Chaminda Gamage
Manager - Negombo

Mr. D. M. W. Bandara
Manager - Admin & Operations

Ms. Harshani Sirimanna
Manager -Legal

Mr. K. Sasikumar
Manager- Recoveries

Ms. L. N. P. I. Perera
Manager - Accounts

Ms. Dilanthi Liyanage
Legal Officer

Ms. Himashi Jayasinghe
Legal Officer

CORPORATE GOVERNANCE

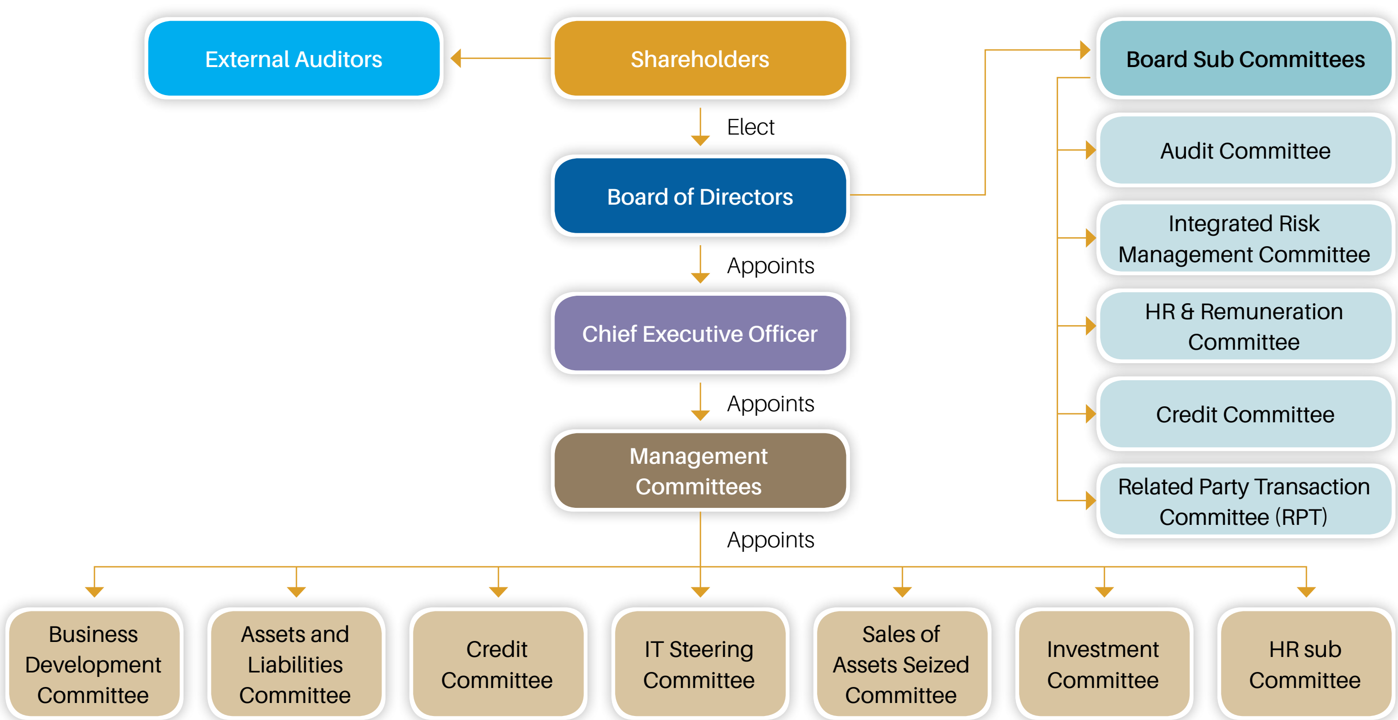
Corporate governance is a critical pillar at Lanka Credit and Business Finance Limited that determines how the Company is directed, controlled and monitored in the right direction. We continue to maintain the highest standards of corporate governance and ethical business through good practices, processes and procedures which essentially involve in balancing the interest of the Company's stakeholders and facilitating long term sustainable value creation.

LCB Finance Limited Board and Board appointed committees discharged their governance duties with clear and meaningful objectives to follow and comply with the principals of good governance enshrined in the Code of Best Practices for Corporate Governance issued by the Institute of Chartered Accounts, Sri Lanka and the Finance Companies (Corporate Governance) Direction No.3 of 2008 and amendments thereto.

GOVERNANCE STRUCTURE

The Board of Directors bears ultimate responsibility for the affairs of the Company and have set in place an appropriate governance structure to facilitate the discharge of its duties. Board Sub Committees assist the Board in its oversight function in specialised areas requiring significant attention.

The governance structure of Lanka Credit and Business Finance Limited ensures alignment of its business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board Sub Committee and Management.



GOVERNANCE FRAMEWORK

The Corporate Governance Framework of LCB Finance Limited complies with the following regulatory requirements.

a. Companies Act No.7 of 2007
b. Finance Business Act No. 42 of 2011
c. The Finance Companies Directions issued by the Central Bank of Sri Lanka for Registered Finance Companies in Sri Lanka including Direction No.03 of 2008 and subsequent amendments thereto on Corporate Governance.
d. The code of Best Practice on Corporate Governance 2013 issued jointly by the Securities and Exchange Commission. The Finance Companies Direction No. 03 of 2008 and subsequent amendments thereto on Corporate Governance issued by the central bank of Sri Lanka for Registered Finance Companies in Sri Lanka.

LCB Finance LTD
Annual Report 2020/21

LANKA CREDIT AND BUSINESS FINANCE LTD – CORPORATE GOVERNANCE- REPORT OF FACTUAL FINDINGS - 2020/21

Section	Corporate Governance Principle	Compliance
2(1)	Procedures carried out to ensure the board have strengthened the safety and soundness of the Finance Company.	
	a) The board approval of the Finance Company's strategic objectives and corporate values. Ensure the finance company has communicated the Finance company's strategic objectives and corporate values throughout the company.	Strategic Plan for the period 2021-2026 and Annual Business Expansion Plan for the year 2021 has been established and approved by the Board on 18.12.2020. Strategic objectives have been communicated throughout the Company at the Special Management meeting held on 11.12.2020 with the participation of All DGMs. AGMs, Dept Heads and all managers. Further, the budget for 2020/21 has been reviewed and approved by the Board of Directors at their meeting held on 28.04.2020.
	b) The board approval of the overall business strategy of the finance company. Ensure that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented Further ensure that the overall business strategy contains measurable goals, for at least the next three years.	Strategic Plan 2021-2026 includes the Company's overall business strategy. The Board approved Risk Management Policy is in place. Board Minute No. 5 dated 27.01.2020 Strategic Plan for 2021-2026 contains measurable goals for the next five years.
	c) Ensure that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	The Board-appointed Integrated Risk Management Committee (BIRMC) is tasked with defining risk appetite, identifying, overseeing and managing the overall risk of the Company. However, the process needs to be improved to be improved in the Company where the Board members discuss new strategies of the Company, the risks arising out of new strategies and further the ways and means to mitigate such risks.
	d) The communication policy with all stakeholders, including depositors, creditors, share-holders and borrowers;	Communication Policy for communication with all stakeholders, including depositors, creditors, share-holders and borrowers is in place approved by the Board on 22.02.2019.

CORPORATE GOVERNANCE

Section	Corporate Governance Principle	Compliance
	e) Adequacy and integrity of the internal control system and Management information system	**Internal Control system** There is a mechanism at the Company to identify the accuracy of the internal control by the Board of Directors through the of the design and effectiveness of internal control over financial reporting. Further, Internal Audit Division of the Company adds value to the process verifying the effectiveness of the above process. However, Internal control systems of the Company will be further strengthened going forward. **Management Information Systems** Company will develop a process initiated by the Internal Audit dept. or other independent body to review the accuracy of all financial/non-financial information which is used by the Board and the Board sub committees and review the same and the Board should be satisfied with the adequacy and integrity of the management information systems of the Company.
	f) Identifying and designating Key Management Personnel	As per the KMP succession plan approved by the Board on 28.08.2020, Company has identified and designated the CEO, SDGM, Head of Compliance, Head of Business Mobilisation, Head of Finance, Head of Risk, Head of Audit (to be recruited) , Head of IT, Head of Recoveries, Head of Credit, Head of HR, Head of Legal, Head of Regions and Branch Managers as key management personnel.
	g) Authority and responsibilities of the Board and Key Management Personnel	Company's Article 28 speaks of the powers and duties of Directors. Further, Section 2 of the Corporate Governance manual approved by the Board defines the Key Responsibilities of Board of Directors and approved by the Board. Responsibilities of key management personnel are included in their respective job descriptions. Authority of key management personnel have been defined under powers delegated by the Board which are reviewed periodically to ensure that they remain relevant to the needs of the Company.
	h) Ensure that the board has exercised appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with board policy;	Oversight of the affairs of the Company by its Key Management Personnel takes place at the regular Board meetings and subcommittee meetings and Key Management Personnel make regular presentations to the Board on matters under their purview.

Section	Corporate Governance Principle	Compliance
	i) Assess the effectiveness of own governance practices	Company's Article 26 describes the general procedure for appointment and removal of new Directors to the Company by the Board. Article 31 of the Company's Articles of Association speaks of the conflicts that may arise and how to avoid those conflicts of interests. Determination of weaknesses of Board of directors' own governance practices and implementation of changes are being addressed through self-evaluation process of the Board members. Self-evaluation forms for the year 2020/21 have been obtained by the Company.
	j) The succession plan for key management personnel.	Succession Plan for Key Management Personnel is in place which has been approved by the Board on 28.08.2020.
	k) Ensure that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	The Key Management Personnel regularly make presentations and participate in discussions on their areas of responsibility at respective subcommittee meetings where progress towards corporate objectives is also reviewed, and where necessary make representations to the Board as well.
	l) Ensure that the board has taken measures and processes in place to understand the regulatory environment and that the finance company maintains a relationship with regulators.	The Board has taken measures and processes in place to understand the regulatory environment and ensured that the Company maintains a relationship with regulators. New Directions/ Determinations / Circulars issued by the regulator are submitted to the Board for their awareness. As an example, we have seen that the CEO has tabled and explained 'Direction No. 05 of 2020' dated 18.06.2020 amendment to the CG Direction No. 03 of 2008 for the information of the Board at their meeting held on 26.06.2020. Further monthly compliance report has been submitted to the Board for their information by Head of Compliance and the Board noted the level of overall compliance of the Company.
	m) Hiring and oversight of External Auditors	Company's Article 43(4) addresses the general procedure for appointment of external auditors by the shareholders. Oversight of external auditors is carried out by the Board Audit Committee.

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Section	Corporate Governance Principle	Compliance
2(2)	Ensure that the board has appointed the chairman and the Chief Executive Officer (CEO). Ensure that the functions and responsibilities of the chairman and the CEO are in line with paragraph 7 of the Corporate Governance Directions.	Chairman and the Chief Executive Officer have been appointed by the Board. Emeritus Prof W. M. Abeyrathne Bandara, Independent, Non- Executive Director has been appointed as the Chairman of the Company w.e.f 19.04.2018. The Board has appointed Mr. K. G. Leelananda as the Director/CEO of the Company on 29.06.2018. Functions and responsibilities of the Chairman has been defined under section 3 of Corporate Governance manual approved by the Board. Functions and responsibilities of the CEO are in place approved by the Board on 19.04.2018.
2(3)	Availability of a procedure determined by the Board to enable Directors, to seek independent professional advice at the Company's expense	A Board approved procedure is in place to enable Directors, upon reasonable request to seek independent professional advice in appropriate circumstances, at the Company's expense.
2(4)	Avoidance of conflicts of interest	As per the Company's Article 31(6), there is a procedure/ requirement in place for the Director to declare the nature of his interest and abstain from voting on any Board resolution in relation to a matter in which he/she or any of his/her close relation or a concern in which a Director has substantial interest. We confirm that such a situation has not arisen during the financial year under review.
2(5)	Ensure that the board has a formal schedule of matters specifically reserved to it for decision to ensure that direction and control of the finance company is firmly under its authority.	The Board has approved a formal schedule of matters specifically reserved to the Board.
2(6)	Disclosure of insolvency of the Director to the Department of Supervision of Non-Bank Financial Institutions.	Such a situation has not arisen during the year 2020/21.
2(7)	Ensure that the board publishes, in the Finance Company's Annual Report, an annual corporate governance report setting out the compliance with these Directions.	Complied Accordingly. This report addresses the requirement.
2(8)	Annual self-assessment by the Directors	The Board adopts a scheme of self-assessment to be undertaken by each Director annually and maintains records of such assessments.
(3)	**Meetings of the Board**	
3(1)	Ensure that the board has met regularly and held board meetings at least twelve times a financial year at approximately monthly intervals. Check whether consent of the board has been obtained through the circulation of written or electronic resolutions/papers.	Board members attendance evidence that they have met 12 times during the year 2020/21. There were 37 circular resolutions passed during the year 2020/21.

Section	Corporate Governance Principle	Compliance
3(2)	Ensure that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	The Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
3(3)	Ensure that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice has been given.	Company's Articles of Association, Article 35(4) has a provision in this regard. The Board has been given notice of at least 7 days for a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice has been given.
3(4)	Ensure that the directors have met with the attendance requirements. (at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held). Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	All the Directors have attended at least two-thirds of the meetings during the year 2020/21.
3(5)	Ensure that the board has appointed a company secretary whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	P.R Secretarial Services (Pvt.) Ltd, a qualified Secretary has been appointed to handle the secretarial services of the Company. They handle the secretarial services for the Board and shareholder meetings and carries out other functions specified in related laws and regulations.
3(6)	Preparation of agenda for a Board meeting by the Company Secretary	As a practice, Company Secretary prepares the agenda and is approved by the Chairman.
3(7)	Directors access to advice and services of the Company Secretary	The Board approved procedure has to be in place for all Directors to have access to advice and services of the Company Secretary to ensure all Board procedures, applicable laws, rules, directions and regulations are followed.
3(8)	Maintenance of minutes of Board meetings and inspection thereof by the Directors	Complied with. The Company Secretary maintains meeting minutes and circulates them to all Board members which is open for inspection at any reasonable time to any Director.
3(9)	Recording of Minutes of Board meetings in sufficient detail	Detailed minutes are kept covering the given criteria and the Board minutes contain the required details such as, individual views of the different members, ultimate decision of the Board, whether it complies with strategies and policies of the Company and further they evidence data, reports and information used by the Board members in arriving at the decisions.

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Section	Corporate Governance Principle	Compliance
(4)	**Composition of the Board**	
4(1)	Ensure that the board comprise of not less than 5 and not more than 13 directors.	The Board has consisted of nine Directors (09) up to 23.08.2020 and this number has increased to 11 which is within the statutory limit required by the Direction. List of Directors are as follows. W. M. A. Bandara, K. G. Leelananda, S. W. Subasinghe, K. I. Weerasinghe, R. L. Masakorala, U. K. H. R. Ranasinghe, A. G. M. Priyantha, V. Lokunarangoda, G. K. Nanayakkara, D. Thotawatte (Appointed w.e.f 24.08.2020) and A.W. Nanayakkara (Appointed w.e.f 24.08.2020).
4(2)	Ensure that the total period of service of a director other than a director who holds the position of CEO or executive director, does not exceed nine years.	Since all the Directors have been appointed during and after April 2018, there are no Directors who have served for more than 9 years.
4(3)	Ensure that the number of executive directors, including the CEO does not exceed one-half of the number of directors of the board	The Board consists of only one Executive Director I.e. Director/CEO, Mr. K. G Leelananda, and does not exceed one-half of the number of Directors of the Board.
4(4)	Independent Non-Executive Directors and the criteria for independence	As per Director's details, up to 23.08.2020, the Board has consisted of only two Independent, Non- Executive Directors which is below the direction requirement. However, after 24.08.2020 Board has appointed another Independent Director to comply with the requirement. Complied with as at 31 March 2021 Independent Directors during the year 2020/21 were, Prof M. W. A. Bandara, Mr. S. W. Subasinghe and Mr. D. Thotawatte (w.e.f 24.08.2020).
4(5)	Ensure whether the alternate director appointed to represent an independent non-executive director meets with the criteria for independent non-executive directors.	There are no Alternate Directors appointed by the Company during the year. Such a requirement has not arisen during the financial period from 1 April 2020 to 31 March 2021.
4(6)	Ensure non-executive directors have necessary skills, qualifications and experience especially in banking, finance to bring an objective judgment to bear on issues of strategy, performance and resources.	As per profiles of Non-Executive Directors, they have necessary skills, qualifications and experience especially in banking and finance to bring an objective judgment to bear on issues of strategy, performance and resources.
4(7)	Ensure whether the required quorum had been present and at least 50% of the directors present at the meetings were non-executive directors.	As per the Company's Article 38, the quorum necessary for meetings of Directors shall be a majority of the Directors for the time being of the Company subject to the provisions of the Corporate Governance Direction issued by the CBSL. Board members attendance prepared by the Company Secretary for the year 2020/21 evidence that the required quorum has been present at all Board meetings and complied with the requirement.
4(8)	Expressly identify the Independent Non-Executive Directors in all corporate communications that contain the names of Directors of the Company and disclose the details of Directors.	Company had initiated actions to disclose names of Directors by expressly identifying their Independent, Non-Executive status in all corporate communications.

Section	Corporate Governance Principle	Compliance
4(9)	Ensure the procedure for the appointment of new directors and orderly succession of appointments to the board.	Company's Article (26) speaks of the 'Appointment and Removal of Directors' of the Company.
4(10)	Ensure that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	Company's Article 26 (2) speaks of appointing Directors to fill a casual vacancy. There were two Directors appointed to fill casual vacancies during the year 2020/21. Mr. A.W. Nanayakkara and Mr. D. Thotawatte have been appointed w.e.f 24.08.2020, upon retirement of Mr. J. W. Nanayakkara (Retired w.e.f 24.11.2019) and Mr. S.A Alahakoon ceasing to be a Director on 25.10.2019.
4(11)	Ensure whether the board has announced to the shareholders and notified the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation or removal of directors giving the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the board,	The Board announce to the shareholders and notify the Director of the SNBFI of the CBSL, regarding the resignation or removal of Directors giving the reasons for such removal or resignation. There were no removal or resignation of Directors during the year 2020/21.
(5)	**Criteria to Assess the Fitness and Propriety of Directors**	
5(1)	The age of a person who serves as director does not exceed 70 years (Amended by FBA Direction No. 05 of 2020).	There are no Directors who have exceeded 70 years of age, thus complying with the requirement.
5(2)	Holding office as a director of more than 20 companies/societies/body corporates inclusive of subsidiaries or associate companies of the finance company.	None of the Directors holds directorships of more than 20 companies' / entities/ institutions inclusive of subsidiaries or associate companies.
(6)	**Management Functions Delegated by the Board**	
6(1)	Ensure whether the functions delegated by the board ensure that it does not hinder or reduce the ability of the Board as a whole to discharge its functions.	By Article 28 (2), the Board is empowered to delegate its powers to a Committee of Directors or to any persons it deems fit, any of its powers which it is permitted to delegate under Section 186 of the Act. Further, Section 5 of the Corporate Governance Manual has a provision in this regard.
6(2)	Periodical evaluation of the delegation process.	As per Section 5 of the Corporate Governance Manual of the Company, the Board is required to review the delegation process on a periodic basis. The Board has reviewed the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Company as required by the direction.
(7)	**The Chairman and CEO**	
7(1)	Division of Responsibilities of the Chairman and the Chief Executive Officer.	Roles of the Chairman and the CEO are separate and held by two individuals appointed by the Board. Please refer point 2 for details of the appointments.

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Section	Corporate Governance Principle	Compliance
7(2)	Chairman preferably to be an Independent Non-Executive Director and if not, appoint a Senior Director	Prof. W. M. A. Bandara, who is the Chairman of the Company is an Independent, Non-Executive Director, thus no such requirement has arisen to appoint a Senior Director.
7(3)	Ensure that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and relationships among members of the board.	Company has a process to obtain annual declarations from the CEO, the Chairman and other members of the Board and disclose in its corporate governance report any of the relationships between the Chairman and the CEO and Board members and the nature of any relationships among members of the Board.
7(4)	Ensure whether the board evaluation process covers the following; where the Chairman: (a) provides leadership to the board; (b) ensures that the board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the board in a timely manner. (Should have been conducted at least annually).	Self-evaluation process of the Company evidence that the said requirements are fulfilled. All key and appropriate issues are discussed by the Board on a timely basis.
7(5)	Ensure that a formal agenda is circulated by the company secretary approved by the chairman.	Formal agenda is circulated by the Company Secretary approved by the Chairman.
7(6)	Ensure that the agenda has adequate information in relation to the agenda items. Agenda papers are circulated to the directors 7 days prior to the meeting.	Board papers are sent to the members of the Board 7 days prior to the meeting. Agenda contains adequate information in relation to agenda items.
7(7)	Encourage all Directors to actively contribute and ensure that they act in the best interest of the Company	All Directors actively participate in Board affairs and act in the best interest of the Company.
7(8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors	The Chairman facilitates the contribution of Non-Executive Directors and ensures constructive relationships between Executive and Non – Executive Directors.
7(9)	Avoidance of engaging in activities involving direct supervision of Key Management Personnel or any other executive duties by the Chairman	As per the organisational chart, and the key management personnel, they are not under the supervision of the Chairman. Organisational Chart has been further revised and approved by the Board on 18.12.2020.
7(10)	Ensure that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Company maintains effective communication with shareholders at the AGM of the Company and views of shareholders are communicated to the Board.
7(11)	MD/Chief Executive Officer functions as the apex executive-in-charge of the day-to-day operations and businesses.	As per the Company's organisations chart, the CEO functions as the apex executive-in-charge of the day-to-day management of the Company's operations and business.

Section	Corporate Governance Principle	Compliance
(8)	**Board Appointed Committees**	
8(1)	Establishing Board committees, their functions and reporting.	Company has established four Board committees namely Board Audit Committee (BAC), Integrated Risk Management Committee (IRMC), Board Human Resources and Remuneration Committee (BHRC) and Board Related Party Transaction Review Committee (BRPTRC-established on 27.01.2021). Minutes of above Committees have been submitted to the main Board for their review and action. Recommendations of these committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings. The Company has presented a report on the performance, duties and functions of each committee in the Annual Report.
8(2)	**Board Audit Committee (BAC):**	
	a) The chairman of the committee is a non-executive director and possesses qualifications and experience in accounting and/or audit.	Mr. Dushmantha Thotawatte is appointed as the chairman of the BAC w.e.f 28.08.2020. He is an Independent / Non-Executive Director. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka with a Bachelor of Commerce (Special degree) from University Sri Jaywardanaapura and Master in Financial Economics from University of Colombo.
	b) Ensure that all members of the committee are non-executive directors.	All other members in the committee are Non-Executive Directors namely Mr. G. K. Nanayakkara, A. G. M. Priyantha and Mr. S. W. Subasinghe.
	c) Ensure that the committee has made recommendations on matters in connection with: i) (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of accounting standards;	Committee will initiate action to make recommendations on matters in connection with the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes. Committee has made recommendations on matters in connection with the implementation of the Central Bank guidelines issued to auditors from time to time. Further, committee has made recommendations on matters in connection with the application of accounting standards.
	d) Ensure the committee has established a policy in relation to the service period, audit fee and any resignation or dismissal of the auditor; This policy should address that the engagement partner does not exceed five years, and is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Committee has established a policy for external auditors which addresses stipulated matters. No resignation or dismissal of the auditor has taken place during the year. Engagement partner does not exceed five years. Audit Committee has discussed the External Auditors' Audit fee at their BAC meeting.

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Section	Corporate Governance Principle	Compliance
	e) Ensure that the committee has obtained representations from the external auditors on their independence and evaluated the effectiveness, and that the audit is carried out in accordance with SLAS.	External Auditors are independent since they directly report to the BAC and their Report on the financial statements of the Company for the year 2020/21 indicates that the audit is carried out in accordance with SLAS. Further, committee will initiate action to evaluate the effectiveness of the independence of the External Auditor.
	f) Ensure that the committee has implemented a policy on the engagement of an external auditor which does not impair the independence and objectivity in relation to the provision of non-audit services (in accordance with Sec 8 2(e) of the regulations).	The Policy is available in the Internal Audit and Procedure Manual.
	g) Ensure that the committee has discussed and finalised, the nature and scope of the audit, with the external auditors including (i) an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one auditor is involved.	External Auditors have discussed and finalised scope of the audit plan for the year end 2020/21 at their meeting held on 24.02.2021 with the management. Audit Plan addresses an assessment of the Company's compliance with Directions issued and the management's internal controls over financial reporting and, the preparation of financial statements in accordance with relevant accounting principles and reporting obligations. This is not relevant since there is only one auditor involved in the audit.
	h) Ensure that the committee has reviewed the financial information of the finance company by perusing the minutes, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure. The following areas should have been addressed in the review by perusing the minutes; (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit.	At present, Company has a process to submit financial information such as Profit & Loss account and the Balance sheet on a monthly basis and at the year end to the Board Audit Committee. Committee has reviewed and recommended the draft Audited Financial Statements for the year ended 31.03.2020 at their BAC meeting held on 29.06.2020.

Section	Corporate Governance Principle	Compliance
	i) Ensure that the committee has met the external auditors to discuss issues, problems and reservations arising from the interim and the final audit including matters which needs to be discussed in the absence of the executive management by perusing the minutes	Board Audit Committee has held a confidential meeting with the external auditors in the absence of the executive management on 25.09.2020. However, committee will initiate action to meet external auditors to discuss issues, problems and reservations arising from the interim and the final audit with regard to the FY 2020/21 in the absence of the executive management.
	j) The committee has reviewed the external auditor's management letter and the management's response thereto.	The Committee has reviewed the external auditor's Management Letter and the management's response thereto.
	k) Ensure that the committee has taken the following steps with regard to the internal audit function of the finance company: (i) The internal audit charter which covers the scope and functions of the internal audit department and satisfy itself that the department has the necessary authority to carry out its work. (ii) The resources of the internal audit department, and satisfy itself that the department has the necessary resources to carry out its work; (iii) The internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (iv) Reviewed any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (v) The appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (vi) Ensure that the committee has been informed of all resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers and has provided an opportunity for them to give the reasons for their resignations	Internal Audit Procedures Manual is in place approved by the Board on 22.02.2019 which covers the scope and functions of the Internal Audit Department and satisfy itself that the department has the necessary authority to carry out its work. The Board Audit Committee has reviewed adequacy of resources of Internal Audit Dept as and when required. Annual Audit Plan and progress report for the year 2020 had been presented to the BAC meeting. Further, committee has discussed results of the internal audit process at their quarterly meetings. By the time of Annual Assessments done by the Company, the previous Head of IA has retired, and new AM IA has just appointed. Therefore, no Annual assessment of Head of Audit done during the year. Mr. S. S. S. Senanayaka, Head of IA and Compliance has retired from his service on 01.08.2020 (Board meeting dated 20.07.2020) and Board has promoted Mr. Shehan Wijesinghe, Assistant Manager IA as the Acting Manager, Internal Audit w.e.f 09.11.2020. There were no resignations of senior staff members of the Internal Audit Dept. taken place during the year. As per the Board approved organisation chart of the Company Internal audit function is Independent and they report directly to the Board Audit Committee. Internal Audit Procedures Manual is in place approved by the Board and it addresses that the audit work performed with impartiality, proficiency and due professional care.

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Section	Corporate Governance Principle	Compliance
	l) The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	No such major internal investigations reported to the committee during the year 2020/21.
	m) The committee has had at least two meetings with the external auditors without the executive directors being present.	The Board Audit Committee has held a meeting with the external auditors without the Executive Directors being present. However, as required by the direction, committee will initiate actions to have at least two meetings with the external auditors without Executive Directors being present
	n) The Terms of reference of the committee to ensure that there is; (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Terms of Reference of the Board Audit Committee is in place which has been approved by the Board. The Board noted the captioned paper dated 15.07.2020 recommended by the IAD.
	0) Ensure that the committee has met, at least four times and maintained minutes.	BAC has met 04 times during the financial year 2020/21.
	p) Ensure that the annual report contains a report from the Audit Committee which includes the following, (i) details of the duties and functions of the committee (ii) details of the activities of the audit committee; (iii) the number of audit committee meetings held in the year; and (iv) details of attendance of each individual director at such meetings	Activities of BAC, No. of meetings and attendance of BAC members have been published in the Annual Report on pages 52 to 53.
	q) Check that the secretary of the committee is the company secretary or the head of the internal audit function.	M/s P.R. Secretarial Services (Pvt.) Ltd has been appointed as the secretary of the BAC.
	r) Ensure that the "Whistle Blower" policy covers the process of dealing with; (i) The improprieties in financial reporting, internal control or other matters. (ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and (iii) Appropriate follow-up action. (iv) Protection of the whistle blower	Whistleblower (Part 1) Communication Policy (Part 2) Policy procedure manual is in place approved by the Board. Contents of the policy will be strengthened to cover the process of dealing with the internal control and to monitor appropriate follow- up action.

Section	Corporate Governance Principle	Compliance
8(3)	**Integrated Risk Management Committee (IRMC)**	
	a) Ensure that the committee consists of at least one non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Integrated Risk Committee consists of two Non- Executive Directors, Executive Director / CEO and Head of Compliance. Members of the committee during the year 2020/21 were, Mr. S. W. Subasinghe, Mr. K. G. Leelananda (ED/ CEO), Mr. A. Nanayakkara (NI/NED) Mr. Ranga Chandranath (Head of Compliance) and Mr. R. M. Gnanaratne (Chief Risk Officer) . Head of Finance participates in IRMC meetings by invitation.
	b) Ensure that the committee has a documented process to capture and assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a finance company basis and group basis.	Committee has a documented process to capture and assess risks, i.e., credit, liquidity and strategic risks to the Company on a quarterly basis through appropriate risk indicators and management information. Board approved Risk Management Policy, Risk Appetite limits and Customer Risk Profile is in place. Committee has reviewed and recommended the Risk Management policy for the approval of Board of Directors. Chairman instructed to set CBSL imposed limits itself as risk appetite limits. TOR of IRMC approved by the Board in place. Risk Officer submits a Risk Report to the committee. Company assesses risk using following indicators. **Credit Risk-** Classification of Loans and Advances, Non- performing Loans and Advances, LTV Analysis of Pawning Advances. **Liquidity Risk** Liquidity risk is monitored through Assets and Liability Committee of the Company and ALCO has discussed liquidity position of the Company, Cost of Funds, Borrowing Rate, Lending Rates (Advances), Deposit Interest Rates, Maturity Gap Analysis and Investment Portfolio of the Company. **Regulatory Risk** Capital Adequacy Requirement ALCO minutes are submitted to IRMC for their quarterly meetings. Further, Head of Compliance submits a monthly compliance status report to the IRMC for their awareness. Company has established Risk Appetite limits for categories such as Liquidity Assets Position, Capital Adequacy, Loans and Advances, Cost of Funds, Fixed Deposit and Savings Deposit composition etc. Risk Management Policy is in place approved by the Board at their meeting held on 27.01.2020.

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		However, committee will strengthen this process by identifying more risk indicators to monitor operational risk for better governance. For example, the risk indicators that can be used to measure operational risk are as follows. - % of frauds detected - % of unsatisfactory branch audits - Branches not audited - Cost to income ratio - Staff turnover ratio - Number of loss making branches - Lack of appropriate security documents - Number of system down time - Outstanding annual leave of staff etc. Currently Company has no subsidiaries or associate companies.
	c) Ensure that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the Credit committee and the Asset-liability committees, and report any risk indicators periodically.	Board approved Terms of Reference of Asset and Liability Management committee and the Credit Committee is in place. ALCO minutes are submitted to the IRMC for their quarterly meetings. Apart from the submission of minutes the committee will have to initiate action to review the adequacy and effectiveness of management level committees which report to the IRMC such as ALCO and Credit Committee by reviewing their performance bench marking against the current TORs of such committees as required by the direction. A Board approved TOR of Asset and Liability Management Committee is in place.
	d) Ensure that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Committee has reviewed the risk indicators which have gone beyond their limits after establishing the specific quantitative and qualitative risk limits.
	e) Responsibility of the Integrated Risk Management Committee to meet at least quarterly to assess all aspects of risk management	Risk Management Committee has held 4 meetings during the year 2020/21.
	f) Ensure that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks..	At the Company, specific risks and the limits are identified by Risk Committee and decisions are taken collectively.
	g) Ensure that the committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	Committee has to initiate action to submit a risk assessment report addressing critical risks of the Company within a week of each IRMC meeting to the Board seeking the Board's views, concurrence and/or specific directions as required by the direction.

Section	Corporate Governance Principle	Compliance
	h) Ensure that the committee has establish a compliance function to assess the Finance Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	Committee has established a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines and internal controls. Company has appointed Mr. Ranga Chandranath as Head of Compliance w.e.f 07.08.2020 for the position vacant due to the retirement of Mr. Senanayake. Compliance policy of the Company presented by the Dept. of Compliance approved by the Board and requested to send such policy to the CBSL for their review. Head of compliance submits a monthly compliance status report to the Board and to the risk management committee. Compliance officer will have to obtain confirmation from all operational unit Heads that they work according to approved policies on all areas of business operations of the Company.
9.	**Related Party Transactions**	
9(2)	Ensure that there is an established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: a. A subsidiary of the finance company; b. Any associate company of the finance company; c. A director of the finance company; d. A key management personnel of the finance company; e. A relative of a director or a key management personnel of the finance company; f. A shareholder who owns shares exceeding 10% of the paid up capital of the finance company; g. A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.	Company has initiated action to establish a Related party Transactions Policy which speaks on different types of related parties as per the direction and for the Company to avoid any conflicts of interest that may arise from any transaction of the Company with the related parties. The Board resolves to approve and adopt the Related party Transaction Policy subject to approval of the CBSL. Further, Company has established a RPT Review Committee w.e.f 27.01.2021.
9(3)	Nature of transactions with related parties to which the Corporate Governance Directions apply.	Complied with. The Related Party Transactions Policy of the Company addresses all the transactions with related parties irrespective of their nature and value. Related Party Transactions Review Committee further ensures that the transactions with related parties are on an arm's length basis.

CORPORATE GOVERNANCE

Section	Corporate Governance Principle	Compliance
9(4)	Monitoring of Related Party Transactions defined as more favorable treatment.	A preventive or detective process will be implemented at the Company through the core system to ensure that the Company does not engage in transactions with the related parties in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the finance company carrying on the same business
10	**Disclosures**	
10(1)	Ensure that the board has disclosed: (a) Annual audited financial statements and periodical financial statements (6 months ended end Sept.) are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.(RFC guideline No. 2 of 2006)	Annual audited financial statements and periodical financial statements are prepared and published as required.
10(2)	Check that the board has made the following minimum disclosures in the Annual Report:	
	a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	This is been disclosed in the "Annual Report of the Board of Directors on the state of affairs of the Company "appearing on pages 58 to 60 of the Annual Report.
	b) The report by the board on the Finance Company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Effectiveness of the Companies' Internal control mechanism has been certified by the Directors on pages 63 of the Annual Report under the heading "Directors' Statement on Internal Control over Financial Reporting."
	c) Details of directors, including names, transactions with the finance company.	The names of the Directors are being set out on pages 24 to 27 of the Annual Report. Transactions with the Directors are been disclosed in Note 46 on the page 134 to 136 of the Annual report.
	d) Fees/remuneration paid by the finance company to the directors in aggregate.	The fees & remuneration paid to Directors are been disclosed in Note 46.1 on page 135 of the Annual Report.
	e) Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Finance Company's capital funds.	Accommodation provided is 1.88%

Section	Corporate Governance Principle	Compliance
	f) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Total value of short term employee benefits paid to KMPs (as per CBSL direction) during the year is Rs 16,511,000.00 ▲ Total accommodation granted. Rs 39.7 Mn ▲ Term deposits/ savings deposits Rs 99.9 Mn.
	g) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Details of compliances and non-compliances would be highlighted in the annual report of the Board of Directors on the affairs of the Company on pages 58 to 60 of the Annual Report.
	h) A statement of the regulatory and supervisory concerns on lapses in the Finance Company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	There were no regulatory and supervisory concerns in the Company's risk management or non-compliance with the act, rules and directions that have been communicated by the Director of the Department of supervision of Non-Bank Financial Institutions.
	i) Check that the board has obtained the external auditor's certification of the compliance with the Corporate Governance directions in the annual corporate governance reports published from 17.09.2013.	Board has obtained the Corporate Governance Factual Findings Report from external auditors in this regard.
11)	Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred in 10(2) (b) above.	Board has obtained an Assurance Report from External Auditors on the effectiveness of the internal controls over financial reporting.

MANAGING RISK

At Lanka Credit and Business Finance Limited , we consider risk management as a very important feature that has a bearing on all transactions undertaken by us and it is an integral part in the development of financial products, services, dispensing credit and in investment actives,

RISK MANAGEMENT

Risk management is about understanding and managing the organisation's risk environment in all business activities through the introduction of mitigation to contain such identified risk to acceptable levels which we consider as our risk appetite. This process takes into account the full spectrum of risks including, liquidity, market, credit. interest, exchange, compliance and operational risks.

Risk Governance Framework

A robust governance framework is the cornerstone for the implementation of effective risk management of the Company. Governance is maintained by the Board of Directors, the Board appointed Audit Committee and Integrated Risk Management Committee as the Board of Directors has to exercise the overall control of risk management process and is responsible to ensure effective risk management of the Company.

Board Committees

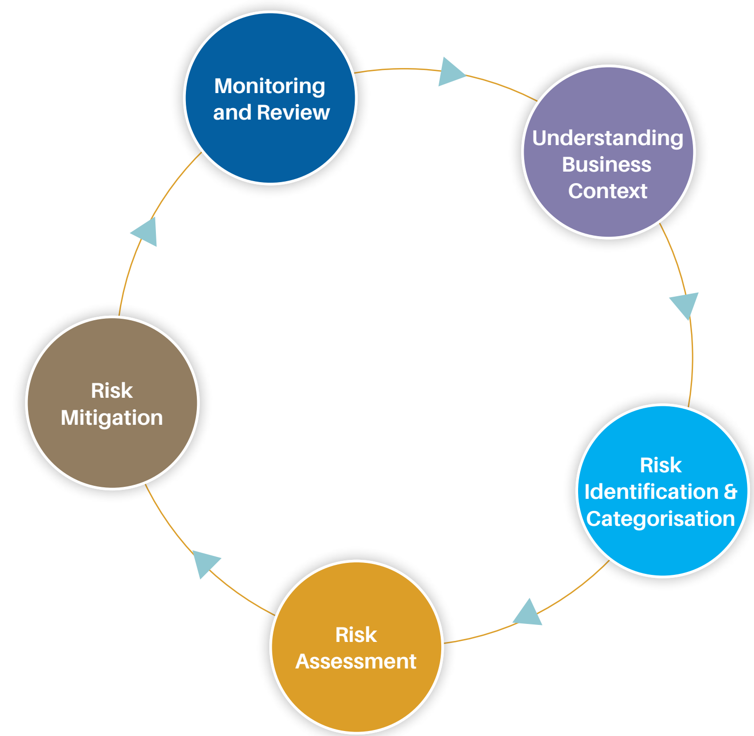
Board	The Board of Directors been responsible for the establishment and overseeing the risk management mechanisms and orderly implementation of the risk framework in the Company. Board approves the policies, procedures and strategies covering all operations of the company. The Board appointed committees ensure Compliance with the Directives of the Board across the Company and report to the Board areas of non-compliance for necessary action if observed
Board Integrated Risk Management Committee (BIRMC)	BIRMC is the Board subcommittee responsible for overseeing the risk management function of the Company in line with the directions of the regulatory authorities and those of the Board of Directors. The Committee interacts with the Chief Executive Officer/ Executive Director to meet its terms of reference which is Risk management
Board Audit Committee	This committee looks into Operational Risk arising out of the violation of Regulatory Directives and systems and procedures stipulated in Board approved operational manuals and procedural in house circulars by any staff member across the Company. The Board of Directors functions through the Head of internal audit who reports direct to the Board Audit Committee the audit findings and implement related directive of the committee as appropriate and follow up compliance and rectification of shortcomings observed.

Management Committee

Assets & Liability Management Commit tee (ALCO)	Asset and Liability Committee (ALCO) is the formal Management Committee established to manage various risks that arise due to mismatches of contractual maturities of the assets and liabilities (Gap Analysis) of the Company and other operational risks related to liquidity, Interest rate risks, exchange, and segment-wise credit exposures. The investment committee functions under ALCO to evaluate and make recommendation to ALCO on matters relating to investments.
Credit Committee	The committee is responsible for formulating credit policies and procedures relating to Credit Administration of the Company subject to the approval of the Board of Directors. The committee also approve credit which exceeds the authority delegated to CEO/ executive Director for Credit Administration,

Risk Management Process

A risk management framework has been established to ensure that risks are identified and managed with a consistent approach across all business areas and risk types and all decisions are in line with the risk appetite of the Company.



RISK CATEGORISATION AND RISK MANAGEMENT STRATEGIES

CREDIT RISK

A credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments. In the first instance, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

Risk Management

We concentrate on lending to credit worthy borrowers through effective evaluation of credit applications strengthening the collateral cover adopting a prudent loan to value ratio and effective credit supervision.

Liquidity Risk

Liquidity risk is the risk that a company may be unable to meet short term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.

Risk Management

The Assets and Liabilities Management Committee monitors the liquidity position of the Company on a regular basis and recommends to the Management the necessary corrective measures.

Market Risk

Market risk refers to the risk of losses in the Company's trading book due to changes in equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices, and other indicators whose values are set in a public market.

Risk Management

The Assets and Liabilities Management Committee identify, measure, monitor, and control exposure to market risk considering its complexity, and risk profile.

Operational Risk

Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems or policies such as employee errors, system failures, fraud or criminal activity and any other event that disrupts business processes.

Risk Management

Operational risk management is carried out by the Assets and Labilities Management Committee through a continual cyclic process which includes risk assessment, risk decision making, and implementation of risk controls, which result in adoption, acceptance, mitigation, or avoidance of risk.

Compliance Risk

Compliance risk is exposure to legal penalties, financial forfeiture and material loss that a company faces when it fails to act in accordance with regulatory directions, industry laws and regulations, internal policies and procedures or prescribed best practices.

Risk Management

Compliance Risk Mitigation is under the purview of the Head of Compliance who, considering the possibilities of the occurrence of compliance violations in the Company initiate processes to develop and implement across the Company, through Board approved policies, procedures and guidelines to mitigate or prevent the exposure of the Company to such risks.

MANAGING RISK

Legal Risk
Legal risk is the potential for losses due to regulatory or legal action. Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted against the Company.

Mitigates
Head of Legal monitors the legal activities of the Company and advises the management on legal risk management, evaluating responses to such risks professionally, taking into consideration, among others, court determinations against the Company due to weak documentations, or occurrence of acts of misconduct of employees resulting in loss to customers and the Company etc.,

Strategic Risk
Strategic risk is the risk which arises due to failed business decisions, or lack thereof. Strategic risk is often a major factor in determining a company's worth, particularly observable if the Company experiences a sharp decline in a short period of time.

Technology Risk
Technology risk arises from the use of computer systems in the day-to-day conduct of the Company's operations, reconciliation of books of accounts, and storage and retrieval of information and reports. The risk can occur due to the choice of faulty or unsuitable technology and adoption of untried or obsolete technology as well as virus attacks, hacking etc.,

Mitigates
Head of IT identifies risks, evaluates and prioritises and coordinates with Management to eliminate or control the probability or impact due to unforeseen circumstances such as system failures, natural calamities, virus attacks/ hacking etc using all available technical solution or through manual intervention. He is responsible to maintaining the offsite back facility to meet any contingency.

AUDIT COMMITTEE REPORT

The Board Audit Committee is a sub-committee of the Board of Directors chaired by an Independent Non-Executive Director and comprising exclusively of Non-Executive Directors to assist the Board in fulfilling its oversight responsibility on financial reporting, internal controls, internal audit and external audit related affairs of the Company.

COMMITTEE COMPOSITION
The Audit Committee is comprised of three Non-Executive Directors of whom one is an Independent Director. The Committee is chaired by Independent Director Mr. Dushmantha Thotawatte, who is a fellow member of the Institute of Chartered Accountants with considerable experience in the field of Auditing and Finance.

The following members served in the Board appointed Audit Committee during the twelve month period ended 31st March 2021.

1. Mr. D. Thotawatte (IND/NED)
2. Mr. S. W. Subasinghe (IND/NED)
3. Mr. G. K. Nanayakkara (NED)

(IND - Independent Director, NED - Non-Executive Director)

Brief Profiles of the members are given under the Board of Directors in the Annual Report.

The Head of Internal Audit functions as the Secretary to the Audit Committee.

MEETINGS
The Audit Committee met 4 times during the year. The attendance of the members at Audit Committee Meetings was as follows:

Member	No. of Meetings
Mr. Dushmantha Thotawatte	2/4
Mr. S. W. Subasinghe	3/4
Mr.G.K.Nanayakkara	3/4

Audit Committee Meetings to review the distribution of profits to shareholders

The Chairman, Executive Director and other Directors and other senior management team members also attended these meetings by invitation as and when required. On the invitation of the Audit Committee, Company's External Auditor, M/s. E&Y attended one Committee meeting during the year. Proceedings of the Audit Committee meetings are reported regularly to the Board of Directors.

AUDIT COMMITTEE CHARTER
The terms of reference of the Audit Committee are clearly defined in the Audit Committee charter which is reviewed and revised annually. The Charter was approved in September 2018 and will be reviewed annually. This process ensures that new developments and concerns are adequately addressed.

ROLE OF THE AUDIT COMMITTEE:
The functions of the Committee are geared to assist the Board of Directors in fulfilling effectively its oversight responsibility on financial reporting, internal controls, internal audit & external audit related affairs of the Company. The Committee has been empowered to:

- Examine internally any matter within the scope of the charter relating to the financial and other related affairs of the Company.
- Make recommendations on matters connected with engagement, re-engagement, removal of external auditors, service period and audit fees. The Committee periodically reviews the independence, objectivity and effectiveness of the audit process in conformity with applicable standards and best practices.
- Monitor and follow-up the Internal Audit programme and External audit plan, review the External Auditors Management Letter and Internal Audit reports, and follow up on findings and recommendations.
- Review risk management measures and examine the adequacy, efficiency and effectiveness of the Internal Control System over financial reporting.

  Ensure that a efficient and sound financial reporting system is in place to provide accurate, appropriate and timely information to the Board and other stakeholders.
- Review the quality and appropriateness of accounting policies, emerging accounting issues and disclosures according to Sri Lanka Accounting Standards.
- Review the compliance of financial reporting obligations under Finance Business Act No. 42 of 2011, Rules and Directions issued by the Central Bank of Sri Lanka, Companies Act No. 7 of 2007, Sri Lanka Accounting & Auditing Standards Monitoring Board Act No. 15 of 1995.

  Review and recommend Interim and Annual Financial Statements prepared for approval of the Board and submission to shareholders.

  Review the policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines

  Performance of the Head of Internal Audit was evaluated by the committee.

AUDIT COMMITTEE REPORT

Audit committee has discharged its duties during 2020/21 within the scope of the charter as stated below.

FINANCIAL REPORTING

The Committee assisted the Board of Directors to discharge its responsibility for the preparation of the quarterly and annual Financial Statements to reflect a true and fair view of the affairs of the Company in accordance with the Company's accounting records and in conformity with the Sri Lanka Accounting Standards, the Sri Lanka Financial Reporting Standards, Finance Business Act no 42 of 2011, the Companies Act No.7 of 2007, Sri Lanka Accounting & Auditing Standards Monitoring Board Act no.15 of 1995, rules and regulations of CBSL Directions.

The Committee reviewed the Company's interim and annual financial statements prior to submission to the Board and recommended their issue to shareholders.

The Audit Committee reviewed the profit reconciliation based on CBSL directions and LKAS/SLFRS and impact to the prudential ratios with regard to dividend declarations, in compliance with relevant regulations.

The Audit Committee reviewed the internal controls on financial reporting system to ensure the reliability and integrity of information provided. The review included the extent of compliance with LKAS/SLFRS and applicable laws & regulations, review of critical accounting policies and practices and any changes thereto, going concern assumptions, major judgmental areas and material audit judgments.

The Committee reviewed the progress of the implementation of SLFRS 9 in the preparation of financial statements for the financial year. The Company obtained the service of leading accounting advisory services firms Ms/ EY in the implementation of SLFRS 9.

EXTERNAL AUDIT

The Audit Committee is empowered by the Board to recommend the appointment of the External Auditor in compliance with the relevant statutes, the service period, audit fee and any resignation or dismissal of the auditor. The Committee is satisfied that there is no conflict of interests between the Company and the Auditor. The Committee is thus satisfied that there is no cause to compromise the independence and objectivity of the Auditor. The Committee reviewed the effectiveness of the audit process in accordance with applicable standards and best practices. The Audit Committee ensured that the engagement of an audit partner shall not exceed five years and that the audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term as per section 8 (2) c) of Direction No.3 of 2008 issued under the Finance Business Act No. 42 of 2011.

The annual financial statements 2020/21 was reviewed and recommended for the approval of the Board. The External Auditor's Engagement and Management Letters and Management's responses thereto were also reviewed. The Committee also met with the External Auditor at one meeting without the presence of management to discuss whether there have been any irregularities, constraints, reservations or any other unsatisfactory matters arising from the audit which the auditor wished to discuss with the Audit Committee.

The letter of representation issued by the Board to the External Auditor and Independence confirmation letter issued by the External Auditor have been reviewed by the Audit Committee.

The Committee assisted the Board of Directors in engaging the External Auditor for non-audit services in compliance with the statutes and ensured that engagement in non-audit services does not impair the external auditor's independence and objectivity. Policy on engagement of the external auditor to provide non-audit services had been reviewed and approved by the Committee.

The Audit Committee has recommended to the Board of Directors that Messrs. E&Y be appointed as External Auditor of the Company from the financial year 2018/19 for up to 5 years.

INTERNAL CONTROL

The Audit Committee, through the internal audit process, had reviewed the effectiveness of internal controls and procedures and is of the view that adequate controls and procedures are in place to provide reasonable assurance to the Board that the assets of the Company are safeguarded and the financial statements present a true and fair view.

Additionally, the Committee assessed the effectiveness of the Company's internal controls over financial reporting as at 31st March 2021, as required by Finance Companies (Corporate Governance) Direction 03 of 2008, based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Controls" issued by Institute of Chartered Accountants of Sri Lanka.

INTERNAL AUDIT

The Committee ensured that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. During the year, the Audit Committee reviewed the adequacy of the scope, functions and resources of the internal audit division, the results of the internal audit process and their evaluation of the Company's internal control system. The Audit Committee also reviewed and approved the adequacy of coverage of the internal audit programme

LCB Finance LTD
Annual Report 2020/21

Executive summary of audit carried out at branches by the Internal Audit Department has been reviewed by the Audit Committee and have been issued to strengthen the weak areas of internal control of the branch.

REGULATORY COMPLIANCE

The Audit Committee closely scrutinises the compliance of mandatory statutory requirements and systems and procedures in place to ensure the compliance of such requirements.

Audit Committee reviewed the information requirement of Companies Act No. 07 of 2007, Finance Business Act No.42 of 2011 and other reporting requirements under SEC, CSE and CBSL regulations.

COMMITTEE EVALUATION

An annual evaluation of the Committee is carried out by the Board with contributions from individual committee members.

Dushmantha Thotawatte
Chairman
Audit Committee

Colombo
4th August 2021

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Integrated Risk Management Committee (IRMC) was established to assist the Board in performing its oversight function in relation to different types of risk faced by the Company in its business operations and ensure adequacy and effectiveness of the risk management framework of the Company.

COMPOSITION OF THE COMMITTEE

The Board Integrated Risk Management Committee (BIRMC) comprises three members who are Directors.

Members of the Board	Position
Mr. S. W. Subhasinghe - Chairman to the Committee	Independent Non-Executive Director
Mr. Aswin Nanayakkara	Non-Executive Director
Mr. K. G. Leelananda	Executive Director/CEO

Permanent members of the Management Level Risk committee are as follows.

Members of the Management	Position
Mr. Ranga Chandranath	Head of Compliance
Mr. R. M Gnanarathna	Chief Risk Officer

COMMITTEE FUNCTIONS

The Board of Directors of LCB Finance Limited is accountable to design the control environment and set up the Risk Appetite levels to mitigate and effectively manage risks associated with Finance Business. It has delegated the oversight of risk management to the BIRMC and Audit Committees. The BIRMC reviews significant risks and the related risk management and mitigation and reports back to the Board on any improvements needed, while the Audit Committee focuses predominantly on the financial risks and reviews the effectiveness of the risk process as a third line of defense.

Each and every department is responsible for identifying, assessing and managing the risks in their respective area. The combined assurance process optimises assurance coverage and ensures that significant risks are adequately addressed, enabling an effective control environment and ensuring the integrity of information used for decision making and reporting.

Risks and opportunities are identified by the BIRMC throughout the year and assessed on the basis of likelihood of occurrence and potential impact to the Company and mitigations action which needs to be to be taken.

ROLES AND RESPONSIBILITIES

The approved Terms of Reference for the BIRMC stipulates authority, structure, responsibilities and tasks of the BIRMC. Accordingly, the primary responsibilities of the BIRMC include,

- Assessing all risks such as credit, market, liquidity, operational and strategic risks of the Company on a monthly basis through appropriate risk indicators and management information.
- Reviewing the adequacy and effectiveness of ALCO (Assets and Liability Committee) to address specific risks and manage those risks within quantitative and qualitative risk limits specified by the Committee.
- Taking prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Company's policies, regulatory and supervisory requirements.
- Taking appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective measures as recommended by the Committee and/or as directed by the Central Bank Corporate Governance Directions.
- Meeting at least quarterly to assess all aspects of risk management including the updated Business Continuity Plan.
- Approving in principle, all policies relating to risk management and submitting it for the approval of the Board
- Establishing a protective risk management culture within the Company.
- Periodically reviewing the risk exposures of the Company to be in line with its risk and business strategies and objectives.

In addition to the above, the Committee may perform such other functions, which are necessary or appropriate for the discharge of its duty.

MEETINGS

The appointed Board Integrated Risk Management Committee met during the financial year to evaluate and address risks faced by the organisation. During the year the Committee met four times on a quarterly basis. The attendance of members at meetings is stated as follows.

Member	No. of Meetings
Mr. S. W. Subasinghe	4/4
Mr. A. Nanayakkara	4/4
Mr K. G. Leelananda	4/4
Mr. R. Chandranath	4/4
Mr. R. M. Gnanarathna	4/4

The discussions and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for information and advice. Critical issues are taken for discussion at the Board level.

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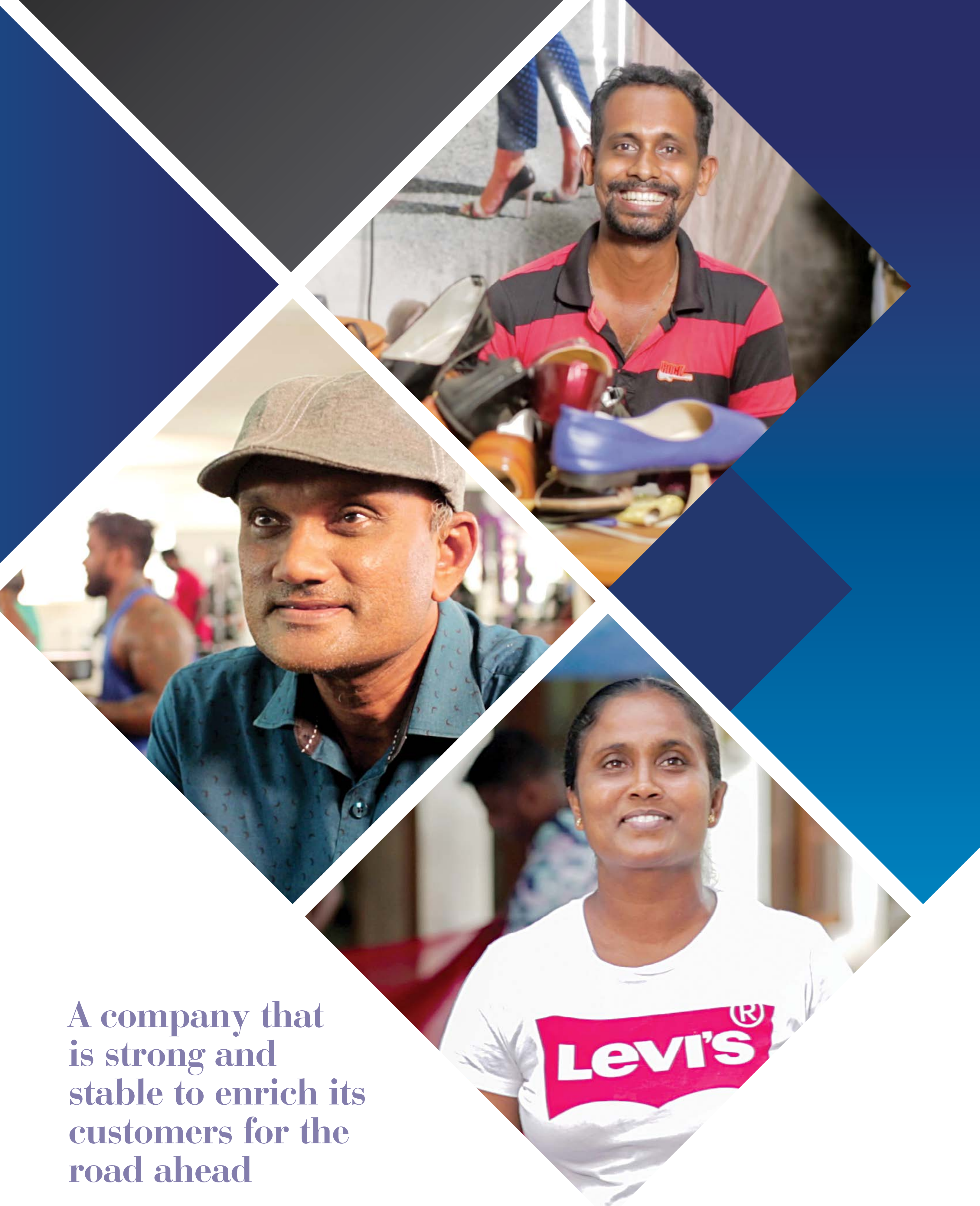
CONCLUSION

The members of the Integrated Risk Management Committee collectively evaluated the performance of the newly -set-up committee. The Committee is of the view that Lanka Credit and Business Finance Limited is on the right path towards meeting the challenges of risk management and compliance ,safeguarding the interests of the stakeholders and moving towards sustainable operations.

Mr. S. W. Subhasinghe
Chairman, Board Integrated Risk Management Committee

Colombo
5th August 2021



A company that is strong and stable to enrich its customers for the road ahead

FINANCIAL INFORMATION

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

The Directors of Lanka Credit and Business Finance Limited (formerly City Finance Corporation Limited) have pleasure in presenting to the shareholders their Annual Report together with the Audited Financial Statements for the year ended 31st March 2021. The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards.

GENERAL

Lanka Credit and Business Finance Limited (formerly known as City Finance Corporation Limited) (the "Company) was restructured as a result of an investment made by Lanka Credit and Business Limited under the guidance of the Central Bank of Sri Lanka in May 2018. The Company is a domiciled, public limited liability company incorporated in Sri Lanka and it was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto.

The registered office and the principle place of business of the Company is located at No.76, S De S Jayasinghe Mawatha, Kohuwala, Nugegoda.

PRINCIPLE ACTIVITIES

The Company provides a comprehensive range of financial services encompassing accepting deposits and providing credit facilities such as finance lease, hire purchase, vehicle loan facilities, mortgage loans, gold loans, revolving loans business/personal loans and other credit facilities.

FINANCIAL STATEMENT

The financial statements of the Company are prepared in accordance with Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS) set by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the directions issued under the said Finance Business Act.

Consequent to the Audit Committee's recommendations, the Financial Statements were reviewed and approved by the Board of Directors on 25th May 2021.

The Financial Statements for the year ended 31st March 2021 was completed and was duly signed by the Head of Finance, Chief Executive Officer and Chairman of the Company.

AUDITORS' REPORT

The Auditors of the Company are Messrs. Ernst & Young, Chartered Accountants. Messrs. Ernst & Young carried out the audit on the Financial Statements of the Company for the year ended 31st March 2021. The Auditors express a clean opinion of the financial position of the Company as at 31st March 2021 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

CHANGE IN ACCOUNTING POLICIES

The significant accounting policies adopted and changes in accounting policies in the preparation of the Financial Statements are given on pages are as set out in the financial statements.

FINANCIAL RESULTS & APPROPRIATIONS

Interest Income

Total interest income of the Company for the year ended 31 March 2021 was Rs. 456.25 Mn (Rs.423.69 Mn in 2020). Components of interest income are given in Note 7 to the Financial Statements.

Profit and Appropriations

The Company has recorded Rs 100.29 Mn in profit before tax and Rs .25.00 Mn in profit after tax in 2021 (Profit for the year was Rs. 11.43 Mn in 2020). The Company's Total Comprehensive Income (net of tax) for the year is Rs. 24.43 Mn (Total Comprehensive income was Rs. 11.48 Mn in 2020).

Taxation

The Income Tax rate applicable to the Company's operations is 24% (2020:28%). The Company is also liable for VAT on financial services at 15% (2020: 15%), and Crop Insurance Levy at 1% on PAT.

The Company has also provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 (Income Taxes).

Dividend

The Board of Directors of the company do not recommend Dividends as there is no distributable profit for the year ended 31st March 2021.

Reserves

A summary of the Company's reserves is given below.

	2021 Rs. '000	2020 Rs. '000
Statutory Reserve Fund	41,070	39,820
Retained Earnings	26,735	(1,788,053)

Market Value of Investment Property

The Company did not have investment properties as at 31 March 2021 as these assets were disposed as at the Financial Year ended 31 March 2021. The market value of the Investment Property in March 2020 was Rs. 356.3 Mn.

The details of Investment Property owned by the Company are given in Note 27 to the Financial Statements.

Donations

The total amount of donations made during the year under review is Rs. 956,836.

Stated Capital

The Stated Capital of the Company as at 31st March 2021 was Rs. 2,039,133,400 represented by 665,168,780 consolidated Ordinary Shares.

AUDITORS

The Auditors of the Company during the year were Messrs. Ernst & Young, Chartered Accountants.

Audit fees paid to Ernst & Young for the year ended 31st March 2021 by the Company amounted to Rs. 1,137,024 (2020: Rs. 1,069,200). The non-audit fees paid to Messrs. Ernst & Young during the year ended 31st March 2021 was Rs. 430,920 (2020: Rs. 356,400).

The Auditors have expressed their willingness to continue in office. A resolution to reappoint the Auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

DIRECTORS

The names of the Directors who held office as at the end of the accounting period are given below:

Executive Director

1. Mr. K. G. Leelananda

Non-Executive Directors

1. Mr. A. G. M. Priyantha
2. Mr. R. L. Masakorala
3. Mr. U. K. H. R. Ranasinghe
4. Mr. K. I. Weerasinghe
5. Mr. G. K. Nanayakara
6. Mr. V. Lokunarangoda
7. Mr. A. W. Nanayakkara

Independent Non-Executive Directors

1. Prof. W. M. A. Bandara
2. Mr. S. W. Subasinghe
3. Mr. D. Thotawatte

INTEREST REGISTER

The Company maintains an interests register in terms of the Companies Act, which is deemed to form part and parcel of this annual report and available for inspection upon request.

The relevant interests of Directors in the shares of the Company as at 31st March 2021as recorded in the interests register are given in this report under Directors' shareholding.

Directors' Interest In Shares

	Name of the Director	No. of Directorates/ Equivalent Positions Held in Companies/ Societies/ Bodies Corporate
1.	Prof. W. M. A. Bandara	United Engineering Services (Private) Limited (Chairman)
2.	Mr. K. G. Leelananda	Lanka Credit and Business Limited
3.	Mr. S. W. Subasinghe	NIL
4.	Mr. K. I. Weerasinghe	Lanka Credit and Business Limited
5.	Mr. R. L. Masakorala	Hotel Kabalana Pvt Ltd Yakkalamulla Tea Factory (Pvt) Ltd-(Director) Udumulla Tea Factory Pvt Ltd - (Director) Lanka Credit and Business Limited - (Director) Nirella Motors (Pvt) Limited - (Director) Binelko Marketing (Pvt) Limited - (Director)
6.	Mr. U. K. H. R. Ranasinghe	L & H Capital Partners (Pvt) Ltd - (Director) Sinhaputhra Finance PLC - (Director) Singhe Capital Investment Limited - (Director) Lanka Credit and Business Limited - (Director) Thalagampala Tea Company (Pvt) Limited - (Director) Sri Lanka Tea Factory Owners Association - (Director)
7.	Mr. A. G. M. Priyantha	Maweli Trasers Pvt Ltd - (Director) Yakkalamulla Tea Factory Pvt Ltd - (Director) Udumulla Tea Factory Pvt Ltd - (Director) Royana Holding Pvt Ltd -(Director) Lanka Credit and Business Limited - (Director) Singhe Capital Investment Limited - (Director) Niriella Motors Private Limited - (Director) Binelco Marketing Private Limited - (Director)
8.	Mr. G. K. Nanayakkara	NIL
9.	Mr. V. Lokunarangoda	Singhe Capital Investment Limited
10.	Mr. D. Thotawatte	NIL
11.	Mr. A. W. Nanayakkara	NEM Construction (Pvt) Ltd - (Director) NEM Ayathana (Pvt) Ltd - (Director) Swifter Technologies (Pvt) Ltd - (Director)

RELATED PARTIES' TRANSACTIONS WITH THE COMPANY

All related party transactions which encompasses the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the Company during the accounting period are recorded in the interests register in due compliance with the provisions of the Companies Act, LKAS 24.

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

Transactions of related parties (as defined in LKAS 24 - Related Parties Disclosure) with the Company are set out in Note 46 to the financial statements.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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

Appointments during the Financial Year

1. Mr. A. W. Nanayakkara - Appointed w.e.f. 24.08.2020
2. Mr. D. Thotawatte - Appointed w.e.f. 24.08.2020

Resignations during the Financial Year

NIL

BOARD SUB COMMITTEES

The Board of Directors of the Company has formed three committees in compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and as per the recommended best practices on Corporate Governance. The following Directors served as members of the Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Credit Committee.

Audit Committee as at 31st March 2021

- Mr. S. W. Subasinghe (Appointed on 27-01-2021)- Independent/ Non – Executive Director
- Mr. D. Thotawatte - Independent Non-Executive Director -(Chairman) (Appointed on 27-01-2021)
- G.K. Nanayakkara - (Appointed on 27-01-2021) - - Non-Executive Director

The Board HR and Remuneration Committee as at 31st March 2021

- Mr. S. W. Subasinghe (Appointed on 27-01-2021) Independent/ Non-Executive Director - Non-Executive Director
- Mr. D. Thotawatte - Independent / Non-Executive Director (Appointed on 27-01-2021)
- Mr. A. G. M. Priyantha (Appointed on 27-01-2021)
- Mr. K. G. Leelananda - Executive Director (Appointed on 27-01-2021)

The Board Credit Committee as at 31st March 2021

- Mr. U. K. H. R. Ranasinghe - Non executive Director (Chairman) (Appointed w.e.f. 19.04.2018)
- Mr. V. Lokunarangoda - Non executive Director (Appointed w.e.f. 9.05.2018)
- Mr. R. L. Masakorala - Non executive Director (Appointed w.e.f. 19.04.2018)

Board Integrated Risk Management Committee as at 31st March 2021

- Mr. S. W. Subasinghe - Independent Non-Executive Director (Chairman)
- Mr. A. Nanayakkara - Non-Executive Director
- Mr. K. G. Leelananda -Executive Director

Related Party Transaction Review Committee

Related Party Transaction Monitoring Committee as at 31 March 2021

- Mr. D. Thotawatte - Independent Non-Executive Director – (Appointed on 27-01-2021)
- Mr. U. K. H. R. Ranasinghe - Non executive Director - (Appointed on 21-01-2021)
- Mr. S.W. Subasinghe - Independent Non-Executive Director - (Appointed on 21-01-2021)

THE REMUNERATION AND OTHER BENEFITS OF THE DIRECTORS

Director's fees and other emoluments were

Executive Director	- Rs. 10,061,000/=
Non - Executive Directors	- Rs. 6,450,000/=

ANNUAL GENERAL MEETING

The Virtual Annual General Meeting will be held on 07th October 2021 at 10.30 am at No. 76, S. De S. Jayasinghe Mawatha, Kohuwela via audio visual means.

Prof. W. M. A. Bandara
Chairman

Mr. K. G. Leelananda
CEO/Executive Director

P. R. Secretarial Services (Pvt) Ltd
Company Secretaries

15th September 2021
Colombo

INDEPENDENT ASSURANCE REPORT

Building a better working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

PNS/PATR/DM

TO THE BOARD OF DIRECTORS OF LANKA CREDIT AND BUSINESS FINANCE LIMITED

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Lanka Credit and Business Finance Limited ("The Company") to provide assurance on the Directors' Responsibility Statement on Internal Control over Financial Reporting ("The Statement") included in the annual report for the year ended 31 March 2021.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with section 10(2) (b) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008/ section 10 (2) (b) of the finance Leasing (Corporate Governance) Direction no. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibilities and Compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/Finance Leasing Company on Directors' Statement on Internal Control, issued by the institute of Charted Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of Work Performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

INDEPENDENT ASSURANCE REPORT

Building a better working world

The procedures performed were limited primarily to inquiries of Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

Ernst & Young

25th May 2021
Colombo

LCB Finance LTD
Annual Report 2020/21

DIRECTOR'S STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSIBILITY

In line with the section 10(2)(b) of the Finance Company Direction, No.03 of 2008 as amended by the Direction No.06 of 2013, the Board of Directors presents this report on Internal Control over Financial Reporting.

The Board of Directors ('the Board') is responsible for the adequacy and effectiveness of the Internal Control over Financial Reporting in place at the Lanka Credit and Business Finance Limited ('the Company').

The Board has established the Board Integrated Risk Management Committee and an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes development of the effective system of Internal Control over Financial Reporting which is regularly reviewed by the Board.

The Board is of the view that the system of Internal Control over financial reporting is in place is sound and adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in implementation of the policies and procedures on risk and controls, by identifying and assessing the risks faced by the Company and design, operation and monitoring of suitable Internal Controls over Financial reporting are checked by the Internal Audit Department of the Company and reported to the Board Audit Committee for suitability of design and effectiveness of on an ongoing basis.

In adopting Sri Lanka Accounting Standards comprising SLFRSs and LKAs, progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosures are being made whilst further strengthening of processes specially pertaining to Financial Statements risk management disclosures, related party disclosures and management information system will take place.

Board has given due consideration for requirements of SLFRS 9' "Financial Instruments" which was applicable for financial reporting period beginning from 1 April 2018. The Board will continuously take steps to strengthen the processes and controls around Management Information Systems and information required for validation and compliance in line with SLFRS 9.

Financial services sector is facing major challenges during the COVID -19 outbreak resulting many impacts to its credit growth and internal control environment. There has been risk on collections and credit culture deteriorations, which could increase the provisioning requirements for the financial institutions. As per directions of CBSL, moratorium schemes were introduced to provide relief to the public. The impact on the moratorium of the interest subsidy also had been adjusted in the financial statements.

CONFIRMATION

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the Preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and Regulatory requirements of the Central Bank of Sri Lanka.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the process adopted by the Directors on the system of internal controls over financial reporting for the year ended 31 March 2021. The matters addressed by the External Auditors in this respect, are being looked into.

By order of the Board

W. M. A. Bandara
Chairman

K. G. Leelananda
CEO/ Executive Director

INDEPENDENT AUDITOR'S REPORT

Building a better working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
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eysl@lk.ey.com
ey.com

PNS/PATR/AD

TO THE SHAREHOLDERS OF LANKA CREDIT AND BUSINESS FINANCE LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying Financial Statements of Lanka Credit and Business Finance Limited (the "Company"), which comprise the statement of financial position as at 31 March 2021 Income statement, 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 give a true and fair view of the financial position of the Company as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuS). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company 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.

Other Information included in the 2021 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2021 annual report, but does not include the financial statements and our auditor's report thereon. The Company's 2021 annual report is expected to be made available after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

Responsibilities of management and those charged with governance in the financial statement

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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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:

- 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.
- 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Company'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 Company to cease to continue as a going concern.
- 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.

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.

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.

Ernst & Young

25 May 2021
Colombo

INCOME STATEMENT

Year ended	Note	31.03.2021 Rs.	31.03.2020 Rs.
Income	7.	461,375,089	456,046,898
Interest Income	8.	456,255,319	423,691,108
Less: Interest expenses	9.	(108,199,704)	(131,466,397)
Net interest income		348,055,615	292,224,711
Fee and commission income	10.	29,024,159	29,070,915
Less: Fee and commission expenses		-	-
Net fee and commission income		29,024,159	29,070,915
Net Other Operating Income/(Expense)	11.	(23,904,388)	3,284,875
Total Operating Profit		353,175,385	324,580,501
Impairment(Charge)/Reversal on Loan and Receivables	12.	(22,885,058)	(100,901,199)
Net Operating Income		330,290,327	223,679,302
Less : Operating Expenses			
Personnel Costs	13.	(93,716,366)	(76,424,817)
Depreciation and Amortization	14.	(41,129,767)	(38,760,476)
Other Operating expenses	15.	(73,210,778)	(68,495,636)
		(208,056,913)	(183,680,929)
Operating Profit before Tax on Financial Services		122,233,416	39,998,373
Taxes on Financial Services	16.	(21,943,495)	(19,018,216)
Profit before tax		100,289,920	20,980,157
Less: Income tax (expense)/Reversal	17.	(75,286,361)	(9,547,327)
Profit for the Year		25,003,559	11,432,830
Basic earnings per share (Rs.)	18.	0.04	0.00
Dividend per share (Rs.)			

The accounting policies and notes on page 71 to 136 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended	Note	31.03.2021 Rs.	31.03.2020 Rs.
Profit for the year		25,003,559	11,432,830
Other comprehensive income/ (expenses)			
Other comprehensive income that will not to be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit plan	36.2	(749,914)	71,186
Deferred tax effect on actuarial gain/(loss)	31.0	179,979	(19,932)
		(569,935)	51,254
Other comprehensive income for the year, net of tax		(569,935)	51,254
Total comprehensive income for the year, net of tax		24,433,624	11,484,084
Attributable to :			
Equity holders of the parent company		24,433,624	11,484,084
		24,433,624	11,484,084

The accounting policies and notes on page 71 to 136 form an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at	Note	31.03.2021 Rs.	31.03.2020 Rs.
Assets			
Cash and Cash Equivalent	19	218,507,168	138,048,368
Financial Investment at amortised Cost	20	662,295,154	338,379,679
Financial assets at amortised Cost - Loans and Receivables	21	1,969,102,470	1,631,189,094
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	22	336,747,406	180,419,278
Other Financial Assets	23	7,763,678	10,217,388
Financial Assets Measured at Fair value through Profit or Loss	24	100,463,534	-
Financial Investment at Fair value through Other Comprehensive Income	25	315,813	315,813
Other Non Financial Assets	26	37,862,474	50,578,839
Investment Property	27	-	356,300,000
Property, Plant and Equipment	28	39,025,049	46,764,636
Right of Use Assets	29	52,982,570	69,231,233
Intangible Assets	30	42,186,213	3,335,801
Deferred Tax Asset	31	205,629,491	280,735,872
Total Assets		3,672,881,020	3,105,516,000
Liabilities			
Financial Liabilities at amortised Cost - Due to Banks	32	518,414,541	471,901,706
Financial Liabilities at amortised Cost - Due to customers	33	831,583,929	1,012,235,643
Other Financial Liabilities	34	175,135,322	126,255,481
Other Non Financial Liabilities	35	36,498,714	9,213,410
Retirement Benefits Liabilities	36	4,310,160	2,538,429
Total Liabilities		1,565,942,666	1,622,144,669
Equity			
Stated Capital	37	2,039,133,400	3,231,604,341
Reserves	38	41,070,101	39,819,923
Retained Earnings	39	26,734,853	(1,788,052,934)
Total Equity		2,106,938,354	1,483,371,330
Total Equity and Liabilities		3,672,881,020	3,105,516,000

These Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007.

Kokila Perera
Head of Finance

The board of directors is responsible for these Financial Statements. Signed for and on behalf of the board by:

K. G. Leelananda
Director/CEO

Emeritus Professor W. M. Abeyrathne Bandara
Chairman

The accounting policies and notes on page 71 to 136 form an integral part of the Financial Statements.

25 May 2021
Colombo

STATEMENT OF CHANGES OF EQUITY

Year ended	Stated Capital Rs. '000 (Note 37)	Retained Earnings Rs. '000 (Note 39)	Statutory Reserve Rs. '000 (Note 38)	Total Equity Rs. '000
Balance at 01 April 2019	3,091,604,341	(1,798,965,376)	39,248,283	1,331,887,247
Net Profit / (loss) for the Year	-	11,432,830		11,432,830
Other Comprehensive Income Net of Tax	-	51,254		51,254
Transfer to Statutory Reserve Fund		(571,641)	571,641	-
Total Comprehensive Income for the Year, Net of Tax	-	10,912,442	571,641	11,484,084
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners				
Shares issue during the year	140,000,000	-	-	140,000,000
Total Transactions with Equity Holders	140,000,000	-	-	140,000,000
Balance as at 31 March 2020	3,231,604,341	(1,788,052,934)	39,819,924	1,483,371,331
Prior year adjustment to opening profit	-	-	-	-
Adjusted Balance as at 01 April 2020	3,231,604,341	(1,788,052,934)	39,819,924	1,483,371,331
Net Profit / (loss) for the Year	-	25,003,559	-	25,003,559
Other Comprehensive Income Net of Tax	-	(569,935)	-	(569,935)
Transfer to Statutory Reserve Fund	-	(1,250,178)	1,250,178	-
Total Comprehensive Income for the Year, Net of Tax	-	23,183,446	1,250,178	24,433,624
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners				
Shares issue during the year	599,133,400	-	-	599,133,400
Capital Reduction from existing capital	(1,791,604,341)	1,791,604,341	-	-
Total Transactions with Equity Holders	(1,192,470,941)	1,791,604,341	-	599,133,400
Balance as at 31 March 2021	2,039,133,400	26,734,853	41,070,102	2,106,938,355

The accounting policies and notes on page 71 to 136 form an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS

Year ended	Note	31.03.2021 Rs.	31.03.2020 Rs.
Cash Flows Used in Operating Activities			
Profit before tax from continuing operations		100,289,920	20,980,157
Adjustments for			
Depreciation and Amortisation		41,129,767	38,760,476
Loss/(Profit)on Disposal of Property, Plant and Equipment		-	(683,311)
Provision/(Reversal) for Defined Benefit Plans		1,337,130	955,241
Loss/(Profit)on sale of Investment Property		45,300,000	(1,305,000)
Impairment release/(Charges) for loan and receivables		(303,694,156)	100,901,199
Impairment release/(Charges) for Cash & Bank Balances		217,985	244,329
Write off balances		326,361,229	-
Operating Profit before Working Capital Changes		210,941,875	159,853,092
Working Capital Adjustments			
(Increase) / Decrease Hire Purchase Receivable		(156,024,954)	(25,684,682)
(Increase) / Decrease Loan Receivables		(360,385,171)	(360,835,681)
(Increase) / Decrease Other Financial assets		2,235,724	(11,990,339)
(Increase) / Decrease Other Non Financial assets		12,216,365	(28,354,194)
Increase / (Decrease) in Other Liabilities		85,302,195	25,239,496
Increase / (Decrease) in Due to Customers		(180,651,714)	127,584,969
Cash Flow from/(used in) Operating Activities		(386,365,679)	(114,187,338)
Gratuity Paid		(315,313)	-
Net Cash from Operating Activities		(386,680,991)	(114,187,338)
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant & Equipment	28.1	(14,503,182)	(13,473,619)
Acquisition of Intangible Assets	30	(41,488,747)	(329,817)
Acquisition of Investments		(424,379,008)	(11,592,316)
Proceeds from Sales of Investment property and equipment		311,000,000	18,705,000
Net Cash Flows from/(Used in) Investing Activities		(169,370,937)	(6,690,752)
Cash Flows from (used in) Financing Activities			
Proceeds from Issuance of Share Capital	37	599,133,400	140,000,000
Proceeds from Interest Bearing Loans & Borrowings	32.2	5,026,960	60,293,296
Payment of Capital portion of Lease Liabilities	29.2	(9,137,052)	(6,534,908)
Net Cash used in Financing Activities		595,023,308	193,758,387
Net Increase in Cash and Cash Equivalents		38,971,379	72,880,297
Cash and Cash Equivalents at the beginning of the year		130,952,510	58,072,213
Cash and Cash Equivalents at the end of the year		169,923,889	130,952,510

The accounting policies and notes on page 71 to 136 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 General

Lanka Credit and Business Finance Limited (formally known as City Finance Corporation Limited) (the "Company) was restructured as a result of an investment made by Lanka Credit and Business Limited under the guidance of the Central Bank of Sri Lanka in May 2018. The Company is a domiciled, public limited liability company incorporated in Sri Lanka and it was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto.

The registered office and the principle place of business of the Company is located at No.76, S De S Jayasinghe Mawatha, Kohuwala, Nugegoda.

1.2 Principal Activities and Nature of Operations

The Company provides a comprehensive range of financial services encompassing accepting deposits and providing credit facilities such as finance lease, hire purchase, vehicle loan facilities, mortgage loans, gold loans, revolving loans business/personal loans and other credit facilities.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent undertaking /ultimate parent and the controlling party is the Lanka Credit and Business Limited, which is incorporated in Sri Lanka.

1.4 Approval of Financial Statements by Directors

The Financial Statements of the Lanka Credit and Business Finance Limited for the year ended 31 March 2021 was authorised for issue in accordance with a Resolution of the Board of Directors on 25 May 2021.

1.5 Directors' Responsibility Statement

The Board of Directors is responsible for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards comprising LKASs and SLFRSs (hereafter "SLFRS").

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company, which comprise Statement of Financial Position, Income Statement and Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Accounting policies and Notes to the Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs &LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007.

2.2 Basis of Measurement

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following items in the Statement of Financial Position.

- Financial Assets at fair value through profit or loss at fair value (Note 24)
- Financial Assets at fair value through other comprehensive income (applicable from 1stApril 2018) at fair value (Note 25)
- Investment properties, which is measured at cost at the time of acquisition subsequently, measured at fair value, which reflects market conditions at the reporting date (Note 27)
- Liabilities for defined benefit obligations are recognised at the present value of the defined benefit obligation based on actuarial valuation (Note 36)

2.3 Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees, which is also the Company's functional and presentation currency.

2.4 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non- current) is presented in the Note 43.

2.5 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.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an Accounting Standard or interpretations and as specifically disclosed in the accounting policies.

2.6 Comparative Information

The comparative information is re-classified whenever necessary to conform to the current year's presentation as set out in the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

2.7 Statement of Cash Flow
The cash flow statement has been prepared by using the indirect method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby operating, investing and financial activities have been separately recognised. Cash and cash equivalents comprise of 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.

For the purpose of the cash flow statement, Cash and cash equivalents include cash in hand, balances with banks net of unfavorable bank balances and securities purchased under repurchase agreement (less than three months).

2.8 Events after the Reporting Date
Events after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

No circumstances have arisen since the reporting date, which would require adjustments to, or disclosure in the financial statements, which is disclosed in Note 45 to the Financial Statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS
The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of income, expenses, assets and liabilities and the accompanying disclosures as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgments and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond Company's control and are reflected in the assumptions if and when they occur.

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

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows.

3.1 Going Concern
The Directors 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, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and does not intend either to liquidate or to cease operations. Therefore, the Financial Statements continue to be prepared on the going concern basis. The management has assessed the existing and anticipated effects on COVID 19 in concluding the appropriateness of the use of going concern basis. The impact on COVID 19 is as disclosed in note 3.9.

3.2 Impairment Losses on Loans and Receivables
The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates driven by a number of factors, changes which can result in different levels of allowances.

Accordingly, the Company reviews its individually significant loans and advances at each financial reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgment was required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates were based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics.

As per SLFRS 09, the Company's expected credit loss (ECL) calculations are output of complex models with a number of underlying assumptions regarding the choice of variable inputs and their independencies. The elements of the ECL models that are considered accounting judgements and estimates include.

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their fair values when their ECL is assessed on a collective basis.
- Development of ECLs, models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of default (PDs), Exposure at default (EADs) and loss given default (LGDs).
- Selection of forward –looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.
- It is the Company's policy to regularly review its models in the context of actual loss experience and adjust whenever necessary.

3.3 Fair Value of Financial Instruments
The determination of fair value of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instrument is described in Note 40 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is also given in Note 39 to the Financial Statements.

3.4 Taxation
The Company is subject to income tax and judgment is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

The Company has adopted the requirements of the New Inland Revenue Act and deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the 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 future tax-planning strategies.

Further, deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement 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 future tax-planning strategies.

3.5 Fair Valuation of Investment Properties
Investment properties are initially recognised at cost. Subsequent to initial recognition the investment properties are stated at fair value, which reflect market conditions at the reporting date. Gains or losses arising from changes in fair value are included in the Statement of Profit or loss in the year in which they arise. External and independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment property portfolio as at each reporting date. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value hierarchy and valuation techniques are given in Note 27 to the Financial Statements.

3.6 Defined Benefit Plans
The cost of Defined Benefit Pension Plan is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate; future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. 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 for the Company. The sensitivity of assumptions used in actuarial valuations are set out in Note 36 to the Financial Statements.

3.7 Useful Life-time of the Property, Plant, Equipment and Intangible Assets
The Company reviews the residual values, useful lives and methods of depreciation and amortization of property, plant, equipment and intangible assets at each reporting date. The judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

3.8 Provisions, Commitments and Contingencies
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. Details of commitments and contingencies are given in Note 44 to the Financial Statements.

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3.9 The Impact of COVID 19

When COVID–19 commenced spreading across nations the World Health Organisation ("WHO") declared Covid-19 as a global pandemic in March 2020,

Several levels of public health measures, including nationwide curfew, travel bans and border closures were introduced by the government to inhibit the spread of COVID-19 pandemic. These measures introduced to safeguard the citizens of Sri Lanka also caused enormous impact on the lives of communities and repercussions on the national economies and our global trade.

The impact of island wide curfew prevented access to office and the company reacted by adopted the "work from home" model and facilitated the key management personnel to work from home.

As the announcement by the Government that Non-Bank Financial Institutions are an essential Service Provider as we operated our critical functions to ensure uninterrupted service to our valued customers such as servicing Fixed Depositors timely interest payments and executing standing orders.

The Company could maintain a healthy liquidity position even during the hard time of outbreak due to daily monitoring of cash flow requirement, and adopting all possible cost reduction measures.

The Central Bank of Sri Lanka (CBSL) issued circular No.04 and 05 of 2020 on debt moratorium for performing borrower's creating a direct impact to instalments rental collection of the Company.

However, the Management introduced procedures to entertain all applications for moratorium from eligible borrowers ensuring the Covid – 19 impacted customers are given the relief envisaged by the aforesaid circulars of CBSL and addenda thereto.

The CBSL introduction of Covid-19 moratorium, other relief measures and the Government's decision of country lock down will have negative consequences on the Company's performance. The Company has assessed the probable impact stemming from Covid – 19 outbreak and the key assessments are listed below.

- Based on the available information and management's best judgement, it is determined the appropriateness of the Going concern assumptions in preparing Financial Statements for the year ended 31 March 2021.
- Despite the difficulties in collecting the company dues, the Company was able to maintain a stable liquidity position and safeguard the interest of the stakeholders.
- The available excess investment and were used as a cushion to absorb any sudden liquidity shocks.
- A cost control mechanism was introduced at different operational levels in the Company.

As the actual economic conditions are likely to be different from the anticipated events assumptions are subject to certain level of uncertainty and are beyond the control of the Company. Therefore, the effect of those differences may have significant impact on accounting judgement and estimates included in the Financial Statements.

The Management evaluated the key assumptions used in the above estimates and judgements under probable stress scenarios such as, retention ratio of Fixed Deposits, Ratio of Rental Collection and Re-imposing of CBSL liquid asset requirement. Accordingly, the Management is satisfied that the Company have adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing and presenting the financial statements herein.

Financial Reporting impact due to COVID 19 Guidance notes on accounting considerations of the COVID 19 outbreak issued by Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has provided following measures which have been applied in preparation of these Annual Financial Statements;

- In relation to Expected Credit Loss Assessment Company has used Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustments in comparison to the industry averages after making necessary risk adjustments to elevated risk industries to assess the expected credit losses as at 31 March 2021 due to uncertainties and lack of sufficient information available to make any adjustments to factor the impact of COVID 19. Moreover, the Company has increased the weightages assigned to worst case scenarios as at 31 March 2021 to capture potential impact of COVID 19.
- With the COVID 19 outbreak the Company has introduced more rigour to its existing processes to manage the liquid assets at the required levels. While closely monitoring any changing circumstances with regard to the pandemic the Company has been able to maintain its liquid assets. Thereby mitigating any adverse effects on the liquidity arising due to this continuous developing nature of the pandemic. The Company has been able to maintain the liquidity ratio prescribed by the Directions of the Central Bank of Sri Lanka.
- Stringent cost control mechanisms were followed to ensure an effective cost model in the Company
- The Company has been critically assessing estimates, judgements and assumptions used in the preparation of the financial statements during the pandemic times which affects the Company's economic conditions.

- Other potential COVID 19 impacts were evaluated in the preparation of the Financial Statements. For this the external publications and the market communication networks were researched and reviewed.
- Contemporary market practices and trends and the regulatory pronouncements were assessed and considered to ensure the completeness of the impacts assessed in the preparation of the financial statements.
- Determined the COVID 19 effects on the reported amounts and disclosures of the Financial Statements and ensured the completeness of the financial statement amounts and disclosures accordingly.

4. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements except for the changes mentioned in Note 3.10 to the Financial Statements.

4.1 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

4.1.1 Date of Recognition

All financial assets and liabilities are initially recognised on the trade date. i.e. the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trade means purchases or sales of financial assets with in the time frame generally established by regulation or convention in the market place.

4.1.2 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 fair value through profit or loss (FVPL), transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for "Day 1 profit or loss", as described below.

4.1.3 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Income Statement over the tenor of the financial instrument using effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Income Statement when the inputs become observable, or when the instrument is derecognised.

4.1.4 Measurement categories of Financial Assets and Financial Liabilities

On initial recognition, a financial asset is classified as measured at,

- Amortized cost,
- Fair value through other comprehensive income (FVOCI) or
- Fair value through profit or loss. (FVPL)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

a) Financial Assets at Amortized cost:

The Company only measures loans, receivables, and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial Assets consist of cash and bank balances, securities purchased under repurchase agreements, placement with banks, lease rentals receivable & stock out on hire, loan receivables, and other financial assets.

The details of the above conditions are outlined below.

Business Model Assessment

The Company determines its business model at the level that best reflect how it manages groups of financial assets to achieve its business objective.

The Company'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 assets 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 values of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

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The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company’s original expectations, the Company 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 going forward.

The SPPI Test
As a second step of its classification process, the Company assesses the contractual terms of financial to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal 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 the SPPI assessment, the Company applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms of that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

b) Equity instruments at FVOCI
Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under 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 profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Previous years, the Company has recorded its non- quoted equity investments as FVPL. However current year onwards it has recorded as FVOCI at cost less ECL if any. The details of equity instruments at FVOCI are given in Note 24 to the Financial Statements.

c) Debt Issued and Other Borrowed Funds
After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortized Cost in the form of term loans, short term loans and Reverse Repo.

4.1.5 Classification and Subsequent Measurement of Financial Liabilities
Financial liabilities, other than loan commitments and financial guarantees, are classified as,

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)
   a) Financial liabilities held for trading
   b) Financial liabilities designated at fair value through profit or loss
(ii) Financial liabilities at amortized cost, when they are held for trading and derivative instruments or the fair value designation is applied.

The subsequent measurement of financial liabilities depends on their classification.

i. Financial Liabilities at Fair Value through Profit or Loss (FVTPL)
Financial Liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognised in Income Statement.

ii. Financial Liabilities at Amortized Cost
Financial Instruments issued by the Company that are not designated at fair value through profit or loss, are classified as financial liabilities at amortized cost under ‘bank overdraft’, ‘due to other customers’, ‘debt issued and other borrowed funds’ and ‘other payables’ as appropriate, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares at amortized cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortization is included in ‘interest expenses’ in the Income Statement.

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Gains and losses are recognised in the Income Statement when the liabilities are de recognised as well as through the EIR amortization process.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortized Cost in the form of term loans, short term loans and debentures.

4.1.6 Reclassifications of Financial assets and Financial Liabilities
The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2018.

4.1.7 De recognition of Financial Assets and Financial Liabilities
a) De recognition of Financial Assets
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. The Company also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for de recognition.

The Company has transferred the financial asset, if and only if, either:

- The Company has transferred its contractual rights to receive cash flows from the financial asset or
- It retains the rights to cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement.

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the ‘original asset’), but assumes a contractual obligation to pay those cash flows to one or more entities (the ‘eventual recipients’), when all of the following three conditions are met:

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for de recognition if either:

- The Company has transferred substantially all the risks and rewards of the asset or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company’s continuing involvement, in which case, the Company also recognizes as associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

b) De recognition - Financial Liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as de recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

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Determination of Fair Value
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:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability the principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note 39 to the Financial Statements.

4.1.8 Impairment of Financial Assets

4.1.8.1 Expected Credit Loss Principles
a. Overview of the Expected Credit Loss (ECL) Principles
The Company recognizes expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. 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 lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 40.4.

The 12mECL is the portion of LTECLs 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 LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company established a policy to perform as 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 the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below.

Stage 1: When loans are first recognised, the Company recognizes allowance based on 12 month ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage3.

Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered (partial) de recognition of the financial asset.

b. The Calculation of Expected Credit Loss (ECL)
The Company calculates ECLs based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the 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.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

PD : The probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de recognised and is still in the portfolio.

EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments.

LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

The mechanism of the ECL method is summarized below

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that represent the ECLs that result from default events on a financial instrument that are possible with in the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Company recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

c. Loan Commitments:
When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For factoring receivables and revolving loans that include both a loan and an undrawn commitment. ECLs are calculated and presented with the loan.

d. Financial Guarantee Contracts:
The Company's liability under each guarantee is measured at the higher of the initially recognised less cumulative amortization recognised in the income statement, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability – weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

e. Debt instruments Measured at Fair Value Through OCI
The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to Income Statement. The accumulated loss recognised in OCI is recycled to the profit or loss upon de recognition of the assets.

f. Debt Factoring and Revolving Loans
The Company's product offering includes debt factoring and revolving loan facilities, in which the Company has the right to cancel and/or reduce the facilities within a short notice. The Company does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Company's expectations of the customer behavior, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECLs for these products, is limited to 12months.

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The ongoing assessment of whether a significant increase in credit risk has occurred for debt factoring and revolving loan facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in utilisation.

g. Forward Looking Information
In its ECL models, the Company relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Unemployment rate
- Central Bank base rates
- Inflation

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the Financial Statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

4.1.8.2 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 loan impairment allowance account accordingly. The write-back is recognised in the income statement.

4.1.8.3 Renegotiated Loans
The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan reinitiated when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. De recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it collected or written off.

From 1January 2018, when the loan has been renegotiated or modified but not de recognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 42.4.1. The Company also considers whether the assets should be classified as Stage3.

If modifications are substantial, the loan is de recognised as explained in Note 4.1.7(a).

4.1.8.4 Write-off of Financial Assets at Amortized Cost
Financial Assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

4.1.8.5 Collateral Valuation
The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letter of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral.

Other financial assets which do not have readily determinable market value are valued using models. Non- financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

4.1.8.6 Collateral Repossessed
The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

4.1.8.7 Offsetting Financial Assets and Liabilities
Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

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

4.2 Leases
The Company applied Sri Lanka Accounting Standard -SLFRS 16 (Leases) with effect from 1 April 2019.

At the commencement date of a lease, the Company recognise a liability to make future lease payments (i.e., the lease liabilities) and an asset representing the right to use of the underlying asset during the lease term (i.e., the right-of-use asset), the interest expense on the lease liabilities and the depreciation expense on the right-of-use asset are recognised separately in line with the requirements of SLFRS 16-Leases.

Further the lease liabilities will be remeasured upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The Company will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

For the contracts entered on or after the effective date of transition, the Company assesses at the inception of a contract, whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used. After the assessment of whether a contract is, or contains, a lease, the Company determines whether it contains additional lease or non-lease (service) components based on the detailed guidance provided in SLFRS 16. Accordingly, the right to use of an identifying asset is a separate lease component if the lessee can benefit from the use of underlying asset either on its own or together with other resources readily available to the lessee and the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

(a) Separating Components of a Contract
The Company determines, the right to use an underlying asset is a separate lease component if both of the following criteria are met.

- The lessee can benefit from use of the asset either on its own or together with other resources that are available to the lessee.
- The underlying asset is neither dependent on, nor highly interrelated with, the other underlying assets in the contract.

For contracts in which the Company becomes the lessee, the consideration in the contract is allocated to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components. On the other hand, when the Company is the lessor, the guidance given in Sri Lanka Accounting Standard – SLFRS 15 on "Revenue from Contracts with Customers" (SLFRS 15) is applied to allocate transaction price to separate components.

(c) Determination of Lease Term
All lease liabilities are to be measured with reference to the estimate of lease term. Accordingly, the Company determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option. In this assessment, the Company considers all relevant facts and circumstances that create an economic incentive for the Company to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

The Company reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, only upon the occurrence of a significant event or significant change in circumstances that are within the control of the Company as a lessee. In addition, as per SLFRS 16, the Company revises lease term only if there is a change in the non-cancellable period of lease.

d) Amortization of Right to Use Asset
Company amortized it's Right to Use Assets over the lease period of the respective asset

4.3 Property, Plant &Equipment
4.3.1 Recognition
Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

4.3.2 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 an item of property, plant & equipment. 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

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equipment is capitalized as part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

4.3.3 Cost Model

An item of property, plant & equipment that qualifies or recognition as an asset is initially measured at its costs. Costs include expenditure that is directly attributable to the acquisition of the asset and cost is incurred subsequently to add to or replace a part of it.

The cost of self- constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalized borrowing costs.

When parts of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant& equipment.

The Company applies the cost model to property, plant & equipment and records at cost of purchase or construction together with any incidental expense thereon less accumulated depreciation and any accumulated impairment losses.

Changes in the expected useful life are accounted by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

4.3.4 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 Company and its cost can be reliably measured. The costs of the day to day servicing o property, plant and equipment are charged to the Statement of Comprehensive Income.

4.3.5 Repairs and Maintenance

Repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

4.3.6 Borrowing Costs

As per Sri Lanka Accounting Standard- LKAS 23 on 'Borrowing Costs', the company capitalizes the borrowing costs that are directly attributable to acquisition, construction or production of qualifying assets 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 profit or loss in the period in which they occur.

4.3.7 De-recognition

Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is de recognised.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

4.3.8 Depreciation

Depreciation is recognised in income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant &equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The rates of depreciations based on the estimated useful lives are as follows:

Category of Asset	Rate of Depreciation (per annum)
Office Equipment	25%
Computer Equipment	20%
Office furniture & Fittings	20%
Motor vehicles	25%
Name Board	50%
Machinery	25%
Computer Software	25%
Computer Software- E-finance system	10%

4.3.9 Change in Estimates

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

4.4 Intangible Assets

The Company's intangible assets include the value of computer software.

4.4.1 Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company in accordance with the Sri Lanka Accounting Standard LKAS 38 on Intangible assets.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses if any

4.4.2 Subsequent Expenditure

Subsequent expenditure on Intangible Asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

4.4.3 Useful Economic life, Amortization and Impairment

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

4.4.4 Amortization

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual value over their estimated useful life as follows:

The Class of Intangible Assets	Useful Life	Amortization Method
Computer software	4 Years	Straight line method
Computer software (new e-finance system)	10 Years	Straight line method

The residual value of the intangible asset is zero.

The unamortized balances of Intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

4.4.5 De recognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on de recognition of the asset, Calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is de recognised.

4.5 Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset 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.

For assets an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement.

4.6 Investment Property

Investment properties are properties held either to earn rental income or for capital appreciation or both, Investment properties are initially measured at cost and the fair value model is used for subsequent measurement in accordance with Sri Lanka Accounting Standard (LKAS 40) – Investment Property. The cost of the investment property comprises of its purchase price and any directly attributable expenditure.

Fair valuations of the properties are carried out by independent valuer/valuers having appropriate professional qualifications, the difference between the carrying amount of the item and its fair value is recognised directly to the Income Statement, if it is a gain or a decline in value

4.7 Dividend Payable

Dividends on ordinary shares are recognised as a liability and deducted in equity when they are recommended and declared by the Board of Directors and approved by the shareholders.

4.8 Retirement Benefit Obligations

4.8.1 Defined Benefit Plan -Gratuity

All the employees of the company are eligible for gratuity under the Payment of Gratuity Act No.12 of 1983, at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

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The Company measures the present value of the promised retirement benefits for gratuity which is a defined benefit plan with the advice of an independent professional actuary using projected unit credit actuarial cost method as required by Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

The item is stated under other liabilities in the Statement of Financial Position.

Recognition of Actuarial Gains and Losses
The Company recognizes 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.

Interest Cost
Interest cost is the expected increase due to interest at the end of the year. (The benefits are one year closer to settlement).

Funding Arrangements
The Gratuity liability is not externally funded.

4.8.2 Defined Contribution Plans
The Company also contributes defined contribution plans. 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 under 'Personnel expenses'. Unpaid contributions are recorded as a liability. The Company contributes to the following Schemes:

Employees' Provident Fund
The Company and employees contribute 12% and 8% respectively of the employee's total earnings (as defined in the Employees' Provident Fund) to the Employees' Provident Fund.

Employees' Trust Fund
The Company contributes 3% of the employee's total earnings (as defined in the Employees' Trust Fund) to the Employees' Trust Fund.

4.9 Statutory Reserve Fund
The reserves recorded in the equity on the Company's Statement of Financial Position includes the 'Statutory reserve fund' which has been created in accordance with the Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. Accordingly, 5% of the net profit for the period is transferred to the Statutory reserve fund during the financial year.

4.10 Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with Sri Lanka Accounting Standard – LKAS 37 on 'provision, contingent liabilities and contingent assets'.

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 obligations at that date.

The expense relating to any provision is presented in the income statement net of any reimbursement.

4.11 Recognition of Interest Income Interest Expense
4.11.1 Interest Income Interest Expense
Under both SLFRS 9 and LKAS 39, interest income and interest expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under LKAS 39 is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The EIR (and therefore, the amortized cost of the asset/liability) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognizes interest income/expense using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset/liability are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income/interest expense. The adjustment is subsequently amortized through Interest income/Interest expense in the income statement.

When a financial asset becomes credit-impaired (as set out in Note '40.4.1 and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate under net interest income.

4.11.2 Interest Income on Over due Rentals
Interest from overdue rentals has been accounted for on cash received basis.

4.12 Fee and Commission Income and Expenses
Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Company first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

The Company earns a fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided in to two categories.

a) Fee Income Earned from Services that are Provided Over a Certain Period of Time
Fees earned for the provision of services over a period of time are accrued over that period.

b) Fee Income from Providing Transaction Services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party.

4.13 Other operating income
(a) Dividend Income
Dividend income is recognised when the right to receive income is established. Usually, this is the ex- dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

(b) Recovery of Bad Debts Written Off
Recovery of amounts written off as bad and doubtful debts is recognised when received.

(c) Other Income
Other income is recognised on an accrual basis.

4.14 Personnel Expenses
Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay all employee benefits relating to employee services in the current and prior periods and the obligation can be estimated reliably.

4.15 Taxes
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 in which case it is recognised in equity or in other comprehensive income.

4.15.1 Current tax
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, using the tax rates and tax laws enacted or substantially enacted on the reporting date and any adjustment to the tax payable in respect of prior years.

Accordingly, provision for taxation is based on the profit for the year 2018 adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017(Inland Revenue Act No.10 of 2006 and amendments thereto up to 31 March 2018) and the amendment thereto, at the rate specified in Note 14 to the Financial Statements.

4.15.2 Deferred tax
Deferred tax is recognised using the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and 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 the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of current tax liabilities and deferred tax liabilities / (assets) are given in Note 17 and Note 30 to the Financial Statements respectively.

4.15.3 Value Added Tax (VAT) on Financial Services

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

4.15.4 Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

As per Notice published by the Department of Inland Revenue dated November 29, 2019, NBT was abolished with effect from December 1, 2019.

4.15.5 Debt Repayment Levy

As per the provisions of the Finance Act No.35 of 2018, Debt repayment levy has been imposed for a limited period from 01 October 2018 to 31 December 2021.

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services as specified in section 36 of Finance Act No. 35 of 2018 along with section 25Cof the Value Added Tax (VAT) Act No. 14 of2002.

As per notice published by the Department of Inland Revenue dated January 20, 2020, DRL was abolished with effect from January 1, 2020

4.15.6 Withholding Tax (WHT) on Dividends

Withholding tax on dividends distributed by the Company that arise from the distribution of dividends of the company is recognised at the time of liability to pay the related dividend is recognised. At present, the rate of 14 % is deducted at source.

As per Notice dated February 18, 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective January 1, 2020.

4.15.7 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006, and subsequent amendments thereto, the ESC is payable at 0.5% on liable gross turnover of the Company and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years.

ESC is not payable on turnover on which income tax is payable.

As per Notice published dated January 1, 2020 by the Department of Inland Revenue, ESC was abolished with effect from January 1, 2020.

4.16 Regulatory provisions

4.16.1 Statutory Reserve Fund

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 5% of the net profit for the year transferred to Reserve Fund as required by Section 3(b) ii of the said Direction.

4.16.2 Deposit Insurance and Liquidity Support Scheme

In terms of the Finance Companies Direction No.2 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments thereto, all Finance Companies are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No.1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1 October 2010.The said Scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No. 1 of 2013.

The deposits to be insured shall include demand, time and savings deposit liabilities and exclude the following.

- Deposit liabilities to member institutions
- Deposit liabilities to the Government of Silence

- Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Finance Companies Act (Corporate Governance) Direction No.3 of 2008 for Registered Finance Companies
- Deposit liabilities held as collateral against any accommodation granted
- Deposits falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.

Registered Finance Companies are required to pay a premium of 0.15% on total amount of eligible deposits as at end of the month with in a period of 15 days from the end of the respective month.

4.16.3 Crop Insurance Levy (CIL)

In terms of the Finance Act No. 12 of 2013, all institutions under the purview of Banking Act No.30 of 1988, Finance Business Act No.42 of 2011 and Regulation of Insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 01 April2013.

4.17 Earnings per Share (EPS)

Basic EPS is calculated by dividing the net profit or loss attributable to ordinary equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares if any.

4.18 Segment Reporting

The Company's segmental reporting is based on the following operating segments identified based on products and services;

- Leasing
- Hire Purchase
- Term Loans
- Others

A segment is a distinguishable component of a Company that is engaged in providing products and services.

(Business segment, which is subject to risks and rewards that are different from those of other segments).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the financial statements of the Company.

4.19 Commitments and Contingencies

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent liabilities and Contingent assets'.

Financial Guarantees and Undrawn Loan Commitments

Currently the Company has issued financial guarantees. The company has established a policy to recognize and measure its financial guarantees and undrawn loan commitments, Accordingly, the financial guarantees are initially recognised in the Financial Statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortization recognised in the income statement, and - under LKAS 39 - the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or - under SLFRS 9 - an ECL provision.

The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under LKAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

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 on in the statement of financial position.

Currently the company has a commitment to settle the City Finance Fixed Deposits (FD) liability to its customers. It is required to settle the final 45% commencing from 30 September 2020.

NOTES TO THE FINANCIAL STATEMENTS

5. CHANGES IN ACCOUNTING POLICIES
There are no changes in Accounting Policies when compared to the previous accounting period.

6. SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE
The new and amended standards and interpretations that are issued, but not yet effective, upto the date of issuance of Financial Statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

6.1 Amendments to SLFRS 09, LKAS 39, SLFRS 07, SLFRS 04 and SLFRS 16: Interest Rate Benchmark Reform (Phase 1 & 2)
The amendments to Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments) & Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments Recognition & Measurement) provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cashflows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after 1 January 2021.

6.2 Amendments to SLFRS 16: COVID-19 Related Rent Concessions
The amendments provide relief to lessees from applying Sri Lanka Accounting Standard - SLFRS 16 (Leases) guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for the change under SLFRS16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020.

None of the new or amended pronouncements are expected to have a material impact on the Financial Statements of the Company in the foreseeable future.

7. INCOME

	31.03.2021 Rs.	31.03.2020 Rs.
Interest Income (Note 8)	456,255,319	423,691,108
Fee and Commission Income(Note 10)	29,024,159	29,070,915
Other Operating Income (Note 11)	(23,904,388)	3,284,875
	461,375,089	456,046,898

8. INTEREST INCOME

	31.03.2021 Rs.	31.03.2020 Rs.
Interest Income on Loans and Advances (Note 8.1)	340,695,691	337,605,853
Interest Income on Lease and Hire Purchases (Note 8.2)	52,349,578	41,995,755
Interest Income on Financial Investments	54,109,986	43,893,474
Penalty Interest	9,100,064	196,027
	456,255,319	423,691,108

	31.03.2021 Rs.	31.03.2020 Rs.
8.1 Interest Income on Loans and Receivables		
Interest Income on Term Loans	288,391,250	271,881,146
Interest Income on Housing Loans	37,815,685	52,225,081
Interest Income on Gold Loans	14,488,756	13,499,626
Interest Income on Factoring	-	-
	340,695,691	337,605,853
8.2 Interest Income on Lease & Hire Purchases		
Interest Income on Lease	40,547,614	25,889,347
Interest Income on Hire Purchase	11,801,964	16,106,408
	52,349,578	41,995,755

NOTES TO THE FINANCIAL STATEMENTS

9. INTEREST EXPENSE

	31.03.2021 Rs.	31.03.2020 Rs.
Due to Banks	46,794,005	68,672,556
Due to Customers (Note 9.1)	61,405,699	62,793,841
	108,199,704	131,466,397

9.1 Due to Customers

	31.03.2021 Rs.	31.03.2020 Rs.
Interest Expense on Fixed deposits	54,410,978	56,357,443
Interest Expense on Savings	6,994,721	6,436,398
	61,405,699	62,793,841

10. NET FEE AND COMMISSION INCOME

	31.03.2021 Rs.	31.03.2020 Rs.
Documentation and processing fees	29,024,159	29,070,915
	29,024,159	29,070,915

11. NET OTHER OPERATING INCOME/(EXPENSE)

	31.03.2021 Rs.	31.03.2020 Rs.
Gain/(loss) from disposal of Investment property(Note 11.1)	(45,300,000)	1,305,000
Consumer Loan Commision Income	373,500	
Dividend Income	320,000	280,000
Gain/(Loss) on sale of Property Plant and Equipment	-	683,311
Other income	20,702,112	1,016,565
	(23,904,388)	3,284,875

11.1 Gain/(loss) from disposal of Investment property

	31.03.2021 Rs.	31.03.2020 Rs.
Sales Proceeds	311,000,000	17,205,000
Cost	(356,300,000)	(15,900,000)
Gain/(Loss)	(45,300,000)	1,305,000

12. IMPAIRMENT CHARGES/ (REVERSAL) FOR LOANS AND OTHER LOSSES

	Note	31.03.2021 Rs.	31.03.2020 Rs.
12.1 Collective			
Loans and Advances	21.2	20,834,545	90,416,186
Lease rentals receivables and Hire Purchases	22.2	1,026,042	15,895,779
Other Financial Assets		217,985	244,329
		22,078,572	106,556,294
12.2 Individual			
Loans and Advances		1,637,250	(1,009,089)
Lease Rentals Receivable & Stock Out on Hire		(1,330,763)	(4,646,006)
Other Sundry Receivable		500,000	-
		806,487	(5,655,095)
Total Impairment charges/ (Reversal) for Loans and Advances and Cash ,Bank & Other assets		22,885,058	100,901,199

12.3 The table below Shows the expected Credit Loss (ECL) Charges For Financial Instruments for the Year 2020/2021 recorded in the Income Statement.

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Individually Rs.	Total Rs.
Loans and Advances	(3,319,537)	13,439,851	(24,242,116)	1,637,250	(12,484,553)
Lease rentals receivables and Hire Purchases	3,004,019	5,174,953	(297,983,310)	(1,330,763)	(291,135,101)
Write off	-	-	-	325,786,726	325,786,726
Other Debtors	217,985	-	-	500,000	717,985
	(97,533)	18,614,804	(322,225,426)	326,593,212	22,885,058

The table below Shows the Expected Credit Loss (ECL) Charges for Financial Instruments for the Year 2019/2020 recorded in the Income Statement.

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Individually Rs.	Total Rs.
Loans and Advances	10,713,927	2,983,299	76,718,960	(1,009,089)	89,407,097
Lease rentals receivables and Hire Purchases	(933,972)	14,765	16,814,987	(4,646,006)	11,249,774
Other Debtors	244,329	-	-	-	244,329
	10,024,284	2,998,064	93,533,947	(5,655,095)	100,901,200

NOTES TO THE FINANCIAL STATEMENTS

13. PERSONNEL COSTS

	31.03.2021 Rs.	31.03.2020 Rs.
Salaries and Other Related Expenses	78,742,636	63,708,209
Defined Contribution Plan cost EPF and ETF	7,186,601	6,921,367
Directors' emoluments	6,450,000	4,840,000
Provision for Gratuity	1,337,130	955,241
	93,716,366	76,424,817

14. DEPRECIATION AND AMORTIZATION

	31.03.2021 Rs.	31.03.2020 Rs.
Depreciation of Property Plant & Equipment	22,242,769	21,851,041
Amortization of intangible assets	2,638,335	1,634,557
Depreciation of Leased Assets	16,248,663	15,274,879
	41,129,767	38,760,476

15. OTHER OPERATING EXPENSES

	31.03.2021 Rs.	31.03.2020 Rs.
Audit and Non Audit Fee	1,621,695	1,620,525
Professional & Legal Expenses	6,706,645	2,458,060
Office Administration & Establishment Expenses	31,230,985	35,788,896
Advertising & Business Promotion Expenses	8,068,701	13,791,741
Other Operating Expenses	16,685,129	6,237,135
Interest Expenses on Leased Assets (Note 28)	8,897,625	8,599,280
	73,210,779	68,495,636

16. TAXES ON FINANCIAL SERVICES

	31.03.2021 Rs.	31.03.2020 Rs.
Value Added Tax on Financial Services	21,943,495	12,560,015
Nation Building Tax on financial services	-	1,110,011
Debt repayment levy on financial services	-	5,348,190
	21,943,495	19,018,215

17. TAXATION

17.1 The major components of income tax expense for the Years ended 31 March are as Follows.

	31.03.2021 Rs.	31.03.2020 Rs.
(A) Statement of Profit or Loss		
Current Income Tax		
Income Tax for the year	-	-
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 31)	75,286,361	9,547,327
	75,286,361	9,547,327
(B) Other Comprehensive Income		
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 31)		
	-	-
(C) Total Tax Expense for the year	75,286,361	9,547,327

NOTES TO THE FINANCIAL STATEMENTS

17. TAXATION (CONTD...)

17.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the Years ended 31 March 2021 and 2020 is as follows.

	31.03.2021 Rs.	31.03.2020 Rs.
Accounting Profit Before Income Taxation	100,289,920	20,980,157
Adjustments		
Non-taxable Income/ Losses	44,980,000	(963,311)
Disallowable Expenses	101,922,521	167,346,672
Allowable Expenses	(378,072,144)	(144,252,963)
Loss on PPE disposal		683,311
Gain on Investment Property disposal	-	-
Total Statutory Income	(130,879,704)	43,793,868
Claim on Carried Forward Tax Losses	-	(43,793,868)
Taxable Income	NIL	NIL
Income Tax Rate (%)	24%	28%
Income Tax	-	-
Deferred Taxation Charge/(Reversal) (Note 30)	75,286,361	9,547,327
Total Tax Expense (Note 17.1 (A))	75,286,361	9,547,327
Effective tax rate	75%	46%

Revised income tax rates proposed to the Inland Revenue Act, No. 24 of 2017 by Circular No. PN/IT/2020-03 (Revised), be implemented with effect from January 01, 2020. On 23 April 2021, CA Sri Lanka issued Guideline on Application of Tax Rates in Measurement of Current Tax and Deferred Tax in LKAS 12 Income Tax to provide an interpretation on the application of tax rates which is substantively enacted in the measurement of current tax and deferred tax for financial reporting period ending 31st March 2021. Due to revised income tax rates from 28% to 24% deferred tax asset decreased by 34.2 Mn for the company.

18. EARNINGS PER ORDINARY SHARE

The Company presents basic Earnings per Share (EPS) data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity share holders of the Company by the weighted average number of ordinary shares outstanding during the year.

	31.03.2021	31.03.2020
18.1 Weighted Average Number of Ordinary Shares for Basic / Diluted EPS as at 1st April	4,739,271,722	4,062,554,034
Add : Weighted Average Number of shares issued under private placement	1,912,428,213	676,717,688
Weighted Average Number of Ordinary Shares for Basic / Diluted EPS as 31st March	6,651,699,935	4,739,271,722
Weighted Average Number of Ordinary Shares for Basic / Diluted EPS as 31st March (After consolidation of shares)	665,168,780	
Profit Attributable to Ordinary share holders	25,003,559	11,432,830
Basic/Diluted Earnings per Ordinary Share (Rs.)	0.0376	0.0021

19. CASH AND CASH EQIVALENT

	31.03.2021 Rs.	31.03.2020 Rs.
Cash in hand	22,155,868	11,929,227
Balances with banks	133,241,054	38,710,813
Securities purchased under repurchase agreement maturing with in 3months	63,114,003	87,413,631
Cash and Cash Eqivalent before impairment	218,510,925	138,053,671
Less: Allowance for Impairment	(3,758)	(5,302)
Cash and Cash Eqivalent after impairment	218,507,168	138,048,368

19.1 Cash and Cash Eqivalent - Cash Flow Purpose

Cash and Cash Eqivalent before impairment	218,510,925	138,053,671
Bank Overdraft	(48,587,036)	(7,101,161)
	169,923,889	130,952,510

20. FINANCIAL INVESTMENTS AT AMORTISED COST

	31.03.2021 Rs.	31.03.2020 Rs.
Fixed Deposit & Commercial Papers	662,509,381	338,948,878
Less: Allowance for Impairment	(214,227)	(569,199)
	662,295,154	338,379,679

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES

	31.03.2021 Rs.	31.03.2020 Rs.
Term Loans	1,719,661,182	1,508,977,286
Housing Loans	363,188,451	238,796,195
Gold Loans	84,543,985	71,756,637
Factoring Loans	29,737,000	74,053,459
Staff Loans	28,400,946	6,519,163
	2,225,531,564	1,900,102,740
Less : Allowance for Impairment Losses (**Note 21.1**)	(256,429,094)	(268,913,647)
	1,969,102,470	1,631,189,094

21.1 Analysis of Loans and Advances on Maximum Exposure to credit Risk as at 31 March 2021

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Individually Impaired Loans and Advances	-	-	101,579,530	101,579,530
Loans and Advances subject to Collective Impairment	1,009,323,847	499,322,377	615,305,810	2,123,952,033
Allowances for Expected Credit Losses	(50,149,393)	(28,038,902)	(178,240,799)	(256,429,094)
Moratorium Loan Impairment				
	959,174,454	471,283,475	538,644,541	1,969,102,470

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21.2 Allowance for Impairment Losses

	31.03.2021 Rs.	31.03.2020 Rs.
Movement of collective Impairment Allowance for Loans and Advances		
As at 01 April	227,614,583	137,198,397
Transferred during the year	-	
Net Impairment Charge / (Reversal) for the year	20,834,545	90,416,186
Write off during the year	-	-
Balance as at 31 March	248,449,127	227,614,583
Movement in Individual Impairment Allowance for Loans and Advances		
As at 01 April	41,299,064	42,308,153
Transferred during the year	-	-
Net Impairment Charge / (Reversal) for the year	1,637,250	(1,009,089)
Write off during the year	(34,956,347)	-
Balance as at 31 March	7,979,967	41,299,064
Individual Impairment	7,979,967	41,299,064
Collective Impairment	248,449,127	227,614,583
Moratorium Loan Impairment	-	-
	256,429,094	268,913,647

21.3 Movement in Allowance for Expected Credit Loss (ECL)

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2020	53,468,930	14,599,051	200,845,666	268,913,647
Transferred during the year	-	-	-	-
Charge/(Reversal) to Income Statement (Note 12.3)	(3,319,537)	13,439,851	(22,604,867)	(12,484,553)
Amounts written off	-	-	-	-
Balance as at 31 March 2021	50,149,393	28,038,902	178,240,799	256,429,094

NOTES TO THE FINANCIAL STATEMENTS

22. FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLE & HIRE PURCHASE

	31.03.2021 Rs.	31.03.2020 Rs.
Gross rentals receivables	490,477,277	586,878,434
-Lease Rentals	424,591,890	416,532,257
-Amounts Receivable from Hirers	65,885,387	170,346,177
	490,477,277	586,878,434
Less: Unearned Income	(125,309,895)	(86,904,079)
Net rentals receivables	365,167,382	499,974,355
	365,167,382	499,974,355
Less : Allowance for Impairment Losses (Note 22.1)	(28,419,976)	(319,555,077)
Total net rentals receivable	336,747,406	180,419,278

22.1 Analysis of Lease Rental Receivable & Stock Out on Hire on Maximum Exposure to credit Risk as at 31 March 2021

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Individually Impaired Lease Receivables	-	-	40,495,596	40,495,596
Lease Rental Receivable & Stock out of Hire subject to Collective Impairment	198,162,069	82,221,087	44,288,630	324,671,786
Allowances for Expected Credit Losses	(5,874,109)	(7,488,540)	(15,057,327)	(28,419,976)
	192,287,960	74,732,547	69,726,899	336,747,406

22.2 Allowance for Impairment Losses

	31.03.2021 Rs.	31.03.2020 Rs.
Movement In Individual Impairment Allowance For - Lease Rentals Receivable & Hire Purchase		
As at 01 April	295,749,873	300,395,879
Net Impairment Charge / (Reversal) for the year	(1,330,763)	(4,646,006)
Write off during the year	(290,430,702)	-
Balance as at 31 March	3,988,409	295,749,873
Movement in Collective Impairment Allowance for- Lease Rentals Receivable & Hire Purchase		
As at 01 April	23,805,204	7,909,425
Net Impairment Charge / (Reversal) for the year	1,026,042	15,895,779
Write off during the year	(399,678)	-
Balance as at 31 March	24,431,568	23,805,204
Individual Impairment	3,988,409	295,749,873
Collective Impairment	24,431,568	23,805,204
	28,419,976	319,555,077

22.3 As at 31 March 2021

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivables	7,884,231	482,593,046	-	490,477,277
-Lease Rentals	1,954,283	422,637,607	-	424,591,890
-Amounts Receivable from Hirers	5,929,948	59,955,439	-	65,885,387
	7,884,231	482,593,046	-	490,477,277
Less: Unearned Income	(38,979,578)	(86,330,317)		(125,309,895)
Net rentals receivables	(31,095,347)	396,262,729	-	365,167,382
				365,167,382
Less : Allowance for Impairment Losses				(28,419,976)
Total net rentals receivable				336,747,406

NOTES TO THE FINANCIAL STATEMENTS

22. FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLE & HIRE PURCHASE (CONTD...)

As at 31 March 2020	Within one year	1 - 5 years	Over 5 years	Total
	Rs.	Rs.	Rs.	Rs.
Gross rentals receivables	426,920,464	159,901,699	56,271	586,878,434
-Lease Rentals	281,837,651	134,694,606	-	416,532,257
-Amounts Receivable from Hirers	145,082,813	25,207,093	56,271	170,346,177
	426,920,464	159,901,699	56,271	586,878,434
Less: Unearned Income	(63,299,409)	(23,596,366)	(8,304)	(86,904,079)
Net rentals receivables	363,621,055	136,305,333	47,967	499,974,355
				499,974,355
Less : Allowance for Impairment Losses				(319,555,077)
Total net rentals receivable				180,419,278

22.4 Movement in Allowance for Expected Credit Loss (ECL)

	Stage 01	Stage 02	Stage 03	Total
	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2020	2,870,090	2,313,587	314,371,400	319,555,077
Charge/(Reversal) to Income Statement (Note 12.3)	3,004,019	5,174,953	(299,314,073)	(291,135,101)
Amounts written off	-	-	-	-
Balance as at 31 March 2021	5,874,109	7,488,540	15,057,327	28,419,976

23. OTHER FINANCIAL ASSETS

	31.03.2021	31.03.2020
	Rs.	Rs.
Amount due from Holding Company	7,585,645	7,585,645
Prov. For Amount due from Holding Company	(7,585,645)	-
Other Receivables	7,763,678	2,631,743
	7,763,678	10,217,388

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24. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OF LOSS

	31.03.2021	31.03.2020
	Rs.	Rs.
Unit Trust	100,463,534	-
	100,463,534	-

25. FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.03.2021	31.03.2020
	Rs.	Rs.
Investment in CRIB	315,813	315,813
	315,813	315,813

26. OTHER NON FINANCIAL ASSETS

	31.03.2021	31.03.2020
	Rs.	Rs.
WHT Receivable	5,250,682	7,678,050
Advance & Prepayments	23,451,084	4,821,870
Stationary and Gift stock	3,185,547	10,062,514
Other Non financial assets	5,218,521	28,016,405
NBT on Financial Services	756,640	-
	37,862,474	50,578,839

27. INVESTMENT PROPERTY

	31.03.2021	31.03.2020
	Rs.	Rs.
Balance as at 1st April	356,300,000	372,200,000
Disposals	(356,300,000)	(15,900,000)
Balance as at 31st March	0.00	356,300,000

Investment Properties includes bare lands and land and buildings acquired by the company from clients who defaulted on accommodations granted and purchased properties. These properties were held by the Company for capital appreciation and rental purposes. During the year 2020/21 land were sold out.

NOTES TO THE FINANCIAL STATEMENTS

27. INVESTMENT PROPERTY (CONTD...)

27.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31 March 2020.

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio is **depicted in note no. 2.1 below**	The estimated fair value would increase (decrease) if: - Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for period used. **(Note 2.1)**	The estimated fair value would increase (decrease) if: - Depreciation rate was lesser / (higher) - Square feet value was higher / (lesser)

2.1) Value

Property	Lot Nos	Value per perch	Extent (purchase)	Value
01. No. 24, Piriwana, Dehiwela, Mount Lavinia.	1,2	1,600,000	16.50	26,400,000
	3, 4, 6, 7, 8, 9,10, 11, 14, 15, 17, 18, 19, 20, 22, 23, 24	1,500,000	141.45	212,175,000
	5, 12, 16	1,400,000	27.65	38,710,000
	Total Land value			277,285,000
	Value of the building (39,820 sqf X 1,845.71 average per sqf)			73,496,000
	Total			350,781,000
	Market value			350,000,000
03. Nawagamuwa, Kaduwela	1, 2, 3, 4, 5, 6, 7, 8	100,000	63.3	6,333,000
	Market value			6,300,000
		Total value of the property		356,300,000

28. PROPERTY, PLANT AND EQUIPMENT

28.1 Gross Carrying Amounts

Cost	Balance As at 01.04.2020	Additions	Disposals	Balance As at 31.03.2021
	Rs.	Rs.	Rs.	Rs.
Freehold Assets				
Motor Vehicles	36,435,366	523,900	-	36,959,266
Machinery	4,371,727	292,680	-	4,664,407
Office Equipment	9,008,467	1,147,427	-	10,155,894
Furniture and Fittings	23,059,187	2,004,931	-	25,064,117
Fixture & Fittings	386,119	6,950	-	393,069
Name Board	6,620,440	2,981,049	-	9,601,489
Computer Equipment and Software	8,566,632	7,546,246	-	16,112,878
Total Value of Depreciable Assets	88,447,938	14,503,182	-	102,951,120

28.2 Depreciation

	Balance As at 01.04.2020	Charge for the Period	Disposals	Balance As at 31.03.2021
	Rs.	Rs.	Rs.	Rs.
Motor Vehicles	16,151,831	9,758,950	-	25,910,781
Machinery	2,716,480	1,087,205	-	3,803,685
Office Equipment	4,712,926	2,407,962	-	7,120,888
Furniture and Fittings	10,072,257	4,846,633	-	14,918,890
Fixture & Fittings	118,637	79,659	-	198,296
Name Board	4,889,615	1,968,187	-	6,857,802
Computer Equipment and Software	3,021,557	2,094,172	-	5,115,729
	41,683,302	22,242,769	-	63,926,071

NOTES TO THE FINANCIAL STATEMENTS

28. PROPERTY, PLANT AND EQUIPMENT (CONTD...)

28.3 Net Book Values

	31.03.2021 Rs.	31.03.2020 Rs.
At Cost		
Motor Vehicles	11,048,485	20,283,536
Machinery	860,722	1,655,247
Office Equipment	3,035,006	4,295,541
Furniture and Fittings	10,145,228	12,986,930
Fixture & Fittings	194,773	267,482
Name Board	2,743,687	1,730,826
Computer Equipment and Software	10,997,149	5,545,076
Total Carrying Amount of Property, Plant & Equipment	39,025,049	46,764,636

28.4 During the Financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs.14,503,182. (2020/19 - 13,473,619).

28.5 Cost of fully depreciated assets of the company as at 31 March 2021 is Rs.11,896,686.90. (2020/19 - 8,357,413/-).

29. RIGHT OF USE ASSETS

Set out below are the carrying amounts of right-of-use-assets recognised and movements during the year.

29.1 Cost

	31.03.2021 Rs.	31.03.2020 Rs.
Balance as at 01 April	84,506,112	-
Effect of adoption of SLFRS 16 as at 1 April 2019	-	69,145,859
Additions and Improvements	-	15,360,253
Cost as at 31 March	84,506,112	84,506,112
Accumulated Amortisation		
Balance as at 01 April	(15,274,879)	-
Charge for the year (Note 14)	(16,248,663)	(15,274,879)
Accumulated Amortisation as at 31 March	(31,523,542)	(15,274,879)
Net Book Value as at 31 March	52,982,570	69,231,233

29.2 Lease Liability

Set out below are the carrying amounts of Lease Liabilities (Included under Other Financial Liabilities in Note 34) and movements during the year.

	31.03.2021 Rs.	31.03.2020 Rs.
Balance as at 01 April	64,063,179	-
Effect of Adoption SLFRS 16 as at 01 April 2019	-	57,037,834
Additions	-	13,560,253
Accretion of Interest (Note 15)	8,897,625	8,599,280
Payments	(18,034,676)	(15,134,188)
Balance as at 31 March	54,926,127	64,063,179

29.3 Maturity Analysis of Lease Liability

	31.03.2021 Rs.	31.03.2020 Rs.
As at 31 March	12,251,524	15,507,622
Less than 01 year	42,674,603	36,745,433
02 to 05 years	-	11,810,124
More than 05 years	54,926,127	64,063,179

29.4 Reconciliation of Operating Lease Commitments

	31.03.2021 Rs.	31.03.2020 Rs.
Operating Lease Commitments as at 31 March	64,063,178	94,706,056
Impact on discounting	(9,137,051)	(37,173,735)
New branches opening during the period	-	6,530,857
Lease Liability as at 31 March	54,926,127	64,063,178

*The Present value of operating lease commitments as at 31 March 2021 has been calculated using weighted average incremental borrowing rate of 15% for the Company.

29.5 Sensitivity of Right-of use Assets /Lease Liability to Key Assumptions

Sensitivity to Discount Rates

1% increase/(Decrease) in discount rate as at 31 March 2021 would have impact the lease liability by approximately Rs.417,601/(Rs. 436,341) respectively with a similar increase/(decrease) in the Right- of-use Assets. The impact on company's profit before tax for the year would (decrease)/increase by approximately (Rs.98,834)/Rs. 106,134 respectively.

NOTES TO THE FINANCIAL STATEMENTS

30. INTANGIBLE ASSETS

	31.03.2021 Rs.	31.03.2020 Rs.
Computer Software		
Cost		
Cost as at 01 April	5,834,789	5,504,972
Transfers	-	-
Additions and Improvements	41,488,747	329,817
Cost as at end of the year	47,323,536	5,834,789
Amortisation & impairment		
Cost as at 01 April	(2,498,988)	(864,432)
Charge for the year	(2,638,335)	(1,634,557)
Amortisation as at end of the year	(5,137,323)	(2,498,988)
Net book value as at end of the year	42,186,213	3,335,801

Nature and Amortization Method

Intangible Assets represent acquisition of computer software from third parties. These software are amortized over the estimated useful life of 4 years on a straight line basis. In year 2020/21 company has acquired new computer system for 41 Mn and its amortized over the estimated useful life of 10 years on a straight line basis.

31. DEFERRED TAXATION

Deferred Tax Assets, Liabilities and Income Tax relates to the followings	Statement of Financial Position		Recognised in Statement of Other Comprehensive Income		Recognised in Statement of Profit or Loss	
	31.03.2021 Rs.	31.03.2020 Rs.	31.03.2021 Rs.	31.03.2020 Rs.	31.03.2021 Rs.	31.03.2020 Rs.
Deferred Tax Liability						
Capital Allowances for Tax Purposes						
-Property Plant & Equipment	86,373	(1,194,318)	-	-	1,280,691	(2,618,505)
-Intangible Assets	2,286,840	336,129			1,950,711	501,100
Fair value gain on Investment Property	-	19,376,685	-	-	(19,376,685)	(840,000)
	2,373,213	18,518,496	-	-	(16,145,283)	(2,957,405)
Deferred Tax Assets						
Capital Allowances for Tax Purposes - Leased Assets	(466,453)	1,447,056	-	-	(1,913,509)	1,447,056
Provision for Impairment on Financial Assets	44,679,635	118,126,333	-	-	(73,446,698)	(436,425)
Defined Benefit Plans	1,034,438	710,760	179,979	(19,932)	143,699	123,556
Defined Benefit Plan- Other Comprehensive Income	-	-	-	-	-	143,911
Brought Forward Tax Losses	162,755,084	178,970,219	-	-	(16,215,135)	(13,782,830)
	208,002,704	299,254,368	179,979	(19,932)	(91,431,644)	(12,504,732)
Deferred income tax charge/(reversal)			179,979	(19,932)	75,286,361	9,547,327
Net Deferred Tax Liability/ (Asset)	(205,629,491)	(280,735,872)				

Deferred Tax asset is recognised by considering the brought forward tax losses and temporary difference of impairment provision for loans and advances. The Company is planning to go for an Initial Public Offering during next Financial Year. Also the company is planning to expand its business operations through opening new branches covering all geographical segments. Based on that management of the Company believes that Company will be able to generate more and adequate profits with in the next 5 years. Accordingly the differed tax assets could be set off against the income tax lability arising in future periods.

NOTES TO THE FINANCIAL STATEMENTS

32. DUE TO BANKS

	31.03.2021	31.03.2020
	Rs.	Rs.
Bank Overdrafts	48,587,036	7,101,160
Securitised Borrowings and Other Bank Facilities (Note 32.1)	469,827,505	464,800,546
	518,414,541	471,901,706

32.1 Due to Banks

	31.03.2021			31.03.2020		
	Amount repayable within 1 year	Amount repayable after 1 year	Total	Amount repayable within 1 year	Amount repayable after 1 year	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank Overdrafts	48,587,036	-	48,587,036	7,101,160	-	7,101,160
Term Loan facilities from Banks	130,758,526	339,068,979	469,827,505	141,474,351	323,326,195	464,800,546
	179,345,562	339,068,979	518,414,541	148,575,511	323,326,195	471,901,706

32.2 Term Loan Facilities from Banks

	As at 01.04.2020	Loans Transferred	Loans Obtained	Interest Recognised	Repayments Capital	Interest	As at 31.03.2021	Period	Security
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Direct Bank Borrowings									
Term Loans									
LOLC PLC	-	-	-	-	-	-	-		
Term Loan 01 - Sampath Bank PLC	183,662,000	-	-	14,116,410	51,600,000	17,297,695	128,880,715	5 Years	Personal Guarantee
Term Loan 02 - Sampath Bank PLC	25,814,000	-	-	2,356,612	8,340,000	2,597,931	17,232,681	5 Years	Personal Guarantee
Term Loan 03 - Sampath Bank PLC	-	-	-	-	-	-	-		
Sri Lanka Saving Bank Ltd	4,781,945	-	-	327,251	4,627,778	327,251	154,167	3 years	Personal Guarantee
Sri Lanka Saving Bank Ltd	-	-	100,000,000	2,777,256	3,782,943	2,777,256	96,217,057		
Term Loan 01 Cargills Bank	78,332,900	-	3,891,475	8,476,426	10,927,816	7,453,504	72,319,480	5 years	Personal Guarantee
Term Loan 02 Cargills Bank	163,150,000	-	8,881,389	16,386,663	22,670,926	14,865,428	150,881,698	5 years	Fixed Deposit
Commercial Bank of Ceylon PLC	-	-	-	-	-	-	-		
Hatton National Bank PLC	3,120	-	-	-	3,120	-	-	5 years	Personal Guarantee
Reverse Repo	-	-	-	-	-	-	-		
Sampath Bank PLC	9,056,580	-	-	917,077	4,914,873	917,077	4,141,707	4 years	Motor Vehicle
Bank Overdrafts	7,101,160	-	-		7,094,971	-	48,587,036		
	471,901,705	-	112,772,864	45,357,694	113,962,430	46,236,141	518,414,541		

	As at 01.04.2019	Loans Transferred	Loans Obtained	Interest Recognised	Repayments Capital/ Capital Write off	Repayments Interest/ Interest Write-off	As at 31.03.2020	Period	Security
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Direct Bank Borrowings									
Term Loans									
LOLC PLC	-	-	-	-	-	-	-		
Term Loan 01 - Sampath Bank PLC	195,372,078	-	40,000,000	26,541,600	51,710,078	26,541,600	183,662,000	5 Years	Personal Guarantee
Term Loan 02 - Sampath Bank PLC	35,066,591	-	-	4,422,470	9,252,591	4,422,470	25,814,000	5 Years	Personal Guarantee
Term Loan 03 - Sampath Bank PLC	-	-	-	-	-	-	-		
Sri Lanka Saving Bank Ltd	12,613,589	-	-	1,181,776	7,831,644	1,181,776	4,781,945	3 years	Personal Guarantee
Term Loan 01 Cargills Bank	96,787,526	-	-	12,888,297	18,168,822	13,174,101	78,332,900	5 years	Property Mortgage
Term Loan 02 Cargills Bank	-	-	200,000,000	20,698,967	36,850,000	20,698,967	163,150,000	5 years	Property Mortgage
Commercial Bank of Ceylon PLC	2,000,000	-	-	-	2,000,000	-	-		
Hatton National Bank PLC	1,618,446	-	-	-	1,615,326	-	3,120	5 years	Personal Guarantee
Reverse Repo	47,651,145	-	460,047,586	1,377,756	507,698,731	1,377,756	-		
Sampath Bank PLC	13,397,875	-	-	1,561,692	4,307,672	1,595,315	9,056,580	4 years	Motor Vehicle
Bank Overdraft	14,827,747	-	-		7,726,587	-	7,101,160		
	419,334,997	-	700,047,586	68,672,558	647,161,451	68,991,985	471,901,706		

33. FINANCIAL LIABILITIES AT AMORTISED COST- DUE TO CUSTOMERS

	31.03.2021	31.03.2020
	Rs.	Rs.
Fixed Deposits	618,181,876	848,901,716
Savings Deposits	179,453,834	140,701,246
Interest Payable	33,948,219	22,632,681
	831,583,929	1,012,235,643

34. OTHER FINANCIAL LIABILITIES

	31.03.2021	31.03.2020
	Rs.	Rs.
Lease Creditors	54,926,127	64,063,179
Other Payables (Note 34.1)	115,726,682	56,564,124
Provisions and accruals (Note 34.2)	4,482,512	5,628,176
	175,135,322	126,255,479

NOTES TO THE FINANCIAL STATEMENTS

34. OTHER FINANCIAL LIABILITIES (CONTD...)

34.1 Other Payables

	31.03.2021 Rs.	31.03.2020 Rs.
Advance received from customers	-	34,884,285
Long Term Investment Payable	100,000,000	-
Other Payables	15,726,682	21,679,839
	115,726,682	56,564,124

34.2 Accrued Expenses

	31.03.2021 Rs.	31.03.2020 Rs.
Salary Payable	175,752	147,862
Professional fee Payable	1,083,805	1,418,080
Other Expenses Payable	3,222,955	4,062,235
	4,482,512	5,628,176

35. OTHER NON FINANCIAL LIABILITIES

	31.03.2021 Rs.	31.03.2020 Rs.
Payable - EPF	827,083	1,592,983
Payable - ETF	121,007	223,765
Payable - PAYE Tax	(58,114)	(109,418)
Payable for VAT on Financial Services	1,006,258	(6,701,981)
Other Payable	33,482,408	17,402,302
Other Tax	1,120,071	(3,194,241)
	36,498,714	9,213,410

36. RETIREMENT BENEFIT OBLIGATIONS

	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	2,538,429	1,654,374
Current Service Cost	1,086,587	773,260
Payments made during the year	(315,313)	-
Interest Charged/(Reversed) for the year	250,543	181,981
(Gain)/loss arising from changes in the assumption	749,914	(71,186)
Balance at the end of the year	4,310,160	2,538,429

	31.03.2021 Rs.	31.03.2020 Rs.
36.1 Expenses on Defined Benefit Plan		
Current Service Cost for the year	1,086,587	773,260
Interest Charge for the year	250,543	181,981
	1,337,130	955,241
36.2 Amount Recognised in the Other Comprehensive Income		
(Gain)/Loss arising from changes in the assumption (Note 36)	749,914	(71,186)
	749,914	(71,186)

Actuarial valuation of Retiring Gratuity Obligation as at 31 March 2021 was carried out by Messrs. Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries using "Projected Unit Credit Method" as recommended by LKAS 19-'Employee Benefits'.

36.3 Assumptions

	31.03.2021	31.03.2020
36.3.1 Financial Assumptions		
Discount Rate	8.00%	9.87%
Salary Increment Rate	6% p.a.	8% p.a.
36.3.2 Demographic Assumptions		
Staff Turnover	25%	25%
Retirement Age	57 years	57 years
Mortality	A1967/70	A1967/70
	Mortality table	Mortality table

Expected average future working life of the active participants is 3.47 year (2020: 3.45 years)

NOTES TO THE FINANCIAL STATEMENTS

36. RETIREMENT BENEFIT OBLIGATIONS (CONTD...)

36.4 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible change in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement. The sensitivity of the Statement of Financial position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment on the profit or loss and Retiring Gratuity obligation for the year.

Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2021		2020	
		Sensitivity Effect on Statement of Comprehensive Income	Sensitivity Effect on Defined Benefit Obligation	Sensitivity Effect on Statement of Comprehensive Income	Sensitivity Effect on Defined Benefit Obligation
1%	-	(123,557)	123,557	(76,383)	76,383
-1%	-	130,879	(130,879)	81,046	(81,046)
-	1%	147,808	(147,808)	48,720	(48,720)
-	-1%	(141,872)	141,872	(46,970)	46,970

36.5 Maturity Profile of the Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at the reporting date is given below;

	31.03.2021	31.03.2020
	Years	Years
Weighted Average Duration of the Defined Benefit Obligation	3.15	3.37
Average Time to Benefit Payout	3.47	3.45
(Maturity Profile of Defined Benefit Obligation)-Present Value of Expected benefit Payments		
within the next 12 months	465,615	478,962
between 2 to 5 years	3,180,810	1,757,192
between 6 to 10 years	539,429	243,358
beyond 10 years	124,306	58,917
	4,310,160	2,538,429

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37. STATED CAPITAL

37.1 Issued and Fully Paid-Ordinary Shares

	31.03.2021		31.03.2020	
	No. of Shares	Rs.	No. of Shares	Rs. '000
At the Beginning of the Year	5,024,986,008	3,231,604,341	4,624,986,008	3,091,604,341
New share issued during the Year	1,626,713,927	599,133,400	400,000,000	140,000,000
Capital Reduction from existing capital		(1,791,604,341)	-	-
At the End of the Year	6,651,699,935	2,039,133,400	5,024,986,008	3,231,604,341
At the End of the Year (After consolidation of shares)	665,168,780	2,039,133,400		

37.2 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.

37.3 Capital Reduction

The company had brought forward losses of Rs. 1,798,965,375 as at 31st March 2019. The aforementioned losses adversely affected the company's ability to pay dividends to its shareholders since, in terms of the companies Act No. 7 of 2007, the "solvency test" requirements had to be satisfied prior to any dividend distribution in the future. The capital reduction was effected to improve the solvency margin of the company. Although this procedure reduced the stated capital attributable to the shareholders the number of ordinary shares held by each shareholder remain unchanged.

38. RESERVES

	Statutory Reserve	Total
	Rs.	Rs.
As at 31 March 2020	39,819,923	39,819,923
Transfers During the Year	1,250,178	1,250,178
As at 31 March 2021	41,070,101	41,070,101

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 5% of the net profit for the year transferred to Reserve Fund as required by Section 3(b) ii of the said Direction.

NOTES TO THE FINANCIAL STATEMENTS

39. RETAINED EARNINGS

	31.03.2021 Rs.	31.03.2020 Rs.
Balance as at 01 April	(1,788,052,934)	(1,798,965,376)
Dividend Paid	-	-
Profit for the Year	25,003,559	11,432,830
Other Comprehensive Income not to be Reclassified to Profit or Loss	(569,935)	51,254
Transfers During the Year (Note 4.33)	(1,250,178)	(571,641)
Capital Reduction from existing capital	1,791,604,341	-
Balance as at 31 March	26,734,854	(1,788,052,934)

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.

40. FAIR VALUE OF ASSET AND LIABILITIES

The following describes the methodologies and assumptions used to determine fair value of those financial instruments which are not already recorded at fair value in the financial statements.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by Valuation techniques.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities in the active Market.
Level 2: Valuation technique using observerable inputs: Quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar assets and liabilities in active markets are valued using models where all significant inputs are observable.
Level 3: Valuation techniques with significant unobservable inputs: assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

Key methodologies and assumptions used are as follows.

Assets for which fair value approximates carrying value
For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value.

Equity instruments at fair value through OCI
Equity instruments at fair value through OCI primarily consist of unquoted equity securities. Unquoted equity securities are carried at cost since it is the most reasonable value available to represent the price of such securities.

Fixed Rate Financial Instruments
The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices.

Variable rate Financial Instruments
Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

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The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy in to which the fair value measurement is categorised.

Financial Assets	31-Mar-21 Rs.					31-Mar-20 Rs.				
	Carrying value	Fair value measurement using			Total	Carrying value	Fair value measurement using			Total
		Level 01	Level 02	Level 03			Level 01	Level 02	Level 03	
Financial Assets Measured at Fair value through Profit or Loss	100,463,534		100,463,534	-	100,463,534	-	-	-	-	-
Financial Investment as Fair Value through Other Comprehensive Income	315,813	-	-	315,813	315,813	315,813	-	-	315,813	315,813
					-					
Total Financial Assets	100,779,346	-	100,463,534	315,813	100,779,347	315,813	-	-	315,813	315,813

Set out below is the comparison, by class, of the carrying amounts of Fair Values of the Company's Financial Instruments that are not carried at Fair Value in the Financial Statements. This table does not include the Fair Values of Non- Financial Assets and Non- Financial Liabilities.

Financial Assets	31-Mar-21 Rs.					31-Mar-20 Rs.				
	Carrying value	Fair value measurement using			Total	Carrying value	Fair value measurement using			Total
		Level 01	Level 02	Level 03			Level 01	Level 02	Level 03	
Financial Investment at amortised Cost	662,295,154	-	662,295,154	-	662,295,154	338,379,679	-	338,379,679	-	338,379,679
Financial assets at amortised Cost - Loans and Receivables	1,969,102,470	-	1,575,188,399	-	1,575,188,399	1,631,189,094	-	1,553,430,251	-	1,553,430,251
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	336,747,406	-	288,613,665	-	288,613,665	180,419,278	-	147,201,450	-	147,201,450
	2,968,145,030	-	2,526,097,218	-	2,526,097,218	2,149,988,051	-	2,039,011,380	-	2,039,011,380
Financial Liabilities										
Due to Customers	831,583,929	-	856,531,447	-	856,531,447	1,012,235,643	-	1,034,631,094	-	1,034,631,094
	831,583,929	-	856,531,447	-	856,531,447	1,012,235,643	-	1,034,631,094	-	1,034,631,094

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature or re-priced to current market rates frequently.

NOTES TO THE FINANCIAL STATEMENTS

40. FAIR VALUE OF ASSET AND LIABILITIES (CONTD...)

	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
Financial Assets				
Cash and Cash Equivalent	218,507,168	218,507,168	138,048,368	138,048,368
Financial Investment at amortised Cost	662,295,154	533,931,081	338,379,679	338,379,679
Other Financial Assets	7,763,678	7,763,678	10,217,388	10,217,388
Total Financial Assets	888,566,000	760,201,928	486,645,435	486,645,435
Financial Liabilities				
Financial Liabilities at amortised Cost - Due to Banks	518,414,541	518,414,541	471,901,706	471,901,706
Other Financial Liabilities	175,135,322	175,135,322	126,255,481	126,255,481
	693,549,863	693,549,863	598,157,187	598,157,187

The management of company believes that the Fair value of the financial assets which matured within 1 year are equal to its amortized cost.

It has taken the amortized cost of deposits liability of City Finance Corporation Limited as the fair value of it , Since the Company has started to settle the Fixed Deposits of the City Finance corporation within next year.

41. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	2021	2020
	Rs.	Rs.
Motor Vehicle	18,000,000	18,000,000
Investment Property	-	350,000,000
Investment in Repo	-	-
Fixed Deposit Investment	155,000,000	-

42. RISK MANAGEMENT

42.1 Introduction

Risk is inherent in the financial business and such risks are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

The Company is mainly exposed to Credit Risk, Interest Rate Risk, Liquidity Risk, Operational Risk, Regulatory & Compliance Risk, Reputation Risk and Environmental Risk.

42.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC), which is a sub-committee of the Board, oversees the risk management function in line with the Board approved policies and strategies. Integrated Risk Management committee shall develop the policy and operations for Company-wide risk management. The Committee comprises of Executive and Non-Executive Directors. Meeting of BIRMC are held regularly, and the Board of Directors are duly updated of its activities.

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

Risk appetite of the Company is defined in both qualitative and quantitative terms. These risk appetite parameters are dynamic and subject to changes in line with the changing business strategies of the Company and changing market conditions. Risk appetite of the Company is defined through the Risk tolerance limits approved by the Board of Directors.

The BIRMC was set up to fulfil the requirement set out in the Finance Companies Direction No. 3 of 2008 on Corporate Governance for Finance Companies issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act, No. 42 of 2011.

The said Committee consists of such number of members, as the Board may determine from time to time. The Committee currently consists of membership of 3 Directors, Director and key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.

In addition to the BIRM Committee, Risk Management function is managed by Risk Management Department (RMD). RMD is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The Department works closely with the Risk Committee to ensure that procedures are compliant with the overall framework. RMD is also responsible for monitoring compliance with risk principles, policies and limits across the Company. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

Above committees closely monitors any developments related to the COVID 19 pandemic and reviews measures undertaken by the company in response to resulting risk. These actions has helped the company mitigating any adverse effect on its asset liability position that may arise due to the continuously evolving nature of the pandemic.

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42. RISK MANAGEMENT (CONTD...)

42.3 Risk measurement & Reporting System and Risk Mitigation

Prudent management of risk exposures relevant to the Company's business operations would be ensured through a mechanism of "Three Lines of Defence". These levels consist of management of risk by the relevant risk-assuming function, independent risk management & compliance functions and internal & external audit functions.

The positioning map of each risk component is placed within the risk grid. Tolerance levels are set by using sustainable measurements and these are discussed at risk management meetings. The risk console indicates the severity of each component of risk. Tabulated below is the Risk Console that is used in identification of Key Risks and Risk Measures taken by the company together with mitigates suggested.

Financial Risks		Risk Measures	Mitigates
			▲ Board approved credit policies/ procedures/ framework and annual review
			▲ Delegated authority levels/ segregation of duties
			▲ Setting Prudential limits on maximum exposure
	1. Default Risk	▲ Probability of Default	▲ Overall NPL Ratio setting based on risk appetite
	Potential loss due to borrower/ counterparty unable or unwilling to meet its obligations	▲ Loss Given Default	▲ Credit Limit Exposures (for Asset Type and Sector) that takes account of NPL / Infection ratios and movement in NPL ratios
		▲ Sector / Asset / Client / Branch Concentrations of Lending Portfolio	▲ Concentration limits for clients/ groups, asset types
	2. Concentration Risk	▲ Concentrations in Repossessed assets	▲ Monitoring of exposures against the limits
	Credit Exposure being concentrated to few sectors/ groups (insufficient diversification)	▲ Macro Credit Portfolio risk measures such as	▲ Trend analysis reported to BIRMC
Credit Risk		a) Provision Coverage	Strict compliance with CBSL Guidelines
		b) Net NPL as a % of Equity Funds	
Interest rate risk		▲ Net Interest Yield and Movement in Net Interest Yield	
		▲ Lending to Borrowing Ratio	
		▲ Tracking of Movements in Money Market rates	
		▲ Marginal Cost of funds / Risk based Pricing	
		▲ Gaps in asset Liability Re-Pricing	▲ Setting of Marginal Pricing with Risk Premiums for Different classes of Lending assets
	Adverse effect on Net Interest Income	▲ Cumulative Gaps as a % of Cumulative Liabilities	▲ Setting of Lending to Borrowing ratios
			▲ Gaps limits for structural liquidity,
			▲ Liquidity contingency planning and Limits of minimum stocks of high quality liquid assets
Liquidity Risk	Inability to meet obligations as they fall due	▲ Gaps in dynamic liquidity flows	▲ Volatile Liability Dependency measures
		▲ Stocks of high quality liquid assets	▲ Balance sheet ratios

42.4 Credit Risk

Credit risk is the risk of financial loss to the Company, if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's credit facilities given to customers and investments in debt securities. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances.

Credit risk is closely tied to the potential return, the most notable being that the yields on portfolios correlate strongly to their perceived credit risk. The strategy of Company is not to eliminate credit risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

Management of Credit Risk

In credit risk management, the rigorous credit screening process adopted has been a core competency of the Company. The multiple layers of approving lines ensure that credit risk is mitigated in all aspects.

At the initial level, the credit facilities are preliminary screened at the branch level and a credit evaluation is done. Then based on the exposure the facility is escalated upwards for approval along with a credit risk assessment. In determining the borrower's credit risk the industry in which he performs, succession, integrity, past payment records inter alia are considered. In assessing the facility the equity contribution, security cover and guarantors are taken in to consideration.

Post approval pre-disbursement stage is covered by the Credit Administration department under which security documentation and disbursement is done. Post disbursement monitoring is efficiently carried out by both the branch network and the recoveries department based on the repayment pattern.

Early warnings signals captured through trigger lists done by credit risk management is also shared with respective departments to aid the post disbursement monitoring. Further timely reviews of facilities also ensure that any early warning signs are captured and required corrective steps are taken to arrest any unexpected default.

42.4.1 Impairment Assessment

The methodology of the impairment assessment is explained in Note 4.1.8 under Accounting policies. The references below should be read in conjunction with those Accounting policies.

42.4.1. (a) Definition of Default and Cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- ▲ Internal assessment of the borrower indicating default or near-default
- ▲ The borrower requesting emergency funding from the Company
- ▲ The borrower having past due liabilities to public creditors or employees
- ▲ The borrower is deceased
- ▲ A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- ▲ A material decrease in the borrower's turnover or the loss of a major customer
- ▲ A covenant breach not waived by the Company
- ▲ The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- ▲ Debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

42.4.1.(b) Significant Increase in Credit Risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition.

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42. RISK MANAGEMENT (CONTD...)

42.4.1 Assessment of Expected Credit Losses

42.4.1 (c) Analysis of the Total Allowance for Expected Credit Losses is as Follows.

As at 31st March	2021			
	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalent	217,985	-	-	217,985
Term loan Personal Guarantees	37,332,901	16,131,074	123,517,631	176,981,606
Term loan property mortgage	10,590,973	11,775,434	52,546,308	74,912,714
Gold Loans	2,225,519	132,394	269,880	2,627,793
Factoring Loans	-	-	1,906,980.67	1,906,981
Lease rentals receivables and Hire Purchases	5,874,109	7,488,540	15,057,327	28,419,976
Sundry	-	-	500,000	500,000
Total allowance for expected credit losses	56,241,488	35,527,442	193,798,126	285,567,056

The methodology used in the determination of expected credit losses is explained in Note 4.1.8 to Financial Statements.

42.4.1(d) Movement of the Total Allowance for Expected Credit Losses During the Period

	31-Mar-21
	Rs.
Balance as at 01st April 2020	589,043,225
Transfer during the year	(326,361,228)
Net Charge to Profit and loss	22,885,058
Interest income accrued on impaired loans & receivables	-
Recovered during the year	-
Balance as at 31 Mar 2021	285,567,056

42.4.1(e) Sensitivity Analysis : Impact of Staging of Loans On Collective Allowance for Expected Credit Losses
The following table illustrates the impact of staging of loans by comparing the allowance, if all performing financial assets were in stage 1 or if all such assets were in stage 2 to the actual expected credit loss recorded on these assets.

	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 1	Impact of staging
	Rs.	Rs.	Rs.
Total allowance for expected credit losses	91,550,944	73,295,911	(18,255,033)

	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 2	Impact of staging
	Rs.	Rs.	Rs.
Total allowance for expected credit losses	91,550,944	145,259,180	53,708,236

The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

42.4.1(f) A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are contractually past due but not classified as impaired because they are less than 90 days past due. Loans past due 30 days or less are not presented in this analysis as they are not administratively considered past due.

As at 31st March	2021		
	31- 60 Days	61- 90 Days	Total
	Rs	Rs	Rs
Factoring receivables	-	-	-
Gold loan receivables	1,605,164	1,024,400	2,629,564
Term loan Personal Guarantees	91,257,091	31,831,069	123,088,159
Term loan property mortgage	163,299,813	40,304,840	203,604,653
Lease rentals receivables and Hire Purchases	32,636,855	49,584,232	82,221,087
	288,798,923	122,744,541	411,543,464

42.4.1(g) Overview of Rescheduled / Restructured Loans and Advances (Except Individually Impaired Loans and Advances)

As at 31st March	2021						
	Gross Carrying Value			Allowance for ECL			Net Carrying Value
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	
Term loan property mortgage	-	53,715,682	53,715,682	-	8,057,352	8,057,352	45,658,330
Term loan Personal Guarantees	-	30,046,895	30,046,895	-	13,521,103	13,521,103	16,525,792
	-	83,762,577	83,762,577	-	21,578,455	21,578,455	62,184,122

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42.4.2 Credit Quality by Class of Financial Assets

		31-Mar-21					31-Mar-20				
	Note	Neither Past Due nor Individually Impaired Rs.	Past Due Not Individually Impaired Rs.	Individually Impaired Rs.	Total Rs.	Percentage	Neither Past Due nor Individually Impaired Rs.	Past Due Not Individually Impaired Rs.	Individually Impaired Rs.	Total Rs.	Percentage
Assets											
Cash and bank balances		219,256,527	-	-	219,256,527	7.28%	138,048,368	-	-	138,048,368	6.01%
Financial instruments at amortised cost		662,295,154	-	-	662,295,154	22.00%	338,379,679	-	-	338,379,679	14.72%
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases		198,162,069	98,089,741	40,495,596	336,747,406	11.18%	61,532,145	142,692,337	295,749,873	499,974,355	21.76%
Financial assets at amortised Cost - Loans and Receivables		1,009,323,847	858,199,093	101,579,530	1,969,102,470	65.40%	851,721,538	1,007,082,138	41,299,064	1,900,102,740	82.69%
Other Financial Assets		7,763,678	-	-	7,763,678	0.26%	10,217,388	-	-	10,217,388	0.44%
Financial Investment as Fair Value through Other Comprehensive Income		315,813	-	-	315,813	0.01%	315,813	-	-	315,813	0.01%
Allowance for impairment					(285,067,056)	(0.09)				(589,043,225)	-26%
Financial Assets Measured at Fair value through Profit or Loss		100,463,534	-	-	100,463,534	3.34%	-	-	-	-	0.00%
Total		2,197,580,622	956,288,834	142,075,126	3,010,877,526	97%	1,400,214,931	1,149,774,475	337,048,937	2,297,995,118	100%

42.4.2.1 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				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
	2021	2021	2021	2021	2021
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	195,489,166	32,636,855	39,584,232	69,037,153	336,747,406
Financial assets at amortised Cost - Loans and Receivables	1,009,323,847	256,162,067	73,160,309	630,456,246	1,969,102,470
	1,204,813,013	288,798,923	112,744,541	699,493,399	2,305,849,876

42.4.3 Maximum Exposure to Credit Risk

The following tables shows the maximum exposure to credit risk by class of financial assets. It further shows the net exposure to credit risk.

As at 31 March		2021		2020	
	Note	Maximum Exposure To Credit Risk Rs.	Net Exposure Rs.	Maximum Exposure To Credit Risk Rs.	Net Exposure Rs.
Financial Assets					
Cash and Cash Equivalent	19	219,256,527	219,256,527	138,048,368	138,048,368
Financial Investment at amortised Cost	20	662,295,154	662,295,154	338,379,679	338,379,679
Financial assets at amortised Cost					
Loans & Receivables	21	1,969,102,470	1,712,673,376	1,631,189,094	843,462,922
Lease rentals receivables and Hire Purchases	22	336,747,406	308,327,429	180,419,278	56,934,622
Other Financial assets	23	7,763,678	7,763,678	10,217,388	10,217,388
Financial Assets Measured at Fair value through Profit or Loss	24	100,463,534	100,463,534	-	-
Financial Investment as Fair Value through Other Comprehensive Income	25	315,813	315,813	315,813	315,813
Total Financial Assets		3,295,944,582	3,011,095,512	2,298,569,620	1,387,358,792

42.4.4 Offsetting Financial Assets and Liabilities

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed.

	2021			2020		
	Gross amount Rs.	Amount subject to netting but do not qualify for offsetting Rs.	Net amount Rs.	Gross amount Rs.	Amount subject to netting but do not qualify for offsetting Rs.	Net amount Rs.
Financial Assets						
Securities sold under repurchase agreements	9,204,000	-	9,204,000	87,413,631	-	87,413,631
	9,204,000	-	9,204,000	87,413,631	-	87,413,631

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42.4.5 Analysis of Risk Concentration

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

As at 31 March 2021	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalent	-	-	-	-	-	-	-	-	219,256,527	-	-	219,256,527
Financial Investment at amortised Cost	-	-	-	-		-	-	-	662,295,154	-	-	662,295,154
Financial assets at amortised Cost - Loans and Receivables	14,940,453	18,278,516	55,117,860	1,096,202,052	284,008,663	10,405,537	38,282,400	-	-		451,866,989	1,969,102,470
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	-	-	-	-	-	-	-	-	-	-	336,747,406	336,747,406
Other Financial Assets	-	-	-	-	-	-	-	-	-	-	7,763,678	7,763,678
Financial Assets Measured at Fair value through Profit or Loss	-	-	-	-	-	-	-	-	100,463,534	-	-	100,463,534
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	-	315,813	-	-	315,813
Allowance for Impairment												(285,067,056)
Total	14,940,453	18,278,516	55,117,860	1,096,202,052	284,008,663	10,405,537	38,282,400	-	982,331,028	-	796,378,073	3,010,877,526

As at 31 March 2020	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and bank balances	-	-	-	-	-	-	-	-	138,048,368	-	-	138,048,368
Financial Investment at amortised Cost	-	-	-	-		-	-	-	338,379,679	-	-	338,379,679
Financial assets at amortised Cost - Loans and Receivables	-	-	39,059,275	867,832,875	238,796,195	-	6,256,065	-	-	71,089,025	677,069,305	1,900,102,740
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	-	-	-	-	-	-	-	-	-	-	499,974,355	499,974,355
Other Financial Assets	-	-	-	-	-	-	-	-	-	-	10,217,388	10,217,388
Financial Investments	-	-	-	-	-	-	-	-	315,813	-	-	315,813
Allowance for Impairment												(589,043,225)
Total	-	-	39,059,275	867,832,875	238,796,195	-	6,256,065	-	476,743,860	71,089,025	1,187,261,048	2,297,995,118

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42.5 Interest Rate Risk

Interest Rate Risk is the potential negative impact on the Net Interest Income and it refers to the vulnerability of an institution's financial condition due to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken.

The fluctuation of interest rates is an external factor which is beyond the control of the Company. Though the Company is affected by movements in interest rates to the extent that its asset / liability mismatches gives rise to interest paying liabilities being re-priced faster than its interest earning assets. This in turn affects Net Interest income and Net Interest Yields.

Management of Interest Rate Risk

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing brands. ALCO is the monitoring body for compliance with these limits and assisted by Finance Department. Monitoring includes changes in the Company's interest rate exposures, which include the impact of the Company's outstanding or forecast debt obligations. Management of interest rate risk aims at capturing the risks arising from the maturity and re-pricing.

Asset liability management encompasses the complete set of techniques used to manage interest rate risk within the broad risk management framework. Interest rate risk analysis is almost always based on simulating movements in one or more yield curve. The strategy of the Company is not to eliminate risk, but to maintain the same within pre-determined acceptance levels.

In setting the Tolerance levels for Interest rate risk, the following metrics are used.

- Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.
- Setting the proportion of Variable Rated Borrowing's within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.

42.5.1 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Income Statement & Equity.

Rs'000			
Currency of Borrowings/ Advance	Increase (Decrease) in basis points	Sensitivity of Profit or Loss	Sensitivity of Equity
	2021	2021	2021
Long Term Loans linked to AWPLR	1/ (-1)	1461/(1461)	0.07%
	0.5 / (0.5)	730.5/(730.5)	0.03%
	0.25 / (0.25)	365.25/(365.25)	0.02%

The base ratio considers in the Interest Rate Sensitivity Analysis is the existing Loan rates. Since only 28%(2020-95.23%) of total borrowings are linked to AWPLR, the above sensitivity ratio indicates the impact on Income Statement and to Equity, due to changes in the Average Weighted Prime Lending Rate.

42.5.2 Interest Rate Risk

Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorised by the earlier of contractual reprising or maturity dates.

As at 31 March 2021	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Financial Assets							
Cash and cssh Equivalants	197,104,416	-	-	-	-	21,402,752	218,507,168
Financial Investment at amortised Cost	284,206,643	378,088,511	-	-	-	-	662,295,154
Financial Investment at amortised Cost-Loans and Receivable	334,582,201	707,754,728	611,315,088	266,899,201	48,551,252	-	1,969,102,470
Lease receivables & Hire Purchase	34,292,194	88,556,668	126,124,517	87,774,027	-	-	336,747,406
Other Financial Assets	-	-	-	-	-	7,763,678	7,763,678
Financial Assets Measured at Fair value through Profit or Loss	100,463,534	-	-	-	-	-	100,463,534
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	-	315,813	315,813
Total Financial Assets	950,648,988	1,174,399,907	737,439,605	354,673,229	48,551,252	29,482,243	3,295,195,224
Financial Liabilities							
Due to Bank	154,167	69,961,423	-	448,298,950	-	-	518,414,541
Due to customers	422,570,786	310,011,381	9,753,913	89,247,848	-	-	831,583,929
Other Financial Liabilities	-	-	-	-	-	175,135,322	175,135,322
Total Financial Liabilities	422,724,953	379,972,805	9,753,913	537,546,798	-	175,135,322	1,525,133,792
Interest Sensitivity Gap	527,924,036	794,427,102	727,685,692	(182,873,569)	48,551,252	(145,653,079)	1,770,061,432

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As at 31 March 2020	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Financial Assets							
Cash and csh Equivalants	126,119,142	-	-	-	-	11,929,227	138,048,369
Financial Investment at amortised Cost	330,984,936	7,394,744	-	-	-	-	338,379,680
Financial Investment at amortised Cost-Loans and Receivable	643,824,270	439,717,009	406,793,006	51,720,088	89,134,721	-	1,631,189,094
Lease receivables & Hire Purchase	43,181,765	40,276,594	85,851,111	11,094,604	15,204	-	180,419,278
Other Financial Assets	-	-	-	-	-	10,217,388	10,217,388
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	-	315,813	315,813
Total Financial Assets	1,144,110,113	487,388,347	492,644,117	62,814,692	89,149,925	22,462,428	2,298,569,621
Financial Liabilities							
Due to Bank	7,101,780	2,527,778	139,514,248	322,757,900	-	-	149,143,800
Due to customers	568,688,009	313,974,182	13,530,582	116,042,870	-	-	1,012,235,644
Other Financial Liabilities	-	-	-	-	-	126,255,481	126,255,481
Total Financial Liabilities	575,789,789	316,501,960	153,044,830	438,800,770	-	126,255,481	1,287,634,925
Interest Sensitivity Gap	568,320,324	170,886,386	339,599,287	(375,986,078)	89,149,925	(103,793,054)	1,010,934,696

42.6 Liquidity Risk

Liquidity is generally defined as the ability of a financial institution to meet its debt obligations without incurring unacceptably large losses. Liquidity risk refers to the non-availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments.

An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causing counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

Management of Liquidity Risk

The Company's risk for managing liquidity risk and oversight of the implementation is administered by ALCO. Finance Department manages the Company's liquidity position on a day to day basis.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. A key element of these systems is monitoring and assessing the firm's current and future fund requirement including debt obligations and planning for any unexpected funding needs, regardless of whether they arise from firm-specific factors, or from systemic (economy-wide) factors.

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The key elements of the Company's liquidity strategy are as follows.

Company assesses available lines of credit, GAP analysis and volatile liability dependency ratio in order to assess the liquidity risk. In setting the Tolerance levels for Liquidity risk, the following metrics are used.

- Available Lines of Credit (reckoned in months of new lending) to be set at a level equal to future lending targets. Further the maturities of the available lines of credit are matched with the average lending maturities.
- Cumulative Gaps as a % of Cumulative maturing Liabilities to be set in accordance with industry norms as well as considering re-pricing risks associated with maturing assets and liabilities.
- Volatile Liability Dependency ratio to be set at a level that does not affect short term liquidity and re-pricing risks (Interest bearing liabilities maturity within 01 year as a percentage of total lending assets).

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more sensitive market conditions.

Management of the Company maintaining a stable liquidity position even during this challenging period due to COVID 19 outbreak and closely monitoring the position on daily basis and taking necessary measures to ensure the safeguard of the entity. The company introduced more rigour to the processes already in place to manage its liquid assets. These actions taken will help to maintain suitable liquidity position while ensuring the interest of company's stakeholders despite of disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

42.6.1 Statutory Liquid Asset Ratio

Statutory Liquid Asset Calculation is performed based on the following calculations as prescribed in section 2, 3 & 4 of the Finance Companies (Liquid Assets) Direction No.04 of 2013 and Diretion No.07 of 2020.

The Company's liquid asset ratio is 35.33% of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per section 4 of the said direction). Liquid assets are maintained with Sri Lanka Government securities.

NOTES TO THE FINANCIAL STATEMENTS

42. RISK MANAGEMENT (CONTD...)

42.6.2 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

The table below summarizes the maturity profile of the undiscounted cash flows of the Companies financial assets and liabilities as at 31 March 2021. The estimated maturity profiles of undiscounted cash flows may differ, due to Covid-19 related events.

As at 31 March 2021	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and cash equivalants	219,260,284	-	-	-	-	219,260,284
Financial Investment at amortised Cost	285,436,482	398,633,726	-	-	-	684,070,208
Financial assets at amortised Cost - Loans and Receivables	466,523,600	991,386,654	879,566,107	378,595,806	68,869,821	2,784,941,988
Lease receivables & Hire Purchase	50,491,249	130,102,984	187,948,543	127,978,495	-	496,521,271
Other Financial Assets	7,763,678	-	-	-	7,763,678	15,527,356
Financial Assets Measured at Fair value through Profit or Loss	100,484,219	-	-	-	-	100,484,219
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Financial Assets	1,129,959,512	1,520,123,363	1,067,514,650	506,574,301	76,949,312	4,301,121,139
Financial Liabilities						
Due to bank	46,442,299	170,627,987	241,091,392	83,197,226	-	541,358,904
Due to customers	425,082,179	327,523,767	12,094,852	124,946,987	-	889,647,786
Other Financial Liabilities	4,803,669	18,999,419	132,678,252	12,064,350	15,726,682	184,272,373
Total Financial Liabilities	476,328,147	517,151,173	385,864,497	220,208,563	15,726,682	1,615,279,063
Net Financial Asset/Liabilities	653,631,365	1,002,972,190	681,650,153	286,365,738	61,222,630	2,685,842,077

As at 31 March 2020	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and cash equivalants	138,583,419	-	-	-	-	138,583,419
Financial Investment at amortised Cost	337,986,433	7,190,084	-	-	-	345,176,516
Financial assets at amortised Cost - Loans and Receivables	688,226,113	802,115,100	708,342,005	257,121,779	60,612,109	2,516,417,106
Lease receivables & Hire Purchase	49,257,324	68,020,054	122,691,515	37,210,184	56,271	277,235,348
Other Financial Assets	417,574	-	-	-	9,799,814	10,217,388
Financial Investment as Fair Value through Other Comprehensive Income		-	-	-	315,813	315,813
Total Financial Assets	1,214,470,862	877,325,238	831,033,521	294,331,963	70,784,006	3,287,945,591
Financial Liabilities						
Due to bank	-	13,000,000	292,000,000	393,000,000	-	698,000,000
Due to customers	568,688,009	313,974,182	13,530,582	116,042,870	-	1,012,235,643
Other Financial Liabilities	-	-	-	-	9,213,410	9,213,410
Total Financial Liabilities	568,688,009	326,974,182	305,530,582	509,042,870	9,213,410	1,719,449,053
Net Financial Asset/Liabilities	645,782,853	550,351,056	525,502,939	(214,710,906)	61,570,596	1,568,496,537

NOTES TO THE FINANCIAL STATEMENTS

43. MATURITY ANALYSIS

An analysis of interest bearing assets and liabilities based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is as follows. The estimated maturity profiles may differ, due to Covid-19 related events.

As at 31 March 2021	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Assets						
Cash and bank balances	218,507,168	-	-	-	-	218,507,168
Financial Investment at amortised Cost	284,206,643	378,088,511	-	-	-	662,295,154
Financial assets at amortised Cost - Loans and Receivables	334,582,201	707,754,728	611,315,088	266,899,201	48,551,252	1,969,102,470
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	34,292,194	88,556,668	126,124,517	87,774,027	-	336,747,406
Other Financial Assets	-	-	-	-	7,763,678	7,763,678
Financial Assets Measured at Fair value through Profit or Loss	100,463,534	-	-	-	-	100,463,534
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Assets	972,051,740	1,174,399,907	737,439,605	354,673,229	56,630,743	3,295,195,224
Liabilities						
Due to bank	154,167	69,961,423	-	448,298,950	-	518,414,541
Due to customers	423,104,367	310,011,381	9,753,913	88,714,267	-	831,583,929
Other Financial Liabilities						-
Total Liabilities	423,258,534	379,972,805	9,753,913	537,013,217	-	1,349,998,470

As at 31 March 2020	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Assets						
Cash and bank balances	138,048,368	-	-	-	-	138,048,368
Financial Investment at amortised Cost	330,984,936	7,394,744	-	-	-	338,379,679
Financial assets at amortised Cost - Loans and Receivables	643,824,270	439,717,009	406,793,006	51,720,088	89,134,721	1,631,189,093
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	43,181,765	40,276,594	85,851,111	11,094,604	15,204	180,419,278
Other Financial Assets	-	417,574	-	-	9,799,814	10,217,388
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Assets	1,156,039,339	487,805,921	492,644,117	62,814,692	99,265,552	2,298,569,619
Liabilities						
Due to bank	7,101,780	2,527,778	139,514,248	322,757,900	-	471,901,706
Due to customers	568,688,009	313,974,182	13,530,582	116,042,870	-	1,012,235,643
Other Financial Liabilities	-	126,255,479	-	-	-	126,255,481
Total Liabilities	575,789,789	442,757,440	153,044,830	438,800,770	-	1,610,392,830

NOTES TO THE FINANCIAL STATEMENTS

44. COMMITMENTS AND CONTINGENCIES

	2021					2020				
	Rs.					Rs.				
	On Demand	With in 01 year	1-5 years	More than 5 years	Total	On Demand	With in 01 year	1-5 years	More than 5 years	Total
Commitments										
City Finance Deposits (Note)	80,263,540	-	-	-	80,263,540	92,762,435	241,811,835	-	-	334,574,270
	80,263,540	-	-	-	80,263,540	92,762,435	241,811,835	-	-	334,574,270

In addition to that, the company has given Letter of gurantees to its customers amounting to 58.1 Mn

44.1 Capital Commitments
The Company has no commitments for acquisition of Property, Plant & Equipment and Intangible assets incidental to the ordinary course of business.

44.2 Litigation Filed by the Company/ against the Company
Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending litigation against the Company as at 31 Mar 2021 which would have a material impact on the Financial Statements.

45. EVENTS AFTER THE REPORTING PERIOD
As the third wave of COVID-19 pandemic evolves, governments are implementing additional measures to address the resulting public health issues and the economic impact. To meet the additional challenges, we supplemented our existing approach to risk management with additional tools and practices. We increased our focus on the quality and timeliness of the data used to inform management decisions, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and other key stakeholders.Company will continues to monitor the COVID-19 situation and will take further action as necessary in response to the economic disruption.

Other than above, no circumstances have arisen subsequent to the reporting date which would require adjustment to or disclosure in the Financial Statements.

46. RELATED PARTY TRANSACTIONS
The Company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with the parties who are defined as Sri Lanka Accounting Standard No.24 Related Party Disclosure, details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

46.1 Parent and Ultimate Controlling Party
The Company is 83.76% owned by LCB Limited. Hence, LCB Limited is the parent company and the ultimate controlling party.

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46.1 Transactions with Key Managerial Personnel
According to Sri Lanka Accounting Standard-LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition a person cannot be considered as a KMP unless such person has both the authority and responsibility to carry out all of the three activities mentioned in the above definition(i.e. planning, directing and controlling the activities of the entity).Such KMPs include the Board of Directors of the Company, Managing Director and the KMPs of the Lanka Credit and Business Finance Ltd.

	2021/2020	2020/2019
	Rs.	Rs.
Short Term Employee Benefits		
Remuneration and other expenses of directors	6,450,000	4,840,000
Total	6,450,000	4,840,000

46.2 Transactions, Arrangements and Agreements Involving KMP and their Close Family Members (CFMs)
46.2.1 Loans and Advances Granted to KMPs are Detailed Below.

	31-Mar-21	31-Mar-20
	Rs.	Rs.
Loans granted during the year	10,000,000	137,562,527
Loans held at the end of the year	39,707,075	102,212,527
Interest receivable on loan	638,192	-
Interest received on Loans	1,329,599	7,302,376

46.2.2 Deposits and Borrowings from KMPs are Detailed Below.

	31-Mar-21	31-Mar-20
	Rs.	Rs.
Term/Savings deposits accepted during the year	29,000,000	5,490,246
Term/Savings deposits held at the end of the year	99,998,955	6,570,444
Interest payable on Term/Savings deposits	212,478	-
Interest paid on Term/Savings deposits	6,002,418	375,047

No borrowing through debt instruments were made or no investments were made by key management personnel during the year 31 Mar 2021. (31 March 2020- Nil)

NOTES TO THE FINANCIAL STATEMENTS

46. RELATED PARTY TRANSACTIONS (CONTD..)
46.3 Transactions, Arrangements and Agreements Involving with Related Entities of KMPs
46.3.1 Due from Related party

	31-Mar-21 Rs.	31-Mar-20 Rs.
Lanka Credit and Business Ltd	7,585,645	7,751,888
Provision	(7,585,645)	-
	-	7,751,888

The detailed movement of the transactions made with the Lanka Credit and Business Ltd is shown below

The transactions made with the Parent Company is as follows.

	31-Mar-21 Rs.	31-Mar-20 Rs.
Cash Investments made during the year	460,369,700	140,000,000
Expences incured by LCB Finance Company Limited on behalf of the parent.	-	-
Total Assets transferred	-	-
Total Liabilities transferred	-	-
Net assets Transferred from LCB Limited	-	-

47. CAPITAL

The Company maintains an activity managed capital basis 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.

Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

Regulatory Capital

The Company manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka(CBSL)sets and monitors capital requirements for licensed finance companies. Accordingly finance companies in Sri Lanka need to maintain a minimum total capital adequacy ratio of 11% and a minimum core capital adequacy ratio (Tier I) of 7%.The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.

LCB Finance Company Limited is in compliance with the minimum core capital set requirement out in terms of Section 2.1 of Finance Business Act Direction No. 02 of 2017 following the decision by CBSL to defer the requirement of Rs 2.0 Bn until 31.03.2021 through its letter. However the company fulfilled this regulatory requirment by 28th February 2021.

INVESTOR INFORMATION

SHARE HOLDER BASE

The Total Number of Ordinary voting shares 665,168,780 as at 31st March 2021

TOP 20 SHAREHOLDERS
Lanka Credit and Business Finance Ltd- As at 31 March 2021

	Shareholder Name	Number of shares	Shareholding %
1	Lanka Credit Business Limited	557,735,501	84%
2	Helios Ventures (Private) Limited	44,000,000	7%
3	Invest Lanka Investments (Private) Limited	10,000,000	2%
4	People's Leasing & Finance PLC	5,000,000	1%
5	Aspic Corporation Limited	2,440,228	0%
6	Mr.L.G.Indika Pushpa Kumara	375,000	0%
7	Mr.P.D.Kamal Asanka Gunawardana	375,000	0%
8	Mr.Agulugaha Gamage Ranjith Kumara	625,000	0%
9	Ms.K.I.Dammika	625,000	0%
10	Mr.Liyanage Gamage Nadee Dileep	750,000	0%
11	Athururigiya South Sanasa	1,250,000	0%
12	C.Weerasinghe	1,250,000	0%
13	Mr.K.D.Jayasundara	1,250,000	0%
14	Mr.Dangamuwa Nalin Dhammika Kumarasiri	1,250,000	0%
15	Mr.Muthuhetti Gamage Shashika Lakshan	1,250,000	0%
16	Mr.Don Edward Welikala	1,250,000	0%
17	Ranasinghe Aratchilage Wijeratne	1,755,000	0%
18	Mr.Angulugaha Gamage Lasath Namal Gamage	2,500,000	0%
19	Mr.Lalith Elabada Liyanage	2,500,000	0%
20	Mr.Bamunu Arachchige Dayanath Ranjan Dissanayake	4,750,000	1%
	Others	24,238,051	4%
	Total	665,168,780	100%

CAPITAL ADEQUACY

Capital Adequacy is one of the Key measures which shows the financial strength and the stability of a finance company. By having a healthy capital adequacy ratio, LCB Finance Limited can create confidence among its investors and create a positive image among prospective investors. Central bank of Sri Lanka issued a new direction (Finance Business Act Direction No. 03 of 2018) to be effect from 01st July 2018. New Capital adequacy framework has introduced a more risk sensitive approach covering credit risk and operational risk. Market risk was not considered under this framework because the sector exposure to market risk was considered to be minimal.

In accordance with Finance Business Act Direction No. 03 of 2018, every finance company shall at all times maintain the minimum capital adequacy ratios of Tier I - 7% and Tier II - 11% in relation to total risk weighted assets. Tier I, Tier II and Risk weighted assets are defined under this new capital adequacy framework as follows.

TIER I -CORE CAPITAL

Tier I capital represents core capital of the company. Core capital includes shareholder's equity and reserves.

$$\text{Tier I Ratio} = \frac{\text{Tier I Capital}}{\text{Total Risk Weighted Amount}}$$

TIER II-SUPPLEMENTARY CAPITAL

Tier II capital represents supplementary capital such as instruments containing characteristics of equity and debt, revaluation gains and general provisioning/impairment allowances.

$$\text{Total Capital ratio} = \frac{\text{Total Capital}}{\text{Total Risk Weighted Amount}}$$

RISK WEIGHTED ASSETS

Risk weighted assets are a measure of company's assets and off balance sheet exposures, weighted according to their risks, with each asset class assigned a different risk weightage.

As at 31 March 2021, the Company maintained a Tier I ratio of 56.43% and a Tier II ratio also 56.43% because LCB Finance has no any debt capital as at 31 march 2021 .Finaly Tier 1 ratio is above the minimum regulatory requirements (Tier I - 7%) set by CBSL.

Item	Amount Rs "000"
Tier 1 Capital	2,062,155
Total Capital	2,062,155
Total Risk Weighted Amount	3,654,183
Risk Weighted Amount for Credit Risk	3,123,917
Risk Weighted Amount for Operational Risk	530,266
Tier 1 Capital %	56.43%
Total Capital Ratio %	56.43%

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GLOSSARY OF TERMS

A

ACCOUNTING POLICIES
Principles, bases, conventions, rules and practices that are applied in recording transactions and in preparing and presenting Financial Statements.

ACCRUAL BASIS
The system of accounting wherein revenue is recognised at the time it is earned and expenses at the time they are incurred, regardless of whether cash has actually been received or paid out.

ALLOWANCE FOR IMPAIRMENT
A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

AMORTIZED COST
The systematic allocation of the depreciable amount of an intangible asset over its useful life. The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any deduction (directly or through the use of an allowance account) for impairment or uncollectability.

ASSET AND LIABILITY COMMITTEE (ALCO)
The committee that is responsible for managing assets and liabilities of the Company.

AVERAGE WEIGHTED DEPOSIT RATE (AWDR)
AWDR is calculated by the Central Bank on a monthly basis based on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates. Average weighted prime lending rate (AWPLR) is calculated by the Cenral Bank weekly based on commercial bank's lending rates offered to their prime customers during the week.

B

BASIS POINT (BP)
One hundred of a percentage point (0.01 per cent); 100 basis points is 1 percentage points: Used in quoting movements in interest rates or yields on securities.

C

CAPITAL ADEQUACY RATIO
The relationship between capital and risk weighted assets as prescribed by the Central Bank of Sri Lanka.

CASH EQUIVALENTS
Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CASH FLOWS
Inflows and outflows of cash and cash equivalents.

CASH GENERATING UNIT (CGU)
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

COLLECTIVELY ASSESSED IMPAIRMENT
Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

CONTRACTUAL MATURITY
Contractual Maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

COMMERCIAL PAPER (CP)
An unsecured, short-term debt instrument issued by a company, typically for the financing of accounts receivable, inventories and meeting short-term liabilities.

COMMITMENTS
Credit facilities approved but not yet disbursed to the customers as at the date of the Statement of Financial Position.

CONTINGENCIES
A condition or situation existing at reporting date, where the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or nonoccurrence of one or more uncertain future events.

CORPORATE GOVERNANCE
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and other stakeholders.

COST METHOD
A method of accounting where by the investment is recorded at cost. The income statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee rising subsequent to the date of acquisition.

COST/INCOME RATIO
Operating expenses excluding impairment charge as a percentage of net operating income (net of interest expenses).

CREDIT RATINGS
An evaluation of a corporate's ability to repay its obligation or the likelihood of non-defaulting, carried out by an independent rating agency.

CREDIT RISK
Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

GLOSSARY OF TERMS

CUSTOMER DEPOSITS
Money deposited by account holders. Such funds are recorded as liabilities.

D

DEFERRED TAXATION
Sum set aside for income tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

DEPRECIATION
The systematic allocation of the depreciable amount of an asset over its useful life.

DERECOGNITION
Removal of a previously recognised financial asset or liability from an entities Statement of Financial Position.

DISCOUNT RATE
A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value

E

EARNINGS PER SHARE (EPS)
Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.Indicates the proportion of current year's earnings attributable to an ordinary share in issue.

EFFECTIVE INTEREST RATE (EIR)
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

EFFECTIVE TAX RATE
Provision for taxation including deferred tax divided by the profit before taxation.

EQUITY METHOD
This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post- acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's shareof the profit or loss and other comprehensive income of the investee.

EVENTS AFTER THE REPORTING PERIOD
Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

EXPOSURE
A claim, contingent claim or position which carries a risk of financial loss.

EQUITY INSTRUMENT
Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities

EQUITY
Total of shareholders' funds: share capital + statutory reserves + other reserves.

EXPECTED CREDIT LOSS
The amount expected to be lost on an exposure over the life of the asset. ECL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

EXPOSURE AT DEFAULT
A claim, contingent or position which carries a risk of financial loss.

F

FAIR VALUE
The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FAIR VALUE THROUGH PROFIT OR LOSS
A financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as fair value through profit or loss.

FINANCE LEASE
A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers all risks and rewards of the ownership to the lessee.

FINANCIAL ASSET
Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

FINANCIAL LIABILITIES
A contractual obligation to deliver cash or another financial asset to an other entity.

G

GLOBAL REPORTING INITIATIVE (GRI)
GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisation to become more sustainable and contribute to sustainable development.

GEARING
Long-term borrowings divided by the total funds available for shareholders.

GOING CONCERN
The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the forseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its opeartions.

GROSS DIVIDEND
The portion of profits distributed to the shareholders including the tax with held.

GUARANTEES
A promise made by a third party (Guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual Obligations.

H

HIRE PURCHASE
A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I

IMPAIRMENT
The value of an asset when the recoverable amount is less than its carrying amount.

IMPAIRED LOAN
Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

IMPAIRMENT ALLOWANCE FOR LOAN AND RECEIVABLE
Amount set aside against possible losses on loans, lease rentals and advances as a result of such facilities becoming partly or wholly uncollectible.

INDIVIDUALY ASSESSED IMPAIRMENT
When the impairment is measured on an individual basis for non- homogeneous groups of lending facilities that are considered as individually significant.

INTANGIBLE ASSETS
An intangible asset is an identifiable non-monetary asset without physical substance.

INTEGRATED REPORTING
A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long- term in its economic, social and environmental context

INTEREST COVER
Earnings before interest and taxes for the year divided by total interest expenses. This provides the number of times interest expenses is covered before interest and tax; the ability to cover interest expenses.

INTERST IN SUSPENSE
Interest suspended on non-performing accommodations. (Leases, hire purchases, loans and other advances)

INTEREST MARGIN
Net interest income expressed as a percentage of average total assets.

INTEREST RATE RISK
The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.

INTERST SPREAD
The difference between the average yield a financial institution receives from loans and other interest-accruing activities and the average rate it pays on deposits and Borrowings.

INVSTMENT PROPERTIES
Property (land or a building – or part of a building – or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

INVESTMENT SECURITES
Securities acquired and held for yield and capital growth purposes which are usually held to maturity.

K

KEY MANAGEMENT PERSONNEL (KMP)
People having authority and responsibility for planning, directing and controlling the activities of an entity, either directly or indirectly. (The Board of Directors and Corporate Management).

L

LIQUID ASSETS
Assets that are held in cash or can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills and Bonds.

LIQUIDITY RISK
The risk that an entity will encounter due to difficulty in meeting obligations associated with financial liabilities.

LOANS PAYABLE
Loan payable are financial liabilities, other than short-term trade payable on normal credit terms.

LOANS AND RECEIVABLES
Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

LOSS GIVEN DEFUALT
The estimated ratio (percentage) of the loss of an exposure to the amount outstanding at default upon default of counter party.

LOAN TO VALUE RATIO (LTV)
The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower

M

MARKET CAPITALISATION
Number of ordinary shares in issue multiplied by the market value of a share as at date.

MARKET RISK
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates,credit spreads and other asset prices.

MATERIALITY
The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

GLOSSARY OF TERMS

N

NET ASSETS VALUE PER SHARE (NAV)
Total net asset value of a Company divided by the total number of ordinary shares in issue.

NET INTERST INCOME
Difference between revenue generated from interest bearing assets and interest incurred on interest bearing liabilities.

NET INTERST MARGIN (NIM)
Net interest income as a percentage of average assets.

NON PERFORMING LOANS/ADVANCES (NPL)
A sum of borrowed money upon which the debtor has not made scheduled payments above 180 days.

NPL RATIO
Total Non-Performing Accommodations (net of interest in suspense and other adjustments) divided by total accommodations (net of interest in suspense and other adjustments).

O

OPERATIONAL RISK
The losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P

PARENT
An entity that controls one or more subsidiaries.

PROBABILITY OF DEFULT (PD)
The probability that an obligor will default on an obligation within a given period of time.

PROJECTED UNIT CREDIT METHOD (PUC)
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro-rated on service or as the benefit/ years of service method).
Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

PROVISION
The amount of an expense that an entity elects to recognize now, before it has precise information about the exact amount of the expense.

R

RELATED PARTIES
Parties where one party has the ability to control the other party or exercise a significant influence over the other party in making financial and operating decisions, directly or indirectly.

RELATED PARTY TRANSACTION
Is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged or not.

REPURCHASE AGREEMENT
Contracts to sell and subsequently repurchase securities at a specified price at a specified future date.

RETURN ON AVERAGE ASSETS (ROA)
Profit before tax divided by total average assets.

RETURN OF EQUITY
Profit after tax divided by total average equity.

RISK WIGHTED ASSET
On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by relevant factors weighted by risk.

S

SHAREHOLDERS' FUND
This consists of issued and fully paid up ordinary shares and reserves.

STATUTORY REVERSE FUND
A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 01 of 2003.

SPECIFIC IMPAIRMENT PROVISION
Impairment is measured individually for loans that are individually significant to the Company.

T

TIER I CAPITAL - CORE CAPITAL
Representing permanent shareholders' equity (paid-up shares) and reserves created or increased by appropriations of retained earnings or other surplus, i.e., retained profits and other reserves.

TIER II CAPITAL
Supplementary capital representing revaluation reserves, general provisions and debt instruments such as subbordinated term debts and other hybrid capital instruments which combine certain characteristics of equity and debt.

U

USEFUL LIFE
Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity

V

VALUE ADDED
Value of wealth created by providing financial and other related services less the cost of providing such services. The value added is allocated among employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y

YEILD
Rate or return on an investment in percentage terms taking into account annual income.

FORM OF PROXY

I/We.. of
....being a Shareholder/s* of the above named Company,
hereby appoint (1) ....of.. failing him/her.

(2) Prof. W. M. A. Bandara	or failing him
(3) Mr. K. G. Leelananda	or failing him
(4) Mr. S. W. Subasinghe	or failing him
(5) Mr. K. I. Weerasinghe	or failing him
(6) Mr. R. L. Masakorala	or failing him
(7) Mr. U. K. H. R. Ranasinghe	or failing him
(8) Mr. A. G. M. Priyantha	or failing him
(9) Mr. V. Lokunarangoda	or failing him
(10) Mr. G. K. Nanayakkara	or failing him
(11) Mr. D. Thotawatte	or failing him
(12) Mr. A. W. Nanayakkara	

as my/our* Proxy to represent me/us* and vote and speak for me/us* on my/our* behalf at the Virtual 59th Annual General Meeting of Lanka Credit and Business Finance Limited to be held on 07th October 2021 at 10.30 am at No. 76, S. De S. Jayasinghe Mawatha, Kohuwela via online platform and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.
I/WE INDICATE MY/OUR VOTE ON THE RESOLUTIONS BELOW AS FOLLOWS;

	For	Against
1. To receive and consider the Annual Report of the Board of Directors together with the Financial Statements of the Company for the year ended 31st March 2021 together with the report of the Auditors thereon.		
2. To consider, and if thought fit, to pass the following as an ordinary resolution: "IT IS HEREBY RESOLVE THAT the age limit referred to in section 210 of the Companies act 07 of 2007 shall not apply to Emeritus Prof. W. M. A. Bandara, who is presently 70 (seventy) years of age and that he be re - elected as a director of the Company for a further period of one year or until the conclusion of the next Annual General Meeting whichever occurs first".		
3. To re-appoint M/s. Earnest & Young Charted Accountants Charted Accountants as the Auditors to the Company for the ensuing year and to authorise the Directors to determine their remuneration.		

Signed this....................................day of 2021.

....
Signature of shareholder

Note:
i) Please delete the inappropriate words.
ii) Instructions for completion of Proxy are noted below.
iii) A proxy need not to be a shareholder of the Company.
iv) Please mark "X" in appropriate cages, to indicate your instructions as to voting.

FORM OF PROXY

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy by filing in legibly your full name, National Identity Card/ Passport/ Company Registration Number, your address and your instructions as to voting and by signing in the space provided and filing in the date of signature. Please ensure that all details are legible.
2. Please mark "X" in appropriate cages, to indicate your instructions as to voting on each resolution. If no indication is given, the Proxy holder in his/her discretion will vote as he/her thinks fit.
3. To be valid, the completed Form of Proxy must be deposited at No.59, Gregory's Road, Colombo 07 or email to prsecs@gmail.com not less than 48 hours before the time appointed for the holding of the meeting (Between 8.30 a.m. to 4. 30 p.m.)
4. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your Proxy, please insert the relevant details (1) overleaf and initial against this entry.
5. In the case of a Company/Corporation, the Proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by Articles of Association/ Act of Incorporation.
6. In the case of a Proxy signed by an Attorney, a certified copy of the Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

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LCB Finance LTD
No. 76, S. De. S. Jayasinghe Mw, Kohuwala, Srilanka.
Tel: +94 11 28 25 404 / +94 11 28 25 406
Email: info@lcbfinance.lk | Web: www.lcbfinance.lk