

STANDING STEADFAST

Making the Right Move at the Right Time



 LB FINANCE

LB Finance PLC | Annual Report 2022/23

STANDING STEADFAST

Making the Right Move at the Right Time

Amid what could only be described as an environment of turbulence and volatility, L B Finance relied on stable principles and a steadfast vision to navigate ever-changing dynamics with expertise, precision and certainty.

Our inherent ability to monitor and remain attuned to our surroundings has enabled us to retain our balance, while remaining responsive and adaptive in the face of change. As in the past, the year under review saw us counter emerging risks and capitalise on opportunities in order to conquer the unknown.

This report outlines how your company relied on time-tested insights, strength and prowess to anticipate what lies ahead, and ride the storm. Read on, to discover how we were able to stand steadfast amid adversity, purely by making the right move at the right time.

Surfers rely on a combination of physical skills and an unerring awareness of an ever-changing environment to rise above adversity. Years of experience enables them to cultivate a strong sense of balance and an ability to rapidly respond to changing dynamics, and remain steadfast in the face of chaos.

BRaille PAGE

In this report, you will find a page in Braille, which is a nod to inclusivity from our brand, providing a holistic assessment of the Company's ability to create value in the short, medium and long term. People who are differently challenged can be a part of this unique feature. We are a non-judgemental entity that believes in our requirements to mould and shape the society around us.

LETTER TO STAKEHOLDERS

Dear Stakeholders,

It was over five decades ago, that we set out to build socially responsible businesses that would focus on safeguarding the financial well-being of people and communities by encouraging them to make informed financial decisions. Guided by this core purpose, our operations in Sri Lanka and Myanmar have had a positive impact on over 800,000 lives.

At LB Finance (LBF), we think like pioneers. We stay vigilant about emerging trends in technology, especially in the fin-tech space. It is how we tackle disruption and lead by example in transforming financial services that will stand out for their ability to create bespoke, fully integrated experiences for our customers, employees, and other stakeholders. The “Overview of LB” section provides an overview of LBF encapsulating the essence of WHO we are, WHAT we do across our primary markets, WHY we are in business, and HOW we operate.

As a business, we continue to strive for excellence in everything we do. This includes constantly aligning with global best practices in all aspects of our business including reporting. The section titled “About our Integrated Report” explains the reporting frameworks adopted by LBF to disseminate information in a structured way to fulfill the information requirements of our various stakeholders.

Value creation aspects contains key thoughts of the management, followed by a comprehensive assessment of performance against short, medium, and long-term strategies, a snapshot of risks and opportunities, operating environment, resource allocation and trade-offs, stakeholders and material matters.

The penultimate chapter of the report contains an overview of our corporate governance and risk management practices, before concluding with the financial and any other supplementary information.

We appreciate the time it takes to read this report and strive to ensure the content included provides you with a good understanding of how we are living up to our core purpose in the markets where we operate. Also included at the end of this report is a special segment describing how we have matched our content elements to the guiding principles of the International <IR> Framework.

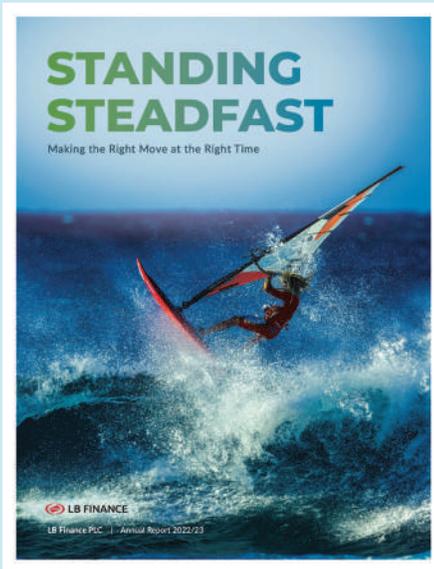


GARD Prasanna
Chairman

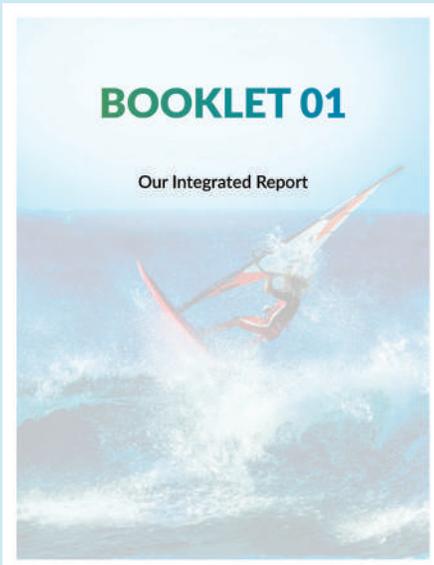


JAS Sumith Adhietty
Managing Director

CONTENTS



Letter to Stakeholders	1
First Time in Sri Lanka	4
Innovation Continues	6



Our Vision, Mission, Goal and Values	9
How to Read this Report	10
About Our Integrated Report 2022/23	12
Financial Highlights	18
Non-Financial Highlights	20

MANAGEMENT DISCUSSION AND ANALYSIS

THE RIGHT STRATEGY AT THE RIGHT TIME

Strategic Journey	24
Our Value Creating - Business Model	26
Our Contribution to the Nation	28
Overview of LBF	32
Our Carbon Journey	37
Awards and Accolades	38
Connect with our Stakeholders	40

THE RIGHT VISION AT THE RIGHT TIME

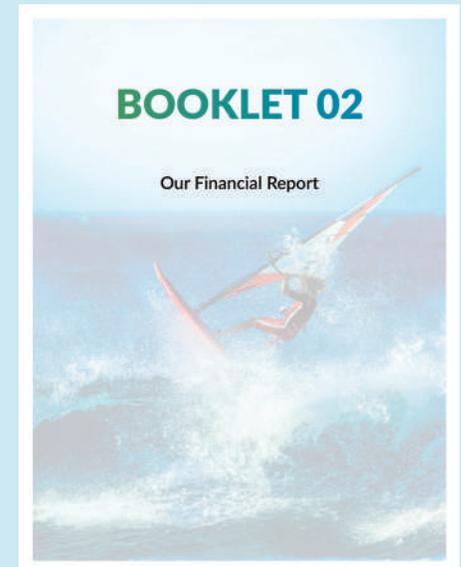
Chairman's Statement	52
Board of Directors	56
Senior Management	62

THE RIGHT EXPERIENCE AT THE RIGHT TIME

Managing Director's Review	66
Our Operating Context	70
Defining Our Material Matters	79
Unpacking Our Strategy	90
Business Review	99
Business Segment Review - Subsidiaries	114
Capital Reports	119
Financial Capital	120
Manufactured Capital	140
Human Capital	148
Intellectual Capital	160
Social and Relationship Capital	170
Natural Capital	192
Managing Key Risks	202
Sustainability at LBF	204

THE RIGHT DIRECTION AT THE RIGHT TIME

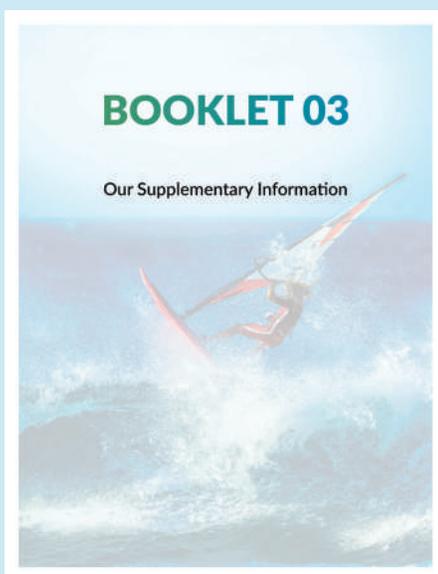
Corporate Governance	210
Annual Report of the Board of Directors on the Affairs of the Company	227
Board Human Resources and Remuneration Committee Report	234
Board Nomination Committee Report	235
Board Audit Committee Report	236
Board Integrated Risk Management Committee Report	239
Board Related Party Transactions Review Committee Report	242



THE RIGHT VALUE AT THE RIGHT TIME

Financial Statement Highlights	246
Financial Calendar	248
Directors' Statement on Internal Control	249
Independent Assurance Report to the Board of Directors	251
Directors' Responsibility for Financial Reporting	252

Independent Auditors' Report	253
Income Statement	257
Statement of Comprehensive Income	258
Statement of Financial Position	259
Statement of Changes in Equity - Company	260
Statement of Changes in Equity - Group	261
Statement of Cash Flows	262
Notes to the Financial Statements	264



THE RIGHT SOLUTIONS AT THE RIGHT TIME

Integrated Risk Management Report	370
Corporate Governance	391
Reporting on Anti-Corruption Programmes	424
Organization Chart	427
IR Assurance Report	428
Decade at a Glance	430
Quarterly Financial Statements	432
Financial Statements in USD	434
List of Abbreviations	437
Glossary of Terms	438
Corporate Information	442
Notice of Annual General Meeting	444
Form of Proxy	445
Feedback Form - Annual Report 2022/23	447



SUSTAINABILITY REPORT 2022/23



Visit our sustainability report 2022/23

First time in Sri Lanka



Discussion on Corporate Governance



Overview of operating environment



Focus on IT and cyber security



Financial performance of the Company



Visit playlist for view podcast videos

PLAYLIST

Our commitments towards Integrated reporting practice

As a part of our ongoing commitment to TAGS (Transparency, Accountability, Governance and Sustainability) we included a short video series to present our commitment in integrated thinking and reporting.



Discussion on integrated thinking



Discussion on integrated reporting practices



Discussion on benefits of integrated reporting practices



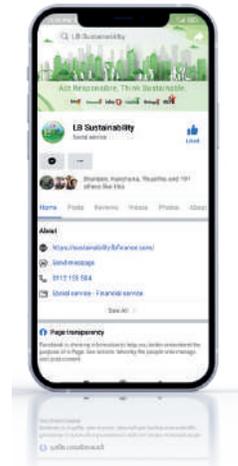
Visit playlist for view podcast videos

PLAYLIST



Dedicated website

for integrated reporting and sustainability information



Dedicated Facebook page

for Integrated reporting and sustainability



Environmental friendly reusable mediums

Using USB drive medium to transfer the information

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

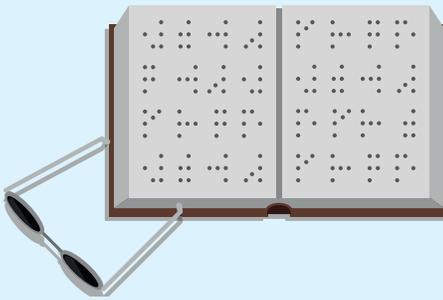
Innovation Continues...

OUR REPORTING JOURNEY

		2019/20	2021/22	2022/23
FIRST TIME IN SRI LANKA	Equity Design Integrated Report			
	• Audio Presentation for visual impaired	✓	✓	✓
	• Colour Separation to reduce colour blind impact	✓	✓	✓
	• Trilingual video to solve the language barriers		✓	✓
	• Comprehensive information for undergraduates or learning partners	✓	✓	✓
	• Introduce Trilingual video presentation of Annual Reports		✓	✓
	• Trilingual Chairperson's Statement and Managing Director's Review	✓	✓	✓
	Voluntary IR checklist for technical reviewers' easy reference of the integrated annual report	✓	✓	✓
	Dedicated website and Facebook page for Annual Report information	✓	✓	✓
	Introduction the Reporting Suits to Simplify the Reports	✓	✓	✓
	Summarised Annual Report snapshot	✓	✓	✓
	Company as a carbon neutral/ Conscious entity 7th Consecutive Year	✓	✓	✓
	SWOT Analysis			
	• Entire Company SWOT Analysis	✓	✓	✓
	• SWOT analysis for each capital	✓	✓	✓
	• Extended SWOT to TOWS Analysis			✓
	Content specialty			
• Value creation score card (stakeholder view and Six capital view)	✓	✓	✓	
• Materiality Impact Matrix and Relationship between material issues		✓	✓	
• Trade off between strategic focus and Six capitals material issues		✓	✓	
• Revamping benefit of six capitals		✓	✓	
• Capital journey for each capital	✓	✓		
• Trade-off between capitals	✓	✓	✓	
• Financial Statement Analysis – Horizontal and Vertical Analysis	✓	✓	✓	
Dedicated Stakeholder survey for the Integrated Report - Conducted by University of Sri Jayewardeneapura	✓	✓	✓	

We provide accessibility to this report through several ways

USER ACCESSIBILITY



Braille Format



Audio Format



Trilingual Format

FOR INVESTORS AND SCHOLARS



An innovative and efficient Excel masterpiece offering a comprehensive ten-year summary for effortless computations



Exposing Industry theories and their applications to the real world



Equipped to Curate Engaging Guest Lectures on Any Subject, Tailored for Informed Decision-Making

BOOKLET 01

Our Integrated Report



OUR VISION, MISSION, GOAL AND VALUES



VISION

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



MISSION

- ▶ To mobilise public funds by innovating investment products that will enhance the value delivered to our depositors
- ▶ To engage in prudent lending to entrepreneurs to assist them in the creation of wealth
- ▶ To use training and career development to create an empowered and committed group of employees who will drive the Company to high levels of achievement
- ▶ To offer a caring and personalised service that will form the foundation for developing lasting partnerships with our stakeholders, employees, and the general public
- ▶ To embark on investments in which results can be clearly assessed and seize new opportunities in the market



GOAL AND VALUES

As a financial services institution, **our goal is to be a major player in the financial services sector in Sri Lanka** and lead the way in finding solutions to the challenges of these key sustainability by developing accessible products and services and driving innovation to promote greater financial inclusion. We are built on a model of excellence and strength that propels us into a future designed for every single stakeholder we serve. Also to further streamline operations and responsibility to all stakeholders by ensuring **our core values; excellence, ethics, transparency, innovation, professionalism, and quality**. We are empowering stakeholders by providing the necessary quality guidance and support to mould a future, maintaining professionalism and corporate citizenship.

Right Solutions

Right Value

Right Direction

Right Experience

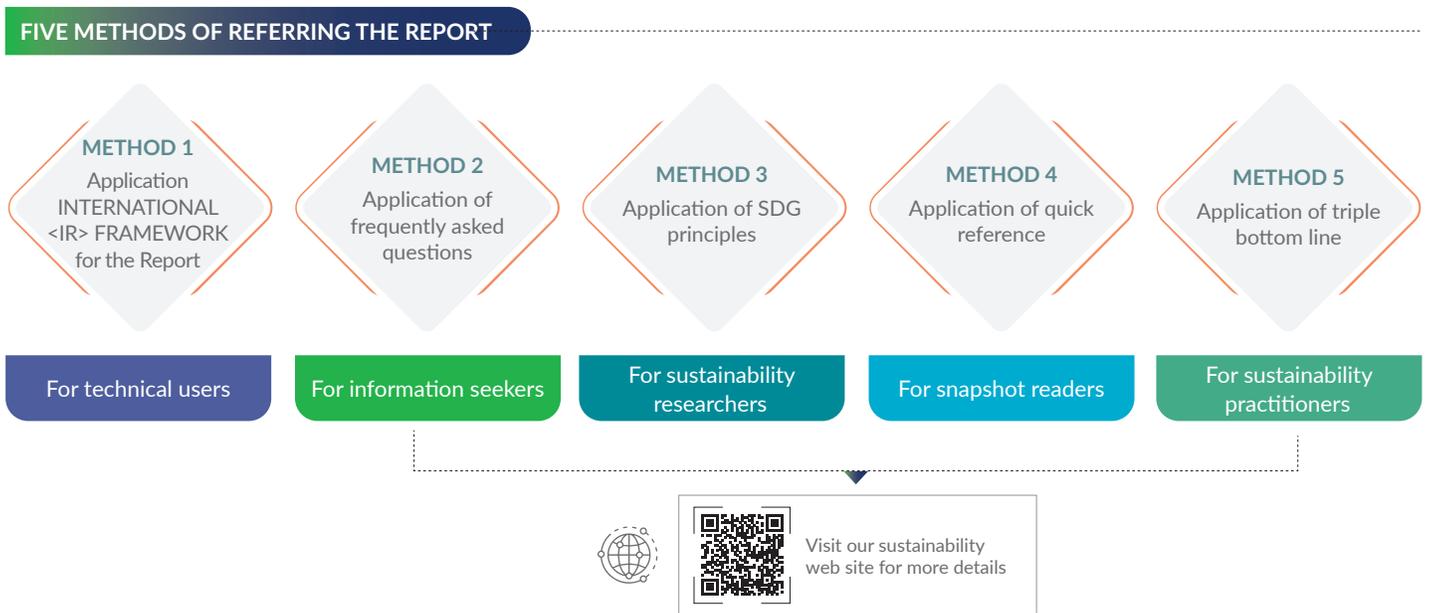
Right Vision

Right Strategy

Introduction

HOW TO READ THIS REPORT

Our integrated report provides a holistic assessment of LB Finance PLC's (LBF) strategic intent in terms of creating value for all of our stakeholders. The report is structured to satisfy the information needs of all our stakeholders and in doing so projects LBF through multiple lenses - as a financial services provider, as an employer, as an innovator, and as a contributor to society as a whole.



METHOD 01

Application INTERNATIONAL <IR> FRAMEWORK for the Report

Inspired by the guiding principles of the reference framework published by the International Integrated Reporting Council (IIRC), this is the 10th Integrated Report by LBF.

1. Guiding Principles				
Strategic focus	An Integrated Report should provide insight into the organisation's strategy and how it relates to the organisation's ability to create value in the short, medium and long term and to its use of and effects on the capitals		This Integrated Annual Report outlines LBF's long-term goal statement and medium-term objectives, as well as the key performance indicators that we track in the near term to ensure that we are meeting our fundamental Mission. Along with the risks and opportunities associated with our market position and regional presence, the report shows how the six capitals contribute to the LBF's capacity to fulfill its long-term strategic goals	
	Our Managing Director review	Our business model	Our strategic roadmap	Our business trade-off
Connectivity of information	An integrated report should show a holistic picture of the combination, inter-relatedness and dependencies between the factors that affect the organisation's ability to create value over time		We have put together this report to tell the story of our value creation by following a logical structure and employing effective navigational tools to do so. In doing so we seek to articulate the connection between the six capitals, our stakeholders, related opportunities and risks and material themes. This approach allows us to better explain what factors impact our ability to create long-term value for our stakeholders.	
	Our value creation business model	Our value creation scorecard - Stakeholder view	Our value creation business model - Capital view	Materiality impact matrix
	Strategic focus making trade off with capital			

Stakeholder relationships	An integrated report should provide insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests.		Our integrated report examines LBF's interactions with its stakeholders, including how we identify and assess the health of these relationships. We give pertinent information on the matters our stakeholder considers to be vitally important, and offer detailed explanations on what we are doing to address these matters.	
	Integrated stakeholder engagement	Our material matters in action	Corporate governance - Chairman's statement	

Right Solutions

Materiality	An integrated report should disclose information about matters that substantively affect the organisation's ability to create value over the short, medium and long term		We have used our best judgment to include only the material stakeholder concerns that we believe may have direct repercussions for LBF or vice versa. The report showcases how these concerns are being systematically identified and incorporated into our strategy and how they cascade into our day-to-day operations.	
	Our material matters in action	Our material matters in action	Risk and opportunities	

Right Value

Right Direction

Conciseness	An integrated report should be concise		Content in this report flows logically between sections to inform stakeholders of LBF's current and future prospects. Cross-referencing has been used to minimise duplication and where relevant additional links have been provided for further reading.	

Right Experience

Consistency and comparability	The information in an integrated report should be presented:		We have made a concerted effort to ensure that the information we report on is comparable from year to year, including the key performance indicators that are used to gauge our success at the business unit and group levels. In addition, we adhere to industry norms and global best practices to improve information consistency and facilitate comparability with peer reports.	
	<ul style="list-style-type: none"> ▶ On a consistent basis over time ▶ In a way, that enables comparison with other organisations to the extent it is material to the organisation's own ability to create value over time 			
	Managing Director's review	Financial highlights	Non-financial highlights	Business line reviews

Right Vision

Right Strategy

Reliability and completeness	An integrated report should include all material matters, both positive and negative, in a balanced way and without material error		Stemming from our commitment to provide timely and accurate information, we have made sure to include both positive and negative impacts and outcomes for FY 2021/22. Our internal and external assurance protocols provide further validation regarding the efficacy of this information. Our Audit Committee also conducts a thorough examination of the report, prior to submission to our Board of Directors for final approval.	
	About the report	External assurance report - Financial	External assurance report - Sustainability and IR	Business model

Introduction

ABOUT OUR INTEGRATED REPORT 2022/23



INTRODUCING OUR 11TH INTEGRATED ANNUAL REPORT

LB Finance PLC (hereinafter referred to as “LBF” or “Company”) prepares and publishes its annual report to inform stakeholders about the Company’s performance and prospects for financial year 2022/23.

For the past 10 years, LBF has published an integrated annual report. The latest report marks the 11th edition of the Company’s integrated reporting journey.

The current integrated annual report and all other previous integrated reports including the most recent past report for the financial year 2021/22 are available for viewing and downloading on our corporate website. - <https://www.lbfinance.com>

UNIQUENESS BEHIND THE REPORT

- ▶ Dissemination of information through an easily understandable content structure
- ▶ Timely, relevant, and high-quality content to satisfy the information needs of business-related stakeholders as well as other relevant stakeholders
- ▶ Use of infographics and other AI-based graphics for a simplified reader experience
- ▶ Digitally-enabled quick reference tabs using scannable QR codes
- ▶ Use of soothing and aesthetically pleasing colour palettes for graphics

EVOLUTION OF LBF INTEGRATED ANNUAL REPORT

This section showcases the evolution of LBF’s annual report journey over the past few years. With each successive annual report, LBF has taken bold steps to enhance the quality and transparency of its reporting parameters, so that our trend-setting reports have now become the hallmark of reporting ingenuity and serve as an inspiration to other entities both in Sri Lanka and across the wider Asian region.



2018/19

- ▶ Introduction of a dedicated website containing a summary of key information extracted from the published annual report

2019/20

- ▶ Separate booklets for the Corporate Governance and Risk Management reports



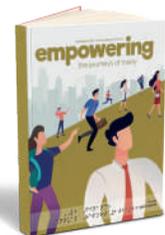
2020/21

- ▶ Disclosure of LBF’s Anti-bribery corruption reporting practices.
- ▶ Voluntary adoption of dual assurance for IR frameworks as well as excellence in integrated reporting practices.



2021/22

- ▶ Key highlights of the annual report are available in video format with English/Sinhala subtitles.



Digital innovation

Embracing digital reporting you can learn more about how LBF has become a market leader in digital innovation by reading this study, which details the progress we have achieved as well as the advantages that it has brought to our customers, employees, and other stakeholders. Due to the fact that our stakeholders interact with information in an ever-increasingly digital way, the integrated report for 2022/23 has also been created to provide an improved digital experience and to be simple to use. This is the third year that we have used this format, and the response that we have received from stakeholders based on the 2021/22 report has been quite favourable. You, the reader, will be able to navigate easily among different sections or topics in the report by tapping into the navigation icons at the top of the page or notifications whenever you stay with your cursor because the layout is designed to be readable on computer screens and tablets.



- Video
- Read more
- Web

THIS REPORT TELLS OUR SUSTAINABLE VALUE-CREATION STORY

In striving towards continuous improvement in our reporting practices, we have embraced an innovative new approach to articulate LBF's sustainable value creation story in the current report. Based on this approach, we have aligned our value-creation process via specific themes that connect with LBF's operations. Our aim with this approach is to provide readers with a sound understanding of the underlying policies, frameworks, and models that form the basis of each business operation.

TARGET AUDIENCE AND BEYOND

This report is intended to fulfill the information needs of the LBF's key stakeholders - individuals or groups who have an interest that is affected or could be affected by the Company's activities. Accordingly, the report narrative has been developed to address the information needs of the key business-related stakeholders as

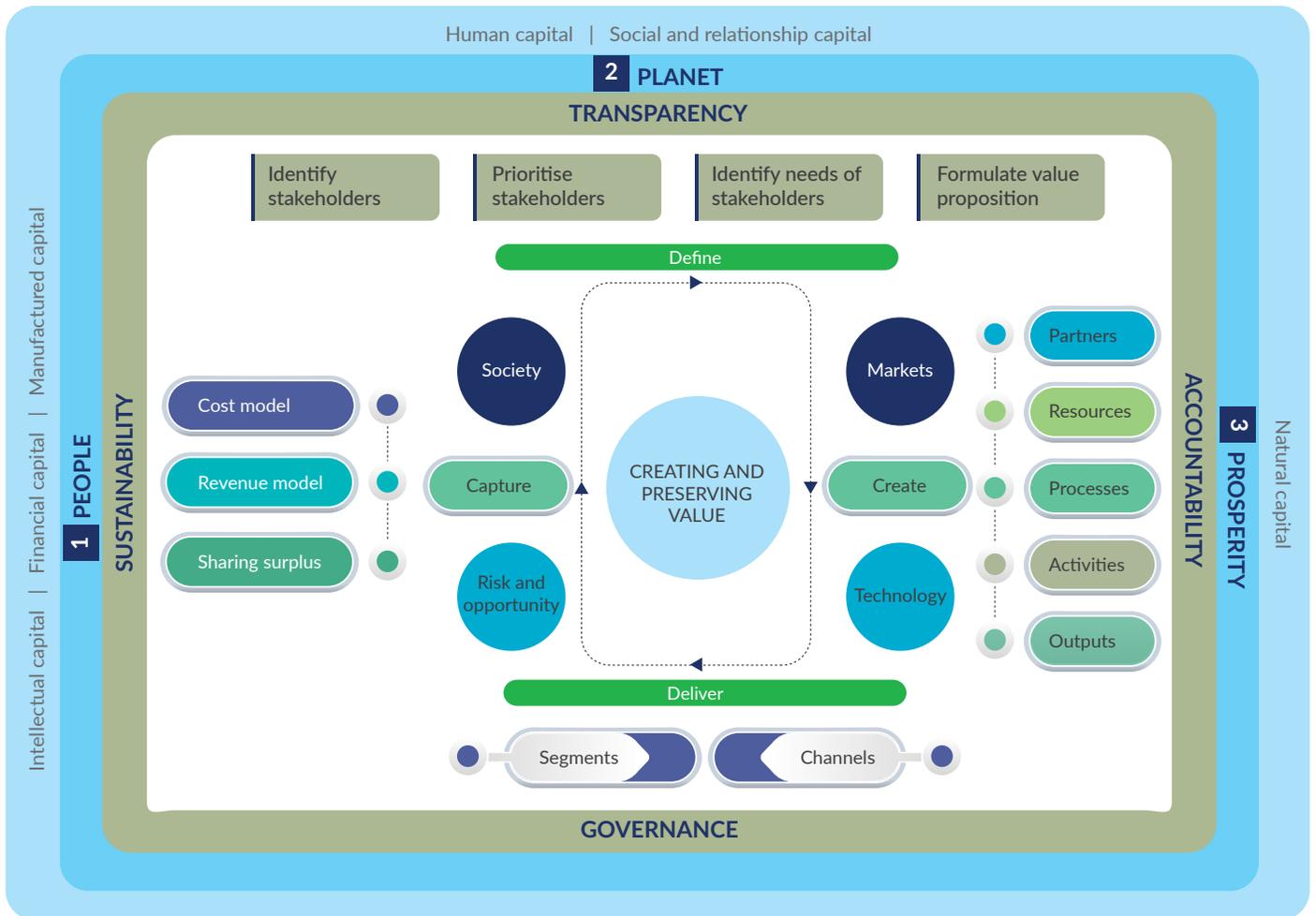
well as other interested parties who may not necessarily have a direct connection to the business, such as the media, industry analysts, students, potential investors, etc.

While the structure of this year's integrated report remains largely the same as the previous years' report, we have made some changes to simplify our value creation story by summarising the interconnectivity between LBF's purpose, values, and ethical principles and the material issues of relevant stakeholders. Across the report, we have included relevant examples to illustrate how LBF is delivering stakeholder outcomes in line with the Company's core values - excellence, ethics, transparency, innovation, professionalism and quality.

OUR INTEGRATED THINKING

Integrated thinking sits at the core of LBF's approach to business for we believe that as a responsible financial institution, we must focus on the triple bottom line

(3Ps - people, planet and prosperity) and ensure we mobilize resources not only for the Company's prosperity but equally importantly towards safeguarding the current and future well-being of people and the planet. LBF continues to reinforce its commitment to the 3Ps by leveraging its competitive position to enhance shareholder returns over time, while at the same time working to promote socioeconomic and environmental development for the longer-term benefit of our Country. To drive our efforts, we set clear targets under each of the 3Ps accompanied by a scorecard that keeps track of our progress on an ongoing basis. Furthermore, to report on our progress more holistically, accountably, and transparently in conformity with international standards, LBF has engaged the <IR> framework promulgated by the International Integrated Reporting Council (IIRC).



TRANSPARENCY | ACCOUNTABILITY | GOVERNANCE | SUSTAINABILITY



Transparency

LB Finance is highly concerned about transparency and strives to improve transparency as the basis of effective stakeholder engagement. In this regard, the Company obtains independent external assurance for its annual financial statements (pages 253 to 255). More recently, LBF has sought independent assurance of its ESG indicators to ensure they are in line with the Global Reporting Initiative (GRI) Standards. In this report, we are also striving to comply fully with the checklist of transparency issued by Transparency International Sri Lanka (page 424 to 426).



Accountability

The LBF Board is committed to clear and comprehensive financial reporting and disclosures to disseminate shareholder information. LBF's Board of Directors is accountable to stakeholders for ensuring the affairs of the Company are managed properly by applicable laws and regulations (page 15).



Governance

As per LBF's governance structure, the Board remains the highest governing body of the Company (page 213 to 214). In this capacity, the Board leads the promotion of good governance practices and provides oversight to ensure the affairs of the Company are managed in a fair, responsible, and transparent manner. The Board also sets the tone from the top to promote and enforce good business ethics at all levels of operations.

To support these efforts, the Board has appointed several Board committees (pages 234 to 243). All Board committees operate under the delegated authority of the LBF Board and in line with Board-approved terms of reference.

LBF's commitment to good governance was recognised both locally and internationally. At the TAGS Annual Report Award 2022, LBF secured the Bronze in the corporate governance practices category. And also, at the South Asian region SAFA Awards, LBF was awarded the Bronze in the same category.



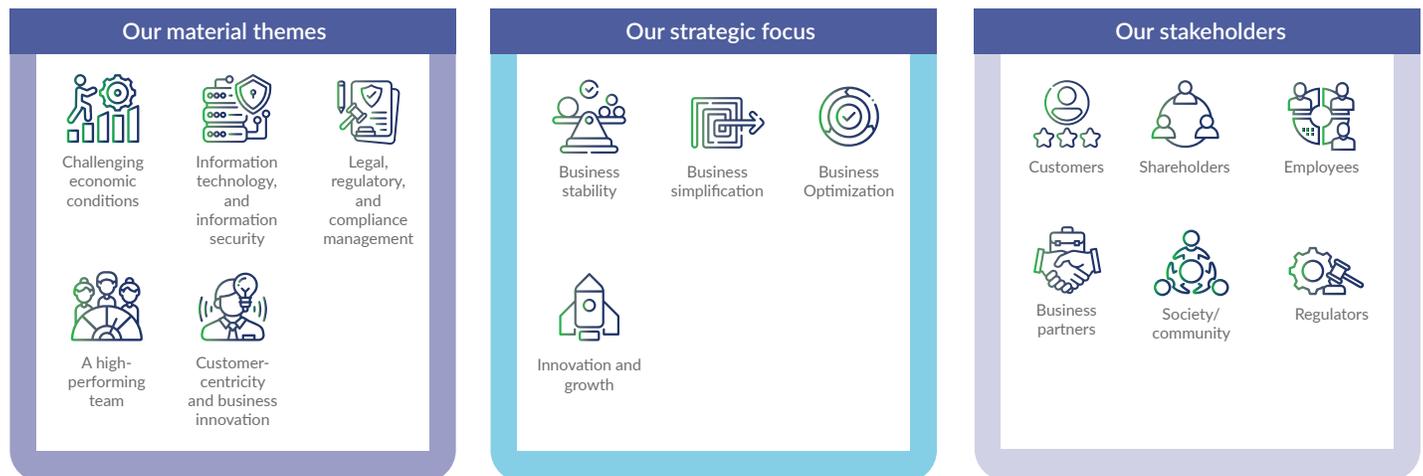
Sustainability

LBF has made a conscious effort to integrate sustainability into its day-to-day operations through its corporate sustainability strategy which is based on the 17 UN SDGs and their related targets. More information on the progress of our sustainability initiatives can be found in:

- ▶ Chairman's and MD's statement (page 52 to 54 and 66 to 69)
- ▶ Sustainability overview (page 204 to 208)

STAKEHOLDERS, MATERIALITY AND STRATEGY

The context of this integrated annual report revolves around the matters that potentially impact our capability to create value for the stakeholders in the short, medium, and long term. In the process of determining these material issues, LBF's management considers both internal and external factors, which consist the Company's strategic objectives, business model, expectations and concerns of our key stakeholders and the macroeconomic environment.



REPORTING FUNDAMENTALS

In compiling this report, we have considered and/or comply with the following frameworks, standards, and guidelines:

Financial reporting

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

Corporate governance reporting

- ▶ Finance Business Act No.5 of 2021 Corporate Governance

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

Assurance

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

Integrated reporting

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

Sustainability reporting

- ▶ GRI Universal Standards 2022
- ▶ UNGC Principles
- ▶ UN Sustainable Development Goals (SDGs)
- ▶ AA1000SES Stakeholder Engagement Standard
- ▶ Transparency checklist issued by Transparency International Sri Lanka



REPORTING PERIOD

In line with LBF's established procedure of publishing an annual integrated report, this current report has been prepared for the period 01 April 2022 to 31 March 2023 in alignment with the Company's financial reporting cycle ending on 31st March 2023. Any material events after this date and up to date of Board approval - 31 May 2023 have also been included.

OPERATING BUSINESSES

The current reporting cycle covers the primary activities of LBF, including our financing, investing, and value-added services that support Sri Lanka's economic growth. The report also contains a segment on LBF's subsidiary operations.

FINANCIAL AND NON-FINANCIAL REPORTING

Our integrated report extends beyond financial reporting and includes LBF's non-financial performance, along with the opportunities, risks, and outcomes attributable to or associated with our key stakeholders who have a significant influence on our ability to create value sustainably.

RISK AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING

Throughout this integrated report, we discuss our governance and risk management principles, practices, and outcomes. In addition, specific Board subcommittee reports have been incorporated where relevant to bring more context to the integrated nature of our governance framework.

ONLINE AND WEB DISCLOSURES

To assist in the reduction of the LBF's carbon footprint, we urge our stakeholders to view our reporting suite at www.lbfinance.com or scan the QR code captured herewith to be directed to the relevant page on our website.

ASSURANCE

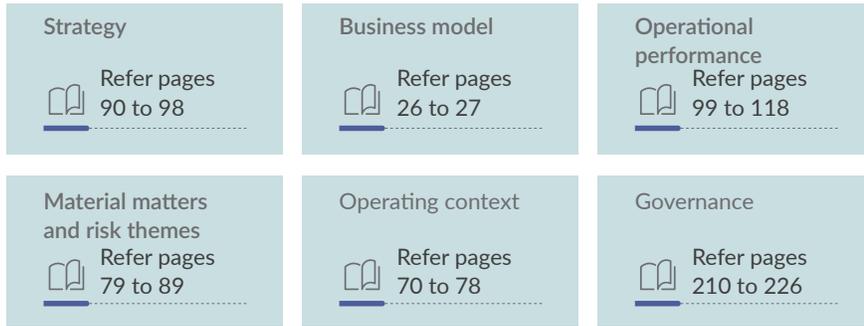
LBF has adopted a combined assurance approach to verify the accuracy and completeness of the information contained in this integrated report. The contents included herein have been first approved by the respective business heads. All financial information has been further reviewed by the Audit Committee before submission to the

Board of Directors for approval. Moreover, we have sought the assistance of Messrs Ernst and Young, Chartered Accountants to provide independent assurance on the LBF group's consolidated financial statements as well as to assess if the non-financial sustainability indicators are in-line with the GRI Universal Standards 2022. Their reports have been made available online.

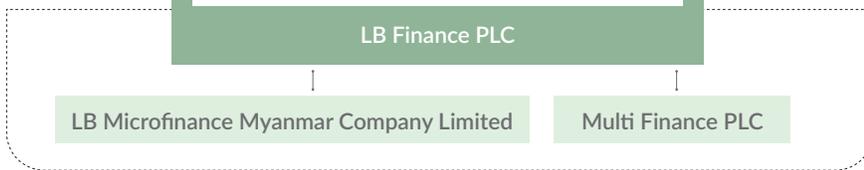
THE PROCESS OF CREATING AND PRESERVING VALUE

To execute our strategy, we must apply and leverage our capital resources in a manner that maximizes value creation and preservation. The effects of this application are reflected in the changes in our capital over time and our financial performance. These manifest as outputs for LBF as well as outcomes for all our stakeholders. Our value generation and preservation procedures are included in our Mission (page 9), defined as part of our business model (pages 26 to 27), and integrated into the way we think and make choices across our organisation.

OUR INTEGRATED ANNUAL REPORT BOUNDARY



OUR FINANCIAL REPORTING BOUNDARY
(defined by control and significant influence)



STAKEHOLDER ENGAGEMENT



TIME HORIZONS

Short term FY2023, in which we expect to maintain the momentum gained in implementing our digitization and data strategies, absent the direct impacts of economical changes.	Medium term FY2024 to FY2025, in which we expect to complete the digital implementations across all our divisions and begin to leverage the benefits of our integrated ecosystem.	Long term FY2026 and beyond, future plan and activities which are going to be achieved in foreseeable future.
--	---	---



FEEDBACK, FURTHER INFORMATION, AND SUGGESTIONS

We appreciate the comments and suggestions received regarding our previous annual reports and have made every effort to improve our 2022/23 report by incorporating your valuable suggestions.

We welcome your comments and suggestions on this current report as well and request that you use the attached feedback form or raise your concerns directly to:

Chief Financial Officer/
 Senior Manager – Integrated Reporting and Sustainability,
 LB Finance PLC,
 Corporate Office,
 No. 20, Dharmapala Mawatha,
 Colombo 03.
 Tel: 011 2155 504
 Fax: 011 2575 096

BOARD RESPONSIBILITY STATEMENT

The LB Finance PLC Board has applied its collective knowledge and expertise to ensure the integrity of the 2022/23 Integrated Report as well as any supplementary information referenced therein. The Board has considered the completeness of the material aspects addressed in the report, and the reliability of financial and non-financial information presented based on the combined assurance process outlined above. On this basis, the Board is satisfied that the 2022/23 Integrated Report provides a fair and accurate representation of the performance of the LBF Group for the year under review. Further, the Board is of the view that the report confirms the guidelines set out under the International Integrated Reporting <IR> Framework. The 2022/23 Integrated Report was approved by the Board and signed on its behalf by:

GARD Prasanna
 Chairman

JAS Sumith Adhietty
 Managing Director

ENTITY ANALYSIS

Strong brand

Over 50 years of Impeccable Track Record

- ▶ Responsible, proactive and customer-focused financial service provider
- ▶ Investment in Branding

Elaboration : Intellectual Capital

 Capital pages 119 to 201

Strong Brand Image among Local Brands

- ▶ Reliable, accountability and transparent operations over the years
- ▶ Continue engagement in community services to bolster brand equity through CSR activities
- ▶ Contribute in financial inclusion through product innovation and channel developments
- ▶ Strong market presence island wide

Elaboration : Intellectual Capital

 MD's Statement pages 66 to 69

Corporate governance and compliance

Strict adherence to regulations

- ▶ We strive to make it our top priority to abide by the law of the land.

Elaboration : Corporate governance

 Governance pages 210 to 226

Collaborative and proactive approach towards reform and regulatory initiatives

- ▶ We will continue to collaborate with regulators, peers and other industry participants and adopt best practices.

Elaboration : Corporate governance

 Governance pages 210 to 226

Customer centricity

Superior Service Quality and Need Based Product Portfolio

- ▶ Service of smaller ticket arenas through new loan and deposit products
- ▶ Continue to innovate in products and services to ensure continued granular penetration
- ▶ Training, motivation and business facilitation services are also provided to expand the horizon

Elaboration : Product & Services

 Social & Relationship Capital pages 170 to 191

MD's Statement pages 66 to 69

Competent workforce

Adept and empowered human capital

- ▶ Continue to invest in human resource practices as well as offer competitive packages to retain talents

Elaboration : Human capital

 Human capital pages 148 to 159

Extensive training and development

- ▶ Continue to provide in-house training and development programs for skill and professional growth

Elaboration : Human Capital

 Human capital pages 148 to 159

Strong financial performance and position

Solid capital base

- ▶ Continue to maximize shareholder's return through optimized allocation of capital and building on the capital base

Elaboration : Financial Capital

 Financial Capital pages 122 to 139

Business Digitalization

- ▶ Automation including digital based financing, credit risk grading based loan assessment and customization of online service portal and the digital wallet.
- ▶ Continue focus on leaner organizational hierarchy and improved efficacy

Elaboration : Product & Services

 MD's Statement pages 66 to 69

Ethics and Transparency

- ▶ Comprehensive code of ethics and values are in the company policy.
- ▶ Continue training programs on new recruits on code of ethics and values

Elaboration : Corporate governance

 Governance pages 210 to 226

Capitalize on business infrastructure

State of the art core banking software

- ▶ Continue to upgrade and improve core financial system with time

Elaboration : Manufactured Capital

 Manufactured Capital pages 140 to 147

Strategically placed branches

- ▶ Expansion of branch network and convert Gold loan centres to branches, strategically placed for higher customer convenience.

Elaboration : Branch Network

 MD's Statement pages 66 to 69

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

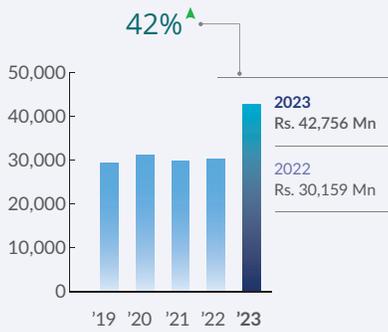
Right Strategy

Introduction

FINANCIAL HIGHLIGHTS

Indicator		Company			Group		
		2022/23	2021/22	Change (%)	2022/23	2021/22	Change (%)
Operating Results							
Income	Rs. Million	42,756.46	30,159.48	41.77	43,133.44	30,157.40	43.03
Interest Income	Rs. Million	39,643.93	27,510.53	44.10	39,973.56	27,506.11	45.33
Net Interest Income	Rs. Million	19,028.35	18,663.92	1.95	19,309.60	18,643.41	3.57
Profit before Taxation (PBT)	Rs. Million	11,746.55	11,910.46	(1.38)	11,843.06	11,720.95	1.04
Profit after Taxation (PAT)	Rs. Million	8,460.33	8,661.86	(2.33)	8,552.89	8,476.03	0.91
Financial Position							
Total Assets	Rs. Million	182,346.59	164,365.01	10.94	183,018.07	165,078.28	10.87
Lending Portfolio	Rs. Million	145,189.17	134,395.60	8.03	146,371.60	135,537.40	7.99
Due to Depositors	Rs. Million	114,011.70	89,143.98	27.90	114,248.25	89,478.51	27.68
Borrowings	Rs. Million	23,251.81	35,423.35	(34.36)	23,274.56	35,426.56	(34.30)
Shareholders' Equity	Rs. Million	38,115.74	33,047.09	15.34	38,324.10	33,231.42	15.32
Investor Information							
Market Price per Share	Rs.	55.00	58.00	(5.17)	N/A	N/A	-
Market Capitalisation	Rs. Million	30,473.14	32,135.31	(5.17)	N/A	N/A	-
Net Asset Value per Share	Rs.	68.79	59.65	15.34	69.17	59.98	15.32
Earning per Share (EPS) Basic	Rs.	15.27	15.63	(2.33)	15.44	15.40	0.28
Earning per Share (EPS) Diluted	Rs.	15.27	15.63	(2.33)	15.44	15.40	0.28
Dividend per Share (DPS)	Rs.	5.00	5.00	0.00	N/A	N/A	-
Dividend Yield	%	9.09	8.62	5.44	N/A	N/A	-
Dividend Payout Ratio	%	32.74	31.98	2.37	N/A	N/A	-
Statutory Ratios							
Core Capital to Risk Weighted Assets Ratio (Tier I) (Minimum 10%)	%	30.50	25.95	17.53	30.67	26.10	17.51
Total Risk Weighted Capital Ratio (Tier I & II) (Minimum 14%)	%	31.13	26.90	15.72	31.29	27.04	15.72
Equity to Deposits (Minimum 10%)	%	33.43	37.07	(9.82)	33.54	37.14	(9.68)
Liquidity Ratio	%	19.31	17.60	9.70	19.41	17.68	9.79
Other Ratios							
Return on Assets (ROA)	%	4.88	5.68	(14.10)	4.91	5.12	(4.10)
Return on Equity (ROE)	%	23.78	28.29	(15.94)	23.84	27.42	(13.06)
Net Interest Margin (NIM)	%	11.86	13.28	(10.71)	11.94	13.17	(9.34)
Cost to Income	%	32.42	29.28	10.73	33.07	29.70	11.32
Loan to Deposits	Times	1.27	1.51	(15.53)	1.28	1.51	(15.42)
Gross Non-Performing Loans Ratio (Gross NPL)	%	4.45	4.44	(0.32)	4.61	4.64	0.65
Net Non-Performing Loans Ratio (Net NPL)	%	(0.65)	(0.80)	18.75	(0.64)	(0.72)	11.11
Provision Coverage Ratio	%	114.40	117.94	3.00	109.35	111.57	1.99
Total Impairment as a Percentage of Gross Loans & Advances	%	5.13	5.27	2.61	5.08	5.22	2.54

Income Rs.Mn



Net Interest Income Rs.Mn



Profit before Tax Rs.Mn



Profit after Tax Rs.Mn



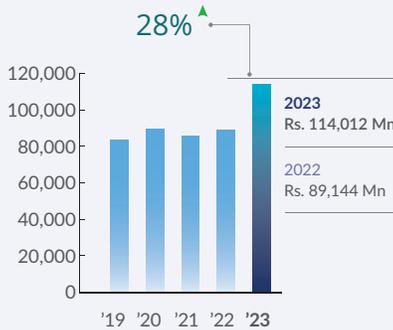
Lending Portfolio Rs.Mn



Total Assets Rs.Mn



Due to Depositors Rs.Mn



Shareholders' Equity Rs.Mn



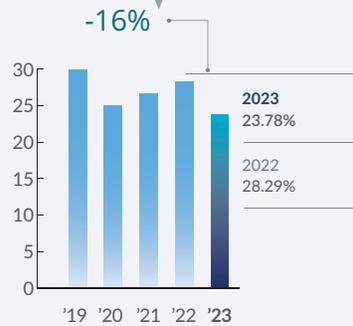
Market Capitalisation Rs.Mn



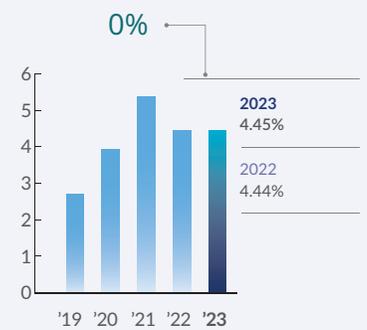
Earnings per Share (EPS) Rs.



Return on Equity (ROE) %



Non-Performing Loans Ratio (NPL) %



NON-FINANCIAL HIGHLIGHTS

Macro dimension	Indicator	Measurement	2018/19	2019/20	2020/21
Economic wellbeing	Economic value created	Rs. Million	3,716.34	4,330.14	6,148.39
	Economic value distributed to:				
	Depositors and Lenders	Rs. Million	12,361.66	13,218.85	11,125.01
	Employees	Rs. Million	2,682.61	2,986.63	2,955.81
	Government	Rs. Million	4,508.35	5,014.32	4,651.00
Social wellbeing	Shareholders	Rs. Million	1,662.17	-	1,662.17
	Community development programmes	Number	28	12	22
Environment and landscape	Staff volunteered hours	Hours	14,195	20,131	5,764
	Environment related projects	Number	6	5	15
	Water consumption	m3	43,007.00	39,793.00	31,013.00
	Water consumption per Rs. million of profit	m3	8.51	7.67	4.56
	Trees planted/ distributed	Number	20,149	34,853	6,180
	Trees saved from recycling	Number	92	94	68
	Investment on green initiatives	Rs. Million	16.49	9.54	1.01
	Paper recycled	Kg	5,432	5,501	3,986
	Energy consumption	GJ	20,020.70	20,538.00	15,418.08
	Energy per Rs. million of profit	GJ	3.96	3.96	2.27
	Total carbon footprint	tCO ₂ e	3,997	4,484	3,110
	Total carbon footprint per Rs. million of profit	tCO ₂ e	0.09	0.11	0.10
	Business sophistication	Total branches/ Total outlets	Number	163	165
CDM machines		Number	23	23	24
Branches outside Western province		Number	83	84	88
New outlets opened		Number	4	2	4
Infrastructure and quality of services	Investment on ICT	Rs. Million	150.52	115.65	46.40
	Investment on freehold land and building	Rs. Million	1,894.80	230.13	481.96
Employee wellbeing	Total workforce	Number	3,618	3,606	3,536
	Employees hired	Number	1,407	1,291	999
	Training programs carried out	Number	195	137	19
	Investment on training and development	Rs. Million	10.95	18.56	4.01
	Total training hours	Hours	38,832	52,788	7,737
	Average hours of training per employee	Hours	10.73	14.73	2.17
	Staff remuneration and benefits	Rs. Million	2,693.56	3,005.18	2,959.82
Reputation	Brand value (Brand Finance)	Rs. Million	5,021.00	5,133.00	6,237.00
	Brand ranking (Brand Finance)	Number	30	29	25
	Credit rating (Fitch Rating)	Rating	A- (lka)	A- (lka)	A- (lka)
Customers	Total customer base	Number	Over 600,000	Over 600,000	Over 600,000
	Customer financial solutions	Number	29	30	31

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

	2021/22	2022/23	Our priority	Capital	GRI
	6,282.85	(3,588.56)	●	FC	201-1
	8,204.42	19,967.60	●	FC	
	3,193.77	3,533.42	●	FC	
	6,017.63	6,923.29	●	FC	
	3,878.40	2,770.29	●	FC	
	20	25	●	SC	
	15,250	15,492	●	SC	
	4	3	●	NC	
	33,044.00	38,847.00	●	NC	303-1
	3.82	4.59	●	NC	
	1,000	-	●	NC	
	398	827	●	NC	
	3.81	8.53	●	NC	
	23,399	48,643	●	NC	
	30,944.00	14,384	●	NC	302-1
	3.57	1.70	●	NC	
	3,259	3,480	●	NC	305
	0.37	0.41	●	NC	305
	181	192	●	MC	102-4
	24	24	●	MC	
	99	110	●	MC	
	12	11	●	MC	
	69.66	214.79	●	IC	203-1
	53.04	69.71	●	MC	
	3,822	3,562	●	HC	102-7
	1,734	1,281	●	HC	401-1
	21	39	●	HC	404-2
	6.18	11.71	●	HC	
	17,754	18,163.00	●	HC	404-1
	4.65	6.50	●	HC	404-1
	3,199.95	3,545.13	●	HC	
	5,918.00	5,821.00	●	IC	102-16
	24	24	●	IC	
	A- (Ika) (RWN)	A- (Ika) (RWN)	●	IC	
	Over 650,000	Over 750,000	●	SC	
	32	32	●	SC	



Carbon Conscious

Company for 7th consecutive year

Saved **827**
Fully grown
trees



Rs. **24.09** Mn
Invested in CSR



A- (Ika) (RWN)

Fitch ratings
reaffirmed



11
New branches



5
Branches
relocated



+180,000 CIM app
downloaded



19%
CIM wallet
transactions grew by

Right Solutions

Right Value

Right Direction

Right Experience

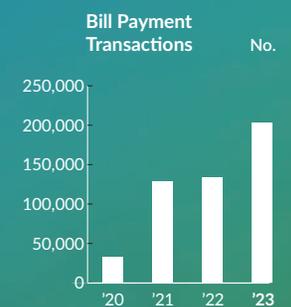
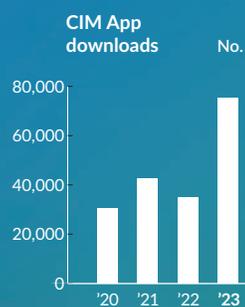
Right Vision

Right Strategy

Introduction

DIGITAL-LED BUSINESS

LB CIM Wallet application launched in 2020 reflects our commitment to promote products with a low environmental footprint. Being a cashless solution, LB CIM presents a fully digital customer experience requiring no use of paper and no commuting. Cost control goes hand in hand with efforts to develop LBF's manufactured capital. In this regard, we regularly review our cost structures to determine the optimal ratio of owned and leased properties to support our branch network. At the same time, we have established cost-saving targets for our branches and maintain a strong focus on continuous improvement to optimise economies of scale in all our channel management activities. The progress made in achieving these plans are monitored on a regular basis. LB CIM wallet is a multi-faceted digital banking solution offered in the form of a smartphone app, built with ultra-simple UI/UX and trilingual functionality to cater to all communities in Sri Lanka.



LB CIM app has two distinct products; CIM Customer App and CIM Business App, each tailored to meet the specific needs of the customers as well as the merchants.



Evaluating and assessing a range of possibilities to execute

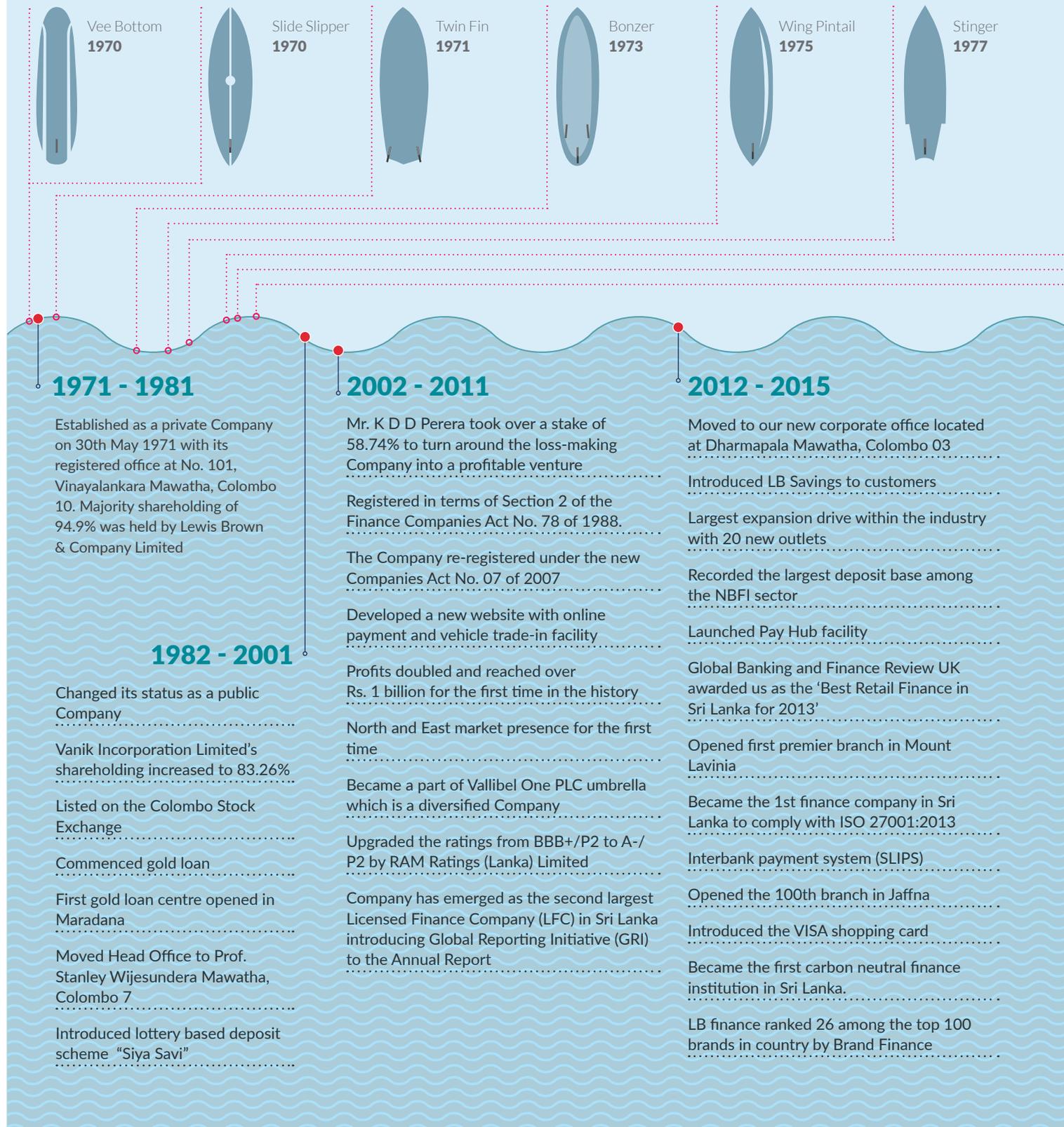
THE RIGHT STRATEGY AT THE RIGHT TIME

We rely on foresight, strong analytical skills, and the perfectly formulated, timely execution of strategy in order to achieve success.



STRATEGIC JOURNEY

EVOLUTION OF THE BIG WAVE SURFBOARD (From 1970)



1981 Twin Finn

1983 Channel Bottom

1985 Thruster

2016 - 2017

- Successfully completed 45 years in the finance industry with a profit growth of 70%, profit of Rs. 3.7 billion (PAT)
- Launched LB e-connect online platform to saving customers
- Obtained MoneyGram agentship for international money transfer
- Integrated with Common Electronic Fund Transfer Switch (CEFTS)
- Exceeded Rs. 100 billion asset base
- Launched LB Gift Store

2018 - 2019

- Upgraded the ratings from BBB+/P2 to A-/P2 by RAM Ratings (Lanka) Limited
- Mortgage loan product was re-branded and re-launched as 'Mulgala'
- Launched of 'Krutha Hastha' senior citizens loan scheme
- First overseas expansion of LB Finance to Myanmar
- Moved to cloud based IT platform
- Ranked among the top 20 brands in Sri Lanka by Interbrand

2020 - 2021

- LB Finance ranked 26 among the top 100 brands in the country by Brand Finance
- Chatbot was introduced to the corporate website and social media platforms
- Automation of the credit verification process
- Automation of the insurance renewal process
- Fully automated risk assessment scorecard for branches and gold loan centres

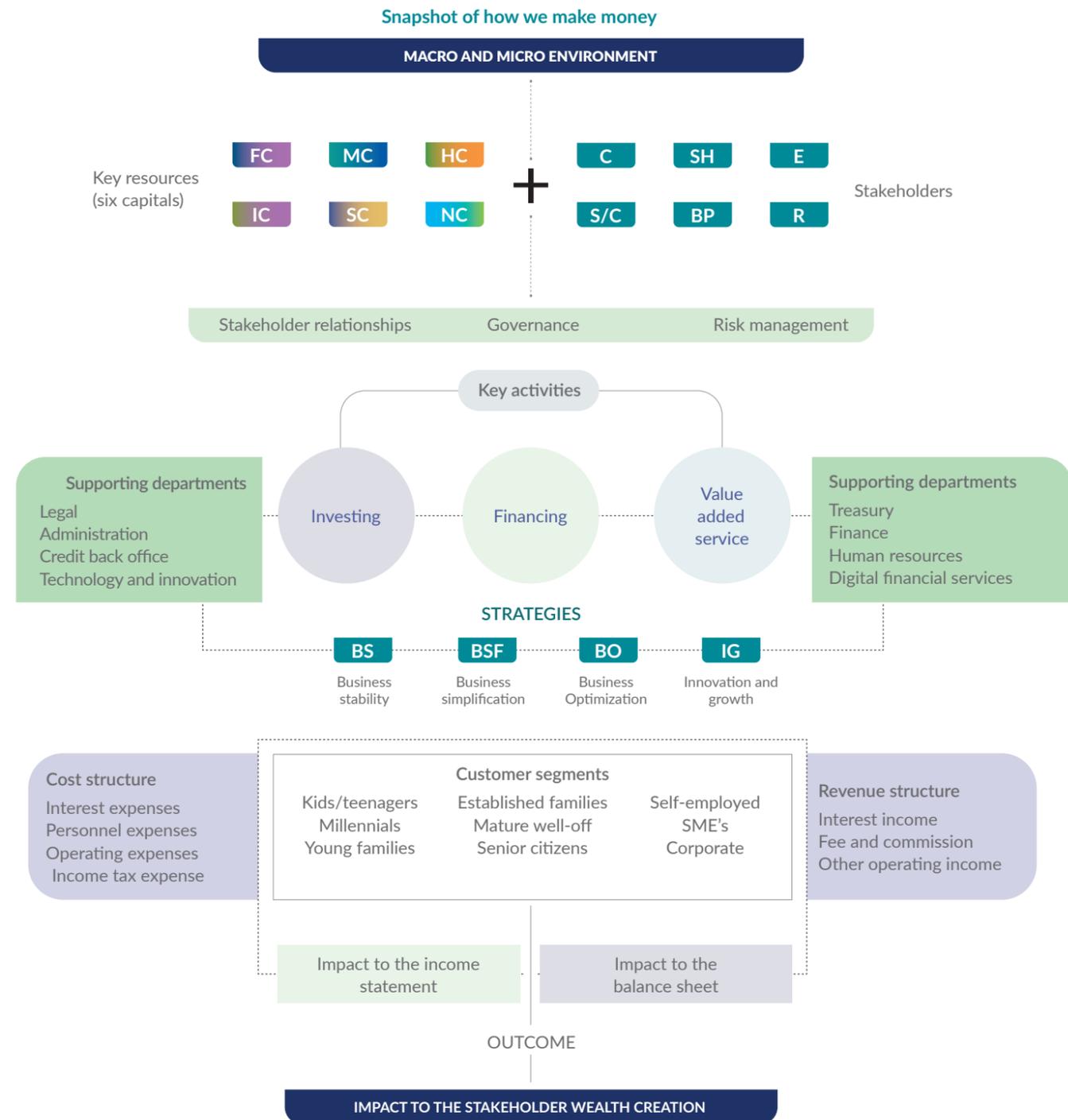
2022 - 2023

- LBF tied up with DRP to fast-track digital financial services
- Partnered with WEBXPAY to promote 'CIM' business loans to MSMEs
- Installation data visualisation and modelling software
- Established robotic process automated software
- Further strengthened the ISO 27001 information security standard
- Tied up with FinCSIRT (Computer Security Incident Response Team for Sri Lanka's financial sector)
- Multi Finance PLC Acquisition
- Introduced a cookie policy to LBF's newly updated corporate website
- Integration with CRIB backend
- Updated the corporate website with the inclusion of AI-based digital imagery
- LBF ranked 15 among top 40 corporates by Business Today

LBF BUSINESS MODEL

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

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



OUR VALUE CREATING - BUSINESS MODEL



OUTCOME

LONG TERM VALUE CREATION FOR OUR STAKEHOLDERS



Delivering long term sustainable value through yield plus growth

Customer	Employee	Shareholder	Regulators	Community	Suppliers
+	✓	+	✓	✓	✓



Process innovations and knowledge sharing through investment in technology and platforms

+	✓	+	✓	✓	✓
---	---	---	---	---	---



Providing safe and rewarding workplace for our people

+	✓	✓	✓	+	+
---	---	---	---	---	---



Delivering safe, reliable and affordable services through well managed operations and efficient investment

+	+	✓	✓	✓	✓
---	---	---	---	---	---



Through our procurement activities, we sustain businesses and job retention and growth in local economies

+	✓	✓	+	+	+
---	---	---	---	---	---



Reduction of carbon foot print through emission management

✓	+	✓	✓	+	+
---	---	---	---	---	---

Value Created
 Value preserved

Understanding social needs and stakeholders expectations which communicated through stakeholder engagement

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

OUR CONTRIBUTION TO THE NATION

LBF's core purpose revolves around bringing prosperity to all Sri Lankans. Our investment propositions are designed to increase the aggregate rate of investment in the economy, while our financing solutions empower individuals and businesses to grow and contribute towards national GDP.



1 ECONOMIC VALUE

Direct economic value generated

INTEREST INCOME

Rs. 39,643 Mn

2021/22 Rs. 27,510 Mn



FEE AND COMMISSION INCOME

Rs. 2,951 Mn

2021/22 Rs. 2,468 Mn



ECONOMIC VALUE GENERATED

Rs. 42,756 Mn

2021/22 Rs. 30,159 Mn

OTHER OPERATING INCOME

Rs. 163 Mn

2021/22 Rs. 179 Mn



NET GAIN FROM TRADING

Rs. (2) Mn

2021/22 Rs. 2 Mn

Direct economic value distributed

To employees

EMPLOYEE SALARIES AND BENEFITS

Rs. 3,533 Mn

2021/22 Rs. 3,194 Mn

To depositors and lenders

INTEREST EXPENSES

Rs. 19,968 Mn

2021/22 Rs. 8,204 Mn

To capital providers

DIVIDEND AND DEBENTURE PAYMENTS

Rs. 3,418 Mn

2021/22 Rs. 4,520 Mn

To government

TAX PAYMENT

Rs. 9,242 Mn

2021/22 Rs. 6,017 Mn

To community

SOCIAL RESPONSIBILITY PROJECTS

Rs. 24 Mn

2021/22 Rs. 13 Mn

Economic value retained

ECONOMIC VALUE RETAINED

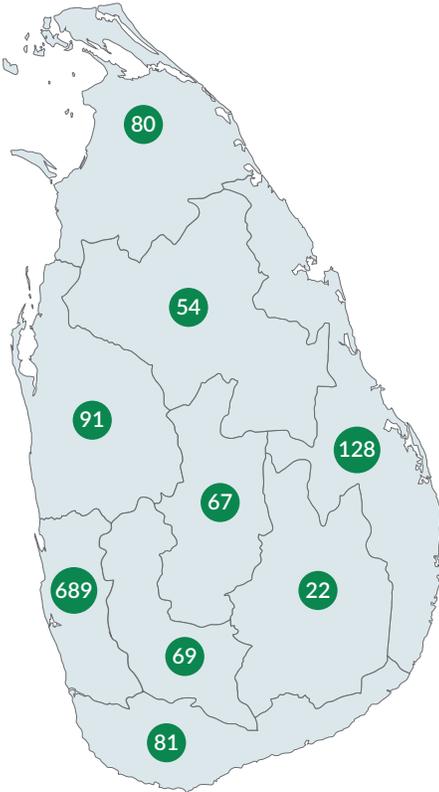
Rs. 2,488 Mn

2021/22 Rs. 4,243 Mn



2 EMPLOYMENT GENERATION

LBF provides direct employment to 1,281 men and women from all parts of the country.



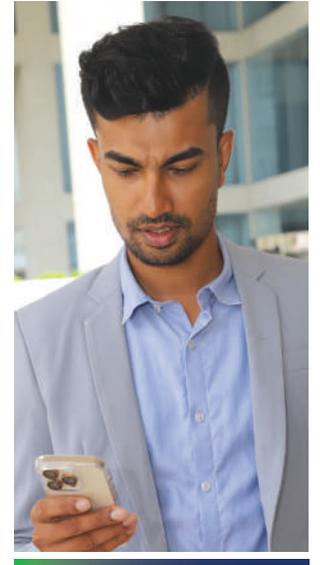
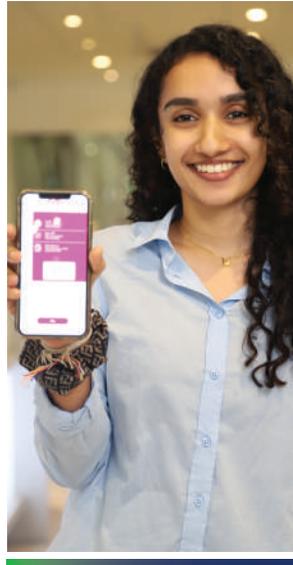
3 CONTINUOUS INNOVATION - DIGITAL ACCESS

Being the leading digital disruptor in the local NBF sector, LBF focuses on promoting SME/MSME sector growth by providing access to formal financial services.

No. of CIM app downloaded
+180,000

CIM transaction growth
19%

CIM transaction volume growth
87%



For business process and business expansion use



Robotic process automation



Artificial intelligence

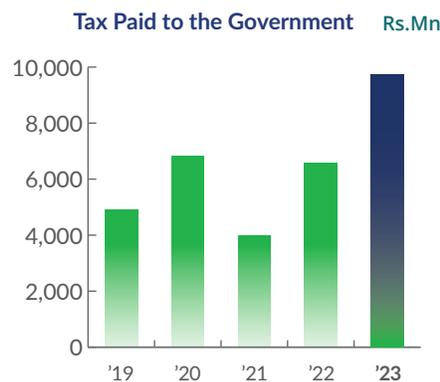


Dedicated social media unit



4 TAX POLICY AND TAX CONTRIBUTION

LBF's tax policy and practices are in line with the regulatory requirements outlined by the regulatory body. As a responsible corporate steward, LBF complies with all applicable tax regimes without exception.



HIGHEST
Taxpayer
in NBF
sector

OUR CONTRIBUTION TO THE NATION



5 WOMEN EMPOWERMENT

LBF takes a multi-pronged approach to support women, by offering equal opportunity in the workplace, increasing women in leadership and development prioritising credit to women-led businesses.



Loan disbursement for women empowerment

AUTO FINANCE FACILITIES
Rs. 8,121.73 Mn

MORTGAGE FACILITIES
Rs. 282.41 Mn



Visit play list - success stories of women empowerment



6 RURAL DEVELOPMENT

LBF supports the development of provincial economies via its island-wide branch network. In line with efforts to provide equal access to all Sri Lankans, our most recent branch expansion strategy has focused on reaching out to customers in the North and East regions of Sri Lanka.

Province	Total no. of branches	New branches	Representation
Western	82	-	43%
Central	17	1	9%
Eastern	25	4	13%
Northern	23	5	12%
North-central	8	1	4%
North-western	11	-	6%
Sabaragamuwa	7	-	3%
Southern	13	-	7%
Uva	6	-	3%



Kodikamam branch opening



Maruthankarny branch opening

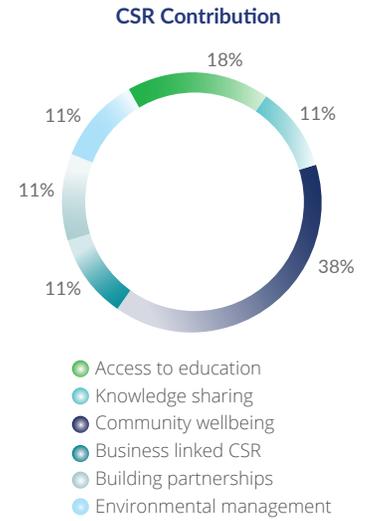
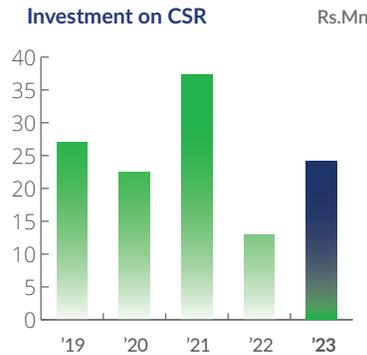


Serunuwara branch opening



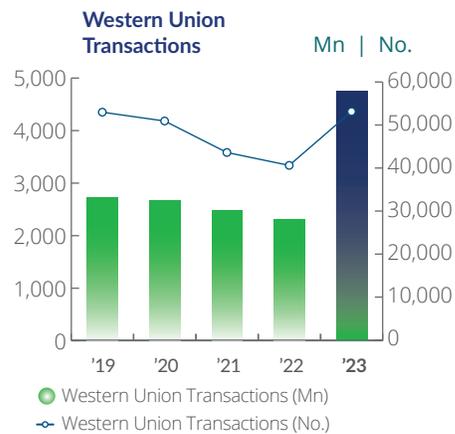
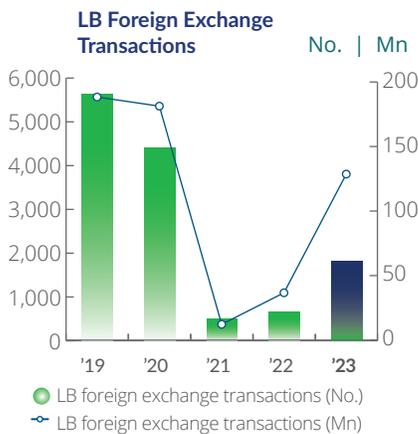
7 SUPPORTING COMMUNITY

LBF articulates its commitment to the community by investing in high-impact CSR projects that contribute towards addressing key national priorities such as education and community wellbeing.



8 FOREIGN CURRENCY EXCHANGE

LBF leverages its position as a principal agent for Western Union Money Transfer Systems, to increase the volume of foreign currency inflows to the country.



OVERVIEW OF LBF

OUR PROFILE

With a track record spanning 52 years in the Sri Lankan financial service sector, LB Finance PLC is rated among the top-tier non-banking financial institutions (NBFIs). LBF was one of the financial institution in Sri Lanka to retain its A- (Ika) (RWN) rating by Fitch Ratings Lanka Ltd, a fact that stands as a further testament to the strength and stability of the Company.

For over half a century, LBF has brought prosperity to people and businesses in every corner of the island. Having earned the trust and respect of millions, LBF today is positioned as the most preferred financial services provider in Sri Lanka.



How LB Finance has succeeded in the Financial Industry

A strong, experienced and **diversified** Board and a leadership team

30% independent non-executive directors

 Refer page 214



Excellent **risk management** and **governance** track record

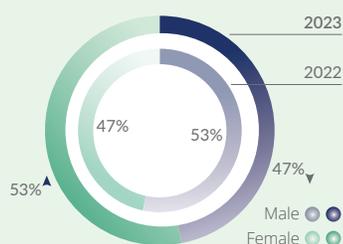
 Refer pages 370 to 390

Consistent value for **customer satisfaction**

94% response for customer queries and complaints

 Refer page 177

EMPLOYMENT GENERATION



 Refer pages 148 to 159

Industry **best technology** and **leading digital innovations**

+180,000 CIM app downloaded

 Refer pages 112 to 113

A purpose-led business focused on delivering **positive societal and environmental impact**

 Refer pages 192 to 201

Strong balance sheet **to protect against downside risks**

Access to the **LARGEST FINANCIAL SERVICES NETWORK** in Sri Lanka

192 branches island wide

 Refer pages 140 to 147

LB Finance ranked #15 among all top corporates in Sri Lanka by Business Today



*MARKET SHARE OF ASSET BASE **11%**

30% *MARKET SHARE OF GOLD LOAN

*MARKET SHARE IN PAT **31%**

12% *MARKET SHARE OF TOTAL LOANS AND ADVANCES

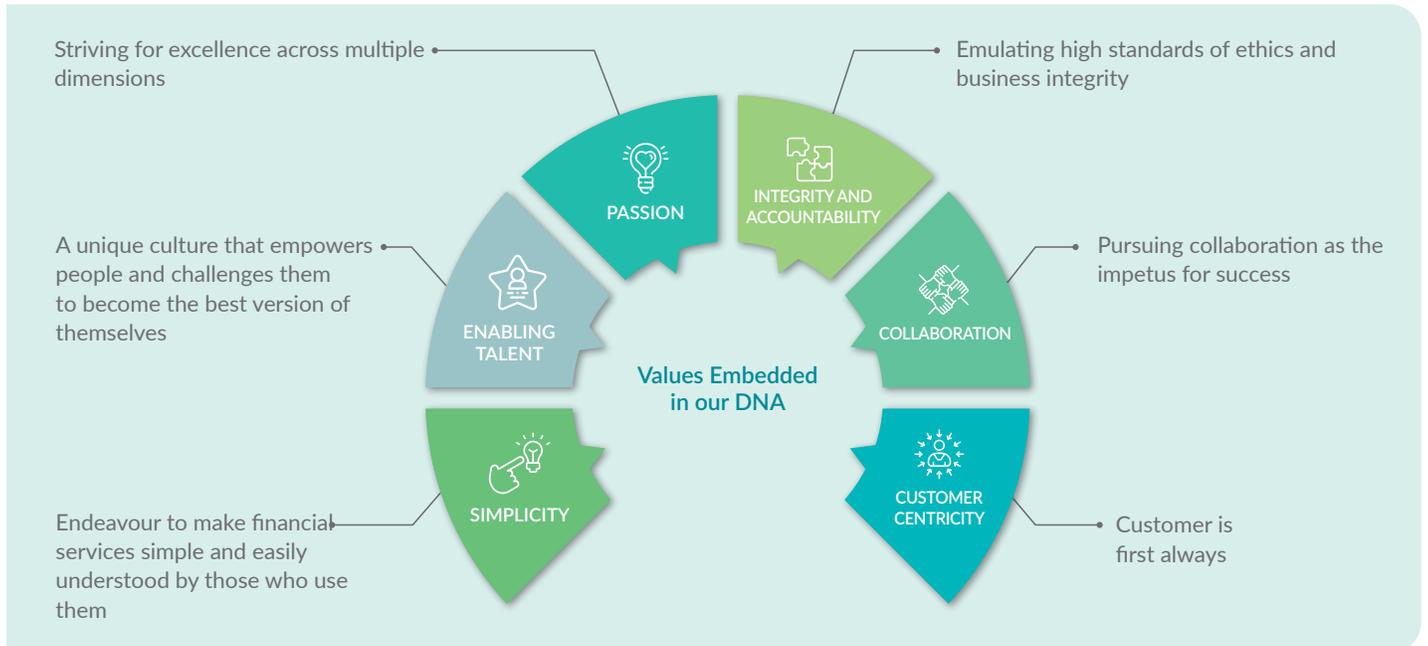
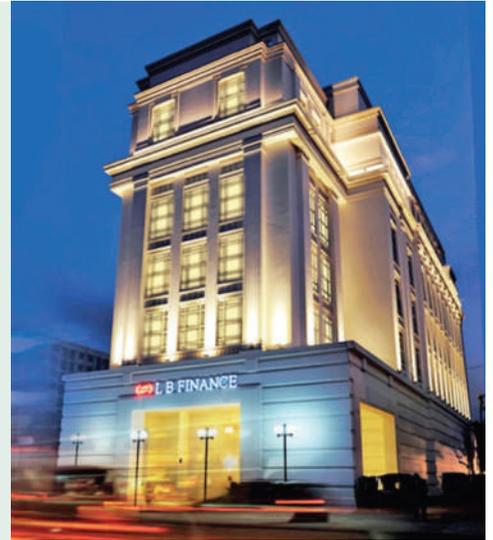
*As of December 2022

OVERVIEW OF LBF

WHO WE ARE....

LB Finance PLC was incorporated as a private limited liability Company in May 1971 and later converted into a public limited liability Company in 1982. The Company was listed on the Colombo Stock Exchange in 1997, with the majority shareholding held by Lewis Brown & Company Limited. Subsequently, in 1994, Vanik Incorporation Limited acquired the controlling interest in the Company. Mr. Dhammika Perera, a renowned Sri Lankan entrepreneur, took over the Company in 2003, after which LB Finance PLC became a part of the Vallibel One PLC group, a highly diversified local conglomerate with interests in; lifestyle, finance, aluminum, plantation, leisure, consumer and investments. In June 2008, LBF was re-registered under the new Companies Act No. 7 of 2007. LB Finance PLC's journey over the past 52 years is marked by a long list of accomplishments that places the Company as one of the top-tier financial institutions in Sri Lanka today.

Registered Office
 LB Finance PLC
 No. 275/75,
 Prof. Stanley Wijesundera Mawatha, Colombo 07.



OUR ORGANISATIONAL STRUCTURE



OUR VALUES INSPIRE THE DESIRED MINDSET, BEHAVIOURS AND PRACTICES THAT PROMOTE THE DAILY REALISATION OF OUR PURPOSE AND OUR VISION OF 'LB FINANCE'

<p>1</p> <p>WE WIN WITH TEAMWORK</p> <ul style="list-style-type: none"> ▶ We collaborate ▶ We share ideas and opportunities ▶ We work and win together to achieve common goals ▶ We hold each others accountable ▶ We earn each other's trust with transparency ▶ We celebrate success together 	<p>2</p> <p>EMPOWERED PEOPLE</p> <ul style="list-style-type: none"> ▶ We take personal accountability for our performance and our behaviour ▶ We are free to make a difference ▶ We bring our whole selves to work ▶ We go beyond possibility 	<p>3</p> <p>OUR PEOPLE MATTER</p> <ul style="list-style-type: none"> ▶ Our people's safety comes first ▶ We value diversity ▶ We recognise and respect each other as adults and equals ▶ We recognise performance and commitments ▶ We encourage lifelong learning and growth ▶ We provide opportunities to grow careers 	<p>4</p> <p>WE GO THE EXTRA MILE</p> <ul style="list-style-type: none"> ▶ Our customers, shareholders and all others are at the heart of all we do ▶ We are fully focused on providing value to our clients, principals and customers ▶ We act with integrity when we strive to add value ▶ Our communities are better off because we are here 	<p>5</p> <p>WE ARE INNOVATIVE</p> <ul style="list-style-type: none"> ▶ We expect to improve everyday ▶ We learn from our mistakes ▶ Our entrepreneurial spirit drives us to look for new ways of delivering value to our stakeholders ▶ We go where others dare not go - we are pioneers
---	---	--	--	--

PRODUCT PORTFOLIO

<p>INVESTING</p> <p>Key areas of strength and differentiation</p> <p>Customer confidence and financial stability</p> <p>Presence</p> <p>Sri Lanka</p> <p>Key performance indicators</p> <p>More information on pages 99 - 118</p>	<p>Our products and services</p> 	<p>Strategic goals</p> <ul style="list-style-type: none"> ▶ Grow faster than the market through active customer retention and focus on new customer acquisition ▶ Support the customer to achieve their financial goals at different stages throughout their lifetime ▶ Drive cost efficiencies to enhance competitive position
--	--	--

<p>FINANCING</p> <p>Key areas of strength and differentiation</p> <p>Market leader with strong expertise and relationships</p> <p>Presence</p> <ul style="list-style-type: none"> ▶ Sri Lanka ▶ Myanmar <p>Key performance indicators</p> <p>More information on pages 99 to 118</p>	<p>Our products and services</p> 	<p>Strategic goals</p> <ul style="list-style-type: none"> ▶ Continue to diversify the offerings to achieve leadership in all segments of the market ▶ Proactive management of credit risk to safeguard the balance sheet ▶ Focus on regional operations by optimising returns in Myanmar ▶ Pursue market opportunities that present attractive growth and return prospects
---	--	--

Right Solutions
Right Value
Right Direction
Right Experience
Right Vision
Right Strategy
Introduction

OVERVIEW OF LBF

VALUE ADDED SERVICES

Key areas of strength and differentiation
Innovative customised digital solutions

Presence
Sri Lanka

Key performance indicators
More information on pages 99 to 118

Our products and services



Strategic goals

- ▶ Become digital-centric at the core
- ▶ Implement innovative and low-cost digital platforms to deepen the penetration into selected market segments
- ▶ To build digitally enabled end-to-end infrastructure to improve accessibility and to retain serviceability, while at the same time attracting new customers

OUTLOOK FOR FY 2022/23

Looking ahead, we will focus on:

- ▶ Capitalising on growth opportunities notwithstanding macro-economic challenges
- ▶ Increasing vigilance to assess the impact of interest rate and currency volatility in Sri Lanka
- ▶ Strengthening product and service offerings through innovation, collaboration and broad-based investments in infrastructure, technology, and people
- ▶ Implementing market-specific strategies in response to emerging challenges in the operating environment
- ▶ Engaging in meaningful efforts that will augment Environmental, Social, and Governance (ESG) outcomes



OUR CARBON JOURNEY

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

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

2012/13

- » Introduced Environmental Management Policy
- » Identified the importance of carbon footprint

2013/14

- » Joined hands with Sri Lanka Carbon Fund
- » Became the first carbon conscious finance company in Sri Lanka
- » Carbon footprint 2,006 tCO₂e

2014/15

- » Carried out energy audits with assistance from Sri Lanka Carbon Fund
- » Promoting the importance of knowing the carbon footprint
- » Carbon footprint 2,343 tCO₂e

2015/16

- » **Became the first carbon neutral financial institution in Sri Lanka**
- » Implemented a Carbon Management Policy
- » Neutralised carbon footprint 2,717 tCO₂e

2019/20

Neutralised carbon footprint 4,484 tCO₂e

2021/22

Carbon conscious company 3,259 tCO₂e

2016/17

- » Neutralised carbon footprint 4,361 tCO₂e

2017/18

Neutralised carbon footprint 3,223 tCO₂e

2018/19

Neutralised carbon footprint 3,997 tCO₂e

2020/21

Neutralised carbon footprint 3,110 tCO₂e



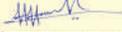
ClimateSI

CARBON CONSCIOUS CERTIFICATE

Climate Smart Initiatives (Pvt) Ltd assures that GHG Inventory of **LB Finance PLC** for the financial year 2022/23 has been measured and reported in accordance with the requirements of ISO 14064-1: 2018 – Specification with guidance at the organizational level for the quantification and reporting of greenhouse gas emissions and removals.

Certificate No : ClimateSI/MRV/043
 Date of Certification : 31. 05. 2023
 Period of Assessment : 01. 04. 2022 to 31. 03. 2023
 Scope of Certification : Operationally controlled business activities belongs to LB Finance PLC

Total Direct GHG Emissions	:	346 tonnes of CO ₂ equivalent
Total Indirect GHG Emissions	:	3,134 tonnes of CO ₂ equivalent
Total	:	3,480 tonnes of CO₂ equivalent


 Eng. H. M. Buddika Hemashantha
 (BSc (Hons) Eng., M. Eng.)
 Chief Executive Officer
 Climate Smart Initiatives (Pvt) Ltd

Direct Emissions : Onsite diesel generators, Company owned vehicles, Employee commuting paid by company, Fire extinguishers, Refrigerant leakage
 Indirect Emissions : Imported energy (Grid electricity), Transmission and distribution loss, Employee commuting not paid by company, Municipal water, Paper waste, Business air travel

Exclusions : Transportation of locally purchased items, Emissions of client/ guest transportation, Waste disposal (except paper waste) & transportation

Period of validity : 01. 04. 2023 to 31. 03. 2024

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Right Production

AWARDS AND ACCOLADES

We at L B Finance PLC are proud of the awards and accolades that we have continued to receive over the years. We see these as major accomplishments that reflect the pursuit of excellence in every aspect of our business. Once again gaining recognition on multiple fronts, L B Finance PLC became one of the most awarded entities in the NBFI sector in 2022/23



CA SRI LANKA AWARDS

- Overall Excellence – Bronze Award
- Finance and Leasing Companies (Sector) – Gold Award
- Most Transformative and Digital Report – Gold Award
 - Sustainability Reporting – Silver Award
- Corporate Governance Disclosure – Bronze Award



CMA SRI LANKA

- Ten Best Integrated Reports
- Best Integrated Report – Finance and Leasing Sector



FITS DIGITAL EXCELLENCE AWARDS

- Innovative Digital Service, Corporate IT Awards Category - Bronze Award
- Business Model Innovation, Digitized Products Services Category - Silver Award

Most Awarded in Sri Lanka



SOUTH ASIAN FEDERATION OF ACCOUNTANTS (SAFA) COMPETITION

- SAARC Anniversary Award for Corporate Governance - Bronze Award
- Financial Services category - Bronze Award



NBQSA - THE ICT AWARDS

- In-House Development category - Gold Award



Finance Company 2022

CONNECT WITH OUR STAKEHOLDERS

We exist to enhance the quality of our stakeholders' lives.

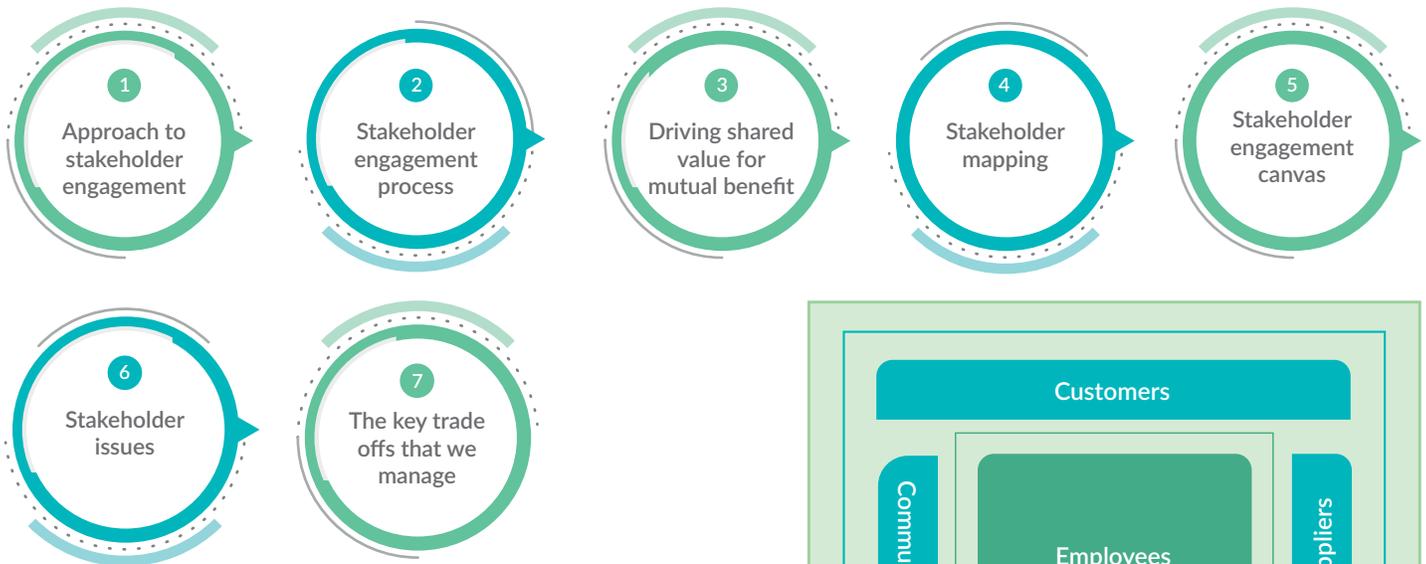
Our long-term strategy is to improve people's lives by enabling their financial freedom. We appreciate that to deliver on this promise, we must have a clear understanding of our stakeholders and their expectations. Engaging meaningfully with our various stakeholders is therefore critical.

Stakeholder survey - 3rd consecutive year



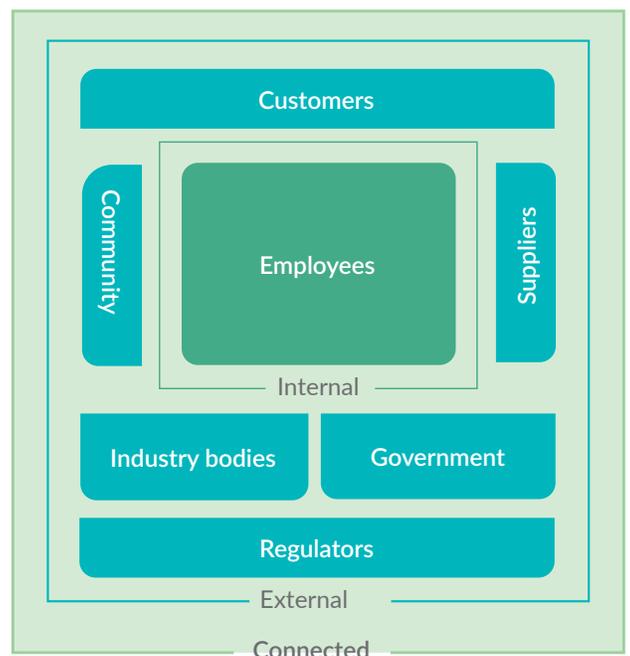
Marketing Department of
University of Sri Jayewardenepura

Stakeholders are people, groups or organisations that have interests or concerns in the Company or can affect or be affected by LBF's actions, objectives and policies. Meeting the needs and aspirations and addressing the concerns of stakeholders is a cornerstone of the Company's strategy. All the stakeholders would relate to the Company through being concerned with its performance in one or more of the aspects such as economic, social and environmental. Through a continuous process of dialogue and consultation with stakeholders, LBF is able to comprehend their needs, aspirations and concerns and are able to formulate strategies to address them. LBF believes the only way which can assess Company's efforts are successful is to quantifiably measure stakeholder loyalty and satisfaction with the first such stakeholder satisfaction survey was done in FY 2020/21. In the year under review, LBF commissioned the research unit of the Department of Marketing - University of Sri Jayewardenepura to carry out another stakeholder satisfaction survey. With an expanded scope and larger sample size, the latest survey was designed to provide quantitative information as well as a range of qualitative indicators to measure stakeholder satisfaction towards LBF.



1 APPROACH TO STAKEHOLDER ENGAGEMENT

The LBF Board recognises the impact that our stakeholders have on our ability to create and retain value and as such promotes an inclusive approach to stakeholder engagement to ensure the Company stays connected to its stakeholders to understand their material needs, interests, and expectations. Recognising the impact that our stakeholders have on our ability to create and retain value, we remain invested in building and maintaining good relations with all our stakeholders. Our fundamental approach to stakeholder engagement is aimed at understanding their concerns and responding by taking appropriate decisions to produce value-driven outcomes.

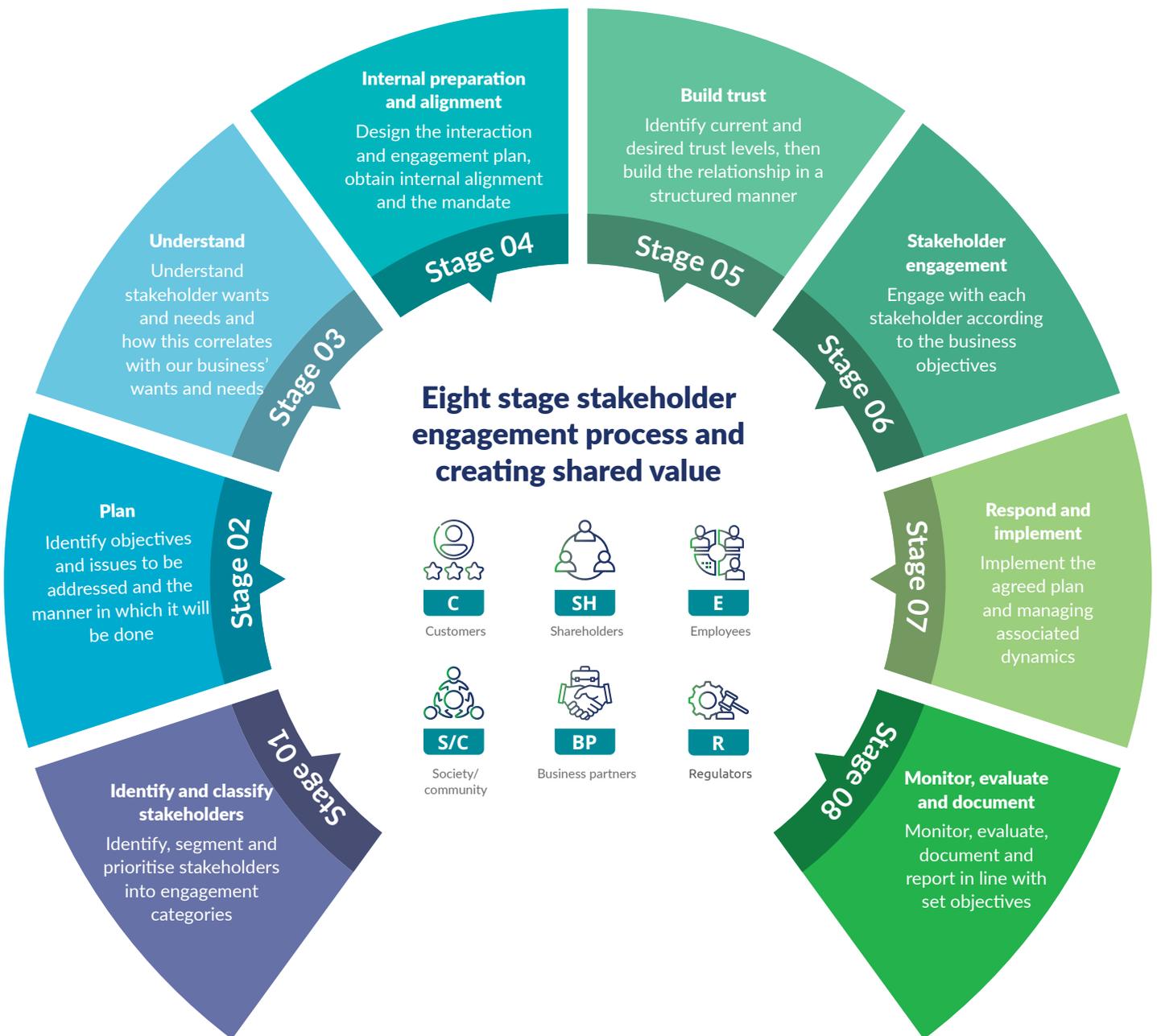


2 STAKEHOLDER ENGAGEMENT PROCESS

Company adopts a eight point stakeholder engagement model which supports a more proactive and integrated approach to stakeholder engagement. With the fast-changing financial environment and emerging social trends influencing our stakeholders' needs and expectations like never before, we see how important it is to constantly review our engagement methods and their frequency to make sure we capture the matters that are most concerning to our stakeholders as the world around them changes. In the year under review, we undertook a deep drive to assess if our existing engagement mechanisms are serving this purpose. Our findings led to further improvements that included integrating stakeholder engagement into every step of our value-creation process. To drive these efforts at an operational level, clear goals were set for each of our key stakeholders, accompanied by value-creation indicators to gauge the effectiveness of our engagement mechanism and also measure the quality of our relationships.

3 DRIVING SHARED VALUE FOR MUTUAL BENEFIT

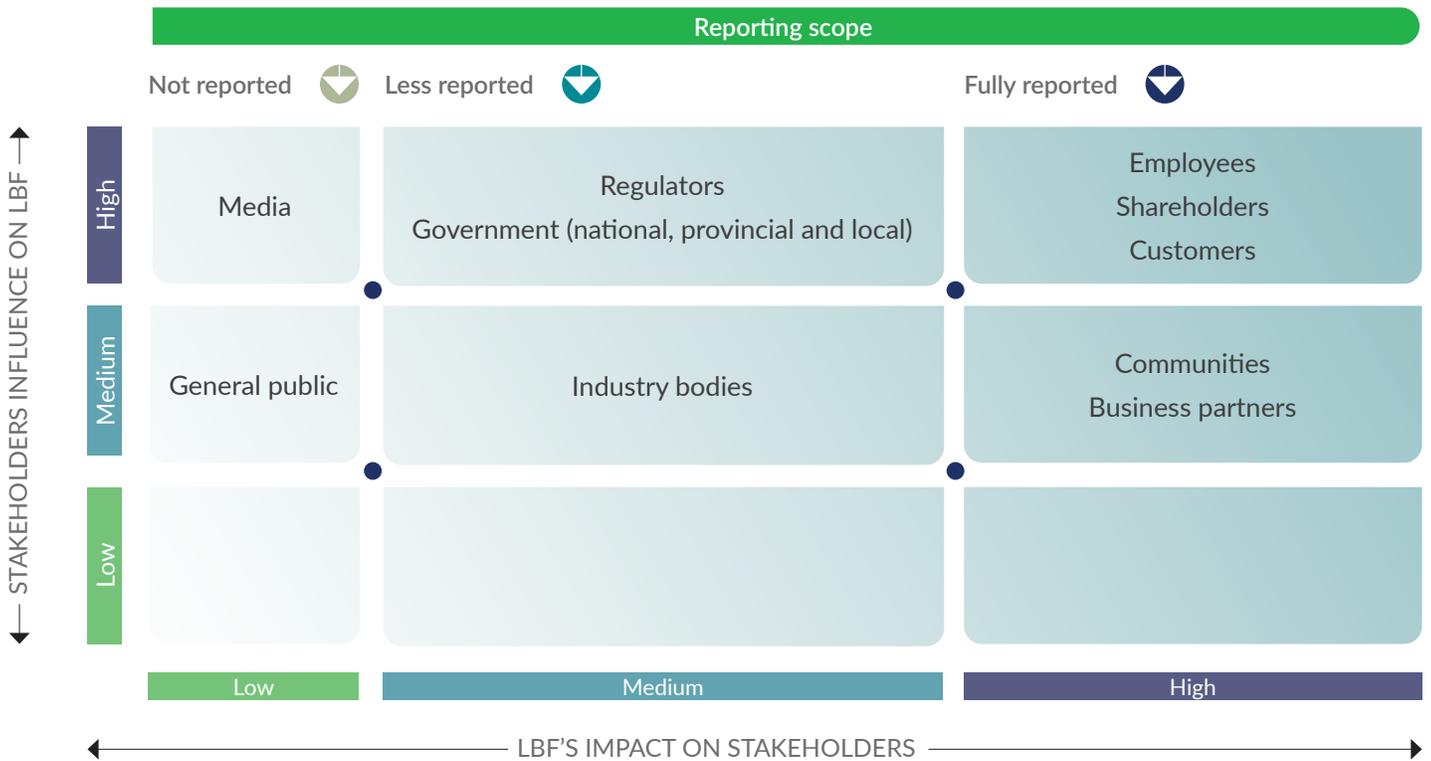
As the world accelerates its transition to a lower-carbon environment, LBF continues to explore new ways to create sustainable value. One such strategy is to collaborate with our stakeholders to form mutually beneficial partnerships for shared sustainable value.



CONNECT WITH OUR STAKEHOLDERS

4 STAKEHOLDER MAPPING

Stakeholder mapping, which represents the first step in LBF's eight-point stakeholder engagement model, involves identifying and grouping our material stakeholders based on their level of influence over the Company and in turn our impact on them. Accordingly, LBF's stakeholders are broadly classified into two segments. The first segment comprises individuals and groups who are directly affected or whose actions directly affect our operations (shareholders, customers, employees, regulators, business partners, communities, and society), while the second segment is represented by external parties who are interested in what we do (media, industry bodies and general public).



Quality of stakeholder relationships

Various indicators are in place to measure the quality of our stakeholder relationships, these relationships are indicated as positive or stable or challenging with these icons.



Positive



Stable



Challenging

Stakeholder outcomes

Stakeholder outcomes are the intended benefits to stakeholders as a result of the resources we mobilise through our various capitals. These impacts are indicated as positive or negative (irrespective of intervening performance) with these icons.



Positive outcome



Negative outcome

5 STAKEHOLDER ENGAGEMENT CANVAS

CUSTOMERS



Additional commentary and context

Refer pages 172 to 179

WHO ARE THEY

- ▶ Individuals: Entry-level to high net-worth customers across all age groups irrespective of gender
- ▶ Businesses: Sole proprietors, small and medium enterprises, large corporates and multinationals
- ▶ Public sector: Local, provincial and national



SDG relevance



Value for LBF	Value for customers	Value shared
Income generated by providing products and services; the opportunity to grow captive market share by capitalising on long-standing relationships with customers; leveraging digital technology and data analytics to improve and develop new products and services	Access to innovative, cost-effective, tailor-made products and services that are delivered through efficient operational infrastructure driven by technology and augmented by big data insights, to protect the financial well-being of individuals and empower businesses to grow sustainably; assurance of a trusted and respected financial partner with an ethical and responsible approach to doing business	<ul style="list-style-type: none"> ▶ Dedicated digital financial unit ▶ More than 30 Financial solutions ▶ Network of 192 branches in Sri Lanka and 14 in Myanmar to enable access to financial products and services ▶ Rs. 16.28 billion interest payment to depositors

Output

ISO27001

CERTIFICATION

A broad customer survey conducted for 3rd consecutive year

Over 750,000

CUSTOMER BASE



Relationship authority	Quality of relationships	Our focus
Marketing Department		Supporting customers to make responsible financial decisions to strengthen their resilience against macroeconomic challenges

The value created and preserved by	Methods of engagement	Challenges
<ul style="list-style-type: none"> ▶ Bespoke financial products and services to meet the precise needs of the customer ▶ Clear and unbiased financial advisory services ▶ Sustained return on investment ▶ Credit policies to facilitate responsible lending 	Interactions with branch teams, mass media advertising campaigns, targeted digital marketing, pocket campaigns, propaganda vehicle, product and service brochures, emails, website, advertising campaigns, product launches, market surveys, call centre promotional activities, walk-in inquiries	<ul style="list-style-type: none"> ▶ Stiff competition from peers ▶ Inaccurate information and unethical practices by the informal financial sector ▶ Poor financial literacy among certain customer segments

CONNECT WITH OUR STAKEHOLDERS

Issues raised during the year	Strategic response/value proposition	Outcomes
 <p>Access to finance</p>	<ul style="list-style-type: none"> ▶ Strengthening the branch proposition to facilitate better access to financial services in both local and regional markets ▶ Investments in expanding digital ecosystems to enable access to digital financial solutions 	<ul style="list-style-type: none"> ▶ Innovative technologies and propositions to enable our customers to accomplish their financial goals 
 <p>Business innovation</p>	<ul style="list-style-type: none"> ▶ Deepening relationships with customers through the life-stage/ecosystem approach ▶ Protecting data privacy and ensuring cyber-security through robust technology and data management. 	<ul style="list-style-type: none"> ▶ Providing a safe and secure transactional experience at every point of the customer lifecycle 
Impact of strategic focus	Impact on capitals	Material relevance
BSF IG	MC SC	ITS CBI

EMPLOYEES



Additional commentary and context

Refer pages 148 to 159

WHO ARE THEY

- ▶ Permanent employees
- ▶ Contract employees
- ▶ Interns
- ▶ Trainees

SDG relevance





Value for LBF

A workforce that is aligned with group and divisional strategies and embraces LBF's entrepreneurial spirit, performance-driven culture, and inclusive culture, effectively deliver market-leading value propositions to customers

Value for employees

Fair remuneration and benefits including access to wellness and support services, career progression opportunities within a fast-growing financial service group; a positive and inspiring work environment, including safe working conditions; pride of being part of an organisation that delivers net positive socio-economic returns

Value shared

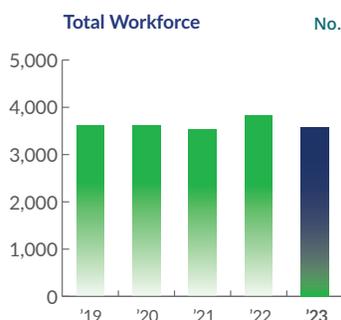
- ▶ Rs. 3.54 billion in monetary benefits
- ▶ 39 trainings conducted
- ▶ Over 60% employees were involved in social responsibility initiatives
- ▶ 45% women and 55% men

Output

1,281
EMPLOYMENT GENERATED

1,214
employees promoted to the next level

63
acquired for the internship program



Relationship authority	Quality of relationships	Our focus
HR Department		Health, wellness, and safety of our employees, including their physical, financial, and emotional well-being
The value created and preserved by	Methods of engagement	Challenges
<ul style="list-style-type: none"> Fair and equitable remuneration and benefits on par with industry standards Holistic training interventions to build technical competencies and support the developmental needs of employees Best-in-class career progression opportunities Opportunities for employee volunteerism 	Routine staff meetings, annual performance appraisal, feedback through ongoing performance monitoring activities, Great Place to Work survey, social media platforms, e-publications, notifications, emails, training programs, and workshops, post-training feedback forms, open door policy to facilitate one-on-one engagement, focus group sessions	<ul style="list-style-type: none"> Preventing employee attrition amidst the ongoing overseas migration trend Encouraging employees to volunteer for social development initiatives

Right Solutions
Right Value

Issues raised during the year	Strategic response/value proposition	Outcomes
 Equality and diversity	<ul style="list-style-type: none"> Creating differentiated experiences to engage a diverse and inclusive workforce 	<ul style="list-style-type: none"> Creating an environment where employees can fulfill their potential and deliver excellence to customers Safety-first culture Compliance with all applicable labour laws ZERO incidents of discrimination and violation of human rights 
 Comprehensive benefit package	<ul style="list-style-type: none"> Assurance of performance-based rewards and recognition Providing a comprehensive wellness program to support a healthy work-life balance 	<ul style="list-style-type: none"> Retention of best talent Performance based reward and recognition 

Right Direction
Right Experience
Right Vision

Impact of strategic focus	Impact on capitals	Material relevance
<div style="display: flex; gap: 10px;"> <div style="background-color: #00728f; color: white; padding: 2px 5px; border-radius: 3px;">BS</div> <div style="background-color: #00728f; color: white; padding: 2px 5px; border-radius: 3px;">BO</div> </div>	<div style="display: flex; gap: 10px;"> <div style="background-color: #e67e22; color: white; padding: 2px 5px; border-radius: 3px;">HC</div> <div style="background-color: #34495e; color: white; padding: 2px 5px; border-radius: 3px;">FC</div> <div style="background-color: #9b59b6; color: white; padding: 2px 5px; border-radius: 3px;">IC</div> </div>	<div style="display: flex; gap: 10px;"> <div style="background-color: #00728f; color: white; padding: 2px 5px; border-radius: 3px;">HPT</div> <div style="background-color: #00728f; color: white; padding: 2px 5px; border-radius: 3px;">CEC</div> </div>

Right Strategy

WHO ARE THEY

SHAREHOLDERS

- Individual shareholders
- Corporate bodies

Additional commentary and context



Refer pages 135 to 139

SDG relevance

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Value for LBF	Value for shareholders	Value shared
Accessible and affordable capital supporting the right balance of equity and debt funding, to support organic and inorganic growth	Sustained earnings growth and capital appreciation even in difficult economic conditions	<ul style="list-style-type: none"> Rs. 15.27 earnings per share Rs. 5.00 dividend per share Rs. 38.11 billion equity Over 4,900 shareholders

Introduction

CONNECT WITH OUR STAKEHOLDERS

Output

Rs. 55
MARKET PRICE
PER SHARE

23.78%
ROE



Relationship authority	Quality of relationships	Our focus
<ul style="list-style-type: none"> ▶ The Board ▶ Company Secretary 		Creating a stable business able to produce consistent results even in uncertain times
The value created and preserved by	Methods of engagement	Challenges
<ul style="list-style-type: none"> ▶ Well-diversified revenue streams coupled with stringent cost management initiatives to safeguard the bottom line ▶ Strong risk management principles to safeguard the balance sheet ▶ Maintaining adequate capital and liquidity buffers to fulfill financial obligations ▶ Stable EPS ▶ Consistent dividend payout ratio ▶ Voluntary adoption of good governance practices 	Reporting suite, including the integrated annual report, annual and interim results presentations, Annual General Meeting (AGM), E-mails, general correspondence	<ul style="list-style-type: none"> ▶ Timing of dividend payment ▶ Inability to access overseas funding due to economic uncertainty in the country
Issues raised during the year	Strategic response/value proposition	Outcomes
<p>Improving market presence</p>	<ul style="list-style-type: none"> ▶ Ensuring LBF remains well-diversified both by revenue streams and across geographies ▶ Acceleration of market development activities to deepen LBF's regional presence 	<ul style="list-style-type: none"> ▶ Contributing towards NBF1 sector stability ▶ Adopt to the market changes for business sustainability
<p>Investor confidence</p>	<ul style="list-style-type: none"> ▶ Offering incremental growth in shareholder returns ▶ Ensuring strong capital and liquidity levels to support a solid balance sheet 	<ul style="list-style-type: none"> ▶ Wealth maximisation for shareholders ▶ Best corporate governance practices
Impact of strategic focus	Impact on capitals	Material relevance
BS BSF	FC SC	LRC CEC

SOCIETY/COMMUNITY/BUSINESS PARTNERS



Additional commentary and context

Refer pages 170 to 191

WHO ARE THEY

- ▶ Suppliers and service providers
- ▶ Citizens of Sri Lanka and Myanmar
- ▶ Community groups
- ▶ Civil society organisations
- ▶ Non-governmental organisations



SDG relevance



Value for LBF	Value for society/community/business partners	Value shared
Good standing in the community enhances brand reputation, opportunity to form value-adding partnerships to help resolve social and environmental issues and improved business resilience due to reliable supply chain networks	Better quality of life for vulnerable members of society, environmental protection and preservation, improvement in the country's socio-economic indicators including health, education, and vocational skills, sustainable development for small business entities through supplier development programme	<ul style="list-style-type: none"> ▶ 25 community development programs ▶ Rs. 24.09 million invested in corporate social investment

Output

3,480 tCO₂e
CARBON
FOOTPRINT

6,954
REGISTERED
SUPPLIERS

Rs. 24.09 Mn
INVESTMENT ON CSR



Relationship authority	Quality of relationships	Our focus
------------------------	--------------------------	-----------

- ▶ CSR & Sustainability Committee



Protecting the lives and livelihoods of communities to drive nationwide socioeconomic progress. Invest in supporting Sri Lanka's decarbonisation goals

The value created and preserved by	Methods of engagement	Challenges
<ul style="list-style-type: none"> ▶ Corporate social responsibility expenditure and activities ▶ Procurement and supplier development activities ▶ Environmental protection projects 	Individual engagements, press publications, website, social media, CSR activities, participating in civil society programs, including educational forums and working group meetings	<ul style="list-style-type: none"> ▶ Unforeseen increase in social issues due to the current economic crisis, making it difficult to prioritise matters ▶ Bureaucratic issues impacting the timelines of projects

CONNECT WITH OUR STAKEHOLDERS

Issues raised during the year	Strategic response/value proposition	Outcomes
 <p>Deforestation rate in Sri Lanka</p>	<ul style="list-style-type: none"> ▶ Reforestation projects to increase the country's forest cover 	<ul style="list-style-type: none"> ▶ Better air quality due to the higher CO₂ absorption capacity ▶ Improved productivity and higher labour force participation rate ▶ Sustainable consumption of financial products and services 
 <p>Inadequate skills among the youth population</p>	<ul style="list-style-type: none"> ▶ Internship opportunities to prepare young people for the future of work in the corporate sector 	<ul style="list-style-type: none"> ▶ Corporate citizenship
 <p>Social responsiveness</p>	<ul style="list-style-type: none"> ▶ Supporting an inclusive and responsible supply chain ▶ Providing products and services with a positive social impact 	<ul style="list-style-type: none"> ▶ Financial inclusion
Impact of strategic focus	Impact on capitals	Material relevance
BSF SIG	SC MC	ITS CBI

REGULATORS



Additional commentary and context

Refer pages 210 to 226

WHO ARE THEY

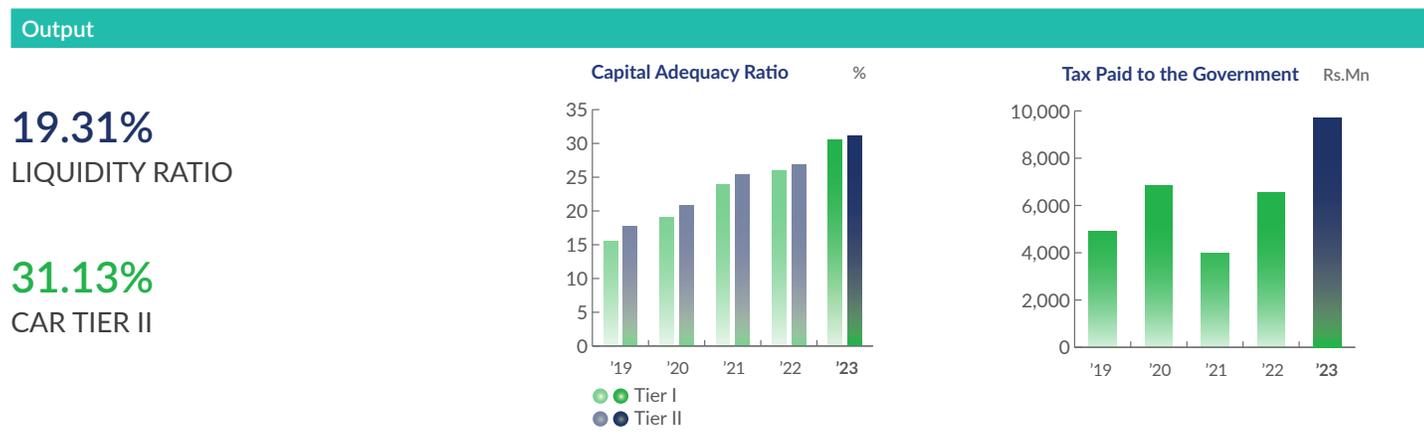
- ▶ Central Bank of Sri Lanka
- ▶ Colombo Stock Exchange
- ▶ Security and Exchange Commission
- ▶ Sri Lankan Government Councils, Ministries, Authorities, Corporations, and Departments

SDG relevance





Value for LBF	Value for regulators	Value shared
Good standing with regulatory authorities enhance brand reputation, ability to make recommendations for the benefit of the NBFII sector and reputation as an accessible and invested social partner	A compliant and supportive sector participant, a committed partner in achieving transformational and developmental objectives	<ul style="list-style-type: none"> ▶ Comply with all applicable regulatory requirements ▶ Early adoption of proposed regulatory reforms



Relationship Authority		Quality of relationships	Our focus
Compliance Department			ZERO tolerance of non-compliance with regulatory requirements
The value created and preserved by		Methods of engagement	Challenges
<ul style="list-style-type: none"> ▶ Positioning LBF as the most trusted financial service provider in the industry ▶ Responding appropriately and transparently to complaints ▶ Regular due diligence to verify compliance parameters 		Direct engagement through regular meetings (virtual or in-person), emails, telephone discussions, on-site inspections, periodic or thematic assessments, participation in forums and engagement through industry bodies, statutory reporting, licensing applications and regulatory submissions	<ul style="list-style-type: none"> ▶ Frequent regulatory changes
Issues raised during the year		Strategic response/value proposition	Outcomes
 Business transparency		<ul style="list-style-type: none"> ▶ Comprehensive regulatory change management program ▶ Ensuring appropriate due diligence to maintain 100% compliance 	<ul style="list-style-type: none"> ▶ Strengthening the business credibility ▶ Raising the bar for the local NBFIs sector 
 Ethical business operation		<ul style="list-style-type: none"> ▶ Strengthening the safety and reliability of operations ▶ Implementing climate change targets 	<ul style="list-style-type: none"> ▶ Increase reputation of the Company ▶ Focus on green financing 
Impact of strategic focus		Impact on capitals	Material relevance
<div style="display: flex; gap: 10px;"> <div style="background-color: #00728f; color: white; padding: 2px 5px; border-radius: 3px;">BS</div> <div style="background-color: #00728f; color: white; padding: 2px 5px; border-radius: 3px;">BO</div> </div>		<div style="display: flex; gap: 10px;"> <div style="background-color: #c49a3d; color: white; padding: 2px 5px; border-radius: 3px;">SC</div> <div style="background-color: #6a3d9a; color: white; padding: 2px 5px; border-radius: 3px;">FC</div> </div>	<div style="display: flex; gap: 10px;"> <div style="background-color: #00728f; color: white; padding: 2px 5px; border-radius: 3px;">LRC</div> <div style="background-color: #00728f; color: white; padding: 2px 5px; border-radius: 3px;">CEC</div> </div>

6 STAKEHOLDER ISSUES

Planet	
Main issue	Significant issues of our stakeholders
Carbon reduction	<ul style="list-style-type: none"> ▶ Carbon quality compliance ▶ Maintain carbon-conscious status
Environment protection and conservation	<ul style="list-style-type: none"> ▶ Involvement in environmental activities

Top risk theme	Material matter
Environment risk	LRC
Stakeholders	
S/C	R
Top risk theme	Material matter
Environment risk	LRC
Stakeholders	
S/C	R

CONNECT WITH OUR STAKEHOLDERS

People	
Main issue	Significant issues of our stakeholders
Talent management	<ul style="list-style-type: none"> ▶ Identify, source, and build capabilities for future LBF ▶ Retain and improve key organisational skills ▶ Uphold employee value proposition ▶ Minimise employee turnover
Safety, health and well-being	<ul style="list-style-type: none"> ▶ Safety culture based on ZERO harm to people ▶ Managing the emotional well-being of employees amidst economic challenges
Customer focus	<ul style="list-style-type: none"> ▶ Improving customer experience ▶ Enhancing partnering opportunities
Economic transformation	<ul style="list-style-type: none"> ▶ Investment and job creation ▶ Job retention
Prosperity	
Main issue	Significant issues of our stakeholders
Capital allocation and investment attractiveness	<ul style="list-style-type: none"> ▶ Gearing ▶ Liquidity coverage ▶ ROI
Growth and innovation	<ul style="list-style-type: none"> ▶ Opportunities to collaborate for sustainable growth

Top risk theme	Material matter
HR risk	HPT
Stakeholders	
E	
Top risk theme	Material matter
Operational risk	CEC
Stakeholders	
S/C	E
Top risk theme	Material matter
Operational risk	CBI
Stakeholders	
C	BP
Top risk theme	Material matter
Market risk	CEC
Stakeholders	
S/C	E
Top risk theme	Material matter
Liquidity risk	CEC
Stakeholders	
SH	
Top risk theme	Material matter
Operational risk Market risk	CBI ITS
Stakeholders	
SH	

7 THE KEY TRADE-OFFS THAT WE MANAGE

Our business is built on optimising value creation for our material stakeholders, which sometimes involves conflicting expectations and tradeoffs between the various stakeholders

- ▶ Product profitability vs. the value proposition for stakeholders
- ▶ Investing in innovation and new growth initiatives at the expense of short-term profitability
- ▶ Potential impact of responsible business practices on short-term operational returns
- ▶ Distribution of shareholder dividend vs. retaining earnings for reinvestment



Respond to our stakeholder, visit our sustainability web site for more details

Focus, precision, and an unrivalled perceptiveness of our environment to achieve

THE RIGHT VISION AT THE RIGHT TIME

Our farsighted vision enables us to constantly scan our surroundings,
to identify and pursue our goals with clarity and purpose.



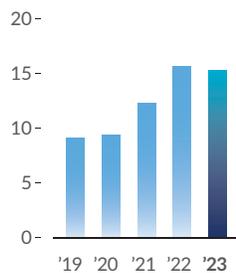


CHAIRMAN'S STATEMENT

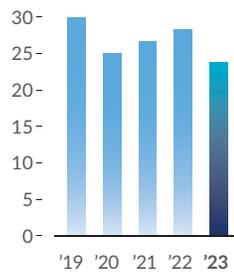
Striving to position LBF as an early adopter, we have systematically deepened our investment in digital domains encompassing both frontend and backend interfaces. Today our digital architecture has emerged as a core strength underpinning our ability to deliver products, services and platforms that intuitively respond to personal and business needs of customers.

GARD Prasanna
Chairman

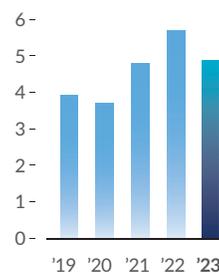
Earnings per Share Rs.



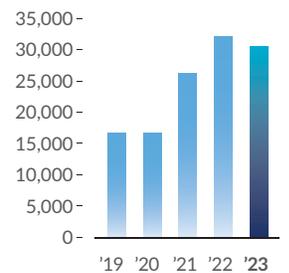
Return on Equity %



Return on Assets %



Market Capitalisation Rs.Mn



PURPOSE-LED BUSINESS

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

A DIGITAL WORLD WITHOUT BOUNDARIES

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



English



Sinhala



Tamil

PDF versions



AUDIO VERSION
SCAN AND LISTEN

PLAYLIST

As Sri Lanka's growth trajectory took another unexpected turn in 2022, the entire Country remained on high alert amidst deteriorating economic conditions, rising interest rates, weakening currency and near hyper inflationary conditions, over and above a serious loss of face as a global trading partner.

Being one of the front end enablers of economic activity, the current crisis affected the NBFi sector in several ways. The slump in credit demand owing to weak economic activity and high interest rates was followed by high levels of credit risk and poor market liquidity. Inflationary conditions stemming from currency pressures and the breakdown of other macroeconomic fundamentals, remain a concern even to this day.

STRATEGIC RESET

The severity of the macroeconomic challenges called for urgent action to sharpen our focus and re-engineer LBF's response in a manner that protects both the business and the interests of our customers and other stakeholders. Given the very fluid

environment in the first six months of the year, the Board focused on informed risk decisions supported by stricter governance and oversight across all risk defences.

In parallel, we embarked on a critical assessment to determine the effectiveness of our current strategy and its capacity to create a conducive environment for growth, development and prosperity notwithstanding challenges. Stemming from this, the Board sanctioned a refresh of the current strategy under four key themes: business, digital, people and sustainability. This approach demonstrates the 360 degree range we intend to take in building a resilient, dynamic and future oriented business that will serve as a blueprint for the entire NBFi sector.

DIGITAL EMPOWERMENT

Since the pandemic, the financial services sector has been going through an exciting new revolution involving digital disruption. As I am sure you are aware, LBF has chosen not just to keep pace, but rather to evolve faster than the market. Striving to position LBF as an early adopter, we have

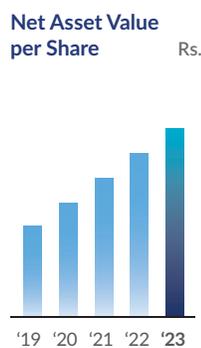
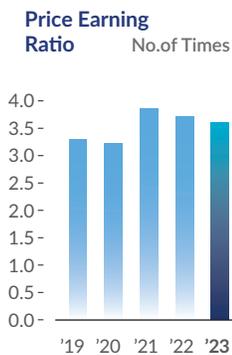
systematically deepened our investment in digital domains encompassing both frontend and backend interfaces. Today our digital architecture has emerged as a core strength underpinning our ability to deliver products, services and platforms that intuitively respond to personal and business needs of customers.

Focusing on further augmenting the customer experience in these uncertain times, we significantly improved the functionality of our signature digital product - the LB CIM mobile wallet app. Some of the new capabilities we rolled out were the CIM personal loan and the end-to-end FD transactional management feature including in-app account opening for the first-time. With a deliberate focus on the customer, we also continued the alignment of internal processes using digital technology and data science.

You may recall, last year I spoke of app downloads as proof of customer acceptance of the LB CIM app. However, this year we have seen incremental month-on-month growth in transaction volumes across both the financing and investing modules, which I believe is a more accurate indicator of the strong market uptake of the LB CIM app. The other important takeaway from these numbers is the seemingly insatiable appetite of the Sri Lankan customer for technology based convenience, which I have no doubt will only grow in the years to come.

STAKEHOLDER DELIVERABLES

In yet another show of its resilience, LBF produced healthy results for FY 2022/23. Buttressed by strong growth in the second half of the financial year, LBF/Company revenue grew by 42% year on year to Rs. 42.75 Bn, while PAT surpassed budgeted expectations to reach Rs. 8.46 Bn, only marginally less than Rs. 8.66 Bn recorded in the previous financial year.



A CULTURE OF TRANSPARENCY

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

CHAIRMAN'S STATEMENT

We are firm about caring for our island's people and our planet and take our responsibilities very seriously. LBF's code of ethics, values and governance structures are all designed to responsibly manage the broader impact of our actions at all times. This includes regularly engaging with the broader community to understand how best LBF as a leading financial services institution in Sri Lanka can assist in positive wealth creation for all Sri Lankans.

With the introduction of new taxes and increase in Tax rates applicable to LBF, Rs. 9.72 Bn was paid in taxes for the current financial year, denoting a sizable increase from Rs. 6.55 Bn attributed to the previous year.

The Group revenue grew by 43.03% year on year to Rs.43.13 billion whilst, the Group PAT registered a 0.91% increase from Rs. 8.48 Bn in FY 2021/22 to Rs. 8.55 Bn in the current financial year.

The Board declared Rs. 5.00 per share as dividends for the year (Interim of Rs. 2.00 per share and final Rs. 3.00 per share) which reflects a payout ratio of 32.74%.

Even while being occupied with managing the current challenges, LBF also remained fully focused on executing its ESG commitments. Having undertaken to support five Sustainable Development Goals (SDGs) we believe to be within our power to make a direct and manful impact, we worked to safeguard the wellbeing of our people and communities by helping them to rise above the current challenges. As a responsible corporate, we continued to demonstrate our proclivity for persevering the environment by transforming our internal systems and processes as well as by undertaking high impact climate action projects. Meanwhile, to bring more clarity and cohesion to our future endeavours, we also revamped our SDG roadmap through the introduction of a target-driven framework through which to drive our efforts over the next years.

AWARDS AND ACCOLADES

Being able to win awards consistently over the years, especially in tough times, serves as a further testament to the strength of our business model and the appropriateness of our strategy.

As per the latest Brand Finance ratings, LBF was ranked 24th among the top 100. It is also very gratifying to see LBF being ranked 10th as most awarded entity by LMD and also ranked 20th for most respected entity.

Fitch ratings has maintained LBF's National Long Term Rating of A-(lka) on Rating Watch Negative (RWN) when most NBFIs and Banks being subject to downgrade.

SUBSIDIARY OPERATIONS

Our Subsidiaries made good progress in reinforcing their positions within their respective operating domains. LB Microfinance Myanmar Ltd, continued its strategic expansion by entering the Ayeyarwady region in Myanmar where the Company set up 02 new branches during the course of the current financial year.

Our latest acquisition, Multi Finance PLC also moved ahead with plans to consolidate core competencies to enable sustained growth.

WAY FORWARD

While I am extremely satisfied with how far LBF has come this past year, it is safe to say there is much more that needs to be done in order to achieve our vision for shared growth that will bring prosperity to people and businesses in every corner of the island.

I am confident that the new priorities outlined under our refreshed strategy will ready LBF to catalyse growth ambitions in due course. Furthermore, with the IMF-EFF facility now finalised, I expect will bring an end to policy uncertainty and the start of much needed structural reforms that will redirect the Country towards sustained economic recovery in the years ahead.

APPRECIATIONS

Before I sign off, I wish to acknowledge the LB team for their admirable commitment and dedication - thank you for staying true to the LBF's vision even in a difficult environment. I would also like to thank my colleagues on the Board for their tremendous support and encouragement at all times. I take this opportunity to place on record my sincere appreciation of Mr. Dhammika Perera, LBF's Executive Deputy Chairman who tendered his resignation from the office of Director with effect from 10th June 2022. Mr. Perera's dynamism and entrepreneurial spirit have been instrumental in bringing the Company to where it is today. While thanking Mr. Perera once again for his dedicated service for the past 19 years, I wish him well in all future endeavours.

A special word of thanks to the Governor of the Central Bank of Sri Lanka and the officials at the Department of Supervision of Non-Bank Financial Institutions, for their guidance at all times.

To our shareholders, customers and all other stakeholders, thank you for continuing to walk our journey with us. I trust you will be by our side as LBF strives to reach greater heights in the future.



GARD Prasanna
Chairman

31 May 2023

VALUE CREATION FOR OUR STAKEHOLDERS

Capitals	Stakeholders	Key indicators of capital management	Unit	Outcome on the capital		Trend
				2021/22	2022/23	
 FC FINANCIAL CAPITAL	<ul style="list-style-type: none"> ▶ Shareholders ▶ Lenders ▶ Employees 	Income growth	%	1.32	41.77	▲
		PAT growth	%	27.33	(2.33)	▼
		Assets growth	%	16.92	10.94	▼
		Market price per share	Rs.	58.00	55.00	▼
		Dividend yield	%	8.62	9.09	▲
		Market capitalisation	Rs. Mn	32,135	30,473	▼
		Dividend per share	Rs.	5.00	5.00	—
 MC MANUFACTURED CAPITAL	<ul style="list-style-type: none"> ▶ Shareholders ▶ Employees 	Profit per outlet	Rs. Mn	47.86	44.06	▼
		Income per outlet	Rs. Mn	166.33	222.68	▲
		Freehold land and buildings	Rs. Mn	53.04	70.74	▲
		Branches in Myanmar	Number	12	14	▲
 HC HUMAN CAPITAL	<ul style="list-style-type: none"> ▶ Employees 	Investment on training and development	Rs. Mn	6.11	11.71	▲
		No. of promotions	Number	45	1,214	▲
		Remuneration and benefits paid	Rs. Mn	3,193.77	3,533.42	▲
 IC INTELLECTUAL CAPITAL	<ul style="list-style-type: none"> ▶ Customers 	Investment on software development	Rs. Mn	-	15.94	▲
		Re-certification of 27001:2013		Done	Done	—
		Investment on IT	Rs. Mn	69.66	214.79	▲
 SC SOCIAL CAPITAL	<ul style="list-style-type: none"> ▶ Employees ▶ Regulators ▶ Community 	Projects to uplift the communities wellbeing	Number	20	25	▲
		Taxes paid to government	Rs. Mn	6,555.45	9,715.27	▲
		Corporate social investment	Rs. Mn	12.94	24.09	▲
		Economic value distributed	Rs. Mn	30,159.48	42,756.46	▲
 NC NATURAL CAPITAL	<ul style="list-style-type: none"> ▶ Community ▶ Employees 	Paper recycle	Kg	23,399	48,643	▲
		Energy consumption	GJ	30,944	14,384	▼
		Carbon footprint	tco ₂ e	3,259	3,480	▲

BOARD OF DIRECTORS



Left to right seated
Mr. Sumith Adhihetty - Managing Director, Mr. G A R D Prasanna - Chairman,
Mr. Niroshan Udage - Deputy Managing Director

Left to right standing
Mr. Dharmadasa Rangalle - Non-Executive Director, Mrs. Ashwini Natesan - Independent Non-Executive Director,
Mr. Ashane Jayasekara - Independent Non-Executive Director (Senior Independent Director),
Mrs. Yogadinusha Bhaskaran - Non-Executive Director, Mr. Ravindra Yatawara - Executive Director,
Ms. Yanika Amarasekera - Independent Non-Executive Director, Mr. B D A Perera - Executive Director



Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

BOARD OF DIRECTORS

Mr. G A R D Prasanna

Appointed to the Board

Appointed to the Board on 1st December 2021 and as the Chairman of the Board of Directors on 1st March 2022.

Role

Chairman/Non- Independent Non-Executive Director

Current appointments

Independent Non-Executive Director of Royal Ceramics Lanka PLC, Chairman/Director of Multi Finance PLC, Director of Rocell Bathware Limited, Director of Rocell Ceramics Distributors (Private) Limited, Director of Rocell Properties Limited, Director of Country Energy (Private) Limited, Director of Wise Property Solutions (Pvt) Ltd, Director of La Forteresse (Private) Limited, Director of Delmege Forsyth & Co. (Exports) (Pvt) Ltd, Director of Delmege Coir (Pvt) Ltd, Director of Delmege Forsyth & Co. (Shipping) Ltd, Director of Lewis Shipping (Pvt) Ltd, Director of Delmege Air Services (Pvt) Ltd, Director of Delmege Aviation Services (Pvt) Ltd, Director of Delmege Aero Services (Private) Limited, Director of Delmege Insurance Brokers (Pvt) Limited, Director of Delmege Airline Services (Private) Limited and Director of Grandmark (Pvt) Ltd.

Skills, experience

Mr. G A R D Prasanna has wide experience in various business management strategies and a business leader in manufacturing, banking and finance, leisure, plantations, and hydropower generation. He has many of years of experience in managing businesses and extensive governance experience gained through leadership of the Boards of quoted and unquoted companies.

Former appointments

Director of Lanka Ceramics PLC, Director of Delmege Forsyth & Co. Ltd, Director of Delship Services (Pvt) Ltd, Director of Lewis Brown Air Services (Pvt) Ltd, Chairman of Pan Asian Banking Corporation PLC, Director of Tekro Holdings (Pvt) Ltd, Delship Services (Pvt) Ltd, Hayleys Global Beverages (Pvt) Ltd, Director of Delmege Forsyth & Co. (Exports) (Pvt) Ltd, Delmege Coir (Pvt) Ltd, Director of Delmege Aviation Services (Pvt) Ltd and Alternate Director to Mr. K D D Perera of Lanka Tiles PLC.

Mr. Sumith Adhietty

Appointed to the Board

On 10th December 2003

Role

Managing Director

Current appointments

Non-Executive Director of Vallibel One PLC, Multi Finance PLC, LB Microfinance Myanmar Company Limited, The Fortress Resorts PLC, Greener Water Ltd., Summer Season Ltd., Summer Season Mirissa (Pvt) Ltd., Summer Season Residencies Ltd., and La Forteresse (Private) Limited.

Skills, experience

He is a well-known professional in the marketing field, counts over 44 years of experience in the finance sector.

Former appointments

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

Mr. Niroshan Udage

Appointed to the Board

On 1st January 2007

Role

Deputy Managing Director

Skills, experience

He holds Bachelor's Degree in Science from the University of Colombo and possesses 32 years of experience in the field of leasing and finance, including 10 years at Lanka Orix Leasing Company PLC and 03 years at Mercantile Investments Limited prior to joining LB Finance PLC in 2004. He has undergone extensive training in Strategy and Management in Banking conducted by Intentional Development Ireland Ltd in Dublin and London and also successfully completed High Potentials Leadership Program at Harvard Business School in Boston, MA, USA in 2012.

Current appointments

Non-Executive Director of Multi Finance PLC, LB Microfinance Myanmar Company Limited and Council Member of the Finance Houses Association of Sri Lanka (FHA).

Former appointments

Director of Hayleys Fibre PLC, Chairman of the Finance Houses Association of Sri Lanka (FHA), Member of the Financial System Stability Consultative Committee established by the Central Bank of Sri Lanka. Director of Credit Information Bureau of Sri Lanka (CRIB).

Mr. B D A Perera

Appointed to the Board

On 1st January 2007

Role

Executive Director

Skills, experience

He is an Associate Member of the Chartered Institute of Management Accountants of UK (ACMA), CGMA (UK) and holds a BSc (Business Administration) Special Degree from the University of Sri Jayewardenapura, successfully completed High Potentials Leadership Program in 2012 at Harvard Business School in Boston, MA, USA. Counts over 25 years of experience in the leasing industry that includes positions at Commercial Leasing Company Limited, Lanka Orix Leasing Company PLC and a Merchant Bank in Bangladesh.

Current appointments

Non-Executive Director of Multi Finance PLC, Director of LB Microfinance Myanmar Company Limited and Independent Non-Executive Director of Pan Asia Banking Corporation PLC

Former appointments

Director of Hayleys Fibre PLC

Mr. Ravindra Yatawara

Appointed to the Board

On 15th March 2016

Role

Executive Director

Skills, experience

He Holds a BSc. Degree in Business Administration from the Oklahoma State University, USA. Counts over 27 years' experience in the Finance Industry, including both Managerial and Senior Managerial positions in the LOLC Group, Hatton National Bank PLC and AMW Capital Leasing PLC.

Current appointments

Non-Executive Director of Multi Finance PLC and Director of LB Microfinance Myanmar Company Limited

Former appointments

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

Mr. Ashane Jayasekara

Appointed to the Board

On 30th October 2017, Appointed as Senior Independent Director on 1st March 2022

Role

Independent Non-Executive Director (Senior Independent Director)

Current appointments

Deputy Managing Partner – BDO Partners (Maldives), Member of the Governing Council - Institute of Chartered Accountants of Sri Lanka, Member of the Governing Council/ University of Colombo Sri Lanka. Director of BDO Partners (Pvt) Ltd, ISACA Sri Lanka Chapter, Sri Lanka Chapter of ACEF and Staff Link Consulting (Pvt) Ltd

Skills, experience

He is the Deputy Managing Partner of BDO in Sri Lanka & the Managing Director of BDO Partners (Pvt) Ltd. He heads the Risk, Cyber Security and the Fraud & Forensic Service Practice in the firm. As the IT Director he oversees the IS security strategy and privacy function in the Firm. He has over 19 years of experience in overseeing corporate governance reviews, risk assessments and compliance audits in private, publicly listed, multinational and government enterprises across a range of sectors. He has also managed fraud & forensic investigations and has prepared Forensic Audit reports for cases ranging from arbitration hearings to High Court cases. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, the Chartered Institute of Management Accountants (UK) and the British Computer Society (UK). He holds a Bachelor of Science Degree in Information Systems from the London Metropolitan University and a Master Degree in Business Administration from the University of Southern Queensland. He also Holds a LLM from Cardiff Metropolitan University. He is a Certified Internal Auditor, Certified Fraud Examiner, a Certified Information Systems Auditor and a Computer Hacking Forensic Investigator - USA. At CA Sri Lanka he currently serves as a Member of the Governing Council and Chairman of the Board of Management of the School of Accounting & Business. He is a visiting faculty member at leading state and private sector universities and has played a pioneering role in the introduction and delivery of Fraud & Forensic Accounting as a subject in undergraduate and postgraduate programs in Sri Lanka.

Former appointments

Director of B T Communications Lanka (Pvt) Ltd., Chairman of the Information Technology Faculty of the Institute of Chartered Accountants of Sri Lanka, President/Governor of Sri Lanka Chapter of the Institute of Internal Auditors (USA). Multi Finance PLC and Nexia Management Services (Pvt) Ltd.

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

BOARD OF DIRECTORS

Mrs. Yogadinusha Bhaskaran

Appointed to the Board

On 15th March 2016

Role

Non-Executive Director

Current appointments

Managing Director of Vallibel One PLC, Chairperson of Greener Water Ltd, Executive Director of Delmege Ltd, Non-Executive Director of Vallibel Power Erathna PLC, Multi Finance PLC, Vcashe Fintech (Pvt) Ltd and Country Energy (Private) Limited.

Skills, experience

Ms. Dinusha Bhaskaran is a Fellow of the Chartered Institute of Management Accountants UK (FCMA), Fellow of CPA Australia (FCPA) and Fellow Member of the Institute of Bankers Sri Lanka (IBSL).

Former appointments

Ms. Dinusha Bhaskaran has previously worked as a Chief Financial Officer of Clenergy, Australia and Financial Controller in several Australian companies based in Melbourne. Assistant General Manager (Finance & Planning) at Pan Asia Banking Corporation PLC. Alternate Director to Mr. K D D Perera on the Boards of Haycarb PLC, Hayleys Fabric PLC and Dipped Products PLC.

Mrs. Ashwini Natesan

Appointed to the Board

On 1st September 2018

Role

Independent Non-Executive Director

Current appointments

None

Former appointments

Independent Non-Executive Director of Multi Finance PLC.

Skills, experience

She is a qualified legal practitioner from India, specialising in Technology, Media and Telecommunications (TMT) Law. She consults on TMT Law issues including those concerning financial technology (FinTech). She also works on research projects relating to data protection, privacy, right to information, alternative dispute resolution mechanisms, etc. She frequently participates in national and international forums to speak on broader TMT law issues. In India, she has previously worked in litigation and corporate law offices including with Senior Counsel Mr. P. Wilson, former Additional Solicitor General of India and former Additional Advocate General of Tamil Nadu. She holds an LL.M (Master of Laws) in International Business Law from Faculty of Law, National University of Singapore where she graduated in the top five of her class. She has a Bachelor of Arts and Law (B.A. LL.B (Hons.), Distinction from the School of Excellence in Law, Tamil Nadu Dr. Ambedkar Law University, Chennai, India. Additionally, she has diplomas in International Business Management (offered by Loyola Institute of Business Administration, India) and Commercial Arbitration (offered by ICLP, Sri Lanka).

Mr. Dharmadasa Rangalle

Appointed to the Board

On 10th April 2019

Role

Non-Executive Director

Current appointments

Mr. Rangalle serves as a Non-Executive Director of Fentons Limited, Hayleys Aventura (Pvt.) Ltd. and Hayleys Advantis Limited, which are subsidiaries of Hayleys PLC, Multi Finance PLC, DHS Holdings (Pvt) Ltd and Flying Angel's Flight Academy (Pvt) Ltd.

He is also a member of the Executive Council - Sri Lanka Institute of Taxation - Sri Lanka.

Skills, experience

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

Former appointments

None

Ms. Yanika Amarasekera

Appointed to the Board

On 01 July 2021

Role

Independent Non-Executive Director

Current appointments

Chief Executive Officer of Silver Aisle (Pvt) Ltd.

Skills, experience

She is an alumni of the prestigious UC Berkeley from where she obtained two Bachelor of Arts degrees in Political Economy and Media Studies with an emphasis on Digital Marketing. She completed her MSc in Entrepreneurship, Innovation, and Management in Imperial College, London. She founded the country's first online wedding gift registry, Silver Aisle, which has since evolved into a multidimensional E-commerce gifting site and is now considered the premier platform of choice.

Former appointments

Independent Non-Executive Director of Greener Water Ltd and Non-Executive Director of Multi Finance PLC.

Right Solutions

Right Value

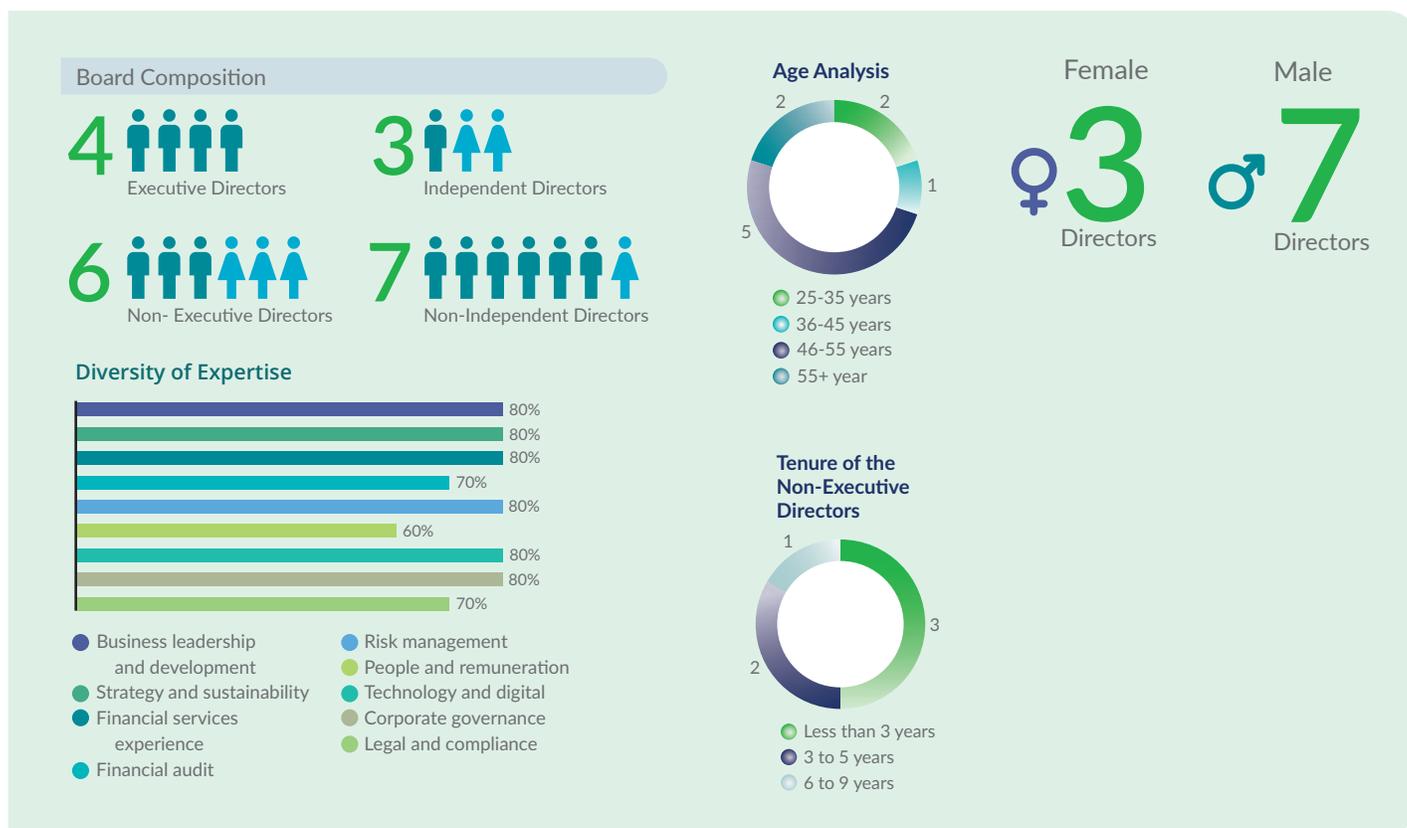
Right Direction

Right Experience

Right Vision

Right Strategy

Introduction



SENIOR MANAGEMENT



Mr. Marlon Perera

Senior Deputy General Manager
– Deposits



Mr. Ainsley Motha

Deputy General Manager
– Credit and Branch Operations



Mr. Chethana Kahandugoda

Deputy General Manager
– Information Technology



Mr. Roshan Jayawardena

Senior Assistant General
Manager – Micro Leasing



Mr. Prasanna Kalinga

Assistant General Manager
– Human Resources



Mr. Wickrama Punchihewa

Assistant General Manager
– Legal



Mr. Kalpa Sanjeewa

Assistant General Manager
– Credit and Branch Operations



Mr. Malith Hewage

Chief Financial Officer



Mr. Suneth Dabarera

Chief Internal Auditor



Mr. Suraj Karunanayaka

Assistant General Manager
– Gold Loan



Ms. Deshika Yatawara

Assistant General Manager
– Treasury



Mr. Kenneth Daniel

Senior Chief Manager
– Credit and Branch Operations



Mr. Chintaka Chandrasena

Chief Manager
- Credit and Branch Operations



Mr. Gihan De Silva

Chief Manager
- Recoveries



Mr. Gayan Aywardane

Chief Manager
- Central Region



Mr. Dinudaya Abeywardena

Chief Manager - Personal
Financing & Branch
Credit Operations



Mr. Dinusha Mudunkotuwa

Chief Manager
- Information Technology



Mr. Shanaka Perera

Senior Manager
- Administration



Mr. Sudeep Perera

Senior Manager
- Marketing



Mr. Waruna Perera

Country Manager
- Myanmar



Mr. Sameera Wanninayake

Senior Manager
- Business Process Development



Ms. Waruni Perera

Senior Manager
- Risk Management



Mr. Maheshan Karunaratne

Senior Manager
- Credit & Branch Operations



Mr. Prasad Surendra

Senior Manager
- Credit & Branch Operations

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

SENIOR MANAGEMENT



Mr. Chanaka Alexander

Senior Manager
– Credit & Branch Operations



Mr. Varuna Perera

Senior Manager
– Compliance



Mr. Surain Silva

Senior Manager
– Information Systems Audit



Mr. Chaminda Perera

Senior Manager
– Finance Operations



Mr. Stephan Migara Fonseka

Senior Manager
– Insurance



Mr. Shane Ahamat

Senior Manager
– Fixed Deposits



Mr. Nalin Rangajith

Senior Manager
– Fixed Deposits



Mr. Hemal Ekanayake

Senior Manager
– ERP & Business Analysis



Mr. Thusitha Wickrama

Senior Manager
– Integrated Reporting &
Sustainability

Time-tested knowledge and powerful insights that enable us to rely on

THE RIGHT EXPERIENCE AT THE RIGHT TIME

A longstanding journey through ever-evolving conditions has empowered us with the ability to remain agile and responsive in the face of change.



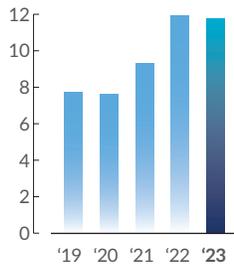


MANAGING DIRECTOR'S REVIEW

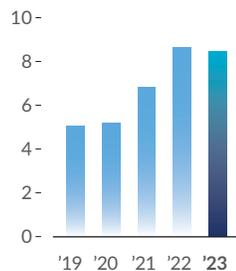
Our outstanding financial performance for FY 2022/23 stands testament to our willingness to engage right moves, at the right time. PAT surpassed budgeted expectations to reach Rs. 8.46 Bn.

Sumith Adihetty
Managing Director

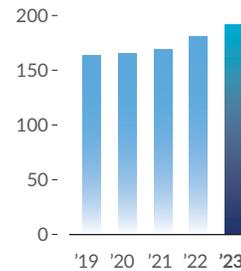
Profit Before Tax (PBT) Rs.Bn



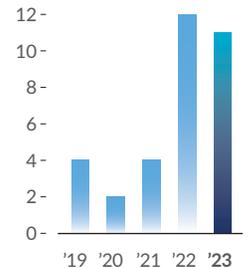
Profit After Tax (PAT) Rs.Bn



Total Branches No.



New Branches Opened No.



CUSTOMERS CENTRE OF THE BUSINESS

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

STRENGTHEN OUR FOOTPRINT

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



English



Sinhala



Tamil

PDF versions



AUDIO VERSION
SCAN AND LISTEN

PLAYLIST

It was another challenging year for the Sri Lankan economy, marked by political and social unrest, widespread shortage of essentials and runaway inflation that pushed the economy into a tailspin and caused an unprecedented deceleration in economic activity. With official data suggesting that the real GDP contracted by 7.8% in 2022, compared to the growth of 3.5% in 2021, it was clear that Sri Lanka had missed out on the chance to reap the benefits of the highly anticipated post-COVID revival.

While most key sectors of the economy were affected by the crisis in some way, the SME sector appeared to be decidedly worse off. Having endured back to back stress over the past few years starting with the Easter attacks and followed by several years of pandemic induced economic woes, the SME sector seemingly reached near breaking point in 2022 with the ripple effect visible across key economic indicators such as national output, unemployment and per capita income.

Being the main champion of the SME sector, the NBF sector too was directly affected by the fallout. Sector-wide NPL's / stage 3 loans increased by 66.1% year on year, in sharp contrast to the 13.9% decrease

registered in 2021. Despite its core leasing business thwarted by the ongoing restriction on vehicle imports, the NBF sector demonstrated its resilience by recording robust credit expansion fuelled by a surge in gold loans which grew by 77.5% during 2022.

THE RIGHT MOVES, AT THE RIGHT TIME

Admittedly much of what was happening around us was beyond our control. Nonetheless, unwilling to leave anything to chance, we moved quickly to take stock of the situation and right from the get go began implementing action to improve business resilience and preserve the integrity of our brand. Our goal was to be proactive rather than reactive.

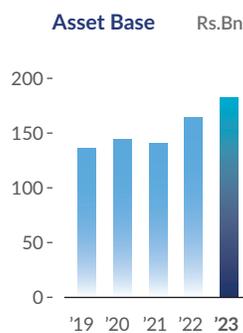
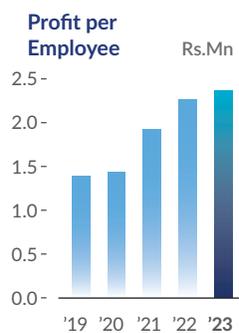
As policy rates shot up in April 2022 by seven percentage points and then kept moving upward, we continuously analysed various asset classes with a view to minimise the impact of rate shocks against various rate sensitive assets. Consequently, short term assets such as the Gold Loan portfolio were strategically repriced to reflect the frequent rate revisions.

On the other hand, a more broad-based approach was applied for managing long term asset positions. Quite aware of the repeated shocks that our core MSME customer base has been subject to in recent years, we felt that repricing would be counterproductive. As such, we refrained from repricing our existing auto finance book in line with rising rates, focusing instead on alternative strategies to reduce the concentration risk exposure on long term assets. In this regard, we started promoting refinance facilities mainly for short term working capital needs of existing customers, this too only among customers presenting a high credit score. We also revised internal loan-to-value ratios and tightened customer due diligence to realign our lending priorities towards high quality new exposures.

At the same time, we continued to maintain a keen focus on recoveries throughout the year and with additional resources mobilised towards this endeavour we were able to comfortably achieve targeted recovery ratios. Moreover, following the conclusion of all Government-led moratoria by end December 2022, we further amplified recovery action for moratoria customers, which I am pleased to see has produced some very satisfactory outcomes.

As a culmination of our disciplined lending approaches and strong recoveries, LBF's auto finance portfolio declined by 11% on an overall basis compared to the previous year, thus ensuring portfolio exposures were contained within Board approved risk benchmarks.

In light of the greater restraint exercised in the auto finance domain, LBF's main credit expansion strategy for the current financial year was led by Gold Loans. Capitalising on the short term nature of the Gold Loan product, we were quite aggressive in our efforts to grow the portfolio, which saw the Gold Portfolio recording robust 46% growth year on year. Bolstered by these results, LBF's captive market share in the Gold Loan space positioned at 30% during the year under review.



EMPLOYING OUR STRENGTHS

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

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

Nonetheless, unwilling to leave anything to chance, we moved quickly to take stock of the situation and right from the get go began implementing action to improve business resilience and preserve the integrity of our brand. Our goal was to be proactive rather than reactive.

STRENGTHENING OUR FOOTPRINT

It was by far one of the most eventful years for our branch network. 11 new branches were commissioned, 09 were opened in the north and east regions of the Country. A big part of our north east outreach strategy is the emphasis on increasing the level of financial inclusion in Sri Lanka.

With the new additions, LBF's branch networks stands at 192, one of the largest networks in the NBF sector.

ACCELERATING DIGITAL TRANSFORMATION

Our digital transformation strategy witnessed a significant advancement in the current financial year marked by some important milestones that reaffirm LBF's leadership in Sri Lanka's digital financial services space.

Our industry leading CIM Business Loan mobilised via the LB CIM mobile app, gained good traction and showed incremental month-on-month growth throughout FY 2022/23. Inspired by these numbers, we further expanded the digital product suite with several new innovative financing solutions rolled out on the LB CIM wallet app, among them the CIM Personal Loan specifically for salaried employees. The business loan and personal loan, being rule engine-based products, have both emerged as strong contenders to support our loan quality parameters. Equally importantly, the structural soundness and in-built recovery schematics have ensured near zero default risk for both products.

I am also pleased to note the growing popularity of Gold Loan top ups, which was the very first digital financial product launched on the CIM app. Credit granted through Gold Loan tops ups exceeded all expectations in the current financial year, which I believe validates its relevance as a mainstream financial solution.

Aside from the focus on front end upgrades, we continued to reform our backend architecture using the latest AI-based technology. Most notably, the credit scoring system for Gold Loans was further refined with the introduction of scientific modelling techniques to drive greater customisation in our lending approaches. Similarly, we began actively using analytical dashboards to reorient our credit evaluation and granting decisions based on more effective customer segmentation.

Needless to say, robotic process automation remained a prominent feature in our efforts to streamline internal processes and drive organisation-wide cost efficiencies.

OUTPERFORMING EXPECTATIONS

Our outstanding financial performance for FY 2022/23 stands testament to our willingness to engage right moves, at the right time. At Rs. 8.46 Bn PAT overshot the budgeted Rs. 5.98 Bn by a resounding 41.47%, while PAT decreased by 2.33% year on year in conjunction with the newly imposed taxes and higher tax expenses resulting from the higher corporate tax rate applicable for the year under review.

LBF's balance sheet also further strengthened as stage 3 impairment values declined on the back of improved collections.

PROTECTING HUMAN CAPITAL

As always, our people remained a great strength and in turn we continued to support them to navigate these challenging times. Recognising the inflation-induced cost pressures we rolled out various monetary incentive schemes for employees at different levels, including for new recruits on probation.

Seeing the current economic crisis driving unprecedented numbers to pursue overseas employment, we took early action to prevent LBF from facing such a crisis. A highly focused talent development initiative was launched with a view to build a pipeline of multi talented employees who could potentially drive the strategic ambitions of the LBF Group in the years ahead. The programme which included special training interventions coupled with a leadership development series was specially curated for our middle management cadre.

In light of the ongoing economic crisis, all employee engagement activities were held on a smaller scale than in the past. However, we did encourage our leaders and managers to make a conscious effort to reach out and interact with their respective teams more frequently.

The other major engagement activity was the "Great Place to Work" (GPTW) survey in 2022. While the results of the survey are still being processed, I am told that initial findings indicate a LBF stands out for high levels of employee motivation and satisfaction.

ADVOCATING SUSTAINABILITY

LBF's sustainability transformation remained on track backed by our digital agenda. Most of the LBF's internal processes are now running on a paperless environment. These are indeed an encouraging, which leads me to think that our intention to be a fully paperless workplace by 2026, is a very attainable goal.

LBF continued with its community initiatives focused on education, knowledge sharing and community wellbeing with a total of Rs. 15.56 million incurred towards these efforts in the current financial year.

PREPARING FOR A SMOOTH RIDE AHEAD

Everything we achieved this past year has been amidst the backdrop of extreme economic duress, which I believe reflects our determination to defy the odds. It is also the reason that I remain very optimistic about what we can accomplish when economic conditions are more conducive.

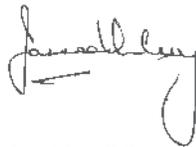
Going forward, I foresee intense competitive pressure within the NBF sector as all players ready themselves to capitalise on the imminent market pick up over the next twelve months. That said, I believe LBF will operate from a position of strength, not only because of our overwhelming success this past year, but also because of our commitment to deliver on our promise of shared value creation. As we journey onward, we will remain firmly anchored to the core foundational principles - customer affinity, prudent lending, and digital augmentation coupled with robust risk management and oversight, which together have proven to be an unbeatable combination for assured success.

APPRECIATIONS

I take this opportunity to thank our Chairman and the Board of Directors for their foresight and visionary leadership that has paved the way for LBF to continue to grow sustainably regardless of challenges.

I also wish to express my sincere appreciation to the corporate management and staff who rallied together and worked tirelessly to serve our customers and honour the commitments made to all stakeholders.

To conclude, I wish to extend my sincere thanks to all our customers, shareholders and other stakeholders for the trust and confidence placed in the LB brand. Rest assured LB Finance PLC remains unequivocally committed to exceed your expectations in the years ahead.



Sumith Adhichetty
Managing Director

31 May 2023

OUR OPERATING CONTEXT

LBF’s operating context is defined by global and local drivers that influence our ability to do business. While changes in the operating environment are largely beyond our control, we remain vigilant of new developments and proactively analyse these trends to determine likely risks to our business model and identify potentially beneficial opportunities.



1 SOUTH ASIAN CONTEXT

The economies of the South Asia Region (SAR) continue to be adversely affected by shocks emanating from the Russian Federation’s invasion of Ukraine, including higher food and energy prices, alongside tightening global financial conditions giving rise to uncharacteristically high inflation. The repercussions of these developments saw many SAR economies witnessing contractions in trade, hospitality, construction activity and industrial output, coupled with severe pressure on disposable incomes. According to statistics published by the World Bank, deteriorating economic conditions appears to have led to a substantial increase in poverty in countries Afghanistan, Pakistan and Sri Lanka.

Source – Global Economic Prospects - January 2023 (World Bank)

2 SRI LANKAN ECONOMIC OVERVIEW

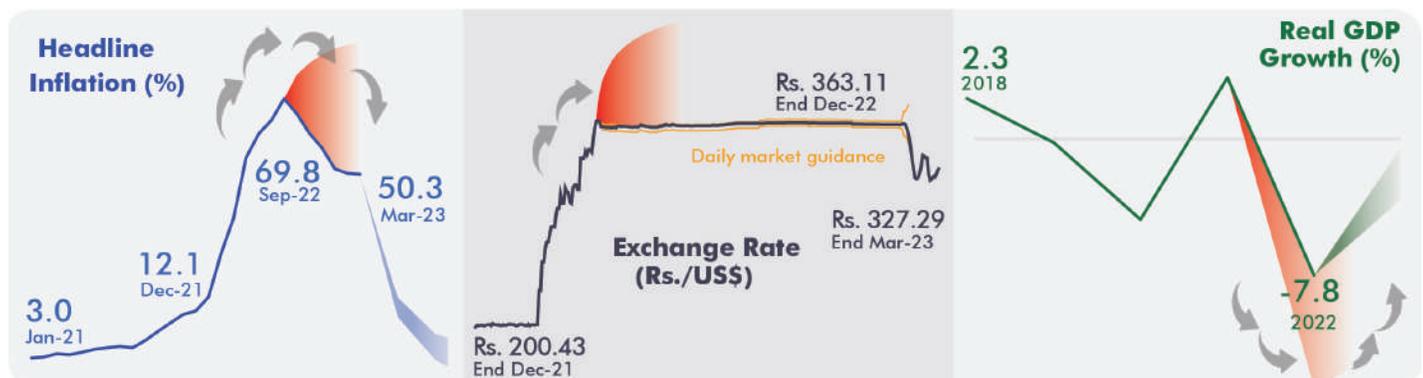
The economies of the South Asia Region (SAR) continue to be adversely affected by shocks emanating from the Russian Federation’s invasion of Ukraine, including higher food and energy prices, alongside tightening global financial conditions giving rise to uncharacteristically high inflation. The repercussions of these developments saw many SAR economies witnessing contractions in trade, hospitality, construction activity and industrial output, coupled with severe pressure on disposable incomes. According to statistic published by the World Bank, deteriorating economic conditions appears to have led to a substantial increase in poverty in countries Afghanistan, Pakistan and Sri Lanka.

Source Global Economic Prospects - January 2023 (World Bank)

3 NBFi SECTOR OVERVIEW

NBFi sector managed to continue its expansion during 2022 amidst the economic contraction experienced by the country. Driven mainly by loans and advances, the asset base of the sector expanded by Rs. 123 billion recording a growth of 8.3% to reach Rs. 1,611.2 billion by end 2022, compared to the 6.1% growth recorded in 2021. However amidst the significant economic deceleration, the NBFi sector total gross NPLs/Stage 3 loans increased by 66.1% as at end 2022 on a year-on-year basis, compared to the decrease of 13.9% recorded as at end 2021.

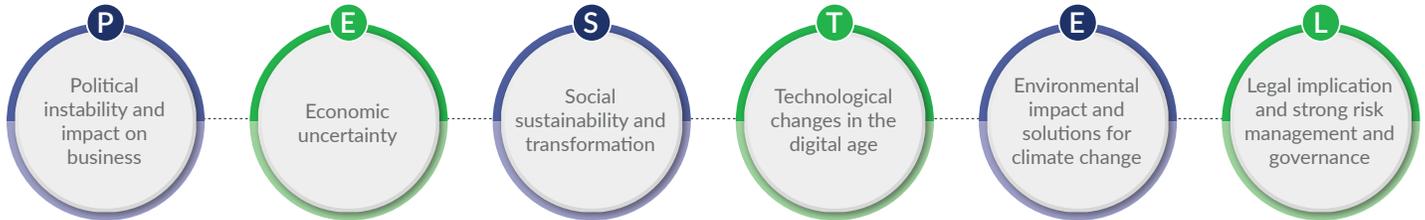
Source: CBSL AR 2022



Source: CBSL AR 2022

4 HORIZON SCAN

Based on the ongoing horizon scans carried out in the current financial year, we discovered several factors that likely influence our growth strategy in varying degrees of intensity. These factors are analysed in greater detail, below;



P Political instability and impact on business

Operating environment and its impact on NBF sector

To maintain leadership in the fast-evolving financial services sector, NBFs are seeking now more than ever, to create a differentiation based on closer ties with customers and other stakeholders.

Furthermore, given the rapid depletion in per capita income in recent years, NBF's have started focusing on expanding their product suite to promote inclusive finance. At the same time Companies are increasingly using digital platforms to encourage stakeholder participation to broaden their corporate CSR activities.

Key highlights

New guidelines were issued to manage the concentration risk of the gold loan portfolio

Drivers	Impact / Strategic Response	Opportunity/Threat	Rating
Unsustainable governmental policies	The restriction on vehicle imports remains in force and continues to adversely impact the LBF's core leasing business, which has urged the Company to pursue for alternative lending opportunities such as Gold Loans	Threat	High

Implications for value

Inability to support small business owners (MSME's) and individuals to safeguard their financial wellbeing

Impact on our business and Strategic Response

Higher recovery costs and increased risk of customer defaults

Related risks | Credit risk - default risk, concentration risk, recovery risk

Governance in action

The Board revisited risk appetite limits with a view to managing credit quality, while overall lending principles were also examined with more emphasis on strengthening the credit evaluation and approval procedures

Related opportunities

Pursue alternative opportunities for credit expansion through more secured lending models

Link to short-term strategies

Maintain liquidity levels in-line with regulatory benchmarks

Link to medium-term strategies

Establish reliable contingency funding lines to support business needs

Link to long-term strategies

Ensure adequate liquidity buffers to meet emergency requirements of customers

Materiality

CEC LRC

SDG impact

10 16 17

Capitals impacted

FC MC

Strategic focus

BS BO

OUR OPERATING CONTEXT

E Economic Uncertainty

Operating environment and its impact on NBF1 sector

The deceleration in economic activity had a major adverse impact on the MSME sector. Similarly, inflationary conditions saw MSME's facing severe cost escalations, resulting in extreme margin pressure. And with MSME's being the main market for the NBF1 sector, the NBF1 sector too experienced some notable challenges in terms of credit expansion and credit quality.

Moreover, consecutive downgrades of Sri Lanka's sovereign rating since 2020, continued to affect the country's credibility in the international arena, in turn restricting access to USD funding lines.

Another major issue was the lack of adequate market liquidity which raised concerns regarding possible restructuring of LKR denominated instruments (SLDB's).

Key highlights

Regular stress testing of LBF's asset portfolios to assess the impact of interest rate shocks under both normal and stress conditions

Drivers	Impact / Strategic Response	Opportunity/Threat	Rating
Upward trend in interest rates	The pressure on NII owing to frequent and ad-hoc increase in policy interest rates, prompted LBF to engage in strategic repricing of portfolios	Threat	High

Implications for value

The high price of credit may prove to be deterrent for many customer segments

Impact on our business model

Restricted credit expansion due to weak credit appetite from the market

Related risks | Interest rate risk

Governance in action

In order to deal with the economic instability, the Board amended LBF's short- and medium-term strategic plan to facilitate continuous realignment of business plans in tandem with findings from current risk assessments

Related opportunities

Drive fee based income sources

Link to short-term strategies

Systematically reduce the exposure to interest sensitive assets

Link to medium-term strategies

Implement variable lending schemes pegged to interest rate movements

Link to long-term strategies

Promote sustainable finance to mitigate the impact of interest rate fluctuations

Materiality

CBI CEC

SDG impact

8 10 12

Capitals impacted

FC MC IC

Strategic Focus

BS BSF

S Social Sustainability and Transformation

Operating environment and its impact on NBF sector

Financial institutions can play a vital role in finding solutions for climate change, mainly through their credit granting operations and also by strengthening green ethics among the wider society.

As organizations become more cognisant of their environmental responsibilities, many are adopting global best practices such as the carbon footprint calculation to make informed decisions that support the transition of low carbon economy.

Key highlights

LBF's Facebook page was used to create positive conversations revolving around solutions to ongoing challenges

Drivers	Impact / Strategic Response	Opportunity/Threat	Rating
Growing influence of social media	Social media serves as an excellent platform to drive customer intimacy. Having understood this, LBF has progressively increased its social media footprint over the past three years	Opportunity	Medium

Implications for value

Ability to strengthen customer trust and build a loyal customer base

Impact on our business model

Improved outcomes from the product development and service delivery processes based on customer insights

Related risks | Reputational risk

Governance in action

In light of the social unrest and other disruptions, the management decided to expand LBF's social media focus to bring more visibility to the industry leading initiatives undertaken by the Company to advance sustainability for the benefit of internal and external stakeholders

Related opportunities

Pursue value adding partnerships with customers

Link to short-term strategies

Further strengthen information security architecture to safeguard customer privacy

Link to medium-term strategies

Leverage social media to drive partnerships with customers for the purpose of value addition

Link to long-term strategies

Track customer satisfaction and loyalty as a more frequent indicator across the business

Materiality

ITC CBI

SDG impact

1 2 3 4 13 15

Capitals impacted

FC MC SC

Strategic focus

BO IG

OUR OPERATING CONTEXT

T Technological Changes in the Digital Age

Operating environment and its impact on NBFi sector

Growing global technology trends continue to influence the perceptions and consumption of financial services, which has urged financial institutions to rethink the validity of the conventional brick-and-mortar model in the delivering financial services to customers. While the local NBFi too appears to be slowly embracing these trends, the current model represents a hybrid version involving a combination of both traditional channels and new age digital mediums.

Key highlights

A formal Technology Risk Management Policy was implemented encapsulating the requirements set out under the Finance Business Act Direction no. 1 of 2022 on Technology Risk Management and Resilience

Drivers	Impact / Strategic Response	Opportunity/Threat	Rating
Demand for financial solutions accessible from anywhere at anytime	Digital financial services are a quick and highly cost effective medium of satisfying the customers' financial needs. Leading by example, LBF has significantly accelerated its Digital channel architecture through broad based improvements to the LB CIM app	Opportunity	High
Decision making using AI	The advent of AI has significantly enhanced the effectiveness of decision making by providing deeper insight and 360-degree visibility into customer behaviour. LBF has started investing in AI to assimilate emerging requirements, determine behaviour patterns and understand customer pain points, all critical factors to support more effective decision making	Opportunity	Medium
Robotic Process Automation (RPA)	Although the initial investment in RPA is high, the cost advantages over time are significant. LBF's RPA journey which started a few years ago has steadily gathered momentum in the past two years.	Opportunity	Medium

Implications for value

New and updated products and services with 24/7-365 day availability to empower customers to manage their financial needs.

Meanwhile more informed decision making and greater cost efficiencies resulting from automation enable better returns for shareholders.

Impact on our business model

Increased resources being diverted towards in-house IT research along with the possibility of pursuing value adding external partnerships

Related risks | Operational Risk, Information Technology and Information Security Risk, Strategic Risk

Governance in action

Given the increased use of digital channels the Board increased the focus on building LBF's IT system resilience and effectively managing information security risks

Related opportunities

Realise significant cost efficiencies at all levels of the business.

Link to short-term strategies

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

Link to medium-term strategies

Strengthen data science and behavioural capabilities to improve customer mapping

Link to long-term strategies

Improve operational efficiency by making sure that LBF's technology is stable, efficient, secure, and robust while automating our processes and transitioning to cloud-based solutions.

Materiality

ITC CBI

SDG impact

9 11 12

Capitals impacted

FC MC IC

Strategic focus

BS IG

E Environmental Impact and Solutions for Climate Change

Operating environment and its impact on NBF sector

Financial institutions can play a vital role in finding solutions for climate change, mainly through their credit granting operations and also by strengthening green ethics among the wider society.

As organizations become more cognisant of their environmental responsibilities, many are adopting global best practices such as the carbon footprint calculation to make informed decisions that support the transition a low carbon economy.

Key highlights

Reduction in paper waste due to digitisation and automation initiatives

Zero incidents of non compliance of environment regulations

Drivers	Impact / Strategic Response	Opportunity/Threat	Rating
Green financing	Green financing activities that focus on eco-friendly activities such as renewable energy and low carbon emissions pave the way for a cleaner environment. LBF has developed green finance schemes to provide funding for hybrid vehicles.	Opportunity	Medium
Growing concern within society about safeguarding the environment.	A more environmental conscious society brings incalculable benefits and LBF strives to do its part to support this endeavour by raising awareness among stakeholders.	Opportunity	Low

Implications for value

A greener and cleaner planet will be a strong legacy for generations to inherit.

Impact on our business model

Strengthens LBF's brand credentials as an environmental advocate

Related risks | Reputational risk

Governance in action

The Sustainability Committee reviewed the progress of LBF's environmental plan, including the LBF's response to climate actions through the EMS

Related opportunities

Accelerate the transformation to a fully digitized financial services provider

Link to short-term strategies

Focused strategies to demonstrate advocacy of environmental awareness

Link to medium-term strategies

Systematically increase process automation to cover at least 90% of internal operations

Link to long-term strategies

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

Materiality

LRC CBI

SDG impact

8 9 17

Capitals impacted

FC SC NC

Strategic focus

BO IG

OUR OPERATING CONTEXT

L Legal and Regulatory Compliance and Best Practices

Operating environment and its impact on NBFIs sector

Increasing regulation has become a major part of the evolutionary process of the NBFIs sector. Global best practices are also now increasingly underscoring the stability and good standing of the NBFIs sector.

Key highlights

LBF began working towards early adaptation of the mandates set out under the Personal Data Protection Act No 9 of 2022

Drivers	Impact / Strategic Response	Opportunity/Threat	Rating
New Regulatory Directives	New developments in the legal and regulatory environment help to maintain the soundness of the financial system. LBF welcomes new regulations and strives lead by example in the early adoption of new regulations	Opportunity	High
Global Best Practices	Global Best Practices improves the credibility and stability of organisations. LBF seeks voluntary adoption of global best practices applicable to financial institutions.	Opportunity	High

Implications for value

A well-managed and compliant organisation is able to retain stakeholder trust over time

Impact on our business model

Increased resources being diverted to strengthen internal control systems and obtain independent validations regarding the efficacy of these systems

Related risks | Reputational risk

Governance in action

The LBF Board continued to exercise its zero-tolerance approach for non-compliance, while advocating for the voluntary adoption of global best practices

Related opportunities

Achieve recognition for compliance leadership

Link to short-term strategies

Maintain the commitment to compliance leadership

Link to medium-term strategies

Invest digital technology to automate compliance and best practice implementation and monitoring, where possible and practical

Link to long-term strategies

Pursue collaborative partnerships to drive more stringent independent oversight over regulatory matters

Materiality

LRC CEC

SDG impact

10 12 16

Capitals impacted

FC IC

Strategic focus

BS BSF

5 BEYOND THE SWOT - TOWS ANALYSIS

SWOT (strengths, weaknesses, opportunities, and threats) are the key pillars that underpin LBF's competitive position and industry standing. At LBF we consider the SWOT not as a fixed constituent, but rather as something that is continuously evolving. Premised on this, we frequently perform TOWS analysis to match our strengths against discernible opportunities and evaluate our threats vis-a-vis identifiable weaknesses.

TOWS MATRIX	 EXTERNAL OPPORTUNITIES 	 EXTERNAL THREATS 
		<ul style="list-style-type: none"> Promote financial inclusion Attraction of new customer Technology enhancement Increase Market Share
 INTERNAL STRENGTHS 		
<ul style="list-style-type: none"> Operational resilience Best brand amongst NBFs Widest geographical reach Experienced and qualified Board 	<ul style="list-style-type: none"> Increase market share through branch expansion (O4, S3) Investment on new ventures and expand the regional presence (O1, S1) Conducting brand loyalty programmes (O2, S2) 	<ul style="list-style-type: none"> Investment on research and development (S1, T1) Increasing product qualities and customized products (S3, T4) Focus on profit around customer (S1, T1) Board attention on green financing and green initiatives (S4, T3)
 INTERNAL WEAKNESSES 		
<ul style="list-style-type: none"> High attrition Untouched potential markets Possible automated areas 	<ul style="list-style-type: none"> Capacity building and increase investment on Training (O2, W1) Further strengthen the digital wallet to the MSME/SME (O1, W2) Capitalize on digital innovation and infrastructure (O3, W3) 	<ul style="list-style-type: none"> Install fully fledged digital branches (T3, W3) Technological empowered employees (T2, W1) Strengthen in-house software developments (T3, W2)

6 MARKET FORCES AND COMPETITIVE LANDSCAPE (FIVE FORCES)



1. Power of the customer

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

Strategic response

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

Impact

H

MD's statement on pages 66 to 69, social and relationship capital on pages 170 to 191, business line review pages 99 to 118.

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

OUR OPERATING CONTEXT



II. Threat of new entrants

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

Strategic response

Build a strong and credible brand that stands out among peers

Impact

L

MD's statement on pages 66 to 69, business line review on pages 99 to 118



III. Competitive rivalry

Number of competitors

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

Switching cost

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

Customer loyalty

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

Strategic response

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

Impact

H

MD's statement on pages 66 to 69, social and relationship capital on pages 170 to 191, business line review on pages 99 to 118



IV. Power of the business partners

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

Strategic response

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

Impact

M

Social and relationship capital on pages 170 to 191, business line review on pages 99 to 118



V. Threat of substitute products

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

Strategic response

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

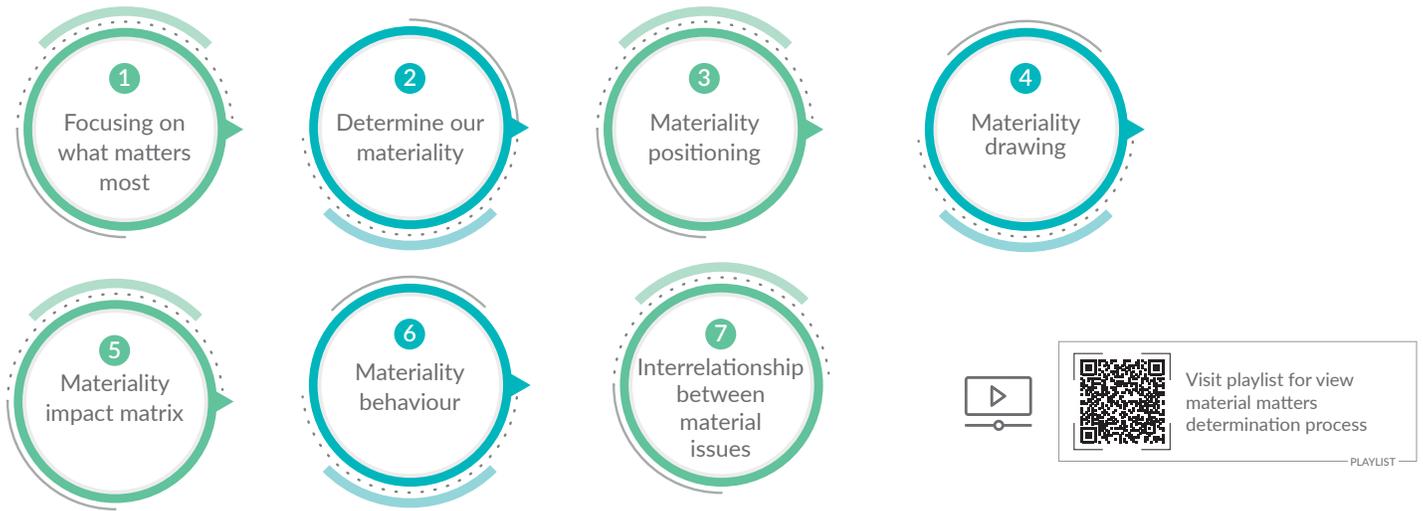
Impact

H

Social and relationship capital on pages 170 to 191, business line review on pages 99 to 118

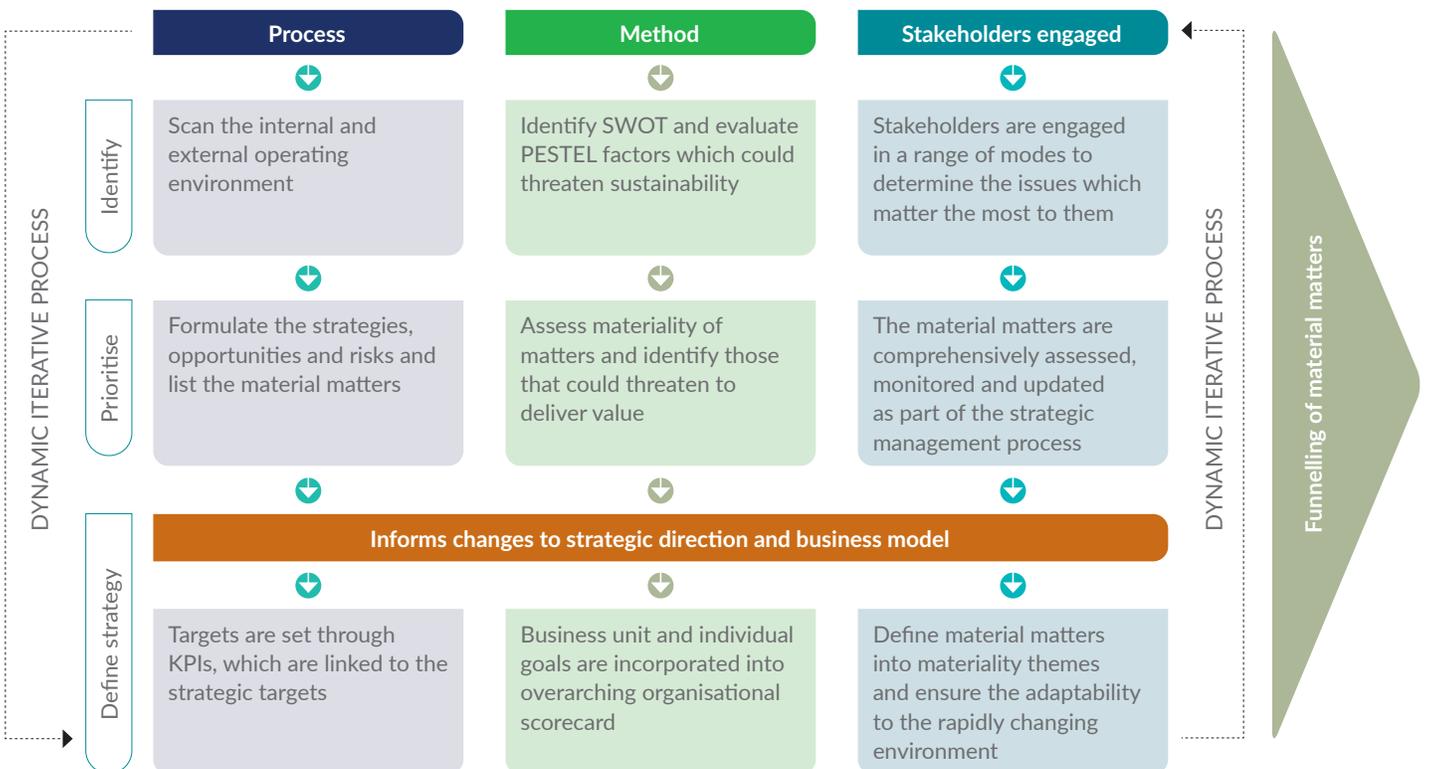
DEFINING OUR MATERIAL MATTERS

During the year, we expanded the scope of our materiality review to determine the relevance of our existing material matters and identify any new topics that may have become relevant in the current context. These findings are discussed further in this section.



1 FOCUSING ON WHAT MATTERS MOST

Our materiality determination process is undertaken on an annual basis as part of a multi-functional review to evaluate those risks, opportunities and challenges which could significantly affect our ability to achieve our organisational purpose and/or hinder our ability to create and/or preserve value over the short, medium and long term.



DEFINING OUR MATERIAL MATTERS

2 DETERMINE OUR MATERIALITY

With our operating environment (see page 70), the risks and opportunities arising therefrom, as well as our stakeholder relationships (see page 40) continuously influencing our ability to create and deliver value (see page 26), we believe it is vital that we understand the material matters within this ecosystem and take steps to align these factors with our strategy (page 90).



External environment

Our external environment is dynamic and ever-changing. LBF's ability to keep pace with these developments is based on how well we understand the material matters that arise from changes taking place in the external environment

Refer page 70



Stakeholder relationships

Quality stakeholder engagement is a key component of our ability to create value. Effective feedback and two-way communication enable the Company to identify material risks and opportunities for our stakeholders. In this way, stakeholder engagement informs our material matters and supports our strategic response

Refer page 40



Risks and opportunities

Our enterprise risk management process monitors the risks and opportunities that can significantly influence our ability to create value by measuring the impacts and potential impacts using both quantitative and qualitative parameters

Refer page 77



Material matters

To ensure material matters are addressed effectively through our strategy, we assess the impact of each matter in the context of the business, the environment and people, including the influence on human rights, if any

Refer page 14

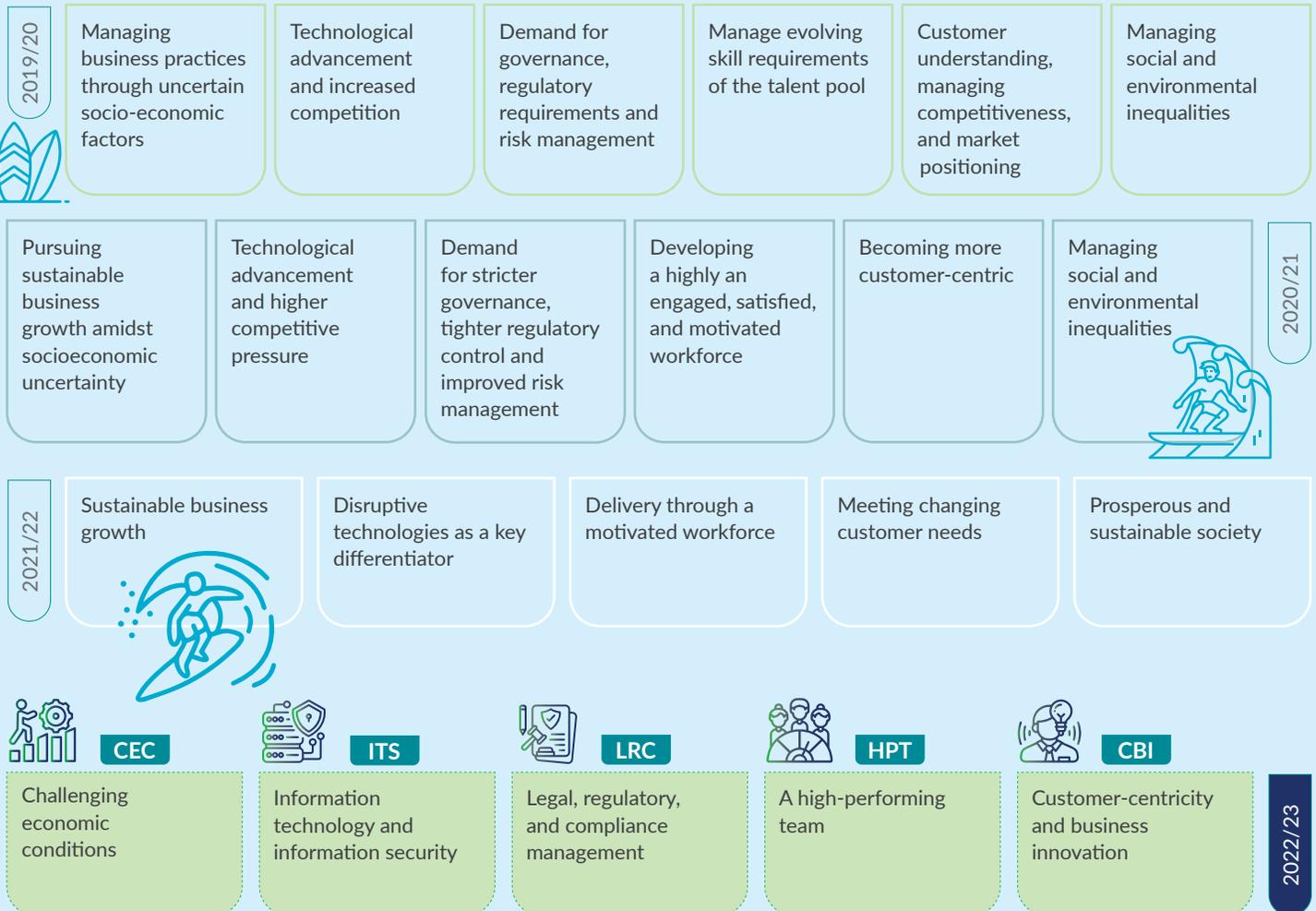


Strategy

We integrate material matters into our strategy via short, medium, and long-term plans to ensure we strike a balance between consistent organisational growth and sustainable stakeholder value creation over time

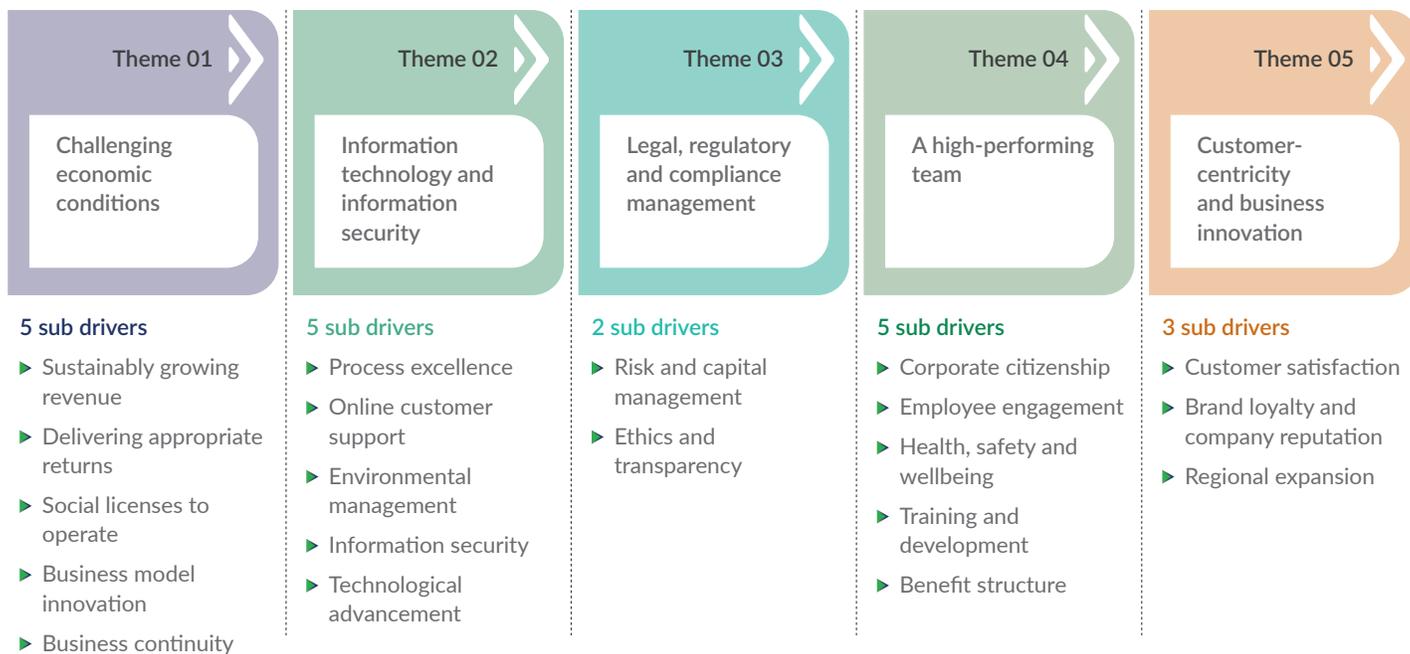
Refer page 90

Evolution of material matters



3 MATERIALITY POSITIONING

Determining the material drivers is crucial to guide decision-making, as it offers a broader peripheral view of the risks and opportunities inherent to our business. We present below material drivers which influence the ability to deliver value to the stakeholders.



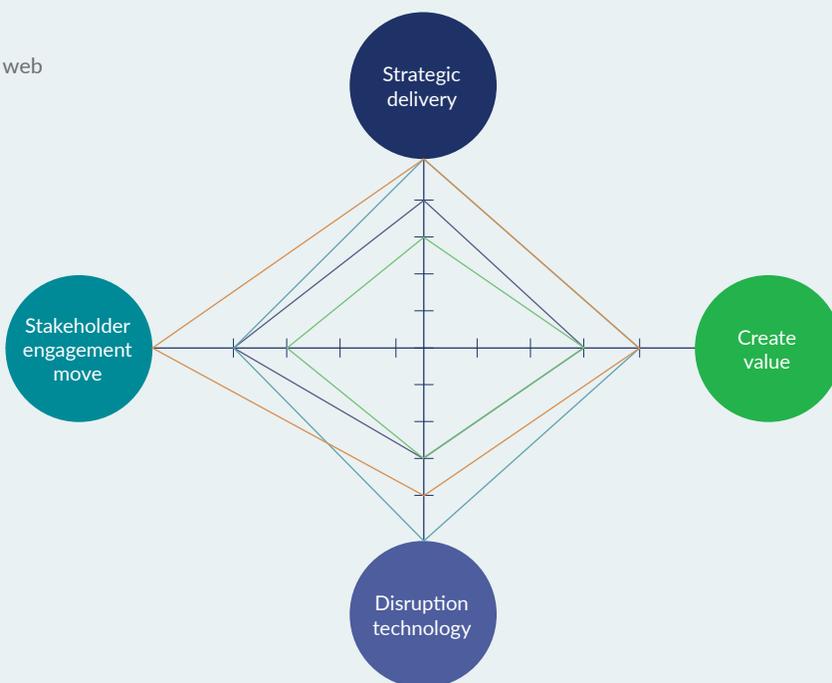
4 MATERIALITY DRAWING

Materiality Radar

We seek to ensure that our reporting disclosures continue to reflect our response to the material matters raised by our stakeholders and we have plotted these matters on the materiality radar. The coloured lines on the materiality radar depict matters of importance to both the business and stakeholders. We regularly review and update these material matters in the context of the rapidly changing business and societal context, as well as stakeholder feedback and emerging trends.

Materiality radar: Spider web

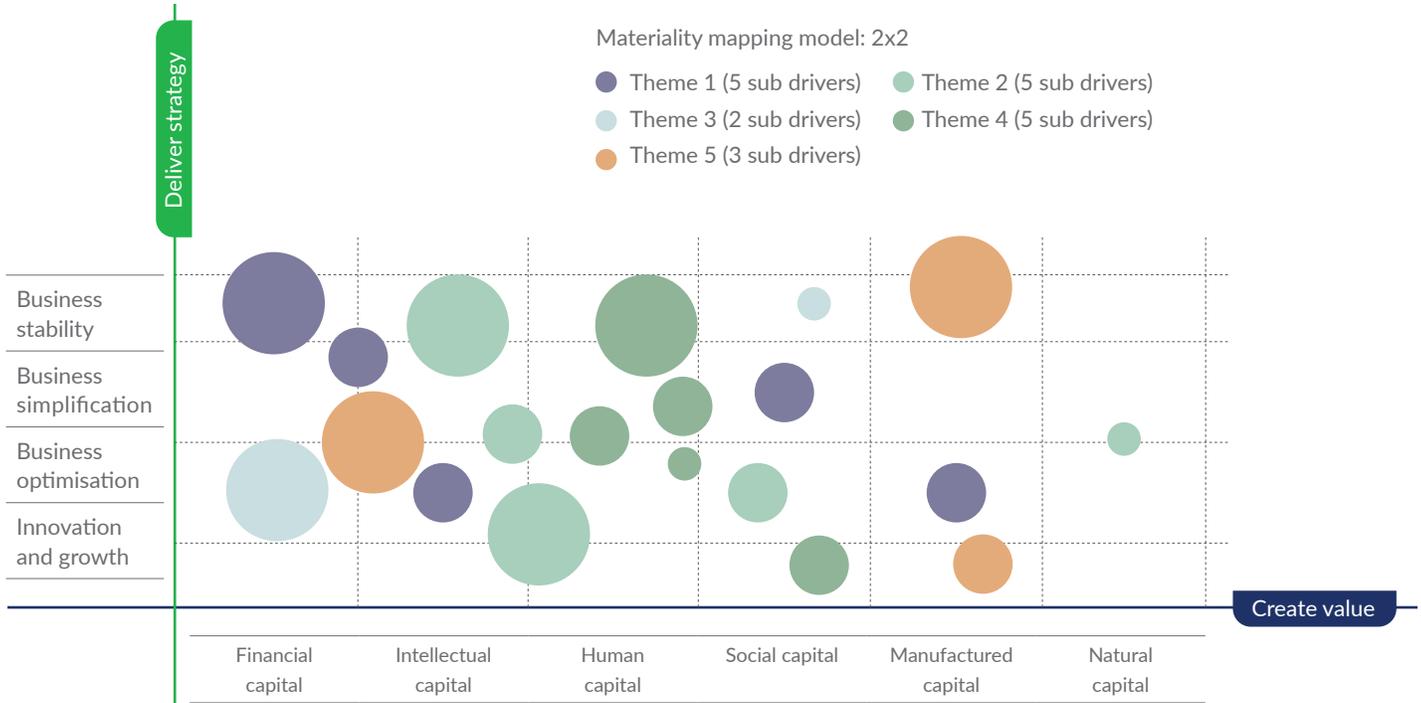
- Theme 1
- Theme 2
- Theme 3
- Theme 4
- Theme 5



DEFINING OUR MATERIAL MATTERS

Materiality Mapping

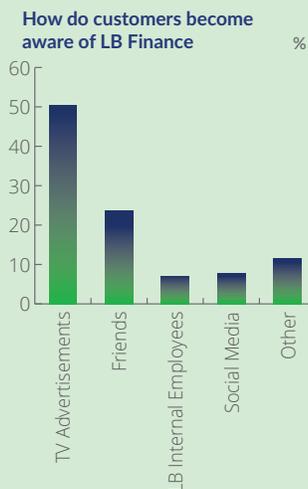
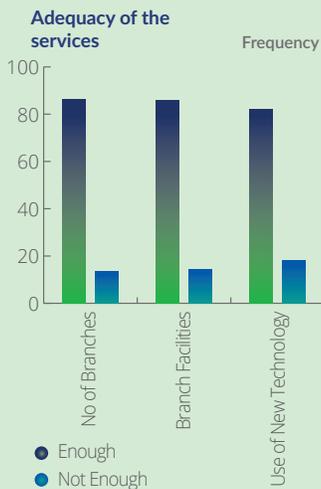
Determining material themes is crucial to guide the decision making, since it provides a broader vision of the risks and opportunities inherent in the business and connects strategies to the multiple external interests. We present below material themes which impact on our strategy and six capitals to deliver value to the stakeholders.



Survey Insights by



Marketing Department of
University of Sri Jayewardenepura



5 MATERIALITY IMPACT MATRIX

Impact on strategy

Material drivers are the basis on which LBF's strategy is formulated. The annual materiality review creates the framework for determining the Company's short, medium, and long-term strategy and business plans.

Impact on six capitals

To support the achievement of its business plans, the Company allocates financial and non-financial inputs through various capitals to derive improved outputs for the Company and better outcomes for stakeholders.

Impact on stakeholders

Consistent allocation of resources via the six capitals enables LBF to continuously enhance the value created for stakeholders both in terms of quantitative and qualitative outcomes.

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

Material matters	Material themes	Impact to the six capitals						Strategic focus				Stakeholders					
		FC	MC	IC	HC	SC	NC	SB	BD	ET	RO	SH	C	E	S/C	R	BP
Challenging economic conditions	Sustainably growing revenue	H	M	M	M	M	L	H	H	M	H	H	M	M	M	M	M
	Delivering appropriate returns	H	H	H	H	M	L	H	H	H	M	H	H	M	M	M	M
	Social licenses to operate	H	H	M	H	M	M	H	H	H	M	H	H	M	M	M	M
	Business model innovation	H	M	M	M	H	L	M	M	M	M	H	M	H	M	H	M
	Business continuity	H	H	H	H	H	M	H	H	H	H	H	H	M	M	M	M
Information technology and information security	Process excellence	H	H	H	M	M	L	H	H	H	H	H	H	M	M	M	M
	Online customer support	H	H	H	M	H	L	H	H	M	M	H	M	M	M	M	M
	Environmental management	H	H	H	H	H	L	H	H	H	M	H	H	M	M	M	M
	Information security	H	H	H	M	M	L	M	M	M	M	H	H	M	M	M	M
	Technological advancement	M	M	H	M	H	L	H	H	M	M	H	H	M	M	M	M
Legal, regulatory and compliance management	Risk and capital management	M	H	H	H	H	L	H	M	H	M	H	H	M	M	M	M
	Ethics and transparency	M	M	H	H	H	L	H	H	M	M	H	H	M	M	M	M
A high-performing team	Corporate citizenship	M	M	M	H	H	L	M	M	M	H	M	H	M	M	M	M
	Employee engagement	H	H	M	H	M	L	H	H	M	H	H	M	M	M	M	M
	Health, safety and wellbeing	M	M	M	H	M	L	M	M	M	H	M	H	M	M	M	M
	Training and development	M	M	M	H	H	L	H	H	M	H	H	M	M	M	M	M
	Benefit structure	H	H	H	H	M	L	H	M	M	M	H	H	M	M	M	M
Customer-centricity and business innovation	Customer satisfaction	H	H	H	H	H	L	H	H	H	H	H	M	M	M	M	M
	Brand loyalty and company reputation	H	M	H	M	M	L	H	M	M	M	H	H	M	M	M	M
	Regional expansion	H	H	H	M	M	L	H	H	M	M	H	H	M	M	M	M

DEFINING OUR MATERIAL MATTERS

6 MATERIALITY BEHAVIOUR

THEME 1 Challenging economic conditions

Low

LBF's ability to control

As a leading financial institution in Sri Lanka, our goal is to support our customers' financial well-being regardless of challenges, while at the same time ensuring our business is managed sustainably to safeguard the credibility of the LBF brand under normal and stressed conditions.

Positives

- ▶ Ability to leverage strong customer relationships to understand the challenges they face and accurately assess their creditworthiness to respond appropriately
- ▶ Opportunity to promote low-cost digital solutions to service existing customers and penetrate new segments
- ▶ Ability to build a loyal customer base that will pave the way for LBF to strengthen captive market share in the future

Negatives

- ▶ Weak growth opportunities caused by the economic downturn
- ▶ Elevated credit risk due to higher exposure to certain customer segments that are mostly affected by economic challenges
- ▶ Policy uncertainty dampening investment prospects and business expansion

Short-term objectives

- ▶ Focus on offering relief to alleviate customers' immediate financial distress and supporting them to survive the current crisis
- ▶ Broaden the digital application suite to drive the expansion of LBF's customer base

Medium-term objectives

- ▶ Focus on productivity to achieve cost leadership
- ▶ Process automation using artificial intelligence and data analytics to facilitate a speedier customer experience with minimum errors

Long-term objectives

- ▶ Support a comprehensive enterprise risk management approach
- ▶ Re-engineer existing products and introduce new products to correspond to sustainable financing guidelines

Link to strategic objectives

- ▶ Improve business margins and create shareholder value in a sustainable way
- ▶ Demonstrate sector leadership by creating a more innovative and sustainable business
- ▶ Implement a robust Environmental Risk Management (ERM) framework to proactively manage factors that could affect LBF's risk profile

Opportunities for future value creation

- ▶ Identify most appropriate financial requirements to tap into under-served market segments
- ▶ Pursue continuous innovation to develop and launch ground breaking solutions to gain first mover advantage in the mainstream financial solutions market

Mitigating risk and maximising opportunity

- ▶ Responsible lending so as not to increase the customer's financial stress
- ▶ Provide bespoke advisory services to fulfill customers' unique requirements
- ▶ Create platforms to increase customer engagement
- ▶ Pursue cost containment as a means of achieving the Company's strategic goals
- ▶ Adhere to strong capital and liquidity management principles to mobilise adequate resources for business growth while complying with regulatory capital buffers and Board-approved liquidity appetite limits

Principal risks affected | Credit risk, Market risk

Strategic relevance

BS BO

SDG impact

8 11 17

Capitals impacted

FC MC IC

Stakeholders impacted

SH E C

DIVING DEEPER
Refer page 70

Early intervention through technology continues to provide LBF with a significant competitive edge over peers. Over the years, we have deepened our investment in technology beyond our core system infrastructure into the areas of information security, data analytics, AI and other smart technologies.

Positives

- ▶ Opportunities for automation enabling the reduction in the average cost-to-serve
- ▶ Ability to innovate for the benefit of customers, the environment, and wider society

Negatives

- ▶ Prohibitively high cost of new and updated technology
- ▶ Increased risk of the violation of customer privacy
- ▶ Reduction in human interaction

Short-term objectives

- ▶ Expand the use of AI and other data-driven platforms in day-to-day operations
- ▶ Use multiple channels to inform customers and employees about fraud trends and potential security threats

Medium-term objectives

- ▶ Invest in upgrading DR infrastructure to safeguard customer data in line with the latest customer privacy protection guidelines

Long-term objectives

- ▶ Specific efforts to quantify customer satisfaction regarding the Company's digital products and data privacy frameworks

Link to strategic objectives

- ▶ Maintaining high ethical standards, responsible lending practices, proactive risk management and fair treatment of employees, customers and other stakeholders in compliance with all regulatory frameworks applicable to the business

Opportunities for future value creation

- ▶ Increase the opportunity, capacity and capability of stakeholders to drive operational excellence in ethical way
- ▶ Consistently ensure socioeconomic value creation and ESG stewardship covering regulatory aspects

Mitigating risk and maximising opportunity

- ▶ Invest only in recognised and authenticated software systems to protect critical infrastructure, systems and data against malicious cyber-attacks
- ▶ Establish clear control procedures to facilitate continuous monitoring of external cyber-attacks as well as internal data leakage threats

Principal risks affected | Information security risk, operational risk

Strategic relevance
BO IG

SDG impact
9 11

Capitals impacted
FC IC SC

Stakeholders impacted
E C

DIVING DEEPER Refer page 160

Right Solutions
Right Value
Right Direction
Right Experience
Right Vision
Right Strategy
Introduction

DEFINING OUR MATERIAL MATTERS

THEME 3 Legal, regulatory and compliance management

Medium

LBF's ability to control

Increasing regulatory compliance requirements surrounding global financial services aim to create an ecosystem to drive higher levels of transparency and accountability among financial service providers, which in turn helps to improve the stability of the financial systems in the countries in which we operate. Worldwide advocacy of the "beyond compliance" culture has also become a major influence that has led LBF to voluntarily embed global best practices into key aspects of the business model, in recent years.

Positives

- ▶ Ability to strengthen the Company's position for compliance leadership through the early adoption of regulatory compliance requirements and global best practices
- ▶ Opportunity to form public-private partnerships to champion global best practices in the local financial services industry

Negatives

- ▶ Frequent changes in ESG best practices make it difficult to stay up-to-date with environmental and social compliance aspects

Short-term objectives

- ▶ Ongoing participation in industry forums to support timely and accurate dissemination of mandatory compliance requirements

Medium-term objectives

- ▶ Invest in strengthening ESG integration across the business

Long-term objectives

- ▶ Achieve recognition for compliance leadership in the NBF sector

Link to strategic objectives

- ▶ Maintaining high ethical standards, responsible lending practices, proactive risk management and fair treatment of employees, customers and other stakeholders in compliance with all regulatory frameworks applicable to the business

Opportunities for future value creation

- ▶ Increase the opportunity, capacity and capability of stakeholders to drive operational excellence in ethical way
- ▶ Consistently ensure socioeconomic value creation and ESG stewardship covering regulatory aspects

Mitigating risk and maximising opportunity

- ▶ ZERO tolerance of non-compliance
- ▶ Stringent due diligence, including third-party assurance on compliance systems at various levels of the business
- ▶ Continuous monitoring to capture the latest regulatory developments and support proactive adoption of best practices

Principal risks affected | Reputation risk, operational risk

Strategic relevance

BS BSF

SDG impact

1 2 3 4 13

Capitals impacted

FC NC SC

Stakeholders impacted

SH S/C C

 **DIVING DEEPER**
Refer page 391

LBF's human capital is critical to our ability to deliver products and services that exceed our customers' expectations. Our team is characterised by smart people who are innovative, competent, willing, and able to work together to achieve the Company's strategic objectives.

Positives

- ▶ A motivated team committed to delivering LBF's promise to customers
- ▶ A high-functioning team serves as a key competitive advantage
- ▶ A loyal employee base able to drive the Company's future aspirations

Negatives

- ▶ High demand for specialised skills in the NBF sector affects our ability to retain key talent and skills
- ▶ The high cost of acquiring specialist skills

Short-term objectives

- ▶ Focus on improving call centre productivity
- ▶ Introduce more robust rewards and recognition schemes
- ▶ Building an inclusive and supportive culture

Medium-term objectives

- ▶ Ongoing investment in developing our people, by creating and supporting the professional development journeys of individual employees

Long-term objectives

- ▶ Improving employee work-life balance through flexible work solutions

Link to strategic objectives

- ▶ Develop human capital to complement the Company's long-term aspirations
- ▶ Increase motivation levels in order to reduce employee turnover
- ▶ Surprise and delight employees by going above and beyond to assure their wellbeing

Opportunities for future value creation

- ▶ Fostering higher levels of collaboration and engagement through diversity and inclusion workshops
- ▶ Present a high-quality EVP to improve employee retention among field staff
- ▶ Invest in employee development through structured individual development plans

Mitigating risk and maximising opportunity

- ▶ Focus on developing and retaining a capable team of talented and empowered employees that embrace our high-performing culture
- ▶ Systematic approach to recruitment, training and career development that demonstrates the Company's commitment to long-term employee growth
- ▶ A robust performance management program coupled with broad-based incentives to drive performance and promote ethical behaviour

Principal risks affected | Reputation risk, operational risk

Strategic relevance

BSF IG

SDG impact

5 10

Capitals impacted

IC SC

Stakeholders impacted

E C

DIVING DEEPER
Refer page 148

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

DEFINING OUR MATERIAL MATTERS

THEME 5 Customer-centricity and business innovation

Medium

LBF's ability to control

Fast-evolving technology trends have enabled customers to be better informed about the range of financial options available to them. Amidst this backdrop, LBF's goal is to position itself as the most preferred financial services partner for customers in all key markets.

✓ Positives

- ▶ Ability to leverage LBF's deep knowledge of core markets to continuously improve the range of products, pricing, and overall customer experience
- ▶ Invest in artificial intelligence and machine learning to drive customer convenience and safety

✗ Negatives

- ▶ High cost of keeping pace with the latest financial technology trends may result in the use of outdated technology
- ▶ Inadequate quality assurance standards to minimise security threats faced by customers

Short-term objectives

- ▶ Continuous product repricing to maximise the benefit to customers in an uncertain environment
- ▶ Invest in fully-fledged technology systems to improve expertise and business-related knowledge in selected areas

Medium-term objectives

- ▶ Diversify the range of specialty products offered to each customer segment based on credible market research insights

Long-term objectives

- ▶ Pursue collaboration with industry peers to develop more customer-centric products to promote greater financial inclusion through digital adoption

Link to strategic objectives

- ▶ Be a leader in customer satisfaction by placing the customer at the center of everything
- ▶ Earn the trust and loyalty of customers through straightforward and open communication
- ▶ Provide a range of alternatives to enable customers to gain remote access to LBF's products, services and care support

Opportunities for future value creation

- ▶ Optimise systems and invest in fit-for-purpose technology solutions to support strategy delivery
- ▶ Leverage digital technology and data assets to understand customer needs and develop timely and relevant responses to meet these requirements

Mitigating risk and maximising opportunity

- ▶ Developing versatile financial products that provide first mover advantage in the target market space
- ▶ Increase customer interactions with the use of chatbots to obtain more regular feedback
- ▶ Encourage and reward employees for their customer-centric innovations

Principal risks affected | Market risk, Reputational risk

Strategic relevance

BSF IG

SDG Impact

8 9

Capitals impacted

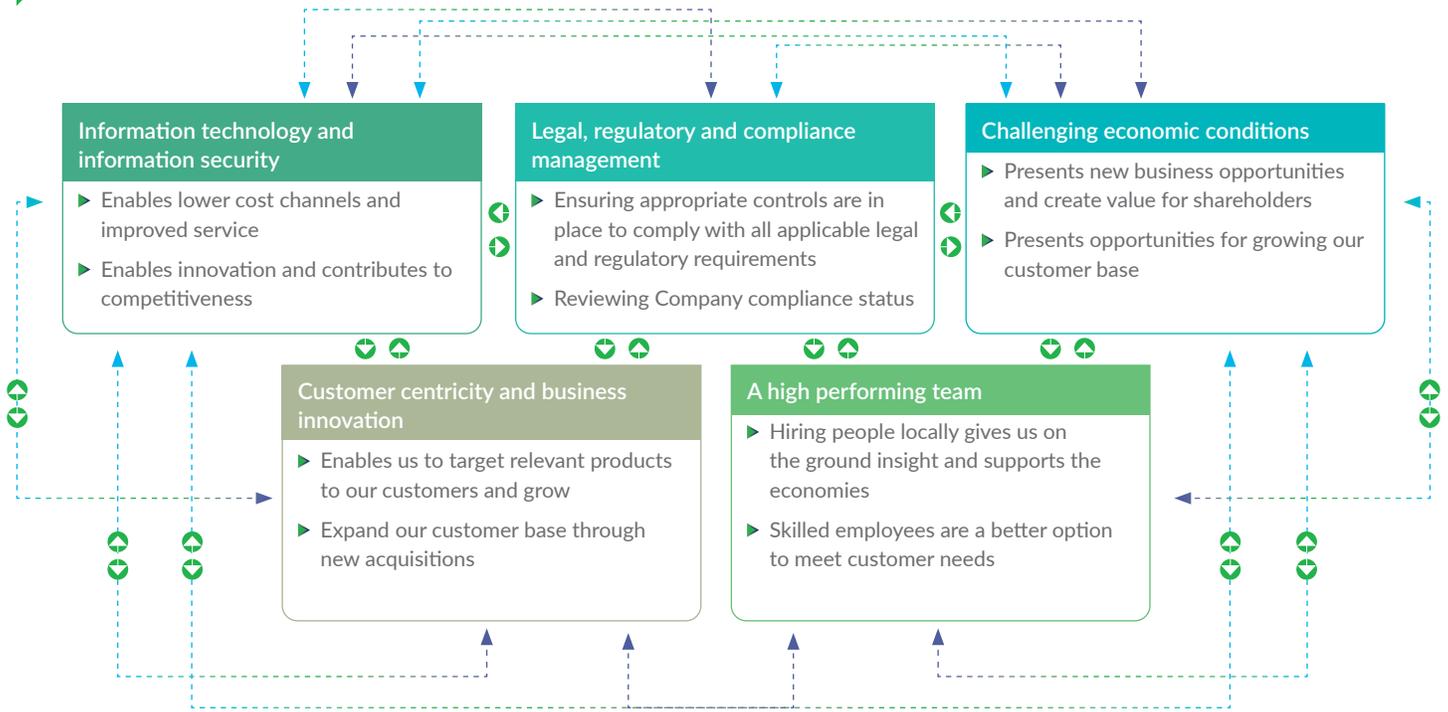
MC HC SC

Stakeholders impacted

E C BP S/C

DIVING DEEPER
Refer page 172

7 INTERRELATIONSHIP BETWEEN MATERIAL ISSUES

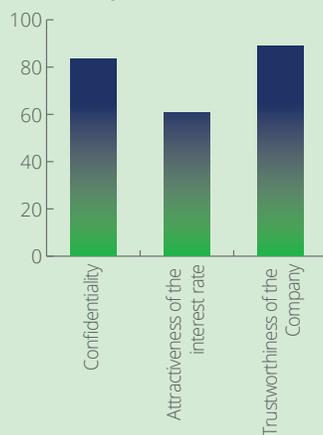


Survey Insights by

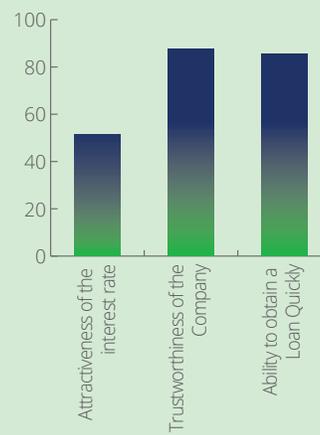


Marketing Department of
University of Sri Jayewardenepura

Top Three Factors for Choosing a Financial Institution for Savings



Top Three Factors for Choosing a Financial Institution for Loans



UNPACKING OUR STRATEGY

Considering the highly competitive environment in which we operate, and the rising demand for more dynamic financial services, our strategy revolves around innovation. We leverage technology and AI-driven analytics to develop quick and efficient solutions that are at the same time more customer-friendly and affordable. We also believe that to create a sustainable future for all, it is equally important to ensure our products are safe, secure, and have the capacity to make a positive contribution economically, socially, and environmentally.

OUR APPROACH TO STRATEGY

LBF's strategy is built on strong foundations and strengthened by over a half-century of service to generations of Sri Lankans. Over the past 50+ years and to date, we have been inspired by the principle of shared value which has inspired us to focus on providing only the most desirable financial solutions to meet the needs of each customer as and when they need it and in the exact way they expect it. Our strategy has always evolved cognisant of the environment that we operate in, including competitive pressure, changing customer behaviour and sustainability trends.

Our strategy is integrally connected to our core purpose as a financial institution.



1 AMBITION 2030

Given that shared value is foundational to the LBF's core strategy, we have articulated our medium-term objectives in the form of a purpose-based ambition, which serves as the framework for communicating to employees, shareholders, investors, analysts, and all other stakeholders. Planned integrated and innovative solutions, supported by best-in-class and emerging technologies and a culture of customer-centered collaboration, will enable us to compete and win in our chosen markets and industries in a new world.

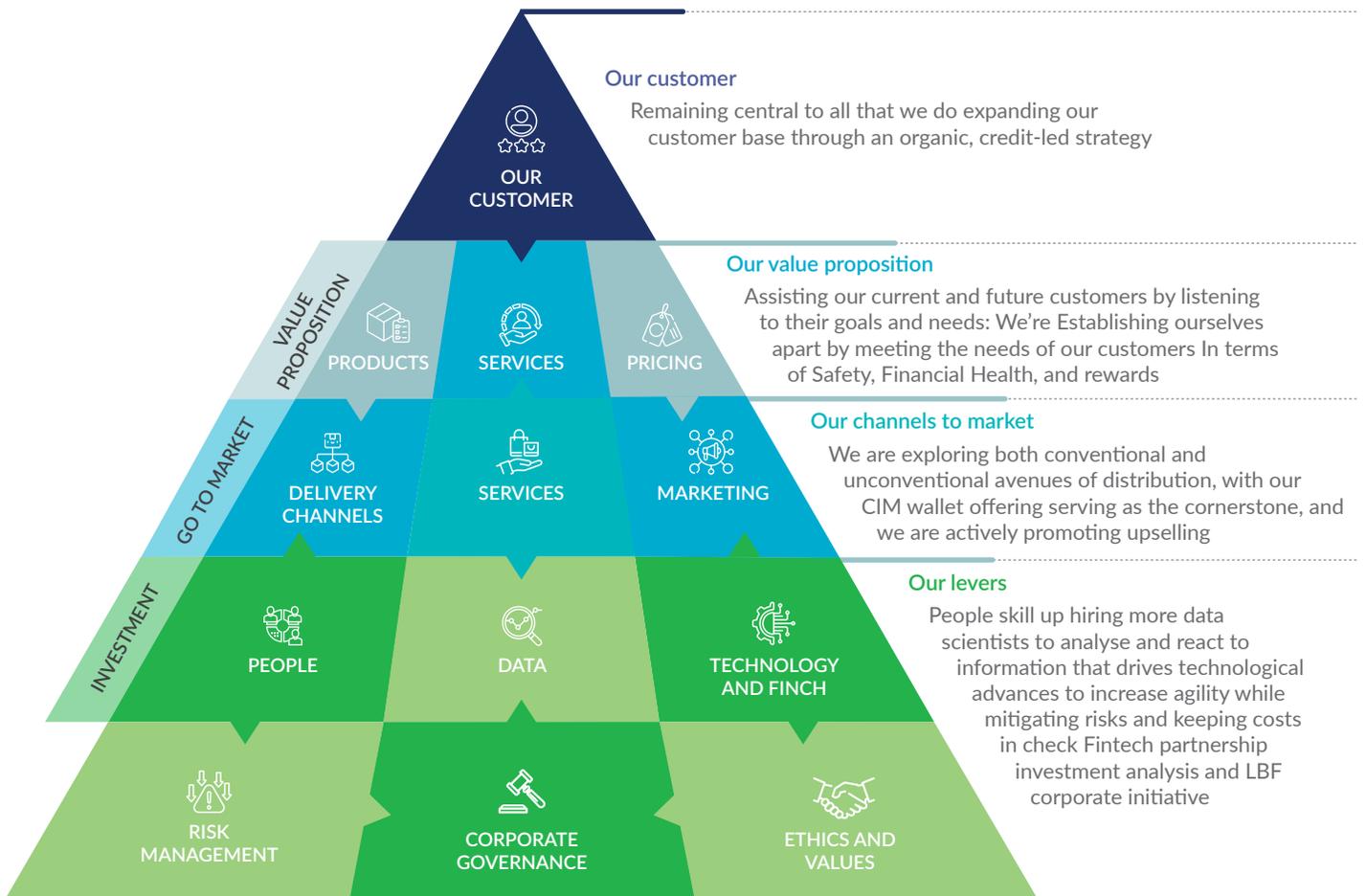
Emerging strategic trends and opportunities

	Emerging trends	Emerging opportunities
 Consolidation	<ul style="list-style-type: none"> ▶ Pandemic-induced economic conditions have forced a rethink in delivery channels ▶ Increased scale has become critical for competitiveness ▶ More focus on cybersecurity and regulatory compliance 	<ul style="list-style-type: none"> ▶ Stakeholder collaborations ▶ Organic growth through mergers and acquisitions
 Specialisation	<ul style="list-style-type: none"> ▶ Customer expectation of socialised solutions in response to increased economic uncertainty ▶ Increasing regulatory requirements ▶ Skill gaps caused by labour outmigration 	<ul style="list-style-type: none"> ▶ Leverage LBF's fully integrated portfolio to grow market reach ▶ Drive specialised solutions for corporates ▶ Focus on strengthening core competencies through specialisation in order to deliver value to customers

	Emerging trends	Emerging opportunities	
 Partnerships	<ul style="list-style-type: none"> ▶ Collaboration as a key enabler of strategy ▶ Partners to deploy specialist skills to create shared value 	<ul style="list-style-type: none"> ▶ Increase speed of delivery while reducing costs ▶ Co-creation of innovative solutions reflecting best-in-class solutions ▶ Optimise competitive value proposition to the market 	Right Solutions
 Digitalisation	<ul style="list-style-type: none"> ▶ Increased digital adoption is driven by economic uncertainty ▶ Demand for fully digitised solutions at every stage of the customer lifecycle 	<ul style="list-style-type: none"> ▶ Facilitate customer access through self-service solutions ▶ Continue the modernisation of customer experience 	Right Value
 Experience and behaviour	<ul style="list-style-type: none"> ▶ Expectation of 24/7, 365 connectivity 	<ul style="list-style-type: none"> ▶ Digital tools to build customer intimacy 	Right Direction

2 STRATEGIC SHARED VALUE MODEL

LBF's core purpose will continue to underpin all our decision-making, and the shared-value model will continue to be the main growth accelerator and the driving force behind our strategy and business model.



UNPACKING OUR STRATEGY

Deepening our commitment to the SDGs

While the UN has not ranked the SDGs by order of importance, internally LBF has identified primary and secondary SDGs based on their relevance to our business. This approach will guide how we prioritise our resources and commitments in order to maximise our impact to the benefit of each of our key stakeholders



 Further reading

- ▶ How to determine the strategic focus
- ▶ How to determine the strategic priorities





3 STRATEGIC ROADMAP FOR AMBITION 2030

We will be more deliberate about strengthening core competencies while pursuing specialisation and create a platform for consistent growth in key markets. This requires that we significantly intensify our focus on the following action plan

Strategic dimension	Our long-term objectives	Our mid-term to short-term objectives	
 Building a brilliant business	<ul style="list-style-type: none"> ▶ Focus on customers ▶ Put customers at the heart of everything we do to safeguard their best interests 	<ul style="list-style-type: none"> ▶ Market-leading growth ▶ Create access to sustainable, affordable, quality financial services coupled with specialised advisory services 	<ul style="list-style-type: none"> ▶ Value creation for all stakeholders ▶ Expand the geographical reach and build a solid presence in the digital space
 Strengthening our strategic enablers	<ul style="list-style-type: none"> ▶ Protect and strengthen our culture ▶ Inspire employees to embrace LBF's core purpose as part of their core value system 	<ul style="list-style-type: none"> ▶ A talented and diverse team ▶ Promote employee engagement diversity, inclusion and transformation 	<ul style="list-style-type: none"> ▶ Digitally powered business ▶ Improving the experience, efficiency, simplicity and reach of our products and services
 To create sustainably economic value for our stakeholders	<ul style="list-style-type: none"> ▶ Sustainable business operation ▶ Lead by example in demonstrating responsible, inclusive and sustainable corporate citizenship 	<ul style="list-style-type: none"> ▶ Transform the business model to achieve superior operating excellence through modern, simple service tools ▶ Embedding ESG excellence ▶ Focus on regulatory compliance and social best practices 	<ul style="list-style-type: none"> ▶ Building a values-based culture ▶ A strong values-based, ethical organisational culture provides a solid foundation for values-based decision-making and conduct in support of our stakeholders

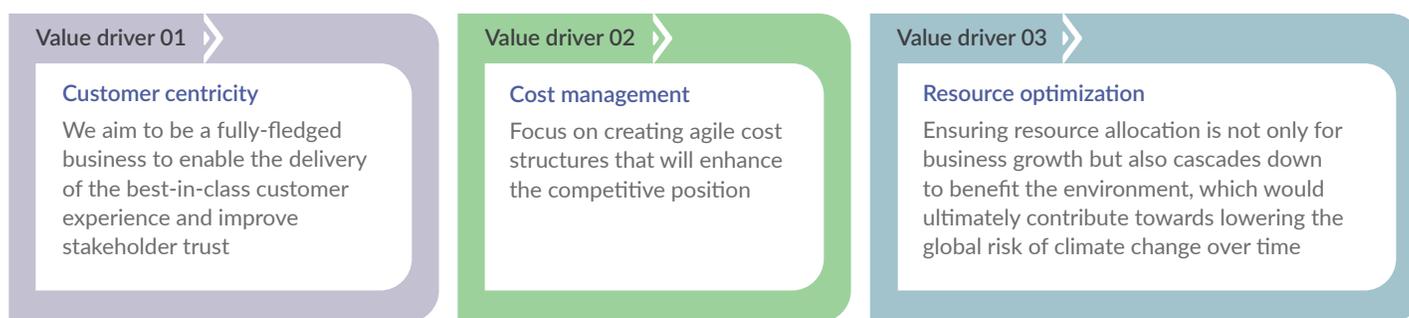
4 KEY STRATEGIC PILLARS 2022/2023

LBF key strategic pillars are developed to create and preserve value for our stakeholders in the short, medium, and long term. When formulating our strategic pillars, we consider the availability, quality, and affordability of the six capitals, as well as the impact of our activities on them, and achieve our sustainability ambition in 2030. In this context, we strive to grow LBF's earnings while securing the Company's sustainability across all the capitals by focusing on maximising positive outcomes while avoiding instances of value erosion as much as possible.



PILLAR 1 Business stability

Our vision, mission, and values guide us as we deliver on our core purpose based on the principle of shared value. We measure the performance of this shared value model against our strategic targets across three dimensions.



Value creation activities during the year

- ▶ Focus on digital delivery systems to promote easily accessible and cost-effective financial solutions
- ▶ Strengthening LBF's island-wide reach

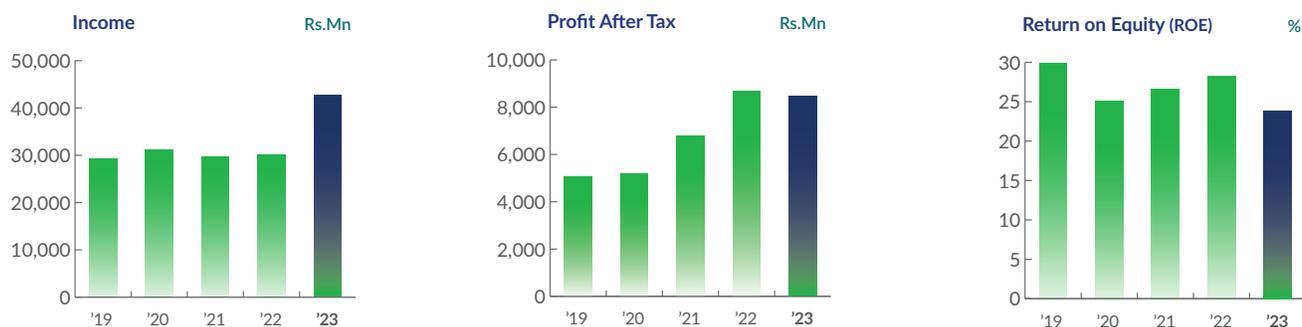
Our progress

- ▶ Launch of the CIM business loan and CIM personal loan via the LB CIM mobile wallet application
- ▶ Opened 11 new branches, including 9 in the North and East regions of the country

Our KPIs

- ▶ Revenue growth
- ▶ Profit after tax
- ▶ Return on equity
- ▶ Cost-to-income ratio

Five year trends



UNPACKING OUR STRATEGY

Resources allocation	Challenges experienced
<ul style="list-style-type: none"> ▶ We have significantly increased the allocation of financial, human and intellectual resources in-line with our objective to grow the business and maintain operating margins 	<ul style="list-style-type: none"> ▶ The increasing complexity of regulatory requirements and products and services regulations, requiring additional resources to maintain and upgrade
<p>Future focus</p> <ul style="list-style-type: none"> ▶ Driving the growth of the core businesses through product innovation and expansion into new markets ▶ Pursuing multi-dimensional growth by creating customised hybrid models for different market segments ▶ Collaborate with fin-techs to create new products that present a first-mover advantage in the market 	
Related risk - Operational risk, Market risk	Related SDGs 8 9 12

PILLAR 2 **Business simplification** We will simplify and streamline the way we work internally and with our customers. This will enhance our focus on delivering agile, integrated, and hyper-efficient business solutions

<p>Value driver 04 ▶</p> <p>Efficient process architecture Streamline our value chain processes to become more agile in our service delivery</p>	<p>Value driver 05 ▶</p> <p>Best-in-class digital customer experience Become the leading digital disruptor in the local NBFi by delivering market-leading customer solutions that assured for the safety</p>	<p>Value driver 06 ▶</p> <p>Data-Driven Insights Increase the use of AI-based platforms to gain deeper insights into customer consumption trends, and spending habits as well as to proactively identify areas for internal process improvement</p>
--	--	---

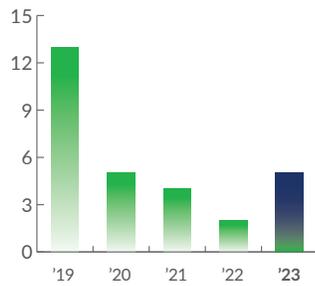
Value creation activities during the year

- ▶ Significantly increased the use of robotic process automation to streamline internal processes
- ▶ Recruited, trained and mobilised additional human resources to strengthen the IT based solution
- ▶ Strengthened due diligence and information security risk management

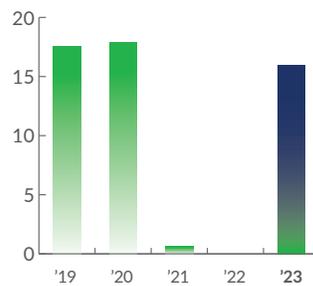
Our progress	Our KPIs
<ul style="list-style-type: none"> ▶ Integration with CRIB backend ▶ Seamless verification of customer credit profiles in real time has greatly simplified the credit evaluation process while improving overall cost efficiencies ▶ Implemented a new customer rating dashboard to assess customer satisfaction with spot resolutions provided by call centre agents 	<ul style="list-style-type: none"> ▶ Investment on IT hardware ▶ Investment on IT software ▶ CIM merchant acquisition ▶ Branch relocations

Five year trends

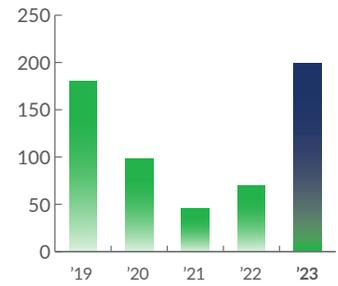
Branch Re-location



Investment on IT Software Rs. Mn



Investment on IT Hardware Rs.Mn



Resources allocation

Challenges experienced

- ▶ Deliver appropriate technology solutions to new and existing customers resulting in the improvement in socio-economic standards
- ▶ Evolving technology trends and the high cost of keeping up-to-date with the latest technology.
- ▶ Increased security threats due to the heavy use of digital technology is also another key challenge

Future focus

- ▶ Enhancing LBF's position as the category leader in shared-value financial services
- ▶ Improve the efficiency of the system audit process using AI technology
- ▶ Complete the migration to the new ISO 27001 - 2022 standard
- ▶ Strengthen the efficacy of the IAD's audit plan through external assurance

Related risk - Operational Risk, IT risk, Market risk

Related SDGs **8** **9**

3 Business optimisation

To stay ahead of our peers amidst this fluid environment, we seek to continuously improve our value propositions. This involves providing a range of immediate and medium-term measures to mitigate the detrimental impacts of the present economic crisis. Our strategy to capitalise on opportunities is by creating distinctly different value propositions that stand out from peer offerings.

Value driver 07

Operation excellence

Reinforce the commitment to compliance, ethical conduct, and high standards of business integrity

Value driver 08

Build a winning team

Be an employer of choice that has the ability to attract and retain the best-in-class talent in the local NBFi sector

Value driver 09

Positive impacts

Manage climate change and biodiversity risks and opportunities by contributing meaningfully to the environment

Value creation activities during the year

- ▶ Continued integrating our core purpose and values into our people practices across the full employee life cycle
- ▶ Reinforcing the Zero tolerance approach for non-compliance
- ▶ Flexible recruitment strategies to attract special skills
- ▶ Redesigned and launched an onboarding experience for new hires, leveraging digital and mobile capabilities
- ▶ Emphasis on talent development
- ▶ Capacity building of front-line teams
- ▶ Focus on ESG learning services
- ▶ Measuring employee satisfaction

UNPACKING OUR STRATEGY

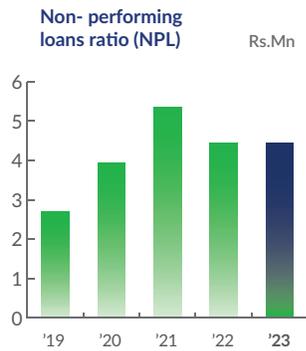
Our progress

- ▶ Improve our asset quality
- ▶ Hosted a special open day to attract IT professionals
- ▶ Launch of a new orientation program for recruits under the theme “Golden 360”
- ▶ Introduction of the best starter initiative to reward recruits (frontline employees)
- ▶ Train-the-trainer program on compliance mapping
- ▶ Leadership competency training for middle managers
- ▶ Credit coaching and capacity building for relationship managers

Our KPIs

- ▶ NPL ratio
- ▶ Green lending
- ▶ New employee recruitment
- ▶ Investment on trainings

Five year trends



Resources allocation

- ▶ The focus is to build a strong, capable, and committed workforce that shares LBF's core purpose

Challenges experienced

- ▶ Skill out-migration due to the economic crisis
- ▶ Limited access to funding

Future focus

- ▶ Leveraging data and analytics to enhance the environment for continuous learning
- ▶ Incorporating core values into the performance-based reward mechanism
- ▶ Create a robust platform to systematically promote more females in leadership roles
- ▶ Amplifying our employer brand, by encouraging employees to share their experiences regarding Life at LB

Related risk - Operational risk, IT risk, Market risk

Related SDGs 7 8 9 12

PILLAR 4 Innovation and growth

LBF's innovation growth strategy centres on the use of best-in-class and emerging technologies to provide customers with innovative solutions to satisfy their immediate needs, as well as to empower them to grow and thrive over the long term.

Value driver 10

Transformative business models

Explore opportunities for re-engineering infrastructure and processes to complement traditional operating models

Value driver 11

Enterprise automation

Prioritising investment in digital and data initiatives as core enablers to improve the future readiness of the business

Value creation activities during the year

- ▶ Increased focus on promoting gold loans
- ▶ Significantly increased the use of RPA to streamline internal processes
- ▶ Improved the overall functionality of the LB CIM wallet including as a lending tool
- ▶ Refined LBF's public relations strategy, social media policies, and communication protocols to protect our brand equity

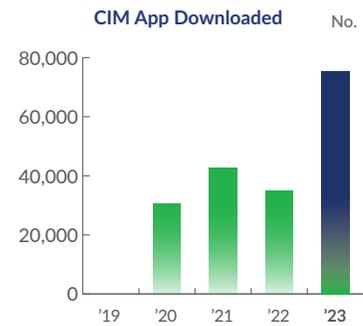
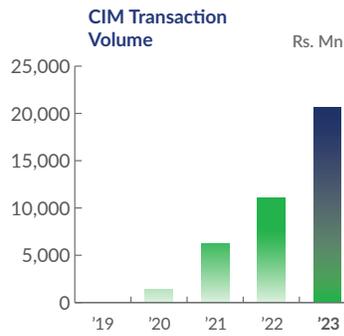
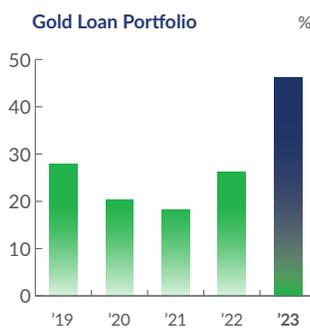
Our progress

- ▶ Introduction of the dynamic credit scoring mechanism to determine the credibility of gold loan customers
- ▶ Use of social media to drive a positive customer mindset in challenging times
- ▶ Special content to increase viewership of the LB sustainability - facebook page
- ▶ Updated the corporate website with the inclusion of AI-based digital imagery for a more visually engaging user experience

Our KPIs

- ▶ CIM loan portfolio growth
- ▶ CIM transaction volume growth
- ▶ No. of CIM app downloaded
- ▶ CIM digital loan granted

Five year trends



Resources allocation

- ▶ We devote resources to cater to the needs of the market. We aim to assign financial capital to accelerate core business activities to attract and maintain a loyal base of high-quality customers

Challenges experienced

- ▶ A rapid change in customer priorities during times of economic uncertainty undermines our ability to develop timely solutions for customer needs

Future focus

- ▶ Increasing awareness and customer loyalty to drive scale
- ▶ Implementing a comprehensive brand measurement tool to obtain a 360-degree view of LBF's brand performance, year on year
- ▶ Using innovative solutions including technology to enhance customer experience

Related risk - Credit risk, Liquidity risk, Operational risk

Related SDGs



UNPACKING OUR STRATEGY

5 VALUE TRADE-OFF AND RESOURCE ALLOCATION

We understand that the process of creating value for our stakeholders involves inherent trade-offs. In developing our strategy, it is imperative that we understand the implications of these potential trade-offs in order to make the right decision that maximise positive outcomes and minimise negative impacts. We outline below, two of the many strategic trade-offs we grappled during the year;

Core business and growth opportunities

Our fundamental strategy is to augment top-line revenue growth (financial capital) by seeking out new opportunities in new markets; new products, services and strategic partnerships. However, in 2022/23 our ability to promote our products was affected by low credit appetite on the back of the economic crisis in the country. With the SME sector being the most overly affected by the crisis, activity at branches declined. Responding to this situation, we increased our digital product suite to give customers fast and more cost-effective solutions such as the gold loan top-ups, CIM business loan, and CIM personal loan, all of which can be activated remotely without the need for a branch visit. At the same time, we also focused on strengthening customer relationships through more focused engagement. These efforts have helped to bolster LBF's social and relationship capital.

Pioneering new propositions and digital-first business

The provision of financial services continues to shift towards digital interfaces (including end-to-end processes), a trend that adversely impacts the consumption of physical touch-points (manufactured capital) and also reduced the need for employee involvement (human capital). On the other hand, increased digitisation has helped to improve process efficiency and reduce costs (financial capital) while also improving service delivery and better customer satisfaction (social and relationship capital).

To offset the negative impacts on manufactured capital, we are looking at streamlining our branch administration model to create cost-effective branches while investing in training employees to be able to undertake multi-tasking so that they may be redeployed elsewhere across organisation thereby strengthening value created for our human capital.

6 OUR STRATEGIC PROMISE

Promise to LBF

Shared identity

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

Common purpose

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

Meaningful experiences

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

Promise to customers

Caring

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

Connected

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

Simple, but not basic

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

Promise to society

Contributing and empowering

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

Do the best for people and planet

We will test our decisions against the promise of:

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

INVESTING



OUR STRATEGY

Our strategy is based on offering customers the best in-class deposit and savings solutions that will allow them to make optimal use of market opportunities to enhance their financial capacity. Focuses on building long-term relationships with customers and involves providing personalized service, promptly addressing our customer inquiries or concerns, and offering additional benefits or incentives to retain customer loyalty.

MANAGEMENT APPROACH

Our main goal is to teach customers how to choose reliable financial institutions. This was the selling proposition get new depositors at lower rates. Our Company is mostly funded through deposit products. Our primary source of funds comes from savings and fixed deposits. Expansion and development are impossible without first establishing and then sustaining a solid

foundation of deposits. Due to our renowned brand and the trust our customers have in us, we have one of the biggest deposit bases among LFCs in Sri Lanka. The stability of our corporate brand and the variety of our branch locations are two of the main reasons why our customers have trust in our business. We also made the strategic choice to shift away from relying only on fixed

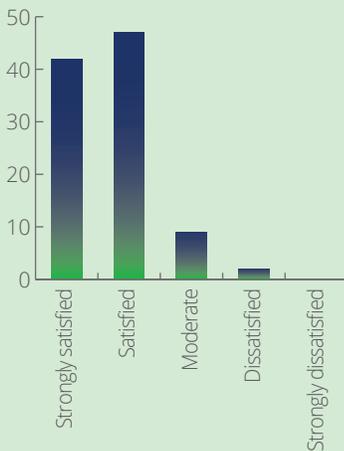
deposits in order to increase our savings base. Taking into consideration the rising market interest rates, LBF made a concerted efforts to enable customers to access a wide range of options that satisfy their financial objectives, be it short term gain or long term resilience.

Survey Insights by

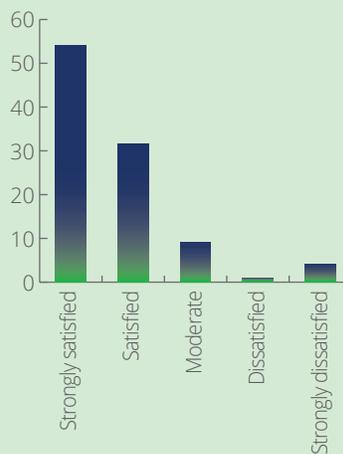


Marketing Department of
University of Sri Jayewardenepura

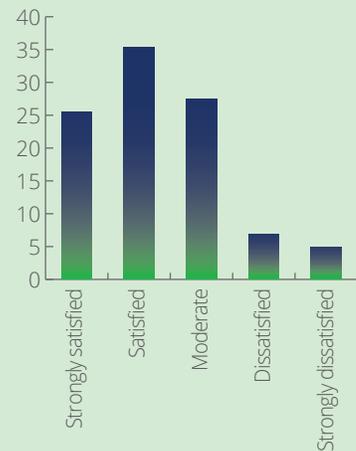
Trustworthiness of Company



Friendliness in Service



Attractiveness of Interest Rate



BUSINESS REVIEW

INVESTING

CORE COMPETENCIES

- ▶ A diverse range of highly customer-centric innovative products
- ▶ Convenient process for deposit account opening at any branch
- ▶ Account opening and operating through CIM

STAKEHOLDER EXPECTATIONS

- ▶ Highest security
- ▶ Best return on the investment
- ▶ Strong operational performance including efficiency, revenue growth and returns
- ▶ Excellent customer service and advice
- ▶ Customer satisfaction and enhance service standards
- ▶ Best practice safety measures for customer wellbeing

Product offerings



FIXED DEPOSIT



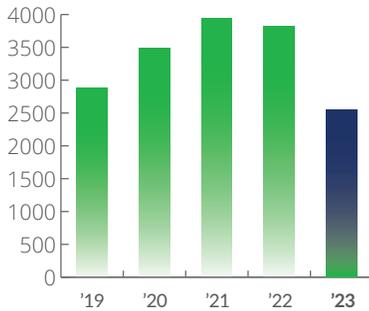
DEPOSITS

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

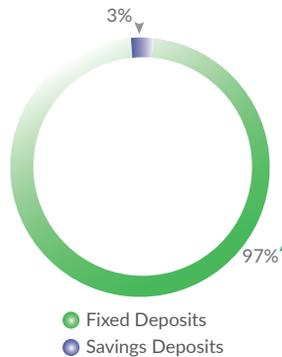
Strategy and performance

The financial year started with CBSL announcing the first upward revision in interest rates, which was followed by progressive rate hikes throughout the course of the year. Given the instinctive reaction of customers to shop for the best possible rates, LBF was compelled to reprice its deposit portfolio several times to remain competitive and retain its customer base. As part of the overall customer retention strategy, several new tenure options (50, 150, 330 days as well as 5 and 8 months) were also introduced. A combination of these efforts saw LBF recording a 79% FD retention ratio on average basis in the financial year 2022/23, a commendable achievement amidst the highly competitive environment that prevailed in the current year.

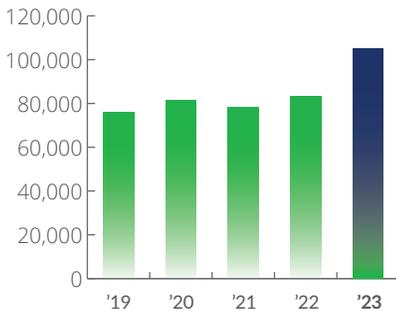
Savings Deposits Base Rs.Mn



Deposit Base Mix



Fixed Deposit Base Rs.Mn



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

Refer Risk Management Report
on page 370

Meanwhile, ever mindful of the need to regulate the asset and liability mismatch, LBF's deposit mobilisation activities focused largely on attracting shorter tenure deposits. The strategy was tremendously successful as evidenced by the robust growth in the 50 / 100 /150 days and the 5 / 8-month schemes. Moreover, in a bid to diversify the portfolio risk as much as possible, it was decided to shed high-cost large deposits and drive growth through smaller ticket deposits. Aggressive promotional activities by branch teams to mobilise smaller ticket deposits saw LBF's deposit customer base as well as the number of deposit accounts showing a twofold increase compared to the previous year.

In yet another significant achievement the number of deposits made via the LB CIM app hit a record high following the rollout of the fully functional FD platform on the app.

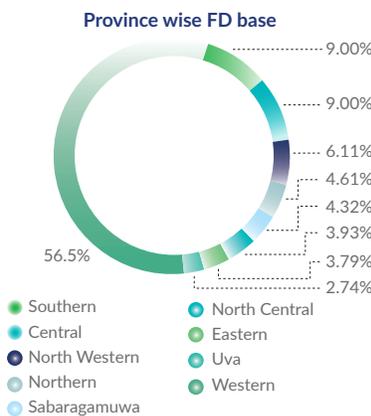
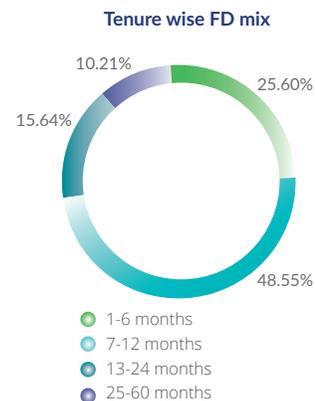
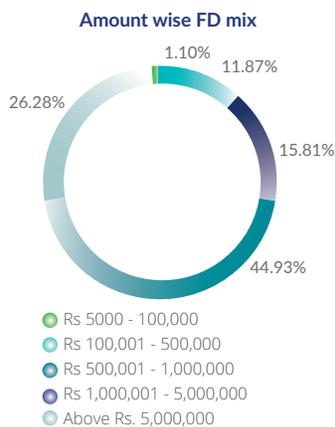
Although deposit flows slowed noticeably from December 2022 onwards following the enactment of the CBSL Directive on WHT and advance income tax on interest-bearing deposits, the steady inflow in deposits earlier in the year resulted in LBF recording the highest-ever deposit volumes in the current financial year. Furthermore, bolstered by strong growth in the first three quarters, LBF's fixed deposit portfolio crossed the historic Rs. 100 billion landmark in October 2022. The fixed deposit portfolio by the end of March 2023 was Rs. 111.46 billion, a remarkable 31% above the Rs. 85.31 billion was recorded at the end of the previous financial year.

FUTURE PROSPECTS

Following the unexpected growth spurt experienced in the financial year 2022/23, the demand for fixed deposits will likely slow down considerably in the year ahead as interest rates gradually stabilise. LBF for its part will remain vigilant of these developments and take appropriate actions to consolidate its fixed deposit portfolio to balance the maturity mismatch while achieving optimal cost of funds.

Key Macro-Economic challenges

- ▶ Rising interest rates
- ▶ Intense competition
- ▶ Time to time fiscal policy changes



SAVINGS



BEST THINGS | AT THE RIGHT PLACE | WITH SAFETY

Strategy and performance

Several factors were responsible for the weak demand for Savings in the current financial year, key among them was the high-rate environment which prompted investors to seek out more lucrative alternatives. The deterioration in disposable incomes owing to high inflation and the new tax regime also harmed the proclivity to build up the Savings portfolio.

Challenged by such circumstances beyond its control, LBF worked on multiple fronts to retain existing Savings customers. Traditional mechanisms such as the daily cash collection process were further strengthened in a bid to boost savings volumes. The LB CIM app was also used to encourage customers to maintain minimum balances in their Savings

accounts in return for concessionary rates and access to value-added services. The strategy has proven to be the most cost-effective way to mobilise savings, especially given the minimum staff deployment.

The new customer acquisition was spearheaded by the cross-selling strategy to offer end-to-end financial solutions.

Despite these efforts, however, LBF's overall Savings portfolio witnessed a marked decline compared to the previous year. The split between Savings and Term deposits also changed, with Savings accounting for only 3% of the total deposit base.

FUTURE PROSPECTS

Having experienced some notable success in mobilising Savings through the LB CIM app, the focus going forward would be to look for ways to further expand the use of this channel to increase the Savings customer base.

BUSINESS REVIEW

INVESTING

Customer awareness



BUILDING FOR FUTURE

Objectives and Goals	Short term	Medium term	Long term
	Digitalisation of deposit products under the LB CIM digital wallet	Explore alternative channels to on-board customers	Interactive digital platform to facilitate real time customer engagement
Related strategic focus	BSF IG	BO IG	BS IG
Related material drivers	ITS CBI	HPT CEC	ITS LRC
Related stakeholders	C SH E	C SH S/C	C SH
SDGs impact	8 12	9 11	9 12

FINANCING



OUR STRATEGY

LBF's financing strategy is aligned to the Company strategy. The consistent execution of our strategy is moving us closer to our long term, medium-term and short-term aspiration to be the leading lending solution provider in Sri Lanka. We always focus our strategy to enhance lending portfolio targeting both personal and business segments. Our Financing strategy typically revolves around our lending activities, namely leasing, mortgage loans, gold loans and other credit facilities.

MANAGEMENT APPROACH

Through a risk-based pricing structure dependent on the creditworthiness of customers, we were able to increase loan volumes while maintaining a high-quality portfolio. Our lending approach was intended to be a driver of economic growth and social progress beyond just generating profits for our business. In an effort to increase awareness of our financing options and secure new customers, we have launched a number of advertising

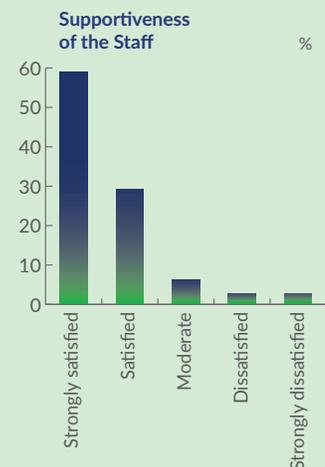
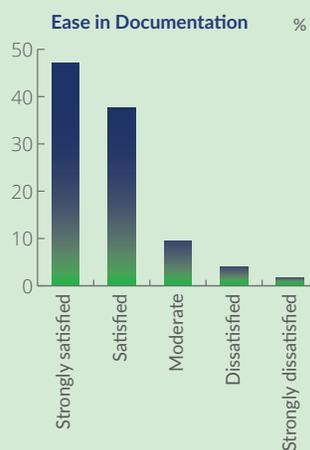
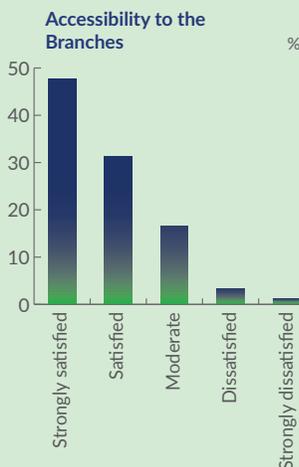
efforts. The acute economic uncertainties that weakened corporate prospects and personal incomes were a major factor in LBF's financing strategy. In light of this situation, LBF took a cautious approach to increasing access to credit. The paradigm of selective lending, which attempted to preserve credit quality over the long term, served as the foundation for this strategy. The foundation of our business approach to encourage long-term growth is our

"responsible lending" philosophy. At every point in the lending process, from the first loan offer to the ongoing review of the loan, responsible lending standards are used. These procedures are based on regular assessments of what customers want and how satisfied they are with current offerings. Our marketing team's abilities were fine-tuned via a series of training sessions. We were able to shorten delivery times and boost support for our customers as a result.

Survey Insights by



Marketing Department of
University of Sri Jayewardenepura



BUSINESS REVIEW

FINANCING

CORE COMPETENCIES

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

STAKEHOLDERS EXPECTATIONS

- ▶ Speed of delivery
- ▶ Innovate new products and operational processes to improve efficiency
- ▶ Cost-effective, convenient, and innovative financial services
- ▶ Enforcing processes, practices, and controls to comply with all applicable rules and regulations
- ▶ Customer education and building relationships
- ▶ New products enabled by the Company's digitisation strategy

Product offerings



BUSINESS PERFORMANCE

GOLD LOAN

Grew by

46%

VEHICLE LOAN

Grew by

3%

CIM BUSINESS LOAN

Grew by

28%

PERSONAL LOAN

Reduced by

8%

LEASING

Reduced by

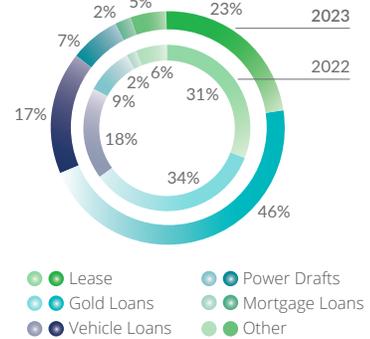
17%

POWER DRAFT

Reduced by

16%

Product Concentration



Customer awareness



AUTO FINANCE



Strategy and performance

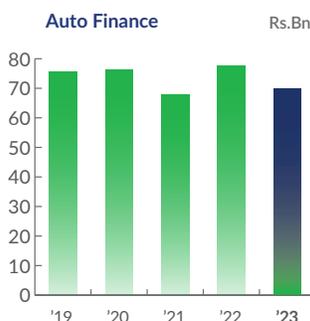
Amidst the backdrop of another challenging year, LBF's Leasing & Auto Finance business stayed on track to deliver satisfactory performance considering the muted credit appetite and other challenges encountered in FY 2022/23.

With turbulent economic conditions in 2022 on top of rising interest rates, high inflation induced by the LKR devaluation against the USD and Sri Lanka's sovereign rating downgrade, causing credit demand to weaken considerably in the current financial year, LBF revisited its lending approaches to minimise the risk against various asset classes. Direct lending activities were largely curtailed. Refinance facilities were offered to existing customers who were adversely affected by the economic environment, to enable them to extend their repayment period and benefit from a smaller instalment. Mindful not to add to the customers' financial burden in these challenging times, LBF ensured all refinance facilities were competitively priced.

Short-term sub loans were also offered to selected customers against existing facilities. Concerning new customer acquisition targeted short-term working capital loans and education loans were granted on a selective basis. Capitalising on the high vehicle prices following the rupee devaluation, LBF further seized the opportunity to penetrate new market segments to promote auto finance solutions.

Testifying the success of the aforementioned prudent lending approaches, the Company registered a decline in new volumes compared to the previous financial year.

In the meantime, the focus on recoveries was intensified with branch teams engaging proactively with customers to ensure timely collections. Recovery activities for certain customer segments were hindered owing to the moratorium that was in place for much of the year.



Excluding moratoria customers, healthy recovery ratios were reported throughout the year which helped to further strengthen the quality of the Leasing & Auto Finance portfolio. The NPL ratio of the Leasing & Auto Finance portfolio improved significantly year on year.

Meanwhile the combined impact of lower volumes and higher recoveries translated into a 11% decline in the Leasing & Auto Finance portfolio from Rs. 77.70 billion at the end of the previous financial year to Rs. 68.90 billion as of 31st March 2023.

Future prospects

With the economic uncertainty gradually subsiding, it is hoped that the medium term would see a correction in interest rates along with an easing of import restrictions, thus creating a conducive environment for the resumption of widespread lending activities. The long-term prospects for LBF's Leasing & Auto Finance business meanwhile will depend on the Country's ability to produce and sustain robust economic growth alongside low interest rates and consistently well-managed inflation expectations.

POWER DRAFT



Strategy and performance

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

Key Macro-Economic challenges

Looking ahead, we will focus on:

- ▶ Rising interest rates
- ▶ Ongoing tightening of LTV rules
- ▶ Increased taxes and low disposable income
- ▶ Additional regulatory controls to restrict import of vehicles



Future prospects

Increase market share to achieve market leadership

GOLD LOAN



Strategy and performance

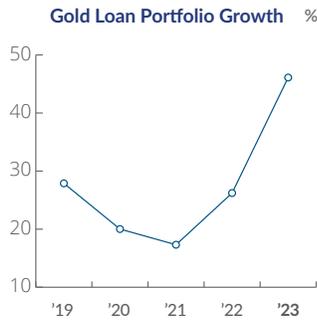
Building on the success achieved in the previous year, LBF's Gold Loan operation made excellent headway in the current financial year by surpassing all growth targets set for the year.

Eager to leverage the rising world gold prices, LBF launched an aggressive campaign to grow its Gold Loan portfolio. Targeted customer acquisition and retention strategies were deployed throughout the year. The advance quota on all Gold Loan products was revised several times to capture the upward movement in world gold prices and allow customers to automatically benefit from the net value gain for their gold items.

Both ATL and BTL activities were intensified with year-round press and electronic publicity accompanied by flyer campaigns, mega campaigns, and localised pocket

BUSINESS REVIEW

FINANCING



campaigns conducted by LBF's island-wide branch network. A notable feature of these campaigns was the emphasis on promoting the Gold Loan top-up facility in the LB CIM mobile app. Awareness-building activities undertaken by the propaganda vehicle were also further accelerated with special emphasis on tapping into new and untapped market segments, especially in the north and east regions of the Country. To support the market development activities, over 15 training sessions were conducted to enhance staff skills.

A culmination of these efforts led to incremental growth in LBF's average monthly granting volumes. Consequently, total granting volumes reported for the financial year 2022/23 were 56% higher than the figures reported in the previous financial year. Supported by robust granting volumes, the total Gold Loan portfolio registered a solid 45.6% growth year on year. On this basis, LBF's captive market share in the Gold Loan space is 30% as at December 2022.

Stringent customer due diligence coupled with aggressive post-disbursement follow-up by the call centre and recovery action by branch teams ensured portfolio quality was well managed throughout the current year.

Future prospects

Going forward, LBF will look to consolidate the success achieved in the Gold Loan business. This would mean strengthening its reach in existing market segments while cautiously venturing into yet untapped segments to sustain a solid growth momentum over time. Hand in hand with these efforts, more stringent recovery measures will need to be deployed to safeguard long-term portfolio health.



MICRO - LEASING



Strategy and performance

The micro-leasing business experienced yet another stressful year as the demand for three-wheelers remained static owing to the combined impact of prolonged import restrictions, muted economic activity, and high-interest rates. In response, LBF tightened its lending limits to moderate the portfolio risk, with approval for new lending granted very selectively, supported by strict due diligence to determine customer credibility and long-term repayment capacity. On this basis, new lending volumes for the financial year 2022/23 declined substantially compared to the previous financial year.

LBF continued to offer various relief measures to existing customers facing difficulties due to the current economic conditions, including offering reschedule solutions and refinance options to enable them to service their obligations sustainably. These were accompanied by the introduction of new payment channels for the greater convenience of customers. These efforts helped to contain NPLs within acceptable limits, with no significant deterioration in portfolio quality recorded in the current financial year.

Future prospects

It is hoped that greater economic stability in the medium would pave the way for market corrections to take place, thus creating a more conducive environment for lending. In the meantime, the near-term focus will remain on effective NPL management to ensure the long-term health of the micro leasing portfolio.

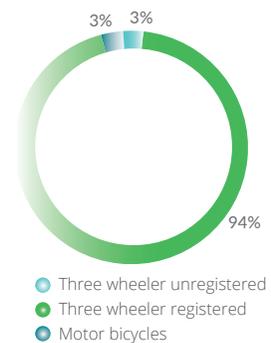
Key Macro-Economic challenges

Looking ahead, we will focus on:

- ▶ Movements in world gold prices
- ▶ Tough competition in the market



Micro Leasing Customer Base Composition



PERSONAL LOANS



Strategy and Performance

It was another critical year for LBF's Personal Loan operation as the Company's key personal loan product - the "Kruthahastha" Pension Loan gained further traction among its target market. Being the only such product offered by the NBF sector, the "Kruthahastha" Pension Loan competes with similar products offered by the banks. However, the unique value-added features offered through the LB CIM wallet app together with faster service delivery give the "Kruthahastha" product a considerable competitive edge, which has made it a popular choice in the market.

The demand for LBF's "Kruthahastha" Pension Loan declined noticeably in the current financial year as inflationary conditions brought pressure on disposable incomes. High-interest rates also proved to be a deterrent for customers to take out new facilities.

Unwilling to add to the financial strain of customers during these challenging times, LBF redirected efforts to promote refinancing to enable existing customers to stretch their payment commitments over a longer period, thereby increasing the monthly net take-home component. Internal processes were also further streamlined to improve overall processing efficiency and reduce end-to-end lead times.

Despite the reduction in new volumes, the overall portfolio remained more or less on par with the previous year as customer tendency for early settlement also reduced owing to the high-interest rates.



Future prospects

A more stable environment, encompassing reduced interest rates and lower baseline inflation will be vital for driving volumes in the coming years.

MORTGAGE LOAN



Strategy and performance

The Mortgage Loan business which relies heavily on local construction sector dynamics, found itself under stress as construction activity came to a standstill owing to the scarcity of construction materials following the government restriction on imports. The deterioration in disposable incomes due to inflationary conditions was another major factor for the construction sector downturn experienced in the current financial year.

Faced with these challenges, LBF varied the schematics of the Conventional Mortgage Loan proposition to explore alternative opportunities in the market. An aggressive social media campaign was part of the overall approach to building awareness regarding the new scope of the mortgage loan offer. Similarly, leveraging the exchange rate differential following the LKR devaluation against the USD, the "Mul Gala" product was also revamped to enable LBF to tap into new customer segments. A focused social media campaign was also launched to promote the housing loan product to foreign income earners, mainly Sri Lankans working overseas. The campaign generated strong interest and is expected to be a key growth driver going forward.

Despite these efforts, however, granting volumes fell significantly compared to the previous year.

Meanwhile, the overall Mortgage Loan portfolio as of 31st March 2023 reflected a 17.5% decline compared to the previous year. The reduction in portfolio value is attributed to the dual impact of lower granting volumes and healthy recovery ratios throughout the year.

Future prospects

The main focus for the future would be to further improve the scalability of the Mortgage Loan proposition to enable LBF to seamlessly reorient to new market opportunities as and when they emerge.

FACTORING



Strategy and performance

As was the case for the past few years, LBF's Factoring operation continued at a subdued pace in the FY 2022/23 as well. With the economic slowdown affecting a majority of the Company's Factoring customer base, recovery action was further intensified in the current financial year. It was also decided that a broader strategic approach was needed to improve collections ratios and mitigate default risk associated with the Factoring portfolio. Stemming from this, scenario analyses were performed on a case-by-case basis with rescheduling and flexible repayment plans offered to identified customers in risk elevated sectors.

Future prospects

The main aim here was to help these customers to stabilise their cash flows to ensure business continuity while sustainably balancing their repayment obligations.

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

BUSINESS REVIEW

FINANCING

Customer awareness



ඔයාගේම වාහනයක්
ඔයාගේම නිවසක් එක්ක



හිත හැඳිවිමක් කැරගන්න
ඔබේ අරමුණු හඹා යන්න



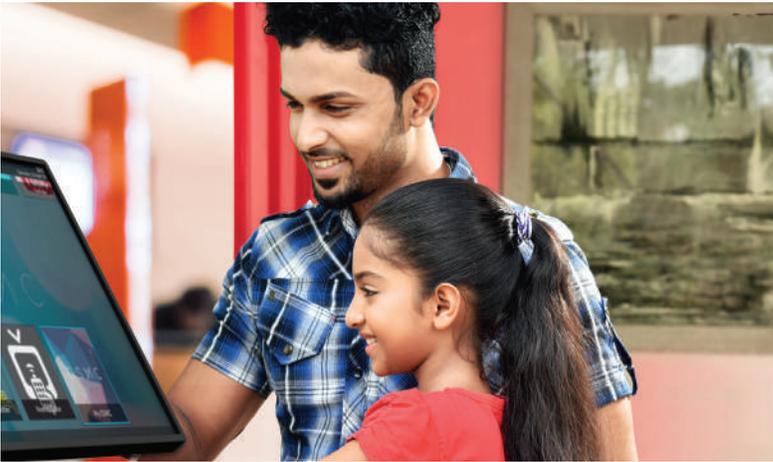
තමන්ගේම ව්‍යාපාරයක් කරද්දී



BUILDING FOR FUTURE

Objectives and Goals	Short term	Medium term	Long term
	Differentiate LBF's value proposition through a more personalised, relationship based approach	Enhance the customer experience through the CIM wallet integration	Holistically improve the customer relationship management model
Related strategic focus	BS BSF	BO IG	BS BO
Related material drivers	CEC CBI	ITS CBI	CEC CBI
Related stakeholders	C SH E	C SH S/C	C SH
SDGs impact	8 12 9	8 11	8 9 12 17

VALUE ADDED SERVICES



OUR STRATEGY

The ultimate test of the Company's strategy is whether it will allow us to provide superior supplementary services and sustainable other business lines, which together will reduce the risk of income generated from the primary source of income, lending, either immediately or in the very near future. We revised our strategy throughout the year to make this purpose clearer and to provide our business units and enabling roles a framework within which to carry out the Company's plan.

MANAGEMENT APPROACH

We're responding to the ways in which people's busy lifestyles are altering their ways of thinking and behaving by offering them streamlined payment systems and other value-added services via a variety of seamlessly interconnected channels. To give our customers full control over their finances, we've expanded our offerings to include a variety of bill-paying options for

utilities and other financial services, and we've made significant improvements to the speed and efficiency of delivery on our value-added platforms. Millions of transactions produce a considerable amount of processes on our value-added service platforms, and customer adoption of LBF's other services continues to rise. Our goal in introducing this feature was to simplify the lives of our

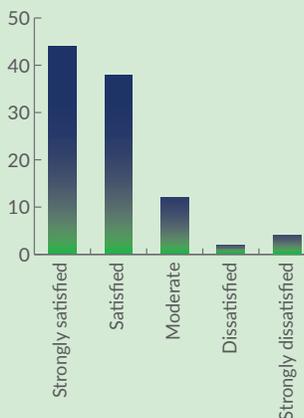
patrons. Our expansive branch network, which extends beyond conventional bounds to meet the needs of our clients, allows us to process all of their utility payments, currency swaps, and money transfers. During these unstable economic times, LBF has prioritized value-added services in an effort to promote customer loyalty and contentment overall.

Survey Insights by

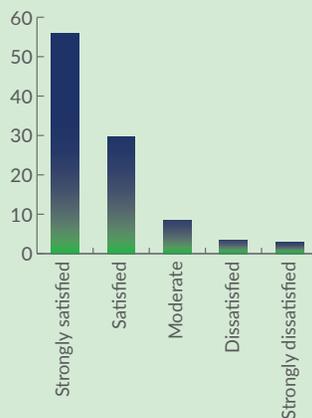


Marketing Department of University of Sri Jayewardenepura

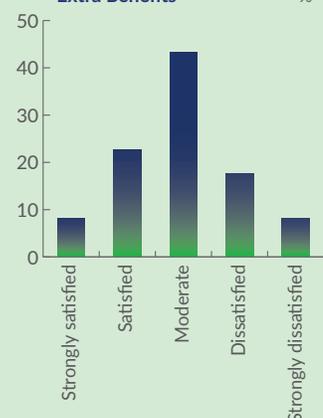
Speediness in Withdrawal



Speed of the Service Offered



Extra Benefits



BUSINESS REVIEW

VALUE ADDED SERVICES

CORE COMPETENCIES

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

STAKEHOLDERS EXPECTATIONS

- ▶ Simple and transparent payment platforms
- ▶ Useful information, financial education, and advice that leads to financial wellness and peace of mind
- ▶ Trusted transaction relationship
- ▶ Ease of transacting across channels

Product offerings



FOREIGN CURRENCY OPERATION



Strategy and performance

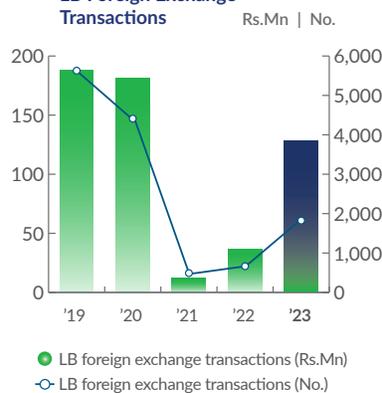
Prolonged inactivity in the tourism sector along with the rapid rise in the number of informal players saw formal money exchangers facing another year of low USD circulation. Undeterred by these challenges, LBF pressed ahead with expansion plans to grow its bandwidth in the money exchange space. CBSL approval was obtained to enable the rollout of the Money Exchange facility across all 192 LBF branches. In parallel, promotional activities were also accelerated to increase product awareness among target customer segments.

These target-driven initiatives produced excellent results as evidenced by the 62% increase in volumes over the previous year. Transaction numbers also showed a sizeable 71% improvement over the financial year 2022/23 buttressed by a solid contribution from LBF's island-wide branch network.

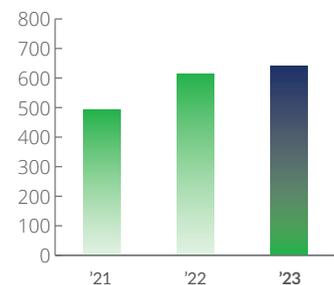
Future prospects

A dynamic approach will underpin LBF's strategy to grow market share in the money exchange space. As a first step, LBF expects to seek CSBL approval to expand the currency portfolio from the present 19 currencies to as much as 25 by 2025.

LB Foreign Exchange Transactions



Payhub Transactions



PAYHUB



Strategy and performance

The widespread economic downturn in 2022 had a cascading effect on the demand for the Bill Payment facility. To counteract these challenges, LBF accelerated its awareness-building activities via multiple mediums.

Nevertheless, lower transaction volumes were recorded compared to the previous year. New registrations also fell below expectations. On a positive note, Bill Payment transactions via the LB CIM wallet app improved steadily amidst the increased customer adoption of the LB CIM platform.

Future prospects

The prospects of the Bill Payment business will hinge on providing easy access to enable more customers across the country to make use of the facility. Towards this end, LBF hopes to collaborate with leading telecommunication services providers to empower their island-wide agent network to offer the Bill Payment facility. While significantly increasing the island-wide reach, this approach will also enable LBF to participate in joint promotions to raise awareness and improve visibility for the Bill Payment facility.

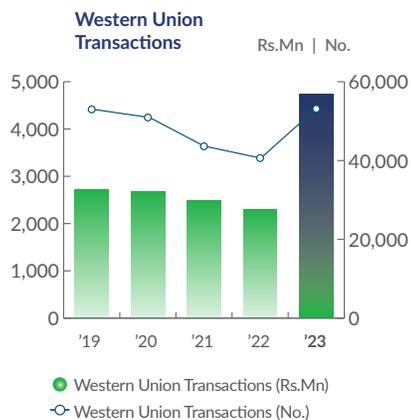
WESTERN UNION



MONEY Master LB FINANCE

Strategy and Performance

LBF's Western Union money transfer operation delivered a strong performance in the current financial year despite challenges in the external environment. Total money transfer volumes recorded by LBF's Western Union channel increased by 51% while the number of transactions grew by 23% compared to the previous year, both commendable achievements at a time when inward remittances flow to the country declined by as much as 31% year-on-year.



Bolstered by the year-round improvement in volumes, LBF's market share also increased to 12% in the current financial year.

These results are attributed to aggressive marketing and awareness-building activities by branch teams coupled with the progressive expansion of the sub-agent network throughout the year. Capitalising on its status as a principal agent of the Western Union money transfer network, LBF expedited the appointment of new sub-agents, which saw the network doubling from 90 at the start of the current financial year to 180 on 31st March 2023. The LB CIM Business Loan team was also mobilised to engage in cross-selling to raise awareness regarding LBF's money transfer facility.

Future Prospects

The main focus for the future would be to expand the sub-agent network in order to support the incremental growth in the number and volume of money transfer transactions. To drive this, LBF will aim to grow its sub-agent network by the end of 2023.

Customer awareness



BUILDING FOR FUTURE

Objectives and Goals

Short term

Increase targeted promotional activities to create top of mind awareness across all relevant customer segments for foreign currency exchange

Medium term

Enhance the customer experience through digital integration for money transferring

Long term

Financial education and awareness building to enhance for digital utility payments

Related strategic focus

BO **BSF**

BSF **IG**

BS **BO**

Related material drivers

CEC **CBI**

CBC **CBI**

CEC **HPT**

Related stakeholders

C **SH**

C **SH** **E**

C **SH** **E**

SDGs impact

8 **9**

9 **11**

8 **9** **10** **12**

DIGITAL FINANCING



OUR STRATEGY

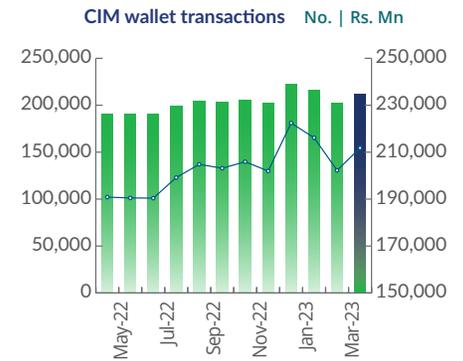
Financial institutions are quickly adopting mobile banking in an effort to satisfy customer demands. If we want to reach the most people with our mobile-friendly material, a responsive website is the way to go, according to clear bridge mobile. If we want to reach out to and interact with our current customers and members more effectively, then the mobile app is the way to go. We have expanded our offerings on our digital channel to include non-financial activities in recent years, such as CIM Wallet, our super app that includes value-added services.

MANAGEMENT APPROACH

Embracing digital finance would unleash LBF innovation and create opportunities to develop better financial products for customers, including for people currently unable to access financial services. It unlocks new ways of channelling funding to LBF businesses, in particular SMEs and MSMEs. Boosting digital finance would therefore support LBF's economic recovery strategy and the broader economic transformation. It would open up new channels to mobilise funding in support of the green financing and the green initiatives.

As digital finance accelerates cross-border operations, it also has the potential to enhance financial market integration in the LBFs internal systems and external systems, and thereby strengthen LBF's digital sustainability.

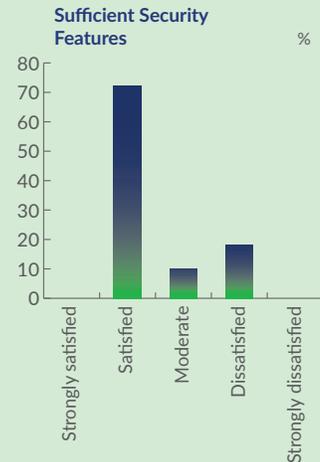
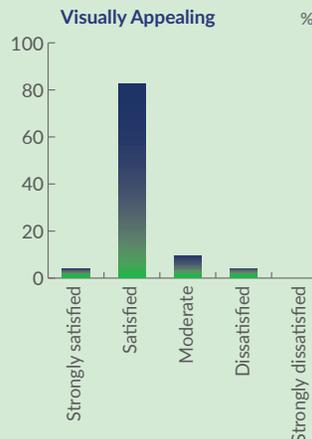
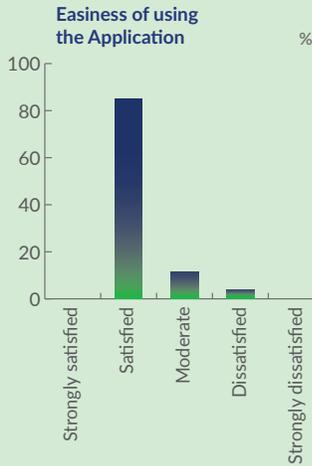
Leveraging the growing demand for instant financial solutions, LBF strives to develop and implement highly customer specific financing and investing models where the key feature is 24/7-365 accessibility via digital platforms.



Survey Insights by



Marketing Department of University of Sri Jayewardenepura



CORE COMPETENCIES

- ▶ Digital transformation is a top business imperative
- ▶ Improving customer experience & operational efficiency
- ▶ Cyber and data privacy needs to be more of a priority

STAKEHOLDERS EXPECTATIONS

- ▶ Data privacy and information confidentiality
- ▶ Speed, accuracy, and convenience of transactions
- ▶ Electronic base with minimal paperwork
- ▶ Easy access with 7/24 uninterrupted services

Product offerings



STRATEGY AND PERFORMANCE

Digital financing solutions mobilised via the LB CIM mobile app are the latest additions to LBF's financial solutions portfolio. In the current financial year, the CIM app was widely used to promulgate both financing and investing options to customers seeking convenient and speedy solutions.

Taking advantage of the robust demand for short-term loans, especially from the SME sector, a concerted effort was made to popularise the LB CIM business loan proposition. The strategy delivered excellent results as evinced by the incremental growth in the LB CIM business loan portfolio in

the latter half of the current financial year. In-built credit controls, stringent customer due diligence along with proactive collection measures ensured recovery ratios remained within acceptable limits.

Meanwhile, seeking to replicate the strong market uptake for the LB CIM business loan, the digital personal loan was launched in mid-2022. Being the only fully digitised loan facility in the market designed specifically for salaried employees, the digital personal loan was well received by the target market, leading to a month-on-month improvement in average granting.

Gold loan top-ups, which was the first financing facility offered through the CIM app, gained further traction amidst the economic uncertainty in the current financial year. The popularity of gold loan top-ups was apparent by the sizeable uptick in volumes and transaction numbers in the current year.

Deposit mobilisation activities through the LB CIM app also gained good traction in the financial year 2022/23 following the launch of the fully integrated FD solution, which empowers customers to activate the digital KYC, proceed to instant FD creation, and receive the digital FD certificate in an easily downloadable format.

FUTURE PROSPECTS

Seeing the success achieved in the financial year 2022/23, LBF will aim to further expand the portfolio of financing and investing solutions offered through the LB CIM app in the coming years. These strategies will be coupled with ongoing efforts to enhance the functionality of the LB CIM app to support greater convenience and augment the transactional capability of customers.

BUILDING FOR FUTURE

Objectives and Goals	Short term	Medium term	Long term
	Adopting Artificial Intelligence (AI) and Machine Learning (ML) technologies to improve customer experiences, automate processes, and reduce risk	The Internet of Things (IoT) can revolutionize the financial services industry by enabling financial institutions to collect real-time data from connected devices, analyse it, and use it to inform decision-making.	Forecasting financial trends, analysing risk, automating tasks, making data-based decisions, and improving customer transparency
Related strategic focus	BO BSF	BSF IG	BS BO
Related material drivers	CEC CBI	CBC CBI	CEC HPT
Related stakeholders	C SH	C SH E	C SH E
SDGs impact	8 9	9 11	8 9 10 12

BUSINESS SEGMENT REVIEW – SUBSIDIARIES

OVERSEAS SUBSIDIARY - LB MICROFINANCE MYANMAR

LB Microfinance Myanmar (LBMM) is a 100% fully owned subsidiary of LB Finance PLC. LBMM was incorporated in 2017 with the aim of delivering microfinance solutions that will pave the way to promote greater financial inclusion in Myanmar.

BUSINESS FOCUS

In line with its mission, LBMM's microfinance model is geared to support the growth and development of small scale farmers in rural Myanmar through the provision of much-needed financial assistance and business development advice that would enable them to develop stable livelihoods, raise their living standards and overall quality of life.

Backed by substantial investments in infrastructure, technology and human resources, LBMM has over the years strategically grown its presence in this key market.

Vision

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

Mission

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

Values

Excellence

Transparency

Ethics

Respect

Professionalism

Quality

LBMM PRODUCT PORTFOLIO

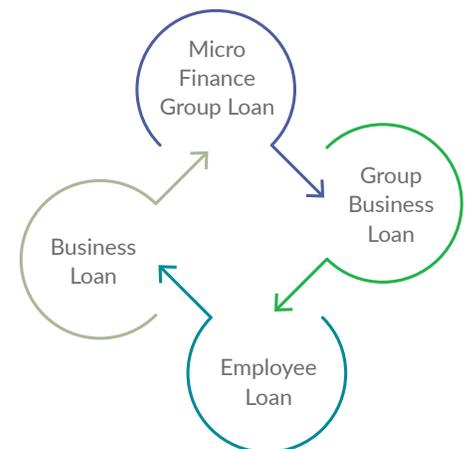
LBMM offers a broad range of products to satisfy the needs of diverse customers. The Micro Finance Group Loan was the first product launched by LBMM. The product is based on the typical microfinance model, where several micro entrepreneurs with similar needs come together to take out a loan and make a joint commitment to service the loan.

Over the years, the Company has expanded its product portfolio through innovative solutions to meet the varying needs of customers.

The Group Business Loan is offers loans are based on a formal tripartite agreement between three individual entrepreneurs indicating their agreement to service obligations and other terms.

The Business Loan is a higher value loan granted only to registered business based purely on their business credentials.

The employee loan is a special product designed specifically for salaried employees, where the loan quantum is tied to the permanent monthly salary of the applicant.



REGIONAL FOOTPRINT



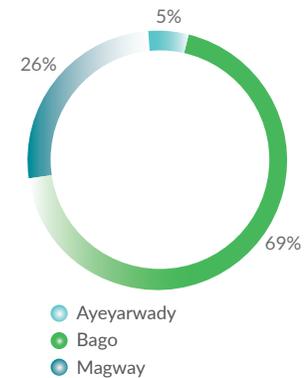
Branch	Number of employees	
	Sri Lankan	Burmese
Ayeyarwady Region		
Myanaung Branch	-	8
Kyangin Branch	-	6
Bago Region		
Letpadan Branch	-	10
Nattalin Branch	-	8
Okeshitpin Branch	-	8
Paukkhaung Branch	-	8
Paungde' Branch	-	10
Pyay Branch	3	25
Shwedaung Branch	-	9
Magway Region		
Aunglan Branch	-	6
Magway Branch	1	9
Minbu Branch	-	8
Sinbaungwe' Branch	-	6
Thayet Branch	-	8

HIGHLIGHTS

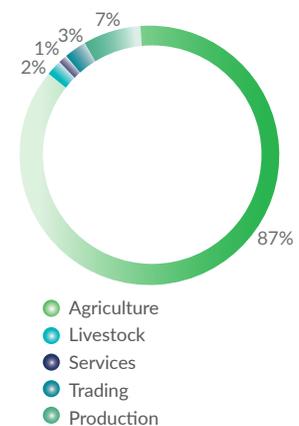
NUMBER OF CUSTOMERS
More than 19,000

NUMBER OF EMPLOYEES
129

Region Wise Granting



Sector Wise Granting



KEY BUSINESS ACTIONS FOR FY 2022/23

With the liquidity constraints of the past few years gradually easing out and paving the way for a more conducive business environment in 2022, LBMM's lending volumes showed a corresponding increase driven by healthy growth across all product categories.

Improved liquidity also helped fuel LBMM's expansion plans which saw the Company increasing the footprint in its stronghold 3 region, while also marking its entry to the Ayeyarwady region. With the latest additions (2 in the Ayeyarwady region) LBMM's network now comprises 14 branches.

In the year under review, LBMM took the first steps towards establishing a digital presence through the roll out of an online payment system in partnership with Wave Money, Myanmar's largest mobile financial services provider.

In yet another notable milestone, LBMM commemorated its 5th year of operations in December 2022 by securing the voluntary savings licence which allows the Company to mobilise savings from the public.

BUSINESS SEGMENT REVIEW - SUBSIDIARIES

SUCCESS STORIES



Visit our sustainability web site for SME success stories

PERFORMANCE REVIEW

	2022/23	2021/22	2020/21	2019/20	2018/19
Income (Rs. Mn)	217.08	58.87	153.24	136.81	57.07
Profit after Tax (Rs. Mn)	99.91	(31.84)	4.21	23.81	24.71
Lending Portfolio (Rs. Mn)	890.42	804.94	688.39	554.09	378.68
Total Assets (Rs. Mn)	995.31	909.55	909.94	895.37	409.43
Total Equity (Rs. Mn)	831.68	805.01	719.12	681.39	358.82
ROA	10.5%	-3.5%	0.5%	3.6%	6.0%
ROE	12.2%	-4.0%	0.6%	4.6%	6.9%

BUILDING FOR FUTURE

Objectives and Goals	Short term	Medium term	Long term
	New customer acquisition to grow the lending portfolio	Customer capacity building through regular and ongoing financial literacy programmes	Adopt advanced technologies in business to drive operational efficiencies and expand the customer base
Related strategic focus	BS BO	IG BO	BSF IG
Related material drivers	CBI	CEC	ITC
Related stakeholders	C E	C R E	C S/C E
SDGs impact	8 9	9 11	8 9 10 12

LOCAL SUBSIDIARY – MULTI FINANCE PLC

Multi Finance PLC (MFP) is a licensed Finance Company under the Central Bank of Sri Lanka. The Company was incorporated on the 14th of October 1974 as a Limited Liability Company in Kandy and re-registered under the Companies Act No.07 of 2007 on the 26th of February 2009. The Company was subsequently listed on the Colombo Stock Exchange on the 13th of July, 2011

In March 2022, LB Finance PLC, acquired a 64.63% controlling stake of Multi Finance PLC (MFP) in line with the Central Bank’s proposed consolidation strategy for the Non-Bank Financial Institutions (NBFIs) sector and subsequently increased upto 64.76% following mandatory offer made in the beginning of the current financial year.

BUSINESS FOCUS

Over the years, MFP has earned the trust of all customer segments from individuals to micro entrepreneurs, SME’s to high level corporate clients and today is known as a reliable financial institution that is committed to support the development of people and businesses in all sectors of the Sri Lankan economy.

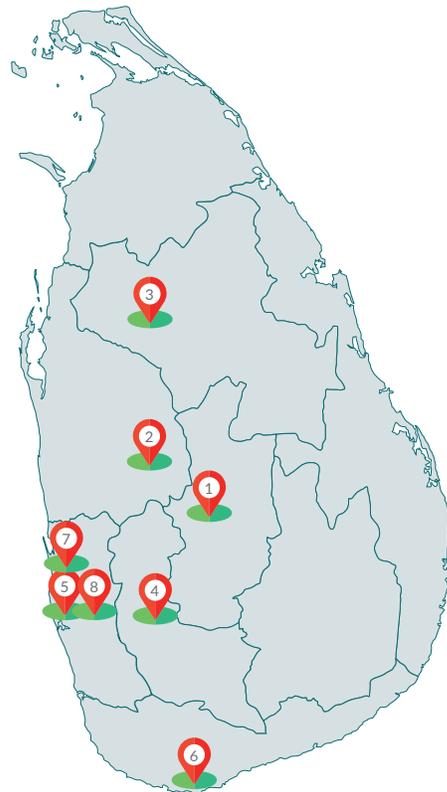
LBF’s acquisition of MFP complements LBF growth strategy and also allows MFP’s customer base to access the LBF’s diverse portfolio of investing, financing, value added services and digital solutions while benefiting from LBF’s commitment to service excellence.

Vision

To be the first choice for financial solutions

Mission

- ▶ To enhance shareholder value through financial stability and growth
- ▶ To satisfy our valued customers by providing innovative solutions to their financial needs
- ▶ To train, develop and empower employees to give their best
- ▶ To achieve highest operational efficiency through advanced technology
- ▶ To adhere to the highest corporate ethics and social responsibilities
- ▶ To be recognised for our expertise and professionalism



- | | |
|-----------------|------------------------------|
| 1. Kandy | 6. Matara |
| 2. Kurunegala | 7. Gampaha |
| 3. Anuradhapura | 8. Maradana Gold Loan Centre |
| 4. Rathnapura | |
| 5. Colombo | |



Right Solutions
Right Value
Right Direction
Right Experience
Right Vision
Right Strategy
Introduction

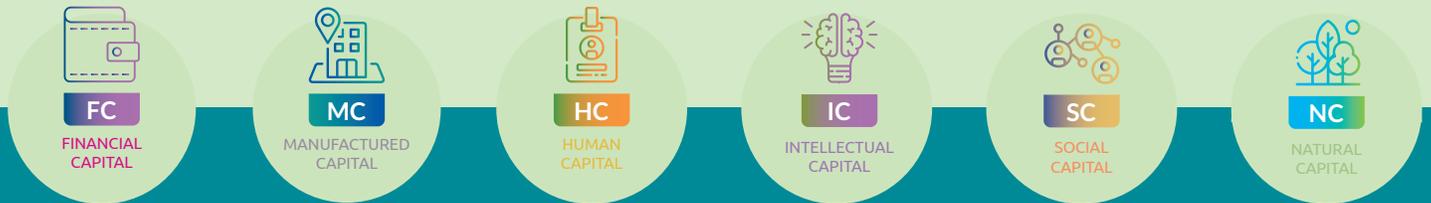
BUSINESS SEGMENT REVIEW - SUBSIDIARIES

	2022/23	2021/22	2020/21	2019/20	2018/19
Income (Rs. Mn)	147.87	120.36	134.10	218.66	297.38
Profit after Tax (Rs. Mn)	(4.70)	(199.50)	(82.60)	(141.74)	(63.11)
Lending Portfolio (Rs. Mn)	292.00	336.86	569.53	861.74	1,180.54
Total Assets (Rs. Mn)	516.21	617.53	870.14	1,194.72	1,484.57
Total Equity (Rs. Mn)	294.74	298.81	493.85	577.15	718.48
ROA	-0.91%	-32.31%	-9.49%	-11.86%	-4.25%
ROE	-1.60%	-66.77%	-16.73%	-24.56%	-8.78%

BUILDING FOR FUTURE

Objectives and Goals	Short term	Medium term	Long term
	New customer acquisition to grow the lending portfolio	Customer capacity building through regular and ongoing financial literacy programmes	Adopt advanced technologies in business to drive operational efficiencies and expand the customer base
Related strategic focus	BS BO	BS IG	BS IG
Related material drivers	CEC CBI	CEC ITS	ITC CBI
Related stakeholders	C E BP	C R E	C S/C E
SDGs impact	8 9	9 11	8 9 10 12

CAPITAL REPORTS



At LB Finance we manage our capitals effectively and efficiently – transforming our resources and relationships to deliver outstanding value to the people. These capitals consist of our unique resources, expertise and partnerships which serve to set us apart from our competition.



Mr. Nirosan Udage
Deputy Managing Director



FINANCIAL CAPITAL

Six question roundup with our Leaders



Mr. Sumith Adhietty
Managing Director

Q1 What financial capital means to LBF?

Our Financial Capital refers to the pool of funds that are available for the use of Company's business operations which obtained through financing, such as equity, debt and customer deposits or generated through operations or investments.

Q3 What are the key material drivers identified, which were raised by the stakeholders?

Based on our materiality determination process, we have identified the following matters as material to our financial capital. Each matter is grouped under a relevant materiality theme that speaks to our broader operating context.

Financial Excellence	Steady Business Growth	Sustainable Returns
Operational Efficiency	Market Adherence	Business model Innovation

Q6 What is LBF's approach to differentiate its financial capital from peers?

Setting up the fundamentals at its best conditions and continuous monitoring with frequent fluctuations in the market have allowed LBF to stand its grounds steadily with resilience. Planning and budgeting is done and revised continuously to make sure that the Company is properly funded throughout the year with a well balance leverage. Moreover, the advance analytics are done using artificial intelligence to monitor the success rate of the plans executed and improvements are made accordingly.

Q2 How financial capital supports our value-creation goals?

The root stem of our financial capital is how we create value for our stakeholders by generating attractive and sustainable returns with year-on-year perfections in all key financial indicators and assuring the growth of our business operations while enhancing other capitals.

Q4 What are the challenges and opportunities associated with developing financial capital?

Being one of the largest financial institutions and with the well-spread branch network, LBF has the potential to access diversified financing opportunities including foreign funding sources reflecting its reputation, stability and expertise in strategic investments.

On the other hand, we are always conscious about adverse macroeconomic conditions and make strategic plans in order to have neck to neck balance between funding and investments while maintaining sustainable returns when market interest rates are volatile and uncertain.

Q5 What are the key strategic drivers for developing financial capital and how does the Company manage trade-offs against other capitals?

As we fund our core systems through equity, debt and customer deposits or generated through operations and investments, that we make towards achieving sustainable returns and the use of advanced technology to help us maintain our low cost to income ratio and quicker service in the form of turnaround times and enables us to operate competitively in the market.

While providing monetary investments to our manufactured, intellectual, human, social and relationship and natural capitals for development in themselves, these investments are transformed back to financial capital in the form of sustainable returns to various stakeholders.

STAKEHOLDER'S EXPECTATIONS

STAKEHOLDERS

MATERIALITY						
Attractive and sustainable returns	✓		✓	✓		
Transparent reporting and good governance	✓	✓	✓	✓	✓	✓
Management of asset quality	✓	✓	✓	✓	✓	✓

SPACE FOR DEVELOPMENT

- ▶ Growth opportunities through diversifications
- ▶ Capitalise in overseas expansions
- ▶ Financing through cost effective funding sources
- ▶ Strengthen the branch wide spread
- ▶ Enhance the technology utilisation for business model development

CHALLENGES

- Lacklustre macroeconomic conditions
- Elevated credit risk exerted pressure on earnings
- Maintaining the NIM when market interest rates are volatile and uncertain

WAY FORWARD

- Introduce business intelligent platforms and use of artificial intelligence for credit decisions
- Industry association engagements towards sustainable growth
- Initiation of new fintech solutions

Related strategic themes



SDG Impact



Rs. 182 Bn
TOTAL ASSET BASE

23.48%
ROE

Rs. 8.4 Bn
PROFIT AFTER TAX

114.40%
PROVISION
COVERAGE

4.45%
GROSS NPL

32.42%
COST TO INCOME

HIGHEST
TAXPAYER IN
NBFI SECTOR
Rs. 9.72 Bn

Rs. 114.01 Bn
CUSTOMER
DEPOSITS



FINANCIAL CAPITAL

LB Finance PLC embraced itself to stand its ground under challenging macroeconomic conditions and prevailing systemic shocks in the industry. Under the given conditions, the Company achieved a profit after tax of Rs. 8.46 Billion with resilience.

Capital Adequacy is part of the regulatory framework which ensures financial institutions are supervised. Capital Adequacy Ratios (CAR) express the capital as a percentage of its Risk Weighted Assets (RWA).



CAR TIER I

30.50%

2021/22 25.95%

CAR TIER II

31.13%

2021/22 26.90%

Non Performing Advances to Equity

19.18%

2021/22 20.69%

Capital Funds to Deposit Ratio

33.43%

2021/22 37.07%

Capital Adequacy Ratio %



Way Forward

To maintain Capital Adequacy Ratios with a fair buffer not less than additional 2% against the statutory requirement of CBSL

Assets Quality evaluates the risk associated with its loans and advances. Gross Non-Performing Loans (NPL) indicate defaulted loans beyond a defined period. Net NPL represents the open exposure of NPLs after impairment provision.



Gross NPL

4.45%

2021/22 4.44%

Net NPL

-0.65%

2021/22 -0.80%

Provision Coverage Ratio

114.40%

2021/22 117.94%

Open Credit Exposure Ratio

-2.59%

2021/22 -3.44%

Gross and Net NPL Ratio %



Way Forward

To maintain Net NPL ratio at zero level

Management Efficiency evaluates the Company's ability to manage its operations effectively and efficiently in any financial stress. Cost to Income ratio indicates how much a firm is spending to generate income.



Cost to Income

32.42%

2021/22 29.28%

Profit per Employee

Rs. 2.38 Mn

2021/22 Rs. 2.27 Mn

Impairment Charge to Total Operating Income

2.46%

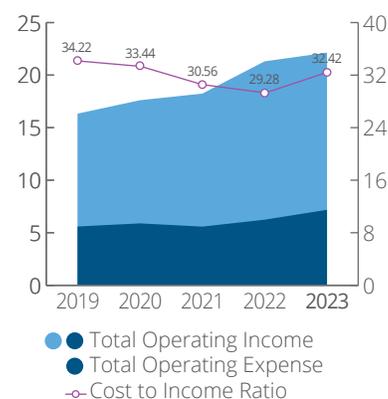
2021/22 4.81%

Operating Expense to Income

16.79%

2021/22 20.69%

Cost to Income Ratio Rs.Bn | %



Way Forward

To maintain Cost to Income Ratio below 35%

To bring a change in evaluating the Key Performance Indicators (KPIs) of the Company, Sensitivity is exclusively introduced to the already functioning CAMEL rating system. 'CAMELS' which is not part of Audited Financial Statement, incorporated Sensitivity to analyse the market wavering while Capital Adequacy, Assets Quality, Management Efficiency, Earnings and Liquidity provide insights on the financial strength and the sustainable returns.

Earnings evaluate the Company's revenue and profitability, including its ability to generate sustainable profits over time. Return on Equity (ROE) shows how well the Company utilises its shareholders' investments to generate profits.



Return on Equity

23.78%

2021/22 28.29%

Return on Assets

4.88%

2021/22 5.68%

Net Interest Margin

11.86%

2021/22 13.28%

Interest Spread

9.15%

2021/22 11.98%



Way Forward

To maintain minimum 20% ROE while optimising profitability and providing shareholders with sustainable returns

Liquidity examines the Company's ability to meet its short-term obligations, including the availability of cash and other liquid assets.



Liquid Assets Ratio

19.31%

2021/22 17.60%

Loans to Deposits

127.35%

2021/22 150.76%

Liquid Assets to External Funds

16.04%

2021/22 11.87%

Total Liquidity Reserves

Rs. 25.59 Bn

2021/22 Rs. 19.59 Bn



Way Forward

To focus on maintaining 150% in liquidity against the statutory liquidity requirement

Sensitivity analysis is used to identify potential weaknesses and vulnerabilities in the Company's financial condition, and to help management develop appropriate strategies to mitigate these risks.



Interest Rate Δ 1%

2.06% Δ PAT

Δ PAT (Rs.Mn) 174.33

Cost to Income Ratio Δ 1%

1.54% Δ PAT

Δ PAT (Rs.Mn) 129.93

Impairment Charge Δ 1%

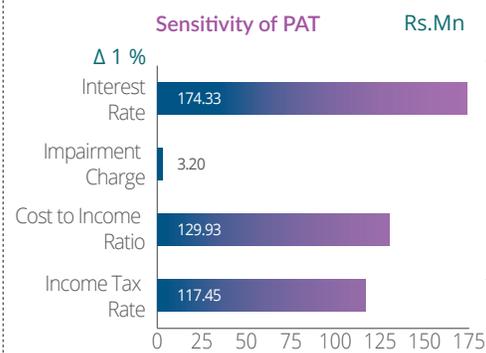
0.04% Δ PAT

Δ PAT (Rs.Mn) 3.20

Income Tax Rate Δ 1%

1.39% Δ PAT

Δ PAT (Rs.Mn) 117.45



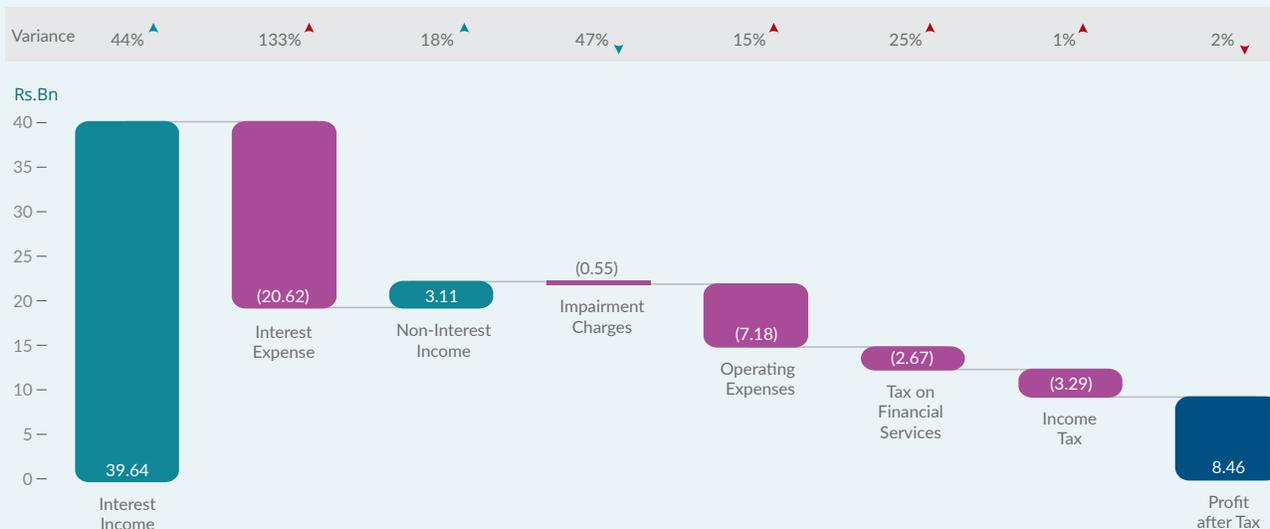
Way Forward

To make strategic decisions based on sensitivity analysis in the best interest of stakeholders while maximising shareholder wealth

INCOME STATEMENT

KPIs	DEFINITION	DRIVERS
<p>Net Interest Income</p> <p>Net Interest Income = Interest Income - Interest Expenses</p>	<p>The interest recognised from our lending products that we offer to our customers, less the interest expenses on the deposits that our customers place with us and debt funding from our lenders.</p>	<p>Lending base, NPL ratio, Product pricing, Market volatility, Market interest rate</p>
<p>Non-Interest Income</p> <p>Non-Interest Income = Net Fee and Commission Income + Net Trading Income + Other Operating Income</p>	<p>Also known as other income, consisting of fee and commission income, net trading income and other operating income.</p>	<p>Capital market activities, Market volatility, Other income recognised on credit granting</p>
<p>Impairment Charges</p> <p>Expected Credit Losses = Exposure at Default x Probability of Default x Loss Given Default</p>	<p>Expected credit losses arising due to the inability of customers to repay their debt to the entity.</p>	<p>Customer repayment behaviour, Loss given default rate, Probability of default rate, Macroeconomic factors, Exposure at default</p>
<p>Operating Expenses</p> <p>Operating Expenses = Personnel Expenses + Depreciation and Amortisation Expenses + Other Operating Expenses</p>	<p>Costs incurred to generate current and future income. Consisting of personnel expenditure, depreciation and amortisation and other operating expenses.</p>	<p>Inflation, Headcount, Investments in branches and IT infrastructure, General costs to operate, Marketing and promotional activities</p>
<p>Taxes</p> <p>Taxes = Tax on Financial Services + Income Tax</p>	<p>Include direct taxes which are income tax and VAT on financial services. Tax is a compulsory financial charge or some other type of levy imposed on taxpayers.</p>	<p>Level of operational profitability, Government policies, Applicable tax rates, Allowable credits, debits and exempt income</p>

Analysis of Income Statement



HORIZONTAL ANALYSIS OF INCOME STATEMENT

Income Statement	CAGR*	2022/23		2021/22		2020/21		2019/20		2018/19	
	%	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%
Income	10	42,757	42	30,160	1	29,766	(5)	31,223	7	29,279	17
Interest Income	10	39,644	44	27,511	0	27,458	(6)	29,160	7	27,364	17
Interest Expenses	12	20,616	133	8,847	(23)	11,523	(15)	13,615	5	12,952	13
Net Interest Income	7	19,028	2	18,664	17	15,935	3	15,545	8	14,412	21
Other Operating Income	13	3,113	18	2,649	15	2,308	12	2,063	8	1,915	16
Total Operating Income	8	22,141	4	21,313	17	18,243	4	17,608	8	16,327	21
Impairment Charges	(14)	546	(47)	1,026	(39)	1,692	(8)	1,831	86	983	47
Total Operating Expenses	6	7,178	15	6,240	12	5,576	(5)	5,888	5	5,587	10
Tax on Financial Services	7	2,670	25	2,137	28	1,669	(27)	2,279	13	2,016	51
Profit before Tax	11	11,747	(1)	11,910	28	9,306	22	7,610	(2)	7,741	19
Income Tax Expense	5	3,287	1	3,248	30	2,503	3	2,423	(10)	2,686	21
Profit for the Year	14	8,460	(2)	8,662	27	6,803	31	5,187	3	5,055	19

*CAGR - Compound Annual Growth Rate

The horizontal analysis of the income statement shows the growth in each income and expenses over the past five years. Income reached Rs. 42,757 million in 2022/23 with an increase of 10% CAGR for last 5 years. Net interest income increased to Rs. 19,028 million, exhibiting an 7% CAGR. The Company also experienced steady growth in other operating income at a 13% CAGR. Total operating expenses have shown a slightly upward trend, but remained relatively stable at a 6% CAGR, increasing from Rs. 5,587 million to Rs. 7,178 million over the last 5 years. Profit for the year has shown a steady growth, increasing from Rs. 5,055 million in 2018/19 to Rs. 8,460 million in 2022/23, with a CAGR of 14% which is the highest CAGR out of all income and expenses.

VERTICAL ANALYSIS OF INCOME STATEMENT

Income Statement	2022/23		2021/22		2020/21		2019/20		2018/19	
	Rs. Mn	%								
Income	42,757	100	30,160	100	29,766	100	31,223	100	29,279	100
Interest Income	39,644	93	27,511	91	27,458	92	29,160	93	27,364	93
Interest Expenses	20,616	48	8,847	29	11,523	39	13,615	44	12,952	44
Net Interest Income	19,028	45	18,664	62	15,935	54	15,545	50	14,412	49
Other Operating Income	3,113	7	2,649	9	2,308	8	2,063	7	1,915	7
Total Operating Income	22,141	52	21,313	71	18,243	61	17,608	56	16,327	56
Impairment Charges	546	1	1,026	3	1,692	6	1,831	6	983	3
Total Operating Expenses	7,178	17	6,240	21	5,576	19	5,888	19	5,587	19
Tax on Financial Services	2,670	6	2,137	7	1,669	6	2,279	7	2,016	7
Profit before Tax	11,747	27	11,910	39	9,306	31	7,610	24	7,741	26
Income Tax Expense	3,287	8	3,248	11	2,503	8	2,423	8	2,686	9
Profit for the Year	8,460	20	8,662	29	6,803	23	5,187	17	5,055	17

The vertical analysis of the income statement reveals the composition of income and expense items as a percentage of total income. The interest income consistently comprised a significant portion of total income, ranging from 91% to 93% for the last 5 year period while interest expenses ranged from 29% to 48%. Tax on Financial Services together with Income tax expense has comprised 14% to 18% of income, reflecting a higher tax contribution to the government. LBF has maintained an upward trend of profitability while generating over 20% profits in average, reflecting its ability to optimise shareholder returns.

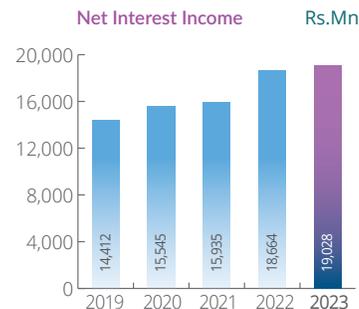
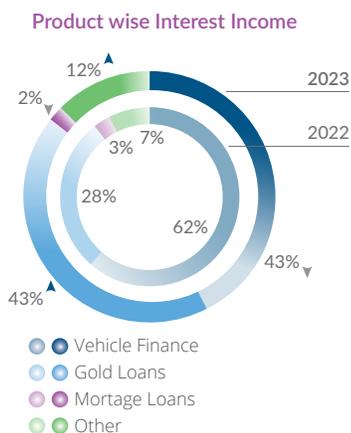
FINANCIAL CAPITAL

NET INTEREST INCOME

Our interest income was Rs. 39.64 Billion for the year 2022/23 compared to Rs. 27.51 Billion in 2021/22. Company’s interest earning assets were repriced in line with the climb in market interest rates. The impact of immediate repricing of customer deposits were offset by the enhanced short term lending volumes including increase in gold loans.

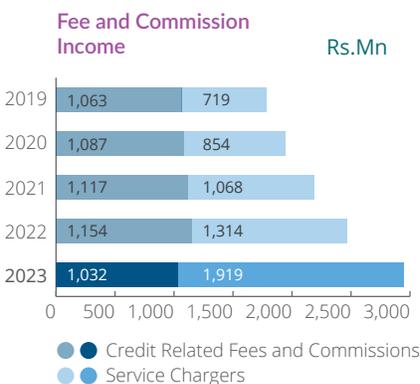
Substantial short term lending products and the variable rate component of the Company’s lending book were the core contributing factors of portfolio repricing. The growth of interest income was mainly affected by the significant increase in income from gold loans alongside good marketing strategies and given market demand. Therefore, the Company was able to significantly improve the interest income from previous financial year.

On the other hand, interest expenses increased by Rs. 11.77 billion from Rs. 8.85 billion to Rs. 20.62 billion compared to the previous financial year. This was driven by a sharp increase in market interest rates from the first half of the financial year inline with the tightening monetary policies imposed by the Central Bank of Sri Lanka. Customer deposits were increased by Rs. 24.87 billion which was a 27.90% increase from the previous year, allowing customer deposits to be the main funding source of the Company during the financial year.



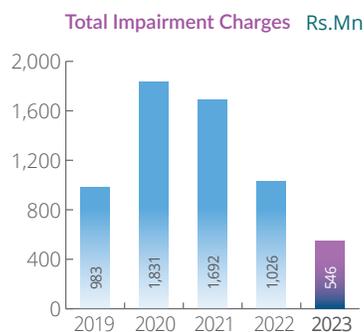
NON INTEREST INCOME

The Company generated non-interest income of Rs. 3.11 billion for the financial year of 2022/23 which improved by 17.50% from the previous financial year. The Company was able to increase non-interest income through the increase in fee and commission income up to Rs. 2.95 billion from Rs. 2.47 billion which is a 19.59% jump from the previous financial year, due to the increase in gold loan business volumes.



and robust recoveries, despite challenging macroeconomic conditions.

The management of LBF has been vigilant in overseeing credit monitoring while simultaneously managing credit risk and striving to enhance the quality of assets by efficiently managing and recovering finance receivables. The result of these efforts is reflected in the lower level of non-performing advances (NPA) and better management of the loan portfolio. Nonetheless, the management remains committed to maintain credit monitoring and improve asset quality, as evidenced by the decrease in impairment charges compared to the previous year.



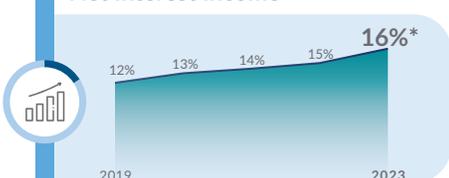
IMPAIRMENT CHARGES

The Company has made significant efforts to enhance the quality of its assets during the financial year. This is evident from the allocation of an impairment charge amounting to Rs. 545.74 million, which marks a 46.81% reduction from the prior-year impairment charge of Rs. 1,025.98 million. In particular, the impairment charge related to loans and receivables reflected a decline of 24.81%, or Rs. 242.15 million, to reach Rs. 733.73 million. This decline can be attributed to, change in the lending product mix, improved credit underwriting

In conclusion, the Company’s approach on improving asset quality has yielded positive results, as evidenced by the decline in impairment charges related to loans and receivables. The management’s continued efforts in credit monitoring and efficient recovery of finance receivables are expected to further improve asset quality in the future.

Unveiling LBF's Industry Presence

Net Interest Income



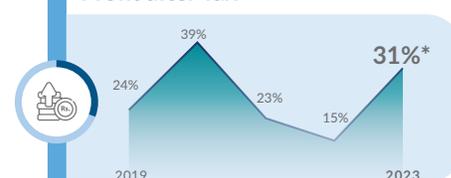
Within the NBFIs sector, LBF contributed 16.33% of the net interest income, highlighting its significance in the financial performance of the overall sector.

Tax Expenses



LBF made a significant contribution to the NBFIs sector's total tax expense, representing approximately 33.69% of the sector's performance in this regard. This underscores LBF's substantial role and responsible tax payment within the sector.

Profit after Tax



LBF continued to maintain a significant portion of the sector's overall profit, accounting for approximately 31.19% of the sector's performance. This indicates LBF's strong position and notable contribution to the sector's profitability.

*Based on CBSL data as at Dec 2022

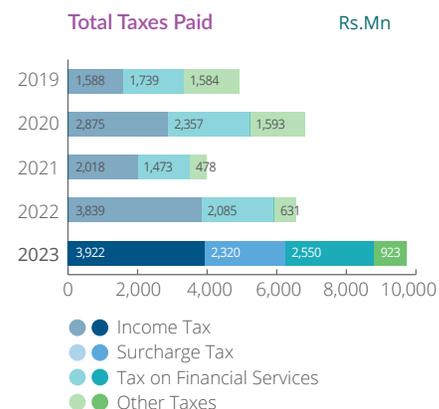
OPERATING EXPENSES

Operating expenses increased by 15.03% to Rs. 7.18 billion for the year 2022/23 compared to the previous year's Rs. 6.24 billion under the given high inflationary economic conditions. This was mainly due to the increase in personnel expenses, including staff training, inflationary salary adjustments, and staff incentives. Administrative expenses, advertising and business promotional expenses significantly increased compared to the previous financial year, parallelly cost to income ratio increased to 32.42% during the financial year.

TAXES

The total taxes paid by the Company during the financial year was Rs. 9.72 billion, and it remains as one of the largest taxpayers in the country. The revision of the corporate income tax rate from 24% to 30% together with the imposition of surcharge tax and social security contribution levy (SSCL), resulted the sharp increase in taxes paid to the government during the financial year. The effective income tax rate of LBF was increased from 27.45% to 28.00% in financial year 2022/23. Despite this increase in tax liabilities, LBF remains as an important player in the NBFIs sector, supporting economic growth and development.

Total Taxes Paid



PROFIT FOR THE YEAR

The Company reported an impressive profit after tax of Rs. 8.46 Billion in the year 2022/23 despite the challenging macroeconomic conditions. Regardless the significant market interest rate changes, LBF maintained its stance over Rs. 8 Billion returns for the second consecutive year.

On account of this, the Company took the right call to mitigate the uprising risk of margin contractions and was able to generate noteworthy returns. Management of operating expenses at optimal level, backed up by various cost optimisation programmes, minimum credit loss provisioning impact due to quality credit granting and strong recovery procedures have led to achieve the pre-tax profit of Rs. 14.42 billion which is an increase of 2.63% from the last financial year.

Profitability



STATEMENT OF FINANCIAL POSITION

 KPIs	 DEFINITION	 DRIVERS
<p>Cash and Cash Equivalents</p> <p>Cash and Cash Equivalents = Notes and Coins + Balances with Banks + Securities under Reverse Repurchase Agreements + Investment in Trust Certificates</p>	<p>Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.</p>	<p>Liquidity requirements (Company and CBSL), Credit granting, Recoveries and Funding from deposits and other sources</p>
<p>Lending Portfolio</p> <p>Lending Portfolio = Loans and Receivables + Lease Rentals Receivable and Stock out on Hire</p>	<p>Main interest-earning assets of the Company which consist of a portfolio of loans and advances extended to borrowers by the Company.</p>	<p>Market interest rates, Company's risk appetite, Market competition, Lending volumes, Pre-terminations and repayments</p>
<p>Other Financial Assets</p> <p>Other Financial Assets = Securities under Reverse Repurchase Agreements + Placements with banks + Investments in Government securities + Other Financial Instruments</p>	<p>Consists of a variety of different financial assets that the Company holds for investment purposes, excluding cash and cash equivalents, loans, and equity securities.</p>	<p>Liquidity requirements, Market interest rates, Excess funds</p>
<p>Due to Banks</p> <p>Due to Banks = Bank Overdrafts + Debt Funding from Banks</p>	<p>Consists of the external borrowings from banks including overdrafts, securitisations, term loans and syndications.</p>	<p>Market growth, Funding requirements, Market interest rates, Repayments, Gearing ratio</p>
<p>Due to Depositors</p> <p>Due to Depositors = Savings Deposits + Fixed Deposits</p>	<p>Comprise of interest bearing savings deposits and term deposits.</p>	<p>Funding requirements, Market growth, Market interest rates, Deposit renewal ratio</p>
<p>Debt Instruments Issued and Other Borrowed Funds</p> <p>Debt Instruments Issued and Other Borrowed Funds = Unsecured Debentures + Borrowings from International Financial Institutions</p>	<p>Represents the company's liabilities to International Financial Institutions and funds raised through other debt instruments which requires repayment according to the terms and conditions specified in the respective debt agreements.</p>	<p>Funding requirements, Market interest rates, Company stability, Tier II capital adequacy requirements</p>
<p>Equity</p> <p>Total Equity = Stated Capital + Reserves + Retained Earnings</p>	<p>Consists of the amount of money investors have invested in the Company and the earnings the Company has accumulated from its operations after distribution of dividends.</p>	<p>Profits, Statutory requirement on reserves, Dividend payout, Capital adequacy requirements and Shareholder expectations</p>

HORIZONTAL ANALYSIS OF STATEMENT OF FINANCIAL POSITION

Statement of Financial Position	CAGR*	2022/23		2021/22		2020/21		2019/20		2018/19	
	%	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%
Assets											
Cash and Cash Equivalents	3	4,524	(69)	14,459	134	6,187	0	6,163	53	4,041	(31)
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	12	11	(19)	13	22	11	134	5	(32)	7	(29)
Financial Assets at Amortised Cost - Loans and Receivables	24	111,094	20	92,838	39	66,778	15	58,239	23	47,395	19
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	(15)	34,096	(18)	41,558	(12)	47,360	(22)	60,627	(8)	66,050	6
Financial Assets Measured at Fair Value Through Other Comprehensive Income	7	117	36	86	11	78	32	59	(34)	90	(26)
Other Financial Assets	19	21,686	287	5,599	(46)	10,454	15	9,120	(16)	10,805	60
Other Non Financial Assets	(18)	474	4	454	(51)	920	0	967	(9)	1,067	31
Investment in Subsidiaries	30	922	0	921	77	521	0	521	63	319	109
Property, Plant and Equipment and Right-of-Use Assets	7	8,633	3	8,422	2	8,241	-	8,221	25	6,577	41
Intangible Assets	(13)	23	52	15	(43)	26	(38)	42	5	40	(17)
Deferred Tax Assets	-	767	-	-	-	-	-	-	-	-	-
Total Assets	8	182,347	11	164,365	17	140,576	(2)	143,964	6	136,391	13
Liabilities											
Due to Banks	(6)	19,370	(28)	26,859	63	16,467	(28)	22,771	(8)	24,634	8
Financial Liabilities at Amortised Cost - Due to Depositors	8	114,012	28	89,144	4	85,860	(4)	89,256	7	83,215	14
Debt Instruments Issued and Other Borrowed Funds	6	3,882	(55)	8,565	175	3,114	-	3,111	-	3,108	(40)
Other Financial Liabilities	13	3,256	(1)	3,305	9	3,044	10	2,766	40	1,974	12
Other Non Financial Liabilities	(15)	1,089	(4)	1,135	10	1,028	13	909	(56)	2,070	143
Current Tax Liabilities	13	2,256	20	1,882	1	1,872	144	767	(45)	1,396	121
Deferred Tax Liabilities	-	-	-	111	(83)	637	(39)	1,038	(21)	1,310	24
Post Employment Benefit Liability	9	366	15	317	(13)	365	6	346	35	257	11
Total Liabilities	5	144,231	10	131,318	17	112,387	(7)	120,964	3	117,964	12
Equity											
Stated Capital	-	838	-	838	-	838	-	838	-	838	-
Reserves	13	8,493	6	8,039	6	7,596	22	6,217	19	5,210	22
Retained Earnings	23	28,785	19	24,170	22	19,755	24	15,945	29	12,379	21
Total Equity	20	38,116	15	33,047	17	28,189	23	23,000	25	18,427	20
Total Liabilities and Equity	8	182,347	11	164,365	17	140,576	(2)	143,964	6	136,391	13

*CAGR - Compound Annual Growth Rate

The provided horizontal analysis of the Statement of Financial Position reveals that the Company has experienced overall growth in its assets, with notable increases in lending portfolio where Loans and Receivables have shown a 24% growth in CAGR. Total liabilities have slightly increased over the past years as due to depositors has risen from Rs. 83,215 millions to Rs. 114,012 millions, reflecting a 8% CAGR for the period. On the other hand, the Company maintained a consistent capital expansion through higher internal capital generation, which has increased from Rs. 18,427 million to Rs. 38,116 million, reflecting 20% growth over the 5-year period while continuously maintaining a Dividend Payout Policy of 1/3 of profit after tax business earnings.

FINANCIAL CAPITAL

VERTICAL ANALYSIS OF STATEMENT OF FINANCIAL POSITION

Statement of Financial Position	2022/23		2021/22		2020/21		2019/20		2018/19	
	Rs. Mn	%								
Assets										
Cash and Cash Equivalents	4,524	2	14,459	9	6,187	4	6,163	4	4,041	3
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	11	0	13	0	11	0	5	0	7	0
Financial Assets at Amortised Cost - Loans and Receivables	111,094	61	92,838	57	66,778	48	58,239	41	47,395	35
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	34,096	19	41,558	25	47,360	34	60,627	42	66,050	48
Financial Assets Measured at Fair Value Through Other Comprehensive Income	117	0	86	0	78	0	59	0	90	0
Other Financial Assets	21,686	12	5,599	3	10,454	7	9,120	6	10,805	8
Other Non Financial Assets	474	0	454	0	920	1	967	1	1,067	1
Investment in Subsidiaries	922	1	921	1	521	0	521	0	319	0
Property, Plant and Equipment and Right-of-Use Assets	8,633	5	8,422	5	8,241	6	8,221	6	6,577	5
Intangible Assets	23	0	15	0	26	0	42	0	40	0
Deferred Tax Assets	767	0	-	-	-	-	-	-	-	-
Total Assets	182,347	100	164,365	100	140,576	100	143,964	100	136,391	100
Liabilities										
Due to Banks	19,370	11	26,859	16	16,467	12	22,771	16	24,634	18
Financial Liabilities at Amortised Cost - Due to Depositors	114,012	62	89,144	54	85,860	61	89,256	62	83,215	61
Debt Instruments Issued and Other Borrowed Funds	3,882	2	8,565	5	3,114	2	3,111	2	3,108	2
Other Financial Liabilities	3,256	2	3,305	2	3,044	2	2,766	2	1,974	1
Other Non Financial Liabilities	1,089	1	1,135	1	1,028	1	909	1	2,070	2
Current Tax Liabilities	2,256	1	1,882	1	1,872	1	767	0	1,396	1
Deferred Tax Liabilities	-	-	111	0	637	1	1,038	1	1,310	1
Post Employment Benefit Liability	366	0	317	0	365	0	346	0	257	0
Total Liabilities	144,231	79	131,318	79	112,387	80	120,964	84	117,964	86
Equity										
Stated Capital	838	0	838	1	838	1	838	1	838	1
Reserves	8,493	5	8,039	5	7,596	5	6,217	4	5,210	4
Retained Earnings	28,785	16	24,170	15	19,755	14	15,945	11	12,379	9
Total Equity	38,116	21	33,047	21	28,189	20	23,000	16	18,427	14
Total Liabilities and Equity	182,347	100	164,365	100	140,576	100	143,964	100	136,391	100

This vertical analysis in the Statement of Financial Position provides a snapshot of the LBF financial position at different points over the 5 years period. The majority of its total assets are comprised of the interest earning assets such as loans and receivables, lease rentals receivables and other financial assets altogether ranging from 85% to 92% of total assets over the period. On the liabilities side, due to depositors represents the largest portion of assets fundings at 62% which shows that LBF has prioritised the customer deposits. Total equity has contributed significantly to the Company's funding mix, leading to a 21% in the financial year 2022/23 from 14% in the financial year 2018/19.

TOTAL ASSETS OVERVIEW

Total assets as of 31 March 2023, were Rs. 182.35 billion, with a growth of 10.94% from Rs. 164.37 billion the year before. Majority of the total assets are interest-earning assets which consist of cash and cash equivalents, loans and receivables, lease rentals receivables and stock out on hire, and other financial assets, accounted for 92.67% of the total assets (92.98% as at 31 March 2022).



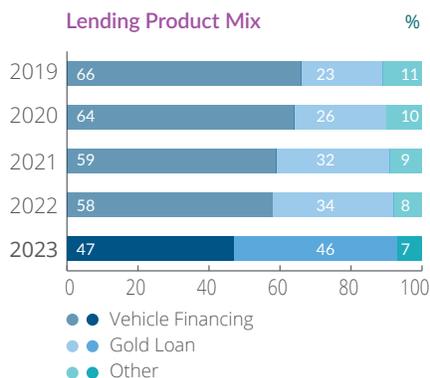
CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 March 2023 amount to Rs. 4.52 billion compared to Rs. 14.46 billion as at 31 March 2022 which includes notes and coins, bank balances and investments. Securities under reverse repurchase agreements were matured during the financial year reflecting a decline in cash and cash equivalents and new investments were placed parallelly for longer tenours resulting in an increase in other financial assets towards the end of the financial year.



LENDING PORTFOLIO

The lending portfolio refers to a collection of loans and receivables, lease rentals receivables and stock out on hire held by the Company. The Company's lending base stood at Rs. 145.19 billion as of 31 March 2023, with an increase of 8.03% over the previous year.



The loans and receivables component of the lending portfolio experienced significant growth of 19.66%. This substantial increase can be attributed primarily to the exceptional performance of the gold loan product, which expanded by Rs. 21.84 billion when compared to the previous year. The remarkable growth of the gold loan product played a significant role in driving the overall expansion of the lending portfolio.

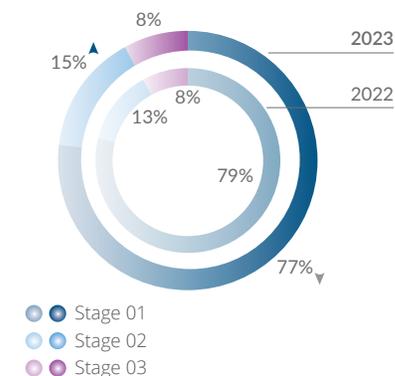
Maintaining a well-diversified lending portfolio is essential to mitigate the adverse impacts that may arise in a specific sector. This is accomplished by allocating resources across multiple sectors, which enables the coverage of potential losses by unaffected sectors. Consequently, any adverse impacts on the resilience of the Company would be minimised.



CREDIT QUALITY

The Company has successfully maintained a significantly lower non-performing loan (NPL) ratio compared to the non-bank financial institution (NBFI) sector. Additionally, in the financial year 2022/23, the Company reported a gross NPL ratio of 4.45% and a net non-performing loan ratio of -0.65%. These two ratios serve as significant indicators of the Company's credit quality. The relatively low gross NPL ratio showcases the Company's ability to manage and mitigate credit risk, while the negative net non-performing loan ratio implies that the Company has fully provided for the non-performing loans it has accumulated. These results reflect the Company's robust credit management practices and highlight its strong position in maintaining far better credit quality against industry players.

Lending Portfolio (Stage Wise Analysis)

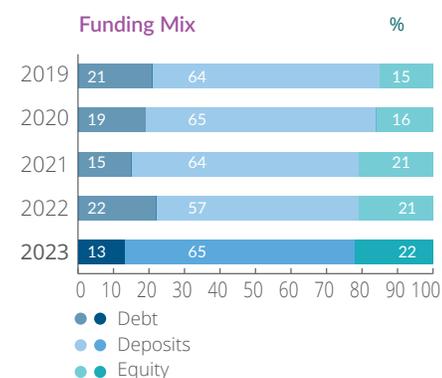


The overall credit quality of assets was improved despite the challenging macroeconomic conditions as we enhance the accuracy of our forecasting and ensure that the Company sufficiently provides for delinquent facilities. We employ an Expected Credit Loss (ECL) model that considers the forward economic outlook to identify counterparties that exhibit a likelihood of default, and make provisions accordingly. This model utilises machine learning techniques and was developed in collaboration with the Science and Technology CELL of the University of Colombo.

FINANCIAL CAPITAL

LIABILITY OVERVIEW

As at 31 March 2023, the Company's liabilities amounted to Rs. 144.23 billion, representing a 9.83% increase from Rs. 131.32 billion as at 31 March 2022. The liabilities of the Company consist of due to banks, due to depositors, debt instruments and other borrowed funds and other financial liabilities. Together, these items accounted for 97.43% of the total liabilities as at 31 March 2023. The 9.83% increase in liability was primarily driven by a 27.90% increase or Rs. 24.87 billion rise in amounts due to depositors, which amounted to Rs. 114.01 billion compared to Rs. 89.14 billion in the previous year, in line with the growth of the lending portfolio.



DUE TO BANKS

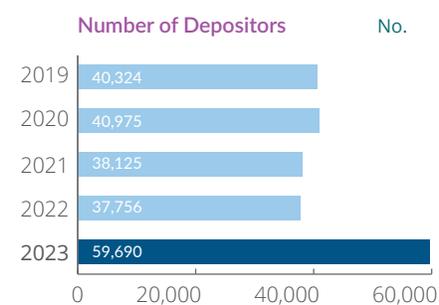
Due to banks decreased by 27.88% to Rs. 19.37 billion as at 31 March 2023 compared to Rs. 26.86 billion as at 31 March 2022. Bank loan settlements resulted in a decline and funding through bank loans was minimised as market interest rates were drastically increased during the financial year.

Loans obtained at fixed rates were repaid in line with the contractual maturities and new bank borrowings were obtained at variable rates since the interest rates started to decline towards the pre-crisis level.



DUE TO DEPOSITORS

The total amount of customer deposits held by the Company was Rs. 114.01 billion, representing an increase of Rs. 24.86 billion compared to the previous financial year. The growth in customer deposits were largely driven by a substantial increase of 30.65% in fixed deposits, which indicates a strong level of customer confidence and loyalty towards the Company. Additionally, the Company successfully attracted new depositors while maintaining adequate levels of liquidity to support its business operations. The fixed deposit renewal ratio remained closer to 80%, which is a testament to the Company's ability to retain its existing customers and sustain their trust and satisfaction over the years.



DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

In December 2017, the Company raised Rs. 3 billion of listed unsecured debentures to boost business growth opportunities, reducing the mismatch of the maturity period, improving the capital adequacy of the Company and strengthening its Tier II capital position. This was fully settled at maturity in December 2022.

The Company obtained foreign borrowings from FMO Netherlands and ResponsAbility Investments AG amounting to Rs. 2.56 billion and Rs. 1.32 billion respectively during the previous financial year. All the repayments and related other requirements were duly met during the year even with the worst timespan of the country's foreign currency crisis.

SHAREHOLDERS' EQUITY

Shareholders' equity of the Company stood at Rs. 38.12 billion as of 31 March 2023 reflecting a significant increase from the previous year which was Rs. 33.05 billion. The rise of Rs. 5.07 billion in shareholders' equity can be primarily attributed to the year's profit, amounting to Rs. 8.46 billion. However, this increase was partially offset by the payment

of final dividends totalling Rs. 1.11 billion for the year ended 31 March 2022. The growth in shareholders' equity signifies the Company's improved financial position and the accumulation of retained earnings over the period while maintaining a dividend payout of 1/3 of the profit.

Cash Flow Analysis

The Company's liquidity and funding were managed strategically while meeting the regulatory requirement under challenging market conditions. Cash and cash equivalents for the purpose of cash flow statement as at 31 March 2023 stood at Rs. 4.03 billion compared to Rs. 12.71 billion as at 31 March 2022. During the financial year, the Company generated Rs. 4.01 billion from its operating activities. The Company mainly funded the monetary requirements utilising cash inflows generated from customer deposits given the thriving market conditions and high interest rates. On the other hand, the Company continues to invest in assets which amount to Rs. 661.30 million including long-term strategic investments with the expectation of generating future cash inflows. Furthermore, the net cash outflows of the financing activities amounted to Rs. 12.02 billion which includes the dividend payment of Rs. 1.11 billion for the shareholders during the financial year assuring that profits generated are duly distributed. Moreover, the Company settled its contractual liabilities such as debentures and long-term borrowings throughout the year and towards the latter part of the financial year Company started to borrow at variable rates with future expectations of a gradual decrease in market interest rates that would align with the recovery of prevailing economic conditions.

Statement of Cash Flows



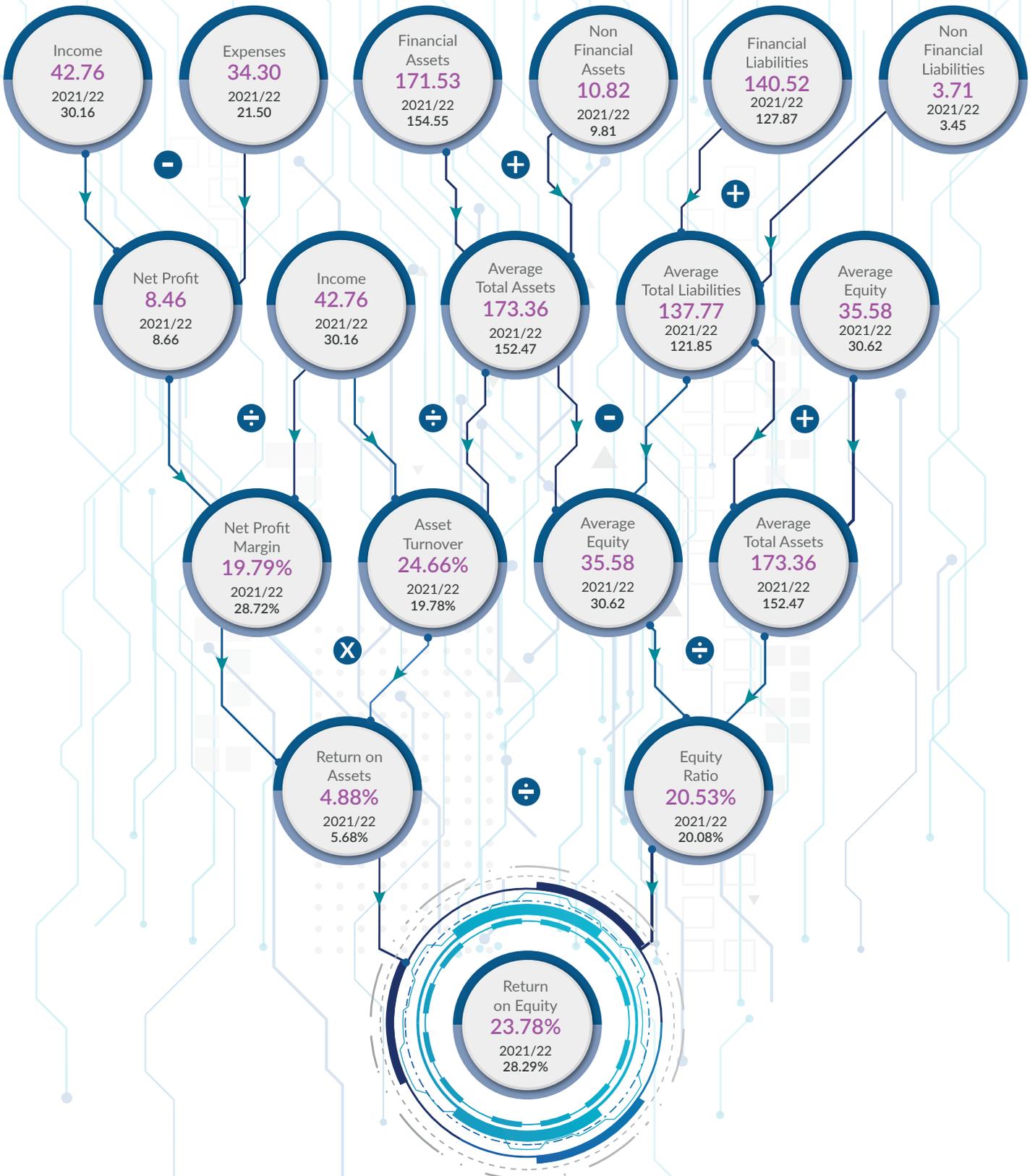
Further reading

▶ Economic value generated and distributed - Page 29

DUPONT ANALYSIS

Dupont analysis uses a formula that expresses ROE as the product of three factors: profit margin, asset turnover and financial leverage. By analysing each of these factors, any stakeholder can gain insights into the Company's profitability, efficiency and financial risk.

(in Rs. Billions)



CAPITAL REPORTS

FINANCIAL CAPITAL

LBF SUBSIDIARIES: PERFORMANCE OVERVIEW

LB Microfinance Myanmar Company Limited (LBMM)

LB Microfinance Myanmar Company Limited was incorporated in Myanmar on 22 May 2017 as a 99% (31 March 2023 - 100%) owned subsidiary of LB Finance PLC. The principal business activities include engaging in microfinance lending. A license was issued to the Myanmar Company Limited to commence its commercial operations in December 2017. LBMM operation achieved their highest ever profit of Rs. 99.91 million

during the financial year ended 31 March 2023. In addition to that the asset base was improved upto Rs. 995.31 million indicating the parallel growth of the profitability and the financial position. LB Microfinance Myanmar passed a remarkable milestone in Myanmar's journey as LBMM received the license for voluntary savings from the Microfinance Business Supervisory Committee (MBSC) on 16 February 2023.

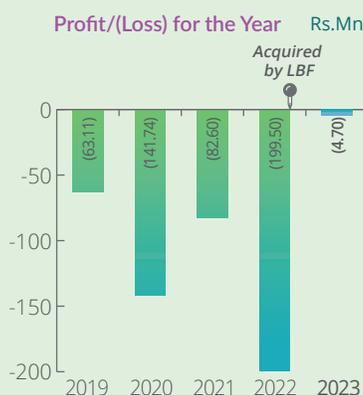


	2022/23	2021/22	2020/21	2019/20	2018/19
Income (Rs. Mn)	217.08	58.87	153.24	136.81	57.07
Profit after Tax (Rs. Mn)	99.91	(31.84)	4.21	23.81	24.71
Lending Portfolio (Rs. Mn)	890.42	804.94	688.39	554.09	378.68
Total Assets (Rs. Mn)	995.31	909.55	909.94	895.37	409.43
Total Equity (Rs. Mn)	831.68	805.01	719.12	681.39	358.82
ROA	10.04%	-3.50%	0.46%	2.66%	6.04%
ROE	12.01%	-3.96%	0.59%	3.49%	6.89%

Multi Finance PLC (MFP)

Multi Finance PLC offers a diverse range of financial products including leasing, gold loan and other advances. Multi Finance PLC has expanded its network to eight branches, indicating a physical presence in multiple locations. With the acquisition of Multi Finance PLC in March 2022, LB Finance PLC became the major shareholder and the parent undertaking which has the potential

to contribute to the recovery and to the growth of Multi Finance PLC. Parellely with the acquisition and the management's guidance of LB Finance PLC, Multi Finance PLC reaches its profitability way closer to the breakeven in the financial year compared to Rs. 199.50 million loss in the previous financial year.

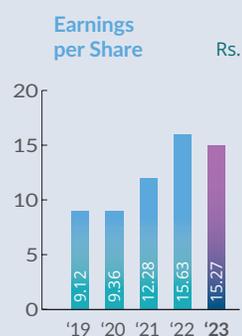


	2022/23	2021/22	2020/21	2019/20	2018/19
Income (Rs. Mn)	147.87	120.36	134.10	218.66	297.38
Profit after Tax (Rs. Mn)	(4.70)	(199.50)	(82.60)	(141.74)	(63.11)
Lending Portfolio (Rs. Mn)	292.00	336.86	569.53	861.74	1,180.54
Total Assets (Rs. Mn)	516.21	617.53	870.14	1,194.72	1,484.57
Total Equity (Rs. Mn)	294.74	298.81	493.85	577.15	718.48
ROA	-0.91%	-32.31%	-9.49%	-11.86%	-4.25%
ROE	-1.60%	-66.77%	-16.73%	-24.56%	-8.78%

KEY SHAREHOLDER DATA

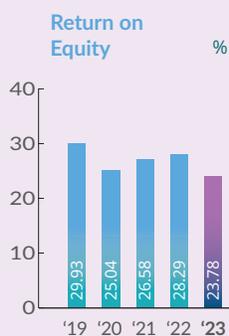
Earnings per Share

We aim to deliver the expectation of our shareholders through execution of our strategies while serving our customers to meet their needs



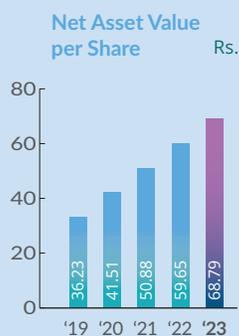
Return on Equity

LB Finance prudently manage its earnings with a policy to provide sustainable return to shareholders while giving the management the flexibility to reinvest capital to grow the Company



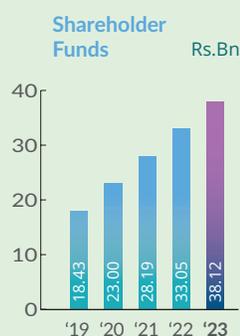
Net Asset Value per Share

We are invested to provide long term value to our shareholders



Shareholder Funds

LB Finance strive to create value for our shareholder funding in assessing the performance of a fund against the market or industry benchmarks



Price Earnings

We ensure that the Company is operated on a foundation of strength and is well positioned to deliver sustainable returns to our shareholders



Dear Investor,

At LB Finance PLC, we understand that our investors are the lifeblood of our business, and we are unwaveringly committed to maximise your wealth through effective risk management and business strategies crafted in your best interests.

By actively engaging with our investors, we gain a deep understanding of your expectations and goals, resulting in better outcomes with a lasting and trusting relationship. Through this process of engagement, we are able to make strategic decisions that not only benefit our shareholders but also ensure the long-term success and sustainability of our Company.

We are proud to have a loyal group of investors who share our vision and we are committed to provide timely and comprehensive information which empowers our investors to make wise decisions. Despite challenging macroeconomic conditions, we have consistently met the expectations of our valued investors by providing a steady return on your investment and remain committed to fulfill our obligations in the future. Our Integrated Financial Reporting serves as a valuable resource, offering insights into our strengths and capabilities, credibility and reliability and encouraging loyalty among our investor community.

Quarterly Financial Statements

We publish financial information to our investors on the CSE and the Company website on a quarterly basis. In order to serve our investors' best interests, we deliver an analysis of interim financial statements in our annual reports.

Refer page 432

Financial Statements in USD

Financial statements have been presented in USD for the convenience of our investors in order to facilitate comparisons of LBF's financial information.

Refer page 434

FINANCIAL CAPITAL

Insights from Shareholders to LB

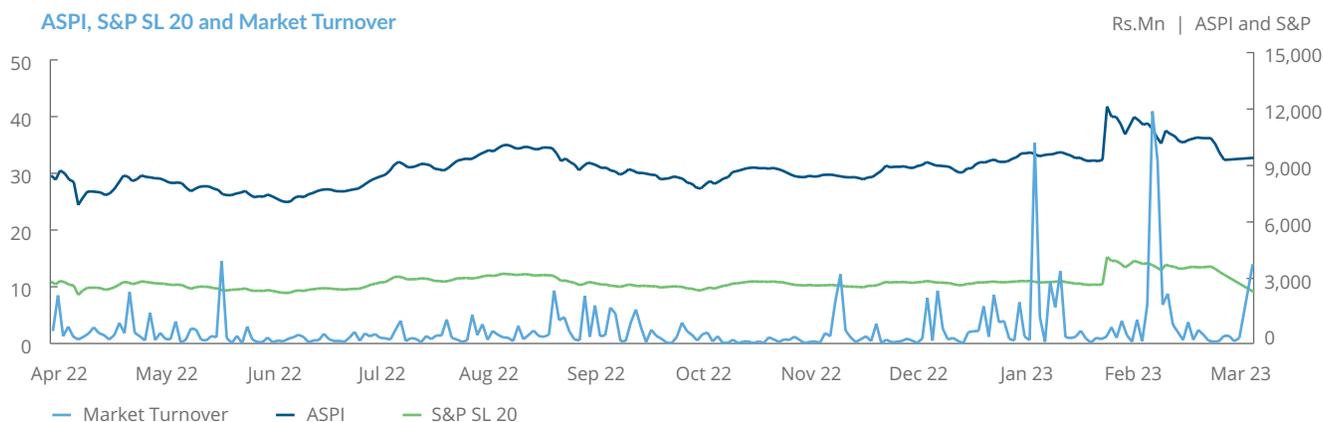
LBF values shareholder engagement and engages in various methods to ensure effective communication. We hold an annual general meeting (AGM) where shareholders can interact with the Board and ask questions. Our annual and quarterly financial reports provide consistent, high-quality information in accordance with market best practices. We utilise press conferences, media releases and evaluations to keep shareholders informed and seek their valuable feedback. Despite challenging circumstances, our active engagement with shareholders has made our shares an attractive investment especially reflected by the last quarter of LBF market turnover. We comply with regulatory requirements by regularly publishing disclosures on the CSE and Company websites. LBF recognises the importance of shareholders in achieving our vision and strives to establish a strong connection through meaningful engagement.

Dividends

The dividend policy of LBF is crucial for maintaining a balance between the expectations of shareholders and the business needs of the Company. LB has been one of the best-performing companies in the industry, as it is emphasised that the optimum utilisation of capital is essential for creating value over time, pursuing sustainability and providing healthy returns to investors. It is Company's policy to pay 1/3 of its earnings as dividends with the best interest of shareholders. LBF has continuously maintained dividend payouts. The Board of Directors of LBF has given due consideration to the requirements stipulated by CBSL and declared an interim dividend of Rs. 2.00 per ordinary share of LBF for the financial year 2022/23. Further, the proposed final dividend of Rs. 3.00 per share for the financial year 2022/23 will be submitted for the approval of shareholders at the upcoming AGM to be held on 30 June 2023 to ensure a sustainable return to the shareholders of the Company. LBF remains committed to providing sustainable and healthy financial returns to its shareholders over the years.

Colombo Stock Exchange (CSE)

The Colombo Stock Exchange (CSE) experienced a mixed performance during the financial year 2022/23. All Share Price Index (ASPI) demonstrated a positive trajectory, climbing from 8,903.87 points on 31 March 2022 to 9,301.09 points on 31 March 2023, reflecting a notable 4.46% increase. Additionally, the market capitalisation of the CSE grew from Rs. 3,826.50 billion to Rs. 3,903.54 billion, signifying a 2.01% rise. However, contrasting this upward trend, the S&P SL 20 index, which monitors the performance of prominent blue-chip companies, faced a decline, decreasing from 3,031.16 points on 31 March 2022, to 2,682.83 points on 31 March 2023, resulting in a substantial 11.49% drop. Moreover, the number of listed companies experienced a setback, diminishing from 296 at the end of 2021/22 to 289 by the end of 2022/23. The reduction in the number of listed companies can be attributed to multiple factors, including the adverse macroeconomic conditions, political instability and the shortage of foreign exchange throughout the financial year. Nevertheless, the upward movement of the ASPI index suggest an encouraging trajectory for the economy and demonstrates businesses' optimism regarding the future.

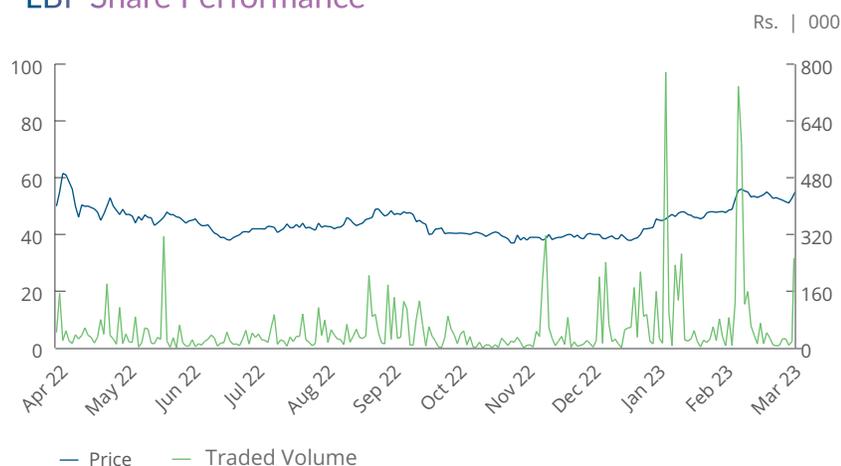


Performance of Diversified Financial Sector and LBF

Along with ASPI and S&P SL 20 indices, LBF market turnover also followed the same trend during the first three quarters of the financial year. Moreover, in the last quarter, LBF market turnover was more aligned with the improvement reflected in ASPI and S&P SL 20 indices reflecting the growth of the business.

As at 31 March	2023	2022
Diversified Financial Sector - P/E Ratio	3.44	12.13
Banking Sector - P/E Ratio	4.41	3.49
Diversified Financial Sector - P/B Ratio	0.90	1.69
Banking Sector - P/B Ratio	0.41	0.39
Beta Value against ASPI of LB Finance PLC	1.09	0.92

LBF Share Performance



Where to find LBF in Newswire Platforms



SHARE TRADING INFORMATION

	Quarterly Performance				Annual Performance		
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	2022/23	2021/22	2020/21
Share Price							
Highest (Rs.)	61.70	52.00	47.50	56.50	61.70	92.10	*348.75
Lowest (Rs.)	42.70	37.70	36.30	37.90	36.30	47.50	42.60
Last Traded (Rs.)	43.10	47.70	40.00	55.00	55.00	58.00	47.40
Share Trading Details							
Number of Transactions	2,706	3,690	2,739	4,042	13,177	56,908	21,681
Number of Shares Traded	1,980,572	2,693,244	2,102,722	7,245,861	14,022,399	80,712,600	12,559,335
Value of Shares Traded (Rs. Mn)	96	119	85	347	647	5,221	2,320
Number of Days Traded	49	64	60	62	235	240	216
Average Daily Turnover (Rs. Mn)	1.95	1.86	1.41	5.60	2.75	21.75	10.73

*Price per share represents the share price before the share sub-division.

MARKET CAPITALISATION

As at 31 March	2023	2022	2021
Number of Shares in Issue	554,057,136	554,057,136	554,057,136
Shareholders' Funds (Rs. Bn)	38.12	33.05	28.19
LFIN Market Capitalisation (Rs. Bn)	30.47	32.14	26.26
CSE Market Capitalisation (Rs. Bn)	3,903.54	3,826.50	3,111.26
LFIN Market Capitalisation as a Percentage of CSE Market Capitalisation (%)	0.78	0.84	0.84

PUBLIC SHAREHOLDING

As at 31 March	2023	2022	2021
Public Shareholding Percentage (%)	21.70	21.73	21.76
Number of Shareholders Representing above Percentage	4,930	5,119	3,592

FLOAT ADJUSTED MARKET CAPITALISATION

The Float adjusted market capitalisation as at 31 March 2023 – Rs. 6,612,971,420/-

The Float adjusted market capitalisation of the Company falls under Option 3 of Rule 7.14.1 (i) (a) of the Listing Rules of the Colombo Stock Exchange and the Company has complied with the minimum public holding requirement applicable under the said option.

CAPITAL REPORTS

FINANCIAL CAPITAL

LARGEST SHAREHOLDERS OF THE COMPANY

Name	As at 31 March 2023		As at 31 March 2022	
	No. of Shares	%	No. of Shares	%
1 Vallibel One PLC	286,729,600	51.751	286,729,600	51.751
2 Royal Ceramics Lanka PLC Commercial Bank of Ceylon PLC/Royal Ceramics Lanka PLC	144,492,928	26.079	144,492,928	26.079
3 Esna Holdings (Pvt) Ltd	56,249,600	10.152	56,249,600	10.152
4 Pershing LLC S/A Auerbach Grayson & Co.	9,535,325	1.721	7,859,965	1.419
5 People's Leasing & Finance PLC/K.R.E.M.D.M.B. Jayasundara	5,000,222	0.902	-	-
6 Mr. N. Udage	2,161,235	0.390	1,816,540	0.328
7 Mr. K.A.D.A. Perera	2,072,687	0.374	1,708,116	0.308
8 Janashakthi Insurance PLC - Shareholders	1,952,700	0.352	1,952,700	0.352
9 Mr. W.G.D.C. Ranaweera	1,787,405	0.323	34,897	0.006
10 Mr. F.N. Herft	1,481,808	0.267	865,889	0.156
11 Mr. A.A. Page	1,259,200	0.227	1,259,200	0.227
12 Phantom Investments (Pvt) Ltd	1,253,809	0.226	1,253,809	0.226
13 Mrs. V. Saraswathi & Mr S. Vasudevan	1,220,716	0.220	1,052,700	0.190
14 Mr. M.A.T. Raaymakers	1,001,787	0.181	1,787	0.000
15 People's Leasing & Finance PLC/Dr. H.S.D. Soysa & Mrs. G.Soyso	936,264	0.169	923,264	0.167
16 Seylan Bank PLC/Sarath Bandara Rangamuwa	835,000	0.151	791,141	0.143
17 Mrs. P.C. Cooray	834,528	0.151	834,528	0.151
18 Mr. J.A.N.R. Adhihetty	813,845	0.147	813,845	0.147
19 Dr. W.P. Somasiri & Mrs. D.V.A. Wijewardana & Mr. K. Withanapathirana	742,000	0.134	747,000	0.135
20 Mrs. P.D.A.S. Beruwalage	733,327	0.132	733,327	0.132
	521,093,986	94.051	510,084,152	92.063
Others	32,963,150	5.949	43,972,984	7.937
Total	554,057,136	100.000	554,057,136	100.000

DISTRIBUTION OF SHAREHOLDINGS AS AT 31 MARCH

From	To	2023			2022		
		No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1	1,000	2,832	804,102	0.15	2,883	862,397	0.16
1,001	10,000	1,521	5,501,977	0.99	1,614	5,905,123	1.07
10,001	100,000	507	14,578,641	2.63	545	15,738,462	2.84
100,001	1,000,000	63	16,973,394	3.06	72	21,020,996	3.79
Over 1,000,000		15	516,199,022	93.17	13	510,530,158	92.14
Total		4,938	554,057,136	100.00	5,127	554,057,136	100.00

SHARE PRICES FOR THE YEAR

	2022/23	Date	2021/22	Date
Market Price per Share				
Highest During the Period	Rs.61.70	05 April 2022	Rs. 92.10	19 January 2022
Lowest During the Period	Rs.36.30	21 November 2022	Rs. 47.50	01 April 2021
Last Traded During the Period	Rs.55.00	31 March 2023	Rs. 58.00	31 March 2022

COMPOSITION OF SHAREHOLDERS

Category	2022/23			2021/22		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Local	4,910	541,627,882	97.76	5,098	544,910,948	98.35
Foreign	28	12,429,254	2.24	29	9,146,188	1.65
Total	4,938	554,057,136	100.00	5,127	554,057,136	100.00
Individuals	4,743	41,714,446	7.53	4,880	41,794,133	7.54
Institutions	195	512,342,690	92.47	247	512,263,003	92.46
Total	4,938	554,057,136	100.00	5,127	554,057,136	100.00

DIRECTORS' SHAREHOLDINGS

Names of Directors	2023		2022	
	No. of Shares	As a % of Total Shares	No. of Shares	As a % of Total Shares
Mr. G A R D Prasanna	-	-	-	-
Mr. J A S S Adhihetty	424,480	0.077	424,480	0.077
Mr. N Udage	2,161,235	0.390	1,816,540	0.328
Mr. B D A Perera	-	-	-	-
Mr. R S Yatawara	8,593	0.002	8,593	0.002
Mrs. Y Bhaskaran	-	-	-	-
Mr. M A J W Jayasekara	-	-	-	-
Mrs. Ashwini Natesan	-	-	-	-
Mr. D Rangalle	-	-	-	-
Ms. Yanika Amarasekera	-	-	-	-
Mr. K D D Perera (Resigned w.e.f 10 June 2022)	-	-	-	-
Mrs. A K Gunawardhana (Resigned w.e.f 28 February 2022)	-	-	-	-

DEBENTURES

In December 2017, LB Finance raised Rs. 3 billion of listed unsecured debentures to boost business growth opportunity, reducing the mismatch of maturity period, to improve the capital adequacy of the Company and to strengthen Tier II capital position. This was fully settled at maturity in December 2022.

Debenture Type	Highest	Lowest	Closing
LFIN - BD/11/12/22-C2 387-A-12.75	Did not trade during FY 2022/23 and FY 2021/22		
LFIN - BD/11/12/22-C2 388-B-13.25	Did not trade during FY 2022/23 and FY 2021/22		

Yield of Comparable Government Securities (%)	2023	2022
05 Year Treasury Bond	26.65	14.83

Credit Ratings

The Company's credit rating, A- (Ika), was reaffirmed by Fitch Ratings Lanka Limited (RWN).

Credit Rating - Debentures

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



Mr. Ravi Yatawara
Executive Director



MANUFACTURED CAPITAL

Six question roundup with our Leaders



Mr. B D A Perera
Executive Director

Q1 What manufactured capital means to LBF?

By definition, manufactured capital refers to the main channels that enable customers to access an organisation's products and services. As a financial institution, LBF's manufactured capital consists of the Company's island-wide branch network and other physical touchpoints like the Western Union sub-agent network, cash deposit machines along with our digital channels such as the LB CIM wallet app, and our corporate website.

Q3 What are the key material drivers identified, which were raised by the stakeholders?

Based on our materiality determination process, we have identified the following matters as material to our manufactured capital. Each matter is grouped under a relevant materiality theme that speaks to our broader operating context.

Brand loyalty and Company Reputation	Regional expansion	Social licenses to operate
Business continuity	Business model Innovation	

Q6 What are key strategic drivers for developing manufactured capital and how does the Company manage trade-offs against other capitals?

Investing in digital channels will drive better customer experiences and thereby augment the Company's reputation. Digitization and automation also enhance the work environment and contribute to employee motivation as follows.

- ▶ Strengthen LBF's physical and digital footprint.
- ▶ Adoption of world-class IT systems.
- ▶ Improve customer-centricity of distribution channels.

Q2 How manufactured capital supports our value-creation goals?

Over the years we have continued to invest in developing and strengthening our manufactured capital in order to improve LBF's competitive positioning in the market, which we hope will pave the way for LBF to grow captive market share in all key customer markets.

Q4 What are the challenges and opportunities associated with the developing manufactured capital?

Being a large financial institution, LBF has the flexibility and expertise to customise its channel architecture in tandem with customers' behaviour. However, such investments must be well-planned to correlate with the Company's risk/return targets.

Q5 What is LBF's approach to differentiate its manufactured capital from peers?

To demonstrate our commitment to deliver a superior customer experience, we continue to review our existing branch layout and the digital context in order to understand the need for change or improvement. Based on these findings, each year we invest in relocating / upgrading facilities at our branches. At the same time, we have begun modernising the internal layout and external façade of our branches to reflect greater uniformity and clarity across the network. Alongside these efforts, we have launched a widespread digitalisation strategy to transform selected branches into fully equipped digital hubs. This also connects to our overall IT strategy, where we look to leverage on the latest digital technology to enhance the efficiency and effectiveness of internal processes in order to deliver a seamless customer experience every time.



STAKEHOLDER'S EXPECTATIONS

STAKEHOLDERS

Reach	✓	✓				
IT infrastructure	✓	✓		✓		
Expansion	✓	✓		✓	✓	✓
Accessibility	✓	✓		✓	✓	

SPACE FOR DEVELOPMENT

- ▶ Fit for purpose branch network
- ▶ Customer focused and digitally enabled workforce
- ▶ Adoption of world class IT systems
- ▶ Launch alternate digital channels
- ▶ Introduce non-financial services

CHALLENGES

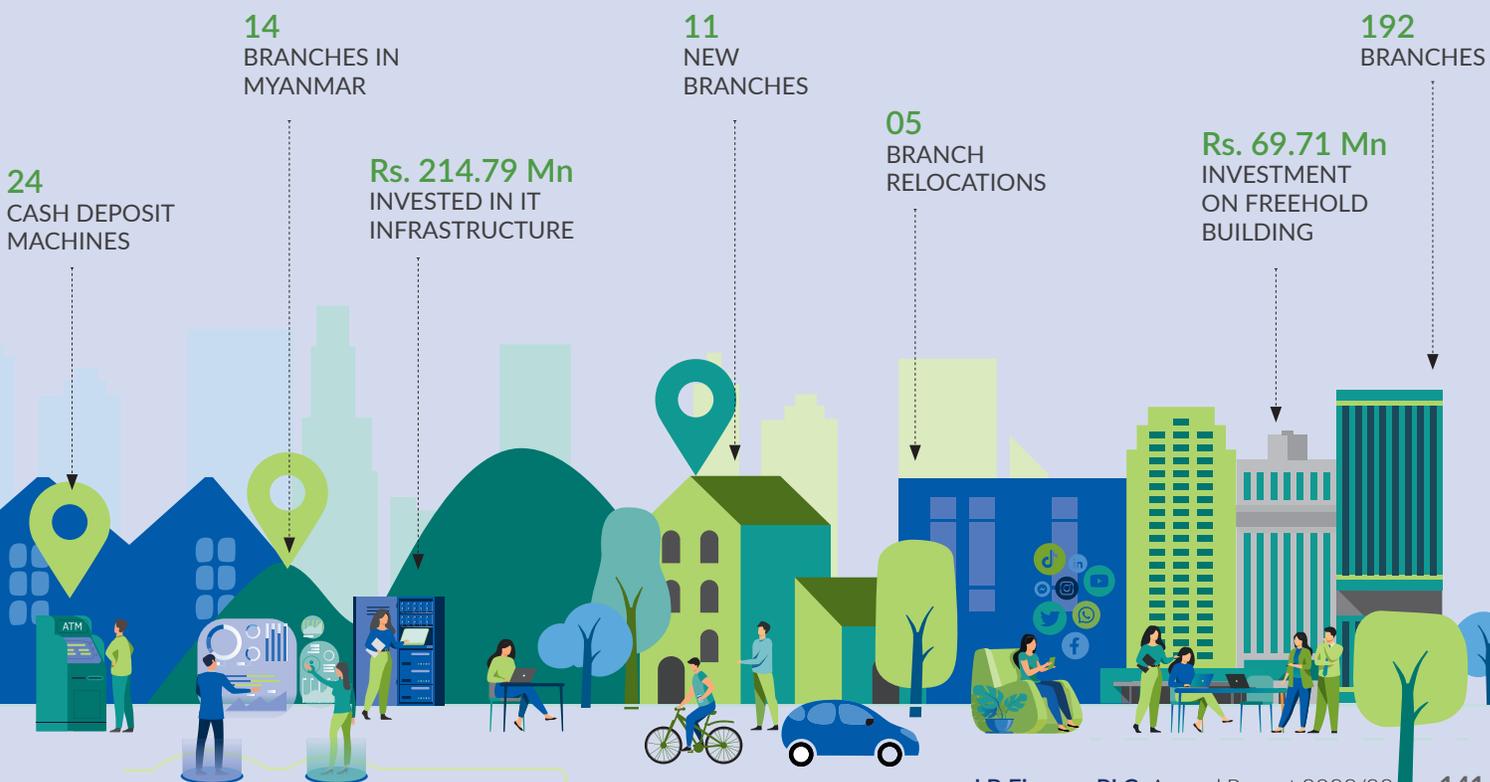
- The cost involved in keeping up with rapid changes in technology
- Difficulty in planning for the long term due to political instability
- Competitive landscape in regional markets

WAY FORWARD

- Advance process productivities to increase deployment of manufactured capital
- Boost infrastructure to meet upcoming business opportunities
- Build and expand strong digitally enabled financial solutions

Related strategic themes

SDG Impact



MANUFACTURED CAPITAL

MANAGING MANUFACTURED CAPITAL - MAKING THE RIGHT MOVE AT RIGHT TIME



CRITICAL SUCCESS FACTORS

- ▶ Reorienting infrastructure to improve cost efficiency and promote service excellence
- ▶ Leveraging manufactured capital to drive innovation and value addition that exceeds customer expectations

1 ENHANCE VALUE PROPOSITIONS

Historically, LBF’s manufactured capital consisted only of its brick-and-mortar branch network. However, over the decade, the Company has moved beyond this conventional approach to transforming its manufactured capital based on customer preferences, industry norms, and global trends. Today our conventional branch channel works in parallel to serve existing customers and attract new customers from all markets across Sri Lanka.

2 BUILDING A DISTINCTIVE PHYSICAL PRESENCE

In the past decade, LBF has undertaken substantial investments to develop a solid branch footprint across Sri Lanka. Our decision to invest in branches is a strategic one, that reflects our desire to bring prosperity to a wider cross-section of the country’s population. Our decision to establish new branches or even relocate branches within a particular area are influenced by a variety of factors, such as population density, financial literacy levels, key industries operating in the area, the long-term business potential of the region, educational metrics, etc.

In 2022, LBF accelerated its branch expansion strategy to penetrate new territories in the Northern and Eastern provinces where a total of 9 new branches were opened during the course of the current financial year. With these latest

additions to the network, LBF now boasts one of the most expansive and geographically widespread branch networks among all financial institutions in Sri Lanka. In line with our strategy to optimise the reach and accessibility provided by our branches, 5 existing branches were relocated in the current financial year.

As of 31st March 2023, LBF’s branch network consisted of 192 fully-fledged branches, all equipped to offer the entire gamut of financial products and services including access to digital services. Since unveiling the concept of premier branches to offer a range of tailor-made services for discerning customer segments, LBF has continued to make good headway in reinforcing its bespoke solutions via the premier branch network which now stands at 3.

	Western	Central	Eastern
Branches	82	17	25
Employees	1,964	307	280
Population 2022 ('000)	5,851	2,572	1,555
GDP 2021 (Rs. Bn)	7,541	1,787	975

	Northern	North-central	North-western
Branches	23	8	11
Employees	190	125	212
Population 2022 ('000)	1,061	1,267	2,380
GDP 2021 (Rs. Bn)	740	875	1,956

	Sabaragamuwa	Southern	Uva
Branches	7	13	6
Employees	140	233	111
Population 2022 ('000)	1,929	2,447	1,266
GDP 2021 (Rs. Bn)	1,287	1,604	922



Rajagiriya branch



Trinco city branch



Aluthmawatha branch

3 MODERNISING CHANNEL ARCHITECTURE

The severity of the economic challenges encountered in 2022, prompted LBF to adopt a fresh approach to modernising channel architecture. Focusing on more effective ways to support our customers in these tough time, we pursued innovation and explored the possibility of introducing technology to deliver hybrid solutions to reform the delivery mechanisms offered at our physical touchpoints. As always these efforts were accompanied by more focused training interventions to reinforce staff commitment to service excellence.

4 REGIONAL PRESENCE

LBF's presence in the wider Asian region is represented by LB Microfinance Myanmar Company (LBMM). Since its incorporation in 2017, LBMM has made good headway in establishing its presence and propagating its unique brand of microfinance solutions to customers in the Bago, Magway and Ayeyarwady regions of Myanmar. Today, LBMM has a network of 14 branches through which it serves over 25,000 customers in these territories.



 Refer page 114

As our primary interface for accessing our financial services, the LB CIM (Cash-In-Mobile) app enables retail customers to access a variety of financial services. Meanwhile, the LB CIM business application is built with a very high degree of integration with our core banking system to create a seamless omnichannel environment through which customers can access their leases, loans, and deposit accounts from a single digital platform without being interrupted.

5 RESOURCE UTILISATION

Industry-leading digital channels

In 2019, LBF took the local financial services industry by storm with the launch of the LB CIM (Cash-In-Mobile) wallet application to become one of the few NBFIs to venture into the delivery of financial products in the digital space.

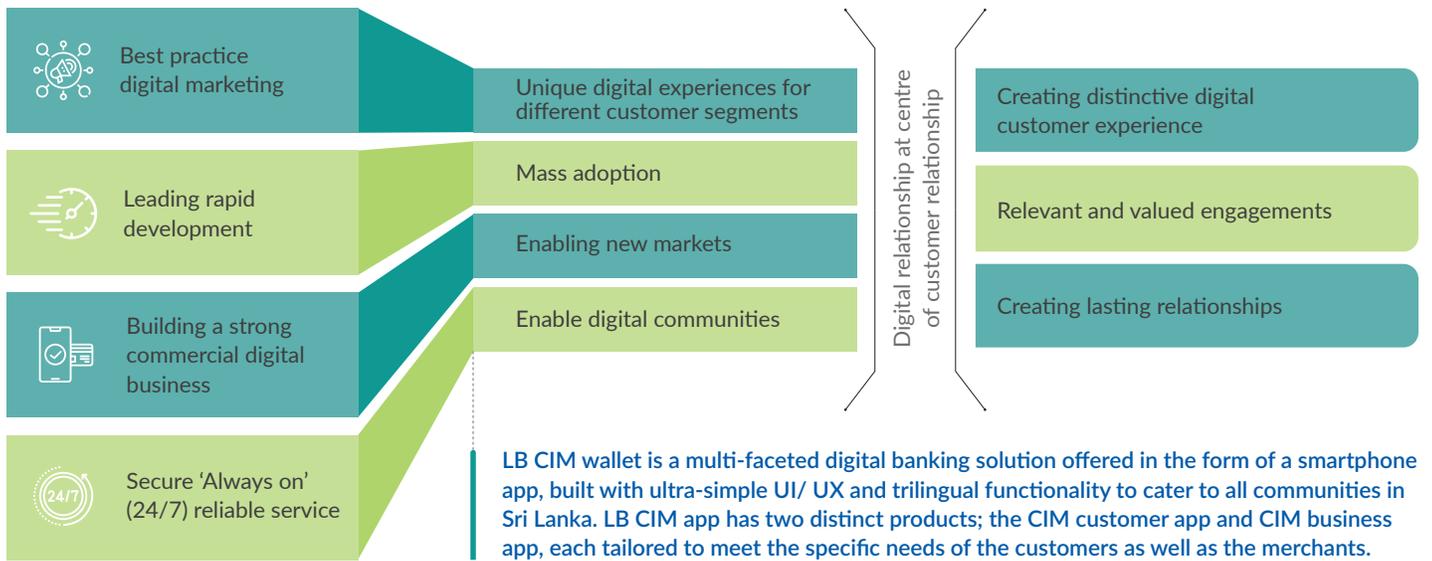
The first product introduced through the CIM app was the gold loan digital top-up, which has shown a continuous increase in customer uptake since its launch in 2021. The CIM business loan and the CIM personal loan, both launched in 2022 have also gained good traction, testifying to the CIM app's ability to drive customer reach and access.

Efficiency improvements and cost control

Cost control has always remained a key consideration in LBF's efforts to build an effective manufactured capital base. While proceeding with our expansion plans for the financial year 2022/23, we did so with extreme caution owing to the rapid inflation-induced cost increases seen in 2022. Accordingly, baseline cost structures for branch commissioning were revised to factor in an additional allowance for inflation and this was accompanied by stringent monitoring to ensure actual costs do not exceed the new baseline parameters.

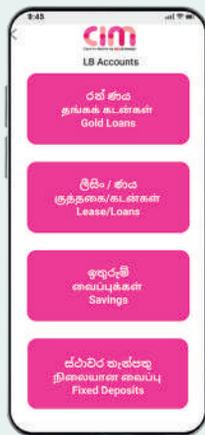
Strict cost containment measures were enforced to curb Avondale's operational costs. In this regard, the branch upgrade program was temporarily suspended with only mandatory maintenance work carried out across the branch network.

MANUFACTURED CAPITAL



CIM CUSTOMER APP CAPABILITY

- ▶ Earn an attractive interest for the balance in the CIM digital account (secured under the deposit insurance scheme of the Central Bank of Sri Lanka)
- ▶ Review the status and pay the installments for LB lease/loans or gold loans anytime
- ▶ Monitor FD portfolio details
- ▶ Link bank accounts and pull money using the top-up account facility
- ▶ Instant fund transfer facilities
- ▶ Reload mobiles and pay all utility bills
- ▶ Pay credit card bills with no convenience fee
- ▶ Pay any insurance premium in real-time
- ▶ Make payments at LankaQR accepted +200,000 merchants anywhere
- ▶ Settle any payment automatically using the standing order feature
- ▶ Transaction history reporting and the monthly e-statement

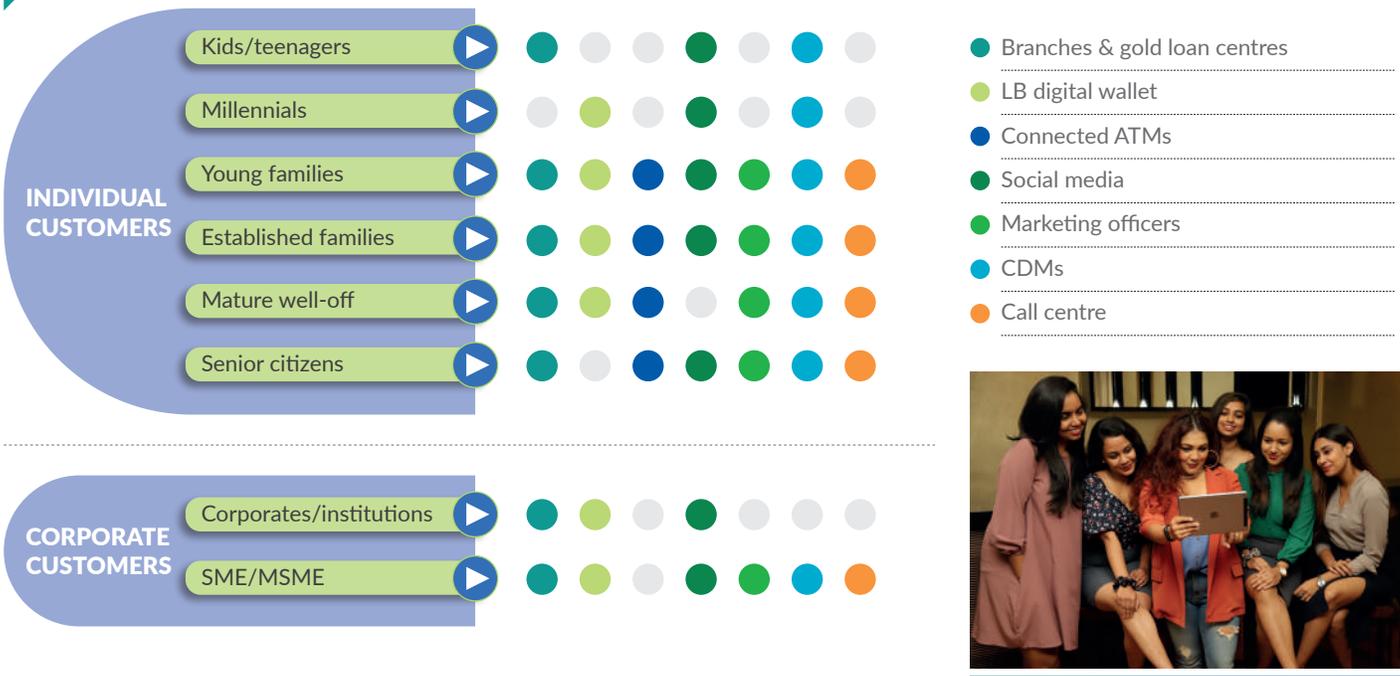


CIM BUSINESS APP CAPABILITY

- ▶ Integrated with LankaQR to facilitate interoperability between mobile wallets, whilst offering the lowest fees in the market
- ▶ Convenient and cost-effective solution to make supplier payments, utility bill payments, salary payments and money transfers to any third-party savings or current account
- ▶ Get money credited to the wallet savings account directly to start earning interest instantly
- ▶ Direct debit instructions in real-time
- ▶ Real-time tracking of all transactions



6 CUSTOMER CHANNEL PREFERENCE



7 TRANSFORM SERVICE DELIVERY

Network support

LBF's network infrastructure creates the underlying ecosystem for safeguarding the integrity of our manufactured capital. Planned reviews of our network infrastructure by our IT Steering Committee help to measure the efficacy of each component and also determine if the desired level of synergy is being achieved between elements to support optimal efficiency. Based on the findings of the bi-annual review conducted in mid-2022, a decision was made to shift the Company's data servers to SLT's fully-fledged tier 3 data center in Pitipana. The enhanced scalability resulting from this move enables LBF to drive enterprise-level network upgrades as needed.

Intellectual capital report on pages 160 - 169

8 RELATIONSHIP BETWEEN CAPITALS

Trade-off between capitals

	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Investment in digital finance	▼	▲	▲	—	—	▼		▲	▲	▲	▲	▲			▲
Branch expansion	▼	▼▲	▼▲	▲	▲	▲				▲	▲	▲	▲	▲	▲
Branch relocations	▼	▲	▲							▲	—	—	▲	—	—

S - Short term M - Medium term L - Long term ▲ Increase ▼ Decrease — Neutral

MANUFACTURED CAPITAL

SWOT ANALYSIS

S STRENGTHS

- ▶ Early adoption of digital technology to gain first mover advantage in the market
- ▶ The ability to develop and launch new digital solutions at a faster rate through our well managed digital evolution

W WEAKNESSES

- ▶ Ensure that appropriate policy frameworks are in place to effectively monitor and manage risks associated with digital interfaces

O OPPORTUNITIES

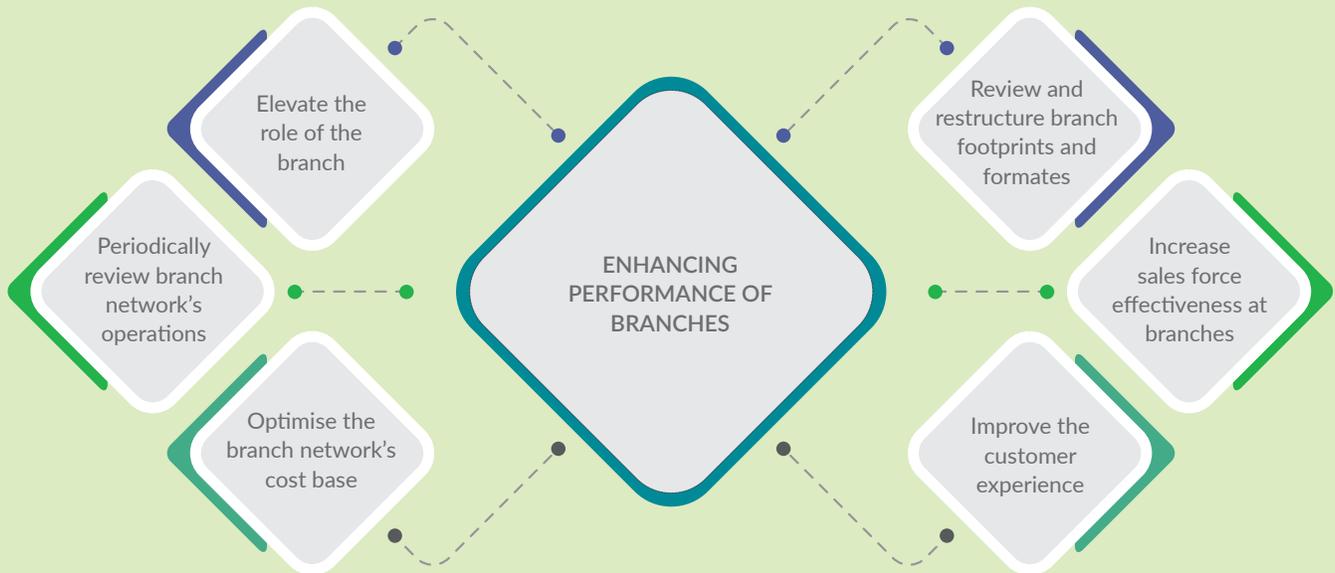
- ▶ Adoption of international best practices benchmarks

T THREATS

- ▶ The high cost of keeping pace with the latest technological developments

Enhancing network performance

The process of enhancing the performance of our branches are shown diagrammatically below. This strategy leads to a higher return on LBF's manufactured capital investment by way of improving quality of service.



Conventional branches are transformed to new age customer convenience centres by upgrading the ambience and service standards. Technological improvements are vital and LBF has identified relevant infrastructure development requirements which will be invested more and more in future. The branches will be converted to high-profit centres with operational strategies stemming from the overall corporate strategy. Sales targets will be set accordingly after comprehensive market research and analysis in driving core business functions. Relevant training requirements will be identified at the branch level and strategic human resource development solutions will be provided to enhance employee performance. Every branch will be reviewed periodically, identifying strengths and weaknesses while updating their set goals followed by a review.

Reaping benefits of investing in manufactured capital

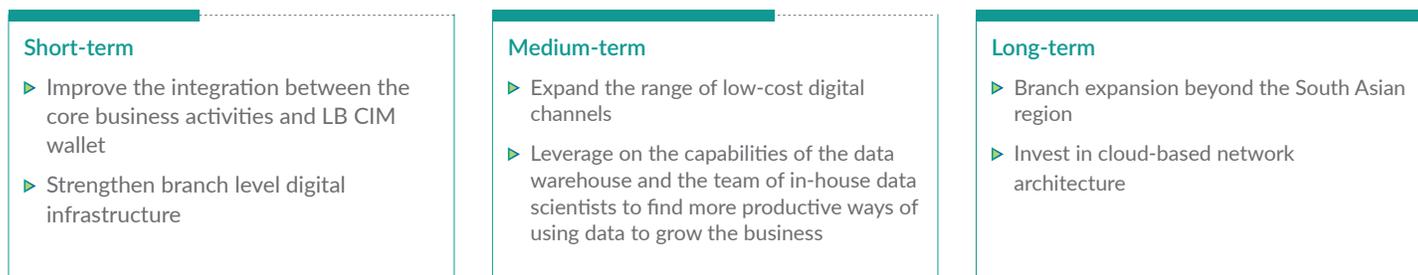
By enabling process innovations and knowledge sharing through investment in technology and platforms expenditure in IT infrastructure



9 BUILDING FOR THE FUTURE

Strategic objective

Developing leaders at all levels by providing them with the tools and resources they need to contribute to LBF's high-performance culture.





Mr. Ravi Yatawara
Executive Director



HUMAN CAPITAL



Mr. Niroshan Udage
Deputy Managing Director

Six question roundup with our Leaders

Q1 What human capital means to LBF?

As a service-oriented entity, our human capital is the backbone of our business. A solid human capital base is also a strong competitive advantage against peers.

Q2 How human capital supports our value-creation goals?

The collective knowledge, skills, and expertise as well as the commitment of our human capital shapes LBF's ability to effectively live up to the Company's core purpose and in doing so achieve its strategic ambitions.

Q3 What are the challenges and opportunities associated with the developing human capital?

High attrition rates, especially among frontline employees have long been the most crucial human capital challenge facing all financial institutions in Sri Lanka and LBF is no exception. These issues further intensified in the current financial year as many began pursuing overseas employment opportunities in light of the severe economic crisis that erupted in the country in 2022. This trend has paved the way for LBF to revitalise its workforce by offering new career growth opportunities to keep employees engaged and invested over the long term.

Q4 What are the key strategic drivers for developing human capital and how does the Company manage trade-offs against other capitals?

Investing in employee capacity building will result in a loyal and motivated workforce that will improve LBF's competitive position through more productive use of resources as follows.

- ▶ Improve workforce productivity
- ▶ Invest in strengthening employee knowledge and skills
- ▶ Empower employees through better work-life balance

Q5 What are the key material drivers identified, which were raised by the stakeholders?

Based on our materiality determination process, we have identified the following matters as material to our human capital. Each matter is grouped under a relevant materiality theme that speaks to our broader operating context.

Customer satisfaction	Regional expansion	Ethics and transparency
Employee engagement	Health, safety and wellbeing	Training and development

Q6 What is LBF's approach to differentiate its human capital from peers?

Stemming from this philosophy, LBF's overarching priority is to create an environment where employees remain committed, stay motivated, are consistently satisfied with the work they do and have realistic prospects for career advancement and fulfilling personal growth. The dynamic environment in which the Company operates requires employees to be adaptable, results driven, self-motivated, decisive and responsive team players. It is why we are continuously evolving our workforce management approach in an effort to gain access to the right people with the right capabilities to achieve our business objectives.

STAKEHOLDER'S EXPECTATIONS

STAKEHOLDERS

MATERIALITY						
Performance management	✓	✓		✓		
Safety and well-being		✓	✓			✓
Enhanced employee skillset	✓	✓				

SPACE FOR DEVELOPMENT

- ▶ Encouraging and motivating employees to stay aligned with LBF's organisational values and culture
- ▶ Developing critical skills and succession planning to achieve long term strategic objectives
- ▶ Promote employee wellbeing at all levels

CHALLENGES

- Attracting, retaining key staff in the highly competitive financial services sector
- Meeting the high standards required from an employer of choice
- Employee morale and mental health during the pandemic

WAY FORWARD

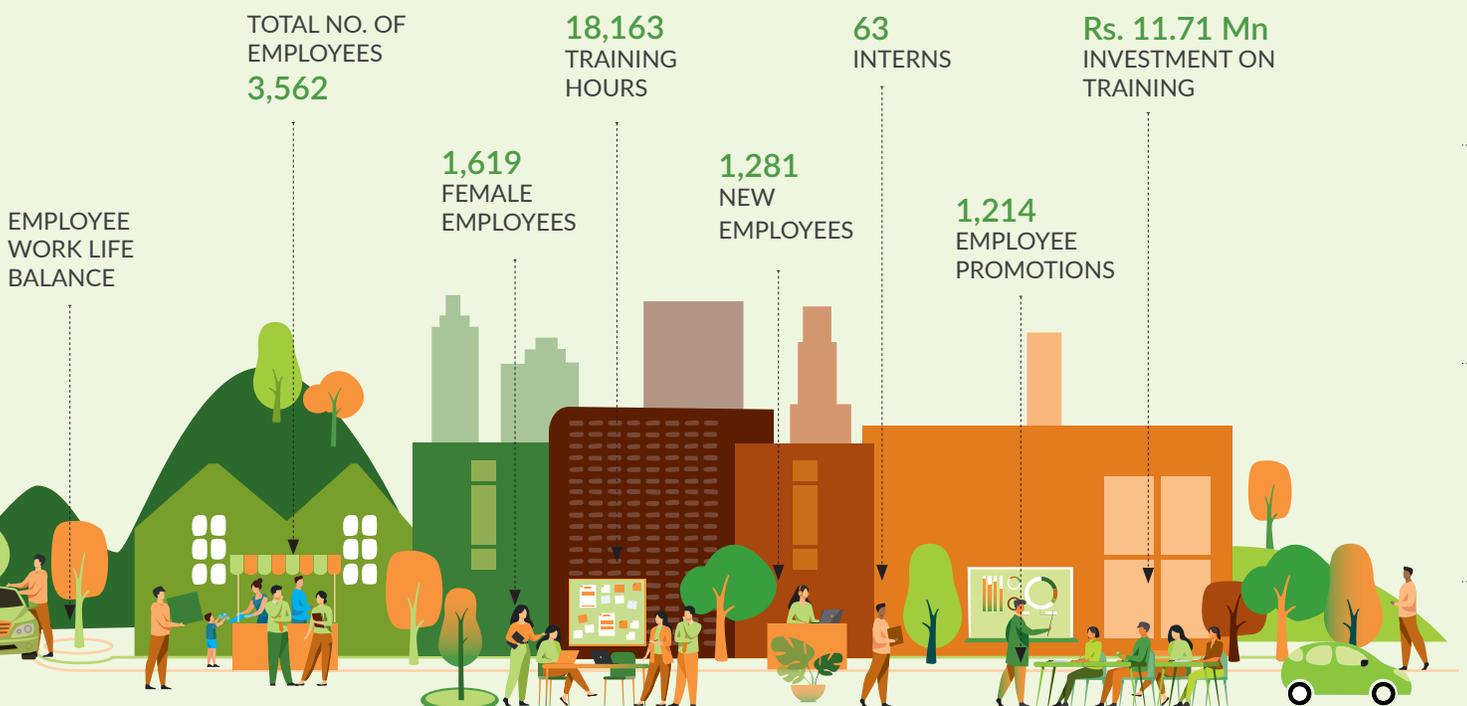
- Build a strong employer brand
- Emerge as one of the top employer of choice
- Use technology to automate HR processes

Related strategic themes

BSF
BO
IG

SDG Impact

1 POVERTY
 5 GENDER EQUALITY
 8 DECENT WORK AND ECONOMIC GROWTH
 10 REDUCED INEQUALITIES



CAPITAL REPORTS

HUMAN CAPITAL

EMPLOYEE EXPERIENCE FRAMEWORK

LBF's Employee Experience Framework is designed to make every stage of the employee's journey an irresistible one. Our goal is to ensure that every one of our employees feels understood and valued and knows that their contribution to the Company will be recognized, and duly appreciated.

CRITICAL SUCCESS FACTORS

- ▶ Top management commitment
- ▶ High quality training deliverable
- ▶ Raising employee morale and productivity

At present, we follow a more mainstream strategy for entry-level frontline positions where we hire for potential and train for competence, performance and cultural orientation. In this regard, our HR policy specifies that at least 90% of branch staffing needs must be met by the local community.

LIVING AND DOING

Integrating our people's lives at work with their personal working circumstances and preferences more deliberately, creating true work-life integration

GROWING AND EVOLVING

Creating the platform for our people to take control their career, role and learning evolution, encouraging non-linear and self-driven growth

MOVING AND MOVING ON

Enabling a seamless onboarding experience for our people while allowing them to move on to the next phase of their career with dignity, remaining connected to the organisation

REALISING AND RECOGNISING

Aligning, more deliberately, employee performance outcomes and Liberty's business outcomes, shifting the cultures and habits around performance management

CONNECTING AND BELONGING

Uniting our people across functions, levels and backgrounds to create a cohesive organisation where everyone feels included and valued

INSPIRING AND INNOVATING

Driving meaningful and inspirational work that aligns with our purpose and values, creating an engaged and motivated organisation



MANAGING HUMAN CAPITAL - MAKING THE RIGHT MOVE AT RIGHT TIME



1 OUR EMPLOYEE PROFILE

LBF's competitive position and success as a financial services institution depend largely on our teams' know-how and specialist skills. It is, therefore vital that we attract and retain the right people with the right skills and mindset.

	2022/23	2021/22	2020/21
Employees - full time	3,483	3,804	3,501
Employees - contract basis	79	18	22
Female employees	45%	40%	40%
Male employees	55%	60%	60%
Employee turnover	43%	38%	30%



Talent acquisition

Having been in the business for over half a century now, LBF's recruitment priorities have continued to evolve in tandem with the Company's strategy over the past 50+ years. At present, we follow a more mainstream strategy for entry-level frontline positions where we hire for potential and train for competence, performance and cultural orientation. In this regard, our HR policy specifies that at least 90% of branch staffing needs must be met by the local community.

For more specialised skills, we often headhunt the best-in-class talent in these fields.

In the year under review, mainstream recruitments were kept to a minimum owing to the prevailing economic uncertainty with only a few selected new recruitments made to fill specialised skill gaps created by labour migration. On this basis, LBF recruited a total of 1,281 new employees in the current financial year.

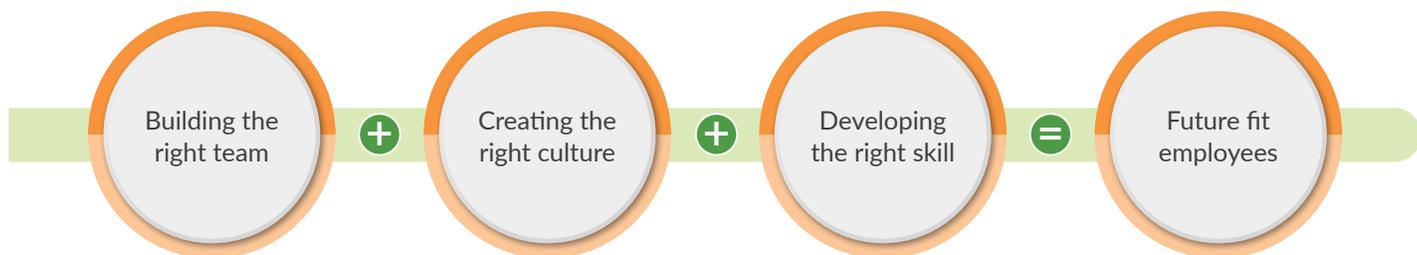
Talent retention

Although LBF's labour attrition rate did not reflect any major deviation from the past years, seeing as how the Country as a whole was witnessing high numbers pursuing overseas employment opportunities amidst the worsening economic situation, talent retention was deemed a top priority for LBF in the current financial year. As a first step, the orientation program for new recruits was revamped and relaunched under the theme "Golden 360°" to focus on creating a more interactive environment to increase engagement between the management and new entrants to the company. The buddy system for new recruits was also further strengthened to drive continuous engagement throughout the probationary period of new employees.

CAPITAL REPORTS

HUMAN CAPITAL

FUTURE FIT EMPLOYEES



TRAINING INTERVENTIONS IN 2022/23



Competency development

Holistic development initiatives to drive the inculcation of organisational competencies

Leadership development

Trainings for middle and senior managers across sectors, with the aim of building the next generation leaders

Sector level training

Sector specific training programmes focused on lean management, leadership development, technical skill building, marketing & sales among others

Management trainee programme

The Group inducted the new management trainee batch with recruitment of 6 aspiring young professionals

Training programmes carried out during the year

Programme	No. of programmes	No. of participants
Technical	14	220
Skill development	16	1,691
Motivational	9	883

Talent management

Our long-standing performance evaluation program remains the key enabler in our efforts to recognise and reward our employees for their contribution towards achieving LBF's corporate objectives. Designed to drive a high-performance culture, our performance evaluation program is based on pre-agreed KPIs set at the start of the year. Employee performance is monitored continuously through our fully automated HRIS, followed by a mid-year review and concluding with the formal annual performance appraisal at the end of the financial year based on which salary increments, bonuses and promotions are

granted, training needs are assessed and high performers are earmarked further development in line with the Company's talent development and succession planning strategies.

Making a conscious effort to focus on talent management right from the start of the employees' career journey with LBF, we introduced "The Best Starter" initiative to reward newly recruits (frontline employees) who achieve their given targets during the probationary period. In addition to monetary incentives, we are also planning to formulate a special skill development program to enable best starters to integrate into the Company's talent pipeline in time.

Developing talent for the future

Our talent development activities have traditionally delivered targeted training and capacity-building initiatives to support the developmental needs of our employees. Having invested in e-learning during the pandemic, we facilitate our operational trainings and soft skills trainings online.

In the current financial year, we further strengthened our e-learning platform with the inclusion of new learning tools covering functional areas such as finance, IT, HR, marketing, etc. We have thus been able to create a platform to enable our employees to refresh critical skills on an ongoing basis.

Following the expansion of the scope of e-learning activities, we initiated a special initiative to gauge the post-training performance of employees regularly with the findings being used to fine-tune our course content.

Meanwhile, considering the labour migration trend in the Country in 2022, more emphasis was given to building a pipeline of multi-talented employees who could potentially drive the strategic ambitions of the LBF Group in the years ahead. Special training interventions coupled with a leadership development series targeting middle management were carried out.

Employee Value Proposition (EVP)

Best employer brand

To instil a sense of ownership and pride in working for the LBF brand

Benefits for employee

To provide remuneration and benefits that empower employees to protect the well-being of their families and continue to enhance their lifestyle over time

Best for teamwork

To promote and recognise teamwork as the basis for achieving personal and professional goals

Best growth opportunities

To create an atmosphere that encourages continuous learning as a means of sustained progress

2 SUSTAINING THE EMPLOYEE RESOURCE

Remuneration and benefits

LBF's remuneration and benefit structures are designed to ensure that every employee is remunerated fairly and equitably, solely on merit. As such, we have established specific parameters to determine salary scales for different employee categories. These include job role, level of responsibility, skills, competencies and work experience. We also monitor industry trends and labour market movements in our sector in order to make timely adjustments to ensure our remuneration and benefit structures remain competitive over time.

The determination of employee benefits is based primarily on the Shop and Office Employees Act of 1954, EPF Act, ETF Act, and the Payment of Gratuity Act of Sri Lanka.

In addition to the benefits mandated by law, we provide our employees with the opportunity to earn bonuses and other performance-based incentives.

Considering the severity of the economic challenges encountered in the current financial year, the HR and Remunerations Committee was reactivated to address pertinent human capital issues.

Ethical business conduct

Ethical business conduct is embedded in LBF's core values. The LBF Board and senior management provide leadership in setting the tone for high standards of business integrity. The Board-approved Code of Conduct outlines employees' duties towards colleagues and responsibilities as representatives of the Company, while the Anti-Bribery and Corruption (ABC) Policy sets out appropriate behaviours expected of employees in their interactions with customers and other external stakeholders.

The Board and the management also collectively provide oversight to enforce the Code and the ABC Policy with the HR team tasked with raising employee awareness regarding these mandates and the repercussions of violation. The Code and the Policy are disseminated to new recruits during their orientation to help them understand and absorb LBF's ethics principles. All new recruits are further expected to sign a declaration indicating their understanding and acceptance of the Code of Conduct and the ABC Policy. Both the Code and Policy are also accessible through the e-learning platform for easy reference at any time.

In the year under review, a new Social Media Conduct policy was implemented. An initiative by the newly convened HR and Remunerations Committee, the Social Media Policy sets out appropriate behavioural guidelines for use on both internal and public social media platforms.

Meanwhile, as part of our integrated approach to promoting ethical business conduct at all levels of operation, we encourage employees and other stakeholders to raise concerns regarding conflicts of interest or any other perceived ethics violation. A whistleblower policy is also in place to enable

reporting of fraud or financial irregularities or misappropriations, with the assurance of complete anonymity.

Grievance handling

We encourage our teams to be open and forthright about discussing any work-related issues or grievances they may have. Various mechanisms including daily/weekly/monthly team briefings enable employees to express their opinions and voice their collective concerns to superiors, while our open-door policy allows employees to individually reach out to members of the senior management to address any issues that may be affecting their job role. Beyond this, the grievance procedure maintained by the HR department allows employees to formally escalate any concerns directly to the HR Head. Our Code of Conduct contains detailed information regarding LBF's grievance procedure, including when and how it should be activated and the standard timelines for when a resolution can be expected. No grievances were reported to the HR department in the year under review.

Health and safety

Providing a safe and secure environment for employees to work in, is one of our top priorities. Accordingly, LBF complies with all mandatory fire safety measures at all company locations. Designated fire wardens have been appointed at every one of our locations, while the central administration department monitors fire safety systems, engages in regular maintenance of fire safety equipment, and oversees the annual fire drill process. These efforts are accompanied by regular safety training sessions covering all LBF employees. Since the pandemic, we have also been using the "Life at LB" facebook page to strengthen the safety awareness culture among our teams.

As a financial services business, LBF's day-to-day operations do not pose any occupational health and safety risks to employees. Hence the need for a dedicated safety system does not arise. However, our business continuity plan and crisis management plans include necessary measures to ensure employee safety in the event of an unforeseen crisis.

Employee engagement

After a lapse of two years, we resumed physical employee engagement activities. However, in light of the economic crisis in the country, no large gatherings were held throughout the year. All engagement activities were held on a smaller scale than in the past, mainly as branch / department-wise events.

Employee benefits	2019/20 Rs. Mn	2020/21 Rs. Mn	2021/22 Rs. Mn	2022/23 Rs. Mn
Salaries and other related expenses	2,537.98	2,520.98	2,739.25	3,000.43
Employer's contribution to EPF	239.16	232.85	253.77	262.01
Employer's contribution to ETF	47.83	46.57	51.15	54.30
Gratuity	75.94	93.91	79.61	102.77

CAPITAL REPORTS

HUMAN CAPITAL

Mechanisms to measure and monitor employee satisfaction

LBF participated in the “Great Place to Work” (GPTW) survey in 2022. The survey which was conducted by an independent third party was rolled out as a company-wide initiative with all employees encouraged to participate.

Work stress

Various initiatives continued to be implemented to help employees to manage work stress, especially in these economically challenging times. ‘The SMILE’ counselling hotline launched at the onset of the pandemic in March 2020 and also remained active throughout the year to offer employees 24/7 assistance.

HR governance

HR governance is centralised under the purview of LBF’s Human Resource Department (HRD). The HRD is led by the Head of HR who reports to LBF’s Managing Director. The Head of HR also works closely with the Board Human Resource and Remuneration Committee and the Nominations Committee, on certain HR-related matters. The HRD under the supervision of the Head of HR is responsible for ensuring LBF remains fully compliant with all applicable laws and regulations on its employees. Beyond this, HRD is responsible for ensuring the Company’s human capital development activities are carried out in line with the Board-approved policy frameworks.

3 CREATING AN ENTREPRENEURIAL AND INNOVATIVE CULTURE

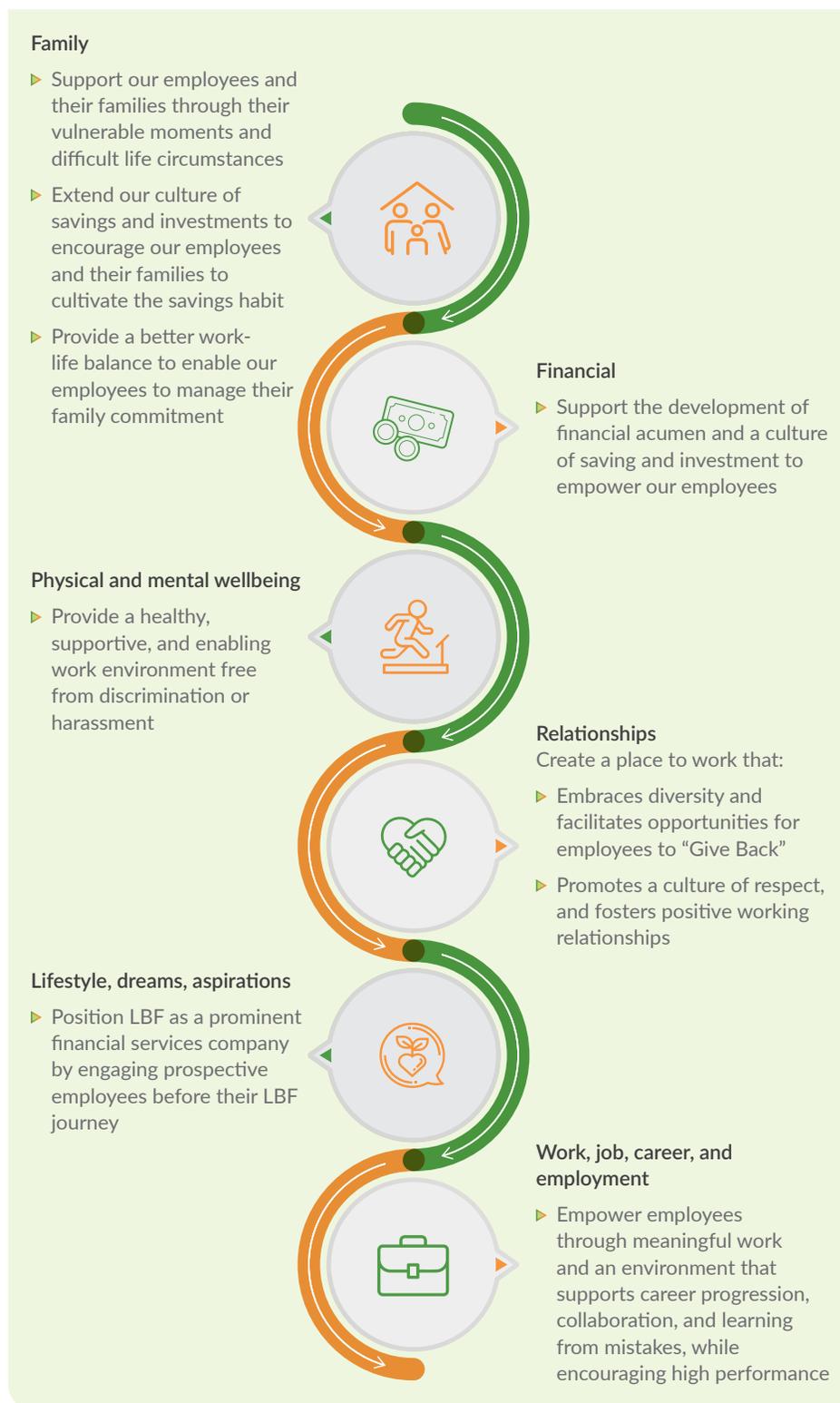
For the past five years, LBF has been blazing trails in the digital financial services space, thanks to comprehensive manpower planning and efforts to source top IT specialists and data scientists.

In order to ensure we stay ahead of the game, we are constantly on the lookout for talented IT professionals who can work independently and support business growth through effective ideation and innovation. Moving away from our traditional approaches, we held a special open day in February 2023 intending to attract IT professionals and data scientists. The open day proved to be a massive success, attracting over 100 IT professionals from which 20 was recruited by LBF in the current financial year.

4 LIFE AT LB

Employee’s journey

Employees drive our business and we consider it our responsibility to make their life journey more comfortable and trouble-free.



5 DRIVING DIVERSITY

We believe the different ideas and perspectives that stem from a diverse workforce pave the way for innovation for the benefit of the Company and all stakeholders including the wider community.

Opportunities for gender equity and strategies for gender parity

As a non-discriminatory employer, LBF does not discriminate based on gender. Accordingly, we have established specific gender parity thresholds for every stage of the employment lifecycle.

Gender Parity Thresholds	FY 2022/23
Overall gender ratio (male : female)	55 : 45
Female hiring rate	53%
The proportion of females promoted (as a percentage of total promotion)	44%

A long-term initiative to empower & embolden women in Myanmar

LBF's microfinance operation in Myanmar represents our long-term commitment

to women's empowerment. Through our lending operations in Myanmar, we focus on assisting female-based micro-entrepreneurs involved in small-scale farming, animal

husbandry, and cottage industries. On this basis, our loan book is dominated by women-led businesses.

Our internal policy frameworks/actions/activities that promote gender equality

Solution for the gender gap

Indicator	Explanation of LBF	Result
Gender inequality in the jobs of the future	The economic gender gap from closing is women's under-representation in emerging roles	03 women represent the LBF Board out of 10 Directors
Female workforce participation	Number of women in a leadership position	02 women represent the LBF senior management out of 33
Closing wage gaps and preparing women for jobs of the future	The benefit structure is based on the performance of the worker	There are no wage gaps

Diversity and inclusion are integrated into all our HR processes including recruitment, remuneration and benefits, training and development, promotions, employee retention, flexible work arrangements, leave entitlement, policies, and procedures, Board appointments, and succession planning.

Furthermore, LBF's Board and management provide oversight for remuneration decisions ensuring that comparable salaries are offered

without bias to men and women in similar roles at any level across the organisation.

Discrimination and harassment

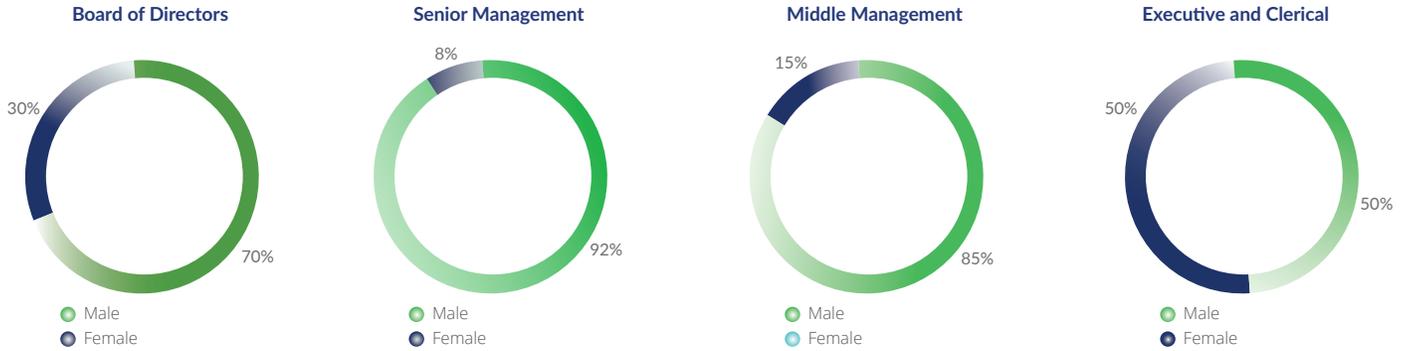
As a responsible employer, LBF does not discriminate based on a person's sex, race, caste, community, marital or family status, religion, age, sexual orientation, disability, or any other status protected by law.

Specific policies on sexual harassment in the workplace are aimed at safeguarding all employees from unwanted sexual advances and providing them with guidelines to report incidents. The policy further implies that if an employee hears about or observes possible harassment or discrimination, the respective employee is accountable to report the situation to the HR Department.

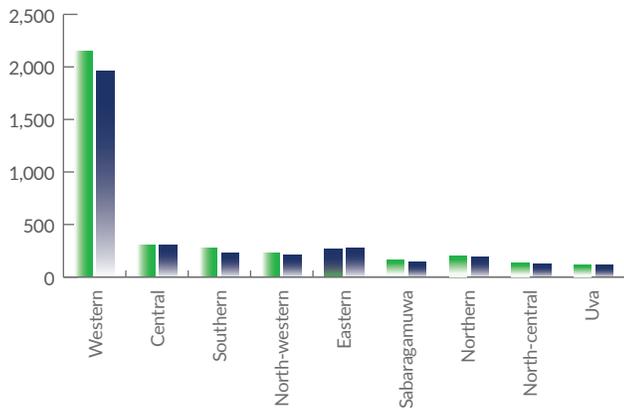
CAPITAL REPORTS
HUMAN CAPITAL

EMPLOYEE STATISTICS

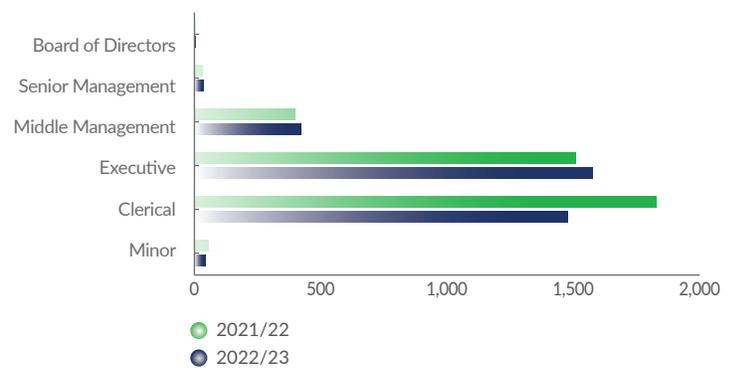
Gender representation per occupational level



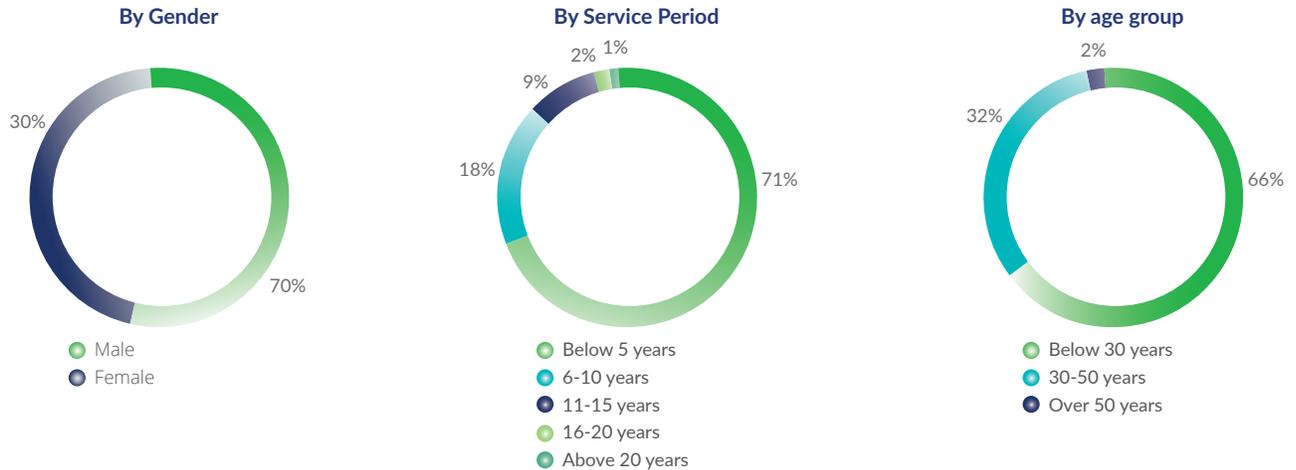
Number of Employees Split by Province



Number of Employees Split by Grade



Our hires



6 HUMAN RESOURCE ACCOUNTING

Human Resource Accounting (HRA) involves quantifying the value of the LBF's human capital in terms of their capacity to create value for the Company in the future. Essentially, HRA is the process of identifying, measuring, and reporting on the investments made in human resources that are currently not accounted for under conventional accounting practices. As per the HRA approach, the expenditures related to human resources are reported as assets on the balance sheet as opposed to the traditional accounting approach which considers personnel costs as an expense item in the profit and loss account.

HR KEY METRICS PER EMPLOYEE

FACILITY DISBURSEMENT

Rs. 40.76 Mn

2021/22 Rs. 35.16 Mn

DEPOSIT PORTFOLIO

Rs. 32 Mn

2021/22 Rs. 23.32 Mn

BORROWINGS

Rs. 5.43 Mn

2021/22 Rs. 7.03 Mn



OPERATING PROFIT

Rs. 4.05 Mn

2021/22 Rs. 3.67 Mn

PBT

Rs. 3.30 Mn

2021/22 Rs. 3.12 Mn

PAT

Rs. 2.37 Mn

2021/22 Rs. 2.26 Mn

7 RELATIONSHIP BETWEEN CAPITALS

Trade-off between capitals

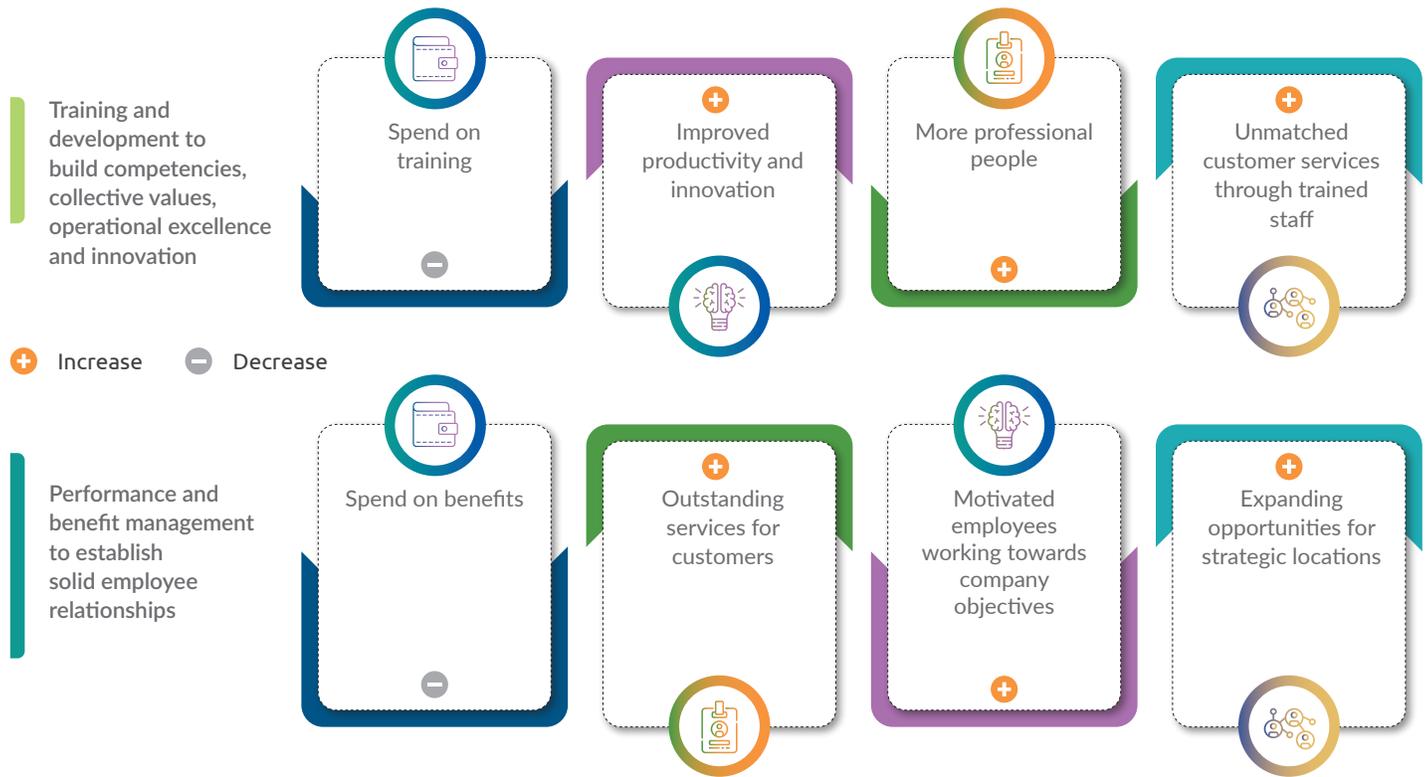
	S			M			L			S			M			L			S			M			L		
New recruits	▼			▼▲									▲	▲		▲	▲	▲									
Training and development	▼	▲	▲	▲	▲	▲	▲	▲	▲																		
Benefit structure	▼	▼▲	▼▲																								

S - Short term M - Medium term L - Long term ▲ Increase ▼ Decrease — Neutral

CAPITAL REPORTS

HUMAN CAPITAL

Reaping benefits of investing in human capital



8 BUILDING FOR THE FUTURE

Strategic objective

Developing leaders at all levels by providing them with the tools and resources they need to contribute to LBF's high-performance culture.

<p>Short-term</p> <ul style="list-style-type: none"> ▶ Using mobile learning and other business technology to enhance the environment for continuous learning that was created by our digital learning approach ▶ Attracting and retaining diverse talent, particularly in scarce and critical skills 	<p>Medium-term</p> <ul style="list-style-type: none"> ▶ Incorporating core values into the performance-based reward mechanism ▶ Implementing a grievance redress committee to function independently to investigate and offer solutions for employee grievances 	<p>Long-term</p> <ul style="list-style-type: none"> ▶ Creating exceptional employee experiences through employee journeys and interactions that promote a productive and engaged workforce
--	--	--

Growth sustainable opportunity
Supporting diversity, equity, and inclusion throughout our operations

Vision
Understanding, supporting, and responding to the holistic well-being of our people

SWOT ANALYSIS

S STRENGTHS

- ▶ Ability to recruit and retain a multi-talented team by providing them with competitive remuneration and a robust work environment that promotes engagement and performance-based rewards

W WEAKNESSES

- ▶ Non-availability of a streamlined mechanism to offer emotional and psychological support to employees in the event of an unforeseen crisis

O OPPORTUNITIES

- ▶ Create a framework to help employees adapt to a better work-life balance
- ▶ Improve succession planning at all levels to minimise the dependency on a few key individuals

T THREATS

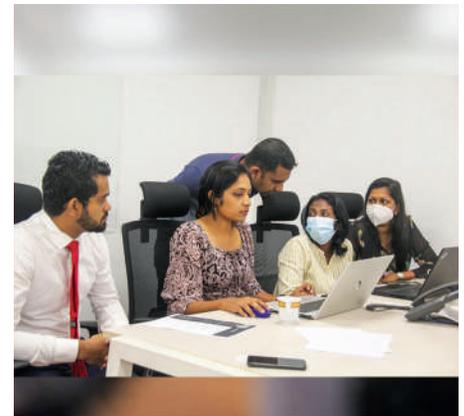
- ▶ High turnover among frontline branch teams due to stiff competition in the NBF1 sector



Seven Magic Habits to be Genius



Journey to Excellence



LB IT Recruitment Open Day



Investing 360 Golden Minutes



Training Program for IT Department



Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction



Mr. B D A Perera
Executive Director



INTELLECTUAL CAPITAL

Six question roundup with our Leaders



Mr. Sumith Adhietty
Managing Director

Q1 What intellectual capital means to LBF?

Intellectual capital is like our DNA. It is the intangible factors that define who we are. These are; our brand, our information technology assets, control systems and frameworks, and knowledge-based assets.

Q3 What are the key material drivers identified, which were raised by the stakeholders?

Based on our materiality determination process, we have identified the following matters as material to our intellectual capital. Each matter is grouped under a relevant materiality theme that speaks to our broader operating context.

Process excellence	Online customer support	Business model Innovation
Information security	Technological Advancement	

Q5 What are the key strategic drivers for developing intellectual capital and how does the Company manage trade-offs against other capitals?

Intellectual capital by nature has a minimum impact on other capitals, except for the cost outlay (Financial capital) of implementation which includes

- ▶ Adherence to the latest globally accepted best practices.
- ▶ Continuous R & D to boost ideation and innovation capabilities.
- ▶ Pursue automation to improve internal efficiency.

Q2 How intellectual capital supports our value-creation goals?

Our intellectual capital is one of LBF's key competitive advantages that sets us apart from our peers. We often combine different elements of our intellectual capital to achieve our strategic objectives and stakeholder value creation goals.

Q4 What are the challenges and opportunities associated with developing intellectual capital?

The key challenge associated with developing intangibles is that it requires close monitoring of the macroeconomic environment, including the regulatory and competitive environments as well as local and global trends having an impact on financial services institutions.

Customers' growing desire to access financial services from digital channels has led to a surge in new financing technologies that are reconceptualising the financing industry.

Q6 What is LBF's approach to differentiate its intellectual capital from peers?

Ensuring that our product knowledge, information systems, digital strategy and culture, continues to evolve in response to the growing demand of the market, is also one of our foremost priorities. Ongoing digital product research and system capabilities to determine the appropriateness of each product to the customer in the current market context as well as specific research to AI technology and business process development augment our knowledge on market intricacies, changing customer perceptions and identify emerging trends, all play a vital role in enabling LBF to stay ahead of peers by being first-to-market through the release ground breaking new products.

STAKEHOLDER'S EXPECTATIONS

		STAKEHOLDERS					
MATERIALITY	In-house software development	✓	✓			✓	
	Business process digitalization	✓	✓		✓	✓	
	Knowledge management	✓	✓	✓	✓		✓

SPACE FOR DEVELOPMENT

- Move to a cloud-based environment to maintain more effective BCP control Strengthen the internal governance of information security and data privacy
- Better use of AI technology based robotic process automation and predictive analysis to increase internal efficiency

CHALLENGES

- Risk associated system failures and connectivity failures
- Rapid increase in cyber threats
- Competitive pressure in the digital finance space

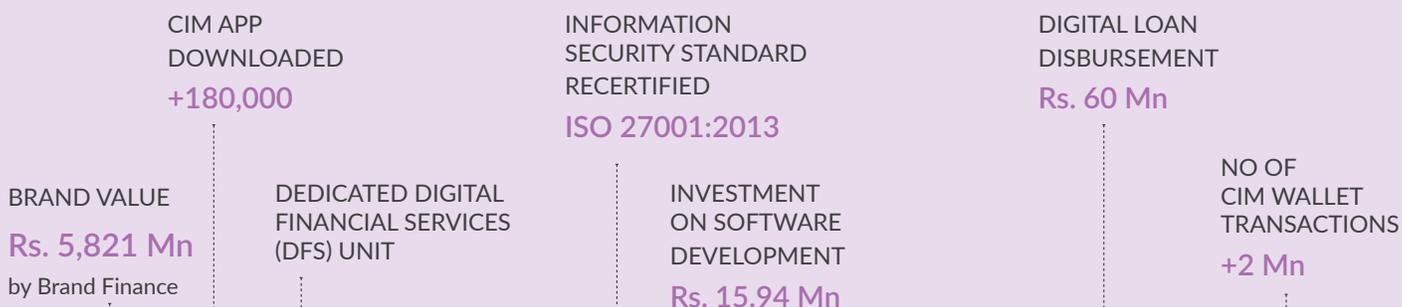
WAY FORWARD

- Enhance loan processing by incorporating automatic data analysis tools
- Focus on the digital financial products and services
- Drive digital media penetration

Related strategic themes

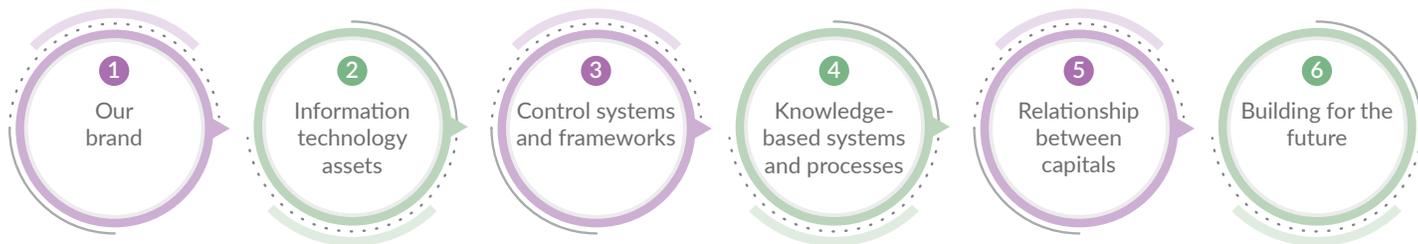


SDG Impact



INTELLECTUAL CAPITAL

MANAGING INTELLECTUAL CAPITAL - MAKING THE RIGHT MOVE AT RIGHT TIME



1 OUR BRAND

Right from its inception and over the past five decades, LBF has been driven by its purpose - to bring prosperity to people and businesses around Sri Lanka and more recently in Myanmar. Regardless of where we operate, we continue to be anchored by our core brand value; excellence, quality, innovation, professionalism, ethics, and transparency, which has allowed us to earn the trust and respect of our stakeholders. Today, LBF stands as a top-tier financial services institution in Sri Lanka and has been declared one of the fastest-growing micro-finance companies in Myanmar. On an overall basis, resilient earnings and a solid balance sheet have allowed LBF to maintain a consistent national

long term rating of A-(Ika) by Fitch Ratings, a further testament to the strength of our risk and governance foundations.

Investing in our brand

Our brand identity is an important component of our intellectual property and a driving force behind our corporate plans and decisions. There is no denying that our brand promise will need to constantly evolve for LBF to stay ahead in the highly competitive NBFi industry. This means, the key differentiator of our brand promise - our approach to Customer Relationships Management (CRM) which we like to call our customer experiences program, will need to evolve at a

CRITICAL SUCCESS FACTORS

- ▶ Seamless digital processes
- ▶ Improved user and workforce experience
- ▶ Reliable and trusted service delivery

faster pace than the industry. To that end, we will continue to invest in technology as the primary brand augmentation strategy. Brand protection too will remain a key priority. We will strive to preserve the integrity of our brand and its industry ranking through the launch of new brand guidelines to ensure greater uniformity and standardisation in the visual presentation of the LBF brand.

2 INFORMATION TECHNOLOGY ASSETS

Our IT systems collectively create a solid ecosystem to position LBF as the most digitally connected financial service provider in Sri Lanka. Since starting our digital journey in 2010/11, we have systematically deepened our investment in IT infrastructure through a combination of in-house developments and licensed software procured from reputed global vendors.

Licensed software is typically for our core systems infrastructure, while in-house developments which are managed under the purview of LBF's IT team, focus on continuous

system improvements to facilitate internal process efficiency ultimately leading to more effective service delivery to customers and other stakeholders.

Apart from this, our Digital Financial Services (DFS) team is tasked with building functional interfaces that alternative revenue streams to support our strategic growth objectives. The flagship product developed by the DFS is the LB CIM wallet app launched in 2020, a highly versatile digital financial tool equipped with end-to-end functionality for an unparalleled customer experience.

In recognition of ongoing improvements to enhance the functionality of the LB CIM interface, LBF was declared the category winner in business model innovation in digitized product/service category at the FITIS Digital Excellence Awards 2022. At the same forum, the LB CIM wallet application also clinched the bronze award for the most innovative digital service offering.



IN HOUSE SOFTWARE

- ▶ Common business partner management module
- ▶ Common cashier module
- ▶ Gold loan module
- ▶ Credit origination module including iOS oracle profitability management modules and android mobile apps
- ▶ Savings module
- ▶ Fixed deposit module
- ▶ Money exchange module
- ▶ MIS reporting services



LICENSED SOFTWARE

- ▶ E-financial system leasing, treasury modules
- ▶ Oracle fusion ERP cloud
- ▶ Oracle budgeting and planning modules
- ▶ Oracle profitability management modules
- ▶ ATM switch
- ▶ HRIS system
- ▶ Document management system
- ▶ Customer relationship management system
- ▶ Internet banking and e-wallet (iOS & Android)
- ▶ E-learning platform
- ▶ Robotic process automated software
- ▶ Data visualisation and modelling software



IT System Development - Initiatives for 2022/23



AREA OF IMPROVEMENT	IMPACT TO BUSINESS	IMPACT TO CUSTOMERS
Integration with CRIB backend	Seamless verification of customer credit profiles in real time has greatly simplified the credit evaluation process while improving overall cost efficiencies	Faster turnaround time between credit application to disbursement
Updated the corporate website with the inclusion of AI-based digital imagery	More dynamic platforms to enhance information and user engagement	User-friendly interface and interactive features for a better user experience

3 CONTROL SYSTEMS AND FRAMEWORKS

Business continuity planning

As a large financial institution, LBF considers Business Continuity Planning (BCP) to be a top priority. A robust BCP framework based on the CBSL guidelines and further benchmarked against global standards is in place to ensure our people, premises and all critical business functions can continue without interruption in the event of an unforeseen crisis. Our BCP framework includes a formal BCP policy and Board approved crisis management plan together with the schedule of BCP drills.

The colocation data centres established in 2020 as a BCP measure amidst the pandemic, continued to provide critical support for the execution of our BCP program this year as well.

Information security risk management architecture

Keen to prove its commitment to managing cyber risks and safeguarding data assets, LBF has for the past eight years been operating under the ISO 27001 Information Security Standard certification. The certification, which covers all operations including LBF's Center for Technology and Innovation (CIT), was renewed in mid-2022 following the successful conclusion of the compliance audit.

Going beyond the ISO requirements, our internal information systems (IS) audit

team to engage in continuous and ongoing monitoring of the systems and processes in place to safeguard information assets. The IS audit team applies a risk-based approach to determine the applicable areas in a contextual sense, with due consideration of internal and external cybersecurity risk factors, industry-specific technology risks, company internal technology advancements/changes, in-scoping high-risk cyber security, and IT operational process areas and the technology impact on high-risk business processes of the Company. While taking into consideration these aspects, our comprehensive IS audit program is prepared in line with industry best practices such as COBIT, NIST, CIS, and ISO 27001:2013 standards as well as regulatory requirements set out under the Information and Communication Technology Act No. 27 of 2003, Payment and Settlement Systems Act No. 28 of 2005 and other guidelines issued by the CBSL.

The annual IS audit plan covers critical IT infrastructure, critical systems, supporting IT operational processes, cyber security, and information security aspects, including a review of LBF's; IT policy/procedure/guidelines. Independent vulnerability management audits for external facing web environments and mobile apps, software development life cycle audit, database administration, server administration, network security, cloud environment governance, IT DR, information systems access management, endpoint security, software compliance, etc. are also key components of our IS audit plan. New

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

CAPITAL REPORTS

INTELLECTUAL CAPITAL

system implementations/expansions during a particular year are also included in the annual IS audit plan for the year. Over and above this, special thematic audits are conducted from time to time. These include IT supplier security, IT operation processes (backup, restoration, etc.), IT/information security risk assessment process, IT assets management, IT capacity management process, information security incident management, etc. audit plans are submitted to the Board Audit Committee (BAC) for their recommendations and approval, before being operationalised.

In the current financial year, the IS audit team took several additional measures to safeguard LBF's information security systems amidst ongoing challenges. The frequency of thematic audits was increased to verify if fundamental cyber security controls were being enacted according to established policies and procedures, especially by recruits. A series of special audits were carried out including web-based application security assessments, mobile app-based security assessments, and phishing simulations to ensure the Company has in place all appropriate control measures to mitigate new cyber risks/ attack vectors coming through the external cyberspace. An extra security layer was implemented to enable continuous assessment of the privilege activity monitoring function, while more frequent checks were done in connection to the user access management function. The IS team also began engaging more proactively with core IT teams to understand risk factors and control requirements of new technology adaptations/ new system developments in order to ensure all relevant risk factors are addressed prior to the live rollout of these initiatives.

Data privacy framework

To reinforce its commitment to data privacy, LBF strives to benchmark global best practices to create a secure environment for the protection of customer information. Our IT compliance and Information security team provides stewardship for all data protection matters as per LBF's Board approved data privacy policy. The team takes a 360° approach to review and update all administrative, organisational, technical, and physical safeguards in order to strengthen the resilience of the Company's data protection environment on an ongoing

basis. More recently we have also started leveraging the latest AI-based tools to flag possible internal threats.

In 2022, LBF began working towards early adoption of the mandates set out under the Personal Data Protection Act No. 9 of 2022. As a first step, we introduced a cookie policy to LBF's newly updated corporate website. In parallel, an internal study was carried out to determine the scope of Personal Identifiable Information (PII) as relevant to our business. Based on our findings, we are currently working on establishing the parameters needed to implement a suitable framework for safely managing PII. We are currently in the process of evaluating appropriate solutions to support these efforts.

Information security governance

Information Security Governance plays a vital role in building our defenses against internal and external attacks that could compromise the integrity of our data assets. In this regard, LBF's Information Security Officer (ISO) is responsible for identifying, protecting, detecting, responding, and recovering IT functions / Controls and reports, tracking and following up on remediation plans in compliance with regulatory and statutory requirements applicable to information technology, data, and information security.

Developing critical and scarce skills

Training programmes for 2022/23

Programme	Focus	No. of training	Medium
Orientation program for newly recruited employees	IT operation and systems	9	Physical and online
Information security awareness program	Password practice, ransomware, networking information threats	12	E mail campaign physical and online

Main focus areas

- ▶ Network, Security & Infrastructure.
- ▶ Database.
- ▶ System Support.
- ▶ IT Operations.
- ▶ IT Help-Desk.
- ▶ Digital Channels.
- ▶ Software Development.

Duties and responsibilities of the ISO

- ▶ Review and monitor privileged access activities.
- ▶ Coordinate internal and external IS audits.
- ▶ Coordinate the functions related to ISO 27001:2013 certification.
- ▶ Review and recommend to the BAC regarding amendments to IT-related policies and operational procedures based on the compliance requirements.
- ▶ Weekly/monthly/annual monitoring of information security and cyber risks.
- ▶ Follow up on corrective and preventive action plans of audit findings.
- ▶ Conduct information security awareness campaigns.
- ▶ Coordinate vulnerability assessments and penetration tests.
- ▶ Conduct due diligence assessments, and security reviews on vendors.



Process Improvements for FY 2022/23 using data science

Area	Benefit
Profitability dashboard linked to the oracle profitability and cost management modules to provide real time analysis of branch-wise and product-wise profitability	Supports informed decision making for corporate and middle managers
Top up facility identification dashboard to identify customers with underutilised debt capacities.	Empowered marketing officers to drive granting volumes
Credit scoring for gold loan customers gold	Enables sales teams to customise granting decisions based on a quantitative assessment of the individual customer's credit profile
Call center customer rating dashboard to analyse the customer complaints and customer satisfaction levels/feedback	Allows corporate management to assess the effectiveness of customer service levels and identify pain points in the complaint resolution process
Customer segmentation analysis for LB CIM customers	To support efforts to develop a customer loyalty programme based on customer usage statistics - high, frequent, irregular, dormant etc.
Daily flash dashboards to capture the performance of core business activities - gold loan, credit, savings & FD	Enable informed decision making at a strategic level

4 KNOWLEDGE-BASED SYSTEMS AND PROCESSES

Innovation capabilities

In recent years, our quest for innovation has been partly fuelled by robotic process automation to drive internal efficiencies that achieve a distinctly lower cost-to-serve, translating into more timely, relevant, and affordable financial products and solutions. To date, we delivered the data infrastructure, data pipelines, models, and analytics that generate data insights based on user events and activities, and we have built an AI and machine-learning infrastructure to support both ongoing data-driven insights and real-time delivery of insights to customers, merchants, and tenants based on their behaviour on the platform, serving their needs at the moment with relevant recommendations and offers.

At the same time, we are looking to actively leverage social media's AI and big data capability to interact more frequently with our customers to deepen our understanding of their evolving needs and respond quickly and effectively.

In recent years, especially since the pandemic, our quest for product and process innovation has been driven in equal parts by Robotic Process Automation (RPA) and Data science. Today we leverage advanced

analytics and AI-based machine learning tools to drive internal cost efficiencies as well as to support our customer service excellence goals.

Customised research

In the past five years, LBF has come to seek out research-based insights to drive innovation and cost efficiencies across its operations. Since it was first established in 2020, our in-house data science team - the Center for Technology and Innovation (CTI) - has been leading the research front.

In the current financial year, the CTI entered into two long-term partnerships with leading state universities in Sri Lanka. The first was with the University of Moratuwa (UoM) to gain access to UoM's academia in relation to the data science field and the second with the University of Colombo (UoC) was to collaborate with UoC's IT faculty to commercialise viable financial solutions.

Due diligence

As a large financial services institution, we realise the importance of being proactive in carrying out due diligence to verify the efficacy of our internal systems and processes. LBF's Internal Audit Department (IAD) has been assigned as the main facilitator of due diligence activities and provides independent assurance to the board, audit committee, and management,

regarding the efficacy of the Company's risk management, governance, and internal control processes in supporting corporate objectives. To that end, the IAD conducts four types of audits - process audits focused on evaluating the effectiveness and efficiency of specific processes; gold loan audits to verify the accuracy and completeness of gold articles retained; branch audits to measure the risk profile of each branch against established risk metrics; cash audits that usually take the form of spot checks to compare cash collections against documented sources.

In this way, the IAD serves as the third line of defense of the group by providing objective insights, evaluation of business risks and protection of assets, validation of business and/or process controls, cost and waste reduction opportunities, effective corporate governance, assurance on legal and other regulatory compliance.

In the current financial year, the IAD initiated several programs to strengthen due diligence in certain areas. With the rapid growth in our gold loan portfolio raising the risk of fraudulent articles being held as collateral, the IAD introduced a series of new exception monitoring guidelines along with special training to inculcate the "anti-fraud culture" at the branch level.

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

CAPITAL REPORTS

INTELLECTUAL CAPITAL

Internal audit update for 2022/23

Focus area	No. of audits and key processes audited	Improvements made	Impact to LBF
Branch Operations	Gold loan audit process - More than 700 Cash / surprise verifications - More than 850 Credit and Lending - More than 90 FD and savings - More than 90	<ul style="list-style-type: none"> ▶ Insisted on new policies/procedures or amending the existing to implement more compliance towards culture and create accountabilities for non-compliances ▶ Addressed internal control gaps in the process of the auditees in concurrence with respective process owners ▶ Implemented self-detection mechanisms to act efficiently in remediating non-compliances. ▶ Implemented exception monitoring mechanisms to duly act on abnormal transactions. 	<ul style="list-style-type: none"> ▶ Avoided undue delays in the processes and improve the efficiency ▶ Mitigated the operational risks ▶ Compliance with internal and external compliance requirements ▶ Identified opportunities for process automation, standardization, and optimization. ▶ Process led to increase efficiency, reduced duplication of efforts, and improved resource allocation.
Administrative Operations	Credit Operation - 1 Recovery Operation - 1 Savings Operation - 1 Gold Loan Back office function - 1 Digital Financial Service (DFS) - 1	<ul style="list-style-type: none"> ▶ Strengthen the internal control system of respective processes by implementing various control mechanisms such as segregation of duties, system validations, authority delegation, establishing effective monitoring mechanisms to detect and prevent fraudulent activities ▶ Insisted to revamp certain existing processes, policies and procedures to ensure that they are comprehensive, up to date, and aligned with industry best practices. ▶ Agreed on clear timelines and accountabilities to effective follow up of respective processes. ▶ Conducted in-depth process reviews and recommended the opportunities available leveraging technology to improve the operations. ▶ Recommended to enhance the real-time exception monitoring mechanism to address abnormalities without incurring costs. ▶ Highlighted process improvements that require to strengthen the external and internal compliance requirements. 	<ul style="list-style-type: none"> ▶ Mitigated the operational risk. ▶ Enhanced process efficiencies and effectiveness by minimizing errors at the initial stages to avoid disputes. ▶ Strengthening internal controls, ensuring compliance with regulatory requirements ▶ Mitigating fraud risks, reputational damages ▶ Independent assurance on processes and controls shall instil confidence of all stakeholders the that organization is effectively managing risks and complying with applicable regulations

Focus area	No. of audits and key processes audited	Improvements made	Impact to LBF
Information Technology & Cyber Security	IT Operations - 5	▶ Contributed to uncover control gaps and enhance IT design documentation, aligning them with industry-leading best practices and standards.	▶ Independent assurance over the management fulfilment of confidentiality, integrity and availability aspects of technology resources.
	IT Infrastructure - 5		
	Cyber Security - Vulnerability Assessments - 2	▶ Exercised diligent oversight of crucial IT processes, ensuring seamless adherence to established policies and procedures to maintain continuous compliance levels.	▶ Fulfilment of ISO 27001 ISMS internal audit requirement
	Software Development - 1		
	Database Administration - 1	▶ Conducted in-depth specialized security assessments and security benchmarking assessments on the IT critical infrastructure to strengthen the operational configurations	▶ Reducing the number of recurring critical, high risk issues reported by other 3rd party auditors
	Robotic Process Automation - 1		
	Information Security - 3	▶ Implemented a systematic and structured procedure for continuous audit issue follow-up, enabling management to consistently track and monitor progress in resolving identified issues.	▶ Acted as the independent assurer to Audit Committee (AC), Integrated Risk Management Committee (IRMC) and Senior Management with regard to LBF information technology and cyber risk.
	Governance - 3		
	Quarterly IT Privilege Activity Monitoring - 4	▶ Value adding recommendations had been given to ensure internal control environments are more robust and are not prone for recurring errors.	▶ Assurance over fulfilment of technology specific statutory and regulatory control requirements
	Advisory Reviews (Based on management request) - 7		
Risk and Control Assessments for new implementations - 7	▶ Proactive engagement in key technology implementations and played an advisory role for highlighting possible risks and suggested controls requirements to mitigate those risks.		
Integrated audits - 3			

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

INTELLECTUAL CAPITAL

6 RELATIONSHIP BETWEEN CAPITALS

Trade-off between capitals

	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Investment in digital finance	▲		▲			▲	▲	▲	▲		▲	▲	▲	▲	▲	▲	▲	▲
Branch expansion	▼	▲	▼▲					▲	▲	▲	▲	▲			▲			
Branch relocations	▼	▲			▲	▲								▲	▲	▲	▲	▲

S – Short term M – Medium term L – Long term ▲ Increase ▼ Decrease — Neutral

Reaping benefits of investing in intellectual capital



7 BUILDING FOR THE FUTURE

Strategic objective

Short-term

- ▶ Improve the efficiency of the system audit process using AI technology
- ▶ Complete the migration to the new ISO 27001 - 2022 standard
- ▶ Strengthen the efficacy of the IAD's audit plan through external assurance

Medium-term

- ▶ Expand the scope of the audit plan to cover non-critical systems
- ▶ Appoint a dedicated data protection officer to oversee and respond to complaints regarding data privacy violations
- ▶ Work towards introducing end-to-end automation of the deposit business

Long-term

- ▶ Further enhance the reliability of the BCP model by moving to a cloud-based environment
- ▶ Enable the digital migration of core products

Growth sustainable opportunity
Pursue continuous process enhancements

Vision
Finalise an integrated cost-effective digital strategy for LBF

Strive for business excellence

In our quest to achieve business excellence, we will continue to strengthen our core competencies while at the same time pursuing ever more dynamic ways to improve our systems and processes to satisfy the future demands of our customers, employees, and other stakeholders

Drive technology integration in all aspects of business

We will endeavour to increase technology integration across our operations based on three key pivots - investing in world-class core infrastructure, exploring AI and machine learning tools to improve decision-making, and pursuing value-adding partnerships for knowledge enhancement

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction



Mr. Niroshan Udage
Deputy Managing Director



SOCIAL AND RELATIONSHIP CAPITAL

Six question roundup with our Leaders



Mr. B D A Perera
Executive Director

Q1 What social and relationship capital mean to LBF?

Social and Relationship capital refers to the relationships across our stakeholder universe that serve as a key competitive strength for LBF.

Q3 What are the key material drivers identified, which were raised by the stakeholders?

Based on our materiality determination process, we have identified the following matters as material to our social capital. Each matter is grouped under a relevant materiality theme that speaks to our broader operating context.

Customer satisfaction	Corporate citizenship	Environmental management
Health, safety and wellbeing	Ethics and transparency	

Q5 What is LBF's approach to differentiate its social and relationship capital from peers?

Each year we make significant investments to enhance the stakeholders' lives by leveraging on opportunities to provide simple, fast and easy financial solutions as well as upgrade their life spans. Led by our product responsibility framework and CSR framework, we make sure that all go through a rigorous evaluation process prior to address the stakeholder's matters. At the same time, we are focused on leading the way in the digital age and in recent years have introduced innovations that offer 'best-in-class' digital customer service. Our aim is to create a seamless experience for customers, whether they are visiting a branch, using a computer or a mobile device on the go.

Q2 How social and relationship capital supports our value-creation goals?

The relationships we have cultivated and nurtured over the years, with customers, suppliers, and the wider community play an important role in LBF's evolutionary journey. Strong connections with customers help us to better understand their financial needs and deliver proactive solutions, while good supplier relationships safeguard against supply chain disruptions that could threaten the continuity of business operations. Furthermore, good standing in the community creates opportunities to gather support for LBF's corporate stewardship activities.

Q4 What are the challenges and opportunities associated with developing social and relationship capital?

In our quest to find new ways to reach out and build trust with customers, suppliers, and the wider community, we have found it best to use bespoke approaches that suit the needs of each stakeholder group.

Q6 What are key strategic drivers and how do we manage the trade-off to achieve the output ?

Our social and relationship capital is intricately linked with our people strategy and the way we engage with our customer and other stakeholders. The services and operations of many of our branches are designed to best serve the customers within their closest vicinities, so that we can specialize in customizing our offerings to their specific needs.

STAKEHOLDER'S EXPECTATIONS

		STAKEHOLDERS					
MATERIALITY	Corporate social responsibility	✓	✓	✓	✓	✓	✓
	Customer relationship	✓	✓	✓	✓	✓	✓
	Brand reputation	✓	✓	✓	✓	✓	✓

SPACE FOR DEVELOPMENT

- ▶ Events that bring various stakeholders on common platforms
- ▶ Innovative funding options for non-captured segments in partnership with multilateral institutions
- ▶ Customer service enhancement initiatives

CHALLENGES

- Addressing customers' queries and potential complaints
- Finding the right partnerships that can bolster value creation
- Process improvements for continuous development

WAY FORWARD

- Enhance customer relationship management
- Increase branding effort to increase awareness
- Continue efforts in CSR

Related strategic themes

BS
 BO
 IG

SDG Impact

1 NO POVERTY
 3 GOOD HEALTH AND WELL-BEING
 4 QUALITY EDUCATION
 6 CLEAN WATER AND SANITATION
 8 DECENT WORK AND ECONOMIC GROWTH
 10 REDUCED INEQUALITIES

INVESTMENT ON
COMMUNITY
DEVELOPMENT
Rs. 15.56 Mn

Rs. 9.71 Bn
PAID TO THE
GOVERNMENT
AS TAXES

+750,000
CUSTOMER
BASE

28
CSR
PROJECTS

15,492
EMPLOYEE
VOLUNTEER
HOURS

6,954
BUSINESS
PARTNERS

32
FINANCIAL
SOLUTIONS

SOCIAL AND RELATIONSHIP CAPITAL

CUSTOMER CAPITAL

MANAGING CUSTOMER CAPITAL - MAKING THE RIGHT MOVE AT RIGHT TIME



CRITICAL SUCCESS FACTORS

- ▶ Digital solutions for enhanced accessibility and convenience
- ▶ Drive superior customer experience through a culture of innovation
- ▶ Integration of Information and Communication Technology (ICT) to optimise internal processes and improve service delivery timelines

WHO ARE OUR CUSTOMERS?

- ▶ Individuals and businesses that make use of LBF's portfolio of investing, financing solutions and value-added services

WHY DO OUR CUSTOMERS CHOOSE US?

- ▶ The portfolio of customer-centric product offerings and promise of service excellence, all backed by the strength of LBF's long-standing brand reputation provide customers with the assurance of the best-in-class experience

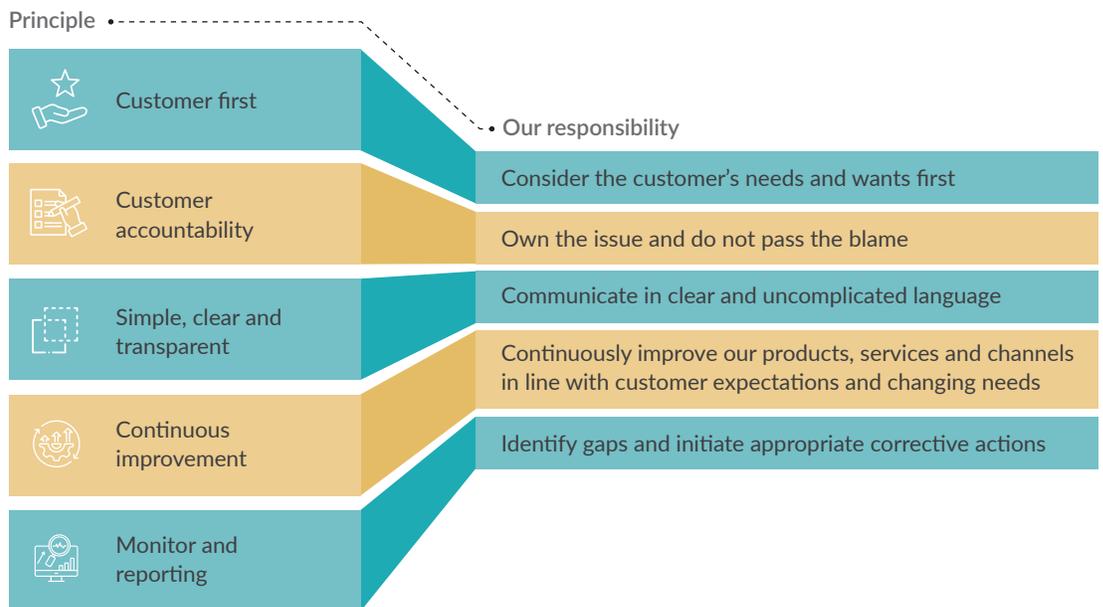
INTRODUCTION

Customer capital can be defined as the relationship that LBF has built with its customers over the years. Customer loyalty and satisfaction are the main indicators that denote the strength of our customer capital

1 FULFILLING OUR CUSTOMER PROMISE

LBF articulates its commitment to customers by embedding a customer-focused approach in all aspects of the business. Striving to uphold our commitment to not only meet but surpass customer expectations consistently, we adhere to all legal and regulatory requirements that apply to our operations, and make sure that our decision-making processes are based on strong customer-centric fundamentals.

LBF'S CUSTOMER PROMISE



Customer Value Proposition (CVP)

As part of our ongoing commitment to prioritising the customer's experience, we proactively engage with our customers to gain a deeper understanding of their evolving needs in light of changing social and economic conditions. These efforts continue to yield valuable insights that empower LBF to refine its CVP and enhance its preparedness to meet customer needs more comprehensively over time.

INSIGHTS FROM RECENT CUSTOMER NEEDS ASSESSMENT		
Cost-effective and affordable financial products and services	Consistent support for the achievement of financial goals	Simple and secure platforms with 24/7-365-day transactional capability
Tailor-made solutions for different customer segments - financial solutions that are easily accessible on the go, along with an array of payment options to enable customers to settle their dues from anywhere, and at any time	Purchase relevant financial products and services and other valuable services from any location, at any time, while being rewarded for loyalty	Convenience at a competitive price via a range of simple-to-use channels

Supporting the needs of diverse customer segments

Product categorisation - Gold Loans

As we continue to strive towards our goal of becoming the most preferred financial institution in Sri Lanka, we remain committed to addressing the needs of all our customers. Whether they are individuals, micro-entrepreneurs, or small and medium-sized enterprises (SMEs), we make a deliberate effort to provide customised products and services and re-engineer our channel architecture to maximise synergies for each respective customer segment.

Witnessing a strong market uptake for gold loans in the current financial year, LBF further enhanced its gold loan proposition. The advance quota offered on all gold loan products was dynamically revised in tandem with the upward movement in world gold prices, thus allowing customers to automatically benefit from the net value gain for their gold items. Meanwhile, as part of a focused approach to reach out to new customer segments, it was decided to expand LBF's gold loan channel infrastructure in the North and East regions of the country.



Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

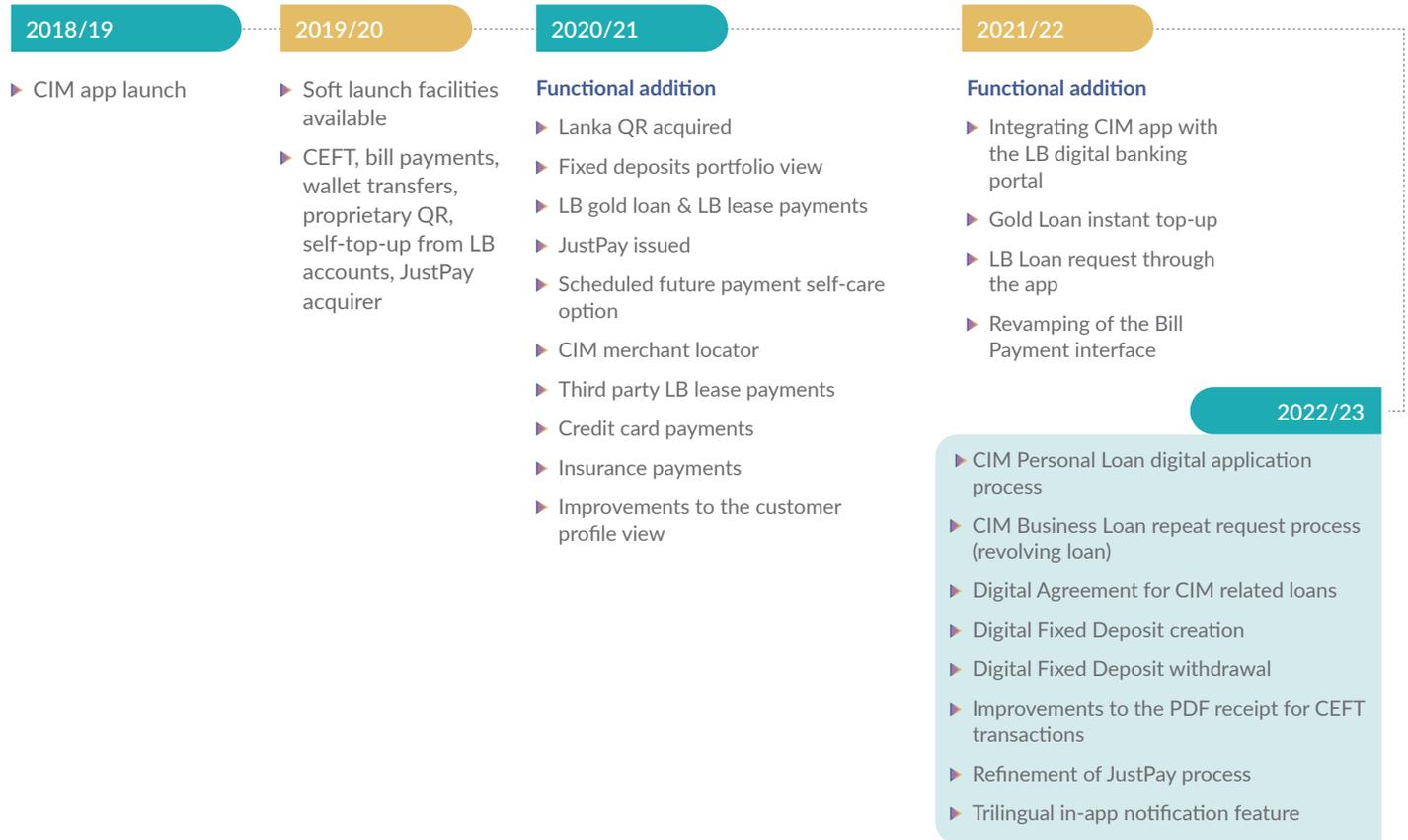
Introduction

CAPITAL REPORTS

SOCIAL AND RELATIONSHIP CAPITAL

Leveraging our digital platforms to meet our customer's needs

JOURNEY OF THE CIM APP



Leveraging the growing popularity of the LB CIM wallet app, the digital personal loan was launched in mid-2022 as a fully digitised loan facility specifically for salaried employees.

LB CIM business loan (CBL) to empower MSME (Micro, Small, and Medium Enterprises) entrepreneurs by providing access to flexible and highly affordable working capital finding. Further strengthening its commitment towards extending affordable access to working capital among the MSMEs, LBF entered into a Memorandum of Understanding (MoU) with WEBXPAY Ltd., a leading provider of SaaS-based digital payments solutions to MSMEs, to jointly promote the CBL product among the target market.

DIGITISING CUSTOMER JOURNEYS

Customer life-cycle management

Seamless customer on-boarding through digital KYC

24/7 - 365 day transactional and service capabilities through digital channels

Integrated end-to-end solutions

Focus on excellent customer experiences across all front end interfaces

Strengthening service delivery through back end system developments

Leverage our competency in data and analytics

Customer behavioural analysis to enable personalisation

Predictive analysis using machine learning, AI based insights

Delighting customers by delivering an exceptional customer experience

Driven by our goal to provide outstanding customer experiences, we are always searching for new and ever more creative methods to improve our internal systems and infrastructure, with the aim of boosting their scalability and efficiency.

In FY 2022/23 our internal data science teams made good progress in enabling LBF's gold loan offerings to be customised based on the customers' credit scores. Accordingly, customers with high credit scores were eligible to receive a higher advance quota on the value of their gold items.

Meanwhile, the functionality of the LB CIM wallet app was further upgraded with the integration of the end-to-end FD solution, enabling customers to activate the digital KYC, proceed to instant FD placement, and receive the digital FD certificate in an easily downloadable format

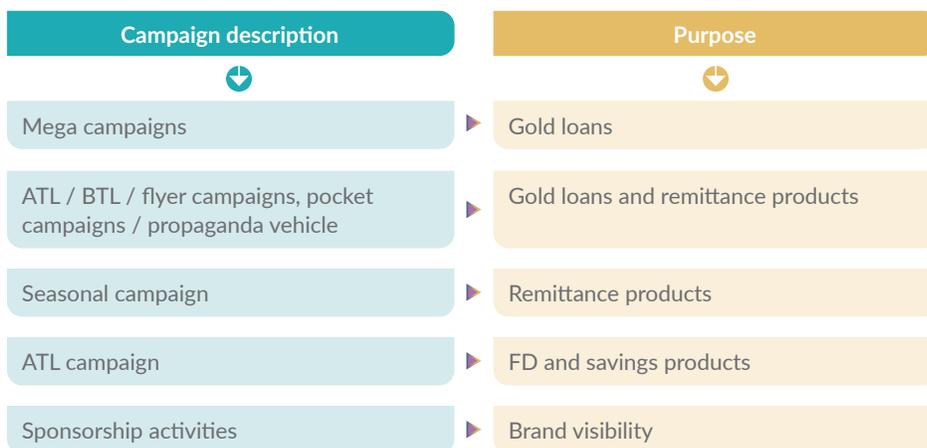
Building customer awareness

To earn and retain the trust of our customers, we believe we must communicate with our customers openly. Accordingly, we ensure that our promotional materials are designed to present relevant information regarding our products and services in a clear and uncomplicated manner, in conformity with all regulatory compliance requirements as well as industry norms and standards.

A highly principled approach supports our efforts to achieve these objectives, wherein all product-specific promotional and marketing content are screened by the respective product head, while generic content is reviewed by the head of marketing to verify compliance with the Company's ethics guidelines. All promotional content (product specific and generic) must be approved by the management prior to publication.

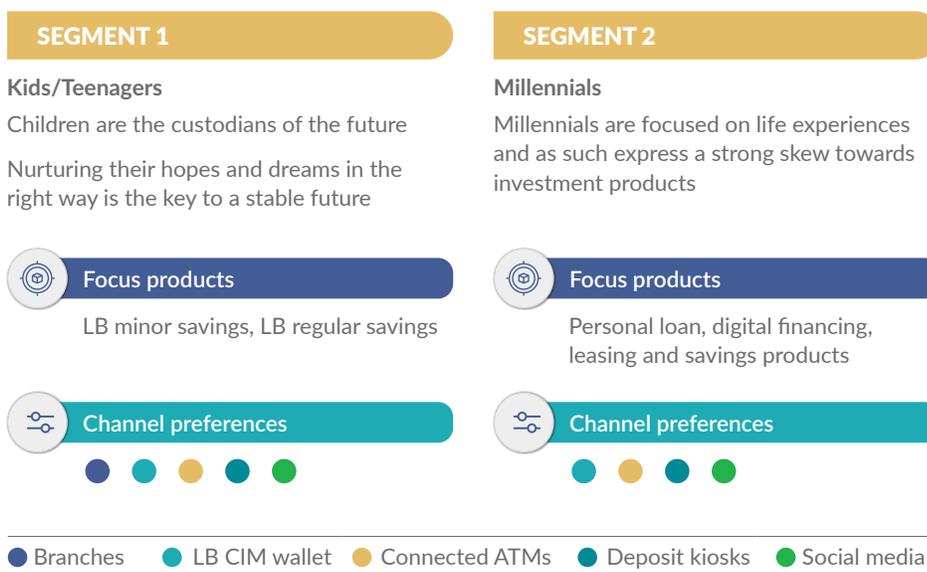
In keeping with our ambition to maximise customer outreach, we employ multiple communication mediums from conventional ATL and BTL activities to new-age social media platforms. LBF's dedicated in-house social media management unit oversees the management of LBF's social media footprint in line with the stated objectives set out by the Board approved social media plan.

We often conduct market studies to assess the quality of our promotional activities and the efficacy of our delivery mediums in achieving the intended purpose of building customer awareness.



2 MANAGING OUR CHANNELS

We consider our channel infrastructure to be a key component of our customer value proposition. Our channel management decisions are influenced by a range of factors, including customer profiles, life cycles, geographical location, population density, and competitive positioning. At the same time, we continue working to improve the responsiveness of our channels to better meet customer needs, which has put us on a path to developing an omnichannel environment that will seamlessly integrate our physical and digital channel architecture. For more detailed information on our channel operations, refer to the manufactured capital Report on page 140.



CAPITAL REPORTS

SOCIAL AND RELATIONSHIP CAPITAL

<p>SEGMENT 3</p> <p>Young families</p> <p>Young families are often under financial pressures brought on by lifestyle aspirations including; bigger homes, family vehicles, etc.</p> <p>Focus products Leasing, mortgage loan, gold loan, digital financing and savings products</p> <p>Channel preferences ● ● ● ● ●</p>	<p>SEGMENT 4</p> <p>Established families</p> <p>Balancing work commitments, children’s education expenses and retirement planning often compels the need of flexible products to accommodate unplanned expenses</p> <p>Focus products Education loan, gold loan and savings products</p> <p>Channel preferences ● ● ● ● ●</p>	<p>SEGMENT 5</p> <p>Mature well-off</p> <p>Mature, financially –stable customers who focus on a higher quality of life and enjoying their retirement</p> <p>Focus products FD products and savings products</p> <p>Channel preferences ● ● ● ● ●</p>
<p>SEGMENT 6</p> <p>Senior Citizens</p> <p>Senior citizens who expect secure product returns in order to maintain quality of life they are accustomed to</p> <p>Focus products Senior citizen’s FD and savings products</p> <p>Channel preferences ●</p>	<p>SEGMENT 7</p> <p>Self-employed individuals</p> <p>Independent self-sufficient individuals seeking dynamic solutions to progress to the next level</p> <p>Focus products Personal loan, leasing, savings, mortgage and gold loan</p> <p>Channel preferences ● ● ● ● ●</p>	<p>SEGMENT 8</p> <p>SMEs</p> <p>Deemed the backbone of the national economy, SMEs require stable long term solutions that would help their businesses to grow and mature</p> <p>Focus products Personal loan, gold loan, mortgage, micro leasing and savings</p> <p>Channel preferences ● ● ● ● ●</p>

● Branches ● LB CIM wallet ● Connected ATMs ● Deposit kiosks ● Social media

Social media presence

Key imperative	key enablers
Lead with persistence and deliver shared value to a wide-ranging range of stakeholders	Continue to invest in strategic capabilities that drive market leadership
Address customers’ essential needs through hyper-personalised propositions provided in the right time and right moments	Continue to build a modern technology design that powers digital transformation of systems and process
Deliver propositions through effective, digital first distribution channels that complement our customers’ behavioural patterns	Evolve our execution model to deliver fast-lane innovation
Establish a diverse market footprint that best meets our customers’ expectations	Develop and nurture an entrepreneurial culture

3 ENSURING TRUST AND SAFETY

At LBF, we recognize that accountability, credibility, and integrity are the fundamental covenants for maintaining trust and safety. To this end, we are dedicated to fostering an environment that safeguards customers' rights and interests. Our Code of Conduct and Anti-Corruption and Bribery policy (ABC) delineate the requisite behaviours that all employees are expected to uphold when forging professional relationships with customers. Additionally, we committed to

providing ongoing training for our staff to ensure they are well-versed in customer rights and understand the significance of honesty and integrity in their interactions with customers.

4 CUSTOMER PRIVACY

As a responsible financial institution, LBF has an embedded commitment to safeguarding the integrity of its data assets, including customer information. A Board-approved data privacy policy describes how the

Company collects, handles, and processes customer information obtained via the LBF website and social media platforms. In the year under review, we began working to update our data privacy policy and create a necessary framework to align with the newly mandated Personal Data Protection Act No. 9 of 2022.

The intellectual capital report on page 160 offers more comprehensive coverage regarding measures taken to safeguard customer privacy.

5 CUSTOMER RELATIONSHIP MANAGEMENT

From its very inception, LBF has encouraged its customers to reach out and let us know any issues they may have with our products, services, or any other concerns they may have. To support this, we have established 3 separate call centres, one for gold loan customers, one for marketing and DFS-related matters, and one for recovery-related aspects. Given the high volume of calls received by our call centres about balance inquiries, a special hotline was created on WhatsApp and published on all social media platforms and the corporate website. We also established a dedicated inbound hotline to manage inquiries coming through our social media platforms.

As a follow, up to the fully automated customer relationship management system that was rolled out in 2021, the complaint handling process was further streamlined with call center agents empowered to provide on-the-spot solutions in coordination with relevant and operational teams. The spot resolution measures have resulted in a significant reduction in the average complaint resolution timelines.

Customer complaints 2022/23

Area	No. of complaints received	Customer complaints solved
Credit	95	93%
Gold loan	32	97%
Insurance	26	100%
Recovery	184	93%
Savings and deposits	14	100%
General	14	93%

Digital customer engagement

Digital customer engagement activities are carried out under the purview of the social media unit. When formulating our social media content in the current financial year, we deviated from the traditional sales-driven approach and instead focused on incorporating more educational and informative content in order to increase customer engagement. This approach was consistent with our efforts to inform

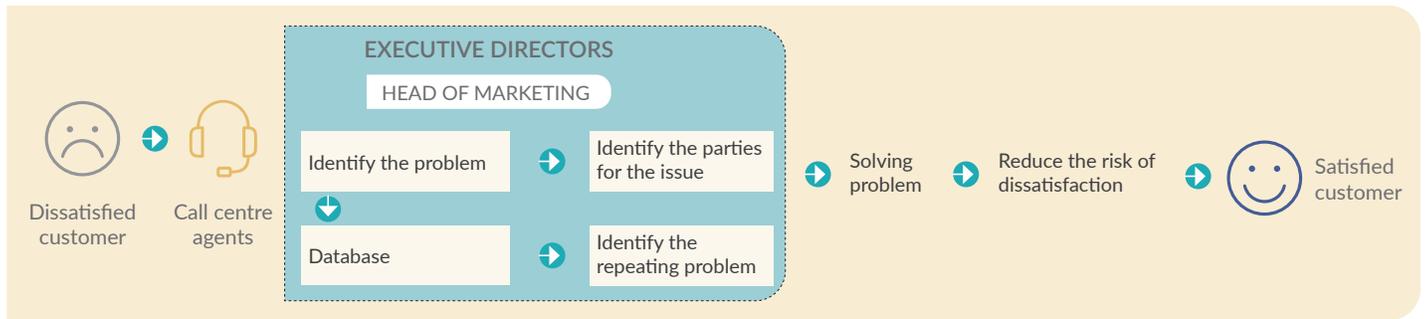
customers and the wider community to exercise greater financial discipline during challenging economic conditions.

We leveraged LBF's facebook page to create positive conversations revolving around solutions to ongoing challenges with all content made shareable to spread the message to a wider audience. 'LB Saara Siththam', a short movie series on

CUSTOMER RELATIONSHIP MANAGEMENT MODEL



SOCIAL AND RELATIONSHIP CAPITAL



the importance of human connections was one of the key facebook campaigns run in the current financial year. Special content was also developed to increase viewership of the LB sustainability- facebook page. The linked-in platform was used to convey LBF's people-centric approach toward its

employees, while instagram feeds were revamped with new thematic content on more contextual topics introduced at regular intervals. Steps were also taken to further expand LBF's social media presence into the TikTok space in order to reach out to a different audience. In parallel, the corporate

website was also revamped with simplified content and user-friendly access along with AI-based imagery for a more visually engaging user experience.



6 MONITORING CUSTOMER SATISFACTION

LBF holds the belief that the most effective way to evaluate the success of its efforts is through the quantifiable measurement of customer satisfaction. In the current year, we activated a new customer rating dashboard to assess customer satisfaction with spot resolutions provided by call center agents. Findings from the customer rating mechanism are collated weekly, summarized, and submitted to the audit committee quarterly.

7 BUILDING FUTURE FOR THE CUSTOMER CAPITAL

Strategic objective

Improve our customers' experience with personalised solutions delivered through channels of their choice, based on a deep understanding of their current needs and future ambitions.

Short-term

- ▶ Enhance digital capabilities to provide more value to the customer in a short period
- ▶ LBF's strategy of offering new products and services to its existing customers is aimed at increasing customer loyalty and retention while simultaneously boosting revenue streams

Medium-term

- ▶ Develop diverse value propositions for each customer segment
- ▶ Strengthen data science and behavioural capabilities to improve customer mapping

Long-term

- ▶ Improve operational efficiency by making sure that our technology is stable, efficient, secure, and robust while automating our processes and transitioning to cloud-based solutions

Growth sustainable opportunity

Improving new number of customer, customer retention, and attention to the 360-degree view of the customer

Vision

Leading loyal customer brand in Sri Lanka

SWOT ANALYSIS

S STRENGTHS

- ▶ A diverse portfolio of highly customer-centric products and services to cater to all market segments along with superior digital capabilities to enable the launch of first-to-market products and services

W WEAKNESSES

- ▶ Inadequate mechanisms to track customer satisfaction and loyalty in a more consistent manner

O OPPORTUNITIES

- ▶ Use of digital technology to map out pain points in the customer journey and find appropriate solutions

T THREATS

- ▶ The highly competitive environment with a large number of players fighting for market share

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

SOCIAL AND RELATIONSHIP CAPITAL

BUSINESS PARTNER CAPITAL

MANAGING BUSINESS PARTNER CAPITAL - MAKING THE RIGHT MOVE AT RIGHT TIME



INTRODUCTION

Business partner capital refers to the value that our business partners bring to the table, which can include financial, intellectual, and operational resources. In this way, business partner capital serves as a crucial component of LBF's value chain

WHY DOES LBF NEED SUPPLIERS AND BUSINESS PARTNERS?

► To procure essential goods and services required for the Company's day-to-day operations.

WHY DO BUSINESS PARTNERS CHOOSE LBF?

► To have the assurance of a stable and reliable business partner relationship with whom they can grow over time.

We require our suppliers to align with the Company's ethics policies. Their readiness to respond to, manage and mitigate operational, financial and reputational risks is assessed during onboarding and periodically thereafter, in line with the manual of procedure, procurement, external supplier management mechanism and Code of Ethics.

1 SUPPLY CHAIN PROFILE

The supply chain of LBF comprises major suppliers, along with several minor suppliers who provide a variety of products and services to support the regular administrative functions through our network.

Except for IT suppliers, all of our other suppliers are based in Sri Lanka.

	Financial year		
	2022/23	2021/22	2020/21
No. of business partners	More than 6,900	More than 3,500	More than 3,000

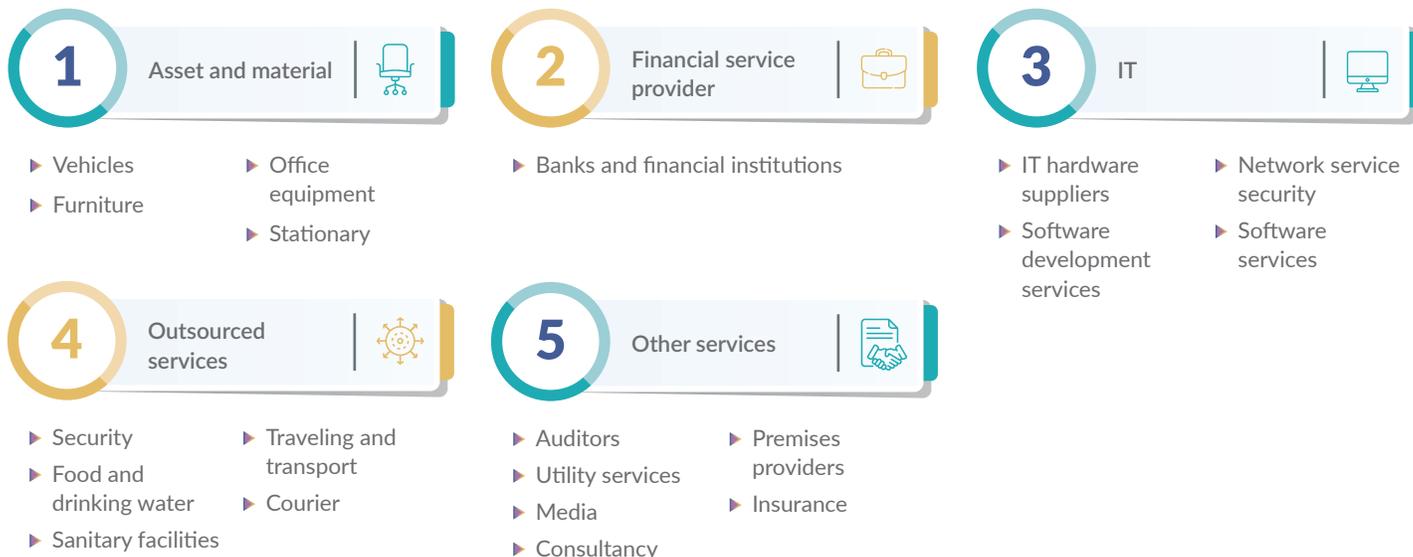
2 SUPPLY CHAIN MANAGEMENT APPROACH

Suppliers are a critical component of our value chain and their assistance is essential in ensuring the seamless continuity of our daily business operations. To guarantee efficient management of our supply chain, all procurement activities, except for IT-related sourcing, are centralised under the purview of the LBF's administrative department. The administrative department serves as the primary authority responsible for overseeing and ensuring compliance with LBF's procurement policy. Our procurement policy has been developed in alignment with international best practices to ensure impartial and equitable procurement processes, as well as fair payment terms for all suppliers.



3 DEVELOPING SUPPLIERS AS STRATEGIC PARTNERS

The administrative department is responsible for various duties, including selecting suppliers and promoting ongoing engagement to guarantee compliance with LBF's social and environmental best practices. Additionally, they are accountable for managing the development of suppliers as long-term strategic partners.



4 CREATING VALUE THROUGH BUSINESS PARTNER CAPITAL



CAPITAL REPORTS

SOCIAL AND RELATIONSHIP CAPITAL

5 BUILDING FUTURE FOR BUSINESS PARTNER CAPITAL

Strategic Objective

Ensuring suppliers focus on integrated services and value creation for LBF and its customers. Develop MSMEs as an essential enabler for the creation of much-needed employment opportunities.

Short-term

- ▶ Establish collaborative partnerships within the company's network of business partners to generate immediate value, while ensuring the maintenance of a high-quality supply chain.
- ▶ Strategise and implement initiatives that foster the growth and development of our suppliers in alignment with LBF's growth trajectory.

Medium-term

- ▶ Enhance supplier training programs to elevate consciousness on ethics, integrity, and industry best practices.
- ▶ Mobilise technological solutions to simplify the supplier screening process.

Long-term

- ▶ Create digital solutions to promote greater financial inclusion among small scale suppliers
- ▶ Encourage suppliers to align with LBF's social and environmental priorities

SWOT ANALYSIS

S



STRENGTHS

- ▶ A strong, dependable supplier base ensuring the uninterrupted procurement of goods and services to maintain business continuity

W



WEAKNESSES

- ▶ Lack of planned engagement agenda

O



OPPORTUNITIES

- ▶ Promote local sourcing for routine requirements at branches

T



THREATS

- ▶ Unscrupulous tactics adopted by some suppliers after securing a contract with the Company

Great Place For work employers that provide an exceptional experience for their staff members might get certification in recognition of their efforts.



COMMUNITY CAPITAL

MANAGING COMMUNITY CAPITAL - MAKING THE RIGHT MOVE AT RIGHT TIME



INTRODUCTION

At LBF, we consider the goodwill of the community to be a key asset for it is what validates our social license to operate.

WHY DOES LBF CONNECT WITH THE COMMUNITY?

- ▶ To understand the significant societal challenges and establish collaborations that will aid in the sustainable empowerment of communities

WHY DO COMMUNITIES CHOOSE LBF?

- ▶ To obtain the support of a reliable corporate entity with the capacity to take meaningful action to resolve community issues

1 COMMUNITY ENGAGEMENT STRATEGY

LBF places a significant emphasis on Corporate Social Responsibility (CSR) as we strive to act as a catalyst for social change. Our CSR approach extends beyond traditional philanthropy and focuses on facilitating systemic change that yields sustainable outcomes in the long run. In this regard, we leverage our extensive expertise in financial services, our widespread reach throughout Sri Lanka, the knowledge of our skilled personnel, and our leadership in innovative technology.

Even as business returns to normal in the post-pandemic era, LBF will continue to maintain a hybrid approach combining both physical and digital engagements to support our CSR strategy. We expect this “phygital” CSR strategy to underpin LBF’s efforts to drive broader systemic change in the years ahead.

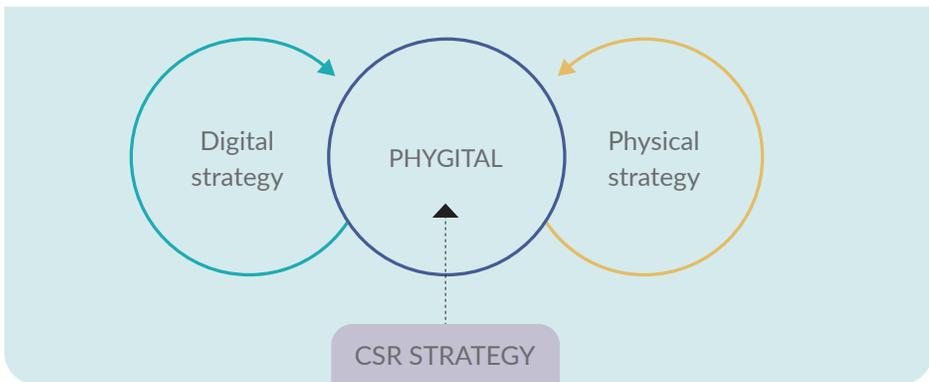
Among the goals of LBF’s community wellness initiatives are to offer assistance when necessary essentials to meet the most pressing needs of the entire community.

2 CSR GOVERNANCE

LBF’s CSR strategy is governed and managed by a dedicated sustainability team. Under the guidance of the Company’s senior management team, the sustainability team is responsible for identifying sustainability initiatives, developing projects that align with LBF’s six CSR pillars, and ensuring that the projects are executed efficiently to achieve the desired outcomes. The sustainability team takes on the crucial role of overseeing the management and implementation of LBF’s CSR strategy.

3 EMPLOYEE VOLUNTEERISM

LBF is committed to promoting employee volunteerism opportunities that give employees a sense of fulfilment by contributing to the greater good of the wider community. We encourage our employees to get involved in our CSR activities based on the principles of doing more, doing better, and reaching further to uplift lives and promote positive mindset changes. Moreover, we believe employees who participate in volunteer activities often share their experiences with others, leading to improved employee engagement, job satisfaction, and commitment to our mission. LBF provides the necessary support, training, and resources to facilitate volunteer activities and ensure that they are executed effectively.



Right Solutions

Right Value

Right Direction

Right Experience

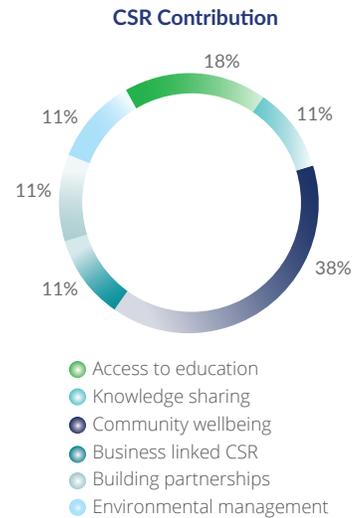
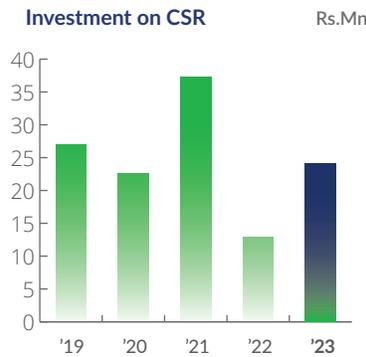
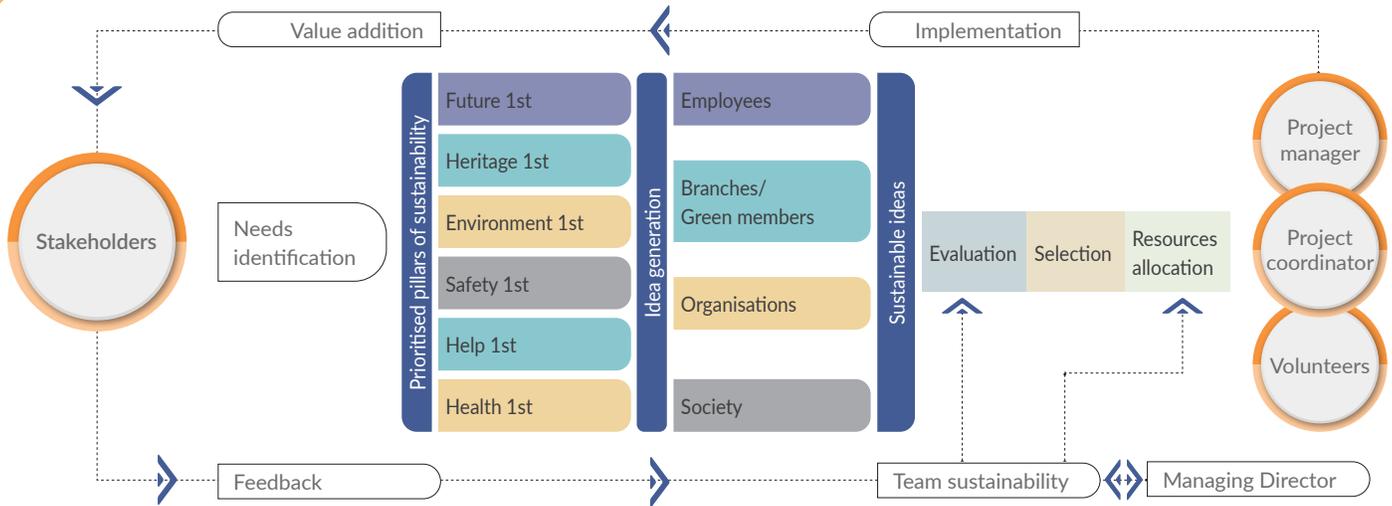
Right Vision

Right Strategy

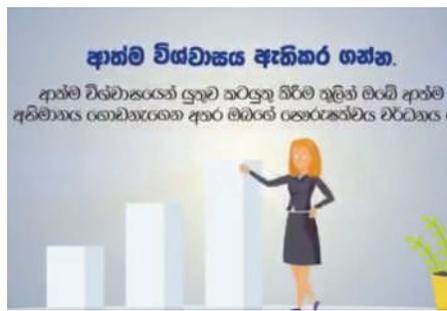
Introduction

SOCIAL AND RELATIONSHIP CAPITAL

4 CSR MANAGEMENT FRAMEWORK



Customer awareness



වෙළඳසැලකින් ආහාර ද්‍රව්‍ය මිලදී ගැනීමේදී මේ දේවල් ගැනත් සැලකිලිමත් වන්න!



5 CSR CONTRIBUTION

1

Access to education

At LBF, we firmly believe that a high-quality education at all levels is the key to reducing inequality and promoting sustainable socio-economic development over the long term. To this end, our CSR strategy emphasises access to education, intending to address the pervasive knowledge gap in Sri Lanka. As a socially responsible financial institution, we recognise that we have a significant role to play in enhancing digital literacy across society, which would enable the creation of self-sustaining communities capable of driving economic growth.



Project	Description	Achievements	Employee volunteerism (Hours)	2022/23 Expenditure (Rs.)	SDG focus
Schools and academic education					
LB Sisu Shakthi	Donating school books, equipment and school bags to the selected under privileged schools	<ul style="list-style-type: none"> ▶ 5 Schools selected for 2022/23 ▶ Creating an education mindset to the students ▶ Uplifting education opportunities of the society 	8,064	925,000	
Awareness programmes	Social media awareness programmes, covering importance of education	<ul style="list-style-type: none"> ▶ Provide guidance to enhance the capacity ▶ Ready the future leaders of the Sri Lanka 	183	-	
"Ma Dakina Lokaya"	Art competition for kids in celebration of Children's day	<ul style="list-style-type: none"> ▶ Provide mental stimulation to improve psychological well being of children ▶ Encourage the development of aesthetic talent among children ▶ 200 candidates participated of which 10 were selected as winners 	560	40,000	
Distribution of dry rations for School students	Donation of dry rations to students who are suffering from healthy requirements in the economic challenging period	<ul style="list-style-type: none"> ▶ Provide accesses to education ▶ Establish pleasant environment for kids to learn 	63	80,000	
Customer education					
Education on financial management	Conducted video series on social media to build awareness of the financial management under the topics of building investment habits, developing your savings habit, golden rules for strong financial security	<ul style="list-style-type: none"> ▶ Enhance the savings habit of the customers and non-customers ▶ Provide the wealth maximization opportunities ▶ 5 video clips 	108	-	



Visit our CSR gallery

SOCIAL AND RELATIONSHIP CAPITAL

2 **Knowledge sharing**

We believe that the youth are the driving force behind our country's future growth trajectory, and empowering them is crucial to achieving this goal. At LBF, we have a well-defined agenda focused on providing the necessary guidance and support to shape the next generation of innovators, business professionals, and corporate leaders.



Project	Description	Employee volunteerism (Hours)	2022/23 expenditure (Rs.)	SDG focus
Developing business to next levels				
Business development	Video series on social media to build awareness on business development focusing on topics such as - how to build and develop a business on social media, utilise hidden skills to earn an income, and how to identify customers (03 video clips, average more than 3,000 viewers)	560	-	  
Women empowerment				
Celebration of International women day	Creating powerful women with innovation and digital transformation for gender equality online presence to AI based image concepts	48	-	
Developing start-up business and budding entrepreneurs in Sri Lanka and Myanmar	Physical and digital awareness, including a video series for women entrepreneurs to support women's empowerment	512	-	  





Visit our CSR gallery

3

Community well-being

LBF's community well-being activities are aimed at providing support as and when needed in order to address the most pressing needs of the community.

Project	Description	Employee volunteerism (Hours)	2022/23 expenditure (Rs.)	SDG focus
Community support				
Donations for victims in Nawalapitiya	Donation of dry rations and support to the flood affected areas in Nawalapitiya	182	40,000	 
Gewathu Wagawata Athwelak	Distribution and sale of agricultural products for LB staff at the reasonable price to encourage the home gardening concept and enhance the mental relaxation	144	-	  
Community awareness				
Unknown stories in known cars	Video series on social media to build awareness on different type of motor vehicles (06 video clips, average more than 20,000 viewers)	176	-	
Cultural awareness programmes	Social media awareness programmes covering cultural, religious and international days celebrations to strengthen the cohesivity and pass the knowledge to next generation (5 video clips)	96	-	 
Awareness on first aid treatment	Providing knowledge and the importance of the first aid and explained the necessities	84	-	
Health habits	Awareness building on importance of cycling	90	-	
Home gardening tips	Social media awareness programmes covering gardening techniques, topics and methods for strengthening the home gardening concept among the community and transform the inorganic cultivation to organic cultivation	144	-	  
LB Abhipra	Video series of the celebrities to encourage the entrepreneurship among Sri Lankans by showcasing their entrepreneur skills (10 Video)	1,452	1,730,000	  
LB Digi Lanthe	Digital app development for digital game to enhance digital literacy and the customer engagement	384	110,000	 
Building ethics and values				
Protect the culture	Developed and rolled out a video series and awareness on customs related on cultural festivals to contribute towards safeguarding Sri Lanka's culture and heritage	30	-	 



Visit our CSR gallery

SOCIAL AND RELATIONSHIP CAPITAL

4

Build partnerships

We recognize the power of strategic partnerships with like-minded organisations, as they can lead to synergies that significantly amplify the impact of our community initiatives. We actively seek to establish value-adding partnerships, as appropriate, based on the scope and scale of the projects we undertake.

Project	Description	Employee volunteerism (Hours)	2022/23 Expenditure (Rs.)	SDG focus
With universities				
Fusecura'22 Business case study competition	LBF in partnership with Accountancy department of University of Sri Jayewardenepura to jointly conducted the Fusecura'22 business case study competition, an Inter- University Competition to develop youth entrepreneurs (120 contestants from 10 universities participated in the Inter-University Competition)	224	600,000	
With charity organisations				
Blood donation campaign	In line with 4th Anniversary celebration kekirawa branch conducted a blood donation campaign and LBF corporate office joined hand with Senehasa Padanama has been organised another a blood donation campaign to supported to diminish the shortage of blood and build up the brand as responsible corporate citizen among the community (75 donors)	136	60,000	
With career development partners				
LB career support	"LB Career Fair" series in partnership with University of Kelaniya to increase the participation in career development (212 participants engage with the programme)	54	-	



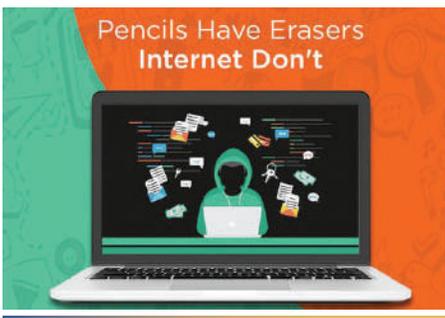
Visit our CSR gallery

5

Business linked CSR

Rather than being disconnected from the company's operations, strategic CSR is integrated into the company's overall strategy and aims to create shared value for both the company and the community.

Project	Description	Employee volunteerism (Hours)	2022/23 Expenditure (Rs.)	SDG focus
Focus on core business				
IT open day	Provide opportunities to young graduates and the undergraduates to experience the corporate world	256	-	
LB auto review	Video series on social media to build awareness on vehicle buying trends, care tips etc. (3 video clips)	384	60,000/-	
Cyber security				
Cyber security awareness	Conducted awareness campaigns on social media to enhance the knowledge of cyber security tips on fraudulent e-mails, cautious of the portable devices and sensitive information (12 awareness campaigns conducted)	88	-	



6 VALUE CREATION THROUGH COMMUNITY CAPITAL

VALUE FOR BUSINESS PARTNERS	VALUE FOR LBF	VALUE FOR SOCIETY
<ul style="list-style-type: none"> ▶ Reduced inequalities ▶ Sustainable communities ▶ Development of the rural economy 	<ul style="list-style-type: none"> ▶ Improved brand equity ▶ Increased brand recognition and awareness of products and services ▶ Creating a pool of future potential stakeholders 	<ul style="list-style-type: none"> ▶ Association with a trusted financial partner ▶ Ability to benefit from sound investment advice ▶ Enhanced trust in the financial services industry

CAPITAL REPORTS

SOCIAL AND RELATIONSHIP CAPITAL

7 BUILDING FUTURE FOR COMMUNITY CAPITAL

Strategic objective

Uplift communities to support sustainable nationwide development across Sri Lanka.

Short-term	Medium-term	Long-term
<ul style="list-style-type: none"> ▶ Systematically expand the community investment in identified areas ▶ Increase community engagement through social media 	<ul style="list-style-type: none"> ▶ Partnerships with multilateral organizations to develop innovative financial solutions for underserved segments ▶ Develop and launch a formal employee volunteer programme 	<ul style="list-style-type: none"> ▶ Establish a formal mechanism to handle community grievances ▶ Introduce a set of quantitative and qualitative indicators to measure the effectiveness of each project over time

SWOT ANALYSIS

S STRENGTHS	W WEAKNESSES	O OPPORTUNITIES	T THREATS
<ul style="list-style-type: none"> ▶ Solid reputation as a responsible community steward derived through consistent efforts to tackle community issues over the years 	<ul style="list-style-type: none"> ▶ Lack of formal employee volunteer programme 	<ul style="list-style-type: none"> ▶ Conduct valid, reliable research into an identified area and design a mix of projects that will meet the unique needs of the chosen community 	<ul style="list-style-type: none"> ▶ Failure of projects due to the inability to tie up with the right partners who can add value to the Company's efforts

RELATIONSHIP BETWEEN CAPITALS

Trade-off between capitals

	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Investment towards customer service	▲	▼▲	▼▲	—	▲	▲							▲	▲	▲			
Systemized the supplier registration	▲	▼	▼										▲	▲	▲			
Increasing community service efforts	▲	▲	▲							—	▲	▲	▲	▲	▲	▲	▲	▲

S - Short term M - Medium term L - Long term ▲ Increase ▼ Decrease — Neutral

Reaping benefits of investing in social and relationship capital

Focus on enhancing our operational efficiency and fine-tuning our structures to build strong relationships with our customers. We understand, however, that in optimising costs, there are relational trade-offs that need to be carefully managed



BUILDING FUTURE FOR SOCIAL AND RELATIONSHIP CAPITAL

Strategic objective

Building for the future - social and relationship capital





Mr. Ravi Yatawara
Executive Director



Six question roundup with our Leaders



Mr. Sumith Adhietty
Managing Director

Q1 What natural capital means to LBF?

As a provider of financial services, our business operations do not rely on natural resources. Even though LBF's operations are not directly responsible for the depletion of Natural Capital, we consider it our duty to contribute towards the preservation of Natural Capital.

Q3 What are the key material drivers identified, which were raised by the stakeholders?

Based on our materiality determination process, we have identified the following matters as material to our natural capital. Each matter is grouped under a relevant materiality theme that speaks to our broader operating context. We are also considering this materiality analysis in the context of our climate risk framework, the first version of which will be released in early 2025.

Process excellence	Online customer support	Corporate citizenship
Environmental management	Business model Innovation	

Q5 What are the key strategic drivers and how do we manage the trade-off to achieve the output?

Efforts to build natural capital can only generate positive outcomes. For example, responsible consumption of resources lowers our carbon footprint, helps to improve the lifespan of our assets, and also enhances LBF's reputation.

Q2 How natural capital supports our value-creation goals?

By undertaking meaningful green initiatives in our daily operations and supporting external projects that limit the adverse effects, create awareness, and influence the right behaviours among all our stakeholders, we believe we can contribute towards enhancing LBF's reputation as an environmentally friendly conscious corporate citizen.

Q4 What are the challenges and opportunities associated with developing natural capital?

Our efforts to contribute towards natural capital preservation are led by LBF's digital strategy, wherein we focus on innovation to digitise our mainstream products and delivery channels and also to expedite process automation to create a paperless office environment. As part of our long-term environmental strategy, we are looking to transform our lending model to give more priority to sustainable green financing projects.

Q6 What is LBF's approach to differentiate its Natural Capital from peers?

We remain committed to reduce our direct impact on the environment by promoting responsible environmental management activities across all of our operations. At the same time, by using our position as a leading financial institution in the country, we seek to positively influence society to work towards generating favourable environmental outcomes. Our efforts in this regard are operationalised through a holistic Environment Management System (EMS), which has been designed to support global initiatives aimed at protecting the environment and conserving natural resources.

STAKEHOLDER'S EXPECTATIONS

		STAKEHOLDERS					
MATERIALITY	Environmental friendly initiatives	✓	✓	✓	✓		
	Green financing		✓	✓	✓		✓
	Carbon footprint calculation	✓	✓			✓	✓

SPACE FOR DEVELOPMENT

- ▶ Introducing digital products
- ▶ Benchmarking global carbon management models
- ▶ Process of shifting towards a paperless e-office system
- ▶ Customized products & services for green financing

CHALLENGES

- Reducing the paper usage
- Lowering the carbon footprint across the organisation
- Increasing the green financing

WAY FORWARD

- Increase focus on environment sustainability
- Create a paperless workplace
- Increased focus on organisation-wide carbon management

Related strategic themes

SDG Impact

ISLAND WIDE TREE PLANTING PROGRAMMES

AWARENESS BUILDING THROUGH INFORMATIVE BOARDS

3,480 tCO₂e
CARBON FOOTPRINT

Rs. 769.84 Mn
GREEN LENDING

STRENGTHEN E-LEARNING PLATFORMS

CARBON CONSCIOUS COMPANY

Rs. 8.53 Mn
INVESTED IN ENVIRONMENTAL INITIATIVES



NATURAL CAPITAL

MANAGING NATURAL CAPITAL - MAKING THE RIGHT MOVEMENT AT RIGHT TIME



1 APPROACH TO NATURAL CAPITAL

As a responsible business entity, we understand that it is our ethical duty to avoid and reduce the negative effects on the environment. With no direct environmental regulatory frameworks applicable to our business as a financial services institution, LBF has adopted globally accepted environmental best practices recommended for service sector organisations. We have continued to refine our approach and more recently have chosen a more structured approach to develop our environmental projects in line with the targets set out under global policy frameworks such as the Paris Climate Agreement and the United Nations Sustainable Development Goals (SDGs).

At the same time, we frequently engage with our key stakeholders including the government, to help reorient our approaches in tandem with the latest developments and emerging trends. We are now planning to implement a certified environmental management system to guide our efforts more systematically. We intend to make an impact directly through our operations and indirectly in our relationships with customers and suppliers across the value chain as well as through the projects we undertake.

CRITICAL SUCCESS FACTORS

- ▶ Top management commitment
- ▶ High quality training deliverable
- ▶ Raising employee morale and productivity

Driving behavioural change through engagement

Our approach to safeguarding natural capital is based on understanding stakeholder needs and taking action in areas where we can positively impact long-term sustainability and effective environmental stewardship. By incorporating ESG into our stakeholder engagement, we are able to create awareness and influence better practices.

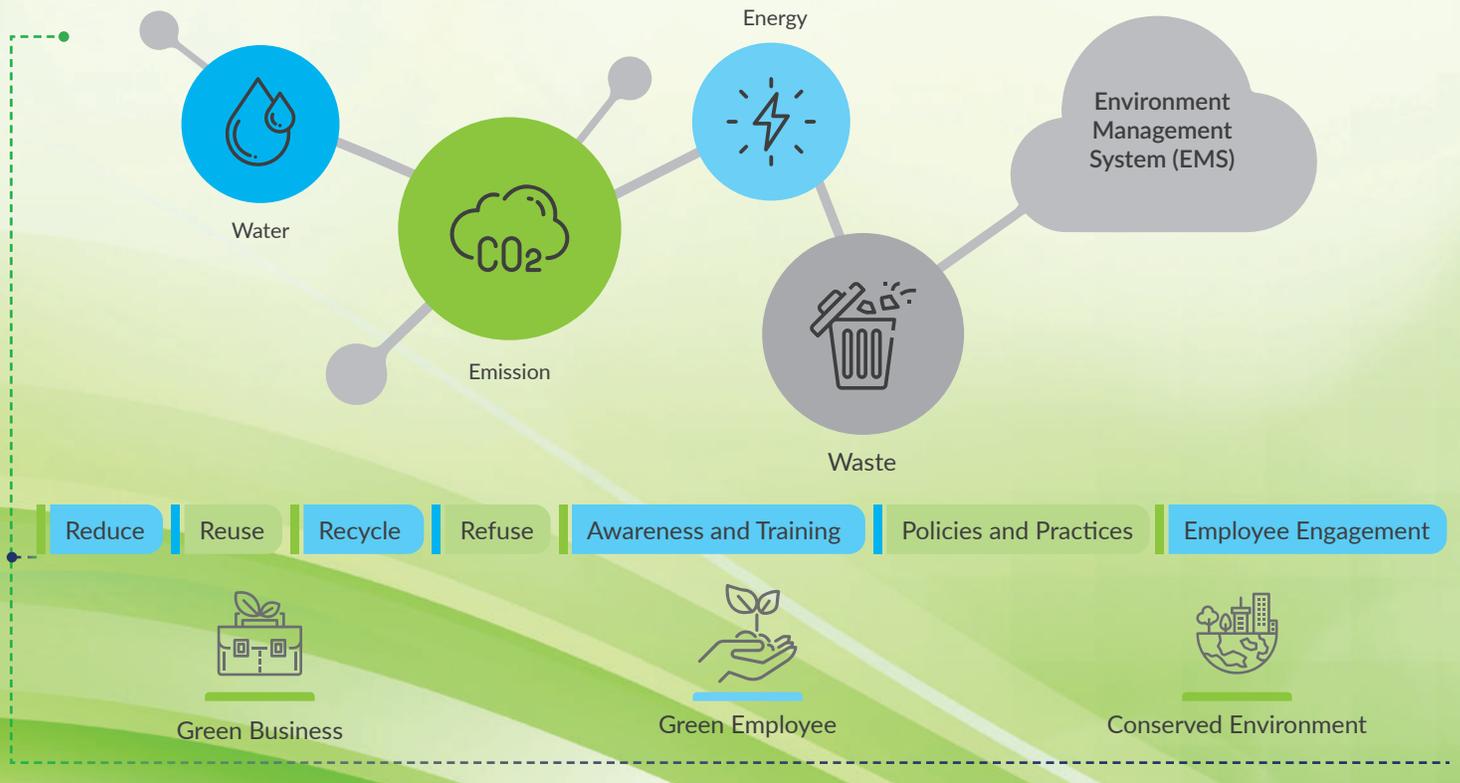
ENGAGEMENT



Environment Governance

LBF's sustainability team provides oversight for the implementation of environmental best practices at all levels of the business. In this capacity, the sustainability team is tasked with educating employees on the policies and procedures and providing necessary technical support. The team is also responsible for continuous improvement; in this regard, the team undertakes to assess potential environmental risks across LBF's operations on an ongoing basis. Based on the findings, recommendations for appropriate policy and procedure revisions are implemented, subject to the approval of the Company's senior management.

Environment management system



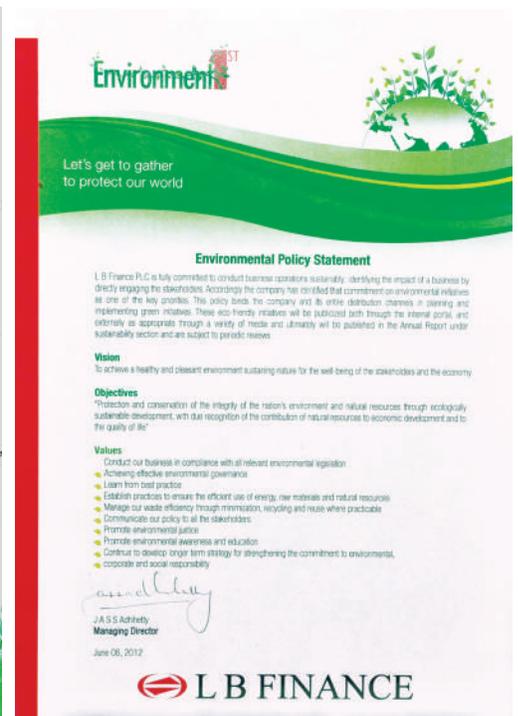
2 RESPONSIBLE OPERATIONS

LB Finance's environmental best practices aim to promote the optimal usage of existing resources, ultimately helping to minimise the impact on the environment over the long-term. These actions are collectively or individually addressed under each of the Company's main focus areas.

Environment policy and pledge

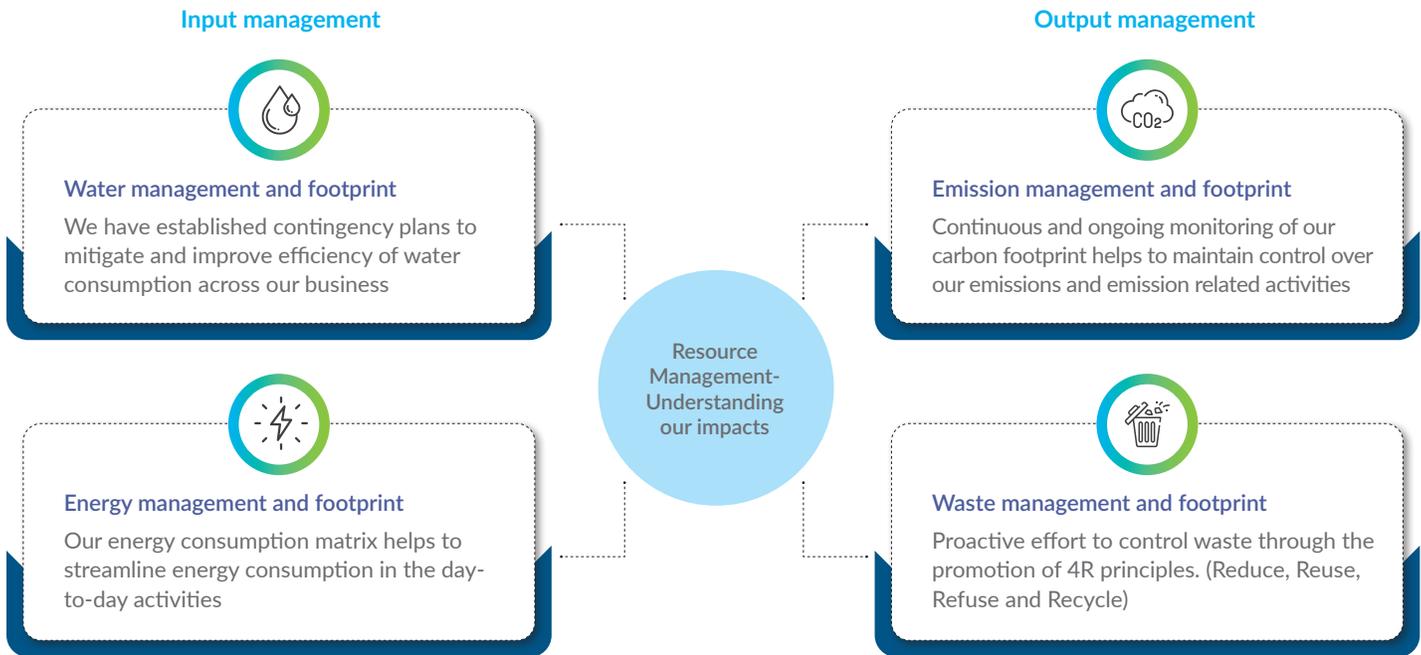
Policy frameworks

In an era when the world is beset by the crisis of global warming and climate changes, our business operations have not been directly affected by the climate change. However, LB Finance considers it as a moral obligation to deal with environment in a sustainable manner and strive to conserve them. The Company is therefore, committed to the implementation of green initiatives within the Company through internal develop policies and frameworks.



Visit web page for more information on Our policy frameworks

CAPITAL REPORTS
NATURAL CAPITAL



Water management strategy

As a financial service provider, LBF's water footprint is limited to the sanitation needs of its employees. Despite our limited consumption, we have set out the Company-wide water reduction targets accompanied by the following initiatives to reduce day-to-day water consumption levels;

Main focus	Actions taken
Reduce consumption	<ul style="list-style-type: none"> ▶ Usage of pressure reducing valves to maintain consistent water pressure ▶ Taps with spray attachment to regulate water flow ▶ Use of high-intensity pressure pumps for vehicle washing
Awareness	<ul style="list-style-type: none"> ▶ Signage providing water saving tips
Reuse	<ul style="list-style-type: none"> ▶ Usage of drain water for air conditioning cooling
Water efficiency interventions	<ul style="list-style-type: none"> ▶ Leak detection tools ▶ Automatic shutdown valves
Policies and procedures	<ul style="list-style-type: none"> ▶ Commitment of employees via the sustainability pledge

Water footprint

TOTAL WATER CONSUMPTION

38,847 m³

2021/22 33,044 m³



Per employee
10.91 m³

2021/22 - 8.65 m³



Per working day
157.28 m³

2021/22 - 165.22 m³



Per outlet
202.33 m³

2021/22 - 182.56 m³

Energy management strategy

LBF's energy footprint is represented mainly by the electricity used to power the branch network, where 100% of our electricity requirements are drawn from the national power grid. Our electricity demand has increased considerably due to the acceleration of our branch strategy, causing energy management to become a key priority in recent years. To drive an ongoing reduction in energy consumed daily, we have established baseline energy targets supported by the following initiatives;

Main focus	Actions taken
Reduce consumption	<ul style="list-style-type: none"> ▶ Use of high-tech energy efficient equipment ▶ Energy reduction methodologies ▶ Electronic data collection and analysis ▶ Energy audits ▶ Installation of solar water heating systems to save electricity ▶ Energy efficient lighting for sign boards at outlets ▶ Maximum usage of natural light
Awareness	<ul style="list-style-type: none"> ▶ Display of energy saving tips ▶ E-mail campaign on the benefits of energy saving
Employee engagement	<ul style="list-style-type: none"> ▶ Use of energy reduction methods at office and home
Policies and procedures	<ul style="list-style-type: none"> ▶ Commitment of employees to the sustainability pledge ▶ Regulate the operating time of equipment
Refuse	<ul style="list-style-type: none"> ▶ Ask employees to refuse non degradable materials and wastages

Energy footprint

TOTAL ENERGY CONSUMPTION

14,384 GJ



Per employee
4.04 GJ



Per working day
58.23 GJ



Per outlet
74.92 GJ

Emission management strategy

LBF's emission management strategy cascades from the aforementioned energy management strategy. This approach has ensured that our emission indicators have been consistently well managed. Based on this, we are aiming to be a carbon credit-generating organisation by 2030.

It should be noted that the increased use of diesel in backup generators during frequent power interruptions in 2022 has resulted in the ad-hoc increase in LBF's overall carbon footprint in the financial year 2022/23.



Emission management footprint

TOTAL CO₂ EMITTED

3,480 tCO₂e

2021/22 3,259 tCO₂e



Per employee
0.98 tCO₂e
2021/22 - 0.85 tCO₂e



Per working day
14.09 tCO₂e
2021/22 - 16.30 tCO₂e



Per outlet
18.13 tCO₂e
2021/22 - 18.01 tCO₂e

Scope 1

Direct emission

346 tCO₂e



Scope 2

Indirect emission

2,115 tCO₂e



Scope 3

Other indirect emission

1,019 tCO₂e



Total

Carbon footprint

3,480 tCO₂e

CAPITAL REPORTS

NATURAL CAPITAL

Carbon footprint calculation

We are dedicated to operate in a socially and ecologically conscious manner. As part of the global effort to keep global warming below 2 degrees Celsius and move towards a sustainable future, we are continuously exploring new ways to reduce emissions across our value chain. Towards this end, we are combining both technology and operational solutions into our day-to-day operations.

The carbon footprint calculation is the key driver of our emission management strategy. For this calculation we have adopted the methodology promulgated by

GHG protocol. Accordingly, LBF reports on GHG emissions against three WBCSD/ WRI scopes; which is further verified by the ISO 14064 - 1:2006 standards.

Since 2013, LBF has been using a formal carbon footprint calculation methodology based on the GHG protocol guidelines to measure its emission footprint. We calculate direct emissions (Scope 1 as defined by the GHG protocol) resulting from our business activities along with Scope 2 and Scope 3 emissions due respectively to electricity purchased in the course of business and the emissions caused by employees commuting to and from work. Our assessments for the year

under review, did not reveal any significant air emissions or emission of ozone depleting substances, pollutants and other hazardous compounds arising from LBF's operations.



Visit web page for more information on the carbon footprint report

Waste management strategy

In striving to manage the volume of waste generated daily, LBF has implemented a well-defined approach to manage different waste streams.

Main focus	Actions taken
Refuse	<ul style="list-style-type: none"> ▶ A paperless environment created by digitizing document storage and archiving processes ▶ The centralised web portal (intranet) containing organisational policies, procedures, news, photo gallery and other downloadable documents ▶ Usage of paperless fax machines for day-to-day operations
Reduce	<ul style="list-style-type: none"> ▶ Monitor and control paper consumption
Reuse	<ul style="list-style-type: none"> ▶ Reuse of paper and envelopes as much as possible
Recycle	<ul style="list-style-type: none"> ▶ Paper items directed for recycling are directed to a designated area within each office ▶ All paper waste is recycled through Neptune Recyclers ▶ Recycle all e-waste through an authorised e-waste recycle partner
Awareness	<ul style="list-style-type: none"> ▶ Regular email notifications to build awareness among employees ▶ Campaigns to promote resource efficiency among customers
Policies and procedures	<ul style="list-style-type: none"> ▶ Policies on material usage ▶ Dual side printing policy, with all default settings on printers adjusted accordingly

Waste footprint

TOTAL PAPER RECYCLED

48,643 Kg

2021/22 23,399 Kg

 Saved No. of fully-grown trees 827 2021/22 - 398	 Saved oil 85,368 Litres 2021/22 - 41,065	 Saved electricity 194,572 Kwh 2021/22 - 93,596	 Saved water 1,548,875 Litres 2021/22 - 743,620	 Saved landfill 146 m³ 2021/22 - 70 m ³
--	--	--	---	--

ENVIRONMENTALLY-FRIENDLY OFFICE

Digitisation is rapidly changing LBF's workplace. From web based remote customer on-boarding, digital document scanning and automated customer due diligence, to online credit approvals, our teams are now empowered to carry out their duties effectively and efficiently in a paperless environment.

Our paperless environment creates the eco-system to support collaboration between teams, simplify inter-departmental communication and more informed decision making, all ultimately helping to boost employee productivity and improve customer service.

3 RESPONSIBLE PRODUCTS AND SERVICES

Sustainability considerations are integrated into our long-term decision-making to ensure our product development approaches are aligned with our goal of reducing our impact on the environment. Towards this end, we remain committed to prioritise the development of innovative digital products that have a strong positive impact in optimising the use of existing resources.

Green lending

LBF's green lending scheme offers concessionary terms for the lease of hybrid vehicles and electric vehicles, which are deemed to have a significantly lower carbon footprint compared to traditional diesel or petrol vehicles.

Year	Green financing facilities (nos.)	Amount granted (Rs. Mn)
2022/23	1,896	3,709.88
2021/22	147	326.88
2020/21	1,747	3,515.66
2019/20	2,576	5,401.45
2018/19	3,561	8,566.00

Digital financing Initiatives

LBF's flagship digital offering - the LB CIM wallet app presents a fully digital customer experience requiring no use of paper and no commuting. All products offered through the app, such as the LB CIM Business Loan (CIMBL) have a significantly low environmental footprint. CIMBL is a pioneering digital loan product designed as a flexible and highly affordable working capital solution to give MSME entrepreneurs access to much-needed financial assistance. The uniqueness of CIMBL is that its credit evaluation is done via a digital rule engine embedded within the app to determine the customers' business cash flows as opposed to the conventional method of requesting the borrowing entity/entrepreneur to pledge movable or immovable assets as collateral. In that context, MSMEs who have digital transactions to validate their business inflows stand a greater chance of becoming eligible for loans. Another important feature of the CIMBL is its automated loan recovery mechanism which offers greater convenience to the borrower while delivering significant cost efficiencies to the Company.

4 ENVIRONMENTAL PROTECTION AND CONSERVATION

'Thuru Wawamu' 50 to 50,000

'Thuru Wawamu' is LBF's flagship environmental project. Launched on 13th September 2018, 'Thuru Wawamu' is an ambitious project to systematically increase the forest cover in Sri Lanka by planting 50,000 saplings over a three-year period. The 'Thuru' mobile app launched subsequently in 2019 was also aimed at supporting the overall effort. As per the initial plan, the project was to conclude in May 2021 to coincide with LBF's 50th anniversary. However, pandemic related constraints in 2020 saw plans being postponed and tree planting programme conducted based on the situation.

Awareness building through informative boards

As part of our ongoing efforts to increase awareness, LBF has undertaken to install and maintain display boards and warning messages at the entrance of all national parks. The project is an ongoing initiative of the Company conducted in partnership with the Young Zoologists' Association of Sri Lanka.

Year	Project location
2022/23	Udawalawa, Katharagama, Suriyawewa, Padalangala, Matara, Ambalanthota, Ussangoda, Agunakolapaessa, Hambanthota, Dehiwala Zoo
2020/21	Dehiwala
2019/20	Ridiyagama, Pinnawala
2018/19	Ridiyagama, Pinnawala, Dehiwala
2017/18	Wasgamuwa

Continuous Awareness

To demonstrate our commitment to climate action, we undertake to promote sustainability knowledge and good practice among our customers and communities. Awareness campaigns run through social media aim to inform the importance of environment protection and conservation.

CAPITAL REPORTS
NATURAL CAPITAL

5 RELATIONSHIP BETWEEN CAPITALS

Trade-off between capitals

	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Green office practices	▼	▲	▲				▲			▲	—	—				▲	▲	▲
Green financing	▼	▲	▲										—	▲	▲	▲	▲	▲

S - Short term M - Medium term L - Long term ▲ Increase ▼ Decrease — Neutral

Reaping benefits of investing in natural capital



6 BUILDING FOR THE FUTURE

Strategic objective

Developing leaders at all levels by providing them with the tools and resources they need to contribute to LBF's high-performance culture.

Short-term

- ▶ Invest in alternative energy such as solar power to meet at least 80% of LBF's energy requirements
- ▶ Implement solutions to enhance the digital user experience for employees

Medium-term

- ▶ Using low CO₂ emitting equipments and materials
- ▶ Supporting the low carbon economy by promoting the use of electric or hybrid vehicles

Long-term

- ▶ Reduce carbon emissions through green building design
- ▶ Improve environmental tracking and reporting
- ▶ Implementing fully fledged EMS

Growth sustainable opportunity

Fully fledged digital branches

Vision

Be Sri Lanka's No. 1 tech-driven financial entity

SWOT ANALYSIS

S STRENGTHS

- ▶ Well established environmental managing strategy to promote sustainable waste and energy management

W WEAKNESSES

- ▶ High dependency on non-renewable sources for the Company's energy requirements

O OPPORTUNITIES

- ▶ Moving towards a low carbon operations by embedding emission reducing initiatives into operational plans

T THREATS

- ▶ Stiff competitive pressure for green financing

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

MANAGING KEY RISKS

SNAPSHOT OF LBF'S KEY RISKS

Risk Category		Description	Risk Events for FY 2022/23	Risk Level	
				2022/23	2021/22
Credit Risk Potential loss to LBF as a result of failure by borrowers to meet their contractual obligations towards LBF	Default / Settlement Risk	Borrowers' failure to meet their debt commitments towards the Company, thus affecting LBF's earning capacity and margins due to increase in loan loss provisioning. It also causes a disruption in the planned cash flow cycle and raises concerns regarding a liquidity mismatch	Economic crisis, rising inflation and high interest rates affecting the repayment capacity of individuals and businesses, especially SME's	●	●
	Concentration Risk	Overdependence on a specific product or over exposure to a specific customer, sector, geography etc. will threaten the continuity of the business in the event of unforeseen challenges affecting customer/sector/geography prospects	Extension of the government-led moratoria for the tourism and transport sectors, preventing collection activities in order to reduce the exposures to these sectors	●	●
Liquidity Risk		Inability to maintain or generate sufficient liquid resources to meet payment obligations as they fall due	Sri Lanka's sovereign rating downgrade resulting in the inability to access foreign currency denominated funding	●	●
Market Risk Possible loss to LBF owing to changes in market interest rates,, the movement in commodity prices such as gold and the fluctuations in the exchange rate	Interest Rate Risk	Impact on Net Interest Income arising from to the mismatch between borrowing and lending rates due to unforeseen interest rate volatility	Rapid increase in short term interest rates	●	●
	Commodity Price Risk	Impact on earnings generated through the Gold Loan operation owing to fluctuations in world gold prices	Volatility of global price of gold due to the increase in interest rates to curb inflation	●	●
Exchange Rate Risk		Impact on profitability owing to the impact of exchange rate fluctuations on foreign currency denominated contractual obligations and the impact to the consolidated balance sheet from overseas subsidiary operations	The sudden appreciation of LKR towards the end of financial year which resulted in sudden drop in local price of gold. The price later recovered to normal levels along with global price appreciation and LKR depreciation.	●	●

Risk Category	Description	Risk Events for FY 2022/23	Risk Level	
			2022/23	2021/22
Operational Risk	Potential loss LBF would have bearing owing to inadequate human capital resources or breakdown in internal systems and processes	Economic uncertainty leading to fraudulent activities by customers and other stakeholders	●	●
Information Technology and Information Security Risk	Impact to earnings, profitability and reputation owing to cyber-attacks, system failures and interruptions or ineffective infrastructure to support evolving business needs	Heightened threat (internal and external) of information security breaches due to increased digital adoption	●	●
Human Resources Risk	Events that prevent employees from fulfilling their responsibilities and thus keep the business from operating at full efficiency	Labour migration influenced by the economic crisis in the country	●	●
Strategic Risk	Impact on the Company's earnings, profits and / or reserves due to poor business policy decisions, improper implementation of business strategies or lack of responsiveness to industry changes.	The prevailing ban on vehicle importation is a barrier to expand the company's franchise of vehicle financing business. Also the negative economic growth of the country decreases the demand for credit	●	●
Reputation Risk	Arises from an event or behaviour that could adversely impact market 'perception' of the Company's goodwill	The credit rating of the Company remained unchanged during the year while the rating of many other financial institutions' including banks got downgraded.	●	●
Legal Risk	Risk of loss caused by non-compliance with existing or new legislation or supervisory regulations, disadvantageous changes to existing laws or supervisory regulations	No regulatory penalties or non-compliances were reported.	●	●

Risk indicator ● High ● Moderate ● Low

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

SUSTAINABILITY AT LBF

PLAYING A DEFINING ROLE IN SRI LANKA'S SUSTAINABLE GROWTH JOURNEY

Our strategy is anchored in the concept of creating sustainable value for all Sri Lankans, because we believe that the only way this can be achieved is by ensuring all individuals and businesses have equitable access to the basics, including education, healthcare and financial empowerment. At LBF, we are driven to deliver on this purpose by offering products and services that are not only financially sound, but also serve a broader social purpose and make a positive contribution to the environment. To that end, a robust four pillar sustainability strategy underpins our efforts.



SUSTAINABILITY PILLAR 01

INCLUSIVE FINANCE

Through our efforts to advance inclusive financing, we aim to contribute towards regional economic growth by:

- ▶ Investing in building a diverse network of physical touchpoints along with a strong digital presence to enable all customers to benefit from our value propositions
- ▶ Providing innovative, relevant, cost-efficient value propositions to safeguard the financial wellbeing of individuals, small businesses and large corporates
- ▶ Promulgating disciplined financial behaviours through knowledge sharing and access to financial education.

SUSTAINABILITY PILLAR 2

ENVIRONMENTAL SUSTAINABILITY

We will help to promote sustainable environmental practices and to mitigate climate change risk in Sri Lanka while using positive and progressive climate-linked initiatives to contribute towards a more sustainable future for the communities in which we operate. In this regard, we focus on:

- ▶ Managing climate risk by setting environmental goals within our day to day operations
- ▶ Providing innovative, sustainable financial products and advisory services to support the transition to a low-carbon economy.
- ▶ Employing enhanced assessment criteria to mobilise resources towards climate positive projects



SUSTAINABILITY PILLAR 3

SOCIAL EQUALITY

LBF remains committed to finding solutions to issues relating to socio economic inequality by:

- ▶ Supporting organisations that have the capacity to create positive social change
- ▶ Leveraging strategic partnerships and thought leadership to promote greater social equity through youth entrepreneurship and women's empowerment
- ▶ Investing in technology platforms to deepen social outreach among underserved communities



SUSTAINABILITY PILLAR 4

EDUCATION AND SKILLS DEVELOPMENT

Building strong, capable communities by

- ▶ Providing equal access quality tertiary educational support, including through internship opportunities
- ▶ Enabling vocational training opportunities for youth through public private partnerships
- ▶ Creating scalable platforms to empower up coming digital innovators

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction



1

OUR SUSTAINABLE RESOURCE ALLOCATION PRACTICES AND RELEVANCE TO SDGS

Project	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	G11	G12	G13	G14	G15	G16	G17
Special attention for women empowerment					✓					✓							✓
Community initiatives	✓	✓	✓	✓	✓							✓			✓		
Capacity development				✓	✓			✓									
Skill development				✓	✓			✓									
Green lending practices								✓					✓			✓	
Green initiative													✓			✓	
Sustainable business expansion								✓	✓			✓					
Digital literacy				✓				✓	✓		✓						

G - United Nations Sustainable Development Goals



2

PLAN FOR SUSTAINABLE DEVELOPMENT GOALS

We understand that financial value cannot be generated in isolation, which has led us to reinforce our commitment to embed ESG considerations into all areas of our business. In order to deepen our commitment to the UN SDGs, we have identified primary and secondary SDGs based on their relevance to our business. Accordingly, we have earmarked eight primary UN SDGs to be the most relevant to LBF's business. Moreover, considering our position within the NBFi sector, we have determined that LBF has the ability to contribute to five secondary UN SDGs. In the year under review, we revisited our SDG roadmap to introduce clear KPIs to support the achievement of specific targets over the next 3-5 years.

3

SUSTAINABILITY CHALLENGES

As a financial services institution, LBF strives to lead by example in finding solutions to key sustainability challenges by:

- ▶ Developing affordable products and services to promote greater financial inclusion
- ▶ Offering innovative financing solutions to address environmental and social challenges
- ▶ Supporting the transition to a more sustainable economy by managing our impact on the environment
- ▶ Supporting fair and equitable procurement in order to drive more cohesive economic growth and job creation
- ▶ Helping people gain access to education as well as skills development through high quality training initiatives
- ▶ Contributing to the stability of the financial services system through the advocacy of sound governance, ethical conduct, fraud and data security and the prevention of money laundering and terrorism financing
- ▶ Providing equal opportunity employment free of discrimination and in compliance accordance with fair labour practices
- ▶ Ensuring the wellbeing of employees
- ▶ Supporting greater inclusivity in the workplace by reduce the gender parity at all levels of the operation

4

SUSTAINABILITY HOT TOPICS

The world today is experiencing sustainability challenges like never before. Among them, the ever-growing concerns regarding environmental degradation and the impact of climate change. In the recent past, we have also seen social inequalities further heightening due to the pandemic-induced economic downturn. Political instability in recent years have further exacerbated these challenges for Sri Lanka.

Topic 01 Invest in building strategic capabilities to drive market leadership

Continually investing in the development and advancement of important capabilities through strategic value-adding partnerships that provide access to the latest industry trends

Importance to LBF

Investing in LBF's strategic capabilities will open up opportunities for revenue diversification and organic growth

Critical success factors

- ▶ Fit-for-purpose strategic partnerships to drive transformative operations

SDG direction

8 17

Capital

FC MC

Topic 02 Evolve technology architecture to accelerate digital transformation

Expedite the adoption of modern technological infrastructure in order to accelerate digital transformation in a safe and controlled manner

Importance to LBF

Financial institutions in Sri Lanka today are increasing developing integrated customer experience as a key differentiator

Critical success factors

- ▶ Optimise the use of core technology enablers
- ▶ Harnessing the power of cloud computing, artificial intelligence, machine learning, and data science
- ▶ Build employee capacity through targeted training interventions

SDG direction

8 10 11

Capital

FC MC IC

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

Topic 03 Empower and nurture an entrepreneurial culture

Nurturing the entrepreneurial spirit through greater workplace diversity

Importance to LBF
The entrepreneurial spirit and the desire to innovate is critical to stakeholder value creation

- Critical success factors**
- ▶ Purpose-driven value culture
 - ▶ Rewarding the innovative mindset
 - ▶ Leadership engagement through coaching and mentoring
 - ▶ Established framework to measure entrepreneurial culture transformation

SDG direction
13 14 15

Capital
FC NC

Topic 04 Create a diverse footprint to meet the customers' expectations

Selective expansion of LBF's footprint in key markets (Sri Lanka and Myanmar) through prudent capital allocation to achieve targeted ROI objectives

Importance to LBF
Expanding our reach serves as a key lever in accelerating organic growth to increase captive market share

- Critical success factors**
- ▶ Customer-centricity as the #1 priority
 - ▶ Holistically review customer needs and expectations
 - ▶ Innovation fuelled by digital data analytics
 - ▶ Leveraging artificial intelligence and real-time data access to dynamically address the needs of customers

SDG direction
8 10 13

Capital
MC IC NC

4

OUR 2030 SUSTAINABILITY AMBITIONS

We have defined a new set of ambitions to reflect our 2030 vision to build a better world and help to alleviate some of the biggest challenges that communities are facing today.

Focus area	KPIs	2015 Where we were	2021 Where we are	2025 Where we will be	Link to the SDGs
Wealth generation	Economic value generation	●	●	●	8 9
Customer centricity	Smarter business solutions	●	●	●	9 11
Workforce utilization	Outlet per employee	●	●	●	5 10
Climate changes	Reduction of carbon footprint of the company	●	●	●	13 15
Brand visibility	Brand value	●	●	●	9
Gender parity	Men : Women ratio	●	●	●	5 10
Community engagement	Community engagement for the CSR activities	●	●	●	1 2 3 4
Up hold governance and compliance	Governance and compliance training programmes	●	●	●	8 16

Tools and mechanisms to govern our path, and guide us towards

THE RIGHT DIRECTION AT THE RIGHT TIME

An unerring sense of direction has kept us on a steadfast course and enabled us to mitigate risks and navigate through uncertainty with ease.



INTRODUCTORY MESSAGE BY THE CHAIRMAN



GARD Prasanna

Chairman

I am pleased to report that LB Finance PLC's (LBF's) well established corporate governance has helped the Board steer the company through another challenging year. In these times of deep uncertainty LBF's sound corporate governance framework yet again proved to be a key catalyst in safeguarding our business integrity and preserving our reputation as a systemically important financial institution in Sri Lanka.

During the year, the Board and its Committees took a number of key decisions to support LBF's strategic reorientation in the context of the macroeconomic variables. In parallel, the Board also worked on improving governance and oversight systems, in particular to establish a formal mechanism to manage Conflicts of Interest and imbue the anti fraud culture at all levels of the business.

Special emphasis was also placed on strengthening risk management, business continuity, and upgraded internal control systems to improve information security resilience in tandem with our digital channel expansion strategies. Further details of these matters are set out throughout this Annual Report, specifically in the Business Reports, Capital Management Reports and Board Committee Reports.

Meanwhile, following the issuance of the CBSL Guidelines on Sustainable Finance Activities for Non-Bank Financial Institutions, the Board and its Committees proceeded to conduct a deep dive into our systems in order to understand and improve LBF's readiness to implement the necessary requirements.

As always, we continued to reiterate the importance of transparency and maintained full disclosure regarding our performance and other developments, including products and e-services and the associated risks. I am indeed happy to report that we continue to be well recognised for the commitment to transparency of information. At the recently concluded Transparency International Sri Lanka's rankings, LBF was placed 7th among the top 100 public listed

companies in Sri Lanka. We won the Bronze award for Corporate Governance disclosures at the TAGS Awards 2022 conducted by the CA Sri Lanka and also secured the Bronze award for excellence in corporate governance reporting at the SAFA (South Asian Federation of Accountants) Awards 2022.

ANNUAL GENERAL MEETING

LBF's 50th Annual General Meeting (AGM) will be held at the Auditorium of the corporate office on 30 June 2023. For this year's AGM, we intend to convene the meeting in-person to give shareholders the opportunity to meet with Directors for an effective communication. However, if any restrictions are reintroduced by the Government on in-person meetings by the time of the meeting, we will need to observe these and we will keep shareholders updated on any consequential changes to the AGM arrangements via our website and market announcements.

In the mean time, information about the AGM and the voting process are enclosed in the Notice of AGM which has been included on page 444 of this Annual Report.

Let me take this opportunity to invite all shareholders of LB Finance PLC to attend the 50th AGM. I look forward to meeting you all.

GARD Prasanna
Chairman

31 May 2023

Compliance and Good Governance

The Board is pleased to report that the Company has applied the Principles and complied with the corporate governance directives set out under the Finance Business Act and the covenants recommended in the Code of Best Practice on Corporate Governance, issued by the Institute of Chartered Accountants of Sri Lanka and Continuous Listing Rules on Corporate Governance issued by Colombo Stock Exchange (CSE). Furthermore, on behalf of the Board, I wish to declare that the the Board of Directors, Corporate Management and employees of LB Finance PLC have acted in good faith in conducting the affairs of the Company.

1 CORPORATE GOVERNANCE PHILOSOPHY

LBF's success as a financial institution is heavily dependent upon having a strong, effective and fully functional governance system that enables the Company's operations to be managed properly and safely in order to achieve these goals and protect the interests of shareholders, depositors and other stakeholders.

Our corporate governance philosophy embeds the belief that sound corporate governance is based on the principles expressed in the corporate governance directives set out under the Finance Business Act and the covenants recommended in the Code of best Practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and

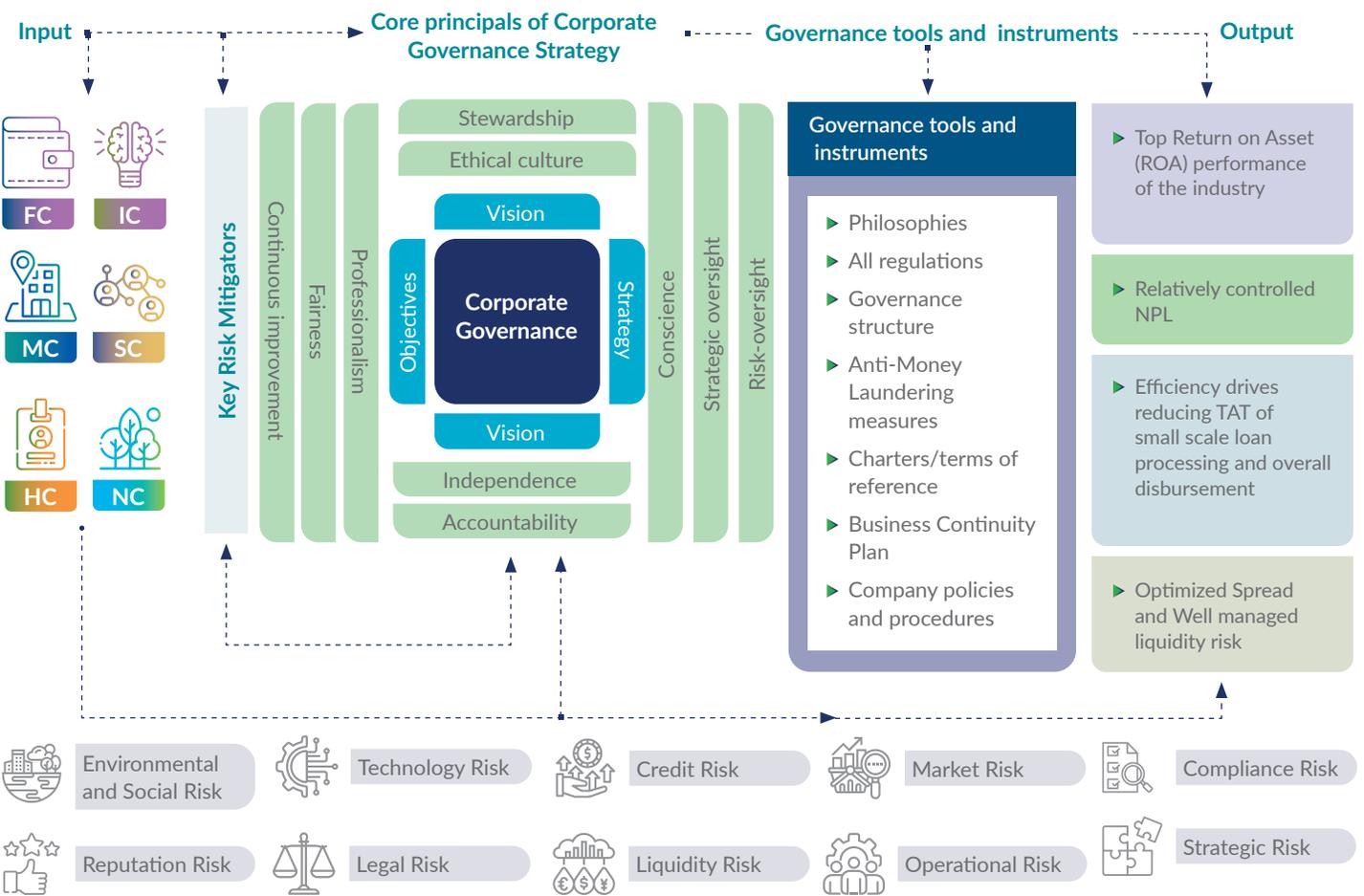
Continuous Listing Rules on Corporate Governance issued by CSE.

Aligned to our corporate governance philosophy, we have established a robust governance system, comprising policies, charters and procedures accompanied with comprehensive oversight structures including clear lines of responsibility that together create a control environment to ensure enterprise-wide good governance for the purpose of promoting accountability and transparency.

The LBF Board brings to life our corporate governance philosophy by leading the Company with integrity and competence in a manner that is responsible, accountable, fair and transparent and ensures proper correlation between the Company's strategic objectives and stakeholder value creation targets.

In doing so, the Board has mobilised the necessary tools to achieve increased operational efficiency, develop the right behaviours and maintain our financial integrity to ultimately preserve LBF's reputation and industry standing. As part of its overall approach to good governance, the Board has also established internal controls and mechanisms to verify the proper application of the established governance system. In recent years, digital technology has been used to improve and enhance governance processes and systems, specifically to increase transparency, accountability, efficiency, and effectiveness in government operations and services.

VALUE CREATION THROUGH CORPORATE GOVERNANCE



2 CORE PRINCIPLES IN LBF CORPORATE GOVERNANCE FRAMEWORK

Conscience

Conscience refers to LBF's sense of ethical responsibility and accountability for its actions and decisions in the context of our fundamental purpose as a financial services institution as well as our broader obligation to society and the environment. This includes considerations of social and environmental sustainability, ethical business practices, and adherence to legal and regulatory frameworks. The Board believes that operating with a strong conscience validates the company's financial success and helps to foster trust and build stakeholder confidence.

Ethical culture

Ethics comprise the principles, core values, and standards that govern the LBF's behaviour and decision-making. The Board sets the tone from the top for establishing an enterprise-wide culture of ethics to ensure all employees act with integrity and honesty in all their actions. This includes upholding legal and regulatory requirements, avoiding conflicts of interest, promoting diversity and inclusion, respecting human rights, protecting the environment, and ensuring transparency and accountability in all business activities.

The culture of ethics also encompasses openness. The Board demonstrates its willingness to openness by sharing information and communicating openly with internal and external stakeholders. This commitment is articulated in various ways, such as open-door policies, regular communication and feedback channels, effective handling of grievances and a commitment to timely and accurate reporting. Openness also involves sharing information about organisational goals and objectives, financial performance, decision-making processes, and corporate social responsibility initiatives.

Stewardship

The members of the Board are the stewards of LBF, exercising independent judgment in overseeing management and safeguarding the interests of shareholders. In fulfilling its stewardship role, the Board seeks to instil and foster a corporate environment founded on integrity and to provide Management with sound guidance in pursuit of long-term shareholder value.

Strategic oversight

The members of the Board are the key advisors to Management, advising on strategic direction, objectives and action plans, taking into account both the opportunities and LBF's risk appetite. In carrying out this oversight role, the Board actively engages in setting the long term strategic goals for the organisation, reviews and approves business strategies, corporate financial objectives and financial and capital plans that are consistent with the strategic goals, and monitors LBF's performance in executing strategies and meeting objectives.

Risk oversight

The Board oversees the framework, policies and systems to identify and manage risks to the businesses and seeks to embed a strong risk management culture throughout LBF. The Board actively monitors the organisation's risk profile relative to risk appetite and seeks to ensure that Management's plans and activities provide an appropriate balance of return for the risks assumed and are prudently focused on generating shareholder value.

Independence

Independence from Management is fundamental to the Board's effective oversight and mechanisms are in place to ensure its independence. All direct and indirect material relationships with LBF are considered in determining whether a member of the Board is independent.

Accountability

Accountability involves being upfront in accepting and taking ownership of the consequences of Board actions and decisions, both positive and negative. The Board sets the tone for accountability through clear goals and objectives, establishing performance targets, regularly measuring and evaluating performance, and taking appropriate corrective action when necessary.

Fairness

Fairness revolves around the equitable treatment of all stakeholders. The Board emulates the principle of fairness through a strong and unequivocal commitment to impartiality and consistency in decision-making in fairness to all people and entities that the company has dealings with.

Professionalism

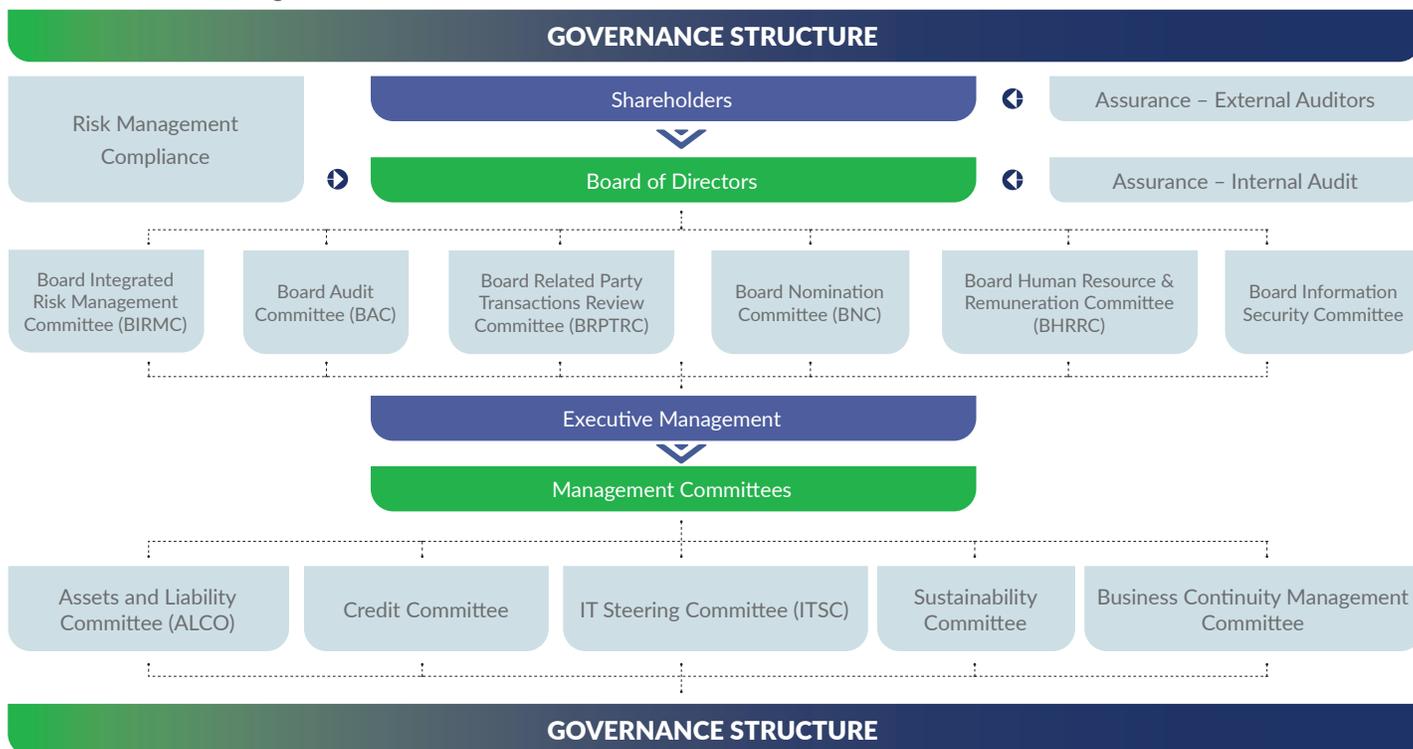
Professionalism involves a commitment to excellence and continuous improvement, as well as a dedication to the highest ethical and legal standards. The Board leads by example in demonstrating professionalism through its actions and conduct, such as maintaining a high level of knowledge and skill, adhering to professional codes of conduct and ethics, behaving with integrity and honesty, communicating effectively and respectfully, and treating colleagues, clients, and other stakeholders with respect and dignity.

Continuous Improvement

The Board is committed to continuous improvement of its corporate governance principles, policies and practices, which are designed to align the interests of the Board and Management with those of shareholders, to support the stewardship role of the Board and to enhance the Board's ability to safeguard the interests of shareholders through independent supervision of Management. To ensure policies and practices meet or exceed evolving best practices and regulatory expectations, LBF's corporate governance system is subject to ongoing review by the Board.

3 CORPORATE GOVERNANCE FRAMEWORK AND STRUCTURE

LBF's commitment to governance is brought to life through a strong governance framework along with a clear oversight structure that collectively supports the Group's strategy and decision making processes to ensure business continuity and drive growth in order to achieve stakeholder value creation goals.



4 REGULATORY AND INTERNAL BENCHMARKS

Regulatory benchmarks on corporate governance	Internal benchmarks on corporate governance	Assurance Processes
<ul style="list-style-type: none"> ▶ Companies Act No. 07 of 2007 ▶ Finance Business Act No. 42 of 2011 and all Directions/Guidelines issued by the Monetary Board of the Central Bank of Sri Lanka including Finance Business Act Directions No. 5 of 2021 Corporate Governance ▶ Finance Leasing Act No. 56 of 2000 ▶ Listing Rules of the Colombo Stock Exchange (CSE) ▶ The Code of Best Practice on Corporate Governance as published by the Institute of Chartered Accountants of Sri Lanka (voluntary) ▶ Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021. ▶ Inland Revenue Act No. 24 of 2017 and other statutes including Shop and Office Employees Act No. 19 of 1954 and amendments thereto ▶ Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Sri Lanka Financial Reporting Standards. ▶ AML and CFT legislations and relevant rules and regulations issued by the FIU including Customer Due Diligence Rules 01 of 2016 and Financial Transactions Reporting Act No. 6 of 2006 	<ul style="list-style-type: none"> ▶ Articles of Association of the Company ▶ Charters/Terms of Reference of Board, Subcommittees and Management Committees ▶ Organisational structure ▶ Code of Ethics and Conduct for all employees ▶ All Board-approved Policies and procedures on operational areas ▶ Anti corruption and bribery policy 	<ul style="list-style-type: none"> ▶ Internal Audit programme ▶ Internal Compliance and risk management framework ▶ ISO 27001: 2013 Information Security Standard Surveillance Audit ▶ ISACA (ITAF) audit framework ▶ External Audit (Financial) ▶ External Assurance on Sustainability indicators

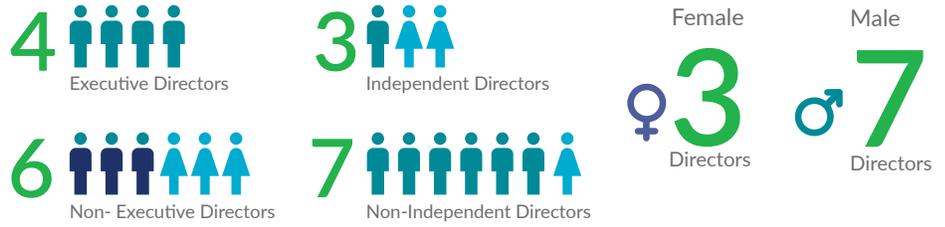
5 THE BOARD

The LBF Board, as the highest governing body within the organisation, is the ultimate authority responsible for the sound management of the Company. The balance of power within the Board is well maintained with no one Director or Group of Directors allowed unfettered powers of oversight or decision making.

The composition of the Board is governed by the company's Articles of Association as well as the Listing rules of the Colombo Stock Exchange. The current LBF Board comprises 10 Directors, including 6 Non-Executive Directors (NED's) and another 4 Executive Directors (ED's), which is considered to be the optimal balance of power, thus ensuring that no one Director has unfettered powers of decision making.

Diversity is also considered an important aspect in safeguarding the quality and effectiveness of the Board, especially with regard to creating an environment for objective decision making in the pursuit of corporate objectives. Board diversity is considered from a number of aspects, including but not limited to gender, age, educational background, professional experience, skills and knowledge.

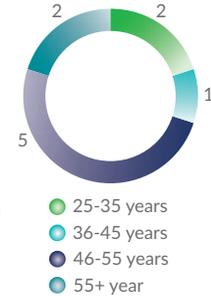
Board Composition



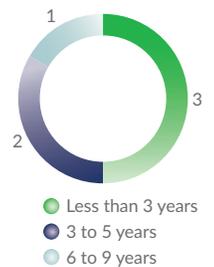
Diversity of Expertise



Age Analysis



Tenure of the Non-Executive Directors



BOARD OF DIRECTORS



Balance of Power

The Board's composition and distinct allocation of responsibilities and accountabilities enable a balanced distribution of power, crucial for achieving high performance and efficient control of the company affairs. Consequently, we have implemented explicit differentiations between the roles of Chairman, MD/CEO and Executive Directors, Senior Independent Director (SID) and Independent Non-Executive Directors to ensure clarity, effectiveness and ethical performance.

1

Chairman (Non-Independent Non-Executive Director)

- ▶ Leads the Board but not involves in day-to-day operations.
- ▶ Presides over Board meetings, ensures effective governance, and represents the Board to external stakeholders.

2

Managing MD/CEO and Executive Directors

- ▶ Responsible for the overall management and operations of the company.
- ▶ Provide leadership in attaining company's strategic objectives while ensuring the Board is promptly provided with precise, reliable, and transparent information regarding the overall performance and standing.

3

SID and Independent Non-Executive Directors

- ▶ Bring an objective and unbiased perspective to the Board.
- ▶ Participate in Board meetings, provide expertise, and contribute to strategic decision-making while overseeing executive management, including MD/EDs' performance evaluation and succession planning.

4

Non-Executive Directors

- ▶ Contribute to the Board's deliberations, discussions, and decision-making and bring industry knowledge, experience, and specific expertise to the Board.

Conflict of Interest

Directors are expected to exercise utmost good faith, honesty and integrity in all their dealings with or on behalf of the Group. They are required to act in the Group's best interests by disclosing real or perceived conflicts to the Board. In the year under review, a formal Conflict of Interest Policy was developed and rolled out setting out clear guidelines to ensure the Board of Directors, Senior Management and all employees are well aware the steps that need to be taken to avoid any conflict of interest arises.

Role of the Board

The Board has the overall responsibility for the management and oversight of the Company and its activities and as such is held accountable to shareholders and other stakeholders, to ensure that the LBF is managed in a safe and sound manner. In this regard the Board sets the LBF's strategy outlining short, medium and long term objectives in line with the Company's vision. The Board provides strategic oversight in steering the Company towards achieving these strategic objectives.

The Board is also accountable for ensuring regulatory compliance, effective risk management and control, establishing an appropriate mechanism of internal controls and ensuring timely and accurate financial reporting, promoting ethics and values, ESG integration and reporting, IT and HR governance and for maintaining stakeholder relations.

Board Oversight for Compliance

The Board is accountable for ensuring LBF complies with applicable laws, rules, regulations, codes and standards. This commitment is executed via a zero tolerance approach for non-compliance with the Company's compliance team is tasked with monitoring the adherence to all applicable laws, regulations and statutes. The Internal Audit team also provides independence assurance regarding the compliance status of the company at any given time. As part of the overall commitment to compliance, the LBF Board also promotes the early adoption of new regulations.

Key Outcomes for FY2022/23

- ▶ Establishing Governance Framework
- ▶ Implementation of Policy on Management of Conflict of Interest
- ▶ Overall monitoring of internal policy reviews including whistleblowing and Corporate Communication and communicating to LBF Staff in all three languages and uploading to the group intranet.
- ▶ Level of compliance on CDD Rule No. 1 of 2016 and other directions issued by relevant authorities on AML and CFT have been assessed through IAD and duly addressed the gaps
- ▶ ABC culture has been strengthened by adopting Board approved ABC policy
- ▶ A process is in place to provide self declaration by the HODs on compliance of all Statutory and regulatory requirements.
- ▶ Outsourcing arrangements proposed for the Financial Year 2023/24 was reviewed by the Audit Committee in order to comply with Finance Business Act Direction No. 07 of 2018 - Outsourcing of Business Operations.
- ▶ AML Compliance reports were submitted to the Board as per CDD rule No 1 of 2016 and updated monthly compliance checklists were also presented.

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

CORPORATE GOVERNANCE

Board Oversight for Risk

Working with a good understanding of the key risks associated with LBF's operations, the Board provides oversight for establishing appropriate risk appetite limits, risk management systems and relevant internal control for the effective management of these risks. The Board, assisted by the Board Integrated Risk Management Committee (BIRMC) and other risk related committees have implemented a sound system of risk management and internal control, to complement LBF's business objectives.

For more details, please refer to the Integrated Risk Management Report on Page 317

Key Outcomes for FY2022/23

- ▶ Review and update the Operational Risk Management Policy with the more focus on promoting the Anti-fraud culture within the Company under supervisory oversight of the IRMC
- ▶ Implementation of Internal Capital Adequacy Assessment Process (ICAAP)
- ▶ Review and update of Risk Appetite Statement (RAS)
- ▶ Strengthened the risk related policy framework of the Company
- ▶ New Risk limits were introduced to RAS in terms of credit concentration risk, related party transactions, operational risk, investment limits

In discharging their duties, the Board also reserves the exclusive right to review and approve the following ;

- ▶ Evaluating and approving of the Strategic Plan
- ▶ Evaluating and approving of the LBF's Annual Budget
- ▶ Appointment of the MD/CEO of LBF, its Key Responsible Personnel and the CEOs of all its Subsidiaries
- ▶ Approval of the succession plan for the Senior Management including MD/CEO.
- ▶ Determine and approve the organization structure
- ▶ Evaluating and approval of any type of strategic decisions
- ▶ Appointment of Board Sub Committees and defining their scope of work and the extent of delegated powers and authority for them.

Board Responsibility for Internal Control and Financial Reporting

The Board has established a fully fledged system of internal control for the purpose of ensuring the day to day business activities are managed efficiently and effectively in line with the company's strategic objectives. Apart from this, the Board maintains a comprehensive reporting suite to communicate to stakeholders, the Company's performance and financial position. As a public listed entity, the main document in the reporting suite is LBF's Board approved Integrated Annual Report which is prepared to show a balanced and transparent assessment of the company's financial position, performance and prospects for the future. Apart from this, the Company publishes quarterly financial reports and other mandatory CSE disclosure as needed. All such information is disclosed to the CSE and then published in the press and on the corporate website.

For more details, please refer to the Directors' Statement on Internal Control over Financial Reporting on page 250.

Key Outcomes for FY2022/23

- ▶ Review of internal control over financial reporting by external auditors
- ▶ Reviewed the Interim Financial Statements for the year ended 31st March 2023
- ▶ Impairment manual was amended and approved by the Board to cater the requirements of Direction No. 1 of 2020 on classification and of measurement of credit facilities
- ▶ Finance Manual was reviewed by the Board of Directors

Board Role in Promoting Ethics and Values

The Board sets the tone from the top to instil the right behaviours among employees of the company based on the Board approved Code of Conduct, Anti-bribery and anti-corruption Policy, Anti-Money Laundering guidelines and the Whistleblower policy. These policies and procedures are designed to instil the right behaviours and offer guidance to ensure employees to carry out their duties in accordance with the highest standards of integrity and fairness at all times. Regular training is conducted to raise awareness among employees regarding these conduct policies and impress upon them, the importance of adhering to these covenants.

Key Outcomes for FY2022/23

- ▶ Operationalising the ABC policy
- ▶ Email campaign to educate staff on best practices, including Transparency International guidelines and LBF's internal ethics/procedures
- ▶ Review and update of code of conduct
- ▶ Implementation of Policy on Management of Conflict of Interest

Board Oversight for ESG Integration and Reporting

ESG has always been an important matter of consideration for the LBF Board. All ESG matters are managed under the purview of the Board appointed sustainability team. The sustainability team is tasked with creating a suitable environment to imbibe ESG considerations in the day to day operations at all levels of the business. As part of their systematic efforts to improve the transparency of ESG disclosures, the sustainability team also gets involved in assessing the material topics with reference to ESG considerations.

Key Outcomes for FY2022/23

Please refer to the section on material topics on page 204

Commitment coming from the top

Reporting to the Board of Directors or other key leaderships can help demonstrate that a Company is serious about sustainability.



Accountability must be established and communicated clearly

Accountability helps ensure that sustainability is integrated with other business goals. Including sustainability performance into the Company's annual goals and employee performance review and compensation processes may be helpful mechanisms.



Alignment between the structure and the business is imperative

Sustainability governance structures that align with and complement the existing business model and organisational structures can be more successful than creating redundant or competing structures.



Sustainability programme

Flexibility to adapt and build up on the sustainability program across business units and regions can advance the sustainability agenda. Allowing for some adaptation can help ensure the sustainability program's relevance to a business unit's own strategies or region's local conditions. It also can generate employee engagement.

Board Role in IT Governance

The Board reinforces its commitment to safeguarding the Company's information assets and operational systems and invests extensively in cyber risk management systems. The key focus areas under IT governance include; safeguarding IT infrastructure, data protection, network security, data servers and digital channels along with the provision of system support.

In this regard, the Board has appointed an Information Security Officer (ISO) and dedicated IT governance team who are tasked with;

- ▶ Formulating policies and operational procedures based on the compliance requirements and other best practices
- ▶ Reviewing and monitoring privileged access activities
- ▶ Coordinating internal and external IS audits
- ▶ Coordinating the functions related to ISO 27001:2013 certification
- ▶ Reviewing and recommending to the BAC regarding amendments to IT related
- ▶ Weekly/monthly/annual monitoring of information security and cyber risks.

- ▶ Follow up on corrective and preventive action plans of audit findings.
- ▶ Conduct information security awareness campaigns
- ▶ Coordinate vulnerability assessments and penetration tests
- ▶ Conduct due diligence assessments, security reviews on vendors

For more details, please refer to the Intellectual Capital section on page 160

Key Outcomes for FY2022/23

- ▶ Strengthened the Information Security Governance team to ensure a high level of compliance with IT internal controls and support IT Governance activities
- ▶ Ensured IT steering committee meetings are held as per the schedule and key IT governance matters are presented at the Board/ Board Sub Committee level for strategic oversight
- ▶ Strengthened the Information Systems and Cyber Security audit process.
- ▶ Regular checks were conducted to ensure the compliance level and fulfilment of gaps with regard to the Finance Business Act (Technology Risk Management and Resilience) Direction No.1 of 2022
- ▶ Identification of IT/ cyber risks and risk treatment plans were discussed at the Board Sub Committee level on a regular basis.
- ▶ Reviewed IT Policies

CORPORATE GOVERNANCE

Board Role in HR Governance

The Board remains the ultimate authority for developing a sustainable Human Capital strategy to support the achievement of LBF's short, medium and long term objectives. The Board executes these responsibilities through the Board Human Resource and Remuneration Committee (BHRRRC) and the Head of HR. The Board Nomination Committee is responsible for policy formulation to reflect HR best practices, while the Head of HR is charged with policy implementation as well as aligning Human Capital development activities in tandem with the company strategy

For more details, please refer to the Human Capital section on page 148 and the BHRRRC Report on page 234

Key Outcomes for FY2022/23

- ▶ Succession Plan for Key Responsible Personnel was reviewed by the Board of Directors.
- ▶ Reviewed and updated the HR Policy

Board Responsibility to Shareholders and other Stakeholders

The principle of fairness underpins our dealings with shareholders and other stakeholders, supported by strict policies and procedures that guarantee impartial and ethical dealings without any preferential treatment of one over the other.

Shareholder Rights

All shareholders enjoy specific rights under the Companies' Act. These rights include, among others, the right to participate in profit distributions and the right to attend and vote at general meetings. Ordinary shareholders are entitled to attend and vote at the AGM in person or by proxy. LBF respects the equal information rights of all shareholders and is committed to the practice of fair, transparent and timely disclosure. This commitment comes from the belief that shareholders and stakeholders have a right to access information timely, as to enable them to take decisions and achieve the principle of accountability. In this regard, LBF maintains full transparency in the disclosure of all financial and non-financial information to the public across all channels.

All price-sensitive information is released to the public prior to any sessions with individual investors or analysts. As part of its commitment to uphold Shareholder Rights, the LBF Board has also laid down a "Share Trading Policy" to serve as the code of Internal Procedures and Conduct for the prevention of insider trading. The main objective of the "Share Trading Policy" is to prevent the purchase and/or sale of shares of the Company by an Insider (Director or employee of LBF and their dependants) on the basis of unpublished price sensitive information. Under this Policy, insiders are prevented from dealing in the Company's shares during the closure of trading window, while express permission is required to deal in securities beyond specified limits. All Directors and designated employees are further required to disclose related information periodically as defined by the "Share Trading Policy"

Key Outcomes for FY2022/23

Share trading policy was operationalised and comprehensive awareness sessions were conducted

Annual General Meeting

The Annual General Meeting (AGM) provides shareholders with the opportunity to share their views and to meet the Board, including the Chairpersons of the Board Sub Committees and members of Senior Management. At the AGM, LBF's financial performance for the preceding year is presented to shareholders. LBF's external auditors are also present at the AGM to answer shareholders' queries. In accordance with the recommendations contained in the Code and the Guidelines, resolutions requiring shareholder approval are tabled separately for adoption at the Company's general meetings unless they are closely related and are more appropriately tabled together.

Key Outcomes for FY2022/23

Implementation of a formal "Conflict of Interest" Policy

Board Responsibility for Strengthening Governance Frameworks

As part of its stewardship role, the LBF Board undertakes to review and update the Company's corporate governance framework including policies, procedures and reporting structures, to reflect the evolving needs of the business, to comply with the latest regulatory requirements and to align with good governance practices.

Key Outcomes for FY2022/23

- ▶ Updating the TOR of the Related party transactions review committee
- ▶ Review and updating the Whistle blowing policy
- ▶ Implementation of governance framework

6 BOARD MEETINGS

Board meetings are held at least monthly, or more often when needed. It is mandatory for all Directors to attend Board meetings, be it the regular Board meetings or ad hoc Board meetings. Directors who are unable to attend a Board meeting in person are allowed to participate by telephone or via video- conference.

The Chairman plays a key role in promoting open and active debate among Directors. All Board members are expected to come well prepared and engage in robust discussions on key matters pertaining to the Company. The Chairman / Chairperson of each Board committee is called upon to provide an update on significant matters discussed at their respective Board sub-committee meetings, which are typically scheduled before the Board meeting.

Planning of Board Meetings

Meeting calendar is prepared by the Company Secretary annually in advance and communicated to all Board members

The Chairman sets the Board agenda, assisted by the Company Secretary. The agenda is prioritised and timed to ensure all items are discussed. Directors are allowed to make a written request to the Chairman detailing any additional matters to be included in the agenda

The finalised agenda along with a comprehensive Board pack containing relevant Board Papers are circulated among all Directors at least seven (07) working days prior to the meeting date, allowing Board members sufficient time to review the same. All information and Board Papers are also uploaded to a secure portal to give Directors remote access

BOARD'S UNWAVERING COMMITMENT TO UPHOLD ORGANISATIONAL TRANSPARENCY



Training programme on Anti Bribery and Anti Corruption to Board of Directors conducted by Transparency International Sri Lanka.

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

Board attendance from April 2022 to March 2023

Board Members	Composition	Date of Appointment to the Board	Board Meeting Attendance
Mr. G A R D Prasanna	Chairman/Non-Independent Non-Executive Director	01.12.2021	13/13
Mr. Dhammika Perera (resigned w.e.f. 10 June 2022)	Executive Deputy Chairman	22.10.2002	1/2
Mr. Ashane Jayasekara	Independent Non-Executive Director/Senior Independent Director	30.10.2017	13/13
Mr. Sumith Adhihetty	Managing Director	10.12.2003	13/13
Mr. Niroschan Udage	Deputy Managing Director	01.01.2007	13/13
Mr. B D A Perera	Executive Director	01.01.2007	12/13
Mr. Ravindra Yatawara	Executive Director	15.03.2016	11/13
Mrs. Yogadinusha Bhaskaran	Non-Executive Director	15.03.2016	13/13
Mrs Ashwini Natesan	Independent Non-Executive Director	01.09.2018	13/13
Mr. Dharmadasa Rangalle	Non-Executive Director	10.04.2019	13/13
Ms. Yanika Amarasekera	Independent Non-Executive Director	01.07.2021	13/13

At each Board meeting, the MD is required to provide a comprehensive update on the Company's business and operations to date as well as an overview of the context in which these outcomes were achieved, while certain business heads are invited to provide updates on business aspects under their purview. In this regard, the Chief Financial Officer presents the financial performance and significant financial highlights, while the Compliance Officer presents the status of compliance with statutes / regulations and significant regulation updates and the Deputy General Manager – Strategy and Digital Finance will provide an update on the progress of digital initiatives.

Directors' interests and related party transactions are also tabled at Board Meetings. If at any point during the meeting, a Director finds himself / herself in a situation which is construed as a conflict of interest, the Director in question is required to recuse him or herself from the discussions and refrain from participating in Board decisions on the particular matter.

The Company secretary is required to maintain minutes of every Board meeting. Minutes are first presented to the Chairman for approval prior to being circulated among the Directors and other members of Corporate Management who were present at the particular meeting. Minutes of the meetings are typically circulated within two weeks after the meeting date.

A total of 13 Board meetings were held in FY 2022/23.

7 GOVERNANCE FRAMEWORK

Differentiating the role of the Chairman and the MD/CEO

The roles of LBF's Chairman and the MD/ CEO are distinctly different. LBF's Chairman serves as an NED and as such does not engage in activities involving direct supervision of senior management or any other day to day operational activities. The Chairman leads the Board and is responsible for ensuring the effectiveness of the Board functions in discharges its responsibilities. In this regard, Chairman is required to;

- ▶ Ensure the Board meets regularly to discuss relevant matters
- ▶ Maintain the appropriate balance of power between ED's and NED's.
- ▶ Secure the effective participation of both ED's and NED's in all Board matters.
- ▶ Implement decisions/directions of the regulator.
- ▶ Prepare the agenda for each Board Meeting or delegate such function and to maintain minutes in an orderly manner to the company secretary.
- ▶ Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.
- ▶ Oversee the annual assessment on the performance and the contribution during the past 12 months of the Board and the MD/CEO

MD/CEO serves as the most senior executive in the Company responsible for providing oversight for the day to day management of operations and executive of the business strategy. In this capacity the MD/CEO is required to;

- ▶ Implement business and risk strategies in order to achieve the LBF's strategic objectives.
- ▶ Establish an appropriate management structure that promotes accountability, and transparency throughout the LBF's operations, and preserves the effectiveness and independence of control functions.
- ▶ Promote, together with the Board, a sound corporate culture within the LBF which reinforces ethical, prudent and professional behaviour.
- ▶ Ensure implementation of proper compliance culture and being accountable for accurate submission of information to the regulator.
- ▶ Strengthen the regulatory and supervisory compliance framework.
- ▶ Address the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner.
- ▶ Devote the whole of the professional time to the service of the LBF and shall not carry on any other business, except as a Non-Executive Director of another Company

BOARD FOCUS ON STRENGTHENING GOVERNANCE FRAMEWORKS - FY 2022/23

Financial Reporting	Risk Management	Information Technology
Policy Revisions/New Policies <ul style="list-style-type: none"> » Finance Manual » Tax Procedure Manual » Impairment Policy 	Policy Revisions/New Policies <ul style="list-style-type: none"> » Internal Capital Adequacy Assessment Process (ICAAP) » Stress Testing Policy and Framework » Risk Appetite Statement » Credit and Operations Manual » Credit Risk Management Framework & Policy » Penal Interest Rate 	Policy Revisions/New Policies <ul style="list-style-type: none"> » ISMS Scope Document » Information Security Policy » ISMS Implementation Guide » Standard Operating Procedure – Digital Financial Services
Board Charters		
Policy Revisions/New Policies <ul style="list-style-type: none"> » Integrated Risk Management Committee Charter » Audit Committee Charter 		
Business Continuity Management	Capital and Liquidity Management	Conduct and Ethics
Policy Revisions/New Policies <ul style="list-style-type: none"> » Disaster Recovery Plan » Business Continuity Plan 	Policy Revisions/New Policies <ul style="list-style-type: none"> » Assets and Liability Management and Liquidity Management Policy » Investment Policy » Foreign Exchange Risk Management Policy and procedure for foreign currency borrowings 	Policy Revisions/New Policies <ul style="list-style-type: none"> » Employee's Share Trading Policy » Procedure of AML & Combating of Financing of Terrorism » Communication Policy » ABC Policy » Conflict of Interest Policy

Right Solutions

Right Value

Right Direction

Right Experience

Role and Responsibilities of the Senior Independent Director (SID)

The principal role of the SID is to support the Chairman in the Board related matters. In this capacity the SID meets separately with NEDs at least twice a year to discuss governance related matters with the outcomes presented to the Chairman. The SID is further required to be available for confidential discussion with NED's if needed. The SID also participates in all meetings with majority, significant and minority shareholders and informs their concerns to the Company Secretary.

Responsibilities of Independent Directors

Independent Directors support effective Board balance by providing unbiased advice, perspectives, and judgment to the Board in order to safeguard the interest of stakeholders. They are also responsible for

monitoring conflicts of interest and ensuring the Company complies with corporate governance guidelines.

Responsibilities of Individual Directors

LBF has a competent Board wherein all Directors understand their duty to devote sufficient time towards matters relating to affairs of the Company. Directors are expected to participate in Board meetings by contributing their skills, knowledge, and experience as well as exercising independent judgement regarding Board decisions. It is mandatory for all Directors to disclose any matters that can be construed as conflict of interest and recuse themselves from discussions that may refer to such matters.

All Board members are required to perform an annual self-assessment to document their performance.

Role of the Company Secretary

LBF's Company Secretary performs an important role guiding the Board in discharging their duties and responsibilities. Directors have the right to reach out individually to the Company Secretary to seek out advice or guidance on relevant matters. Company Secretary is also required to facilitate any training requirements of Directors in order to keep them updated on the latest developments in legislation and regulations applicable to the Company. .

Appointment/retirement/re election of Directors

Board appointments are made based on a formal and transparent process which includes ensuring that Directors meet the fit and proper test requirements. BNC plays a crucial role in assessing the credibility of potential appointees. Typically

Right Vision

Right Strategy

Introduction

CORPORATE GOVERNANCE

potential candidates are considered with reference to their skills and expertise and how these complement the current balance of the LBF Board. The number of external directorships held are also assessed to ensure that these do not exceed what is reasonable for them to be able to exercise due care, skill and diligence in their role as a Director of LBF. Candidates who have been vetted in this manner and have been deemed suitable to be appointed as Directors are recommended to the Board and appointed as a Director subject to ratification by shareholders at the next Annual General Meeting. New appointments are communicated to the CSE and announced to the public by way of a press release.

As per LBF's Articles of Association 1/3 of the NED's are required to retire from office at each Annual General Meeting (AGM) and remain eligible to stand for re-election by the shareholders at the AGM. A Director appointed by the Board to fill a casual vacancy that may have arisen since the previous AGM, is also entitled to offer himself / herself for re-election at the next AGM.

Resignations by Directors and the reasons for the same are promptly informed to the CSE.

Remuneration of Directors

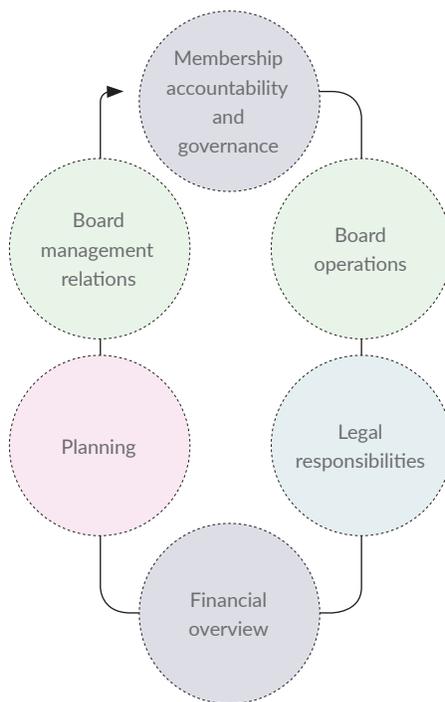
A formal and transparent procedure is in place for determining Directors Remuneration. As per the procedure, BHRRC in consultation with the Board Chairman makes recommendations to the Board on compensation and benefits for the MD and EDs.

Induction and Training for Directors

All new Directors are subject to a formal induction where they receive an orientation pack with all relevant external and internal documentation to ensure they are adequately briefed and have the requisite knowledge of the company and its operations. New Directors are also given the opportunity to meet with the Corporate Management.

Directors further benefit from regular training programmes throughout their tenure to support ongoing knowledge enhancement and also to inform them of economic, regulatory and industry trends. Each Director, receive adequate training hours annually. In the current financial year, all LBF Directors participated in a special anti bribery and anti corruption related training initiative carried out by Transparency International of Sri Lanka.

The following criteria are considered for the evaluation:



Board Succession Planning

A clear procedure has been established to facilitate the orderly succession of senior corporate management members to the Board.

Evaluating the Performance of the Chairman/Chairperson

The Chairman/Chairperson of the LBF Board is evaluated by Non-Executive Directors of the Company. The evaluation is carried out annually to determine the Chairman/Chairman's effectiveness in discharging his

assigned duties and responsibilities as the Board Chair.

Evaluating the Effectiveness of the Board of Directors

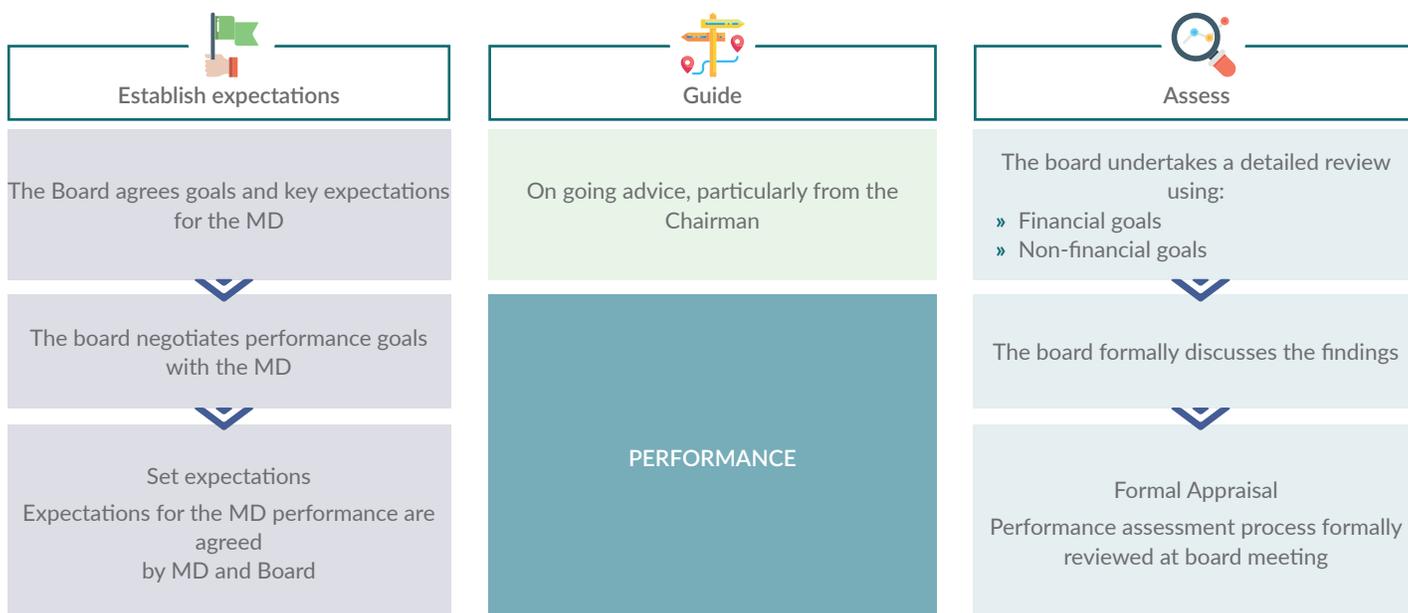
All Directors are required to submit an annual self-evaluation to BNC indicating their view of regarding the collective performance of the Board vis-a-vis the contribution towards developing and monitoring implementation of strategy, ensuring robust and effective risk management, maintaining effective internal control mechanism, oversight of Board Sub Committees etc.

The BNC together with the Board Chairman review these self-evaluations with the findings used constructively to discuss improvements to the Board and to ascertain if each individual Director remains qualified to remain on the LBF Board. The Chairman and/or Board Nomination Committee Chairman/Chairperson acts on the results of the evaluation, and if appropriate, proposes new Directors or seeks the resignation of Directors.

The BNC also performs an annual assessment to evaluate the overall effectiveness of the LBF Board, in terms of the balance and mix of skills, experience, independence and knowledge, the gender representation. These recommendations are discussed with the Chairman and appropriate action taken where necessary.

Evaluating the Performance of the MD

The performance of the Managing Director is assessed annually by the Chairman of the Board based on the agreed goals and objectives for a particular financial year, set at the commencement of that particular year. Following the year end evaluation of the Managing Director's performance, the BHRRC makes recommendations to the Board regarding appropriate revisions to the compensation.



8 BOARD SUB COMMITTEES

To assist in performing its oversight role, the Board has appointed several Sub Committees. The responsibilities delegated to these Sub Committees are formally documented in each Committee's Terms of Reference (TOR), which have been formally approved by the LBF Board. Committee TOR's are reviewed on an annual basis by the Board and updated as needed. After each Committee meeting, the Committee Chairman is required to report back to the Board, which facilitates transparent communication between Directors and ensures that all aspects of the Board's mandate are addressed.

Board Sub Committee areas of oversight activities for 2022/23

Board sub committee	Board Members	Areas of oversight	Report reference (page no.)
Board Human Resource and Remuneration Committee (BHRRC)	Mr. Ashane Jayasekara Mr. G A R D Prasanna Ms Yanika Amarasekera	<ul style="list-style-type: none"> » Remuneration policy » Remuneration and compensations of Directors, Senior Management and staff salaries in general » Structure for staff performance evaluation 	234
Board Nomination Committee (BNC)	Mr. Ashane Jayasekara Mr. G A R D Prasanna Mrs Ashwini Natesan	<ul style="list-style-type: none"> » Review the Board structure, size, composition and competencies » Appointment of Board of Directors » Overseeing the Board and the Senior Management succession planning 	235
Board Audit Committee (BAC)	Mrs. Yogadinusha Bhaskaran Mr. Ashane Jayasekara Mrs Ashwini Natesan	<ul style="list-style-type: none"> » Reviewing the accuracy and integrity of the financial reporting » Internal and external assurance » Reviewing the design and effectiveness of internal control system and risk management 	236 - 238

CORPORATE GOVERNANCE

Board sub committee	Board Members	Areas of oversight	Report reference (page no.)
Board Integrated Risk Management Committee (BIRMC)	Mr. Ashane Jayasekara Mrs Dinusha Bhaskaran Mrs. Ashwini Natesan	» Risk Management Framework » Risk measurement, monitoring and management » Compliance with regulatory and internal prudential requirements » Reviewing the business continuity planning	239 - 241
Board Related Party Transactions Review Committee (BRPTRC)	Mrs. Ashwini Natesan Mr. Ashane Jayasekara Mr. Dharmadasa Rangalle	» Related party transaction policy » Providing independent review, approval and oversight of RPT » Ensuring relevant market disclosures	242 - 243
Board Information Security Committee	Mrs. Ashwini Natesan Mr. Ashane Jayasekara Mr. B D A Perera	» Strengthen the information security and technology risk resilience process	232

Attendance of Directors at meeting of sub-committees from April to March 2022/23

Committee members	Composition	Board Human Resource and Remuneration Committee	Board Nomination Committee	Board Audit Committee	Board Integrated Risk Management Committee	Related Party Transaction Review Committee
Total meetings held		4	5	13	6	6
Mrs. G A R D Prasanna	CP/NED	4/4	5/5			
Ms. Yogadinusha Bhaskaran	NED			13/13	6/6	
Mr. Ashane Jayasekara	INED	4/4	5/5	13/13	6/6	6/6
Mrs Ashwini Natesan	INED		5/5	13/13	6/6	6/6
Mr Dharmadasa Rangalle	NED					5/6
Ms. Yanika Amarasekera	INED	4/4				

● Chairman/Chairperson of the Committee

CP Chairperson

INED Independent Non-Executive Director

NED Non Independent Non Executive Director

Evaluating the Performance of Board Sub Committees

The Board of Directors collectively evaluate the performance of the Board Sub Committees. These assessments are made against pre-established criteria which are derived from the TORs and responsibilities of each Board Sub Committee. The results of the evaluation are used constructively to discuss improvements required to the Board Sub Committees.

9 MANAGEMENT COMMITTEES

Management Committees have been appointed to provide direct oversight on various disciplines in order to assist the MD/CEO in carrying out the day to day operational management of the Group. Management Committees are typically Chaired by LBF's Corporate Management. Currently there are five Management Committees.



Description	Tasks	Members	Frequency of meetings held
IT Steering Committee (ITSC)	To ensure that IT strategy is aligned with the strategic goals of the Company whilst its top most mandate is to find and align business solutions that may leverage technology. IT Steering Committee also looks into information security-related matters on a regular basis	Managing Director Deputy Managing Director Executive Director - Asset Management Chief Financial Officer Head of IT Representatives from relevant departments	Monthly
Assets and Liability Committee (ALCO)	To monitor and manage the assets and liabilities of the Company and also overall liquidity position to keep the Company's liquidity at healthy levels, whilst satisfying regulatory requirements	Managing Director Deputy Managing Director Executive Directors Head of Treasury Head of Deposits Chief Financial Officer Deputy General Manager - Strategy and Digital Finance Chief Risk Officer	Weekly
Credit Committee	The committee shall be responsible for laying out the overall credit policy for the Company. This includes setting lending guidelines in conformity with credit risk appetite set by the Board of Directors	Managing Director Deputy Managing Director Executive Directors Chief Financial Officer Chief Risk Officer	Monthly
Sustainability Committee	The formulation and the review of the Company's CSR policy, and ensuring that CSR activities are integrated into the Company's operations. Keeping in line with the Company's triple bottom line focus, the Committee is tasked with the responsibility of steering the Company's CSR activities aimed at uplifting the communities we work with and preserving the environment	Deputy Managing Director Head of Treasury Representatives from relevant departments	When necessary
Business Continuity Management Steering Committee	Committee is responsible for align BCM goals with business goals and provides strategic direction and support in establishing, implementing, operating, monitoring, reviewing and improving the BCMS.	Deputy Managing Director Business Continuity Manager Representatives from the relevant departments	Monthly

10 GROUP GOVERNANCE

LBF's Governance Framework includes clearly defined Group governance roles and responsibilities for the oversight and implementation of effective Group-wide policies to safeguard the interests of stakeholders of the Group. The LBF Board proactively reviews and updates the Group Governance Framework to take cognisance of changes in the operating environment, including the legal and regulatory requirements. The Board together with the IRMC continuously review the potential risks posed by the subsidiaries and implement appropriate controls to

CORPORATE GOVERNANCE

mitigate such risks.

As part of this commitment the Board has established clear reporting arrangements that promote the understanding and management of material risks at subsidiary level. Moreover the Board takes the responsibility for mobilising adequate resources to effectively monitor the compliance status of subsidiaries in line with all applicable legal and regulatory requirements

11 FUTURE OUTLOOK

Going forward the Board will focus on increasing the use of digital technology to strengthen governance oversight and to simplify process implementation to support greater transparency, accountability, efficiency, and effectiveness of enterprise-wide governance systems.

In this regard, the LBF Board is currently exploring the viability of using electronic voting systems, data analytics and dashboards for decision-making, especially to monitor ESG integration, together with mobile applications to promote interactive shareholder engagement

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

The Directors of L B Finance PLC have pleasure in presenting to the shareholders the Annual Report of the Board of Directors on the affairs of the Company together with the Consolidated Financial Statements of the Company and its subsidiaries for the year ended 31st March 2023 and the Independent Auditors Report on those Financial Statements, conforming to the relevant statutory requirements.

This Report includes the information as required by the Companies Act No. 07 of 2007, Finance Business Act (Corporate Governance) Direction No. 05 of 2021 read together with Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended) and the Listing Rules of the Colombo Stock Exchange. It is also guided by the Recommended Best Practices on Corporate Governance.

GENERAL

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

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

The Company is a Registered Finance Leasing Establishment in terms of the Finance Leasing Act No. 56 of 2000.

The Ordinary Shares issued by the Company are listed on the Main Board of Colombo Stock Exchange.

The Company has been affirmed a national long-term rating at A-(Ika) Rating Watch Negative (RWN) by Fitch Ratings Lanka Limited.

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

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

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Level of compliance by the Company
The nature of the business of the Company	Section 168 (1) (a)	Page 227
Signed Group Financial Statements of the Company for the accounting period under review	Section 168 (1) (b)	Page 257 to 367
Auditor's Report on Group Financial Statements of the Company	Section 168 (1) (c)	Page 253 to 255
Changes in Accounting Policies during the accounting period	Section 168 (1) (d)	Page 267
Particulars of entries in the Interests Register made during the accounting period	Section 168 (1) (e)	Page 229
Remuneration and other benefits paid to the Directors during the accounting period	Section 168 (1) (f)	Page 359
Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Page 232
Information on Directorate of the Company at the end of the accounting period	Section 168 (1) (h)	Page 229
Amounts payable to the Auditor as audit fees and fees for other services rendered during the accounting period as a separate disclosure	Section 168 (1) (i)	Page 279
Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Page 232
Annual Report of the Board of Directors on the affairs of the Company to be signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Page 233
Information as per Section 168 (i)(b) to (j) in relation to the subsidiaries	Section 168 (2)	Pages 229, 232 and 264

The declarations as per section 16.1 (viii) of Finance Business Act (Corporate Governance) Direction No. 05 of 2021 are included in the sections on Principal Activities (Page 227), Related Party Transactions (Page 231), Equitable Treatment (Page 233), Going Concern (Page 283) and Directors Statement on Internal Controls (Page 228).

VISION, MISSION AND CORPORATE CONDUCT

The Company's vision, mission and values are given on page 9 of this Report.

PRINCIPAL ACTIVITIES

The Company's principal activities during the year were savings/deposit mobilisation, lending activities including finance lease/ vehicle loan facilities, gold loans, mortgage loans, personal loans and other credit facilities, value added services and digital financial services.

The Company's subsidiaries, LB Microfinance Myanmar Company Limited, carried on micro finance business in Myanmar and Multi Finance PLC carried on business as a Licensed Finance Company.

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

There were no significant changes in the nature of the principal activities of the Company during the year under review. The Directors do hereby declare that to the best

of their knowledge, the Company has not engaged in any activity, which contravenes laws and regulations.

REVIEW OF OPERATIONS

A review of the business of the Company and its subsidiaries and their performance during the year with comments on financial results, future strategies and prospects are contained in the Managing Director's Review on pages 66 to 69 which forms an integral part of this Report.

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

FUTURE DEVELOPMENTS

An overview of the future developments of the Company is given in the Chairman's Message on page 52, Managing Director's Review on page 66 and the Management Discussion and Analysis on page 70.

FINANCIAL STATEMENTS

The Consolidated Financial Statements of the Company and its subsidiaries have been prepared and presented in accordance with the Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRSs) and Sri Lanka Accounting Standards (LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No.42 of 2011 the directions and guidelines issued under the said Finance Business Act and the Listing Rules of the Colombo Stock Exchange.

Consequent to the Audit Committee's recommendations, the Financial Statements were reviewed and approved by the Board of Directors on 31 May 2023.

The Consolidated Financial Statements of the Company and its subsidiaries duly signed by the Chief Financial Officer and two Directors on behalf of the Board which are attached hereto form an integral part of the Annual Report.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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

The Directors confirm that the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and Notes to Financial Statements appearing on pages 257 to 367 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the amendments thereto, Companies Act No. 07 of 2007, directions and guidelines issued under the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

The Statement of Directors' Responsibilities for Financial Reporting is given on page 252

and forms an integral part of the Annual Report of the Board of Directors on the Affairs of the Company.

DIRECTORS' STATEMENTS ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Board has issued a statement on the internal control mechanism of the Company as per Section 16.1 (ix) of Finance Companies (Corporate Governance) Direction No. 05 of 2021.

The said statement which forms an integral part of the Annual Report of the Board of Directors on the Affairs of the Company is given on page 250.

The Board has obtained an Assurance Report from the Independent Auditors on the Directors' Statement on Internal Controls over Financial Reporting as referred to in page 249.

AUDITORS' REPORT

The Report of the Independent Auditors on the Financial Statements of the Company and the Group is given on page 253.

ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

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

	2023	2022
	Rs. '000	Rs. '000
Profit for the year after payment of all the expenses of management, provision for depreciation and amortisation, impairment of loans and other losses, gold loan auction losses and tax on financial services.	11,746,552	11,910,462
Less: Income tax expense	3,286,221	3,248,604
Profit after tax	8,460,331	8,661,858
Unappropriated balance brought forward from previous year	21,849,942	19,754,900
Actuarial gains/(losses) on defined benefit plans	5,217	65,362
Profit available for appropriation	30,315,550	28,482,120
Less: Appropriations		
Dividend paid for previous financial year	1,108,114	2,216,229
Interim dividend payable/paid for current financial year	-	1,662,171
Transfers during the year	423,027	433,568
Total appropriation	1,531,141	4,311,968
Unappropriated balance carried forward	28,784,409	24,170,152
Proposed final dividend	Rs.3/- per share	Rs.2/- per share

RESERVES

The reserves of the Company and the Group with the movements during the year are given in Note 4.36 to the Financial Statements on page 338.

The accounting policies adopted in the preparation of the Financial Statements are given on pages 257 to 367 There were no significant changes to the accounting policies used by the Company during the year under review vis-à-vis those used in the previous year.

INCOME

The income of the Company for the year ended 31st March 2023 was Rs. 42,756 million (in the year 2021/22 it was Rs. 30,159 million)

Group Income during the year under review was Rs. 43,133 million (2021/22 - Rs. 30,157 million)

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

FINANCIAL RESULTS AND APPROPRIATIONS

The profit before tax and net profit after tax decreased by 1% and 2% respectively in the year under review in comparison to those of the preceding year.

The total comprehensive income too decreased by 3% compared to the preceding year

TAXATION

The Income Tax rate applicable to the Company's operations is 30% w.e.f 1 October 2022 (24% in 2021/22)

The Company was also liable for Value Added Tax (VAT) on Financial Services at 18% (2021/22- 18%) and Social Security Contribution Levy (SSCL) on Financial Services at 2.5% w.e.f 1 October 2022.

THE BOARD OF DIRECTORS

The Board of Directors of the Company as at 31st March 2023 consisted of 10 Directors with a balance of skills, wide knowledge and experience in entrepreneurship, banking, finance, audit and assurance, legal and marketing which is appropriate for the business carried out by the Company.

The names of the Directors who held office as at the end of the accounting period are given below and their brief profiles appear on pages 55 to 61.

Executive Directors

Mr. J A S S Adhietty
- Managing Director

Mr. Niroshan Udage
- Deputy Managing Director

Mr. B D A Perera

Mr. R S Yatawara

Non-Executive Directors

Mr. G A R D Prasanna
- Chairman

Mr. M A J W Jayasekara*
- Senior Independent Director

Mrs. Yogadinusha Bhaskaran

Mrs. Ashwini Natesan*

Mr. Dharmadasa Rangalle

Ms Yanika Amarasekera*

*Independent Directors

Appointments during the year

There were no appointments during the year.

Resignations/Cessations during the year

Mr K. D. D. Perera, Executive Deputy Chairman resigned with effect from 10th June 2022. The requisite Regulatory approval was received for the said resignation.

Extension of Office of the Managing Director

Regulatory approval was received under the Finance Business Act, Directions No.05 of 2021 for Mr J A S S Adhietty to continue in office for a period of one (01) year after attaining the age of seventy two (72) years on 4th July 2022.

Retirement by rotation, re-election and re-appointment of Directors / Annual Assessment of continuing Directors

The names of the Directors who are

- (i) subject to retirement by rotation in terms of Articles 85 and 86 of the Articles of Association, and;
- (ii) proposed for re-appointment in terms of Section 211 of the Companies Act, and the applicable provisions thereto,
- (iii) subject to annual assessment of their fitness and propriety to continue as Directors in terms of Finance Business Act Directions No.06 of 2021,

are set out in the Table appearing on the next page.

The Nomination Committee and the Board of Directors have recommended the re-election/re-appointment / continuation of the said Directors, subject to the relevant Regulatory approval/s in terms of the applicable Directions issued under the Finance Business Act.

Directors of the Subsidiaries

L B Microfinance Myanmar Company Limited as at 31st March 2023:

Mr. J A S S Adhietty

Mr. Niroshan Udage

Mr. B D A Perera

Mr. R S Yatawara

Changes during the year

Mr K D D Perera, who served as a Director of the said subsidiary resigned w.e.f. 10th June 2022.

Multi Finance PLC as at 31st March 2023:

Mr. G A R D Prasanna

Mr. R S Yatawara

Mr. J A S S Adhietty

Mr. Niroshan Udage

Mr. B D A Perera

Mrs. Yogadinusha Bhaskaran

Mr. Dharmadasa Rangalle

Changes during the year

Appointments : Mr. G A R D Prasanna, Mr M A J W Jayasekara, Mr. R S Yatawara, Mr Niroshan Udage, Mr B D A Perera, Mr Dharmadasa Rangalle, Mrs Ashwini Natesan and Ms Yanika Amarasekera were appointed w.e.f. 18th May 2022, Mrs Yogadinusha Bhaskaran on 21st July 2022 and Mr J A S S Adhietty on 21st September 2022 respectively.

Resignations : Mrs. C J Atapattu (w.e.f. 27th April 2022), Mr. J P Polwatte (w.e.f. 31st May 2022), Mr. L I Ratnasabapathy (w.e.f. 30th May 2022)

Mr. D T De Alwis and Mr. H F I S Fonseka (w.e.f. 30th May 2022), Mr. Pushpika Jayasundera (w.e.f. 01st June 2022), Mr. M A J W Jayasekara Ms. Ashwini Natesan and Ms. Yanika Amarasekera (w.e.f. 29th March 2023)

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

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

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

The particulars of the Directors Interests in Contracts with the Company are given in Note 6.1 to the Financial Statements on pages 359 to 362 and form an integral part of this Annual Report.

The remuneration paid to the Directors during the year under review is entered in the Interests Register and the aggregate of such remuneration is disclosed in this Annual Report under 'Directors' Remuneration' on page 231.

The relevant interests of Directors in the Shares of the Company as at 31st March 2023 as recorded in the Interests Register are given in this Report under Directors' shareholding on page 231.

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

The Directors of Multi Finance PLC too have disclosed their interests in Shares of the said subsidiary together with their interests in contracts and arrangements with the said subsidiary.

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

Directors' Declarations in terms of Section 16.1 of the Finance Business Act Directions No. 05 of 2021, Corporate Governance

The Chairman and the Directors of the Company have made declarations as per the requirements in the above Directions, that there is no financial, business, family or other material/relevant relationship(s) between the Chairman and the Managing Director and/or amongst the members of the Board.

Name of Director	Applicable Article of the Articles of Association/Section of the Companies Act/ Finance Business Act Directions	Other information
Mr. Ashane Jayasekara	Articles 85 and 86/ Finance Business Act (FBA) Directions No. 06 of 2021	<p>According to Articles 85 and 86, the Directors to retire by rotation at the Annual General Meeting are those who (being subject to retirement by rotation) have been longest in office since their last election or appointment. If one-third (1/3rd) of the Directors eligible for retirement by rotation is not a multiple of three (03), the number nearest to (but not greater than) one-third (1/3rd) shall retire from office. As per the Articles, in calculating the said number, a Director appointed to the office of Chairman and Executive Directors are excluded.</p> <p>As such, the number of Directors subject to retirement by rotation being five (05), one (01) Director should retire by rotation.</p> <p>Accordingly, Mr. Ashane Jayasekara who has been longest in office, since his last re-election retires and offers himself for re-election at the forthcoming Annual General Meeting.</p> <p>The Company has applied to the Director – Department of Supervision of Non Bank Financial Institutions of the Central Bank of Sri Lanka, for the requisite regulatory approval in terms of Finance Business Act Directions No. 06 of 2021, with respect to the said re-election.</p> <p>A resolution will be placed before the shareholders at the forthcoming Annual General Meeting for the re-election of the said Director which will be effective, upon the receipt of requisite regulatory approval as aforesaid.</p>
Mr. J A S S Adhihetty	Section 211 of the Companies Act/FBA Directions No. 05 of 2021 and 06 of 2021	<p>Mr. J A S S Adhihetty, Managing Director of the Company, attained the age of 72 years on 4th July 2022. The Board at its meeting held on 19th April, 2023, having considered the Finance Business Act Directions No.05 of 2021 and the approval granted by the Monetary Board on 29th June 2022, for a period of one (01) year from 4th July 2023, resolved to seek the prior approval of the Monetary Board for a further extension.</p> <p>In terms of Section 210 of the Companies Act, Mr. Adhihetty vacates office at the conclusion of the next Annual General Meeting. In line with the Board's decision to seek an extension of time period for Mr. Adhihetty in terms of the aforesaid Directions No. 05 of 2021 and 06 of 2021 and the Company's application for the requisite regulatory approval thereunder, the Board further resolved to place a resolution before the shareholders at the forthcoming Annual General Meeting in terms of Section 211 of the Companies Act seeking the approval of the shareholders for the re-appointment of Mr. Adhihetty specially declaring that the age limit referred to in Section 210 of the Companies Act shall not apply to Mr. Adhihetty, which will be effective only if the Company receives the requisite regulatory approval in terms of the said Directions.</p>
Mr G A R D Prasanna Mr. N Udage Mr. B D A Perera Mr. R S Yatawara Mrs. Yogadinusha Bhaskaran Mrs. Ashwini Natesan Mr. Dharmadasa Rangalle Ms Yanika Amarasekera	FBA Directions No.06 of 2021	<p>In terms of Section 3.3 of the said Directions, the fitness and propriety of continuing Board of Directors is subject to annual assessment by the Director, Department of Supervision of the Non-Bank Financial Institutions of the Central Bank of Sri Lanka.</p> <p>The Company has applied to the Director – Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, for the requisite regulatory approval in terms of the said Directions and the continuation of the office of the said Directors is subject to receiving the requisite Regulatory approval.</p>

RELATED PARTY TRANSACTIONS WITH THE COMPANY

The Directors have also disclosed transactions, if any, that could be classified as related party transactions in terms of LKAS 24 and have abstained from voting on matters in which they were interested.

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

The aggregate value of transactions of related parties (as defined in LKAS 24 – ‘Related Parties Disclosure’) with the Company are set out in Note 6.1 to the Financial Statements on pages 359 to 362.

The Board confirms that the Company has not engaged in transactions with any related

party in a manner that would grant such party ‘more favourable treatment’ than that accorded to other similar constituents of the Company.

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2023.

DIRECTORS’ REMUNERATION

The remuneration of Directors of the Company and its subsidiaries is disclosed under key management personnel compensation in Note 6.1 to the Financial Statements on page 359.

The Directors shareholding and the relevant interests of Directors in the shares of the Company as at 31st March 2023 and 31st March 2022 are as follows;

RELEVANT INTERESTS OF DIRECTORS’ IN SHARES

	Shareholding as at 31st March 2023	Shareholding as at 31st March 2022
Mr G A R D Prasanna	-	-
Mr. M A J W Jayasekara	-	-
Mr. J A S S Adhihetty	424,480	424,480
Mr. N Udage	2,161,235	1,616,540
Mr. B D A Perera	-	-
Mr. R S Yatawara	8,593	7,620
Mrs. Yogadinusha Bhaskaran	-	-
Mrs. Ashwini Natesan	-	-
Mr. Dharmadasa Rangalle	-	-
Ms Yanika Amarasekera	-	-

Vallibel One PLC, holds 286,729,600 shares constituting 51.75% of the shares representing the Stated Capital of the Company.

Vallibel One PLC is also the holding company of Royal Ceramics Lanka PLC which holds 144,492,928 shares constituting 26.08% of the shares representing the stated capital of the Company.

Mr. J A S S Adhihetty and Mrs. Yogadinusha Bhaskaran are Directors of Vallibel One PLC, where they serve as Non-Executive Director and Managing Director respectively.

BOARD SUBCOMMITTEES

The Board of Directors of the Company has formed six (6) Committees in compliance with the Finance Business Act Directions No. 05 of 2021 and No. 01 of 2022 read together with Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended), Listing Rules of the Colombo Stock Exchange and as per the Recommended Best Practices on Corporate Governance.

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

The composition of the said Committees is as follows:

Board Audit Committee

Mrs . Yogadinusha Bhaskaran - – Chairperson/Non-Executive Director
Mr. M A J W Jayasekara - Independent Non-Executive Director
Mrs. Ashwini Natesan - Independent Non-Executive Director

The Report of the Board Audit Committee appears on pages 236 to 238.

Board Integrated Risk Management Committee (BIRMC)

Mr. M A J W Jayasekara – Chairman/ Independent Non-Executive Director
Mrs. Dinusha Bhaskaran - Non-Executive Director
Mrs. Ashwini Natesan - Independent Non-Executive Director

The Report of the BIRMC appears on page 239 to 241.

Board Human Resource and Remuneration committee

Mr. M A J W Jayasekara – Chairman/ Independent Non-Executive Director
Mr. G A R D Prasanna - Non-Executive Director
Ms . Yanika Amarasekera- Independent Non-Executive Director

The Report of the Board Human Resource and Remuneration Committee appears on page 234.

Board Related Party Transactions Review Committee (RPTRC)

Mrs. Ashwini Natesan – Chairperson/ Independent Non-Executive Director
Mr. M A J W Jayasekara - Independent - Non-Executive Director
Mr. Dharmadasa Rangalle - Non-Executive Director

The Report of the RPTRC appears on pages 242 to 243.

Board Nomination Committee

Mr. M A J W Jayasekera – Chairman – Independent Non Executive Director
Mr. G A R D Prasanna – Non Independent Non Executive Director
Mrs. Ashwini Natesan – Independent Non Executive Director

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

The Report of the Nomination Committee appears on page 235.

Board Information Security Committee

The Board Information Security Committee was formed by the Board to further strengthen the information security and technology risk resilience process of the Company. The Committee will be operationalised from the first quarter of year 2023/24.

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

Mr. M A J W Jayasekara - Independent Non-Executive Director

Mr. B D A Perera - Executive Director

STATED CAPITAL AND DEBENTURES

The Stated Capital of the Company as at 31st March 2023 was Rs. 838,282,159/- represented by 554,057,136 ordinary shares. There were no changes in the Stated Capital of the Company during the year.

The debentures issued by the Company were redeemed on 11th December 2022.

SHARE INFORMATION AND SUBSTANTIAL SHAREHOLDINGS

Shareholders

There were 4,995 shareholders registered as at 31st March 2023 (5,127 shareholders as at 31st March 2022).

Distribution schedule of shareholders, major shareholders, public holding and ratios and market price information

Information as required by the Listing Rules on distribution of shareholding with the respective percentages, twenty largest shareholders, public holding and ratios and market price information are set out on pages 137, 138 and 139 under Financial Review.

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

DIVIDENDS

The Company paid a dividend of Rs. 2/- per Ordinary Share for the year under review out of the profits of the Company.

The Directors have recommended a final dividend of Rs.3/- per share for the year under review on the shares in issue of 554,057,136 to be approved by the

shareholders at the forthcoming Annual General Meeting.

As required by Section 56 of the Companies Act, the Directors have certified that they are satisfied that the Company will, immediately after the said distribution is made, satisfy the solvency test in accordance with the Companies Act and subsequent to such declaration, the Directors have obtained the Auditors certificate of solvency thereon.

In compliance with Guideline on declaration of dividends and repatriation of profits dated 31st January 2023 issued under the Finance Business Act, the Company has obtained the approval from the Director, Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka for the proposed final dividend.

The said Final Dividend will, subject to approval by the shareholders, be payable on 11 July 2023 (to those shareholders who have provided accurate dividend disposal instructions, by way of direct credit to their respective Bank Accounts, through SLIPS) and on 24 July, 2023 (to those shareholders whose payments are to be made by way of cheques).

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

The details of Property, Plant and Equipment are given in Notes 4.24 of the Financial Statements.

The land and buildings owned by the Company are recorded at cost and details of those properties and their market values as at 31st March 2023 as per valuations conducted by H V Manjula Basnayake an Independent Valuer are set out in Note 4.24.9 to the Financial Statements on pages 322.

HUMAN RESOURCES

The Company's employment policy is totally non-discriminatory which respects individuals and provides career opportunities irrespective of the gender race or religion.

As at 31st March 2023, the Company had 3,562 employees (3,806 employees as at 31st March 2022).

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

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

Employee share option schemes/ employee share purchase schemes

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

DONATIONS

During the year under review the Company made donations to the value of Rs. 11.92 million.

The subsidiaries, L B Microfinance Myanmar Company Limited and Multi Finance PLC did not make any donations during the year under review.

AUDITORS

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

The Auditor of the subsidiary company, L B Microfinance Myanmar Company Ltd is DAW Mying Myint Toe Group, Certified Public Accountants and Financial Consultants.

The Auditors of the subsidiary company Multi Finance PLC is Messrs. KPMG, Chartered Accountants.

A total amount of Rs. 8,223,231/- is payable by the Company to the Auditors for the year under review comprising Rs. 4,283,097/- as Audit Fees, and Rs. 2,575,000/- as audit related fees and expenses and Rs. 1,365,135/- for non-audit services. The amounts payable to the Auditors of Multi Finance PLC for the year under review are Rs. 1,252,000/- as Audit Fees – Statutory and Rs. 336,744/- as Audit Fees – Group Audit [The Audit Fee of the Subsidiary in Myanmar – Rs. 561,240/-]

The Auditors of the Company have expressed their willingness to continue in office. The Audit Committee at a meeting held on 10 May 2023 recommended that they be re-appointed as Auditors. A resolution to re-appoint the Auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

RISK MANAGEMENT AND INTERNAL CONTROL

An ongoing process is in place to identify and manage the risks that are associated with the business and operations of the Company. The Directors review this process through the Board Audit Committee and the Board Integrated Risk Management Committee. Specific steps taken by the Company to manage the Risks are detailed in the section on Risk Management on pages 340 to 358.

Directors' statement on Internal Controls over Financial Reporting is on pages 250.

MATERIAL FORESEEABLE RISK FACTORS

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

APPRAISAL OF BOARD PERFORMANCE

A scheme of self-assessment is undertaken annually by each Director in conformity with the Section 1.5 (d) of the Finance Business Act Directions No. 05 of 2021 by answering a self-assessment questionnaire. The responses are collated by the Company Secretary, which are submitted to the Board for discussion and further evaluated by the Board.

The Board also carried out an annual self-evaluation of its own performance and that of the Sub-Committees to ensure that they discharge their duties and responsibilities satisfactorily in terms of the Companies Act No. 07 of 2007, Finance Business Act Direction No. 05 of 2021, Listing Rules of the Colombo Stock Exchange and Best Practices on Corporate Governance.

Board and sub-committee evaluations for the year under review were discussed at the Board Meeting held in the month of May 2023 and those evaluations are maintained with the records of the Company.

CORPORATE GOVERNANCE

The Board of Directors is responsible for the governance of the Company.

The Board has placed considerable emphasis on developing rules, structures and processes to ensure integrity and transparency in all of Company's dealings and on making the best effort in achieving performance and quality profits. The Board has continuously refined the structure and

systems to ensure governance on the lines as defined, being aware all the time that it is accountable to the stakeholders and to the general public.

The Report on Corporate Governance on pages 210 to 226 describes the application of the Corporate Governance practices within the Company during the year under review.

COMPLIANCE WITH LAWS AND REGULATIONS

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

STATUTORY PAYMENTS

The Directors confirm that, to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of employees of the Company and all other known statutory dues as were due and payable by the Company as at the reporting date have been paid or where relevant provided for, except for certain assessments where appeals have been lodged.

ENVIRONMENTAL PROTECTION

The Company has not engaged in any activity that is harmful or hazardous to the environment. Measures taken by the Company on environmental protection are given in the report on Natural Capital on page 192.

OUTSTANDING LITIGATION

In the opinion of the Directors and Company's Lawyers, pending litigation by and against the Company will not have a material impact on the financial position of the Company or its future operations.

CONTINGENT LIABILITIES

Except as disclosed in Note 6.5 to the Financial Statements, there were no material contingent liabilities as at the reporting date.

EVENTS AFTER THE REPORTING DATE

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

EQUITABLE TREATMENT FOR STAKEHOLDERS

The Directors declare that the Company has made all endeavours to ensure fair treatment for all stakeholders including Shareholders and Depositors.

GOING CONCERN

The Board of Directors has reviewed the Company's corporate/business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Company are prepared based on the going concern concept.

ANNUAL GENERAL MEETING

The Notice of the Fiftieth (50th) Annual General Meeting appears on page 444.

ACKNOWLEDGEMENT OF THE CONTENT OF THE REPORT

As required by section 168 (1) (k) of the Companies Act, this Report is signed on behalf of the Board of the Company by two Directors and the Secretaries of the Company in pursuance of the authority granted by the Board by a Resolution passed on 5 June 2023 having acknowledged the contents of this Annual Report.

Signed on behalf of the Board by

GARD Prasanna
Chairman

Sumith Adhietty
Managing Director

P W Corporate Secretarial (Pvt) Ltd
Secretaries

5 June 2023

BOARD HUMAN RESOURCE AND REMUNERATION COMMITTEE REPORT



Ashane Jayasekara

Chairman - Board Human Resource and Remuneration Committee

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

COMPOSITION OF THE COMMITTEE

Committee member	Status
Mr. Ashane Jayasekara	Chairman/ Independent Non-Executive Director
Mr. G A R D Prasanna	Non-Executive Director
Ms. Yanika Amarasekera	Independent Non-Executive Director

ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Committee member	Attendance
Mr. Ashane Jayasekara	4/4
Mr. G A R D Prasanna	4/4
Ms. Yanika Amarasekera	4/4

The Company Secretary functions as the Secretary to the Committee.

The Managing Director and the Executive Directors attend meetings of the Committee by invitation and provide relevant information and their views to the Committee for its deliberations, except when the Executive Directors' own remuneration packages and other matters relating to them are discussed.

REGULATIONS/RULES RELEVANT TO THE FUNCTIONS OF THE COMMITTEE

The Remuneration Committee was formed by the Board in compliance with Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange and its composition and functions are in conformity with the Listing Rules. Upon re-constitution of the Committee on 16th March 2022, it was

re-named as Human Resource and Remuneration Committee in line with Sections 10.1 and 10.5 of the Finance Business Act, Directions No.05 of 2021.

FUNCTIONS

The functions of the Committee include the following

- » To make recommendations to the Board on the Remuneration Policy of the Company.
- » To make recommendations on the compensation and benefits of the Managing Director and Executive Directors.
- » To oversee any major changes in the employee remuneration and benefit structures throughout the Company, to consider and examine such matters as it considers appropriate.
- » To make recommendations on other related matters referred to the Committee by the Board of Directors.

ACTIVITIES DURING THE YEAR

The Committee had four (4) meetings during the year, where it reviewed and made recommendations to the Board on bonus payments to Executive Directors, the structure for staff performance evaluations, increments and promotions, staff salaries in general, tax implication to employees' remuneration consequent to the recent amendments to the Inland Revenue Act and also on the remuneration policy of the Company.

POLICIES AND PROCEDURES

The committee operates within the terms of reference as approved by the Board.

As per the said terms of reference, the Committee shall consist of not less than three (3) members, comprising exclusively of non-executive directors, a majority of whom shall be independent.

The Committee shall meet at least twice in a financial year and additional meetings may be called at any time at the Chairman's discretion or by a member in consultation with the Chairman.

As required by the said terms of reference, Committee reviewed the terms of reference in March 2023, and recommended changes there to be in strict conformity with the Finance Business Act Directions No. 05 of 2021.

REMUNERATION POLICY

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

Through the Remuneration Policy, the Company endeavours to encourage an entrepreneurial mindset by creating a working environment that motivates high performance so that all employees can positively and ethically contribute to the strategy, vision and goals of the Company while upholding its values.

DIRECTORS' REMUNERATION

The total amount paid as Directors' remuneration during the year under review is set out in Note 6.1.1 to the Financial Statements, which is in line with the Policy for Directors' Remuneration adopted by the Board on 17th February 2021.

Ashane Jayasekara
Chairman - Board Human Resource and Remuneration Committee

5 June 2023

BOARD NOMINATION COMMITTEE REPORT



Ashane Jayasekara

Chairman – Board Nomination Committee

Provided a steady hand and a guiding voice to the management team, ensuring that financial reporting processes remain effective and reliable even in times of uncertainty and instability and the committee’s oversight and guidance helped to safeguard the interests of all stakeholders, promoting transparency, accountability, and good corporate governance within the LB Finance PLC.

COMPOSITION OF THE COMMITTEE

Committee member	Status
Mr. Ashane Jayasekara	Chairman/ Independent Non-Executive Director
Mr. G A R D Prasanna	Non-Executive Director
Mrs. Ashwini Natesan	Independent Non-Executive Director

ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Committee member	Attendance
Mr. Ashane Jayasekara	5/5
Mr. G A R D Prasanna	5/5
Mrs. Ashwini Natesan	5/5

The Company Secretary functions as the Secretary to the Committee.

REGULATIONS/RULES RELEVANT TO THE FUNCTIONS OF THE COMMITTEE

The Nomination Committee was formed in line with the Best Practices on Corporate Governance and the present composition of the Committee is in line with Section 10.4 of Finance Business Act Directions No.05 of 2021.

FUNCTIONS

The functions of the Nomination Committee include:

- » To regularly review the structure, size, composition and competencies of the Board, the requirement of additional/ new expertise and the succession arrangements for retiring Directors and make recommendations to the Board with regard to any structural changes in the Board.

- » To consider the making of any appointments to the Board and to provide advice and recommendations and key responsible persons to the Board on such appointments;
- » To ensure that Directors are fit and proper persons to hold office as per the criteria set out in the Directions issued by the Central Bank of Sri Lanka and the relevant Statutes;
- » To evaluate and recommend the appointment, promotion, extension, transfer and re-designation of the Managing Director and Executive Directors and key management personnel.
- » To evaluate and recommend (where appropriate) the re-election of Directors who are retiring by rotation to be placed before the shareholders, for re-election.
- » To oversee and review the Board’s succession plan together with the Succession plan for key responsible persons.
- » To consider and examine such matters as it considers appropriate.
- » To make recommendations on other related matters referred to the Committee by the Board of Directors.

ACTIVITIES DURING THE YEAR

The Committee met five times during the year to deliberate on re-election of Directors retiring at the Annual General Meeting, recommendation on seeking an extension of period of office of the Managing Director beyond the age limit of 70 years in terms of the Finance Business Act Directions 05 of 2021, succession planning for key management personnel, to review and make its recommendations on a revised organizational chart, appointment of two Directors and recommendations for the appointment of Chairman and Senior Director. The Committee’s deliberations on the appointment of a Senior Director due to the non-independence of the Chairman designate and the decision thereon,

was reached, without the participation of Mr Ashane Jayasekara, the Chairman of the Committee.

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

Based on the Committee’s recommendations, extension of the period of office of the Managing Director, review of KRP succession plan and organisational structure and the appointment of Chairman and Senior Director were approved by the Board subject to the requisite regulatory approvals. Further the Board also approved revised organisational structure as recommended by the Committee.

POLICIES AND PROCEDURES

The Nomination Committee operates within the terms of reference as approved by the Board. As per the said terms of reference, the Committee shall be constituted with Non-Executive Directors, majority of whom may preferably be Independent Non-Executive Directors.

The Committee shall meet at least twice in a financial year and additional meetings may be called at any time at the Chairman’s discretion or by a member in consultation with the Chairman.

As required by the said terms of reference, the Committee reviewed the revised terms of reference in May 2022, incorporating the changes necessitated by Direction No.10.4 of Finance Business Act Directions 05 of 2021.

Ashane Jayasekara
Chairman - Board Nomination Committee

5 June 2023

BOARD AUDIT COMMITTEE REPORT



Mrs. Yogadinusha Bhaskaran

Chairperson - Audit Committee

Provided a steady hand and a guiding voice to the management team, ensuring that financial reporting processes remain effective and reliable even in times of uncertainty and instability and the committee's oversight and guidance helped to safeguard the interests of all stakeholders, promoting transparency, accountability, and good corporate governance within the LB Finance PLC.

COMPOSITION OF THE COMMITTEE

During the year, the Board Audit Committee was composed of three Non-Executive Directors, a majority of whom are independent, in compliance with regulatory composition requirements. The Board is confident that the current members of the Committee poses the necessary competence in financial and technology related matters and have recent and relevant experience.

Board member	Board status
Mrs. Yogadinusha Bhaskaran	Non-Executive Director
Mr. Ashane Jayasekara	Independent Non-Executive Director
Mrs. Ashwini Natesan	Independent Non-Executive Director

The Managing Director, Deputy Managing Director, Executive Directors and the senior management of LBF including Chief Internal Auditor and Chief Financial Officer attended the meetings by invitation. The members of the management team and the Company's External Auditor, Messrs. Ernst & Young were invited to participate at the meetings as and when required. P W Corporate Secretarial (Pvt) Ltd acted as Secretary to the Committee, the proceedings of which were periodically reported to the Board. The profiles of the Audit Committee members are given on pages 58 to 61.

MEETING ATTENDANCE

Board member	Attendance
Mrs. Yogadinusha Bhaskaran	13/13
Mr. Ashane Jayasekara	13/13
Mrs. Ashwini Natesan	13/13

AUDIT COMMITTEE CHARTER

The Board approved charter of the Audit Committee is in place and it clearly defines the terms of reference of the committee. The Audit Committee Charter is reviewed annually to ensure that all new developments related to audit committee are duly incorporated. The audit committee charter was last reviewed and approved by the Board of Directors in June 2022.

The fundamental role of the Audit Committee is to assist the board in discharging its oversight responsibilities in the areas of internal and external audits, internal financial controls and financial reporting process, other internal controls and regulatory compliances.

The audit committee functions are regulated in conformity with the finance business act direction no. 5 of 2021 on corporate governance, continuing listing rules on

corporate governance issued by CSE and code of best practice on corporate governance issued by CA Sri Lanka.

COMMITTEE RESPONSIBILITIES

- ▶ The primary objective of the Audit Committee is to assist the Board in its independent oversight of the accuracy and integrity of the financial statements, internal control systems and compliance with company policies, legal and regulatory requirements. This is essential in safeguarding the interests of all stakeholders, including shareholders and depositors.
- ▶ The Committee is responsible for supervising the effectiveness of the internal control system, financial reporting, internal audit function, risk management, and compliance with applicable laws, regulations and directives from the CBSL and other regulatory bodies. Additionally, committee ensures the adequacy and effectiveness of the organization's governance process.
- ▶ The Committee shall exercise its independent oversight over the internal and external assurance processes to ensure that both auditors maintain their independence, objectivity and the effectiveness of the audit process. The committee considers relevant local and global professional and regulatory requirements to ensure compliance.
- ▶ The Audit Committee shall ensure that the company adopts and adheres to highest level of standards in corporate governance practices, prime ethical standards and industry best practices in the best interest of all stakeholders.
- ▶ The committee is responsible for reviewing internal audit reports and working with senior management to identify and address control weaknesses, procedure violations,

frauds and errors. The committee takes necessary precautionary measures to mitigate any risks may arise.

- ▶ The Committee is provided with adequate resources to fulfill its duties, including support from the Internal Audit Department, the external auditor, legal counsel and management. The committee examines all matters relating to the Company's accounting principles and practices, as well as reviews all material financial, operational and compliance controls.
- ▶ Examining statutory examination reports and ensure necessary corrective action are timely taken and monitor the implementation of action plan.

COMMITTEE ACTIVITIES DURING THE FINANCIAL YEAR

Financial reporting system

The Committee assisted the Board of Directors in the discharge of its duties by reviewing the company's financial reporting system. The Committee ensured that accounting policies, practices and internal controls are adequate to provide reasonable assurance that the financial reporting system is effective and efficient in providing reliable and timely information. The Committee discharged its duties with particular reference to the following:

- ▶ The preparation, presentation and adequacy of the disclosures in the Company's annual and interim financial statements in conformity with Sri Lanka accounting standards, regulatory and statutory requirements applicable to LBF;
- ▶ The rationale and basis for the 'significant estimates and judgments' underlying the financial statements;
- ▶ The systems and procedures in place to ensure the accuracy of recording all transactions in the books of accounts; and
- ▶ The effectiveness of the financial reporting system/s including the management accounts to ensure reliability of the information provided to the Board and other stakeholders of the Company.
- ▶ The annual and the quarterly financial statements have been reviewed and recommended for the approval of the Board.
- ▶ The Committee focused special attention on the assessment of adequacy of provision

for Expected Credit Loss (ECL) recognized in the financial statements by factoring the potential implications on prevailing economic condition of the country.

Compliance monitoring mechanism

Statutory and regulatory compliances are on priority. Mechanisms to ensure timely and effective implementation of regulatory requirements are necessary to safeguard the interests of all stakeholders. Process owners are responsible for complying with all regulations as part of their standard operating procedure.

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

A process has been set up to obtain periodic confirmations from the senior management regarding compliance with the statutory and regulatory requirements through the compliance function. The Committee also obtains assurance from internal auditors on several key regulatory compliance of the Company, in line with their respective internal audit programs.

A process is in place to establish new procedures / processes, or amending the existing, to facilitate new statutory / or regulatory requirements come in to effect. The compliance officer agrees on internal timelines with the respective process owners when a significant change in people, processes or systems are effected as a result of new regulations.

Significant directions introduced by CBSL namely; direction no. 01 of 2020 on Classification and Measurement of Credit Facilities, direction no. 05 of 2021 on Corporate Governance, direction no. 01 of 2022 on Technology Risk Management and Resilience have been incorporated to operations of the Company during the year under review. The direction no. 03 of 2022 in relation to mobile phone based e-money services have been followed up by the Compliance Officer and the implementation status is regularly reviewed by the Committee at the monthly meetings.

The statutory examination report of CBSL has also been reviewed in its monthly meetings and necessary remedial actions have been taken as agreed in the time-bound action plan.

Internal assurance

The Chief Internal Auditor reports directly to the Board Audit Committee and provides independent assurance to the Committee in discharging its duties. The Committee ensures that the internal audit function is independent of the activities it audits and it possesses proficiency and exercises due professional care. The Board approved procedure manual for Internal Audit Department is in place to reflect current practices of the Internal Audit Department. The procedure manual was last reviewed and approved by the Board in June 2022.

A risk-based audit methodology and approach has been adopted and all auditable areas/ processes of the company are covered. The risk-based annual internal audit plan is reviewed by the Committee before commencement of the financial year and assesses the adequacy of resources for the department to provide uninterrupted assurance service. The Committee has reviewed the performance of the chief internal auditor for the period.

The Committee reviewed the efficacy of the internal control system and compliance with regulatory requirements and also the Company's accounting and operational policies through the internal audit function. Prior to the commencement of audits, the scope of audit is reviewed by the Committee which recommends amendments where necessary, prior to approval. Control weaknesses highlighted in the internal audit reports are critically examined by the Committee. All observations are graded into separate risk groups based on the risk grading matrix adopted by the company and action plans are prioritized according to the severity. Follow-up action taken by the management on the audit recommendations are also reviewed and recommends re-audits where necessary, to ensure the effectiveness of the internal controls.

The Committee paid high level attention on the company's information systems and its supporting technology infrastructure to ascertain the adequacy of internal controls and effectiveness and efficiency of such investments are fulfilled while ensuring the

BOARD AUDIT COMMITTEE REPORT

confidentiality, integrity and availability of the processes supports for financial reporting. The IS Audit team independently assessed the level of confidence in line with industry standards such as ISO 27001:2022, COBIT, NIST, CIS etc., and other statutory/ regulatory directions to provide assurance at the monthly Audit Committee meetings.

External assurance

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

The Committee reviewed the independence, objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices. The Committee together with management reviewed and discussed the scope of audit, approach and audit plan with the external auditor, Messrs. Ernst & Young, prior to the commencement of the audit for 2022/23. The Committee reiterated the necessity of reviewing the compliance status on regulatory and statutory requirements, preparation of financial statements in conformity with relevant accounting principles and reporting obligations, cybersecurity aspects and other internal control measures.

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

The Committee met the external auditors to discuss the management letter pertaining to the previous year's audit and the management's response thereto. Follow-up actions were taken to ensure that the recommendations contained in the management letter were implemented by management.

The Committee reviewed the non-audit services provided by the auditor to ensure that the provision of these services does not impair their independence and objectivity. The Committee is satisfied that there is no conflict of interests between the Company and the

Auditor which would hinder the independence and objectivity of the Auditor. The Policy for engaging External Auditor Non-Audit services was reviewed and approved in June 2022.

During the year, the Committee evaluated the performance of the external auditor. The Audit Committee has recommended to the Board of Directors that Messrs. Ernst & Young, Chartered Accountants, be reappointed as the external auditor for the financial year ending 31st March 2024, subject to the provisions made in new corporate governance direction no. 05 of 2021 and the approval of the shareholders at the next annual general meeting.

Internal Control systems

Various processes have been implemented by the Committee to ensure the efficiency and effectiveness of company's internal control systems. Key processes related internal controls are regularly reviewed by the internal audit department 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. Status of remediation plans are updated at the monthly audit committee meetings.

In addition, a process has been established to assess the effectiveness of the company's internal control systems and internal controls over financial reporting.

GOOD CORPORATE GOVERNANCE AND WHISTLEBLOWING POLICY

The highest standards of corporate governance and adherence to the internal policies and procedures were ensured by the Committee to establish good governance within the organisation. The requirement of establishing new policies/ procedures / and amending the existing policies/ procedures according to the new corporate governance direction no. 05 of 2021 and other statutory / regulatory requirements have been identified by the committee and processes are in place to duly comply the requirements. The Committee is satisfied with the present corporate governance framework of the organisation which ensures a balance of power and authority.

The Committee ensures the Whistleblowing Policy of the Company is a current, active set of measures to which all employees/ incidents

have recourse. There was only one incident reported by a whistleblower during the year and necessary investigations and actions were implemented as per the provisions made in the whistle-blowing policy. All employees are encouraged to practice whistleblowing if they suspect any wrongdoing. Senior Management, from time to time conducts awareness programs to encourage staff to raise genuine concerns. The Compliance Officer reports on the whistleblowing incidents to the Committee each quarter end. The Committee remains committed to follow-up on any future complaints/ incidents, should they occur. The whistleblowing policy has been reviewed and revised in March 2023 with the intention of further strengthening the existing process.

TRAINING AND DEVELOPMENT OF COMMITTEE MEMBERS

Continuous training and professional development have been undertaken by committee. Attending virtual and physical seminars, conferences, workshops, presentations done by internal and external officers on the areas such as new developments, new accounting standards, tax regulations, new statutes and directions issued by the Central Bank of Sri Lanka.

AUDIT COMMITTEE EFFECTIVENESS

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

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



Mrs. Yogadinusha Bhaskaran
Chairperson - Board Audit Committee

5 June 2023

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT



Ashane Jayasekara

Chairman – Board Integrated Risk Management Committee

The exceptional circumstances faced throughout the year called for a more resilient and forward-thinking approach to risk management. In response to the rapid changes in the operating landscape, the BIRMC conducted thorough reviews and continuous revisions during the year.

COMPOSITION OF THE COMMITTEE

Board member	Board status
Mr. Ashane Jayasekara	Independent Non-Executive Director (Senior Director)
Mrs. Yogadinusha Bhaskaran	Non-Executive Director
Mrs. Ashwini Natesan	Independent Non-Executive Director

The Managing Director, Deputy Managing Director, Executive Directors and the senior management of LBF including Chief Risk Officer attended the meetings by invitation.

MEETING ATTENDANCE

Board member	Attendance
Mr. Ashane Jayasekara - Independent Non-Executive Director (Senior Director)	6/6
Mrs. Yogadinusha Bhaskaran - Non-Executive Director	6/6
Mrs. Ashwini Natesan - Independent Non-Executive Director	6/6

The Board Integrated Risk Management Committee (BIRMC) is a Board appointed committee chaired by an Independent Non-Executive Director in compliance with the Finance Business Act Direction No. 5 of 2021 Corporate Governance issued by the Monetary Board of the Central Bank of Sri Lanka.

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

COMMITTEE RESPONSIBILITIES

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

- ▶ Develop risk appetite through a Risk Appetite Statement (RAS), which articulates the individual and aggregate level and types of risk that the Company will accept, or avoid, in order to achieve the strategic business objectives.
- ▶ Review and approve, at least annually, the Company's overall risk governance structure, and the risk management policy & procedure.

- ▶ Assess all material risks i.e. credit, market, liquidity, operational, strategic, IT and information security risk of the Company at least once in two months basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board.
- ▶ Monitor and approve, as required, the Company's material strategies, frameworks, plans, policies, processes, models, limits and regulatory requirements in place to govern risk-taking that are consistent with the risk management strategy and the established risk appetite of the Company.
- ▶ Review the adequacy and effectiveness of all management level committees such as Credit Committee, Asset-Liability Committee, IT Steering Committee, Sustainability Committee and Business Continuity Management Committee to address specific risk and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.
- ▶ Review any issues raised by Regulator, External Audit or Internal Audit that may materially impact the Company's risk management framework or the risk management.
- ▶ The Committee shall:
 - receive reports from management concerning risks related to capital adequacy, asset quality, credit, market, liquidity, operational and any emerging risks in order to oversee these risks and assess their effect on capital levels.

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

- receive reports from management concerning resolution of significant risk exposures and risk events, in order to monitor them.
- ▶ Take prompt corrective action to mitigate the effects of specific risk in the case such risks are at levels beyond the prudent levels, decided by the Board on the basis of the Company's policies and regulatory and supervisory requirements.
- ▶ Assess all aspects of risk management including business continuity and disaster recovery plans.
- ▶ Submit a risk assessment report to the Board Meeting following the BIRMC meeting seeking the Board's view, concurrence and /or specific directions.
- ▶ Oversee and review the outcomes of stress testing of the risk portfolio, including both scenario analysis and sensitivity analysis for the capital adequacy assessment process and liquidity adequacy assessment process.
- ▶ Oversee the reports from management regarding the Company's insurance strategy.
- ▶ Review new products / processes of the Company and recommend the proposed products / processes for Board approval.
- ▶ Oversee management processes to ensure adherence to the Company's Risk Management Policy & Procedure.
- ▶ Review the overall and the individual branch level risk reports on a quarterly basis.

COMMITTEE ACTIVITIES DURING THE FINANCIAL YEAR

Credit Risk

- ▶ Existing credit risk limits in the Risk Appetite Statement were reviewed.
- ▶ Reviewed the Credit Scoring Methodology and rationale used for internal customer credit scoring model
- ▶ Local and global macro-economic factors were discussed with a view to identify the impact of such factors on the Company in order to initiate actions in a proactive manner.

- ▶ Reviewed the activities of the Credit Committee through the assessment of the performance of significant exposures against the Company.
- ▶ Reviewed and approved the amendments to the Credit Risk Management Framework and Policy.

Capital Adequacy

- ▶ The Company proactively adopted the Internal Capital Adequacy Assessment Process (ICAAP) in accordance with the BASEL III accord. While this regulatory requirement is typically applicable only to banks, the Company voluntarily embraced it.

Liquidity and Market Risk

- ▶ Undertook more frequent cash flow projections to safeguard the Company's liquidity position especially in the tight market liquidity environment.
- ▶ Performed frequent stress testing to ensure liquidity buffers remained within Board approved limits.
- ▶ Reviewed the Gold Price outlook to assess the impact of gold price volatility.
- ▶ Reviewed the adequacy and effectiveness of ALCO activities by assessing the asset and liability limits, single borrower exposure/single group exposure, single depositor exposure/large depositor exposure, duration of deposits and optimal funding mix.
- ▶ Reviewed the liquidity position and liquidity management strategies of the Company.
- ▶ Risk Appetite Statement was further strengthened by reviewing the investment limits.

IT and Information Security

- ▶ A formal Technology Risk Management framework was formulated and implemented encapsulating the requirements set out under the Finance Business Act Direction no. 1 of 2022 on Technology Risk Management and Resilience. This framework has been broadly reviewed by committee members to ensure the framework covered committee expectations and company risk spectrum.

- ▶ Close attention from committee on rectification of reported cyber and technology audit findings and ensured management commitment towards technology and cyber governance
- ▶ Close attention has been given on the newly established IT and Cyber Security policies to ensure company's tech directions are correctly placed to meet organizational objectives
- ▶ Continuous attention has been given on the implementation status of technology controls as per the requirements set forth in the tech direction.
- ▶ Quarterly review of Tech and Cyber risk register to check the management commitment towards mitigating the open cyber risks.
- ▶ Close attention has been given on the implementation of policy framework and provided expertise advisory on aligning personal data protection aspects as per new Personal Data Protection Act.
- ▶ More direct close attention has been given on the tech and cyber risk aspects discussed in ITSC.

Operational and Human Resource Risks

- ▶ Fraud risk assessment process was further strengthened by incorporating this process into Operational Risk Policy and Framework, in order to establish an anti-fraud culture in the organization.
- ▶ Continuous reviewed and strengthened of Branch risk assessment process in terms of operational risk.
- ▶ Reviewed the adequacy of insurance risk coverage.
- ▶ Reviewed the operational risks pertaining to LB Microfinance Myanmar subsidiary.

Compliance

- ▶ Continuous monitoring of implementing new rules and regulations issued by the regulatory authorities.
- ▶ Reviewed the annual risk assessment for existing outsourced activities and new outsourcing arrangements.

- ▶ Reviewed quarterly Anti Money Laundering (AML) and Countering of Financing of Terrorism (CFT) reports tabled by the Compliance Officer.
- ▶ Reviewed the annual risk assessment of Money Laundering and Terrorist Financing (ML & TF) risks of the customers, deposit products, lending products, processes and the overall Company.
- ▶ Assessed the Group's compliance with laws, regulations and regulatory guidelines, CBSL directions, internal policies in all areas of business operations.

General

- ▶ Monitored the effectiveness of the risk communication framework in place to escalate the new risks faced by each department in a timely manner and improvements were recommended to streamline the process.
- ▶ Potential risks arising from recent changes in the business environment were discussed with a view to identify the impact of such events on the achievement of the Company's objectives and to initiate remedial action in a proactive manner.
- ▶ Reviewed the Key Risk Indicators to identify any significant risks and emerging risks.
- ▶ Reviewed and approved the risk appetite statement of the Company.
- ▶ Reviewed and approved amendments to the BIRMC Terms of Reference as per relevant regulations and best practices.
- ▶ The results of stress tests were reviewed in terms of material risks such as credit default / concentration risk, liquidity risk and market risk.



Ashane Jayasekara
Chairman
Board Integrated Risk Management
Committee

5 June 2023

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT



Ashwini Natesan

Chairperson - Board Related
Party Transactions Review
Committee

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

COMPOSITION OF THE COMMITTEE

Committee member	Status
Mrs. Ashwini Natesan	Chairperson/ Independent Non-Executive Director
Mr. Ashane Jayasekara	Independent Non-Executive Director
Mr. Dharmadasa Rangalle	Non-Executive Director

ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Committee member	Attendance
Mrs. Ashwini Natesan	6/6
Mr. Ashane Jayasekara	6/6
Mr. Dharmadasa Rangalle	5/6

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

REGULATIONS/RULES RELEVANT TO THE FUNCTIONS OF THE COMMITTEE

The Board Related Party Transactions Review Committee (RPTRC) of the Company was established by the Board on 22nd September 2015 in accordance with Section 9 of the Listing Rules of the Colombo Stock Exchange to ensure compliance with those Rules thereby enhancing the Company's internal control mechanisms.

FUNCTIONS

Scope of the Committee includes:

- ▶ To manage relationships with related parties to uphold good governance and the best interests of the Company
- ▶ To provide an independent review, approval and oversight of Related Party Transactions (RPTs) (except those expressly exempted by the Charter) on terms set forth in greater detail in the Policy
- ▶ To review the Charter and Policy annually and recommend amendments to the Charter and the Policy to the Board as and when determined to be appropriate by the Committee.
- ▶ Determining whether Related Party Transactions that are to be entered into by the Company require the approval of the Board or Shareholders of the Company;
- ▶ Establishing guidelines in respect of Recurrent Related Party Transactions, for senior management to follow in its ongoing dealings with the relevant related party
- ▶ Ensuring that no Director of the Company shall participate in any discussion of a proposed Related Party Transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the Related Party Transaction to the Committee
- ▶ Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulations are made in a timely and detailed manner

ACTIVITIES DURING THE YEAR

- ▶ The Committee reviewed the recurrent RPTs entered into by the Company, Related Parties as at the end of every quarter and the Affirmative Statements by the Head of Finance re-assuring that all recurrent transactions entered into during the quarter were those, which have been entered into on an arms-length basis where no favourable terms have been offered to related parties and that there had not been any non-recurrent transactions during the quarter under review (except the two non-recurrent transactions referred to below).
- ▶ The Committee reviewed, two non recurrent RPTs during the year and made recommendations and communicated its observations to the Board. One of those transactions was a continuation of a transaction which was under review the previous financial year and extended to year under review due to changes in the ownership structure of the related party. Upon extended deliberations on the matter the Committee communicated its recommendations to the Board, and the Board approved the said related party transaction at its meeting held in March 2023.

The other non-recurrent RPT was reviewed by the Committee as required by the RPT Charter and recommended to the Board.

Neither of the above non-recurrent RPTs exceeded the threshold for immediate disclosure to the Colombo Stock Exchange as per the Listing Rules.

- ▶ The Committee revisited the guidelines for recurrent transactions in line with the provisions of the Finance Business Act Directions No. 5 of 2021 on Corporate Governance and recommended changes to the RPT Policy arising therefrom.
- ▶ The Committee reviewed the RPT Charter and recommended amendments thereto for approval by the Board to be in conformity with the new Corporate Governance requirements.

POLICIES AND PROCEDURES

- ▶ The RPTRC operates within the Charter of the Committee as approved by the Board of Directors. It includes a RPT Policy whereby the categories of persons/entities who shall be considered as 'related parties' have been identified.
- ▶ In accordance with the RPT Policy, Directors are required to make and have made self-declarations for the purpose of identifying parties related to them and wherever such declarations are made, they are minuted by the Company Secretary. The Company Secretary communicates any changes in the Related Parties to the officer responsible for collation of information on related parties.
- ▶ The Company uses a RPT System that enables the Company to retrieve data on RPTs throughout the Company's network. Based on the information as disclosed by the Directors and communicated by the Company Secretary to the relevant officer, the database of related parties maintained in the RPT system is continuously updated and the system automatically generates a comprehensive report every quarter for Management's review, which is also tabled at RPTRC meetings and where necessary, at Board Meetings held after the completion of the relevant quarter. The said report reflects all types of transactions with related parties including general payments, creditors, debtors, savings, fixed deposits and lending.
- ▶ In its review of RPTs, RPTRC considers the terms and conditions of the RPT, value, and the aggregate value of transactions with the said related party during the financial year, comparison with market pricing etc. in order to determine whether they are carried out on an arm's length basis, the disclosure requirements as

per the Listing Rules of the Colombo Stock Exchange and the level of approval required for the respective RPTs are complied with.

- ▶ The RPTRC ensures that all transactions with related parties are in the best interests of all stakeholders, with adequate transparency in processes and are in compliance with the Listing Rules and the relevant Directions as applicable to Licensed Finance Companies.
- ▶ The Committee has established guidelines in respect of Recurrent RPTs to be followed by the Management of the Company, in the Company's dealings with related parties.
- ▶ The Committee has also suggested mechanism that can be followed by the Management of the Company whilst reporting that related party transactions are being conducted at arm's length.
- ▶ Reviewing and approval of RPTs are either at a meeting of a majority of the members who form the quorum or by circulation, approved by all the members.

The Committee reviewed the RPT Policy and Charter during the year under review and recommended amendments thereto.

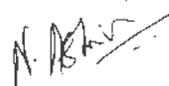
RELATED PARTY TRANSACTIONS/ DISCLOSURES DURING THE YEAR

1. Information on all related parties, as extracted as at the end of each quarter, was presented to the RPTRC and where necessary, to the Board at their meetings held in the immediately following month
2. All Directors made disclosures of any transactions entered/to be entered into by the respective Directors and/or any related parties of the said Director, which were minuted by the Company Secretary. Additionally if any Director assumes office as a Director of any company, the Director concerned makes a disclosure to the Board which is then captured by the Company Secretary and passed on to the officer concerned.
3. The value of non-recurrent RPTs during the year was below the threshold for immediate disclosure in terms of Rule 9.3.1 of the Listing Rules or disclosure in the Annual Report as per Rule 9.3.2 (a) of the Listing Rules.

4. The aggregate value of recurrent Related Party Transactions entered into during the year was below the threshold for disclosure in the Annual Report as per Rule 9.3.2(b) of the Listing Rules.
5. The aggregate value of all RPTs during the year is disclosed in Note 6.1 to the Financial Statements in terms of LKAS 24 – Related Party Disclosures.

DECLARATION

A declaration by the Board of Directors as an affirmative statement of the compliance with the Listing Rules pertaining to related party transactions is given on page 248 of the Annual Report



Ashwini Natesan
Chairperson
Board Related Party Transactions Review
Committee

5 June 2023

BOOKLET 02

Our Financial Report



Transforming and evolving in the midst of adversity to deliver

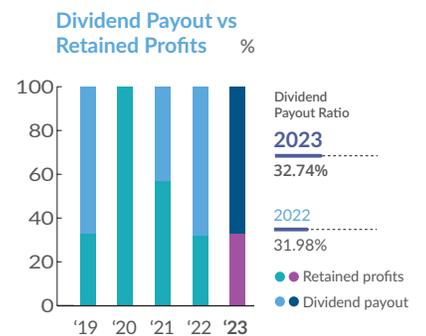
THE RIGHT VALUE AT THE RIGHT TIME

An inherent ability to shape and mould ourselves to transform challenges into opportunities and deliver consistent value.



Financial Statement Highlights

OPERATING RESULTS



PROFITABILITY RATIOS



EQUITY RATIOS

Earnings per Share (EPS) Rs.



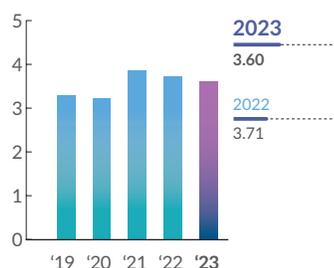
Market Capitalisation Rs. Bn



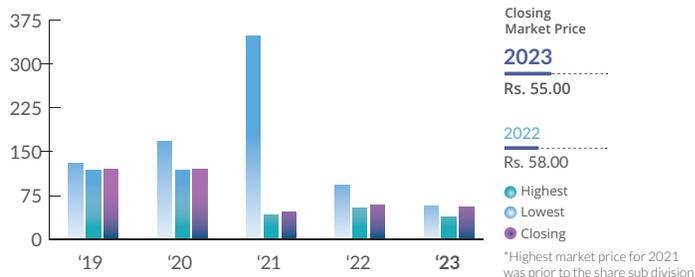
Net Asset Value per Share Rs.



Price Earnings Ratio No. of times

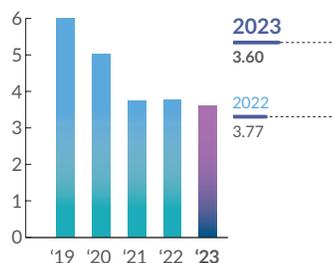


Market Price per Share* Rs.

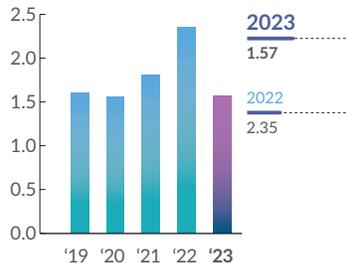


DEBT RATIOS

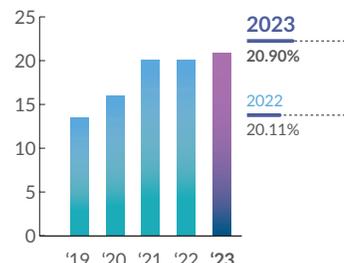
Debt to Equity Ratio No. of times



Interest Cover No. of times

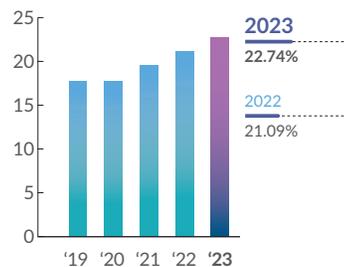


Equity Assets Ratio %

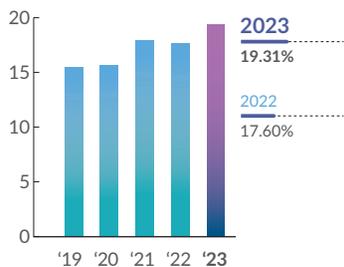


LIQUIDITY RATIOS

Quick Asset Ratio %



Liquidity Ratio %



Total Liquidity Reserves Rs. Bn



Financial Calendar

2022/23

Authorisation for Issue of Audited Financial Statements for 2021/22

May 18, 2022

Held 49th Annual General Meeting of the Company

June 30, 2022

Publication of Interim Financial Statements for the Quarter Ended 30 September 2022

October 19, 2022

Publication of Interim Financial Statements for the Quarter Ended 31 March 2022

May 19, 2022

Publication of Interim Financial Statements for the Quarter Ended 30 June 2022

July 21, 2022

Publication of Interim Financial Statements for the Quarter Ended 31 December 2022

January 18, 2023

Publication of Annual Report for the Financial Year Ended 31 March 2022

June 7, 2022

Payment of Final Dividend of Rs.2.00 per Share for the Financial Year Ended 31 March 2022

July 22, 2022

Payment of Interim Dividend of Rs.2.00 per Share for the Financial Year Ended 31 March 2023

May 17, 2023

2023/24



50th Annual General Meeting of the Company

May 17, 2023

Publication of Interim Financial Statements for the Quarter Ended 31 March 2023

June 7, 2023

Publication of Annual Report for the Financial Year Ended 31 March 2023

July 24, 2023

Payment of Final Dividend of Rs.3.00 per Share for the Financial Year Ended 31 March 2023

Submission of the Interim Financial Statements in Terms of the Rule 7.4 of the Colombo Stock Exchange (CSE)	2022/23 Submitted on	2023/24 to be Submitted on or before
For the 3 Months Ended June 30 (Unaudited)	July 21, 2022	August 15, 2023
For the 3 and 6 Months Ended September 30 (Unaudited)	October 19, 2022	November 15, 2023
For the 3 and 9 Months Ended December 31 (Unaudited)	January 18, 2023	February 15, 2024
For the 3 Months and Year Ended March 31 (Unaudited)	May 17, 2023	May 30, 2024

Publication of the Six Month Financial Statements as per Requirements of the Central Bank of Sri Lanka	2022/23 Published in News Papers on			2023/24 to be Published on or before
	English	Sinhala	Tamil	
For the Year Ended March 31 (Audited)	June 28, 2022	June 28, 2022	June 28, 2022	June 30, 2023
For the 6 Months Ended September 30 (Unaudited)	November 29, 2022	November 29, 2022	November 29, 2022	November 30, 2023

Directors' Statement on Internal Control

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

In line with the section 16 (1) (ix) of the Finance Business Act Direction No. 05 of 2021 – Corporate Governance, and Principle D.1.5 of the Code of Best Practice on Corporate Governance 2017 issued by Chartered Accountants of Sri Lanka, the Board of Directors (“Board”) of LB Finance PLC (“Company”) presents this report on internal control over financial reporting.

The Board has overall responsibility for ensuring the adequacy and effectiveness of internal control over financial reporting of the Company. The system of internal controls is primarily designed to manage the Company’s key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failing to achieve the policies and business objectives. However, it is important to note that the system of internal controls stipulated can provide reasonable but not absolute assurance against material misstatement of financial information, records, or against financial losses and frauds.

In light of the above, the Board has established a continuous process of identifying, evaluating and managing the significant risks faced by the Company. This includes enhancing the system of internal control over financial reporting, especially when there are changes to the business environment or regulatory guidelines. The Board regularly reviews this process by assessing key processes related risks against the compensating controls that may affect significant accounts of the Company.

The management is tasked with assisting the Board in the implementation of the policies and procedures related to risk and control. This includes identifying and assessing the risks faced by the Company as well as providing inputs on design, operation and monitoring of internal controls over financial reporting to mitigate and control these risks.

The Board is confident that the system of internal control over financial reporting is adequate to provide reasonable assurance regarding the reliability of financial reporting. This ensures that the preparation of the financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Key Features of the Process Adopted in Applying and Reviewing the Design and Effectiveness of the Internal Control System Over Financial Reporting

The Company has established a comprehensive process for reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting which include the following key features:

- » The Board has established specialised Sub Committees to assist in ensuring the effectiveness of the Company’s day-to-day operations in line with the corporate objectives, strategies, annual budget as well as the approved policies and business directions.
- » Policies, charters, procedures are in place covering functional areas of the Company, recommended by the Board appointed Committees, and are approved by the Board. All policies, charters and procedures are regularly reviewed and approved by the Board. The Board Audit Committee follows up the regular reviews of policies, charters, and procedures through the Compliance officer to ensure timely updates.
- » The Internal Audit Department of the Company monitors compliance with policies and procedures, and their suitability of design and effectiveness on an ongoing basis. Statistical verification procedures are used, and significant findings of non-compliance are highlighted. The risk-based annual audit plan is reviewed and approved by the Board Audit Committee, branches and service departments are audited to provide independent and objective

assurance on operations and performance. Various initiatives have been taken by Internal Audit Department, business teams and other monitoring authorities of the Company to review the exceptions on certain selected areas of the business through the usage of exception monitoring automated tools. The process has been gradually expanded year after year to cover an expanded scope.

- » Information systems and its surrounding technology infrastructure which support financial reporting are independently assessed by specialized information systems audit team to ensure confidentiality, integrity and availability triads are preserved to reinforce the confidence level of the data processing technology facilities.
- » The scope, quality and reports of internal audits are reviewed by the Board Audit Committee at its monthly meetings and refinements are applied wherever necessary.
- » Overall, the Board Audit Committee of the Company reviews internal control issues identified by the Internal Audit Department, the External Auditor, regulatory authorities and the management, and evaluates the adequacy and effectiveness of the risk management and internal control systems.
- » A process has been set up to continuously monitor the internal control system over financial reporting to mitigate the risk on misrepresentation of financial reporting. The respective process owners of the Company continuously review and update all procedures and controls connected with significant accounts and disclosures of the Financial Statements of the Company. The risk department verifies the suitability of design and effectiveness of these procedures and controls on an ongoing basis, and internal audit department reviews the compliance and apprises the Board Audit Committee where necessary.

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

Directors' Statement on Internal Control

» The Company adopts Sri Lanka Accounting Standards comprising LKAS and SLFRS and progressive improvements are made to its processes to comply with requirements of recognition, measurement, classification and disclosure. Financial reporting and management information processes will be further strengthened by constant monitoring and adaptation to market realities. The Company reviewed the existing models in use to ascertain the potential implications of the current economic condition and these models are regularly reviewed and validated through independent industry experts to ensure effective financial representation.

Confirmation

Based on the above processes, the Board affirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and the regulatory requirements of the Central Bank of Sri Lanka and the Colombo Stock Exchange.

Review of the Statement by External Auditor

The external auditor, Messrs. Ernst & Young, has reviewed the above Directors' Statement on Internal Control over Financial Reporting and report is included in the Company's Annual Report for the year ended 31 March 2023. They have reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Company. Their report on the statement of internal control over financial reporting is given on page 251 of this annual report.

STATEMENT ON PRUDENTIAL REQUIREMENTS, REGULATIONS AND LAWS

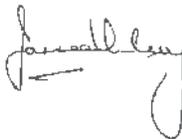
The Board of LB Finance PLC presents this report on compliance with prudential requirements, regulations and laws, in compliance with Section 16 (1) (ix) of the Finance Business Act Direction No. 05 of 2021-Corporate Governance.

- » The Board has implemented sufficient internal controls to ensure adherence to statutory and regulatory obligations. The Board affirms that the Company complies with all relevant prudential requirements, regulations, and legislation laws.
- » The Board confirms that there are no regulatory and supervisory concerns on lapses in the Company's risk management, or non-compliance with the Act, rules and directions.

By order of the Board,



Mrs. Yogadinusha Bhaskaran
Chairperson - Audit Committee



J A S Sumith Adhietty
Managing Director

31 May 2023

Independent Assurance Report to the Board of Directors



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

Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 557 8180
Email: eysl@lk.ey.com
ey.com

Independent Assurance Report to the Board of Directors of LB Finance PLC

Report on the Statement on Internal Control Over Financial Reporting included in the Directors' Statement on Internal Control

We were engaged by the Board of Directors of LB Finance PLC (the "Company") to provide assurance on the Statement of Internal Control Over Financial Reporting included in the Directors' Statement on Internal Control for the year ended 31 March 2023 (the "Statement") included in the annual report.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 16 (1) (ix) of the Finance Companies Corporate Governance Direction no. 05 of 2021, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

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

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

Our Responsibilities and Compliance with SLSAE 3051

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

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

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

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

Summary of Work Performed

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

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

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

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

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

Our Conclusion

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

31 May 2023
Colombo

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulungamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeevani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACA, D L B Karunathilaka ACA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Directors' Responsibility for Financial Reporting

The following statement sets out responsibility of the Directors in relation to the Financial Statements of the Company and its Subsidiaries prepared in accordance with the provisions of the Companies Act No. 07 of 2007.

The responsibility of the Independent Auditor in relation to the Financial Statements is set out in the Report of the Auditors given on pages 253 to 255 of the Annual Report.

As per the provisions of sections 151, 153(1) and (2), 150 (1) and 152(1) of the Companies Act No. 07 of 2007, the Directors are required to prepare Financial Statements for each financial year, which should give a true and fair view of the state of affairs of the Company and its Subsidiaries as at the reporting date and its profit or loss for the financial year then ended, ensure that they are completed within six months or such extended period as may be determined by the Registrar General of Companies, certified by the person responsible for the preparation of the Financial Statements that it is in compliance with the said Companies Act and dated and signed on behalf of the Board by two Directors of the Company.

In terms of section 166(1) read together with sections 168(1)(b) and (c) and section 167(1) of the Companies Act, the Directors shall cause a copy of the aforesaid Financial Statements together with the annual report of the Board of Directors of the Company prepared as per section 166(1) of the Companies Act to be sent to every shareholder not less than fifteen working days before the date fixed for holding the Annual General Meeting. However, under the prevailing situation of the country and the non-availability of paper and related items, the above obligation is discharged by the Directors by making available a copy of the Annual Report on the Company's official website and the Colombo Stock Exchange website in terms of Rule 7.5.b of the listing rules of the CSE. As per said rule, printed copies of the annual report will be made available to shareholders on request.

In preparing the Financial Statements, the Directors are responsible to ensure that appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgments and estimates have been made and all applicable accounting standards have been complied with.

The Directors are also required to ensure that the Company and its Subsidiaries have adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

Further, the Directors have a responsibility to ensure that the Companies within the Group maintain sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company and the Subsidiaries.

Financial Statements prepared and presented in this report have been prepared based on Sri Lanka Accounting Standards (SLFRSs/LKASs) and are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 directions and guidelines issued under the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year, which is primarily handled through the Audit Committee and the Integrated Risk Management Committee as set out in their Reports that appear on pages 236 to 238 and 239 to 241 respectively.

The Directors have taken appropriate steps to ensure that the Company and its Subsidiaries maintain proper books of accounts and the financial reporting system is directly reviewed by the Directors at their regular meetings and also through the Board Audit Committee.

The Board of Directors also approves the interim Financial Statements prior to their release following a review and recommendation by the Board Audit Committee.

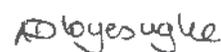
The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

The Financial Statements of the Company and the Subsidiaries have been certified by the Chief Financial Officer of the Company, the officer responsible for their preparation as required by section 152(1)(b) and they have also been signed by two Directors of the Company as required by section 152(1) (c) of the Companies Act.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities, which were due and payable by the Company and the Subsidiaries as at the reporting date have been paid or where relevant, provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board
LB Finance PLC



P W Corporate Secretarial (Pvt) Ltd
Company Secretaries

5 June 2023

Independent Auditors' Report



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

Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 557 8180
Email: eysl@lk.ey.com
ey.com

To the Shareholders of LB Finance PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of LB Finance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statements of financial position as at 31 March 2023, income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2023, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a

whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

Key audit matter	How our audit addressed the key audit matter
<p>Provision for credit impairment on financial assets carried at amortized cost</p> <p>As at 31 March 2023, provision for credit impairment on financial assets carried at amortized cost net of impairment allowances amounted to LKR 146 Bn as disclosed in notes 4.17 & 4.18 to the financial statements.</p> <p>This was a key audit matter due to the materiality of the reported provision for credit impairment which involved complex calculations; degree of significant judgments and assumptions and level of estimation uncertainty associated with estimating future cashflows management expects to receive from such financial assets.</p> <p>Key areas of significant judgments, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following:</p> <ul style="list-style-type: none"> » management overlays to incorporate the current economic contraction; » the Incorporation of forward-looking information such that expected cashflows reflect current and anticipated future external factors evaluated under different economic scenarios and the probability weighting determined for each of these scenarios. 	<p>In addressing the adequacy of the provision for credit impairment on financial assets carried at amortized cost, our audit procedures included the following key procedures:</p> <ul style="list-style-type: none"> » We assessed the alignment of the Group's provision for credit impairment computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report. » We evaluated the Internal controls over estimation of credit impairment, which included assessing the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management. » We checked the completeness, accuracy and classification of the underlying data used in the computation of impairment allowances by agreeing details to relevant source documents and accounting records of the Group. » We tested key inputs as disclosed in notes 4.17 & 4.18 and the calculations used in the provision for credit impairment. » We assessed whether judgments used in assumptions and estimates made by the management when estimating future cashflows, in the underlying methodology and management overlays were reasonable. Our assessment included portfolio segmentation, elevated risk industries, evaluating the reasonableness of forward-looking information, different economic scenarios and probability weighting assigned to each scenario. » We assessed the adequacy of the related financial statement disclosures as set out in notes, 4.17 and 4.18 of the financial statements.
<p>Information Technology (IT) systems and internal controls over financial reporting</p> <p>Group's financial reporting process is significantly reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets.</p> <p>Accordingly, IT systems and related internal controls over financial reporting were considered a key audit matter.</p>	<p>Our audit procedures included the following.</p> <ul style="list-style-type: none"> » We obtained an understanding of the Internal control environment of the processes and checked relevant controls relating to financial reporting and related disclosures. » We involved our internal specialized resources to check and evaluate the design and operating effectiveness of IT systems and relevant controls , including those related to user access and change management. » We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the group and the actions taken to address these risks. » We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of general ledger reconciliations.

Other information included in the Group's 2023 Annual Report

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

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

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

Responsibilities of management and those charged with governance

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

1. identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company and the Group.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2471.



31 May 2023
Colombo

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudan ACA, D L B Karunathilaka ACA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Financial Statements - Table of Contents

	Note No.	Page No.		Note No.	Page No.
Section 01 - Primary Financial Statements					
Income Statement		257	Earnings per Ordinary Share	4.11	282
Statement of Comprehensive Income		258	Dividend Paid and Proposed	4.12	282
Statement of Financial Position		259	Financial Instruments	4.13	283
Statement of Changes In Equity - Company		260	Fair Value Measurement	4.14	286
Statement of Changes In Equity - Group		261	Cash and Cash Equivalents	4.15	295
Statement of Cash Flows		262	Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	4.16	296
Section 02 - Corporate Information			Financial Assets at Amortised Cost - Loans and Receivables	4.17	297
Reporting Entity	2.1	264	Financial Assets at Amortised Cost - Lease Rentals		
Consolidated Financial Statements	2.2	264	Receivable and Stock out on Hire	4.18	300
Principal Business Activities, Nature of Operations of the Group and Ownership by the Company in Its Subsidiaries	2.3	264	Allowance for Impairment Losses	4.19	304
Approval of Financial Statements by Directors	2.4	264	Financial Assets Measured at Fair Value Through Other Comprehensive Income	4.20	312
Statement of Compliance	2.5	265	Other Financial Assets	4.21	314
Responsibilities for the Financial Statements	2.6	265	Other Non Financial Assets	4.22	315
Application of Sri Lanka Accounting Standards	2.7	265	Investment in Subsidiaries	4.23	316
Basis of Measurement	2.8	266	Property, Plant and Equipment and Right-of-Use Assets	4.24	317
Going Concern	2.9	266	Investment Properties	4.25	323
Functional and Presentation Currency	2.10	266	Intangible Assets	4.26	325
Presentation of Financial Statements	2.11	266	Deferred Tax Assets and Liabilities	4.27	327
Use of Materiality, Aggregation, Offsetting and Rounding	2.12	266	Due to Banks	4.28	329
Comparative Information	2.13	266	Financial Liabilities at Amortised Cost - Due to Depositors	4.29	330
Sri Lanka Accounting Standards Issued but not Yet Effective as at 31 March 2023	2.14	266	Debt Instruments Issued and Other Borrowed Funds	4.30	331
Changes in Accounting Policies	2.15	267	Other Financial Liabilities	4.31	332
Significant Accounting Assumptions, Judgments and Estimation Uncertainties	2.16	267	Other Non Financial Liabilities	4.32	334
Section 03 - General Accounting Policies and Notes			Current Tax Liabilities	4.33	334
Basis of Consolidation	3.1	268	Post Employment Benefit Liability	4.34	334
Foreign Currency	3.2	268	Stated Capital	4.35	337
Provisions	3.3	268	Reserves	4.36	338
Operational Risk Events	3.4	269	Retained Earnings	4.37	339
Borrowing Costs	3.5	269	Non-Controlling Interest	4.38	339
Financial Guarantees and Loan Commitments	3.6	269	Section 05 - Risk Management Disclosures		
Impairment of Non Financial Assets	3.7	269	Introduction	5.1	340
Estimating the Incremental Borrowing Rate	3.8	269	Credit Risk	5.2	340
Section 04 - Specific Accounting Policies and Notes			Liquidity Risk and Funding Management	5.3	350
Net Interest Income	4.1	270	Market Risk	5.4	355
Fee and Commission Income	4.2	272	Capital Adequacy	5.5	358
Net Trading Income	4.3	272	Probable Impact of Economic Crisis on Business Operations of the Group	5.6	358
Other Operating Income	4.4	273	Section 06 - Other Disclosures		
Impairment Charges	4.5	273	Related Party Disclosures	6.1	359
Personnel Expenses	4.6	277	Capital	6.2	362
Depreciation and Amortisation	4.7	278	Current and Non Current Analysis of Assets and Liabilities	6.3	363
Other Operating Expenses	4.8	279	Segmental Information	6.4	364
Tax on Financial Services	4.9	279	Commitments and Contingencies	6.5	365
Taxation	4.10	280	Net Asset Value Per Share	6.6	366
			Assets Pledged	6.7	366
			Comparative Information	6.8	366
			Events Occurring after the Reporting Date	6.9	367
			Changes in Liabilities Arising from Financing Activities	6.10	367

SECTION 01

Income Statement

Year ended 31 March	Note	Page No.	Company			Group		
			2023	2022	Change	2023	2022	Change
			Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
Income	4.1.1	270	42,756,458	30,159,476	42	43,133,443	30,157,403	43
Interest Income	4.1.2	270	39,643,934	27,510,530	44	39,973,555	27,506,107	45
Less: Interest Expenses	4.1.6	271	20,615,585	8,846,608	>100	20,663,956	8,862,699	>100
Net Interest Income	4.1.8	272	19,028,349	18,663,922	2	19,309,599	18,643,408	4
Fee and Commission Income	4.2	272	2,951,065	2,467,711	20	2,986,402	2,475,065	21
Net Trading Income	4.3	272	(2,096)	2,393	(>100)	(2,096)	2,393	(>100)
Other Operating Income	4.4	273	163,555	178,842	(9)	175,582	173,838	1
Total Operating Income			22,140,873	21,312,868	4	22,469,487	21,294,704	6
Less: Impairment Charges	4.5	273	545,744	1,025,981	(47)	519,133	1,111,767	(53)
Net Operating Income			21,595,129	20,286,887	6	21,950,354	20,182,937	9
Less: Operating Expenses								
Personnel Expenses	4.6	277	3,545,137	3,199,954	11	3,669,537	3,247,263	13
Depreciation of Property, Plant and Equipment	4.7.1	278	816,734	789,710	3	834,155	792,914	5
Amortisation of Intangible Assets	4.7.2	278	8,183	11,146	(27)	13,284	14,277	(7)
Other Operating Expenses	4.8	279	2,807,948	2,239,064	25	2,912,708	2,270,978	28
Total Operating Expenses			7,178,002	6,239,874	15	7,429,684	6,325,432	17
Operating Profit before Tax on Financial Services			14,417,127	14,047,013	3	14,520,670	13,857,505	5
Less: Tax on Financial Services	4.9	279	2,670,575	2,136,551	25	2,677,606	2,136,551	25
Profit before Taxation			11,746,552	11,910,462	(1)	11,843,064	11,720,954	1
Less: Income Tax Expense	4.10.1 (a)	280	3,286,221	3,248,604	1	3,290,178	3,244,923	1
Profit for the Year			8,460,331	8,661,858	(2)	8,552,886	8,476,031	1
Profit Attributable to:								
Equity Holders of the Company			8,460,331	8,661,858	(2)	8,554,543	8,530,497	0
Non-Controlling Interest	4.38	339	-	-	-	(1,657)	(54,466)	(97)
Profit for the Year			8,460,331	8,661,858	(2)	8,552,886	8,476,031	1
Earnings per Share:								
Basic/Diluted (Rs.)	4.11.1	282	15.27	15.63	(2)	15.44	15.40	0
Dividend per Share (Rs.)*	4.12.4	283	5.00	5.00	-			

*Dividend per share is calculated based on the interim dividend paid and the proposed final dividend which is to be approved at the Annual General Meeting.

Accounting Policies and Notes from pages 264 to 367 form an integral part of these Financial Statements.

Statement of Comprehensive Income

Year ended 31 March	Note	Page No.	Company			Group		
			2023	2022	Change	2023	2022	Change
			Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
Profit for the Year			8,460,331	8,661,858	(2)	8,552,886	8,476,031	1
Other Comprehensive Income that will be Reclassified to Income Statement								
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations	4.36.3	338	-	-	-	(70,587)	117,737	(>100)
Less: Deferred Tax Charge/(Reversal) on above Items			-	-	-	-	-	-
Net Other Comprehensive Income that will be Reclassified to Income Statement			-	-	-	(70,587)	117,737	(>100)
Other Comprehensive Income that will never be Reclassified to Income Statement								
Net Gains/(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income	4.36.2	338	31,364	8,984	>100	31,364	8,984	>100
Actuarial Gains/(Losses) on Defined Benefit Plans	4.34.3	335	7,539	86,003	(91)	8,166	86,003	(91)
Less: Deferred Tax Charge/(Reversal) on Actuarial Gains and Losses	4.10.1 (b)	280	2,262	20,641	(89)	2,262	20,641	(89)
Net Actuarial Gains/(Losses) on Defined Benefit Plans			5,277	65,362	(92)	5,904	65,362	(91)
Net Other Comprehensive Income that will never be Reclassified to Income Statement			36,641	74,346	(51)	37,268	74,346	(50)
Other Comprehensive Income for the Year, Net of Tax			36,641	74,346	(51)	(33,319)	192,083	(>100)
Total Comprehensive Income for the Year, Net of Tax			8,496,972	8,736,204	(3)	8,519,567	8,668,114	(2)
Attributable to:								
Equity Holders of the Company			8,496,972	8,736,204	(3)	8,521,003	8,722,580	(2)
Non-Controlling Interest			-	-	-	(1,436)	(54,466)	(97)
Total Comprehensive Income for the Year, Net of Tax			8,496,972	8,736,204	(3)	8,519,567	8,668,114	(2)

Accounting Policies and Notes from pages 264 to 367 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March	Note	Page No.	Company			Group		
			2023	2022	Change	2023	2022	Change
			Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
Assets								
Cash and Cash Equivalents	4.15	295	4,524,032	14,458,986	(69)	4,680,955	14,634,136	(68)
Financial Assets Recognised Through Profit or Loss								
- Measured at Fair Value	4.16	296	10,653	13,208	(19)	10,653	13,208	(19)
Financial Assets at Amortised Cost - Loans and Receivables	4.17	297	111,093,620	92,837,601	20	112,231,789	93,897,204	20
Financial Assets at Amortised Cost								
- Lease Rentals Receivable and Stock out on Hire	4.18	300	34,095,554	41,558,002	(18)	34,139,808	41,640,197	(18)
Financial Assets Measured at Fair Value Through Other Comprehensive Income	4.20	312	117,388	86,102	36	117,390	86,104	36
Other Financial Assets	4.21	314	21,685,834	5,598,624	>100	21,710,810	5,655,767	>100
Other Non Financial Assets	4.22	315	474,347	454,711	4	552,469	500,581	10
Investment in Subsidiaries	4.23	316	921,998	921,162	0	-	-	-
Property, Plant and Equipment and Right-of-Use Assets	4.24	317	8,633,347	8,421,741	3	8,667,202	8,448,930	3
Investment Properties	4.25	323	-	-	-	4,550	71,150	(94)
Intangible Assets	4.26	325	22,628	14,875	52	135,255	131,000	3
Deferred Tax Assets	4.27	327	767,186	-	-	767,186	-	-
Total Assets			182,346,587	164,365,012	11	183,018,067	165,078,277	11
Liabilities								
Due to Banks	4.28	329	19,369,784	26,858,737	(28)	19,392,536	26,861,944	(28)
Financial Liabilities at Amortised Cost - Due to Depositors	4.29	330	114,011,699	89,143,982	28	114,248,253	89,478,506	28
Debt Instruments Issued and Other Borrowed Funds	4.30	331	3,882,024	8,564,617	(55)	3,882,024	8,564,617	(55)
Other Financial Liabilities	4.31	332	3,255,862	3,305,112	(1)	3,283,059	3,343,419	(2)
Other Non Financial Liabilities	4.32	334	1,090,091	1,134,771	(4)	1,154,729	1,182,279	(2)
Current Tax Liabilities	4.33	334	2,255,830	1,882,242	20	2,261,996	1,875,082	21
Deferred Tax Liabilities	4.27	327	-	111,486	-	-	111,486	-
Post Employment Benefit Liability	4.34	334	365,557	316,973	15	367,504	323,833	13
Total Liabilities			144,230,847	131,317,920	10	144,590,101	131,741,166	10
Equity								
Stated Capital	4.35	337	838,282	838,282	-	838,282	838,282	-
Reserves	4.36	338	8,493,049	8,038,658	6	8,691,100	8,307,296	5
Retained Earnings	4.37	339	28,784,409	24,170,152	19	28,794,719	24,085,844	20
Total Equity Attributable to Equity Holders of the Company			38,115,740	33,047,092	15	38,324,101	33,231,422	15
Non-Controlling Interest	4.38	339	-	-	-	103,865	105,689	(2)
Total Equity			38,115,740	33,047,092	15	38,427,966	33,337,111	15
Total Liabilities and Equity			182,346,587	164,365,012	11	183,018,067	165,078,277	11
Commitments and Contingencies	6.5	365	2,403,948	1,694,463	42	2,403,948	1,694,463	42
Net Asset Value per Share (Rs.)	6.6	366	68.79	59.65	15	69.17	59.98	15

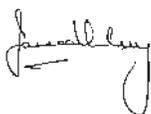
Accounting Policies and Notes from pages 264 to 367 form an integral part of these Financial Statements.

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



Malith Hewage
Chief Financial Officer

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



J A S Sumith Adhihetty
Managing Director

31 May 2023
Colombo



Mrs. Yogadinusha Bhaskaran
Director

Statement of Changes in Equity - Company

	Note	Page No.	Stated Capital	Retained Earnings	Statutory Reserve	Fair Value Reserve	Total Equity
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
			Note 4.35	Note 4.37	Note 4.36.1	Note 4.36.2	
Balance as at 31 March 2021			838,282	19,754,900	7,683,689	(87,583)	28,189,288
Net Profit for the Year			-	8,661,858	-	-	8,661,858
Other Comprehensive Income, Net of Tax			-	65,362	-	8,984	74,346
Total Comprehensive Income for the Year, Net of Tax			-	8,727,220	-	8,984	8,736,204
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners							
Transfers During the Year	4.36.1 & 4.36.2	338	-	(433,568)	433,093	475	-
Final Dividend for 2020/21	4.12.1	282	-	(2,216,229)	-	-	(2,216,229)
Interim Dividend for 2021/22	4.12.1	282	-	(1,662,171)	-	-	(1,662,171)
Total Transactions with Equity Holders			-	(4,311,968)	433,093	475	(3,878,400)
Balance as at 31 March 2022			838,282	24,170,152	8,116,782	(78,124)	33,047,092
Adjustments for Surcharge Tax Levied under the Surcharge Tax Act No 14 of 2022			-	(2,320,210)	-	-	(2,320,210)
Adjusted Balance as at 1 April 2022			838,282	21,849,942	8,116,782	(78,124)	30,726,882
Net Profit for the Year			-	8,460,331	-	-	8,460,331
Other Comprehensive Income, Net of Tax			-	5,277	-	31,364	36,641
Total Comprehensive Income for the Year, Net of Tax			-	8,465,608	-	31,364	8,496,972
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners							
Transfers During the Year	4.36.1 & 4.36.2	338	-	(423,027)	423,017	10	-
Final Dividend for 2021/22	4.12.1	282	-	(1,108,114)	-	-	(1,108,114)
Total Transactions with Equity Holders			-	(1,531,141)	423,017	10	(1,108,114)
Balance as at 31 March 2023			838,282	28,784,409	8,539,799	(46,750)	38,115,740

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 264 to 367 form an integral part of these Financial Statements.

Statement of Changes in Equity - Group

Note	Page No.	Stated Capital	Retained Earnings	Statutory Reserve	Fair Value Reserve	Foreign Currency Translation Reserve	Total Equity Attributable to Equity Holders of the Company	Non-Controlling Interest	Total Equity
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
		Note 4.35	Note 4.37	Note 4.36.1	Note 4.36.2	Note 4.36.3		Note 4.38	
Balance as at 31 March 2021		838,282	19,801,953	7,683,689	(87,583)	150,901	28,387,242	-	28,387,242
Net Profit for the Year		-	8,530,497	-	-	-	8,530,497	(54,466)	8,476,031
Other Comprehensive Income, Net of Tax		-	65,362	-	8,984	117,737	192,083	-	192,083
Total Comprehensive Income for the Year, Net of Tax		-	8,595,859	-	8,984	117,737	8,722,580	(54,466)	8,668,114
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners									
Transfers During the Year	4.36.1 & 4.36.2	338	(433,568)	433,093	475	-	-	-	-
Final Dividend for 2020/21	4.12.1	282	(2,216,229)	-	-	-	(2,216,229)	-	(2,216,229)
Interim Dividend for 2021/22	4.12.1	282	(1,662,171)	-	-	-	(1,662,171)	-	(1,662,171)
Total Contributions and Distributions to Owners		-	(4,311,968)	433,093	475	-	(3,878,400)	-	(3,878,400)
Transactions Due to Changes in Group Holding									
Non Controlling Interests Recognised on Acquisition of Subsidiaries		-	-	-	-	-	-	160,155	160,155
Total Transactions with Equity Holders		-	(4,311,968)	433,093	475	-	(3,878,400)	160,155	(3,718,245)
Balance as at 31 March 2022		838,282	24,085,844	8,116,782	(78,124)	268,638	33,231,422	105,689	33,337,111
Adjustments for Surcharge Tax Levied under the Surcharge Tax Act No. 14 of 2022		-	(2,320,210)	-	-	-	(2,320,210)	-	(2,320,210)
Adjusted Balance as at 1 April 2022		838,282	21,765,634	8,116,782	(78,124)	268,638	30,911,212	105,689	31,016,901
Net Profit for the Year		-	8,554,543	-	-	-	8,554,543	(1,657)	8,552,886
Other Comprehensive Income, Net of Tax		-	5,683	-	31,364	(70,587)	(33,540)	221	(33,319)
Total Comprehensive Income for the Year, Net of Tax		-	8,560,226	-	31,364	(70,587)	8,521,003	(1,436)	8,519,567
Transactions with Owners, Recognised Directly in Equity Contributions and Distributions to Owners									
Transfers During the Year	4.36.1 & 4.36.2	338	(423,027)	423,017	10	-	-	-	-
Final Dividend for 2021/22	4.12.1	282	(1,108,114)	-	-	-	(1,108,114)	-	(1,108,114)
Total Contributions and Distributions to Owners		-	(1,531,141)	423,017	10	-	(1,108,114)	-	(1,108,114)
Transactions Due to Changes in Group Holding									
Adjustment on changes to Non-Controlling Interest in Subsidiaries		-	-	-	-	-	-	(388)	(388)
Total Transactions with Equity Holders		-	(1,531,141)	423,017	10	-	(1,108,114)	(388)	(1,108,502)
Balance as at 31 March 2023		838,282	28,794,719	8,539,799	(46,750)	198,051	38,324,101	103,865	38,427,966

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 264 to 367 form an integral part of these Financial Statements.

Statement of Cash Flows

► Accounting Policy

The cash flow statement has been prepared by using 'The Indirect Method' in accordance with the Sri Lanka Accounting Standard - LKAS 07 (Statement of Cash Flows), whereby operating activities, financing activities and investing activities have been recognised. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents consist of cash in hand, balances with banks, placements with banks, money at call and short notice.

Year ended 31 March	Note	Page No.	Company		Group	
			2023	2022	2023	2022
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash Flows From/(Used in) Operating Activities						
Profit and Other Comprehensive Income before Taxation			11,785,455	12,005,449	11,812,007	11,933,678
Adjustments for -						
Depreciation of Property, Plant and Equipment	4.7.1	278	816,734	789,710	834,155	792,914
Amortisation of Intangible Assets	4.7.2	278	8,183	11,146	13,284	14,277
Impairment Charges	4.5	273	545,744	1,025,981	519,133	1,111,767
Diminution/(Appreciation) in Value of Investments			(28,732)	(10,658)	(28,732)	(10,656)
(Gains)/Losses from Fair Value Changes of Investment Properties			-	-	(400)	-
Loss/(Profit) on Disposal of Property, Plant and Equipment	4.4	273	(11,137)	(3,941)	(11,137)	(3,941)
Provision/(Reversal) for Defined Benefit Plans	4.34.1	335	95,235	(6,391)	96,761	(6,391)
Foreign Currency Exchange (Gains)/Losses			-	-	6,015	5,349
Dividend Received			(3,230)	(2,983)	(3,230)	(2,983)
Net Unrealised (Gains)/Losses Arising from Translating the Financial Statements of Foreign Operations			-	-	70,587	(117,737)
Operating Profit before Changes in Operating Assets and Liabilities			13,208,252	13,808,313	13,308,443	13,716,277
(Increase)/Decrease in Operating Assets						
(Increase)/Decrease in Financial Assets at Amortised Cost - Loans and Receivables			(18,943,799)	(27,063,500)	(18,995,754)	(27,282,824)
(Increase)/Decrease in Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire			7,604,485	5,779,739	7,642,426	5,796,734
(Increase)/Decrease in Other Financial Assets			(16,087,209)	4,855,278	(16,080,881)	4,918,079
(Increase)/Decrease in Other Non Financial Assets			(786,823)	465,693	(823,619)	466,686
			(28,213,346)	(15,962,790)	(28,257,828)	(16,101,324)
Increase/(Decrease) in Operating Liabilities						
Increase/(Decrease) in Financial Liabilities at Amortised Cost - Due to Depositors			24,867,717	3,283,912	24,769,747	3,284,468
Increase/(Decrease) in Other Financial Liabilities			(418,689)	17,794	(484,819)	(9,077)
Increase/(Decrease) in Other Non Financial Liabilities			851,070	160,928	874,084	164,712
			25,300,098	3,462,634	25,159,012	3,440,103

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 264 to 367 form an integral part of these Financial Statements.

Year ended 31 March	Note	Page No.	Company		Group	
			2023	2022	2023	2022
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash Generated From Operations			10,295,004	1,308,157	10,209,627	1,055,056
Retirement Benefit Liabilities Paid	4.34.1	335	(46,651)	(41,901)	(53,090)	(41,901)
Income Tax Paid	4.10.4	281	(3,922,132)	(3,838,953)	(3,922,132)	(3,847,363)
Surcharge Tax Paid	4.10.4	281	(2,320,210)	-	(2,320,210)	-
Net Cash From/(Used in) Operating Activities			4,006,011	(2,572,697)	3,914,195	(2,834,208)
Cash Flows From/(Used in) Investing Activities						
Acquisition of Property, Plant and Equipment and Right-of-Use Assets	4.24.5	321	(675,637)	(770,700)	(689,702)	(772,467)
Acquisition of Intangible Assets	4.26.1	326	(15,936)	-	(17,558)	(107,355)
Proceeds from Sale of Property, Plant and Equipment			27,874	48,241	27,874	48,241
Proceeds from Sale of Investment Properties			-	-	68,894	-
Investment in Subsidiaries	4.23.1	317	(836)	(400,000)	-	-
Net Cash and Cash Equivalents on Acquisition of Subsidiaries			-	-	-	8,569
Dividend Received			3,230	2,983	3,230	2,983
Net Cash Flows From/(Used in) Investing Activities			(661,305)	(1,119,476)	(607,262)	(820,029)
Cash Flows From/(Used in) Financing Activities						
Cash Flows from Debt Funding from Banks			15,969,854	23,254,581	15,991,450	23,259,071
Repayment of Debt Funding from Banks			(22,200,525)	(13,624,068)	(22,200,525)	(13,688,036)
Cash Flows from Debt Instruments Issued and Other Borrowed Funds			-	5,450,701	-	5,450,701
Repayment of Debt Instruments Issued and Other Borrowed Funds			(4,682,593)	-	(4,682,593)	-
Dividends Paid	4.12.1	282	(1,108,114)	(3,878,400)	(1,108,114)	(3,878,400)
Net Cash Flows From/(Used in) Financing Activities			(12,021,378)	11,202,814	(11,999,782)	11,143,336
Net Increase/(Decrease) in Cash and Cash Equivalents			(8,676,672)	7,510,641	(8,692,849)	7,489,098
Cash and Cash Equivalents at the Beginning of the Year			12,709,842	5,199,201	12,881,785	5,392,687
Cash and Cash Equivalents at the End of the Year	4.15.3	295	4,033,170	12,709,842	4,188,936	12,881,785
Operational Cash Flows from Interest						
Interest Received			37,198,259	27,724,527	37,527,880	27,720,104
Interest Paid			16,444,277	9,761,836	16,492,649	9,777,928

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 264 to 367 form an integral part of these Financial Statements.

Notes to the Financial Statements

SECTION 02

Corporate Information

2.1 Reporting Entity

LB Finance PLC, is a domiciled, public limited liability Company incorporated in Sri Lanka on 30 May 1971 under the Companies Act No 51 of 1938. The Company was re-registered under the Companies Act No 07 of 2007. It is a Licensed Finance Company registered under the Finance Business Act No 42 of 2011 and amendments thereto. The registered office of the Company is located at No 275/75, Prof. Stanley Wijesundara Mawatha, Colombo 07. The shares of the Company have a primary listing on the Colombo Stock Exchange. The staff strength of the Company as at 31 March 2023 was 3,562 (2022 - 3,822).

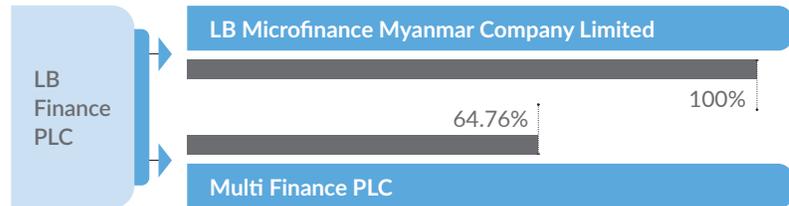
For purposes of this report, "LB Finance", the "Company", "we", "our", "us" or similar references mean LB Finance PLC.

2.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended 31 March 2023, comprise the LB Finance PLC (Parent Company) and its Subsidiaries (together referred to as the "Group" and individually as "Group entities").

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

2.3 Principal Business Activities, Nature of Operations of the Group and Ownership by the Company in Its Subsidiaries



LB Finance PLC

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

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

LB Microfinance Myanmar Company Limited

LB Microfinance Myanmar Company Limited was incorporated in Myanmar on 22 May 2017 as a 99% (31 March 2023 - 100%) owned subsidiary of LB Finance PLC. The principal business activities include engaging in microfinance lending. A license was issued by the Myanmar Microfinance Supervisory Committee to operate as a microfinance institution.

Multi Finance PLC

Multi Finance PLC was incorporated in Kandy on 14 October 1974 as a Limited Liability Company. It was listed in the Colombo Stock Exchange on 13 July 2011 and changed the status to a Public Quoted Company. Multi Finance PLC was acquired by LB Finance PLC on 16 March 2022 as a 64.63% (31 March 2023 - 64.76%) owned subsidiary by investing Rs. 400 Mn. The principal business activities include engaging in diversified financing activities.

2.4 Approval of Financial Statements by Directors

The Financial Statements of the Group and the Company for the year ended 31 March 2023 (including comparatives for 31 March 2022) were approved and authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 31 May 2023.

Basis of Preparation

2.5 Statement of Compliance

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

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

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

2.6 Responsibilities for the Financial Statements

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

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

2.7 Application of Sri Lanka Accounting Standards

2.7.1 Amendments to LKAS 37 : Onerous Contracts - Costs of Fulfilling a Contract

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to Sri Lanka Accounting Standard - LKAS 37 (Provisions, Contingent Liabilities and Contingent Assets) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

2.7.2 Amendments to LKAS 16 : Property, Plant and Equipment - Proceeds before Intended Use

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment - Proceeds before Intended Use), which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items in profit or loss.

2.7.3 Amendments to SLFRS 03: Business Combinations - Updating a Reference to Conceptual Framework

In 23 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to Sri Lanka Accounting Standard - SLFRS 03 (Business Combinations

- Updating a Reference to the Conceptual Framework). The amendments are intended to replace a reference to the framework for the preparation and presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

An exception was also added to the recognition principle of SLFRS 03 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of LKAS 37 or IFRIC 21 (Levies), if incurred separately.

At the same time, it was decided to clarify existing guidance in SLFRS 03 for contingent assets that would not be affected by replacing the reference to the framework for the preparation and presentation of Financial Statements.

2.7.4 SLFRS 01 : First-time Adoption of Sri Lanka Financial Reporting Standards - Subsidiary as a First-time Adopter

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to Sri Lanka Accounting Standard - SLFRS 01 (First-time Adoption of International Financial Reporting Standards). The amendment permits a subsidiary that elects to apply paragraph D16(a) of SLFRS 01 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to SLFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of SLFRS 01.

2.7.5 SLFRS 09 : Financial Instruments - Fees in the '10 percent' Test for Derecognition of Financial Liabilities

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered

Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

2.8 Basis of Measurement

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

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

2.9 Going Concern

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. In making this assessment, the Board has considered a wide range of information relating to present and future conditions. The Directors assessed the future performance of the business and satisfied that it has the resources in place that are required to meet its ongoing regulatory requirements. The assessment is based upon business plans which contain future projections of profitability as well as projections of regulatory capital requirements and business funding needs.

The business plan showed that the Group had sufficient capital in place to support its future business requirements and remained above its regulatory minimum requirements in the stress scenarios. Accordingly, the Directors concluded that there was a reasonable expectation that the Group has adequate resources to continue as a Going Concern for a period of at least 12 months from the date of approval of the Financial Statements. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements of the Group continue to be prepared on a Going Concern basis.

2.10 Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees, which is the currency of the primary economic environment in which LB Finance PLC operates.

Each entity in the Group determines its own functional currency and items included in the Financial Statements of these entities are measured using that Functional Currency. These Financial Statements are presented in Sri Lankan Rupees, the Group's Functional and Presentation Currency.

2.11 Presentation of Financial Statements

Assets and Liabilities of the Group presented in their Statements of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 6.3 on 'Current and Non Current Analysis of Assets and Liabilities' to these Financial Statements.

2.12 Use of Materiality, Aggregation, Offsetting and Rounding

Materiality and Aggregation

In compliance with Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately unless they are immaterial.

Offsetting

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

Rounding

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

2.13 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

2.14 Sri Lanka Accounting Standards Issued but Not yet Effective as at 31 March 2023

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of Financial

Statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

2.14.1 Amendments to LKAS 08 : Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting period beginning on or after 1 January 2023. The Group does not expect this will result in a material impact on its Financial Statements.

2.14.2 Amendments to LKAS 12 : Income Taxes - Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Also, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give a rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning

liability and decommissioning asset component) gives rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Group does not expect this will result in a material impact on its Financial Statements.

2.14.3 Amendments to LKAS 01: Presentation of Financial Statements - Disclosure of Accounting Policies and Amendments to IFRS Practice Statement 2 - Making Materiality Judgments

Amendments to LKAS 01 and IFRS Practice Statement 2 (Making Materiality Judgments), provides guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies.
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual reporting period beginning on or after 1 January 2023. The Group is in the process of revisiting related financial statement disclosures to ensure the consistency with the amended requirements.

2.15 Changes in Accounting Policies

The accounting policies adopted by the Group are consistent with those used in the previous financial year. Further, the Group has not early adopted any other accounting standard, interpretation or amendment that has been issued but not effective.

2.16 Significant Accounting Assumptions, Judgments and Estimation Uncertainties

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

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

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

- | | |
|------|--|
| 3.7 | Impairment of Non Financial Assets |
| 3.8 | Estimating the Incremental Borrowing Rate |
| 4.10 | Taxation |
| 4.13 | Classification of Financial Assets and Liabilities |
| 4.14 | Fair Value of Financial Instruments |
| 4.19 | Allowance for Impairment Losses |
| 4.23 | Investment in Subsidiaries |
| 4.24 | Useful Lifetime of the Property, Plant and Equipment |
| 4.25 | Fair Valuation of Investment Properties |
| 4.26 | Useful Lifetime of the Intangible Assets |
| 4.27 | Deferred Tax Assets and Liabilities |
| 4.34 | Post Employment Benefit Liability |
| 6.5 | Commitments and Contingencies |
| 6.9 | Events Occurring after the Reporting Date |

SECTION 03 General Accounting Policies and Notes

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

3.1 Basis of Consolidation

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

3.1.1 Non-Controlling Interest

Details of Non-Controlling Interest are given in Note 4.38 to these Financial Statements.

3.1.2 Investment in Subsidiaries

Details of the Company's subsidiaries are set out in Note 4.23 to these Financial Statements.

3.1.3 Loss of Control

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

3.1.4 Transactions Eliminated on Consolidation

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

3.2 Foreign Currency

3.2.1 Foreign Currency Transactions and Balances

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

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

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

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

3.2.2 Foreign Currency Translations

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

3.2.3 Foreign Operations

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

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

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

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

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

3.3 Provisions

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

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

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

3.4 Operational Risk Events

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

3.5 Borrowing Costs

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

3.6 Financial Guarantees and Loan Commitments

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

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

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

Loan types with undrawn limits are expected to change the exposure over a period due to the available portion in the unutilised limit. The drawdowns for unutilised portions (only for Stage 01 and 02) are considered by applying the behavioural (average) use of the facility over the given period and current excess over the average (positive net exposure). Then the positive net exposure is classified as 12 month or lifetime expected credit loss.

Details of commitments and contingencies are presented in Note 6.5 to these Financial Statements.

3.7 Impairment of Non Financial Assets

The Group assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU's) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

3.8 Estimating the Incremental Borrowing Rate

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

SECTION 04

Specific Accounting Policies and Notes

4.1 Net Interest Income

» Accounting Policy

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

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

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

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Recognition of interest income is ceased when one or more of the criteria set out in Note 4.19 is present for a financial asset. More information on interest cessation is discussed in Note 4.19 to these Financial Statements. Interest from overdue rentals have been accounted for on a cash received basis.

4.1.1 Income

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income (Note 4.1.2)	39,643,934	27,510,530	39,973,555	27,506,107
Fee and Commission Income (Note 4.2)	2,951,065	2,467,711	2,986,402	2,475,065
Net Trading Income (Note 4.3)	(2,096)	2,393	(2,096)	2,393
Other Operating Income (Note 4.4)	163,555	178,842	175,582	173,838
	42,756,458	30,159,476	43,133,443	30,157,403

4.1.2 Interest Income

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Note 4.1.3)	26,823,443	14,381,639	27,108,520	14,383,015
Lease Rentals Receivable (Note 4.1.4)	9,376,385	12,144,377	9,393,466	12,138,144
Other Financial Assets	3,444,106	984,514	3,471,569	984,948
	39,643,934	27,510,530	39,973,555	27,506,107

4.1.3 Interest Income - Loans and Receivables

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	17,095,342	7,755,569	17,147,151	7,755,328
Vehicle Loans	4,841,443	3,737,804	4,841,443	3,737,804
Term Loans	1,404,766	1,008,776	1,638,034	1,010,393
Mortgage Loans	788,843	840,753	788,843	840,753
Power Drafts	2,693,049	1,038,737	2,693,049	1,038,737
	26,823,443	14,381,639	27,108,520	14,383,015

4.1.4 Interest Income - Lease Rentals Receivable

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lease Rentals Receivable	9,376,385	12,144,377	9,393,466	12,138,144

4.1.5 Interest Income from Sri Lanka Government Securities

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income from Sri Lanka Government Securities	1,318,017	513,124	1,318,017	513,498

4.1.6 Interest Expenses

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Due to Banks	3,483,738	1,478,752	3,484,229	1,483,244
Financial Liabilities at Amortised Cost - Due to Depositors	16,286,339	6,555,921	16,331,266	6,567,446
Debt Issued and Other Borrowed Funds	647,980	642,186	647,980	642,186
Other Financial Liabilities	197,528	169,749	200,481	169,823
	20,615,585	8,846,608	20,663,956	8,862,699

4.1.7 Interest Expenses (Product-wise Breakdown)

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank Overdrafts	3,126	1,109	3,172	1,112
Debt Funding from Banks	3,480,612	1,477,643	3,481,057	1,482,132
Fixed Deposits	16,173,536	6,400,854	16,205,985	6,401,805
Savings Deposits	112,803	155,067	125,281	165,641
Debt Funding from International Financial Institutions	372,085	245,858	372,085	245,858
Unsecured Debentures	275,895	396,328	275,895	396,328
Interest Expense on Lease Liabilities	197,528	169,749	200,481	169,823
	20,615,585	8,846,608	20,663,956	8,862,699

Notes to the Financial Statements

4.1.8 Net Interest Income

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income	39,643,934	27,510,530	39,973,555	27,506,107
Interest Expenses	20,615,585	8,846,608	20,663,956	8,862,699
	19,028,349	18,663,922	19,309,599	18,643,408

4.2 Fee and Commission Income

» Accounting Policy

The Group earns fee and commission income from a diverse range of services it provides to its customers. These fees include credit-related fees and commission income. All fees and commissions are recognised to the Income Statement on an accrual basis. Fee and commission income that are integral to the EIR of a financial asset or financial liability are capitalised and included in the measurement of the EIR and recognised in the Income Statement over the expected life of the instrument.

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Credit Related Fees and Commissions	1,032,470	1,154,063	1,061,399	1,161,417
Service Charge	1,918,595	1,313,648	1,925,003	1,313,648
	2,951,065	2,467,711	2,986,402	2,475,065

4.3 Net Trading Income

» Accounting Policy

Net trading income includes all gains and losses from changes in fair value and related dividends for financial assets 'recognised through profit or loss' other than interest income.

Dividend income received from financial assets recognised through profit or loss is recognised when the Group's right to receive the payment is established.

Year ended 31 March	Company & Group	
	2023	2022
	Rs. '000	Rs. '000
Dividend Income from Financial Assets Recognised Through Profit or Loss	459	-
Appreciation/(Depreciation) in Market Value of Financial Assets Recognised Through Profit or Loss	(2,555)	2,393
	(2,096)	2,393

4.4 Other Operating Income

» Accounting Policy

Income earned on other sources, which are not directly related to the normal operations of the Group is recognised as Other Operating Income on an accrual basis.

Dividend income received from financial assets measured at fair value through other comprehensive income is recognised when the Group's right to receive the payment is established.

The profit/(loss) on disposal of property, plant and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item of other operating income in the financial year in which significant risks and rewards of ownership are transferred to the buyer.

Income on operating leases are accounted for on a straight-line basis over the periods of the leases.

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Dividend Income from Financial Assets Measured at Fair Value Through Other Comprehensive Income	2,770	2,983	2,770	2,983
Profit/(Loss) on Disposal of Property, Plant and Equipment	11,137	3,941	11,137	3,941
Income on Operating Lease	103,728	76,717	103,728	76,717
Sundry Income	45,920	95,201	57,947	90,197
	163,555	178,842	175,582	173,838

4.5 Impairment Charges

» Accounting Policy

The Group recognises the changes to the impairment provision which are assessed based on expected credit loss method in accordance with Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments). The methodology adopted by the Group is explained in the Note 4.19 to these Financial Statements. Recovery of amounts written-off as bad and doubtful debts is credited to impairment charges.

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	733,726	975,873	697,287	1,078,655
Lease Rentals Receivable and Stock out on Hire	(84,854)	95,562	(78,578)	78,566
Other Receivables	-	-	3,552	-
Recovery of Written-off Debts	(88,543)	(101,246)	(88,543)	(101,246)
Impairment on Investment in Fixed Deposits	(18,189)	50,993	(18,189)	50,993
Impairment on Off-Balance Sheet Credit Exposures	3,604	4,799	3,604	4,799
	545,744	1,025,981	519,133	1,111,767

Notes to the Financial Statements

4.5.1 Impairment Charges (Detailed Breakdown) - Company

Year ended 31 March	2023			2022		
	Direct Write-offs	Charge/ (Reversal) for the Year	Net Amount	Direct Write-offs	Charge/ (Reversal) for the Year	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	14,909	718,817	733,726	13,459	962,414	975,873
Lease Rentals Receivable and Stock out on Hire	681	(85,535)	(84,854)	4,591	90,971	95,562
	15,590	633,282	648,872	18,050	1,053,385	1,071,435
Recovery of Written-off Debts			(88,543)			(101,246)
Impairment on Investment in Fixed Deposits			(18,189)			50,993
Impairment on Off-Balance Sheet Credit Exposures			3,604			4,799
			545,744			1,025,981

4.5.2 Impairment Charges (Detailed Breakdown) - Group

Year ended 31 March	2023			2022		
	Direct Write-offs	Charge/ (Reversal) for the Year	Net Amount	Direct Write-offs	Charge/ (Reversal) for the Year	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	14,909	682,378	697,287	13,459	1,065,196	1,078,655
Lease Rentals Receivable and Stock out on Hire	681	(79,259)	(78,578)	4,591	73,975	78,566
	15,590	603,119	618,709	18,050	1,139,171	1,157,221
Recovery of Written-off Debts			(88,543)			(101,246)
Impairment on Other Receivables			3,552			-
Impairment on Investment in Fixed Deposits			(18,189)			50,993
Impairment on Off-Balance Sheet Credit Exposures			3,604			4,799
			519,133			1,111,767

4.5.3 Analysis of Impairment Charges - Company

Year ended 31 March 2023	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	384,819	71,544	38,958	495,321
Vehicle Loans	51,358	71,467	24,759	147,584
Term Loans	91,105	7,482	18,055	116,642
Mortgage Loans	(78,578)	33,201	(64,771)	(110,148)
Power Drafts	(34,936)	24,453	94,810	84,327
Loans and Receivables	413,768	208,147	111,811	733,726
Leases	(26,393)	73,340	(130,304)	(83,357)
Hire Purchase	-	-	(1,497)	(1,497)
Lease Rentals Receivable and Stock out on Hire	(26,393)	73,340	(131,801)	(84,854)
Recovery of Written-off Debts				(88,543)
Impairment on Investment in Fixed Deposits				(18,189)
Impairment on Off-Balance Sheet Credit Exposures				3,604
Total Allowance for Impairment Losses				545,744
Year ended 31 March 2022	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	121,078	(26,150)	(3,150)	91,778
Vehicle Loans	149,479	27,075	240,847	417,401
Term Loans	134,246	(403)	(1,999)	131,844
Mortgage Loans	155,666	5,322	(5,849)	155,139
Power Drafts	121,151	26,653	31,906	179,710
Loans and Receivables	681,620	32,497	261,756	975,873
Leases	29,209	(55,498)	123,928	97,639
Hire Purchase	1	(1)	(2,077)	(2,077)
Lease Rentals Receivable and Stock out on Hire	29,210	(55,499)	121,851	95,562
Recovery of Written-off Debts				(101,246)
Impairment on Investment in Fixed Deposits				50,993
Impairment on Off-Balance Sheet Credit Exposures				4,799
Total Allowance for Impairment Losses				1,025,981

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

Notes to the Financial Statements

4.5.4 Analysis of Impairment Charges - Group

Year ended 31 March 2023	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	384,917	71,446	38,901	495,264
Vehicle Loans	51,358	71,467	24,759	147,584
Term Loans	60,721	6,911	12,628	80,260
Mortgage Loans	(78,578)	33,201	(64,771)	(110,148)
Power Drafts	(34,936)	24,453	94,810	84,327
Loans and Receivables	383,482	207,478	106,327	697,287
Leases	(26,435)	73,275	(123,998)	(77,158)
Hire Purchase	1	-	(1,421)	(1,420)
Lease Rentals Receivable and Stock out on Hire	(26,434)	73,275	(125,419)	(78,578)
Recovery of Written-off Debts				(88,543)
Impairment on Other Receivables				3,552
Impairment on Investment in Fixed Deposits				(18,189)
Impairment on Off-Balance Sheet Credit Exposures				3,604
Total Allowance for Impairment Losses				519,133

Year ended 31 March 2022	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	121,078	(26,150)	(3,150)	91,778
Vehicle Loans	149,479	27,075	240,847	417,401
Term Loans	248,658	(16,702)	2,671	234,627
Mortgage Loans	155,666	5,322	(5,849)	155,139
Power Drafts	121,151	26,653	31,906	179,710
Loans and Receivables	796,032	16,198	266,425	1,078,655
Leases	29,209	(55,498)	106,932	80,643
Hire Purchase	1	(1)	(2,077)	(2,077)
Lease Rentals Receivable and Stock out on Hire	29,210	(55,499)	104,855	78,566
Recovery of Written-off Debts				(101,246)
Impairment on Investment in Fixed Deposits				50,993
Impairment on Off-Balance Sheet Credit Exposures				4,799
Total Allowance for Impairment Losses				1,111,767

4.6 Personnel Expenses

» Accounting Policy

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

Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund - LB Finance PLC and Multi Finance PLC

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

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

The Company and the employees contribute 12% and 8% respectively on the salary of each employee to the Employees' Provident Fund.

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

Defined Contribution Plans - Social Security Fund - LB Microfinance Myanmar Company Limited

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

Defined Benefit Plans - LB Finance PLC and Multi Finance PLC

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

Day 01 Loss on Staff Loan

The 'Day 01 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is amortised using Effective Interest Rates (EIR) over the tenure of the loan.

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Salaries and Other Related Expenses	3,000,436	2,739,253	3,106,246	2,781,964
Employer's Contribution to Employees' Provident Fund	262,018	253,779	265,653	253,998
Employer's Contribution to Employees' Trust Fund	54,309	51,151	55,218	51,206
Gratuity Charge/(Reversal) for the Year (Note 4.34.2)	102,774	79,612	104,927	79,612
Staff Training	11,717	6,177	12,454	6,273
Staff Welfare Expenses	111,031	67,926	122,187	72,154
Amortisation of Staff Loan Day 01 Difference	2,852	2,056	2,852	2,056
	3,545,137	3,199,954	3,669,537	3,247,263

Notes to the Financial Statements

4.7 Depreciation and Amortisation

» Accounting Policy

Depreciation of Property, Plant and Equipment

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in the Income Statement. Freehold land is not depreciated.

Right-of-use assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that the Group will obtain the ownership by the end of the lease term, the assets are depreciated over the shorter of the estimated useful lives and the lease terms as defined in Note 4.24.

Amortisation of Intangible Assets

Intangible assets are amortised using the straight-line method to write down the cost over its estimated useful economic lives from the date on which it is available for use at the rates specified in Note 4.26.

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Depreciation of Property, Plant and Equipment (Note 4.7.1)	526,442	499,602	534,252	502,133
Depreciation of Right-of-Use Assets (Note 4.7.1)	290,292	290,108	299,903	290,781
Amortisation of Intangible Assets (Note 4.7.2)	8,183	11,146	13,284	14,277
	824,917	800,856	847,439	807,191

4.7.1 Depreciation of Property, Plant and Equipment

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Freehold Buildings and Edifices	23,746	22,168	23,746	22,168
Furniture and Fittings	40,837	39,141	43,612	39,792
Equipment	102,674	101,645	104,268	102,285
Motor Vehicles	27,891	31,940	28,070	32,003
Computer Hardware and Equipment	102,176	107,085	105,438	108,262
Improvement of Leasehold Asset	76,858	71,103	76,858	71,103
Fixtures and Fittings	152,260	126,520	152,260	126,520
	526,442	499,602	534,252	502,133
Right-of-Use Assets	290,292	290,108	299,903	290,781
	816,734	789,710	834,155	792,914

4.7.2 Amortisation of Intangible Assets

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Computer Software	8,183	11,146	13,284	14,277

4.8 Other Operating Expenses

» Accounting Policy

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

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Directors' Emoluments	18,162	15,575	18,162	15,575
Auditors' Remunerations	4,283	3,866	8,748	7,773
Audit-Related Expenses	2,575	2,218	2,575	2,218
Non-Audit Fees to Auditors	1,365	2,485	1,365	2,485
Professional and Legal Expenses	57,626	47,708	62,203	48,718
Deposit Insurance Premium	149,091	125,176	149,421	125,191
General Insurance Expenses	156,180	114,485	160,461	114,554
Office Administration and Establishment Expenses	1,880,322	1,484,134	1,951,933	1,505,629
Advertising and Business Promotional Expenses	454,002	357,169	473,498	362,587
Crop Insurance Levy Expenses	84,342	86,248	84,342	86,248
	2,807,948	2,239,064	2,912,708	2,270,978

Crop Insurance Levy

As per provisions of the Section 14 of the Finance Act No 12 of 2013, the Crop Insurance Levy was introduced with effect from 1 April 2013 and was payable to the National Insurance Trust Fund. Currently, the Crop Insurance Levy is payable at 1% of profit after tax.

Directors' Emoluments

Directors' Emoluments include fees paid to Non-Executive Directors. Remunerations paid to Executive Directors are included under Salaries and Other Related Expenses in Note 4.6 to these Financial Statements.

4.9 Tax on Financial Services

Tax on Financial Services include Value Added Tax on Financial Services and Social Security Contribution Levy on Financial Services.

Value Added Tax (VAT) on Financial Services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of VAT on Financial Services is the accounting profit before VAT on Financial Services and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits. VAT on Financial Services was charged at 15% from 1 April 2021 to 31 December 2021 and 18% with effect from 1 January 2022.

Social Security Contribution Levy (SSCL) on Financial Services

As per the Social Security Contribution Levy (SSCL) Act No 25 of 2022, effective from 1 October 2022, the Company is liable to pay SSCL on Financial Services at the rate of 2.5% on the value addition attributable to the supply of financial services. Further the non-financial services are also made liable on the turnover at the rate of 2.5%.

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Value Added Tax (VAT) on Financial Services	2,498,862	2,136,551	2,505,367	2,136,551
Social Security Contribution Levy (SSCL) on Financial Services	171,713	-	172,239	-
	2,670,575	2,136,551	2,677,606	2,136,551

Notes to the Financial Statements

4.10 Taxation

» Accounting Policy

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

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 24 of 2017 and the amendments thereto at the rates specified in Note 4.10.3 to these Financial Statements.

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

Accounting Estimates

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

Deferred Tax Assets and Liabilities

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 4.27 to these Financial Statements.

4.10.1 The Major Components of Income Tax Expense are as follows;

Year ended 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
4.10.1 (a) Income Statement				
Current Income Tax				
Income Tax for the Year	4,168,369	3,790,342	4,179,506	3,786,661
Under/(Over) Provision of Current Taxes in respect of Previous Years	(1,214)	4,488	(8,394)	4,488
Deferred Tax				
Deferred Taxation Charge/(Reversal) (Note 4.27)	(880,934)	(546,226)	(880,934)	(546,226)
	3,286,221	3,248,604	3,290,178	3,244,923
4.10.1 (b) Other Comprehensive Income				
Deferred Tax				
Deferred Taxation Charge/(Reversal) (Note 4.27)	2,262	20,641	2,262	20,641
	2,262	20,641	2,262	20,641
4.10.1 (c) Total Tax Expense for the Financial Year	3,288,483	3,269,245	3,292,440	3,265,564

4.10.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by relevant tax rate is as follows;

Year ended 31 March	Tax Rate	Company		Group	
		2023	2022	2023	2022
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Accounting Profit before Income Taxation		11,746,552	11,910,462	11,843,064	11,720,954
Income Tax Expense at the Statutory Income					
LB Finance PLC	24% - 30%	3,172,046	2,858,511	3,172,046	2,858,511
Multi Finance PLC	24% - 30%	-	-	(1,270)	(36,957)
LB Microfinance Myanmar Company Limited	22% - 25%	-	-	22,852	(8,880)
Tax Effect of Non-Deductible Expenses		277,660	495,881	281,733	541,718
Tax Effect of Deductible Expenses		(123,742)	(57,398)	(130,113)	(61,079)
Tax Effect of Qualifying Payments		(36,267)	(32,237)	(44,414)	(32,237)
Under/(Over) Provision of Current Taxes in respect of Previous Years		(1,214)	4,488	(8,394)	4,488
		3,288,483	3,269,245	3,292,440	3,265,564
Effective Tax Rate		28.00%	27.45%	27.80%	27.86%
Effective Tax Rate (Excluding Deferred Tax)		35.49%	32.03%	35.24%	32.52%
Effective Tax Rate (Excluding Tax on Financial Services)		22.81%	23.27%	22.67%	23.57%
Charge/(Reversal) for Deferred Tax		(880,934)	(546,226)	(880,934)	(546,226)
Accounting Profit before Tax on Financial Services		14,417,127	14,047,013	14,520,670	13,857,505

4.10.3 Income tax expense of the Company and its subsidiaries have been recorded for on the taxable income at rates shown below;

	2023	2022
LB Finance PLC	24% - 30%	24%
Multi Finance PLC	24% - 30%	24%
LB Microfinance Myanmar Company Limited	22%	25%

4.10.4 Summary of the Taxes Paid During the Financial Year

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Direct Taxes				
Income Tax	3,922,132	3,838,953	3,922,132	3,847,363
Social Security Contribution Levy on Financial Services	134,766	-	135,085	-
Surcharge Tax	2,320,210	-	2,320,210	-
Value Added Tax on Financial Services	2,415,644	2,085,463	2,418,224	2,085,470
Crop Insurance Levy	81,495	91,195	81,495	91,195
	8,874,247	6,015,611	8,877,146	6,024,028
Indirect Taxes (Collected and Paid)				
Value Added Tax	371,477	190,214	371,477	190,214
Stamp Duty	179,777	253,238	180,122	253,238
Social Security Contribution Levy on Others	29,638	-	29,689	-
Withholding Tax on Dividend and Interest	133,361	4,616	133,883	4,616
Advanced Personal Income Tax	126,772	91,774	127,028	92,012
	841,025	539,842	842,199	540,080
Total Taxes Paid during the Financial Year	9,715,272	6,555,453	9,719,345	6,564,108

Notes to the Financial Statements

4.11 Earnings per Ordinary Share

» Accounting Policy

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

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

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

	Company		Group	
	2023	2022	2023	2022
Amounts Used as the Numerators:				
Profit after Tax for the Year Attributable to Equity Holders (Rs. '000)	8,460,331	8,661,858	8,554,543	8,530,497
Number of Ordinary Shares Used as Denominators for Basic Earnings per Share				
Weighted Average Number of Ordinary Shares in Issue	554,057,136	554,057,136	554,057,136	554,057,136
Basic/Diluted Earnings per Ordinary Share (Rs.)	15.27	15.63	15.44	15.40

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

4.11.3 Movement of Weighted Average Number of Ordinary Shares

	Company		Group	
	2023	2022	2023	2022
Ordinary Shares at the Beginning of the Year	554,057,136	554,057,136	554,057,136	554,057,136
Ordinary Shares at the End of the Year	554,057,136	554,057,136	554,057,136	554,057,136

4.12 Dividend Paid and Proposed

» Accounting Policy

Provision for final dividends is recognised at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividends payable is recognised when the Board approves such dividend in accordance with the Companies Act No 07 of 2007.

	Company	
	2023	2022
	Rs. '000	Rs. '000

4.12.1 Declared and Paid During the Year

Dividends on Ordinary Shares:		
Final Dividend for 2022 - Rs. 2.00 per Share (Final Dividend for 2021 - Rs. 4.00 per Share)	1,108,114	2,216,229
No Interim Dividend Paid During the Year (Interim Dividend for 2022 - Rs. 3.00 per Share)	-	1,662,171
	1,108,114	3,878,400

4.12.2 Declared and Paid after the Reporting Date

(Not Recognised as a Liability as at 31 March)		
Dividends on Ordinary Shares:		
Interim Dividend for 2023 - Rs. 2.00 per Share	1,108,114	-
	1,108,114	-

4.12.3 Proposed for Approval at Annual General Meeting

	Company	
	2023	2022
	Rs. '000	Rs. '000
(Not Recognised as a Liability as at 31 March)		
Dividends on Ordinary Shares:		
Final Dividend for 2023 - Rs. 3.00 per Share (Final Dividend for 2022 - Rs. 2.00 per Share)	1,662,171	1,108,114
	1,662,171	1,108,114

4.12.4 Dividend per Share

Dividends on Ordinary Shares:		
Interim Dividend	1,108,114	1,662,171
Final Dividend	1,662,171	1,108,114
Total Dividend	2,770,285	2,770,285
Number of Ordinary Shares at the End of the Year	554,057,136	554,057,136
Dividend per Share (Rs.)	5.00	5.00

4.13 Financial Instruments

» Accounting Policy

Date of Recognition

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

Classification and Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. A financial asset or financial liability is measured initially at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities at fair value through profit or loss as per Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments). Trade receivables of subsidiaries are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 01 profit or loss.

Day 01 Profit or Loss

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

Classification and Subsequent Measurement of Financial Assets

As per SLFRS 09, the Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- » Amortised Cost
- » Fair Value through Other Comprehensive Income (FVOCI)
- » Fair Value through Profit or Loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

Business Model Assessment

Group determines its business model at the level that best reflects how it manages the financial assets to achieve its objectives. The Group's business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as;

- » How the performance of the business model and the financial asset held within that business model are evaluated and reported to the entity's key management personnel
- » The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- » How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flow collected)
- » The expected frequency, value and timing of sales

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectation, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

Contractual Cash Flow Characteristic Test (The SPPI Test)

As the second test of the classification process, the Group assesses the contractual terms of the financial asset to identify whether those meet 'Solely the Payment of Principal and Interest' (SPPI) criteria.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition which may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Group applies judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

Classification and Subsequent Measurement of Financial Liabilities

As per SLFRS 09, the Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories;

- » Financial liabilities at fair value through profit or loss, and within this category as;
 - Held for trading; or
 - Designated at fair value through profit or loss
- » Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

Reclassification of Financial Assets and Financial Liabilities

As per SLFRS 09, Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 09.

Derecognition of Financial Assets and Financial Liabilities

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

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

Modification of Financial Assets and Financial Liabilities

If the terms of a financial asset are modified, an assessment needs to be performed to determine whether the modified terms are substantially different from the existing terms. This assessment considers whether the cash flows of the modified asset are substantially different. Where terms are substantially different, the existing financial asset will be derecognised and a new financial asset will be recognised at fair value. Where terms are not substantially different, then the modification does not result in derecognition of the financial asset.

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value.

4.13.1 Offsetting of Financial Instruments

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

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

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

Offsetting of Financial Instruments

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

Company

As at 31 March 2023	Gross Amounts	Gross Amounts Set off on the Statement of Financial Position	Net Amounts Presented on the Statement of Financial Position	Cash Collateral*	Financial Instrument Collateral*	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Lease Rentals Receivable and Stock out on Hire/Loans and Receivables	145,189,174	-	145,189,174	-	37,150,380	108,038,794
Financial Liabilities						
Due to Depositors	114,011,699	-	114,011,699	-	3,211,680	110,800,019

As at 31 March 2022	Gross Amounts	Gross Amounts Set off on the Statement of Financial Position	Net Amounts Presented on the Statement of Financial Position	Cash Collateral*	Financial Instrument Collateral*	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Lease Rentals Receivable and Stock out on Hire/Loans and Receivables	134,395,603	-	134,395,603	-	41,225,083	93,170,520
Financial Liabilities						
Due to Depositors	89,143,982	-	89,143,982	-	3,502,446	85,641,536

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

Group

As at 31 March 2023	Gross Amounts	Gross Amounts Set off on the Statement of Financial Position	Net Amounts Presented on the Statement of Financial Position	Cash Collateral*	Financial Instrument Collateral*	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Lease Rentals Receivable and Stock out on Hire/Loans and Receivables	146,371,597	-	146,371,597	-	37,150,380	109,221,217
Financial Liabilities						
Due to Depositors	114,248,253	-	114,248,253	-	3,212,163	111,036,090

Notes to the Financial Statements

As at 31 March 2022	Gross Amounts	Gross Amounts Set off on the Statement of Financial Position	Net Amounts Presented on the Statement of Financial Position	Cash Collateral*	Financial Instrument Collateral*	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

Financial Assets

Lease Rentals Receivable and Stock out on Hire/Loans and Receivables	135,537,401	-	135,537,401	-	41,225,083	94,312,318
--	-------------	---	-------------	---	------------	------------

Financial Liabilities

Due to Depositors	89,478,506	-	89,478,506	-	3,503,584	85,974,922
-------------------	------------	---	------------	---	-----------	------------

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

4.14 Fair Value Measurement

» Accounting Policy

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

01. In the principal market for the asset or liability; or
02. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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

- Level 1: Inputs include quoted prices for identical instruments.
- Level 2: Inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates and yield curves.
- Level 3: Inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments.

Valuation Framework

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

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

4.14.1 Fair Value Measurement Hierarchy - Financial and Non Financial Assets Measured at Fair Value

4.14.1 (a) Financial and Non Financial Assets Measured at Fair Value - Company

As at 31 March	Note	2023				2022			
		Fair Value Measurement Using			Total Fair Value	Fair Value Measurement Using			Total Fair Value
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	4.16								
Quoted Equities		10,653	-	-	10,653	13,208	-	-	13,208
Financial Assets Measured at Fair Value Through Other Comprehensive Income	4.20								
Quoted Equities		117,083	-	-	117,083	85,797	-	-	85,797
Unquoted Equities		-	-	305	305	-	-	305	305
		117,083	-	305	117,388	85,797	-	305	86,102

There were no transfers into and transfers out of the hierarchy levels during 2023 and 2022.

Details of valuation methodologies and assumptions are disclosed in Note 4.16 and Note 4.20 to these Financial Statements.

4.14.1 (b) Financial and Non Financial Assets Measured at Fair Value - Group

As at 31 March	Note	2023				2022			
		Fair Value Measurement Using			Total Fair Value	Fair Value Measurement Using			Total Fair Value
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	4.16								
Quoted Equities		10,653	-	-	10,653	13,208	-	-	13,208
Financial Assets Measured at Fair Value Through Other Comprehensive Income	4.20								
Quoted Equities		117,083	-	-	117,083	85,797	-	-	85,797
Unquoted Equities		-	-	307	307	-	-	307	307
		117,083	-	307	117,390	85,797	-	307	86,104
Investment Properties	4.25								
		-	-	4,550	4,550	-	-	71,150	71,150

There were no transfers into and transfers out of the hierarchy levels during 2023 and 2022.

Details of valuation methodologies and assumptions are disclosed in Note 4.16, 4.20 and Note 4.25 to these Financial Statements.

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

4.14.2 (a) Financial Assets Measured at Amortised Cost - Company

As at 31 March	Note	2023						2022					
		Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost	Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost		
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs			Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs				
		Level 1	Level 2	Level 3	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Cash and Cash Equivalents													
	4.15	1,810,836	-	-	1,810,836	1,810,836	1,159,669	-	-	1,159,669	1,159,669		
		1,338,660	-	-	1,338,660	1,338,660	2,279,843	-	-	2,279,843	2,279,843		
		-	830,880	-	830,880	830,880	-	9,993,533	-	9,993,533	9,993,533		
		-	543,656	-	543,656	543,656	-	-	-	-	-		
		-	-	-	-	-	1,025,941	-	-	1,025,941	1,025,941		
		3,149,496	1,374,536	-	4,524,032	4,524,032	4,465,453	9,993,533	-	14,458,986	14,458,986		
Financial Assets at Amortised Cost													
	4.17	- Loans and Receivables											
		-	-	66,546,483	66,546,483	66,546,483	-	-	45,705,379	45,705,379	45,705,379		
		-	-	21,771,227	21,771,227	24,983,481	-	-	23,132,485	23,132,485	24,337,483		
		-	-	6,042,414	6,042,414	7,278,701	-	-	7,568,111	7,568,111	7,997,760		
		-	-	1,929,928	1,929,928	2,462,189	-	-	2,975,233	2,975,233	2,984,802		
		-	-	9,830,484	9,830,484	9,822,766	-	-	11,532,054	11,532,054	11,812,177		
		-	-	106,120,536	106,120,536	111,093,620	-	-	90,913,262	90,913,262	92,837,601		
Financial Assets at Amortised Cost													
	4.18	- Lease Rentals Receivable and Stock out on Hire											
		-	-	29,977,094	29,977,094	34,095,522	-	-	40,386,933	40,386,933	41,557,937		
		-	-	32	32	32	-	-	65	65	65		
		-	-	29,977,126	29,977,126	34,095,554	-	-	40,386,998	40,386,998	41,558,002		
Other Financial Assets													
	4.21	Securities under Reverse Repurchase Agreements											
		-	4,651,908	-	4,651,908	4,651,908	-	-	-	-	-		
		-	8,880,297	-	8,880,297	8,880,297	-	5,135,842	-	5,135,842	5,135,842		
		7,578,396	-	-	7,578,396	7,538,577	-	-	-	-	-		
		-	501,221	-	501,221	501,221	-	385,657	-	385,657	385,657		
		-	25,839	-	25,839	25,839	-	-	-	-	-		
		-	87,992	-	87,992	87,992	-	77,125	-	77,125	77,125		
		7,578,396	14,147,257	-	21,725,653	21,685,834	-	5,598,624	-	5,598,624	5,598,624		

Notes to the Financial Statements

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

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Increase/(Decrease) in Interest Rate				
1bp Up	(7,012)	(10,669)	(7,012)	(10,669)
1bp Down	7,013	10,671	7,013	10,671

Unobservable Inputs Used in Measuring Fair Value under Level 3 Category

The following table sets out information about significant unobservable inputs used as at 31 March 2023 and 2022 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of Financial Instrument	Company	Group	Valuation Technique	Significant Unobservable Input	Range of Estimates for Unobservable Input	Fair Value Measurement Sensitivity to Unobservable Inputs
	Fair Values as at 31 March 2023	Fair Values as at 31 March 2023				
	Rs. '000	Rs. '000				
Financial Assets at Amortised Cost - Loans and Receivables	106,120,536	107,258,706	Discounted cash flow	Spread	3.1-13.6% (2022 : 2-12.9%)	A significant increase in the spread would result in a lower fair values.
	90,913,262 (2022)	91,972,865 (2022)		Probability of default	13.9-30.8% (2022 : 16-33.1%)	Significant increases in probability of default would result in lower fair values.
				Loss severity	5-100% (2022 : 5-100%)	A significant reduction would result in higher fair values.
				Expected prepayment rate	0.03-15.8% (2022 : 0.03-15.8%)	Correlates with the current interest rates.
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	29,977,126	30,021,380	Discounted cash flow	Spread	11.8% (2022 : 7.9%)	A significant increase in the spread would result in a lower fair values.
	40,386,998 (2022)	40,469,193 (2022)		Probability of default	16.3-28.9% (2022 : 17.1-25.6%)	Significant increases in probability of default would result in lower fair values.
				Loss severity	5-100% (2022 : 5-100%)	A significant reduction would result in higher fair values.
				Expected prepayment rate	0.03-3.2% (2022: 0.03-3.8%)	Correlates with the current interest rates.

There were no transfers into and transfers out of the hierarchy levels during 2023 and 2022.

Valuation Methodologies and Assumptions

Cash and Cash Equivalents

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

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

We measure performing finance receivables at fair value for purposes of disclosure using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest). The projected cash flows are discounted to present value based on assumptions regarding credit losses, prepayment speed, and applicable spreads to approximate current rates. Our assumptions regarding prepayment speed and credit losses are based on historical performance. We use the fair value of collateral to determine the fair value of non-performing finance receivables. The collateral for finance receivables is the vehicle financed, real estate, gold or other property. The fair value of finance receivables is categorised within Level 3 of the fair value measurement hierarchy. Loans and advances granted to customers with a variable rate are considered to be carried at fair value in the books net of credit losses.

Other Financial Assets

Since all the balances which are under other financial assets have short-term maturities, it is assumed that the carrying amounts of those balances approximate their fair values except for Investment in Treasury Bills.

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

4.14.2 (d) Financial Liabilities Measured at Amortised Cost - Group

As at 31 March	Note	2023						2022					
		Fair Value Measurement Using			Total Fair Value at Amortised Cost	Fair Value Measurement Using			Total Fair Value at Amortised Cost				
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs					
					Level 1				Level 2	Level 3	Level 1	Level 2	Level 3
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000		
Due to Banks	4.28	-	492,019	-	492,019	492,019	-	1,752,351	-	1,752,351	1,752,351	1,752,351	
Bank Overdrafts		-	492,019	-	492,019	492,019	-	1,752,351	-	1,752,351	1,752,351	1,752,351	
Debt Funding from Banks		-	17,040,419	-	17,040,419	18,900,517	-	24,381,756	-	24,381,756	25,109,593	25,109,593	
		-	17,532,438	-	17,532,438	19,392,536	-	26,134,107	-	26,134,107	26,861,944	26,861,944	
Financial Liabilities at Amortised Cost - Due to Depositors	4.29	-	-	-	-	-	-	-	-	-	-	-	
Fixed Deposits		-	-	109,605,505	109,605,505	111,616,979	-	-	83,405,883	83,405,883	85,568,187	85,568,187	
Savings Deposits		-	-	2,631,274	2,631,274	2,631,274	-	-	3,910,319	3,910,319	3,910,319	3,910,319	
		-	-	112,236,779	112,236,779	114,248,253	-	-	87,316,202	87,316,202	89,478,506	89,478,506	
Debt Instruments Issued and Other Borrowed Funds	4.30	-	-	-	-	-	-	-	-	-	-	-	
Unsecured Debentures		-	-	-	-	-	-	3,094,609	-	3,094,609	3,116,605	3,116,605	
Borrowings From International Financial Institutions		-	3,775,257	-	3,775,257	3,882,024	-	5,172,645	-	5,172,645	5,448,012	5,448,012	
		-	3,775,257	-	3,775,257	3,882,024	-	8,267,254	-	8,267,254	8,564,617	8,564,617	
Other Financial Liabilities	4.31	-	-	-	-	-	-	-	-	-	-	-	
Trade Payables		-	153,069	-	153,069	153,069	-	327,477	-	327,477	327,477	327,477	
Insurance Premium Payables		-	550,235	-	550,235	550,235	-	552,479	-	552,479	552,479	552,479	
Undeclared Balances		-	881,333	-	881,333	881,333	-	737,382	-	737,382	737,382	737,382	
Lease Liability		-	1,544,548	-	1,544,548	1,544,548	-	1,509,136	-	1,509,136	1,509,136	1,509,136	
Advances Collected from Customers		-	7,434	-	7,434	7,434	-	37,204	-	37,204	37,204	37,204	
Other Payables		-	146,440	-	146,440	146,440	-	179,741	-	179,741	179,741	179,741	
		-	3,283,059	-	3,283,059	3,283,059	-	3,343,419	-	3,343,419	3,343,419	3,343,419	

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

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Increase/(Decrease) in Interest Rate				
1bp Up	(5,310)	(4,294)	(5,310)	(4,294)
1bp Down	5,311	4,294	5,311	4,294

Unobservable Inputs Used in Measuring Fair Value under Level 3 Category

The following table sets out information about significant unobservable inputs used as at 31 March 2023 and 2022 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of Financial Instrument	Company	Group	Valuation Technique	Significant Unobservable Input	Range of Estimates for Unobservable Input	Fair Value Measurement Sensitivity to Unobservable Inputs
	Fair Values as at 31 March 2023	Fair Values as at 31 March 2023				
	Rs. '000	Rs. '000				
Financial Liabilities at Amortised Cost - Due to Depositors	111,849,395	112,236,779	Discounted cash flow	Spread	0-3.5% (2022 : 0-2.3%)	A significant increase in the spread would result in a lower fair value.
	86,981,677 (2022)	87,316,202 (2022)		Expected premature rate	0.1-4.1% (2022 : 0.3-2.8%)	Correlates with the current interest rates.

There were no financial liabilities recorded at fair value as at 31 March 2023 and 2022.

There were no transfers into and transfers out of the hierarchy levels during 2023 and 2022.

Valuation Methodologies and Assumptions

Due to Depositors

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

Debentures, Bank Borrowings and Debt Instruments

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

Other Financial Liabilities

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

4.15 Cash and Cash Equivalents

» Accounting Policy

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

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Notes and Coins Held	1,810,836	1,159,669	1,830,304	1,173,595
Balances with Banks	1,338,660	2,279,843	1,357,186	2,356,956
Securities under Reverse Repurchase Agreements (Less than 03 Months)	830,880	9,993,533	949,809	10,069,607
Investment in Trust Certificates	543,656	-	543,656	-
Investment in Treasury Bills	-	1,025,941	-	1,033,978
	4,524,032	14,458,986	4,680,955	14,634,136
Fair Value	4,524,032	14,458,986	4,680,955	14,634,136

4.15.1 The collateral value of Securities under Reverse Repurchase Agreements as at 31 March 2023 for the Company was Rs. 1,282,400,000/- (2022 - Rs. 11,823,200,000/-) and for the Group was Rs. 1,446,871,393/- (2022 - Rs. 11,918,424,125/-).

4.15.2 Cash and Cash Equivalents Allocated for the Liquidity Requirement

» Accounting Policy

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

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents Allocated for the Liquidity Requirement	-	4,324,743	-	4,324,743

4.15.3 Net Cash and Cash Equivalents for the Purpose of the Cash Flow Statement

» Accounting Policy

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

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	4,524,032	14,458,986	4,680,955	14,634,136
Bank Overdrafts (Note 4.28)	(490,862)	(1,749,144)	(492,019)	(1,752,351)
Net Cash and Cash Equivalents	4,033,170	12,709,842	4,188,936	12,881,785

Notes to the Financial Statements

4.16 Financial Assets Recognised Through Profit or Loss - Measured at Fair Value

» Accounting Policy

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

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

SLFRS 09 requires financial instruments to be classified based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. For financial assets that are debt instruments, held for trading is a business model objective that results in measurement at fair value through profit or loss.

As at 31 March	Company & Group	
	2023	2022
	Rs. '000	Rs. '000
Equity Securities - Quoted (Note 4.16.1)	10,653	13,208

4.16.1 Equity Securities - Quoted

As at 31 March	Company & Group			Company & Group		
	2023			2022		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
Banks						
Seylan Bank PLC (Non-Voting)	109,949	1,662	2,474	109,949	1,662	2,727
		1,662	2,474		1,662	2,727
Food, Beverage and Tobacco						
Bairaha Farms PLC	17,600	425	2,552	17,600	425	2,662
		425	2,552		425	2,662
Capital Goods						
Lanka Walltiles PLC*	98,700	790	4,747	98,700	790	6,879
Hayleys PLC*	12,220	207	880	12,220	207	940
		997	5,627		997	7,819
Total		3,084	10,653		3,084	13,208

Global Industry Classification Standard (GICS)

*Investments made in related parties

4.16.2 Disposal of Equity Securities - Quoted

There were no any share disposals recorded in 2023.

As at 31 March	Company & Group			
	2022			
	Number of Shares	Cost	Sales Proceeds	Profit/(Loss) on Disposal of Shares
		Rs. '000	Rs. '000	Rs. '000
Banks				
Seylan Bank PLC (Non-Voting)	1,500	23	48	25
Total		23	48	25

4.17 Financial Assets at Amortised Cost - Loans and Receivables

» Accounting Policy

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

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

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

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	67,559,881	46,237,504	67,765,757	46,447,349
Vehicle Loans	25,947,463	25,166,500	25,968,543	25,166,500
Term Loans	7,939,229	8,580,894	8,992,242	9,768,520
Mortgage Loans	4,352,304	4,989,209	4,488,982	4,989,209
Power Drafts	10,254,251	12,169,949	10,274,135	12,169,949
Gross Loans and Receivables	116,053,128	97,144,056	117,489,659	98,541,527
Allowance for Impairment Losses (Note 4.19)	(4,959,508)	(4,306,455)	(5,257,870)	(4,644,323)
Net Loans and Receivables Subject to Fair Value (Note 4.17.2)	111,093,620	92,837,601	112,231,789	93,897,204
Fair Value	106,120,536	90,913,262	107,258,706	91,972,865

4.17.1 Loans and Receivables Include Loans Granted to Employees, the Movement of which is as Follows;

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at the Beginning of the Year	343,775	416,446	345,814	416,446
Additions Resulting from Acquisitions	-	-	-	2,039
Loans Granted During the Year	447,235	357,060	447,235	357,060
Repayments During the Year	(401,322)	(429,731)	(402,301)	(429,731)
As at the End of the Year	389,688	343,775	390,748	345,814

Notes to the Financial Statements

4.17.2 Contractual Maturity Analysis of Loans and Receivables

4.17.2 (a) Company

As at 31 March 2023	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	67,559,881	-	-	67,559,881
Vehicle Loans	9,826,952	16,080,622	39,889	25,947,463
Term Loans	2,229,364	3,277,859	2,432,006	7,939,229
Mortgage Loans	2,186,643	1,902,278	263,383	4,352,304
Power Drafts	6,233,159	4,021,092	-	10,254,251
Gross Loans and Receivables	88,035,999	25,281,851	2,735,278	116,053,128
Allowance for Impairment Losses (Note 4.19)				(4,959,508)
Net Loans and Receivables				111,093,620

As at 31 March 2022	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	46,237,504	-	-	46,237,504
Vehicle Loans	7,686,066	17,409,243	71,191	25,166,500
Term Loans	3,104,480	2,956,658	2,519,756	8,580,894
Mortgage Loans	2,274,553	2,373,689	340,967	4,989,209
Power Drafts	6,357,792	5,812,157	-	12,169,949
Gross Loans and Receivables	65,660,395	28,551,747	2,931,914	97,144,056
Allowance for Impairment Losses (Note 4.19)				(4,306,455)
Net Loans and Receivables				92,837,601

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

4.17.2 (b) Group

As at 31 March 2023	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	67,765,757	-	-	67,765,757
Vehicle Loans	9,826,952	16,101,702	39,889	25,968,543
Term Loans	3,242,513	3,317,723	2,432,006	8,992,242
Mortgage Loans	2,323,322	1,902,278	263,382	4,488,982
Power Drafts	6,253,043	4,021,092	-	10,274,135
Gross Loans and Receivables	89,411,587	25,342,795	2,735,277	117,489,659
Allowance for Impairment Losses (Note 4.19)				(5,257,870)
Net Loans and Receivables				112,231,789

As at 31 March 2022	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	46,447,349	-	-	46,447,349
Vehicle Loans	7,686,066	17,409,243	71,191	25,166,500
Term Loans	4,233,306	3,015,458	2,519,756	9,768,520
Mortgage Loans	2,274,553	2,373,689	340,967	4,989,209
Power Drafts	6,357,792	5,812,157	-	12,169,949
Gross Loans and Receivables	66,999,066	28,610,547	2,931,914	98,541,527
Allowance for Impairment Losses (Note 4.19)				(4,644,323)
Net Loans and Receivables				93,897,204

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

4.17.3 Credit Exposure Movement - ECL Stage-wise

4.17.3 (a) Company

Loans and Receivables	2023			
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2022	83,135,975	8,870,286	5,137,795	97,144,056
Transfer to Stage 01	4,862,673	(3,573,287)	(1,289,386)	-
Transfer to Stage 02	(4,799,832)	8,096,095	(3,296,263)	-
Transfer to Stage 03	(1,379,004)	(997,326)	2,376,330	-
New Assets Originated or Purchased	79,937,920	12,320,622	6,412,839	98,671,381
Financial Assets Derecognised or Repaid	(66,436,938)	(10,861,374)	(2,383,324)	(79,681,636)
Write-offs	-	-	(80,673)	(80,673)
As at 31 March 2023	95,320,794	13,855,016	6,877,318	116,053,128

Loans and Receivables	2022			
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2021	58,635,512	5,923,396	5,590,002	70,148,910
Transfer to Stage 01	1,279,402	(951,347)	(328,055)	-
Transfer to Stage 02	(1,604,601)	1,739,380	(134,779)	-
Transfer to Stage 03	(706,547)	(631,916)	1,338,463	-
New Assets Originated or Purchased	41,024,675	6,633,074	1,732,841	49,390,590
Financial Assets Derecognised or Repaid	(15,492,466)	(3,842,301)	(3,020,537)	(22,355,304)
Write-offs	-	-	(40,140)	(40,140)
As at 31 March 2022	83,135,975	8,870,286	5,137,795	97,144,056

Notes to the Financial Statements

4.17.3 (b) Group

Loans and Receivables	2023			
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2022	83,796,794	8,777,278	5,967,455	98,541,527
Transfer to Stage 01	5,092,697	(3,581,730)	(1,510,967)	-
Transfer to Stage 02	(4,800,606)	8,096,869	(3,296,263)	-
Transfer to Stage 03	(1,380,812)	(1,007,891)	2,388,703	-
New Assets Originated or Purchased	80,876,883	12,357,945	6,681,272	99,916,100
Financial Assets Derecognised or Repaid	(67,257,776)	(10,898,860)	(2,665,339)	(80,821,975)
Write-offs	-	-	(80,673)	(80,673)
Exchange Rate Variance on Foreign Currency Provisions	(34,637)	(731)	(29,952)	(65,320)
As at 31 March 2023	96,292,543	13,742,880	7,454,236	117,489,659

Loans and Receivables	2022			
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2021	58,745,510	6,270,997	5,893,489	70,909,996
Additions Resulting from Acquisitions	177,818	43,889	282,521	504,228
Transfer to Stage 01	1,498,233	(1,078,684)	(419,549)	-
Transfer to Stage 02	(1,608,061)	1,742,840	(134,779)	-
Transfer to Stage 03	(869,083)	(753,432)	1,622,515	-
New Assets Originated or Purchased	41,494,573	6,643,041	1,943,313	50,080,927
Financial Assets Derecognised or Repaid	(15,780,088)	(4,091,373)	(3,179,915)	(23,051,376)
Write-offs	-	-	(40,140)	(40,140)
Exchange Rate Variance on Foreign Currency Provisions	137,892	-	-	137,892
As at 31 March 2022	83,796,794	8,777,278	5,967,455	98,541,527

4.18 Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire

» Accounting Policy

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

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

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

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

Company

As at 31 March	2023			2022		
	Lease	Hire Purchase	Total	Lease	Hire Purchase	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivable	48,309,150	81,545	48,390,695	56,928,793	92,083	57,020,876
Unearned Income	(11,395,464)	-	(11,395,464)	(12,285,964)	-	(12,285,964)
Net Rentals Receivable	36,913,686	81,545	36,995,231	44,642,829	92,083	44,734,912
Rentals Received in Advance	(465)	-	(465)	(3,281)	-	(3,281)
Allowance for Impairment Losses (Note 4.19)	(2,817,699)	(81,513)	(2,899,212)	(3,081,611)	(92,018)	(3,173,629)
Total Net Rentals Receivable Subject to Fair Value (Note 4.18.2)	34,095,522	32	34,095,554	41,557,937	65	41,558,002
Fair Value			29,977,126			40,386,998

Group

As at 31 March	2023			2022		
	Lease	Hire Purchase	Total	Lease	Hire Purchase	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivable	48,407,522	82,109	48,489,631	57,065,919	92,571	57,158,490
Unearned Income	(11,411,748)	-	(11,411,748)	(12,308,816)	-	(12,308,816)
Net Rentals Receivable	36,995,774	82,109	37,077,883	44,757,103	92,571	44,849,674
Rentals Received in Advance	(543)	-	(543)	(3,804)	-	(3,804)
Allowance for Impairment Losses (Note 4.19)	(2,855,455)	(82,077)	(2,937,532)	(3,113,167)	(92,506)	(3,205,673)
Total Net Rentals Receivable Subject to Fair Value (Note 4.18.3)	34,139,776	32	34,139,808	41,640,132	65	41,640,197
Fair Value			30,021,380			40,469,193

Operating Lease

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

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

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at the Beginning of the Year	12,345	19,243	12,345	19,243
Lease and Hire Purchase Facilities Granted During the Year	7,914	4,855	7,914	4,855
Repayments During the Year	(7,522)	(11,753)	(7,522)	(11,753)
As at the End of the Year	12,737	12,345	12,737	12,345

Notes to the Financial Statements

4.18.2 Contractual Maturity Analysis of Lease Rentals Receivable and Stock out on Hire - Company

As at 31 March 2023	Lease				Hire Purchase			
	Within One Year	1 - 5 Years	Over 5 Years	Total	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivable	23,171,443	25,135,390	2,317	48,309,150	81,545	-	-	81,545
Unearned Income	(6,059,162)	(5,336,166)	(136)	(11,395,464)	-	-	-	-
Net Rentals Receivable	17,112,281	19,799,224	2,181	36,913,686	81,545	-	-	81,545
Rentals Received in Advance				(465)				-
Allowance for Impairment Losses				(2,817,699)				(81,513)
Total Net Rentals Receivable				34,095,522				32

As at 31 March 2022	Lease				Hire Purchase			
	Within One Year	1 - 5 Years	Over 5 Years	Total	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivable	24,360,042	32,554,900	13,851	56,928,793	92,083	-	-	92,083
Unearned Income	(6,203,932)	(6,081,219)	(813)	(12,285,964)	-	-	-	-
Net Rentals Receivable	18,156,110	26,473,681	13,038	44,642,829	92,083	-	-	92,083
Rentals Received in Advance				(3,281)				-
Allowance for Impairment Losses				(3,081,611)				(92,018)
Total Net Rentals Receivable				41,557,937				65

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

4.18.3 Contractual Maturity Analysis of Lease Rentals Receivable and Stock out on Hire - Group

As at 31 March 2023	Lease				Hire Purchase			
	Within One Year	1 - 5 Years	Over 5 Years	Total	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivable	23,234,134	25,171,071	2,317	48,407,522	82,109	-	-	82,109
Unearned Income	(6,067,524)	(5,344,088)	(136)	(11,411,748)	-	-	-	-
Net Rentals Receivable	17,166,610	19,826,983	2,181	36,995,774	82,109	-	-	82,109
Rentals Received in Advance				(543)				-
Allowance for Impairment Losses				(2,855,455)				(82,077)
Total Net Rentals Receivable				34,139,776				32

As at 31 March 2022	Lease				Hire Purchase			
	Within One Year	1 - 5 Years	Over 5 Years	Total	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals								
Receivable	24,435,906	32,616,162	13,851	57,065,919	92,571	-	-	92,571
Unearned Income	(6,216,686)	(6,091,317)	(813)	(12,308,816)	-	-	-	-
Net Rentals								
Receivable	18,219,220	26,524,845	13,038	44,757,103	92,571	-	-	92,571
Rentals Received in Advance				(3,804)				-
Allowance for Impairment Losses				(3,113,167)				(92,506)
Total Net Rentals								
Receivable				41,640,132				65

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

4.18.4 Credit Exposure Movement - ECL Stage-wise Lease Rentals Receivable and Stock out on Hire - Company

	2023				2022			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at the Beginning of the Year	28,899,418	9,165,286	6,666,927	44,731,631	31,601,449	11,015,890	7,903,567	50,520,906
Transfer to Stage 01	6,106,248	(4,087,863)	(2,018,385)	-	2,854,462	(2,285,363)	(569,099)	-
Transfer to Stage 02	(5,099,370)	9,461,896	(4,362,526)	-	(3,675,998)	4,152,530	(476,532)	-
Transfer to Stage 03	(1,261,318)	(1,806,502)	3,067,820	-	(1,398,019)	(1,806,149)	3,204,168	-
New Assets Originated or Purchased	9,919,267	6,693,930	6,182,102	22,795,299	17,482,482	7,665,800	3,860,670	29,008,952
Financial Assets Derecognised or Repaid	(16,531,610)	(10,311,122)	(3,499,869)	(30,342,601)	(17,964,958)	(9,577,422)	(7,172,643)	(34,715,023)
Write-offs	-	-	(189,563)	(189,563)	-	-	(83,204)	(83,204)
As at the End of the Year	22,032,635	9,115,625	5,846,506	36,994,766	28,899,418	9,165,286	6,666,927	44,731,631

4.18.5 Credit Exposure Movement - ECL Stage-wise Lease Rentals Receivable and Stock out on Hire - Group

	2023				2022			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at the Beginning of the Year	28,938,370	9,180,739	6,726,761	44,845,870	31,601,449	11,015,890	7,903,567	50,520,906
Additions Resulting from Acquisitions	-	-	-	-	38,952	15,453	59,834	114,239
Transfer to Stage 01	6,111,831	(4,093,446)	(2,018,385)	-	2,854,462	(2,285,363)	(569,099)	-
Transfer to Stage 02	(5,105,493)	9,468,020	(4,362,527)	-	(3,675,998)	4,152,530	(476,532)	-
Transfer to Stage 03	(1,262,223)	(1,809,005)	3,071,228	-	(1,398,019)	(1,806,149)	3,204,168	-
New Assets Originated or Purchased	9,927,658	6,697,166	6,182,345	22,807,169	17,482,482	7,665,800	3,860,670	29,008,952
Financial Assets Derecognised or Repaid	(16,554,226)	(10,317,967)	(3,513,943)	(30,386,136)	(17,964,958)	(9,577,422)	(7,172,643)	(34,715,023)
Write-offs	-	-	(189,563)	(189,563)	-	-	(83,204)	(83,204)
As at the End of the Year	22,055,917	9,125,507	5,895,916	37,077,340	28,938,370	9,180,739	6,726,761	44,845,870

4.19 Allowance for Impairment Losses

» Accounting Policy

Overview of the Expected Credit Loss (ECL) Principles

The adoption of SLFRS 09 has fundamentally changed the Group's loan loss impairment method by replacing LKAS 39's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. From 1 April 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at Fair Value through Profit or Loss (FVPL), together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 09.

The ECL allowance is based on the credit losses expected to arise over the life of the asset.

The 12 months ECL is the portion of Lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both Lifetime ECLs and 12 months ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on such process Group allocates loans into Stage 01, Stage 02, Stage 03 as described below;

Stage 01

When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. Stage 01 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 02.

Stage 02

When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the Lifetime ECLs. Stage 02 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 03.

Stage 03

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

Definition of Default and Credit Impaired Assets

The Group considers loans and advances to customers be defaulted when the borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held) or the borrower becomes 90 days past due on its contractual payments.

Significant Increase in Credit Risk

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

Individually Significant Impairment Assessment and Loans which are Not Impaired Individually

Group will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Loans with objective evidence of incurred losses are classified as Stage 03. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 01 or Stage 02, based on the above specified criteria to identify whether there have been a significant credit deterioration since origination.

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

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

Grouping Financial Assets Measured on a Collective Basis

As explained above, Group calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets which belong to Stage 03. All assets which belong to Stage 01 and 02 will be assessed collectively for impairment.

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

Calculation of ECL

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

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

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

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

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

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

Forward Looking Information

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

The model predicts the forward industry NPL levels and which has been used to adjust the Company PD curve using statistically quantified variance. The economic factor model is developed by the University of Colombo, Science and Technology CELL and consent

Notes to the Financial Statements

to use with an annual review. The economic factor model uses the machine learning technique to predict the NPL based on the use of some key economic factors as an input to the model. The key variables of the model is as follows;

- » Industry NPL
- » Per Capita GDP
- » Business Confidence Index
- » Unemployment Rates
- » All Share Price Index (ASPI)
- » Balance of Payment
- » Exchange Rates
- » Budget Deficit as a Percentage of GDP
- » Fuel Prices
- » Rainfall
- » GDP Growth Rate
- » Interest Rates
- » Inflation Rates

Reversals of Impairment

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

Write-off of Loans and Receivables

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

Collateral Valuation

Revaluation of immovable properties obtained as collaterals against any accommodation granted are assessed based on the requirements in the Direction No 04 of 2018 on "Valuation of Immovable Properties" and subsequent amendments thereto issued by the Central Bank of Sri Lanka (CBSL). The assessment of immovable properties is carrying out by independent professional valuers as required by the said direction issued by CBSL.

The assessed fair value of the immovable properties does not consider for the measurement of regulatory provisions for bad and doubtful debts as per Direction No 01 of 2020 and subsequent amendments thereto issued by CBSL.

Collateral Repossessed

Repossessed collateral will not be taken into books of accounts unless the Group has taken those collaterals into its business operations. However such additions from the repossessed collaterals to the business operations are not significant.

Non-Accrual Receivables

Cessation of interest income recognition is triggered out when the receivables are more than 90 days past due in arrears, receivables are subject to legal action/ongoing legal action, receivables are subject to untraceable or unattainable collaterals, or receivables are determined to be uncollectible. For receivables in non-accrual status, subsequent financing revenue is recognised only to the extent a payment is received. Payments are generally applied first to outstanding interest and then to the unpaid principal balance.

4.19.1 Stage-wise Analysis of the Allowance for Impairment Losses - Company

	2023				2022			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
4.19.1 (a) As at the Beginning of the Year	1,978,234	414,829	5,087,021	7,480,084	1,267,428	437,992	4,826,572	6,531,992
Charge/(Reversal) for the Year	387,373	281,488	(19,989)	648,872	710,806	(23,163)	383,793	1,071,436
Amounts Written-Off	-	-	(270,236)	(270,236)	-	-	(123,344)	(123,344)
As at the End of the Year	2,365,607	696,317	4,796,796	7,858,720	1,978,234	414,829	5,087,021	7,480,084
4.19.1 (b) Individual Impairment	-	-	4,796,796	4,796,796	-	-	5,087,021	5,087,021
Collective Impairment	2,365,607	696,317	-	3,061,924	1,978,234	414,829	-	2,393,063
Total	2,365,607	696,317	4,796,796	7,858,720	1,978,234	414,829	5,087,021	7,480,084
4.19.1 (c) Gross Amount of Loans Individually Determined to be Impaired, before Deducting the Individually Assessed Impairment Allowance	-	-	12,723,824	12,723,824	-	-	11,804,722	11,804,722
Gross Amount of Loans Collectively Assessed for the Impairment	117,353,429	22,970,641	-	140,324,070	112,035,393	18,035,573	-	130,070,966
Gross Receivables	117,353,429	22,970,641	12,723,824	153,047,894	112,035,393	18,035,573	11,804,722	141,875,688
Gross Amount of Loans Individually Determined to be Impaired				8.31%				8.32%

4.19.2 Stage-wise Analysis of the Allowance for Impairment Losses - Group

	2023				2022			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
4.19.2 (a) As at the Beginning of the Year	2,027,394	416,702	5,405,900	7,849,996	1,287,871	456,088	4,860,727	6,604,686
Additions Resulting from Acquisitions	-	-	-	-	1,898	1,100	195,264	198,262
Charge/(Reversal) for the Year	357,047	280,752	(19,089)	618,710	733,958	(43,802)	467,065	1,157,221
Amounts Written-Off	-	-	(270,236)	(270,236)	-	-	(123,344)	(123,344)
Exchange Rate Variance on Foreign Currency Provisions	216	(39)	(3,245)	(3,068)	3,667	3,316	6,188	13,171
As at the End of the Year	2,384,657	697,415	5,113,330	8,195,402	2,027,394	416,702	5,405,900	7,849,996
4.19.2 (b) Individual Impairment	-	-	5,113,330	5,113,330	-	-	5,405,900	5,405,900
Collective Impairment	2,384,657	697,415	-	3,082,072	2,027,394	416,702	-	2,444,096
Total	2,384,657	697,415	5,113,330	8,195,402	2,027,394	416,702	5,405,900	7,849,996
4.19.2 (c) Gross Amount of Loans Individually Determined to be Impaired, before Deducting the Individually Assessed Impairment Allowance	-	-	13,350,152	13,350,152	-	-	12,694,216	12,694,216
Gross Amount of Loans Collectively Assessed for the Impairment	118,348,460	22,868,387	-	141,216,847	112,813,393	18,017,359	-	130,830,752
Gross Receivables	118,348,460	22,868,387	13,350,152	154,566,999	112,813,393	18,017,359	12,694,216	143,524,968
Gross Amount of Loans Individually Determined to be Impaired				8.64%				8.84%

Notes to the Financial Statements

4.19.3 Product-wise Analysis of the Allowance for Impairment Losses - Company

As at 31 March	2023				2022			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	879,711	94,100	39,587	1,013,398	494,746	22,368	15,011	532,125
Vehicle Loans	343,502	148,100	472,380	963,982	292,145	76,632	460,240	829,017
Term Loans	407,250	17,630	235,647	660,527	316,152	10,193	256,789	583,134
Mortgage Loans	199,000	109,915	1,581,202	1,890,117	277,578	76,713	1,650,116	2,004,407
Power Drafts	106,915	61,515	263,054	431,484	141,852	37,063	178,857	357,772
Loans and Receivables	1,936,378	431,260	2,591,870	4,959,508	1,522,473	222,969	2,561,013	4,306,455
Leases	429,229	265,057	2,123,413	2,817,699	455,761	191,860	2,433,990	3,081,611
Hire Purchase	-	-	81,513	81,513	-	-	92,018	92,018
Lease Rentals Receivable and Stock out on Hire	429,229	265,057	2,204,926	2,899,212	455,761	191,860	2,526,008	3,173,629
Total Allowance for Impairment Losses	2,365,607	696,317	4,796,796	7,858,720	1,978,234	414,829	5,087,021	7,480,084

4.19.4 Product-wise Analysis of the Allowance for Impairment Losses - Group

As at 31 March	2023				2022			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	881,504	94,251	39,684	1,015,439	496,441	22,617	15,165	534,223
Vehicle Loans	360,631	148,563	472,377	981,571	292,145	76,632	460,240	829,017
Term Loans	407,300	18,013	513,946	939,259	363,496	11,650	543,758	918,905
Mortgage Loans	199,000	109,915	1,581,202	1,890,117	277,578	76,713	1,650,116	2,004,407
Power Drafts	106,915	61,515	263,054	431,484	141,852	37,063	178,857	357,772
Loans and Receivables	1,955,350	432,257	2,870,263	5,257,870	1,571,512	224,675	2,848,136	4,644,323
Leases	429,307	265,158	2,160,990	2,855,455	455,882	192,026	2,465,259	3,113,167
Hire Purchase	-	-	82,077	82,077	-	-	92,506	92,506
Lease Rentals Receivable and Stock out on Hire	429,307	265,158	2,243,067	2,937,532	455,882	192,026	2,557,765	3,205,673
Total Allowance for Impairment Losses	2,384,657	697,415	5,113,330	8,195,402	2,027,394	416,701	5,405,901	7,849,996

4.19.5 Stage Movements in Allowance for Impairment Losses - Company

	2023				2022			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(ECL) as at the Beginning of the Year	1,978,234	414,829	5,087,021	7,480,084	1,267,428	437,992	4,826,572	6,531,992
Transfer to Stage 01	1,005,600	(183,891)	(821,709)	-	183,706	(89,465)	(94,241)	-
Transfer to Stage 02	(218,736)	4,132,798	(3,914,062)	-	(250,903)	275,033	(24,130)	-
Transfer to Stage 03	(66,842)	(77,191)	144,033	-	(39,687)	(74,014)	113,701	-
New Assets Originated or Purchased	1,637,732	596,724	5,846,018	8,080,474	1,256,079	225,822	1,767,539	3,249,440
Financial Assets Derecognised or Repaid	(1,970,381)	(4,186,952)	(1,274,269)	(7,431,602)	(438,389)	(360,539)	(1,379,076)	(2,178,004)
Write-offs	-	-	(270,236)	(270,236)	-	-	(123,344)	(123,344)
As at the End of the Year	2,365,607	696,317	4,796,796	7,858,720	1,978,234	414,829	5,087,021	7,480,084

4.19.6 Stage Movements in Allowance for Impairment Losses - Group

	2023				2022			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(ECL) as at the Beginning of the Year	2,027,394	416,701	5,405,901	7,849,996	1,287,871	456,088	4,860,727	6,604,686
Additions Resulting from Acquisitions	-	-	-	-	1,898	1,100	278,606	281,604
Transfer to Stage 01	1,027,999	(184,664)	(843,335)	-	204,414	(101,599)	(102,815)	-
Transfer to Stage 02	(219,087)	4,133,149	(3,914,062)	-	(251,244)	275,373	(24,130)	-
Transfer to Stage 03	(68,652)	(77,440)	146,092	-	(55,640)	(85,559)	141,199	-
New Assets Originated or Purchased	1,650,431	598,210	5,907,178	8,155,819	1,303,062	252,221	1,787,906	3,343,189
Financial Assets Derecognised or Repaid	(2,033,644)	(4,188,502)	(1,314,963)	(7,537,109)	(466,634)	(384,239)	(1,418,437)	(2,269,310)
Write-offs	-	-	(270,236)	(270,236)	-	-	(123,344)	(123,344)
Exchange Rate Variance on Foreign Currency Provisions	216	(39)	(3,245)	(3,068)	3,667	3,316	6,188	13,171
As at the End of the Year	2,384,657	697,415	5,113,330	8,195,402	2,027,394	416,701	5,405,901	7,849,996

4.19.7 Sensitivity Analysis of Allowance for Impairment Losses

The Company has estimated the impairment provision as at 31 March 2023 based on various assumptions. The changes to such assumptions may lead to changes in the impairment provision recorded in the Statement of Financial Position. The sensitivity of the impairment provision of the Company as at 31 March 2023 to a reasonably possible change in Probability of Defaults (PDs) and Loss Given Defaults (LGDs) are demonstrated in the following table. The simulated Expected Credit Loss impacts of the multiple scenarios based on forward looking macro economic information are presented in the Note 4.19.8 to these Financial Statements.

Changed Criteria	Changed Factor	Sensitivity Effect on Impairment Allowance Increase		Sensitivity Effect on Income Statement	
		2023	2022	2023	2022
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loss Given Default (LGD)	Increase by 10%	210,237	291,424	210,237	291,424
Probability of Default (PD)	Increase by 1%	12,496	8,377	12,496	8,377

4.19.8 Measurement Uncertainty and Sensitivity Analysis of ECL Estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation including estimation of Probabilities of Default (PD), Loss Given Default (LGD), a range of unbiased future economic scenarios, estimation of expected lives, estimation of Exposures at Default (EAD) and assessing significant increases in credit risk. This becomes more complex, particularly in times of economic volatility and uncertainty. The Group form multiple economic scenarios based on economic forecasts to estimate future credit losses and to determine an unbiased ECL estimate. Management judgments are used to address the data and model limitations and expert credit judgments.

Methodology

The Group have been used three scenarios at multiple confidence levels to capture the exceptional nature of the current economic environment and to simulate management's view of the range of potential outcomes. The range of forecasts are generated through the model due to the uncertainty caused by current adverse economic conditions. These three scenarios are drawn from the model developed by the Company with Colombo Science and Technology CELL of University of Colombo. The model uses multiple economic variables like GDP, unemployment, inflation, and trained to identify the historical correlations. The impact arising from the upside, downside and base scenarios have been simulated through a machine learning technique.

Economic forecasts are subject to a high degree of uncertainty in the current environment. Limitations of forecasts and economic models require a greater reliance on management judgement in addressing both the error inherent in economic forecasts and in assessing associated ECL outcomes.

ECL Scenarios and Sensitivity Analysis of Allowance for Impairment Losses

As expected, the scenarios create differing impacts on ECL and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit.

The simulated ECL impacts of the multiple scenarios are presented in the table below;

Economic Factor Adjustment - Percentage Variance

	Upto 01 Year			Beyond 01 Year		
	Base	Upside	Downside	Base	Upside	Downside
Forecast	-5.51%			-27.80%		
At 99% Confidence		-66.27%	55.84%		-99.08%	58.99%
At 95% Confidence		-52.09%	41.25%		-92.79%	37.98%
At 90% Confidence		-44.77%	33.74%		-82.61%	27.01%
At 80% Confidence		-36.04%	25.06%		-70.52%	15.28%

Economic Factor Adjustment - Value Variance

	Upto 01 Year			Beyond 01 Year		
	Base	Upside	Downside	Base	Upside	Downside
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Forecast	(68,911)			(347,384)		
At 99% Confidence		(828,053)	697,773		(1,238,112)	737,079
At 95% Confidence		(650,945)	515,429		(1,159,492)	474,577
At 90% Confidence		(559,443)	421,622		(1,032,237)	337,545
At 80% Confidence		(450,322)	313,113		(881,261)	190,975

Scenario Analysis

Base Scenario

Economic Factor Adjustment (EFA) model of the Company features a decrease in non-performing advances in 2024 and 2025 according to the Base Scenario in line with the improving macro economic conditions. This results in a positive impact of 5.51% and positive impact of 27.80% in the year 2024 and 2025, respectively.

Despite the sharp contraction in economic activities, the measures from Government and the Central Bank of Sri Lanka including tightening the policy interest rates, debt restructuring and measures for funding markets are expected to support the economy and the financial system. Such support intends to ensure economic activities will improve in long term. In addition, the proposed changes to fiscal policies and government finances mark a significant step forward in strengthening the economy and will ease the pressure on budget deficit, interest rates and exchange rates. We expect proposed changes and developments to contribute positively on recovery prospects.

Upside Scenario

Compared with the Base Scenario, the Upside Scenario features a faster recovery in economic activities during the first two years and beyond. These include the timely implementation of proposed changes which will strengthen the overall economy, speedy recovery of all the industries that were affected by the adverse macro economic conditions. The Upside Scenario expects a significant decrease in the EFA 66.27% and 99.08% respectively in the first two years at confidence level of 99% which declines when the confidence level move downwards.

Downside Scenario

In the Downside Scenario, economic recovery is considerably weaker compared with the Base Scenario. GDP growth remains weak, unemployment rates stay highly elevated and asset and commodity prices fall before gradually recovering towards their long-run trends. This tend to impact the EFA negatively 55.84% in year 1 and 58.99% in year 2 and above at 99% confidence level. The slow recovery expects the EFA to be improve gradually over the next two years.

Management Judgemental Adjustments

Management judgemental adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late-breaking events, model and data limitations and deficiencies, and expert credit judgement applied following management review and challenge.

Given the degree of uncertainty surrounding the adverse economic conditions and the lack of reliable data to model the impact on portfolio, as well as the operational and timing challenges in incorporating the latest available macroeconomic inputs into the ECL models, it was necessary to place greater emphasis on judgemental adjustments to modelled outcomes than in previous years. We have developed a consistent methodologies for the application of management judgemental adjustments into the calculation of ECL. These management judgemental adjustments made are described below.

The Company decided to use the down side scenario at 95% confidence level when assessing the economic factor adjustments with the objective of capturing the impact of uncertainties in the future outlook on the ECL computation as at the reporting date. Further judgement was used to take an additional stress on the economic factor adjustment as a prudential measure due to the nature and the complexity of current economic conditions.

The governmental support programmes and customer payment reliefs have dislocated the correlation between economic conditions and defaults on which models are based. The Group recognised that the Management judgemental adjustments are required to ensure that an appropriate amount of ECL impairment is recognised. Although the granting of the customer reliefs as directed by governmental and CBSL support programmes do not necessarily indicate that the credit risk of those facilities have significantly increased nor credit impaired. However, the management judged that the PDs applicable for credit impaired facilities to be applied in calculating the ECL for these facilities that are in stage 01 and stage 02.

Measures taken to contain the spread of the COVID-19 has affected economic activities, which in turn, has resulted in lost revenue and disrupted supply chain in the last couple of years. Business condition has continued to deteriorate during the financial year amidst demand side constrains. This adversely affected business dealing in many industries, especially those that involve close inperson contact industries. Industries that have been severely affected do not automatically trigger in additional consideration of ECL through the model. The Group judged that the portfolios concentrated in tourism, transport and construction sectors require further judgement in the last financial year and continued those sectors for further judgement due to adverse economic conditions during the current financial year. Thus, credit impaired PDs were applied for the facilities where the credit risk has not significantly increased or credit impaired under the tourism, transport and construction sectors.

Notes to the Financial Statements

4.20 Financial Assets Measured at Fair Value Through Other Comprehensive Income

» Accounting Policy

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

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

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Equity Securities - Quoted (Note 4.20.1)	117,083	85,797	117,083	85,797
Equity Securities - Unquoted (Note 4.20.2)	305	305	307	307
	117,388	86,102	117,390	86,104

4.20.1 Equity Securities - Quoted

As at 31 March	Company & Group					
	2023			2022		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
	Rs. '000	Rs. '000		Rs. '000	Rs. '000	
Capital Goods						
Central Industries PLC	9,020	150	760	9,020	150	885
Royal Ceramics Lanka PLC*	313,200	843	8,645	313,200	843	12,747
Samson International PLC	5,881	927	1,492	5,881	927	1,087
		1,920	10,897		1,920	14,719
Consumer Services						
The Fortress Resorts PLC*	4,051,100	82,014	89,124	4,051,100	82,014	50,639
		82,014	89,124		82,014	50,639
Banks						
Seylan Bank PLC	-	-	-	1,577	86	50
					86	50
Food, Beverage and Tobacco						
Lanka Milk Foods PLC	5,401	245	760	5,401	245	717
Convenience Foods (Lanka) PLC	-	-	-	22	1	27
		245	760		246	744
Diversified Financials						
Softlogic Finance PLC	2,090,000	79,656	16,302	2,090,000	79,656	19,645
		79,656	16,302		79,656	19,645
Total		163,835	117,083		163,922	85,797

Global Industry Classification Standard (GICS)

*Investments made in related parties

4.20.1 (a) Disposal of Equity Securities - Quoted

As at 31 March	Company & Group			
	2023			
	Number of Shares	Cost	Sales Proceeds	Profit/(Loss) on Disposal of Shares
	Rs. '000	Rs. '000	Rs. '000	
Banks				
Seylan Bank PLC	1,577	86	51	(35)
		86	51	(35)
Food, Beverage and Tobacco				
Convenience Foods (Lanka) PLC	22	1	26	25
		1	26	25
Total		87	77	(10)

4.20.1 (b) Disposal of Equity Securities - Quoted

As at 31 March	Company & Group			
	2022			
	Number of Shares	Cost	Sales Proceeds	Profit/(Loss) on Disposal of Shares
	Rs. '000	Rs. '000	Rs. '000	
Banks				
Commercial Bank of Ceylon PLC	297	15	24	9
Seylan Bank PLC	1,278	70	48	(22)
Sampath Bank PLC	15	-	1	1
		85	73	(12)
Food, Beverage and Tobacco				
Keells Food Products PLC	500	21	79	58
Lanka Milk Foods PLC	99	4	20	16
Ceylon Grain Elevators PLC	44	5	4	(1)
		30	103	73
Consumer Services				
Aitken Spence Hotel Holdings PLC	308	6	13	7
Hotel Sigiriya PLC	700	30	62	32
		36	75	39
Capital Goods				
Samson International PLC	18	3	4	1
		3	4	1
Consumer Durables and Apparel				
Dankotuwa Porcelain PLC	32,512	989	411	(578)
		989	411	(578)
Retailing				
Hunters & Company PLC	10	3	6	3
		3	6	3
Total		1,146	671	(475)

Notes to the Financial Statements

4.20.2 Equity Securities - Unquoted - Company

As at 31 March	2023			2022		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
Credit Information Bureau of Sri Lanka	1,047	105	105	1,047	105	105
Finance House Association of Sri Lanka	20,000	200	200	20,000	200	200
Total		305	305		305	305

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

Equity Securities - Unquoted - Group

As at 31 March	2023			2022		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
Credit Information Bureau of Sri Lanka	1,072	107	107	1,072	107	107
Finance House Association of Sri Lanka	20,000	200	200	20,000	200	200
Total		307	307		307	307

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

4.20.2 (a) Reconciliation of Fair Value Measurement for Unquoted Equity Securities under Level 3 Hierarchy

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at the Beginning of the Year	305	305	307	305
Remeasurement Recognised in Other Comprehensive Income	-	-	-	-
Additions Resulting from Acquisitions	-	-	-	2
As at the End of the Year	305	305	307	307

4.21 Other Financial Assets

» Accounting Policy

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

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Securities under Reverse Repurchase Agreements (Note 4.21.1)	4,651,908	-	4,651,908	31,271
Investment in Fixed Deposits (Note 4.21.2 and 4.21.3)	8,880,297	5,135,842	8,922,882	5,155,930
Investment in Treasury Bills	7,538,577	-	7,546,614	-
Insurance Premium Receivables	501,221	385,657	501,221	385,657
Due from Subsidiaries	25,839	-	-	-
Sundry Debtors	87,992	77,125	88,185	82,909
	21,685,834	5,598,624	21,710,810	5,655,767
Fair Value	21,685,834	5,598,624	21,710,810	5,655,767

4.21.1 The collateral value of Securities under Reverse Repurchase Agreements as at 31 March 2023 for the Company was Rs. 7,815,600,000/- (2022 - Nil) and for the Group was Rs. 7,815,600,000/- (2022 - Rs. 41,000,000/-).

4.21.2 Investment in Fixed Deposits - Counterparty External Credit Ratings

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
AA-	-	4,699,828	-	4,719,916
A+	-	152,034	-	152,034
A	4,584,314	-	4,626,899	-
A-	1,862,977	-	1,862,977	-
BBB-	2,482,606	351,769	2,482,606	351,769
Investment in Fixed Deposits	8,929,897	5,203,631	8,972,482	5,223,719
Allowance for Impairment Losses	(49,600)	(67,789)	(49,600)	(67,789)
	8,880,297	5,135,842	8,922,882	5,155,930

Ratings are based on Fitch Ratings Lanka Ltd

4.21.3 Investment in Fixed Deposits - By Currency

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lankan Rupee (LKR)	7,615,867	2,786,787	7,636,189	2,806,875
United States Dollar (USD)	1,314,030	2,416,844	1,336,293	2,416,844
Investment in Fixed Deposits	8,929,897	5,203,631	8,972,482	5,223,719
Allowance for Impairment Losses	(49,600)	(67,789)	(49,600)	(67,789)
	8,880,297	5,135,842	8,922,882	5,155,930

4.22 Other Non Financial Assets

» Accounting Policy

Other non financial assets include vehicle stock, gold stock, stationary stock, deposits, advances and prepayments, etc. These assets are non-interest earning and recorded at the amounts that are expected to be received.

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Vehicle Stock	1,800	1,600	1,800	1,600
Deposits, Advances and Prepayments	381,182	402,223	406,809	420,708
Gold Stock	1,514	1,514	1,514	1,514
Stationery Stock	43,310	30,361	43,310	30,361
Withholding Tax Receivable	17,325	-	17,400	-
Sundry Debtors	12,679	12,919	65,099	40,304
Pre-Paid Staff Cost (Note 4.22.1)	16,537	6,094	16,537	6,094
	474,347	454,711	552,469	500,581

Notes to the Financial Statements

Gold Stock

The gold inventory is valued at lower of cost and net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

4.22.1 The Movement in the Pre-Paid Staff Cost

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at the Beginning of the Year	6,094	10,484	6,094	10,484
Adjustment for New Grants and Settlements	13,295	(2,334)	13,295	(2,334)
Charge to Personnel Expenses	(2,852)	(2,056)	(2,852)	(2,056)
As at the End of the Year	16,537	6,094	16,537	6,094

4.23 Investment in Subsidiaries

» Accounting Policy

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

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

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

The Financial Statements of the Subsidiaries in the Group have a common financial year which ends on 31 March. The Financial Statements of the Company's subsidiaries are prepared using consistent accounting policies.

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

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

As at 31 March	Holding	Company			
		2023		2022	
		Cost	Market Value	Cost	Market Value
%	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
LB Microfinance Myanmar Company Limited	100.00	521,162	521,162	521,162	521,162
Multi Finance PLC	64.76	400,836	514,941	400,000	497,446
		921,998	1,036,103	921,162	1,018,608

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

4.23.1 Acquisition of Multi Finance PLC

During the previous financial year, LB Finance PLC acquired 64.63% of ordinary voting shares of Multi Finance PLC by investing Rs. 400 Mn. With the above acquisition LB Finance PLC became the controlling shareholder the Company.

During the financial year, a mandatory offer was made by LB Finance PLC to the remaining shareholders of Multi Finance PLC by the offer document dated 19 April 2022. LB Finance PLC invested Rs. 836,420/- and acquired 0.13% of ordinary voting shares (85,206 shares) of Multi Finance PLC increasing the controlling stake of the Company to 64.76%. In conjunction with the transaction, LB Finance PLC acquired Rs. 388,454/- net assets of Multi Finance PLC and recognised a goodwill of Rs. 477,966/-.

4.24 Property, Plant and Equipment and Right-of-Use Assets

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

» Accounting Policy

Basis of Recognition

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

Measurement

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

Cost Model

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

Subsequent Cost

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

Derecognition

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

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

Notes to the Financial Statements

Right-of-Use Assets

Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position. Right-of-use assets of the Group include land and buildings under long term rental agreements for its use as offices and branches.

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

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

Depreciation

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

The estimated useful lives of the property, plant and equipment of the Company as at 31 March 2023 are as follows;

Asset Category	Period (Years)	Depreciation % per Annum
Freehold Buildings and Edifices	50	2%
Furniture and Fittings	4-6.67	15-25%
Equipment	4-5	20-25%
Motor Vehicles	5-8	12.50-20%
Computer Hardware and Equipment	4-5	20-25%
Improvement of Leasehold Asset	6.67	15%
Fixtures and Fittings	4-5	20-25%

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

Accounting Estimates

Useful Lifetime of the Property, Plant and Equipment

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

4.24.1 Company - 2023

	Freehold Land	Freehold Buildings and Edifices	Furniture and Fittings	Equipment	Motor Vehicles	Computer Hardware and Equipment	Improvement of Leasehold Asset	Fixtures and Fittings	Right-of-Use Assets	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost										
Balance as at 1 April 2022	4,855,134	1,028,003	436,463	975,110	385,478	1,034,293	851,580	1,064,897	2,066,564	12,697,522
Additions	1,030	69,718	40,974	153,129	17,835	198,855	81,045	225,319	257,172	1,045,077
Transfers	-	-	-	-	-	-	-	-	-	-
Disposals/Write-offs	-	-	(11,980)	(25,809)	(21,450)	(27,804)	(21,966)	(16,946)	(20,846)	(146,801)
Balance as at 31 March 2023	4,856,164	1,097,721	465,457	1,102,430	381,863	1,205,344	910,659	1,273,270	2,302,890	13,595,798
Accumulated Depreciation and Impairment Losses										
Balance as at 1 April 2022	-	159,863	293,193	757,106	295,921	835,063	555,298	629,834	749,503	4,275,781
Charge for the Year	-	23,746	40,837	102,674	27,891	102,176	76,858	152,260	290,292	816,734
Impairment Loss	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
Disposals/Write-offs	-	-	(11,721)	(25,787)	(21,450)	(27,213)	(20,261)	(16,343)	(7,289)	(130,064)
Balance as at 31 March 2023	-	183,609	322,309	833,993	302,362	910,026	611,895	765,751	1,032,506	4,962,451
Net Book Value as at 31 March 2023	4,856,164	914,112	143,148	268,437	79,501	295,318	298,764	507,519	1,270,384	8,633,347

4.24.2 Company - 2022

	Freehold Land	Freehold Buildings and Edifices	Furniture and Fittings	Equipment	Motor Vehicles	Computer Hardware and Equipment	Improvement of Leasehold Asset	Fixtures and Fittings	Right-of-Use Assets	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost										
Balance as at 1 April 2021	4,855,134	974,958	377,242	886,837	385,478	975,301	693,205	773,668	1,850,112	11,771,935
Additions	-	53,045	63,179	96,704	-	69,662	159,794	293,050	279,056	1,014,490
Transfers	-	-	-	-	-	-	-	-	-	-
Disposals/Write-offs	-	-	(3,958)	(8,431)	-	(10,670)	(1,419)	(1,821)	(62,604)	(88,903)
Balance as at 31 March 2022	4,855,134	1,028,003	436,463	975,110	385,478	1,034,293	851,580	1,064,897	2,066,564	12,697,522
Accumulated Depreciation and Impairment Losses										
Balance as at 1 April 2021	-	137,695	257,878	663,850	263,981	737,939	485,353	505,130	478,850	3,530,676
Charge for the Year	-	22,168	39,141	101,645	31,940	107,085	71,103	126,520	290,108	789,710
Impairment Loss	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
Disposals/Write-offs	-	-	(3,826)	(8,389)	-	(9,961)	(1,158)	(1,816)	(19,455)	(44,605)
Balance as at 31 March 2022	-	159,863	293,193	757,106	295,921	835,063	555,298	629,834	749,503	4,275,781
Net Book Value as at 31 March 2022	4,855,134	868,140	143,270	218,004	89,557	199,230	296,282	435,063	1,317,061	8,421,741

4.24.3 Group - 2023

	Freehold Land	Freehold Buildings and Edifices	Furniture and Fittings	Equipment	Motor Vehicles	Computer Hardware and Equipment	Improvement of Leasehold Asset	Fixtures and Fittings	Right-of-Use Assets	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost										
Balance as at 1 April 2022	4,855,134	1,028,003	465,784	991,467	388,376	1,065,527	851,580	1,064,897	2,125,423	12,836,191
Additions	1,030	69,718	42,986	155,421	17,835	203,051	81,045	225,319	273,006	1,069,411
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange Rate Variance	-	-	(346)	(349)	(71)	(608)	-	-	-	(1,374)
Disposals/Write-offs	-	-	(11,980)	(25,809)	(21,450)	(27,804)	(21,966)	(16,946)	(20,846)	(146,801)
Balance as at 31 March 2023	4,856,164	1,097,721	496,444	1,120,730	384,690	1,240,166	910,659	1,273,270	2,377,583	13,757,427
Accumulated Depreciation and Impairment Losses										
Balance as at 1 April 2022	-	159,863	317,580	770,562	297,873	860,903	555,298	629,834	795,348	4,387,261
Charge for the Year	-	23,746	43,612	104,268	28,070	105,438	76,858	152,260	299,903	834,155
Impairment Loss	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange Rate Variance	-	-	(234)	(305)	(28)	(560)	-	-	-	(1,127)
Disposals/Write-offs	-	-	(11,721)	(25,787)	(21,450)	(27,213)	(20,261)	(16,343)	(7,289)	(130,064)
Balance as at 31 March 2023	-	183,609	349,237	848,738	304,465	938,568	611,895	765,751	1,087,962	5,090,225
Net Book Value as at 31 March 2023	4,856,164	914,112	147,207	271,992	80,225	301,598	298,764	507,519	1,289,621	8,667,202

4.24.4 Group - 2022

	Freehold Land	Freehold Buildings and Edifices	Furniture and Fittings	Equipment	Motor Vehicles	Computer Hardware and Equipment	Improvement of Leasehold Asset	Fixtures and Fittings	Right-of-Use Assets	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost										
Balance as at 1 April 2021	4,855,134	974,958	380,730	890,199	385,874	981,669	693,205	773,668	1,850,112	11,785,549
Additions Resulting from Acquisitions	-	-	24,565	11,566	1,925	22,918	-	-	58,859	1,19,833
Additions	-	53,045	63,818	97,524	505	70,456	159,794	293,050	279,056	1,017,248
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange Rate Variance	-	-	629	609	72	1,154	-	-	-	2,464
Disposals/Write-offs	-	-	(3,958)	(8,431)	-	(10,670)	(1,419)	(1,821)	(62,604)	(88,903)
Balance as at 31 March 2022	4,855,134	1,028,003	465,784	991,467	388,376	1,065,527	851,580	1,064,897	2,125,423	12,836,191
Accumulated Depreciation and Impairment Losses										
Balance as at 1 April 2021	-	137,695	258,806	665,031	264,054	740,084	485,353	505,130	478,850	3,535,003
Additions Resulting from Acquisitions	-	-	22,460	11,179	1,780	21,696	-	-	45,172	102,287
Charge for the Year	-	22,168	39,792	102,285	32,003	108,262	71,103	126,520	290,781	792,914
Impairment Loss	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange Rate Variance	-	-	348	456	36	822	-	-	-	1,662
Disposals/Write-offs	-	-	(3,826)	(8,389)	-	(9,961)	(1,158)	(1,816)	(19,455)	(44,605)
Balance as at 31 March 2022	-	159,863	317,580	770,562	297,873	860,903	555,298	629,834	795,348	4,387,261
Net Book Value as at 31 March 2022	4,855,134	868,140	148,204	220,905	90,503	204,624	296,282	435,063	1,330,075	8,448,930

4.24.5 Property, Plant and Equipment and ROU Assets Acquired During the Financial Year - Company & Group

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 1,045,076,677/- (2022 - Rs. 1,014,490,469/-). Cash payments amounting to Rs. 675,637,117/- (2022 - Rs. 770,699,549/-) was paid during the year for purchases of property, plant and equipment.

During the financial year, the Group acquired property, plant and equipment to the aggregate value of Rs. 1,069,410,383/- (2022 - Rs. 1,017,248,586/-). Cash payments amounting to Rs. 689,701,735/- (2022 - Rs. 772,467,022/-) was paid during the year for purchases of property, plant and equipment.

4.24.6 Property, Plant and Equipment Subjected to Operating Lease - Company & Group

Included in property, plant and equipment are assets subject to operating lease where the Company is a lessor. At 31 March 2023, the net carrying value amount of those assets was Rs. 1,787,373/- (2022 - Rs. 7,941,901/-), on which the accumulated depreciation as at 31 March 2023 was Rs. 90,162,670/- (2022 - Rs. 84,008,142/-).

Summary of future operating lease receivable was as follows;

As at 31 March 2023	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Future Operating Lease Receivable	2,452	-	-	2,452
As at 31 March 2022	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Future Operating Lease Receivable	8,561	2,452	-	11,013

4.24.7 Borrowing Costs - Company & Group

There were no capitalised borrowing cost related to the acquisition of property, plant and equipment during the financial year 2023 and 2022.

4.24.8 Fully-Depreciated Property, Plant and Equipment - Company & Group

The initial cost of fully-depreciated property, plant and equipment, which are still in use as at reporting date is Rs. 2,730,647,278/- (2022 - Rs. 2,205,093,477/-) for the Company and Rs. 2,802,306,244/- (2022 - Rs. 2,238,795,307/-) for the Group.

Notes to the Financial Statements

4.24.9 Information on the Freehold Land and Buildings - Company & Group

Freehold land and buildings of the Group are revalued at minimum once in every two years or more frequently if the fair values previously disclosed are substantially different from the fair values as at the reporting date.

The Group engages independent professional valuers for revaluation of its freehold land and buildings as specified by the Direction No 04 of 2018 on 'Valuation of Immovable Properties' and subsequent amendments thereto issued by the Central Bank of Sri Lanka.

Information on the freehold land and buildings as required by the Rule No 7.6 (viii) of the 'Continuing Listing Requirements' of the Colombo Stock Exchange.

As at 31 March	2023						2022
	Number of Buildings	Extent	Buildings	Revalued Amount	Net Book Value	Revalued Amount as a % of Net Book Value	Net Book Value
		Perches	Square Feet	Rs. '000	Rs. '000		Rs. '000
Kollupitiya No 20, Dharmapala Mawatha, Colombo 03.	1	52.82	57,020	2,195,900	844,230	260	856,782
Kollupitiya No 676, Galle Road, Colombo 03.	5	167.65	63,251	4,526,550	2,206,537	205	2,212,673
Cinnamon Gardens No 165, Dharmapala Mawatha, Colombo 07.	1	48.95	7,400	1,268,150	1,032,481	123	1,033,698
Kandy No 115B, Kotugodella Veediya, Kandy.	1	25.76	7,780	595,200	518,989	115	519,367
Kandy No 226, D S Senanayaka Street, Kandy.	1	7.05	3,674	91,000	10,200	892	10,223
Kandy Moragaspitiyawatta Road, Balagolla, Kengalla.	2	110.00	2,400	66,200	29,063	228	29,234
Kandy No 47/10 A, Luwiss Pieris Mawatha, Buwelikada, Kandy.	-	42.40	-	46,600	34,085	137	34,085
Maradana No 104/1, Vipulasena Mawatha, Colombo 10.	1	50.60	5,750	385,535	74,383	518	75,063
Nuwara Eliya No 35/4, Upper Lake Road, Nuwara Eliya.	-	359.00	-	538,500	64,906	830	64,906
Wellawatta No 51A, W A Silva Mawatha, Colombo 06.	1	14.23	5,678	245,362	190,322	129	191,023
Panadura No 37, Jayathilake Mawatha, Panadura.	1	42.00	1,925	161,350	104,279	155	104,224
Kalutara No 334, Main Street, Kalutara South.	1	26.27	10,620	234,500	191,995	122	193,057
Borella No 1024, Maradana Road, Borella.	-	25.50	-	382,500	266,710	143	266,710
Rajagiriya No 1149, Kotte Road, Rajagiriya.	1	16.30	6,967	281,250	202,094	139	132,229

Valuation of freehold land and buildings of the Company was carried out as at 31 March 2023 by H.B. Manjula Basnayaka. AIV (Sri Lanka), N.C.T., QS, (COT), incorporated valuer. Investment method, Contractor's Test method, Comparison method and Residual method have been used for the valuation.

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

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

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

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

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

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

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

4.24.13 Temporarily Idle Property, Plant and Equipment - Company & Group

There were no temporarily idle property, plant and equipment as at the reporting date.

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

There were no property, plant and equipment retired from active use as at the reporting date.

4.25 Investment Properties

» Accounting Policy

Basis of Recognition

Investment properties are those which are held either to earn rental or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

An investment property is recognised, if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

Basis of Measurement

Fair Value Model

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 and the rental income from the investment property is recognised under other operating income in the Income Statement in the year in which they arise.

Where Group companies occupy a significant portion of the investment property of a subsidiary, such investment properties are treated as property, plant and equipment in the Consolidated Financial Statements, and accounted for as per Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment).

Derecognition

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Income Statement in the year of retirement or disposal.

Subsequent Transfers to/from Investment Properties

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development.

Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

For a transfer from investment properties to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner occupied property becomes an investment property, the Group, accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Income statement. When the Group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Income Statement.

Notes to the Financial Statements

Determining Fair Value

External and independent professional valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, value the investment property portfolio as at each reporting date.

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	-	-	71,150	-
Additions Resulting from Acquisitions	-	-	-	71,150
Disposals during the Year	-	-	(67,000)	-
Fair Value Gains/(Losses)	-	-	400	-
Balance as at the End of the Year	-	-	4,550	71,150

There were no capitalised borrowing cost related to the acquisition of investment properties during the year 2023 (2022 - Nil).

4.25.1 Information on Investment Properties of the Group - Extents and Locations

Multi Finance PLC

Location	Number of Buildings	Extent	Buildings	Fair Value of the Investment Property - Land	Fair Value of the Investment Property - Buildings
		Perches	Square Feet	Rs. '000	Rs. '000
Lot No - 1, Plan No 12/41, Atikelanda Road, Arangala South, Nattaranpotha, Kandy.	-	46.14	Bare Land	1,300	-
Lot No - 4, Plan No 1730, Mallawagolla Road, Doratiyawa, Mallawapitiya, Kurunegala.	-	92.50	Bare Land	3,250	-
Total				4,550	-

4.25.2 Information on Investment Properties of the Group - Valuations

Valuation of investment properties of the Group was carried out by H.B. Manjula Basnayaka. AIV (Sri Lanka), N.C.T., QS, (COT), incorporated valuer. Comparison method of valuation has been used for the valuations.

Investment properties of the Group are considered under Level 3 of fair value hierarchy.

Multi Finance PLC

Name of Professional Valuer/ Location and Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Fair Value of the Investment Property - Land	Fair Value of the Investment Property - Buildings	Fair Value Gains/(Losses) Recognised in the Income Statement - Land	Fair Value Gains/(Losses) Recognised in the Income Statement - Buildings
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
H. B. Manjula Basnayake	Comparison Method					
Lot No - 1, Plan No 12/41, Atikelanda Road, Arangala South, Nattaranpotha, Kandy.	Price per Perch	Rs. 27,500 p. p.	1,300	-	150	-
H. B. Manjula Basnayake	Comparison Method					
Lot No - 4, Plan No 1730, Mallawagolla Road, Doratiyawa, Mallawapitiya, Kurunegala.	Price per Perch	Rs. 35,000 p. p.	3,250	-	250	-
Total			4,550	-	400	-

4.25.3 Valuation Techniques and Sensitivity of the Fair Value Measurement of the Investment Properties of the Group

Valuation Technique	Significant Unobservable Valuation Inputs	Sensitivity of the Fair Value Measurement to Inputs
Comparison Method		
This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of specific property.	Price per Perch for Land	Estimated fair value would increase/(decrease) if ; Price per perch of land would increase/(decrease)

4.25.4 There were no restrictions on the realisability of investment properties of the Group as at the reporting date.

4.26 Intangible Assets

An intangible asset is an identifiable monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes. The Group's intangible assets include the value of acquired goodwill and computer software.

» Accounting Policy

Basis of Recognition

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

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

Subsequent Expenditure

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

Derecognition of Intangible Assets

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

Useful Economic Lives, Amortisation and Impairment of Intangible Assets

Intangible assets, except for goodwill, are amortised on a straight line basis in the Income Statement from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Group. Indefinite-lived intangible assets are not amortised, but are tested for impairment annually or more frequently if events or circumstances indicate the asset may be impaired. Only finite-lived intangible asset is computer software of the Group. Goodwill is the indefinite-lived intangible asset which is subject to annual impairment test. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The Group assumes that there is no residual value for its intangible assets.

Computer Software

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

Useful lifetime of computer software is as follows;

Intangible Asset Category	Period (Years)	Depreciation % per Annum
Computer Software	3-5	20-33.33%

Notes to the Financial Statements

Goodwill

Goodwill represents the excess of the cost of acquisition of a subsidiary or an associate over the Group's interest in the net fair value of the identifiable assets and liabilities acquired. Carrying amount of goodwill that arises on the acquisition of subsidiaries is presented with intangible assets.

Goodwill is initially measured at cost and subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

Impairment Testing on Goodwill

The Group tests the goodwill for impairment annually and assess for any indication of impairment to ensure that its carrying amount does not exceed the recoverable amount. If an impairment loss is identified, it is recognised immediately to the Income Statement. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to groups of cash-generating units that are expected to benefit from the synergies of the combination.

The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets pro rata to the carrying amount of each asset in the unit. Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Computer Software (Note 4.26.1)	22,628	14,875	27,452	23,645
Goodwill arising on Business Combination	-	-	107,803	107,355
Total Intangible Assets	22,628	14,875	135,255	131,000

4.26.1 Computer Software

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost				
Cost as at the Beginning of the Year	191,921	191,921	228,048	210,308
Additions Resulting from Acquisitions	-	-	-	14,409
Additions and Improvements	15,936	-	17,107	-
Disposals/Write-off	-	-	-	-
Exchange Rate Variance	-	-	(1,588)	3,331
Cost as at the End of the Year	207,857	191,921	243,567	228,048
Amortisation and Impairment Losses				
Amortisation as at the Beginning of the Year	177,046	165,900	204,403	174,037
Additions Resulting from Acquisitions	-	-	-	13,386
Charge for the Year	8,183	11,146	13,284	14,277
Impairment Loss	-	-	-	-
Disposals/Write-off	-	-	-	-
Exchange Rate Variance	-	-	(1,572)	2,703
Accumulated Amortisation as at the End of the Year	185,229	177,046	216,115	204,403
Net Book Value as at 31 March	22,628	14,875	27,452	23,645

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

4.26.3 Goodwill arising on Business Combination

The recoverable amount of goodwill is determined based on the estimated future cash flows, 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 Cash Generating Unit. For Value In Use (VIU) Calculations, Group has used cash flow projections for a period of five years based on financial budgets approved by management. The key assumptions used are given below;

	Range
Expected Business Growth Rate	20%
Discount Rate – Risk Free Rate Adjusted for the Specific Risk Relating to the Industry	18%
Terminal Growth Rate	10%

Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each Cash Generating Unit, regarding the time value of money and individual risks of the underlying assets which have been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and derived from its Weighted Average Cost of Capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected rate of return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowing the Group is obliged to service. Segment specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Terminal growth rate – The forecasted terminal growth rate used does not exceed the longterm average growth rate of the industry and country in which the entities operate.

4.27 Deferred Tax Assets and Liabilities

» Accounting Policy

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

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

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

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

Accounting Estimates

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

Deferred Tax Assets and Liabilities and Income Tax Relate to the Followings:

	Reflected in				Reflected in				Reflected in			
	Statement of Financial Position				Income Statement				Statement of Comprehensive Income			
	Company		Group		Company		Group		Company		Group	
2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Deferred Tax Liabilities												
Depreciation of Leased Assets	224,707	332,080	224,707	332,080	(107,373)	(107,373)	(355,053)	(107,373)	(355,053)			
Depreciation of Property, Plant and Equipment	190,160	145,084	190,160	145,084	45,076	45,076	(20,730)	45,076	(20,730)			
	414,867	477,164	414,867	477,164	(62,297)	(62,297)	(375,783)	(62,297)	(375,783)			
Deferred Tax Assets												
Right-of-Use Assets	(113,513)	(64,787)	(113,513)	(64,787)	(48,726)	(48,726)	(21,698)	(48,726)	(21,698)			
Defined Benefit Obligation - Income Statement	(119,778)	(83,923)	(119,778)	(83,923)	(35,855)	(35,855)	(9,051)	(35,855)	(9,051)			
Defined Benefit Obligation - Other Comprehensive Income	10,111	7,849	10,111	7,849	-	-	-	2,262	20,641	2,262	20,641	
Carried Forward Qualifying Payment	(40,296)	(64,473)	(40,296)	(64,473)	24,177	24,177	(64,473)	24,177	(64,473)	-	-	
Carried Forward Impairment Provision	(918,577)	(160,344)	(918,577)	(160,344)	(758,233)	(758,233)	(75,221)	(758,233)	(75,221)	-	-	
	(1,182,053)	(365,678)	(1,182,053)	(365,678)	(818,637)	(818,637)	(170,443)	(818,637)	(170,443)	2,262	20,641	
Deferred Income Tax Charge/ (Reversal)												
Net Deferred Tax Liability/(Asset)	(767,186)	111,486	(767,186)	111,486	(880,934)	(880,934)	(546,226)	(880,934)	(546,226)	2,262	20,641	

4.27.1 With the enactment of Inland Revenue (Amendment) Act No 45 of 2022, income tax rate was revised from 24% to 30% with effect from 01 October 2022. Accordingly, the Company applied 30% income tax rate for the determination of deferred tax in 2023 and recognised an adjustment to deferred tax assets amounting to Rs. 27,871,611/- from increasing in income tax rate.

4.27.2 Unrecognised Deferred Tax Assets - Multi Finance PLC

Deferred tax asset has not been recognised in respect of carried forward tax losses of Multi Finance PLC amounted to Rs. 349,206,012/- as at 31 March 2023. Accordingly the tax effect of unrecognised deferred tax asset is Rs. 104,761,804/- as at 31 March 2023.

4.28 Due to Banks

» Accounting Policy

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

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

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank Overdrafts	490,862	1,749,144	492,019	1,752,351
Debt Funding from Banks (Note 4.28.1)	18,878,922	25,109,593	18,900,517	25,109,593
	19,369,784	26,858,737	19,392,536	26,861,944
Fair Value	17,488,092	26,130,900	17,532,438	26,134,107

4.28.1 Debt Funding from Banks

	As at 1 April 2022	Loans Obtained*	Interest Recognised	Repayments		As at 31 March 2023
				Capital	Interest	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Term Loans						
Commercial Bank PLC	6,659,090	2,500,000	609,356	(5,583,400)	(606,497)	3,578,549
Nations Trust Bank PLC	254,406	-	14,360	(254,000)	(14,766)	-
DFCC Bank PLC	1,295,531	-	239,563	(433,929)	(230,773)	870,392
Sampath Bank PLC	1,837,869	4,990,000	1,031,200	(2,083,428)	(1,013,742)	4,761,899
Hatton National Bank PLC	7,677,813	4,500,000	1,036,960	(6,791,680)	(1,031,221)	5,391,872
National Development Bank PLC	2,550,688	-	169,446	(1,800,700)	(169,930)	749,504
Seylan Bank PLC	1,709,363	-	111,025	(500,400)	(111,013)	1,208,975
Pan Asia Bank PLC	1,488,654	-	90,525	(425,000)	(90,574)	1,063,605
Peoples Bank	1,636,179	-	97,084	(800,000)	(110,643)	822,620
Habib Bank	-	499,242	81,093	(83,333)	(65,496)	431,506
Total Debt Funding from Banks - Company	25,109,593	12,489,242	3,480,612	(18,755,870)	(3,444,655)	18,878,922
Term Loan						
UAB Bank	-	21,150	445	-	-	21,595
	-	21,150	445	-	-	21,595
Total Debt Funding from Banks - Group	25,109,593	12,510,392	3,481,057	(18,755,870)	(3,444,655)	18,900,517

*Net of transaction cost

The Group has unutilised borrowing facilities of Rs. 5,528,000,000/- as at 31 March 2023 (2022 - Rs. 4,250,000,000/-).

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

Notes to the Financial Statements

4.28.2 Contractual Maturity Analysis of Debt Funding from Banks - Company

As at 31 March 2023	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Term Loans	8,716,397	10,162,525	-	18,878,922

As at 31 March 2022	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Term Loans	10,907,548	14,202,045	-	25,109,593

4.28.3 Contractual Maturity Analysis of Debt Funding from Banks - Group

As at 31 March 2023	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Term Loans	8,737,992	10,162,525	-	18,900,517

As at 31 March 2022	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Term Loans	10,907,548	14,202,045	-	25,109,593

4.29 Financial Liabilities at Amortised Cost - Due to Depositors

» Accounting Policy

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

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	111,466,149	85,319,021	111,616,979	85,568,187
Savings Deposits	2,545,550	3,824,961	2,631,274	3,910,319
	114,011,699	89,143,982	114,248,253	89,478,506
Fair Value	111,849,395	86,981,677	112,236,779	87,316,202

4.29.1 Sri Lanka Deposit Insurance and Liquidity Support Scheme - Company

Under the Direction No 1 of 2021 [Finance Companies (Insurance of Deposit Liabilities)] issued by the Central Bank of Sri Lanka and subsequent amendments thereto, all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme implemented by the Monetary Board for compensation up to a maximum of Rs. 1,100,000/- for each depositor. The Company has paid Rs. 149,090,767/- as the premium of the said insurance scheme during the current financial year (2022 - Rs. 125,175,845/-).

4.29.2 Contractual Maturity Analysis of Customer Deposits - Company

As at 31 March 2023	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	97,070,726	14,395,423	-	111,466,149
Savings Deposits	2,545,550	-	-	2,545,550
	99,616,276	14,395,423	-	114,011,699

As at 31 March 2022	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	74,439,114	10,879,907	-	85,319,021
Savings Deposits	3,824,961	-	-	3,824,961
	78,264,075	10,879,907	-	89,143,982

4.29.3 Contractual Maturity Analysis of Customer Deposits - Group

As at 31 March 2023	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	97,207,565	14,409,414	-	111,616,979
Savings Deposits	2,631,274	-	-	2,631,274
	99,838,839	14,409,414	-	114,248,253

As at 31 March 2022	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	74,663,107	10,905,080	-	85,568,187
Savings Deposits	3,910,319	-	-	3,910,319
	78,573,426	10,905,080	-	89,478,506

We have raised fixed deposits with a pre-termination option to the customers, so fixed deposit pre-terminations may cause actual maturities to differ from contractual maturities.

4.30 Debt Instruments Issued and Other Borrowed Funds

» Accounting Policy

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

As at 31 March	Company & Group	
	2023	2022
	Rs. '000	Rs. '000
Unsecured Debentures (Note 4.30.1)	-	3,116,605
Borrowings from International Financial Institutions (Note 4.30.2)	3,882,024	5,448,012
	3,882,024	8,564,617
Fair Value	3,775,257	8,267,254

Notes to the Financial Statements

4.30.1 Unsecured Debentures - Listed

Category	Interest Payable	Interest Rate	Issued Date	Redemption Date	Face Value	Company & Group	
						2023	2022
						Rs. '000	Rs. '000
Type A (60 Months)	Biannually	12.75% p.a	11 December 2017	11 December 2022	1,000,000	-	1,037,855
Type B (60 Months)	Biannually	13.25% p.a	11 December 2017	11 December 2022	2,000,000	-	2,078,750
					3,000,000	-	3,116,605

4.30.2 Borrowings from International Financial Institutions

International Financial Institution	Interest Payable	Loan Granted Date	Maturity Date	Company & Group	
				2023	2022
				Rs. '000	Rs. '000
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	Biannually	3 May 2021	21 April 2025	2,557,117	3,052,824
responsAbility Global Micro and SME Finance Fund (ResponsAbility)	Biannually	20 December 2021	20 December 2023	1,324,907	2,395,188
				3,882,024	5,448,012

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

As at 31 March 2023	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Unsecured Debentures	-	-	-
Borrowings from International Financial Institutions	2,392,049	1,489,975	-	3,882,024
	2,392,049	1,489,975	-	3,882,024

As at 31 March 2022	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Unsecured Debentures	3,116,605	-	-
Borrowings from International Financial Institutions	1,784,713	3,663,299	-	5,448,012
	4,901,318	3,663,299	-	8,564,617

4.31 Other Financial Liabilities

» Accounting Policy

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

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Trade Payables	153,069	327,477	153,069	327,477
Insurance Premium Payables	550,235	552,479	550,235	552,479
Unclaimed Balances	879,899	736,164	881,333	737,382
Lease Liability (Note 4.31.1)	1,525,253	1,494,604	1,544,548	1,509,136
Advances Collected from Customers	7,434	37,204	7,434	37,204
Other Payables	139,972	157,184	146,440	179,741
	3,255,862	3,305,112	3,283,059	3,343,419
Fair Value	3,255,862	3,305,112	3,283,059	3,343,419

4.31.1 Lease Liability

» Accounting Policy

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	1,494,604	1,440,965	1,509,136	1,440,965
Additions Resulting from Acquisitions	-	-	-	14,459
Additions	219,345	243,743	231,427	243,743
Accretion of Interest	197,528	169,748	200,481	169,821
Terminations	(16,783)	(47,964)	(16,783)	(47,964)
Payments	(369,441)	(311,888)	(379,713)	(311,888)
Balance as at the End of the Year	1,525,253	1,494,604	1,544,548	1,509,136

4.31.2 Sensitivity Analysis of Lease Liability

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

Increase/(Decrease) in Incremental Borrowing Rate	Company				Group			
	2023		2022		2023		2022	
	Sensitivity Effect on Lease Liability Increase/ (Reduction) in the Liability	Sensitivity Effect on Interest Expense Increase/ (Reduction) in Profits for the Year	Sensitivity Effect on Lease Liability Increase/ (Reduction) in the Liability	Sensitivity Effect on Interest Expense Increase/ (Reduction) in Profits for the Year	Sensitivity Effect on Lease Liability Increase/ (Reduction) in the Liability	Sensitivity Effect on Interest Expense Increase/ (Reduction) in Profits for the Year	Sensitivity Effect on Lease Liability Increase/ (Reduction) in the Liability	Sensitivity Effect on Interest Expense Increase/ (Reduction) in Profits for the Year
	Rs. '000	Rs. '000						
1bp Up	(32,879)	10,343	(36,373)	9,801	(33,110)	10,574	(36,570)	9,961
1bp Down	33,518	(10,872)	38,046	(10,388)	33,756	(11,110)	38,300	(10,506)

4.31.3 Contractual Maturity Analysis of Lease Liability

As at 31 March	2023				2022			
	Within One Year	1 - 5 Years	Over 5 Years	Total	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Company								
Lease Liability	181,387	915,465	428,401	1,525,253	171,604	838,225	484,775	1,494,604
Group								
Lease Liability	188,984	927,163	428,401	1,544,548	178,513	845,848	484,775	1,509,136

4.31.4 Undiscounted Maturity Analysis of Lease Liability

As at 31 March	2023				2022			
	Within One Year	1 - 5 Years	Over 5 Years	Total	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Company								
Lease Liability	379,672	1,440,688	556,437	2,376,797	332,686	1,252,751	567,270	2,152,707
Group								
Lease Liability	389,743	1,455,719	556,437	2,401,899	340,754	1,261,051	567,270	2,169,075

Notes to the Financial Statements

4.32 Other Non Financial Liabilities

» Accounting Policy

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

Provisions

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

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Accrued Expenses	879,144	952,567	898,480	973,191
Stamp Duty Payable	34,633	70,048	34,775	70,219
EPF/ETF/PAYE Payable	54,899	42,570	55,320	42,570
Crop Insurance Levy Payable	26,314	23,467	26,314	23,467
Other Payables	20,818	36,073	65,283	62,776
Withholding Tax Payable	61,505	872	61,779	882
Impairment Provision in Respect of Off-Balance Sheet Credit Exposures	12,778	9,174	12,778	9,174
	1,090,091	1,134,771	1,154,729	1,182,279

4.33 Current Tax Liabilities

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Income Tax	1,850,323	1,613,655	1,855,820	1,606,495
Value Added Tax (VAT)	361,720	268,587	362,233	268,587
Social Security Contribution Levy (SSCL)	43,787	-	43,943	-
	2,255,830	1,882,242	2,261,996	1,875,082

4.34 Post Employment Benefit Liability

Accounting Estimates

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

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

Provision has been made for retirement gratuities from the beginning of service for all employees, in conformity with Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefit'. However, under the Payment of Gratuity Act No 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

Recognition of Actuarial Gains and Losses

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

Expected Return on Assets

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

Funding Arrangements

The gratuity liability is not externally funded.

4.34.1 Post Employment Benefit Liability

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	316,973	365,265	323,833	365,265
Additions Resulting from Acquisitions	-	-	-	6,860
Amount Charged/(Reversed) for the Year	95,235	(6,391)	96,761	(6,391)
Payments Made During the Year	(46,651)	(41,901)	(53,090)	(41,901)
Balance as at the End of the Year	365,557	316,973	367,504	323,833

4.34.2 Amounts Recognised in the Income Statement

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Current Service Cost for the Year	55,228	59,343	56,352	59,343
Past Service Cost for the Year	-	(10,778)	-	(10,778)
Interest Cost on the Net Defined Benefit Liability for the Year	47,546	31,047	48,575	31,047
	102,774	79,612	104,927	79,612

4.34.3 Amounts Recognised in the Other Comprehensive Income

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Liability (Gains)/Losses due to Changes in Assumptions	740	(111,289)	484	(111,289)
Liability Experience (Gains)/Losses Arising During the Year	(8,279)	25,286	(8,650)	25,286
	(7,539)	(86,003)	(8,166)	(86,003)

4.34.4 Defined Benefit Obligation Reconciliation

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Benefit Obligation at the End of Prior Year	316,973	365,265	323,833	365,265
Additions Resulting from Acquisitions	-	-	-	6,860
Current Service Cost for the Year	55,228	59,343	56,352	59,343
Past Service Cost for the Year	-	(10,778)	-	(10,778)
Net Interest Cost on the Net Defined Benefit Liability for the Year	47,546	31,047	48,575	31,047
Liability (Gains)/Losses due to Changes in Assumptions	740	(111,289)	484	(111,289)
Liability Experience (Gains)/Losses Arising During the Year	(8,279)	25,286	(8,650)	25,286
Payments Made During the Year	(46,651)	(41,901)	(53,090)	(41,901)
	365,557	316,973	367,504	323,833

Notes to the Financial Statements

4.34.5 Assumptions

	Company		Group	
	2023	2022	2023	2022
Discount Rate	17%	15%	17% - 18%	15%
Salary Increment	14%	12%	10% - 14%	10% - 12%
Staff Turnover				
20 - 40 Years	25%	25%	25% - 83%	25% - 83%
41 - 50 Years	2%	2%	2% - 15%	2% - 15%
51 Years or Above	2%	2%	2%	2%
Retirement Age - Years	60	60	60	60
Average Future Working Lifetime - Years	12.3	12.8	6.5 - 12.3	6.5 - 12.8

Mortality	-	GA 1983 Mortality Table
Disability	-	Long Term Disability 1987 Soc. Sec. Table
Retirement Age	-	Normal Retirement Age, or Age on Valuation Date, if greater

Actuarial valuations of the gratuity of LB Finance PLC and Multi Finance PLC were carried out as at 31 March 2023 by Piyal S. Goonetilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Method', required by the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

4.34.6 Implementation of the Provisions of the Minimum Retirement Age of Workers Act No 28 of 2021

The Retirement Benefit Plan of the company was amended during the previous financial year due to the increase in retirement age enacted by the Minimum Retirement Age of Workers Act No 28 of 2021.

Age of Employee	Minimum Retirement Age
54 or Above and Below 55 Years	57 Years
53 or Above and Below 54 Years	58 Years
52 or Above and Below 53 Years	59 Years
Below 52 Years	60 Years

Accordingly, the amended minimum retirement age was incorporated in the assessment of actuarial valuation of defined benefit obligations as at 31 March 2022. In accordance with Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits), impact from same was disclosed in Note 4.34.2 and Note 4.34.4 to the Financial Statements as past service cost.

4.34.7 Sensitivity of Assumptions Employed in Actuarial Valuation

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

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

Year Ended 31 March		2023		2022	
Assumption	Rate Changed	Sensitivity Effect on Statement of Comprehensive Income - Increase/(Reduction) in Results for the Year	Sensitivity Effect on Retirement Benefit Obligation - Increase/(Reduction) in the Liability	Sensitivity Effect on Statement of Comprehensive Income - Increase/(Reduction) in Results for the Year	Sensitivity Effect on Retirement Benefit Obligation - Increase/(Reduction) in the Liability
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Company					
Increase/(Decrease) in Discount Rate	1%	34,341	(34,341)	31,331	(31,331)
	-1%	(40,858)	40,858	(37,547)	37,547
Increase/(Decrease) in Salary Increment	1%	(40,910)	40,910	(37,641)	37,641
	-1%	34,920	(34,920)	31,904	(31,904)
Group					
Increase/(Decrease) in Discount Rate	1%	38,892	(38,892)	31,694	(31,694)
	-1%	(46,172)	46,172	(37,947)	37,947
Increase/(Decrease) in Salary Increment	1%	(46,237)	46,237	(38,053)	38,053
	-1%	39,454	(39,454)	32,283	(32,283)

4.34.8 The Expected Benefit Payout in the Future Years for Retirement Gratuity

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Within the Next 12 Months	15,207	13,218	15,422	13,857
Between 2 - 5 Years	156,960	129,853	160,249	137,936
Beyond 5 Years	455,856	382,329	455,856	389,600
	628,023	525,400	631,527	541,393

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation at the end of the financial year and include benefits attributable to estimated future employee service.

4.35 Stated Capital

4.35.1 Issued and Fully Paid Ordinary Shares

	Company & Group		Company & Group	
	2023		2022	
	No. of Shares	Rs. '000	No. of Shares	Rs. '000
At the Beginning of the Year	554,057,136	838,282	554,057,136	838,282
At the End of the Year	554,057,136	838,282	554,057,136	838,282

4.35.2 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.

Notes to the Financial Statements

4.36 Reserves

	Company			Group		
	As at 1 April 2022	Movement/ Transfers	As at 31 March 2023	As at 1 April 2022	Movement/ Transfers	As at 31 March 2023
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statutory Reserve	8,116,782	423,017	8,539,799	8,116,782	423,017	8,539,799
Fair Value Reserve	(78,124)	31,374	(46,750)	(78,124)	31,374	(46,750)
Foreign Currency Translation Reserve	-	-	-	268,638	(70,587)	198,051
	8,038,658	454,391	8,493,049	8,307,296	383,804	8,691,100

4.36.1 Statutory Reserve

	Company & Group	
	2023	2022
	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	8,116,782	7,683,689
Transfers Made During the Year	423,017	433,093
Balance as at the End of the Year	8,539,799	8,116,782

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

4.36.2 Fair Value Reserve

	Company & Group	
	2023	2022
	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	(78,124)	(87,583)
Net Gains/(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income	31,364	8,984
Transfers to Retained Earnings	10	475
Balance as at the End of the Year	(46,750)	(78,124)

The fair value through other comprehensive income reserve comprises the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income until they are derecognised or impaired.

4.36.3 Foreign Currency Translation Reserve

	Group	
	2023	2022
	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	268,638	150,901
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations	(70,587)	117,737
Balance as at the End of the Year	198,051	268,638

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

4.37 Retained Earnings

	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	24,170,152	19,754,900	24,085,844	19,801,953
Adjustments for Surcharge Tax Levied under the Surcharge Tax Act No 14 of 2022 (Note 4.37.1)	(2,320,210)	-	(2,320,210)	-
Adjusted Balance as at 1 April 2022	21,849,942	19,754,900	21,765,634	19,801,953
Profit for the Year	8,460,331	8,661,858	8,554,543	8,530,497
Other Comprehensive Income, Net of Tax	5,277	65,362	5,683	65,362
Transfers During the Year	(423,027)	(433,568)	(423,027)	(433,568)
Dividend Paid	(1,108,114)	(3,878,400)	(1,108,114)	(3,878,400)
Balance as at the End of the Year	28,784,409	24,170,152	28,794,719	24,085,844

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

4.37.1 Imposition of a Tax Surcharge

The Government of Sri Lanka in its Budget for 2022 proposed a one-time tax, referred to as a surcharge tax, at the rate of 25% to be imposed on any company that have earned a taxable income in excess of Rs. 2,000 Mn for the year of assessment 2020/2021. The tax was imposed by the Surcharge Tax Act No. 14 of 2022.

Total surcharge tax liability of Rs. 2,320,209,912/- has been recognised as an adjustment to the retained earnings as at 1 April 2022 in the Statement of Changes in Equity.

4.38 Non-Controlling Interest

» Accounting Policy

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

The Company owns 100% shares of LB Microfinance Myanmar Company Limited as at the reporting date. Therefore, the Company has 100% controlling interest in LB Microfinance Myanmar Company Limited. The Company has non-controlling interest of 35.24% in Multi Finance PLC as at the reporting date as follows;

	Group	
	2023	2022
	Rs. '000	Rs. '000
Balance as at 1 April	105,689	-
Acquisition of Subsidiaries	-	160,155
Profit for the year	(1,657)	(54,466)
Other Comprehensive Income, Net of Tax	221	-
Disposal of Shares	(388)	-
Balance as at 31 March	103,865	105,689

SECTION 05

Risk Management Disclosures

5.1 Introduction

The Group faces several types of risks such as credit, market, liquidity, and operational risks, which are inherent in its operations since it functions as a financial intermediary. Proper management of these risks is essential for the Group's sustainability and is crucial to all of its activities. To achieve this, the risk management function aims to proactively identify potential risks, analyse them, and take preventive measures to manage the risks while maximising risk-adjusted returns within the Group's risk appetite.

The Group identifies the following key financial risks in its business operations.

- » Credit Risk
- » Liquidity Risk
- » Market Risk

Risk Management Framework

The Risk Management Framework of the Group has been optimised through the application and the embedment of the risk management process including risk identification, risk analysis, risk measurement, risk management decision and execution, risk monitoring and reporting.

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

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

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

Risk Management Department (RMD)

Whilst the business units bear primary responsibility for risk management, the Risk Management Department (RMD) acts as a second line of defence, providing independent oversight. The Head of Risk Management leads the RMD, reporting directly to the Managing Director and functionally reporting to the BIRMC. The RMD works in harmony with other control functions in the Group, such as Internal Audit, Compliance, and Finance, which may uncover risk management issues. Each of these control functions has a unique focus, and overlap is minimised to ensure that their approaches are complementary and lead to consistent, effective, and timely escalation of risks.

5.2 Credit Risk

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

Default Risk is the risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the Group's loans and advances to customers.

Concentration Risk is the credit exposure being concentrated as a result of excessive build-up of exposure to a single counterparty, industry, product, geographical location or insufficient diversification.

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

Group manages credit risk by focusing on following steps;

The credit risk management initiates at the beginning of the loan origination stage which includes the preliminary screening of the customer and credit appraisal of the particular facility. The objective of this process is to assess the borrower's ability to meet its obligations in an objective manner. The Group has clearly defined guidelines for credit approvals where the limits have been set taking into consideration the factors such as maximum counterparty exposures, loan to value ratio and forced sale value. The entire credit risk management of the Group is governed by the Credit Risk Management Policy and Framework. This process is further strengthened by the credit risk scoring model which assigns each individual facility a score based on the payment history, strength of the collaterals and guarantors.

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

Post Disbursement Review

The Credit Department conducts initial monitoring and follow-up activities for loans. If a loan becomes overdue for a period that exceeds the tolerance period, responsibility for recovery and collections is transferred to the Recoveries Department. The Risk Management Department (RMD) regularly reviews asset quality performance. To address delinquencies, early and effective follow-ups and reminders are implemented. For critical exposures, swift recovery actions are taken.

Management of Large Exposures

Credit Committee

The Credit Committee consists of the Managing Director, Deputy Managing Director, Executive Directors, Chief Financial Officer and Head of Risk Management. Sanctioning of large exposures are primarily handled by the Credit Committee.

Impairment Assessment

The methodology of the impairment assessment has been explained in the Note 4.19 to these Financial Statements.

Collateral and Other Credit Enhancements

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

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

Impact Assessment of Stressed Economic Conditions

The Group's Enterprise Risk Management Framework aims to proactively manage the impact of unfavourable economic and market conditions while achieving the Company's risk-return objectives. This has been demonstrated by the Group's ability to maintain a lower level of non-performing loans (NPLs) compared to the industry average (LFCs and SLCs). The Group has always acted with due diligence and taken prudent measures to ensure effective and efficient repayment behavior from credit customers, while also safeguarding the interests of stakeholders.

5.2.1 Analysis Of Credit Risk Exposure

The fair value of collateral for finance receivables is calculated based on the number of contracts multiplied by the loss severity and the Probability of Default (PD) percentage or the outstanding receivable balances multiplied by the Average Recovery Value (ARV) percentage to determine the fair value adjustment.

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

5.2.1 (a) Company

As at 31 March	2023		2022	
	Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	4,524,032	-	14,458,986	-
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	10,653	10,653	13,208	13,208
Loans and Receivables (Gross)	116,053,128	7,601,475	97,144,056	7,910,219
Lease Rentals Receivable and Stock out on Hire (Gross)	36,994,766	2,613,329	44,731,631	2,960,983
Financial Assets Measured at Fair Value Through Other Comprehensive Income	117,388	117,388	86,102	86,102
Other Financial Assets*	21,685,834	9,495,348	5,598,624	5,598,625
Total Financial Assets	179,385,801	19,838,193	162,032,607	16,569,137

*Net exposure of the Other Financial Assets mainly includes investment in fixed deposits in banks and other financial institutions. As at 31 March 2023, the net carrying value amount of those investments was Rs. 8,880,296,915/- (2022 - Rs. 5,135,842,041/-).

Notes to the Financial Statements

5.2.1 (b) Group

As at 31 March	2023		2022	
	Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	4,680,955	-	14,634,136	-
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	10,653	10,653	13,208	13,208
Loans and Receivables (Gross)	117,489,659	9,038,005	98,541,527	9,307,691
Lease Rentals Receivable and Stock out on Hire (Gross)	37,077,340	2,695,906	44,845,870	3,075,221
Financial Assets Measured at Fair Value Through Other Comprehensive Income	117,390	117,390	86,104	86,104
Other Financial Assets*	21,710,810	9,520,324	5,655,767	5,624,497
Total Financial Assets	181,086,807	21,382,278	163,776,612	18,106,721

*Net exposure of the Other Financial Assets mainly includes investment in fixed deposits in banks and other financial institutions. As at 31 March 2023, the net carrying value amount of those investments was Rs. 8,922,882,170/- (2022 - Rs.5,155,929,712/-).

5.2.2 Collateral and Other Credit Enhancements

The below tables provide an analysis of the values of collateral held and credit enhancements for Stage O3 assets. The values in the tables represent the expected market value on an open market basis. No adjustment has been made to the collateral for any expected costs of recovery.

5.2.2 (a) Company

As at 31 March 2023	Maximum Exposure to Credit Risk	Movable Securities	Immovable Securities	Total Collateral	Net Exposure	Associated ECL
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	6,877,318	9,754,629	9,616,518	19,371,147	(12,493,829)	2,591,870
Lease Rentals Receivable and Stock out on Hire	5,846,506	16,880,391	-	16,880,391	(11,033,885)	2,204,926
	12,723,824	26,635,020	9,616,518	36,251,538	(23,527,714)	4,796,796

As at 31 March 2022	Maximum Exposure to Credit Risk	Movable Securities	Immovable Securities	Total Collateral	Net Exposure	Associated ECL
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	5,137,795	6,186,377	9,405,596	15,591,973	(10,454,178)	2,561,014
Lease Rentals Receivable and Stock out on Hire	6,666,927	17,818,916	-	17,818,916	(11,151,989)	2,526,008
	11,804,722	24,005,293	9,405,596	33,410,889	(21,606,167)	5,087,022

5.2.2 (b) Group

As at 31 March 2023	Maximum Exposure to Credit Risk	Movable Securities	Immovable Securities	Total Collateral	Net Exposure	Associated ECL
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	7,454,236	9,771,679	9,809,030	19,580,709	(12,126,473)	2,870,263
Lease Rentals Receivable and Stock out on Hire	5,895,916	16,989,981	-	16,989,981	(11,094,065)	2,243,067
	13,350,152	26,761,660	9,809,030	36,570,690	(23,220,538)	5,113,330

As at 31 March 2022	Maximum Exposure to Credit Risk	Movable Securities	Immovable Securities	Total Collateral	Net Exposure	Associated ECL
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	5,967,455	6,567,405	9,814,624	16,382,029	(10,414,574)	2,848,136
Lease Rentals Receivable and Stock out on Hire	6,726,761	17,863,066	-	17,863,066	(11,136,305)	2,557,765
	12,694,216	24,430,471	9,814,624	34,245,095	(21,550,879)	5,405,901

5.2.3 Credit Quality by Class of Financial Assets

5.2.3 (a) Company

As at 31 March 2023	Neither Past Due Nor Impaired*	Past Due But Not Impaired*	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Cash and Cash Equivalents	4,524,032	-	-	4,524,032
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	10,653	-	-	10,653
Loans and Receivables (Gross)	80,290,686	28,885,124	6,877,318	116,053,128
Lease Rentals Receivable and Stock out on Hire (Gross)	13,328,911	17,819,349	5,846,506	36,994,766
Financial Assets Measured at Fair Value Through Other Comprehensive Income	117,388	-	-	117,388
Other Financial Assets	21,685,834	-	-	21,685,834
Total Financial Assets	119,957,504	46,704,473	12,723,824	179,385,801

*Collectively assessed for the impairment

Aging Analysis of Past Due (i.e. Facilities in Arrears of 01 Day and Above) But Not Impaired Loans, by Class of Financial Assets

As at 31 March 2023	Past Due But Not Impaired			
	Less than 31 Days	31 - 60 Days	61 - 90 Days	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Gross)	15,079,026	10,081,960	3,724,138	28,885,124
Lease Rentals Receivable and Stock out on Hire (Gross)	8,703,726	5,878,959	3,236,664	17,819,349
	23,782,752	15,960,919	6,960,802	46,704,473
	50.92%	34.18%	14.90%	100%

Past Due but not Impaired Loans

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

Notes to the Financial Statements

As at 31 March 2022	Neither Past Due Nor Impaired*	Past Due But Not Impaired*	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Cash and Cash Equivalents	14,458,986	-	-	14,458,986
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	13,208	-	-	13,208
Loans and Receivables (Gross)	67,384,910	24,621,351	5,137,795	97,144,056
Lease Rentals Receivable and Stock out on Hire (Gross)	18,576,432	19,488,272	6,666,927	44,731,631
Financial Assets Measured at Fair Value Through Other Comprehensive Income	86,102	-	-	86,102
Other Financial Assets	5,598,624	-	-	5,598,624
Total Financial Assets	106,118,262	44,109,623	11,804,722	162,032,607

*Collectively assessed for the impairment

Aging Analysis of Past Due (i.e. Facilities in Arrears of 01 Day and Above) But Not Impaired Loans, by Class of Financial Assets

As at 31 March 2022	Past Due But Not Impaired			
	Less than 31 Days	31 - 60 Days	61 - 90 Days	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Gross)	15,792,844	6,859,454	1,969,053	24,621,351
Lease Rentals Receivable and Stock out on Hire (Gross)	10,322,986	6,533,362	2,631,924	19,488,272
	26,115,830	13,392,816	4,600,977	44,109,623
	59.21%	30.36%	10.43%	100%

Past Due but not Impaired Loans

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

5.2.3 (b) Group

As at 31 March 2023	Neither Past Due Nor Impaired*	Past Due But Not Impaired*	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Cash and Cash Equivalents	4,680,955	-	-	4,680,955
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	10,653	-	-	10,653
Loans and Receivables (Gross)	81,094,516	28,940,907	7,454,236	117,489,659
Lease Rentals Receivable and Stock out on Hire (Gross)	13,344,056	17,837,368	5,895,916	37,077,340
Financial Assets Measured at Fair Value Through Other Comprehensive Income	117,390	-	-	117,390
Other Financial Assets	21,710,810	-	-	21,710,810
Total Financial Assets	120,958,380	46,778,275	13,350,152	181,086,807

*Collectively assessed for the impairment

Aging Analysis of Past Due (i.e. Facilities in Arrears of 01 Day and Above) But Not Impaired Loans, by Class of Financial Assets

As at 31 March 2023	Past Due But Not Impaired			
	Less than 31 Days	31 - 60 Days	61 - 90 Days	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Gross)	15,104,332	10,100,875	3,735,700	28,940,907
Lease Rentals Receivable and Stock out on Hire (Gross)	8,711,862	5,884,245	3,241,261	17,837,368
	23,816,194	15,985,120	6,976,961	46,778,275
	50.91%	34.18%	14.91%	100%

Past Due but not Impaired Loans

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

As at 31 March 2022	Neither Past Due Nor Impaired*	Past Due But Not Impaired*	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

Assets

Cash and Cash Equivalents	14,634,136	-	-	14,634,136
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	13,208	-	-	13,208
Loans and Receivables (Gross)	67,867,022	24,707,050	5,967,455	98,541,527
Lease Rentals Receivable and Stock out on Hire (Gross)	18,605,207	19,513,902	6,726,761	44,845,870
Financial Assets Measured at Fair Value Through Other Comprehensive Income	86,104	-	-	86,104
Other Financial Assets	5,655,767	-	-	5,655,767
Total Financial Assets	106,861,444	44,220,952	12,694,216	163,776,612

*Collectively assessed for the impairment

Aging Analysis of Past Due (i.e. Facilities in Arrears of 01 Day and Above) But Not Impaired Loans, by Class of Financial Assets

As at 31 March 2022	Past Due But Not Impaired			
	Less than 31 Days	31 - 60 Days	61 - 90 Days	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Gross)	15,833,144	6,881,949	1,991,957	24,707,050
Lease Rentals Receivable and Stock out on Hire (Gross)	10,333,163	6,539,830	2,640,909	19,513,902
	26,166,307	13,421,779	4,632,866	44,220,952
	59.17%	30.35%	10.48%	100%

Past Due but not Impaired Loans

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

Notes to the Financial Statements

5.2.4 Concentration of Credit Risk

By setting various concentration limits under different criteria within the established risk appetite framework, the Group ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are monitored and reviewed by the Credit Committee, Risk Management Department and Board Integrated Risk Management Committee on a regular basis to capture the developments in market, regulatory and economic environment to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

The Group monitors concentration of credit risk by sector and by geographic location. An analysis of risk concentration of financial assets based on industry sector and geographical location is given below.

5.2.4 (a) Industry-wise Concentration

The outbreak of COVID-19 pandemic highlighted the importance of maintaining a well-diversified portfolio mix through which adverse impact on a certain sector can be covered from the other unaffected sectors to minimise the overall impact on the resilience of the Group. Being a Domestic Systematically Important LFC (D-SILFC), Company has identified its wider responsibility and review the risk appetite and tolerance levels regularly by monitoring the business environment continuously to eliminate being exposed to risky asset classes and customer segments beyond the tolerance levels. This is a prudent measure taken by the Group to manage its concentration risk effectively.

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

As at 31 March 2023 - Company

Sector-wise Breakdown	Cash and Cash Equivalents	Financial Assets Recognised Through Profit or Loss	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Financial Assets Measured at Fair Value Through OCI	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	21,129,377	6,508,915	-	-	27,638,292
Manufacturing	-	-	11,763,028	4,330,687	-	-	16,093,715
Construction	-	-	4,818,407	1,633,631	-	-	6,452,038
Financial Services	4,524,032	-	3,663,537	570,933	-	21,685,834	30,444,336
Trading	-	10,653	12,646,593	5,116,686	117,388	-	17,891,320
Tourism	-	-	1,889,696	635,875	-	-	2,525,571
Services	-	-	55,182,982	15,298,827	-	-	70,481,809
Total	4,524,032	10,653	111,093,620	34,095,554	117,388	21,685,834	171,527,081

5.2.4 (b) Province-wise Concentration

Provincial breakdown for (01) Loans and receivables (02) Lease rentals receivable and Stock out on hire from customers within Sri Lanka is as follows;

As at 31 March 2023 - Company

Province-wise Breakdown	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	7,841,873	4,227,968	12,069,841
Eastern	8,029,970	1,743,961	9,773,931
North Central	3,593,858	2,274,562	5,868,420
North Western	8,076,264	4,163,327	12,239,591
Northern	9,124,762	251,674	9,376,436
Sabaragamuwa	3,751,076	2,623,647	6,374,723
Southern	9,254,071	4,144,911	13,398,982
Uva	3,527,746	1,900,506	5,428,252
Western	57,894,000	12,764,998	70,658,998
Total	111,093,620	34,095,554	145,189,174

5.2.4 (c) Industry-wise Concentration

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

As at 31 March 2022 - Company

Sector-wise Breakdown	Cash and Cash Equivalents	Financial Assets Recognised Through Profit or Loss	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Financial Assets Measured at Fair Value Through OCI	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	18,037,609	8,037,595	-	-	26,075,204
Manufacturing	-	-	10,277,579	5,028,407	-	-	15,305,986
Construction	-	-	4,296,613	1,775,586	-	-	6,072,199
Financial Services	14,458,986	-	3,415,238	764,656	-	5,598,624	24,237,504
Trading	-	13,208	9,115,957	5,372,031	86,102	-	14,587,298
Tourism	-	-	1,200,304	522,773	-	-	1,723,077
Services	-	-	46,494,301	20,056,954	-	-	66,551,255
Total	14,458,986	13,208	92,837,601	41,558,002	86,102	5,598,624	154,552,523

5.2.4 (d) Province-wise Concentration

Provincial breakdown for (01) Loans and receivables (02) Lease rentals receivable and Stock out on hire from customers within Sri Lanka is as follows;

As at 31 March 2022 - Company

Province-wise Breakdown	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	5,978,618	4,913,185	10,891,803
Eastern	5,354,405	1,953,166	7,307,571
North Central	3,141,440	2,617,255	5,758,695
North Western	7,197,580	5,111,533	12,309,113
Northern	5,946,675	294,651	6,241,326
Sabaragamuwa	2,970,229	2,546,157	5,516,386
Southern	7,757,719	5,571,784	13,329,503
Uva	2,794,124	1,958,221	4,752,345
Western	51,696,811	16,592,050	68,288,861
Total	92,837,601	41,558,002	134,395,603

Notes to the Financial Statements

5.2.4 (e) Industry-wise Concentration

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

As at 31 March 2023 - Group

Sector-wise Breakdown	Cash and Cash Equivalents	Financial Assets Recognised Through Profit or Loss	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Financial Assets Measured at Fair Value Through OCI	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	21,994,466	6,512,199	-	-	28,506,665
Manufacturing	-	-	11,765,626	4,337,122	-	-	16,102,748
Construction	-	-	4,833,009	1,636,821	-	-	6,469,830
Financial Services	4,680,955	-	3,663,537	571,447	-	21,710,810	30,626,749
Trading	-	10,653	12,671,707	5,119,279	117,390	-	17,919,029
Tourism	-	-	1,894,041	635,875	-	-	2,529,916
Services	-	-	55,409,403	15,327,065	-	-	70,736,468
Total	4,680,955	10,653	112,231,789	34,139,808	117,390	21,710,810	172,891,405

5.2.4 (f) Geographical Concentration

Geographical breakdown for (01) Loans and receivables (02) Lease rentals receivable and Stock out on hire from customers is as follows;

As at 31 March 2023 - Group

Province/Country -wise Breakdown	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	7,860,864	4,228,708	12,089,572
Eastern	8,029,970	1,743,961	9,773,931
North Central	3,605,192	2,276,411	5,881,603
North Western	8,092,120	4,164,994	12,257,114
Northern	9,124,762	251,674	9,376,436
Sabaragamuwa	3,797,661	2,627,770	6,425,431
Southern	9,272,006	4,154,836	13,426,842
Uva	3,527,746	1,900,506	5,428,252
Western	58,031,047	12,790,948	70,821,995
Myanmar	890,421	-	890,421
Total	112,231,789	34,139,808	146,371,597

5.2.4 (g) Industry-wise Concentration

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

As at 31 March 2022 - Group

Sector-wise breakdown	Cash and Cash Equivalents	Financial Assets Recognised Through Profit or Loss	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Financial Assets Measured at Fair Value Through OCI	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	18,842,545	8,042,659	-	-	26,885,204
Manufacturing	-	-	10,282,475	5,039,794	-	-	15,322,269
Construction	-	-	4,312,068	1,778,146	-	-	6,090,214
Financial Services	14,634,136	-	3,415,238	765,314	-	5,655,767	24,470,455
Trading	-	13,208	9,119,132	5,394,784	86,104	-	14,613,228
Tourism	-	-	1,205,909	523,296	-	-	1,729,205
Services	-	-	46,719,837	20,096,204	-	-	66,816,041
Total	14,634,136	13,208	93,897,204	41,640,197	86,104	5,655,767	155,926,616

5.2.4 (h) Geographical Concentration

Geographical breakdown for (01) Loans and receivables (02) Lease rentals receivable and Stock out on hire from customers is as follows;

As at 31 March 2022 - Group

Province/Country-wise breakdown	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	6,015,181	4,915,132	10,930,313
Eastern	5,354,405	1,953,166	7,307,571
North Central	3,144,827	2,632,451	5,777,278
North Western	7,218,834	5,115,018	12,333,852
Northern	5,946,675	294,651	6,241,326
Sabaragamuwa	3,000,286	2,549,788	5,550,074
Southern	7,771,518	5,583,537	13,355,055
Uva	2,794,124	1,958,221	4,752,345
Western	51,846,418	16,638,233	68,484,651
Myanmar	804,936	-	804,936
Total	93,897,204	41,640,197	135,537,401

Notes to the Financial Statements

5.3 Liquidity Risk and Funding Management

In the context of a financial institution, liquidity risk arises primarily due to mismatches in the maturity profile of assets and liabilities. Liquidity risk for a financial institution can take two forms; market liquidity risk and funding liquidity risk.

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

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

The Group's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the Group regularly monitors liquidity position and maintain an adequate buffer of liquid assets. Group also maintains access to diverse funding sources to meet unforeseen liquidity requirements. All statutory and prudent liquidity ratios are monitored against tolerance limits and stress testing is carried out regularly to assess the effectiveness of liquidity management. Further, the group has taken prudent measures to increase its liquidity buffers and maintained a strong excess liquidity position throughout the year under review. The Group is comfortable with its existing buffer of liquid assets.

Assets and Liability Management Committee (ALCO)

ALCO is chaired by the Managing Director and comprises of Deputy Managing Director, Executive Directors, representatives from Treasury Department, Fixed Deposits, the Chief Financial Officer and the Head of Risk Management. The Committee meets regularly and make all policy decisions with regard to funding matters, duration management of assets and liabilities and investments, to keep the liquidity at healthy levels, whilst satisfying regulatory requirements.

5.3.1 Analysis of Liquidity Risk Exposure

- 5.3.1 (a) The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2023.

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

As at 31 March 2023 - Company	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Cash and Cash Equivalents	3,693,153	858,056	-	-	-	4,551,209
Financial Assets Recognised Through Profit or Loss	10,653	-	-	-	-	10,653
Loans and Receivables	18,719,958	59,130,297	24,396,844	34,000,583	4,450,598	140,698,280
Lease Rentals Receivable and Stock out on Hire	3,853,221	5,456,015	14,406,956	25,263,710	2,313	48,982,215
Financial Assets Measured at Fair Value Through Other Comprehensive Income	117,388	-	-	-	-	117,388
Other Financial Assets	615,052	9,704,545	14,075,757	-	-	24,395,354
Total Financial Assets	27,009,425	75,148,913	52,879,557	59,264,293	4,452,911	218,755,099
Financial Liabilities						
Due to Banks	490,862	3,420,271	7,383,347	11,720,737	-	23,015,217
Due to Depositors	2,545,550	57,308,381	47,479,036	20,278,435	-	127,611,402
Debt Instruments Issued and Other Borrowed Funds	-	1,297,852	1,250,544	1,628,457	-	4,176,853
Other Financial Liabilities	1,520,142	304,139	286,000	1,440,688	556,437	4,107,406
Total Financial Liabilities	4,556,554	62,330,643	56,398,927	35,068,317	556,437	158,910,878
Total Net Financial Assets/(Liabilities)	22,452,871	12,818,270	(3,519,370)	24,195,976	3,896,474	59,844,221

5.3.1 (b) The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2022.

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

As at 31 March 2022 - Company	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Cash and Cash Equivalents	3,439,512	11,171,147	-	-	-	14,610,659
Financial Assets Recognised Through Profit or Loss	13,208	-	-	-	-	13,208
Loans and Receivables	9,865,349	38,527,346	25,831,191	35,144,112	4,391,188	113,759,186
Lease Rentals Receivable and Stock out on Hire	3,694,421	3,856,780	17,472,693	32,689,861	13,869	57,727,624
Financial Assets Measured at Fair Value Through Other Comprehensive Income	86,102	-	-	-	-	86,102
Other Financial Assets	462,782	5,256,205	-	-	-	5,718,987
Total Financial Assets	17,561,374	58,811,478	43,303,884	67,833,973	4,405,057	191,915,766
Financial Liabilities						
Due to Banks	1,749,144	4,195,154	8,599,620	15,971,498	-	30,515,416
Due to Depositors	3,824,961	33,442,426	44,259,531	12,115,008	-	93,641,926
Debt Instruments Issued and Other Borrowed Funds	-	951,563	4,439,979	4,021,944	-	9,413,486
Other Financial Liabilities	1,602,562	74,269	235,309	1,441,057	393,336	3,746,533
Total Financial Liabilities	7,176,667	38,663,412	57,534,439	33,549,507	393,336	137,317,361
Total Net Financial Assets/(Liabilities)	10,384,707	20,148,066	(14,230,555)	34,284,466	4,011,721	54,598,405

5.3.1 (c) The table below summarises the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 March 2023.

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

As at 31 March 2023 - Group	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Cash and Cash Equivalents	3,731,146	976,985	-	-	-	4,708,131
Financial Assets Recognised Through Profit or Loss	10,653	-	-	-	-	10,653
Loans and Receivables	19,079,222	59,187,216	24,441,497	34,051,145	4,450,598	141,209,678
Lease Rentals Receivable and Stock out on Hire	3,897,475	5,456,015	14,406,956	25,263,710	2,313	49,026,469
Financial Assets Measured at Fair Value Through Other Comprehensive Income	117,390	-	-	-	-	117,390
Other Financial Assets	640,028	9,704,545	14,075,757	-	-	24,420,330
Total Financial Assets	27,475,914	75,324,761	52,924,210	59,314,855	4,452,911	219,492,651
Financial Liabilities						
Due to Banks	512,456	3,420,271	7,383,347	11,720,737	-	23,036,811
Due to Depositors	2,782,104	57,308,381	47,479,036	20,278,435	-	127,847,956
Debt Instruments Issued and Other Borrowed Funds	-	1,297,852	1,250,544	1,628,457	-	4,176,853
Other Financial Liabilities	1,547,339	304,139	286,000	1,440,688	556,437	4,134,603
Total Financial Liabilities	4,841,899	62,330,643	56,398,927	35,068,317	556,437	159,196,223
Total Net Financial Assets/(Liabilities)	22,634,015	12,994,118	(3,474,717)	24,246,538	3,896,474	60,296,428

Notes to the Financial Statements

5.3.1 (d) The table below summarises the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 March 2022.

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

As at 31 March 2022 - Group	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Cash and Cash Equivalents	3,530,551	11,258,369	-	-	-	14,788,920
Financial Assets Recognised Through Profit or Loss	13,208	-	-	-	-	13,208
Loans and Receivables	10,115,142	38,753,678	25,880,835	35,220,672	4,391,188	114,361,515
Lease Rentals Receivable and Stock out on Hire	3,804,361	3,871,625	17,514,301	32,751,124	13,869	57,955,280
Financial Assets Measured at Fair Value Through Other Comprehensive Income	86,104	-	-	-	-	86,104
Other Financial Assets	519,925	5,362,325	31,271	-	-	5,913,521
Total Financial Assets	18,069,291	59,245,997	43,426,407	67,971,796	4,405,057	193,118,548
Financial Liabilities						
Due to Banks	1,752,352	4,195,154	8,599,620	15,971,498	-	30,518,624
Due to Depositors	4,164,143	33,547,543	44,378,406	12,140,208	-	94,230,300
Debt Instruments Issued and Other Borrowed Funds	-	951,563	4,439,979	4,021,944	-	9,413,486
Other Financial Liabilities	1,663,361	77,085	240,562	1,449,357	393,336	3,823,701
Total Financial Liabilities	7,579,856	38,771,345	57,658,567	33,583,007	393,336	137,986,111
Total Net Financial Assets/(Liabilities)	10,489,435	20,474,652	(14,232,160)	34,388,789	4,011,721	55,132,437

5.3.2 Contractual Maturities of Commitments and Contingencies

The table below shows the contractual expiry by maturity of the Company/Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31 March 2023 - Company	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Contingent Liabilities						
Guarantees Issued to Banks and Other Institutions	-	2,000	4,275	-	-	6,275
Counter Indemnity Issued to Banks for Guarantees	-	-	-	324,000	-	324,000
Import LC and Ordinary Guarantees	51,558	-	-	-	-	51,558
Total Contingent Liabilities	51,558	2,000	4,275	324,000	-	381,833
Commitments						
Commitment for Unutilised Facilities	2,022,115	-	-	-	-	2,022,115
Total Commitments	2,022,115	-	-	-	-	2,022,115
Total Commitments and Contingencies	2,073,673	2,000	4,275	324,000	-	2,403,948

As at 31 March 2022 - Company	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

Contingent Liabilities

Guarantees Issued to Banks and Other Institutions	-	5,000	3,000	-	-	8,000
Total Contingent Liabilities	-	5,000	3,000	-	-	8,000

Commitments

Commitment for Unutilised Facilities	1,686,463	-	-	-	-	1,686,463
Total Commitments	1,686,463	-	-	-	-	1,686,463

Total Commitments and Contingencies

	1,686,463	5,000	3,000	-	-	1,694,463
--	-----------	-------	-------	---	---	-----------

As at 31 March 2023 - Group	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

Contingent Liabilities

Guarantees Issued to Banks and Other Institutions	-	2,000	4,275	-	-	6,275
Counter Indemnity Issued to Banks for Guarantees	-	-	-	324,000	-	324,000
Import LC and Ordinary Guarantees	51,558	-	-	-	-	51,558
Total Contingent Liabilities	51,558	2,000	4,275	324,000	-	381,833

Commitments

Commitment for Unutilised Facilities	2,022,115	-	-	-	-	2,022,115
Total Commitments	2,022,115	-	-	-	-	2,022,115

Total Commitments and Contingencies

	2,073,673	2,000	4,275	324,000	-	2,403,948
--	-----------	-------	-------	---------	---	-----------

As at 31 March 2022 - Group	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

Contingent Liabilities

Guarantees Issued to Banks and Other Institutions	-	5,000	3,000	-	-	8,000
Total Contingent Liabilities	-	5,000	3,000	-	-	8,000

Commitments

Commitment for Unutilised Facilities	1,686,463	-	-	-	-	1,686,463
Total Commitments	1,686,463	-	-	-	-	1,686,463

Total Commitments and Contingencies

	1,686,463	5,000	3,000	-	-	1,694,463
--	-----------	-------	-------	---	---	-----------

Notes to the Financial Statements

5.3.3 Liquidity Reserves

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

As at 31 March	2023		2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Notes and Coins Held	1,810,836	1,810,836	1,159,669	1,159,669
Balances with Banks	1,338,660	1,338,660	2,279,843	2,279,843
Securities under Reverse Repurchase Agreements (Less than 03 Months)	830,880	830,880	9,993,533	9,993,533
Investment in Trust Certificates	543,656	543,656	-	-
Securities under Reverse Repurchase Agreements (More than 03 Months)	4,651,908	4,651,908	-	-
Investment in Treasury Bills	7,538,577	7,538,577	1,025,941	1,025,941
Investment in Fixed Deposits	8,880,297	8,880,297	5,135,842	5,135,842
Total Liquidity Reserves	25,594,814	25,594,814	19,594,828	19,594,828

5.3.4 Financial Assets Available For Future Funding

The total financial assets recognised in the Statement of Financial Position as at 31 March 2023 and 2022 that can be use for the future funding is shown in the following tables;

As at 31 March 2023 - Company	Encumbered		Unencumbered		Total
	Pledged as Collateral	Other	Available as Collateral	Other	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Cash and Cash Equivalents	-	830,880	3,693,152	-	4,524,032
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	-	-	10,653	-	10,653
Financial Assets at Amortised Cost - Loans and Receivables	27,308,650	-	83,784,970	-	111,093,620
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	9,841,730	-	24,253,824	-	34,095,554
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	117,388	-	117,388
Other Financial Assets	1,736,936	4,651,908	11,795,269	3,501,721	21,685,834
Total	38,887,316	5,482,788	123,655,256	3,501,721	171,527,081

As at 31 March 2022 - Company	Encumbered		Unencumbered		Total
	Pledged as Collateral	Other	Available as Collateral	Other	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Cash and Cash Equivalents	-	11,823,200	2,635,786	-	14,458,986
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	-	-	13,208	-	13,208
Financial Assets at Amortised Cost - Loans and Receivables	23,377,351	-	69,460,250	-	92,837,601
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	17,847,732	-	23,710,270	-	41,558,002
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	86,102	-	86,102
Other Financial Assets	1,636,179	-	3,499,663	462,782	5,598,624
Total	42,861,262	11,823,200	99,405,279	462,782	154,552,523

5.4 Market Risk

Market risk refers to the possible losses to the Group that could arise from changes in market variables like interest rates, exchange rates, equity prices and commodity prices. Among them, interest rate risk has been identified as the most critical risk given Group's nature of business.

5.4.1 Interest Rate Risk

Interest rate risk is a key constitute of the market risk exposure of the Group due to adverse and unanticipated movements in future interest rate which arises from core business activities; disbursing of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Group, the impact of interest rate risk is mainly on the earnings of the Group rather than the market value of portfolios.

Excessive movements in market interest rate could result in severe volatility to Group's net interest income and net interest margin. Group's exposure to interest rate risk is primarily associated with factors such as;

- » Reprising risk arising from a fixed rate borrowing portfolio, where reprising frequency is different to that of the lending portfolio.
- » Yield curve risk arising from unanticipated shifts of the market yield curve.

Interest rate risk is managed principally through minimising interest rate sensitive asset liability gaps. In order to ensure interest rate margin and spreads are maintained, the Group conducts periodic reviews and reprices its assets accordingly.

5.4.2 Commodity Price Risk

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

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

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

5.4.3 Equity Price Risk

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

5.4.4 Exchange Rate Risk

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

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

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

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

5.4.5 Interest Rate Sensitivity

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

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

Net Interest Income (NII) Sensitivity by Interest Rate Change

As at 31 March	2023		2022	
	Parallel Increase 100 bps	Parallel Decrease 100 bps	Parallel Increase 100 bps	Parallel Decrease 100 bps
Impact on NII (Rs. '000)				
Annual Impact	(+) 297,074	(-) 297,074	(+) 244,991	(-) 244,991

Notes to the Financial Statements

5.4.6 Interest Rate Risk Exposure on Financial Assets and Liabilities

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

As at 31 March 2023 - Company	Up to	3 - 12	1 - 3	3 - 5	Over	Non-Interest	Total
	3 Months	Months	Years	Years	5 Years	Sensitive	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and Cash Equivalents	2,713,196	-	-	-	-	1,810,836	4,524,032
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	10,653	10,653
Loans and Receivables	85,591,945	10,501,361	12,393,398	2,572,763	34,153	-	111,093,620
Lease Rentals Receivable and Stock out on Hire	6,760,974	9,201,269	15,259,581	2,871,731	1,999	-	34,095,554
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	117,388	117,388
Other Financial Assets	8,082,729	12,988,053	-	-	-	615,052	21,685,834
	103,148,844	32,690,683	27,652,979	5,444,494	36,152	2,553,929	171,527,081
Financial Liabilities							
Due to Banks	3,325,385	5,881,875	9,745,916	416,608	-	-	19,369,784
Due to Depositors	57,736,499	41,879,777	9,679,048	4,716,375	-	-	114,011,699
Debt Instruments Issued and Other Borrowed Funds	1,901,895	490,154	1,489,975	-	-	-	3,882,024
Other Financial Liabilities	42,758	138,628	464,658	450,808	428,400	1,730,610	3,255,862
	63,006,537	48,390,434	21,379,597	5,583,791	428,400	1,730,610	140,519,369
Interest Sensitivity Gap	40,142,307	(15,699,751)	6,273,382	(139,297)	(392,248)	823,319	31,007,712

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

As at 31 March 2022 - Company	Up to	3 - 12	1 - 3	3 - 5	Over	Non-Interest	Total
	3 Months	Months	Years	Years	5 Years	Sensitive	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and Cash Equivalents	13,299,317	-	-	-	-	1,159,669	14,458,986
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	13,208	13,208
Loans and Receivables	61,223,921	12,544,842	13,591,465	5,380,898	96,475	-	92,837,601
Lease Rentals Receivable and Stock out on Hire	6,761,606	10,278,439	18,767,289	5,738,599	12,069	-	41,558,002
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	86,102	86,102
Other Financial Assets	3,371,135	588,236	1,176,471	-	-	462,782	5,598,624
	84,655,979	23,411,517	33,535,225	11,119,497	108,544	1,721,761	154,552,523
Financial Liabilities							
Due to Banks	5,408,008	7,248,684	11,640,741	2,561,304	-	-	26,858,737
Due to Depositors	36,549,348	41,714,728	9,493,520	1,386,386	-	-	89,143,982
Debt Instruments Issued and Other Borrowed Funds	2,606,226	3,482,949	1,976,480	498,962	-	-	8,564,617
Other Financial Liabilities	47,099	124,506	400,543	437,682	484,774	1,810,508	3,305,112
	44,610,681	52,570,867	23,511,284	4,884,334	484,774	1,810,508	127,872,448
Interest Sensitivity Gap	40,045,298	(29,159,350)	10,023,941	6,235,163	(376,230)	(88,747)	26,680,075

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

As at 31 March 2023 - Group	Up to 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Non-Interest Sensitive	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and Cash Equivalents	2,850,651	-	-	-	-	1,830,304	4,680,955
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	10,653	10,653
Loans and Receivables	86,195,084	10,974,753	12,453,353	2,574,446	34,153	-	112,231,789
Lease Rentals Receivable and Stock out on Hire	6,791,553	9,206,679	15,266,059	2,873,518	1,999	-	34,139,808
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	117,390	117,390
Other Financial Assets	8,079,343	13,008,376	-	8,039	-	615,052	21,710,810
	103,916,631	33,189,808	27,719,412	5,456,003	36,152	2,573,399	172,891,405
Financial Liabilities							
Due to Banks	3,348,137	5,881,875	9,745,916	416,608	-	-	19,392,536
Due to Depositors	57,849,525	41,989,314	9,693,039	4,716,375	-	-	114,248,253
Debt Instruments Issued and Other Borrowed Funds	1,901,895	490,154	1,489,975	-	-	-	3,882,024
Other Financial Liabilities	20,608	144,130	472,114	450,808	432,642	1,762,757	3,283,059
	63,120,165	48,505,473	21,401,044	5,583,791	432,642	1,762,757	140,805,872
Interest Sensitivity Gap	40,796,466	(15,315,665)	6,318,368	(127,788)	(396,490)	810,642	32,085,533

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

As at 31 March 2022 - Group	Up to 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Non-Interest Sensitive	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and Cash Equivalents	13,460,541	-	-	-	-	1,173,595	14,634,136
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	13,208	13,208
Loans and Receivables	62,092,801	12,796,507	13,577,435	5,333,986	96,475	-	93,897,204
Lease Rentals Receivable and Stock out on Hire	6,788,307	10,299,915	18,793,974	5,745,932	12,069	-	41,640,197
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	86,104	86,104
Other Financial Assets	3,397,006	619,507	1,176,472	-	-	462,782	5,655,767
	85,738,655	23,715,929	33,547,881	11,079,918	108,544	1,735,689	155,926,616
Financial Liabilities							
Due to Banks	5,411,215	7,248,684	11,640,741	2,561,304	-	-	26,861,944
Due to Depositors	36,739,797	41,833,603	9,518,720	1,386,386	-	-	89,478,506
Debt Instruments Issued and Other Borrowed Funds	2,606,226	3,482,949	1,976,480	498,962	-	-	8,564,617
Other Financial Liabilities	73,322	128,967	407,884	437,964	484,774	1,810,508	3,343,419
	44,830,560	52,694,203	23,543,825	4,884,616	484,774	1,810,508	128,248,486
Interest Sensitivity Gap	40,908,095	(28,978,274)	10,004,056	6,195,302	(376,230)	(74,819)	27,678,130

Notes to the Financial Statements

5.5 Capital Adequacy

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

The Company has acquired the majority stake of the Multi Finance PLC in line with the Consolidation Master Plan of Central Bank of Sri Lanka on 16 March 2022. Multi Finance PLC is yet to comply with the minimum core capital requirements as required by the Direction on 2 of 2017 - Minimum Core Capital. Currently, the Group management is in the process of planning for further capital infusions until the amalgamation process is completed as approved by the Central Bank of Sri Lanka. Multi Finance PLC is in compliance with the Tier 1 Capital ratio and Total Capital ratio (Capital Adequacy Requirements) as of 31 March 2023.

Regulatory Capital - Company

As per the Finance Business Act Direction No 3 of 2018, the Licensed Finance Companies (LFCs) with assets of Rs. 100 Bn and above required to maintain a minimum Capital Adequacy Ratio (CAR) of 14% and a Core Capital Ratio (Tier 1) of 10% by 1 July 2022.

Components of Capital

As at 31 March	2023		2022	
	Actual	Required	Actual	Required
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Tier 1 Capital	36,514,610	11,970,090	32,560,423	10,037,740
Tier 2 Capital	37,261,024	16,758,126	33,753,675	15,056,609
Total Risk Weighted Assets	119,700,901	-	125,471,745	-
Tier 1 Capital Ratio %	30.50%	10.00%	25.95%	8.00%
Total Capital Ratio %	31.13%	14.00%	26.90%	12.00%

As of 31 March 2023, the Company has maintained Risk Weighted Capital Adequacy Ratios above the CBSL's minimum capital requirements.

5.6 Probable Impact of Economic Crisis on Business Operations of the Group

Sri Lankan economy which got badly affected by the outbreak of COVID-19 pandemic was further distressed during the first half of current financial year. Diminishing forex reserves, huge piles of debt, devaluation of currency together with shortage of crops led the inflation to reach double digit levels. This crisis got further worsened by the power cuts, scarcity of gas and fuel which almost crippled the economy affecting all the sectors.

Increasing inflationary pressures coupled with disturbed economic activities affected the buying power and the repayment capacity of the citizens as a whole. This initially exerted pressure on Company's credit risk profile and the management closely monitored the developments to take prompt risk mitigating actions. As a result the Company promoted the digital channels for loan repayments which acted as an enabler to the customers in servicing their loan facilities without visiting branches amidst the fuel shortage prevailed in the country.

Further the increase of policy rates and subsequent increase in treasury bills rates compelled the market rates to increase significantly. As a result the interest rate risk is on the rise for all financial institutions of the country including LB Finance PLC. The impact of rising interest rate were significantly affecting the cost of funds of the Group. However the Company's established franchise for Gold Loans product which is a short term product was strategically used to drive down impact to the net interest income.

Moreover the economic crisis of the country acted as a real world stressed scenario where it created negative vibes on funding and liquidity. As a stable and strong NBF, LB Finance PLC has always maintained its capital and liquidity buffers over and above the regulatory minimum levels. Hence the Group's ability to withstand the shocks, stood at a higher level which reassured the resilience of the Group.

SECTION 06

Other Disclosures

6.1 Related Party Disclosures

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

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

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

6.1.1 Transactions with Key Management Personnel (KMPs)

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

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Short-Term Employment Benefits	635,077	519,336	644,933	529,192
Directors' Fees and Expenses	18,162	15,575	21,162	18,575
Post Employment Benefit Liability	80,894	68,154	80,894	68,154
	734,133	603,065	746,989	615,921

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

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

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

	Reported Under	Company		Group	
		2023	2022	2023	2022
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statement of Financial Position					
Assets					
Loans against Deposits	Loans and Advances	10,279	29,881	10,279	29,881
Advance and Prepayments	Other Non Financial Assets	-	4,813	-	4,813
		10,279	34,694	10,279	34,694
Liabilities					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	571,462	748,807	571,491	748,836
Savings Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	12,171	13,208	12,171	13,208
		583,633	762,015	583,662	762,044

Notes to the Financial Statements

	Reported Under	Company		Group	
		2023	2022	2023	2022
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Income Statement					
Interest Income on Loans and Receivables	Interest Income	424	298	424	298
Interest Expense on Customer Deposits	Interest Expenses	75,416	63,124	75,416	63,124
Administration and Establishment Expenses	Other Operating Expenses	-	4,584	-	4,584
Dividend Income	Other Operating Income	353	-	353	-
		76,193	68,006	76,193	68,006
Other Transactions					
Deposits Accepted During the Year		577,384	163,782	577,384	163,782
Dividend Paid on Shareholdings		6,413	9,619	6,413	9,619
		583,797	173,401	583,797	173,401

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

	Reported Under	Company		Group	
		2023	2022	2023	2022
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statement of Financial Position					
Assets					
Investment in Equity Securities	Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	880	940	880	940
Leasehold Improvements	Property, Plant and Equipment	84,808	47,856	84,808	47,856
		85,688	48,796	85,688	48,796
Liabilities					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	12,152	4,399	12,152	4,399
Income Statement					
Income on Operating Lease	Other Operating Income	8,842	26,540	8,842	26,540
Interest Expense on Customer Deposits	Interest Expenses	570	351	570	351
Administration and Establishment Expenses	Other Operating Expenses	9,298	5,301	9,298	5,301
Fair Value Adjustment	Net Trading Income	60	865	60	865
		18,770	33,057	18,770	33,057
Other Transactions					
Deposits Accepted During the Year		7,000	-	7,000	-
Supplier Payments		48,311	73,581	48,311	73,581
Operating Lease Facilities		2,271	10,352	2,271	10,352
		57,582	83,933	57,582	83,933

6.1.4 Transactions with Group Entities

The Group entities include the Parent, Fellow Subsidiaries and Associate companies of the parent.

Transactions with Parent Company

As at 31 March		Company		Group	
		2023	2022	2023	2022
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Other Transactions					
Dividend Paid on Shareholdings		573,459	860,189	573,459	860,189
		573,459	860,189	573,459	860,189

Transactions with Subsidiaries

Reported Under		Company		Group	
		2023	2022	2023	2022
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statement of Financial Position					
Assets					
Investment in Equity Securities	Investment in Subsidiaries	921,998	921,162	-	-
Due from Subsidiaries	Other Financial Assets	25,839	-	-	-
		947,837	921,162	-	-
Income Statement					
Interest on Receivables	Interest Income	2,570	1,706	2,570	1,706
Consolidation Expenses	Professional and Legal Expenses	425	2,958	425	2,958
		2,995	4,664	2,995	4,664
Other Transactions					
Counter Indemnity Issued to Banks for Guarantees	Contingent Liabilities	324,000	-	324,000	-
		324,000	-	324,000	-

Transactions with Fellow Subsidiaries and Associate Companies of the Parent

Reported Under		Company		Group	
		2023	2022	2023	2022
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statement of Financial Position					
Assets					
Leasehold Improvements	Property, Plant and Equipment	22,445	14,336	22,445	14,336
Investment in Equity Securities	Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	4,747	6,879	4,747	6,879
Investment in Equity Securities	Financial Assets Measured at Fair Value Through Other Comprehensive Income	97,769	63,386	97,769	63,386
		124,961	84,601	124,961	84,601
Liabilities					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	126,357	325,637	126,357	325,637
		126,357	325,637	126,357	325,637

Notes to the Financial Statements

	Reported Under	Company		Group	
		2023	2022	2023	2022
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Income Statement					
Dividend Income	Other Operating Income	235	470	235	470
Interest Expense on Customer Deposits	Interest Expenses	18,998	20,141	18,998	20,141
Investment in Fair Value Adjustment	Net Trading Income	2,132	3,158	2,132	3,158
Investment in Fair Value Adjustment	Other Comprehensive Income	34,383	9,964	34,383	9,964
Operating Expenses	Other Operating Expenses	525	885	525	885
		56,273	34,618	56,273	34,618
Other Transactions					
Deposits Accepted During the Year		119,000	115,000	119,000	115,000
Dividend Paid on Shareholdings		288,986	433,479	288,986	433,479
		407,986	548,479	407,986	548,479

6.2 Capital

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Details of the regulatory capital requirements and compliance level are disclosed in Note 5.5 to these Financial Statements.

6.2.1 Capital Management

Objective

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and maintain healthy capital ratios in order to support its business and to maximise shareholders' value.

6.3

Current and Non Current Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	Company						Group						
	2023			2022			2023			2022			
	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total	
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Assets													
Cash and Cash Equivalents	4,524,032	-	4,524,032	14,458,986	-	14,458,986	4,680,955	-	4,680,955	14,634,136	-	14,634,136	
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	10,653	-	10,653	13,208	-	13,208	10,653	-	10,653	13,208	-	13,208	
Financial Assets at Amortised Cost	85,586,918	25,506,702	111,093,620	63,855,943	28,981,658	92,837,601	86,661,524	25,570,265	112,231,789	64,975,333	28,921,871	93,897,204	
- Loans and Receivables													
Financial Assets at Amortised Cost	15,962,244	18,133,310	34,095,554	17,040,044	24,517,958	41,558,002	15,998,233	18,141,575	34,139,808	17,088,221	24,551,976	41,640,197	
- Lease Rentals Receivable and Stock out on Hire													
Financial Assets Measured at Fair Value Through Other Comprehensive Income	117,388	-	117,388	86,102	-	86,102	117,390	-	117,390	86,104	-	86,104	
Other Financial Assets	21,685,834	-	21,685,834	4,422,153	1,176,471	5,598,624	21,710,810	-	21,710,810	4,479,296	1,176,471	5,655,767	
Other Non Financial Assets	412,793	61,554	474,347	403,033	51,678	454,711	490,915	61,554	552,469	448,903	51,678	500,581	
Investment in Subsidiaries	-	921,998	921,998	-	921,162	921,162	-	-	-	-	-	-	
Property, Plant and Equipment and Right-of-Use Assets	-	8,633,347	8,633,347	-	8,421,741	8,421,741	-	8,667,202	8,667,202	-	8,448,930	8,448,930	
Investment Properties	-	-	-	-	-	-	-	4,550	4,550	-	71,150	71,150	
Intangible Assets	-	22,628	22,628	-	14,875	14,875	-	135,255	135,255	-	131,000	131,000	
Deferred Tax Assets	-	767,186	767,186	-	-	-	-	767,186	767,186	-	-	-	
Total Assets	128,299,862	54,046,725	182,346,587	100,279,469	64,085,543	164,365,012	129,670,480	53,347,587	183,018,067	101,725,201	63,353,076	165,078,277	
Liabilities													
Due to Banks	9,207,259	10,162,525	19,369,784	12,656,692	14,202,045	26,858,737	9,230,011	10,162,525	19,392,536	12,659,899	14,202,045	26,861,944	
Financial Liabilities at Amortised Cost	99,616,276	14,395,423	114,011,699	78,264,075	10,879,907	89,143,982	99,838,839	14,409,414	114,248,253	78,573,426	10,905,080	89,478,506	
- Due to Depositors													
Debt Instruments Issued and Other Borrowed Funds	2,392,049	1,489,975	3,882,024	4,901,318	3,663,299	8,564,617	2,392,049	1,489,975	3,882,024	4,901,318	3,663,299	8,564,617	
Other Financial Liabilities	1,911,995	1,343,867	3,255,862	1,982,112	1,323,000	3,305,112	1,927,496	1,355,563	3,283,059	2,020,419	1,323,000	3,343,419	
Other Non Financial Liabilities	1,090,091	-	1,090,091	1,134,771	-	1,134,771	1,154,729	-	1,154,729	1,182,279	-	1,182,279	
Current Tax Liabilities	2,255,830	-	2,255,830	1,882,242	-	1,882,242	2,261,996	-	2,261,996	1,875,082	-	1,875,082	
Deferred Tax Liabilities	-	-	-	-	111,486	111,486	-	-	-	-	111,486	111,486	
Post Employment Benefit Liability	-	365,557	365,557	-	316,973	316,973	-	367,504	367,504	-	323,833	323,833	
Total Liabilities	116,475,500	27,757,347	144,232,847	100,821,210	30,496,710	131,317,920	116,805,120	27,784,981	144,590,101	101,212,423	30,528,743	131,741,166	
Maturity Gap	11,826,362	26,289,378	38,115,740	(541,741)	33,588,833	33,047,092	12,865,360	25,562,606	38,427,966	512,778	32,824,333	33,337,111	
Cumulative Gap	11,826,362	38,115,740	56,942,102	(541,741)	33,047,092	32,505,351	12,865,360	38,427,966	71,933,317	512,778	33,337,111	65,270,428	

6.4 Segmental Information

► Accounting Policy

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

For management purposes, the Group is organised into four operating segments based on services offered and geographical operations as presented in the table below. Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses. Income taxes are managed separately for the Company and its international operation and are not allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 2023 or 2022.

There were no transactions between reportable segments in 2023 or 2022.

	Lease and Stock out on Hire			Loans and Receivables			Others			International Operation (Myanmar)			Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income	9,395,408	12,121,008	26,877,211	14,344,309	3,483,857	981,917	217,079	58,873	39,973,555	27,506,107				
Less: Interest Expenses	4,569,051	2,950,426	12,786,012	5,040,397	3,296,192	856,812	12,701	15,064	20,663,956	8,862,699				
Net Interest Income	4,826,357	9,170,582	14,091,199	9,303,912	187,665	125,105	204,378	43,809	19,309,599	18,643,408				
Fee and Commission Income	549,700	706,248	2,408,464	1,726,260	7,078	35,528	21,160	7,029	2,986,402	2,475,065				
Net Trading Income and Other Operating Income	4,782	2,421	113,040	76,717	55,288	102,442	376	(5,349)	173,486	176,231				
Total Operating Income	5,380,839	9,879,251	16,612,703	11,106,889	250,031	263,075	225,914	45,489	22,469,487	21,294,704				
Less: Impairment Charges	(137,134)	19,172	661,804	1,035,050	22,596	55,793	(28,133)	1,752	519,133	1,111,767				
Net Operating Income	5,517,973	9,860,079	15,950,899	10,071,839	227,435	207,282	254,047	43,737	21,950,354	20,182,937				
Less: Other Costs	1,727,877	2,050,019	4,676,015	3,353,957	32,541	40,358	145,812	73,907	6,582,245	5,518,241				
Less: Depreciation	199,311	257,177	640,926	536,686	2,833	7,979	4,369	5,349	847,439	807,191				
Operating Profits Before Taxes	3,590,785	7,552,883	10,633,958	6,181,196	192,061	158,945	103,866	(35,519)	14,520,670	13,857,505				
Less: Taxes	1,485,407	2,927,616	4,398,971	2,395,930	79,449	61,609	3,957	(3,681)	5,967,784	5,381,474				
Profits for the Year	2,105,380	4,625,267	6,234,987	3,785,266	112,612	97,336	99,909	(31,838)	8,552,886	8,476,031				
Less: Non-Controlling Interest	-	-	-	-	-	-	-	-	(1,657)	(54,466)				
Profit Attributable to Equity Holders of the Company	-	-	-	-	-	-	-	-	8,554,543	8,530,497				
Segmental Assets	35,988,682	44,028,049	117,445,066	98,433,169	29,536,851	22,628,676	995,305	909,545	183,965,904	165,999,439				
Elimination	-	-	-	-	(947,837)	(921,162)	-	-	(947,837)	(921,162)				
Total Segmental Assets	35,988,682	44,028,049	117,445,066	98,433,169	28,589,014	21,707,514	995,305	909,545	183,018,067	165,078,277				
Segmental Liabilities	28,714,164	35,321,582	93,591,570	79,037,994	22,146,583	17,277,059	163,623	104,531	144,615,940	131,741,166				
Elimination	-	-	-	-	-	-	(25,839)	-	(25,839)	-				
Total Segmental Liabilities	28,714,164	35,321,582	93,591,570	79,037,994	22,146,583	17,277,059	137,784	104,531	144,590,101	131,741,166				
Cash Flows from Operating Activities	784,705	(687,731)	2,560,798	(1,537,556)	623,361	(339,079)	(54,670)	(269,842)	3,914,195	(2,834,208)				
Cash Flows from Investing Activities	(117,471)	(300,744)	(383,353)	(672,371)	(93,317)	(148,279)	(13,121)	301,365	(607,262)	(820,029)				
Cash Flows from Financing Activities	(2,378,841)	3,002,737	(7,763,083)	6,713,196	(1,889,725)	1,480,464	31,867	(53,061)	(11,999,782)	11,143,336				
Capital Expenditure	-	-	-	-	-	-	-	-	-	-				
Property, Plant and Equipment	(133,706)	(206,692)	(436,336)	(462,100)	(106,215)	(101,907)	(13,445)	(1,768)	(689,702)	(772,467)				
Intangible Assets	(3,382)	(28,791)	(11,037)	(64,369)	(2,687)	(14,195)	(451)	-	(17,558)	(107,355)				

6.5 Commitments and Contingencies

» Accounting Policy

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

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

6.5.1 Contingent Liabilities

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Guarantees Issued to Banks and Other Institutions	6,275	8,000	6,275	8,000
Counter Indemnity Issued to Banks for Guarantees*	324,000	-	324,000	-
Import LC and Ordinary Guarantees	51,558	-	51,558	-
Total Contingent Liabilities	381,833	8,000	381,833	8,000

*Contingent liability as at 31 March 2023, on counter indemnity for letter of guarantee issued by Sampath Bank PLC on behalf of LB Microfinance Myanmar Company Limited favouring UAB Bank, Myanmar. Total of this sum relates to the term loan facility obtained by LB Microfinance Myanmar Company Limited.

6.5.2 Commitments

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Commitment for Unutilised Facilities	2,022,115	1,686,463	2,022,115	1,686,463
Total Commitments	2,022,115	1,686,463	2,022,115	1,686,463

6.5.3 Commitments and Contingencies

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Contingent Liabilities	381,833	8,000	381,833	8,000
Commitments	2,022,115	1,686,463	2,022,115	1,686,463
Total Commitments and Contingencies	2,403,948	1,694,463	2,403,948	1,694,463
Allowance for Impairment Losses	(12,778)	(9,174)	(12,778)	(9,174)
Net of Impairment	2,391,170	1,685,289	2,391,170	1,685,289

6.5.4 Litigation Against the Company and Group

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

As at 31 March	Company		Group	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cases Pending Against the Company and Group (Values Claimed)	186,532	81,700	186,532	81,700

Notes to the Financial Statements

6.6 Net Asset Value Per Share

As at 31 March	Company		Group	
	2023	2022	2023	2022
Amounts Used as the Numerators:				
Total Equity Attributable to Equity Holders (Rs. '000)	38,115,740	33,047,092	38,324,101	33,231,422
Number of Ordinary Shares Used as Denominators:				
Total Number of Ordinary Shares in Issue	554,057,136	554,057,136	554,057,136	554,057,136
Net Asset Value per Share (Rs.)	68.79	59.65	69.17	59.98

6.7 Assets Pledged

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Included Under	Carrying Amount Pledged			
			Company		Group	
			2023	2022	2023	2022
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lease Rentals Receivable and Stock out on Hire/Loans and Receivables*	Debt Funding from Banks	Lease Rentals Receivable and Stock out on Hire/Loans and Receivables	37,150,380	41,225,083	37,150,380	41,225,083
Securities under Reverse Repurchase Agreements	Debt Funding from Banks	Other Financial Assets	133,207	-	133,207	-
Investment in Fixed Deposits	Debt Funding from Banks	Other Financial Assets	1,603,729	1,636,179	1,646,315	1,656,267
Freehold Land and Building	Debt Funding from Banks	Property, Plant and Equipment	844,230	1,232,501	844,230	1,232,501
			39,731,546	44,093,763	39,774,132	44,113,851

*The receivables and cash flows that have been included in bank loans, overdrafts, syndicated loans and securitisation loans are only available for payment of the debt and other obligations issued or arising in such transactions. However, the Group hold the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of such transactions.

6.8 Comparative Information

Comparative information is reclassified wherever necessary to conform with the current year's classification in order to provide better presentation.

6.8.1 Income Statement

There were no reclassifications during the financial year.

6.8.2 Statement of Financial Position

There were no reclassifications during the financial year.

6.9 Events Occurring After the Reporting Date

Subsequent to the reporting date, the Board of Directors of the Company declared the payment of an interim dividend of Rs. 2.00 per share for the year ended 31 March 2023. In accordance with the Sri Lanka Accounting Standard – LKAS 10 (Events After the Reporting Period), this interim dividend has not been recognised as a liability as at 31 March 2023.

Subsequent to the reporting date, the Board of Directors of the Company recommended the payment of a final dividend of Rs. 3.00 per share for the year ended 31 March 2023. This final dividend is subject to relevant approvals and yet to be approved at the Annual General Meeting to be held on 30 June 2023. In accordance with the Sri Lanka Accounting Standard – LKAS 10 (Events After the Reporting Period), this proposed final dividend has not been recognised as a liability as at 31 March 2023.

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

6.10 Changes in Liabilities Arising from Financing Activities

» Accounting Policy

Sri Lanka Accounting Standard - LKAS 07 (Statement of Cash Flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31 March 2023 are disclosed below together with the comparative figures for the year ended 31 March 2022.

The funds borrowed by the Company and the Group are given in Note 4.28.1 and Note 4.30.

	Company			
	Debt Funding from Banks		Debt Instruments Issued and Other Borrowed Funds	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	25,109,593	15,479,080	8,564,617	3,113,916
Net Cash Flows from Financing Activities	(6,266,627)	10,125,640	(4,552,221)	5,448,012
Non Cash Changes				
Foreign Exchange Movements	-	-	-	-
Net Accrual for Interest Expense	35,956	(495,127)	(130,372)	2,689
Balance as at the End of the Year	18,878,922	25,109,593	3,882,024	8,564,617
Within 12 Months	8,716,397	10,907,548	2,392,049	4,901,318
After 12 Months	10,162,525	14,202,045	1,489,975	3,663,299
Total	18,878,922	25,109,593	3,882,024	8,564,617

	Group			
	Debt Funding from Banks		Debt Instruments Issued and Other Borrowed Funds	
	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	25,109,593	15,538,558	8,564,617	3,113,916
Net Cash Flows from Financing Activities	(6,245,478)	10,070,907	(4,552,221)	5,448,012
Non Cash Changes				
Foreign Exchange Movements	-	-	-	-
Net Accrual for Interest Expense	36,402	(499,872)	(130,372)	2,689
Balance as at the End of the Year	18,900,517	25,109,593	3,882,024	8,564,617
Within 12 Months	8,737,992	10,907,548	2,392,049	4,901,318
After 12 Months	10,162,525	14,202,045	1,489,975	3,663,299
Total	18,900,517	25,109,593	3,882,024	8,564,617

BOOKLET 03

Our Supplementary Information



Relying on dexterity, skill and expertise to arrive at

THE RIGHT SOLUTIONS AT THE RIGHT TIME

We continue to rely on flexible structures and critical thinking to reinvent and adapt ourselves to plan ahead and achieve optimised results.



INTEGRATED RISK MANAGEMENT REPORT

BIRMC CHAIRMAN'S MESSAGE



The severity of the external challenges encountered in 2022 caused some material shifts in LBF's risk universe for the current financial year. The progressive deterioration in the Country's economic conditions saw credit risk at elevated levels, while the sovereign rating downgrade manifested a situation of liquidity tightening.

With many of the trends we saw during the pandemic further amplified by the economic crisis, we proceeded to perform a critical assessment of our foundational risk capabilities and determine the efficacy of enterprise-wide risk governance processes. Key control framework of credit and liquidity risk, including appetite limits and tolerance thresholds were tightened and combined with more frequent monitoring and reporting to the BIRMC and the Board.

From a capital adequacy perspective, with the ICAAP process initiated in the previous financial year now well integrated into

our capital management approach, a new working Group was appointed to conduct routine ICAAP assessment and support proactive reporting to the BIRMC and the Board.

Given the highly fluid environment in which we were required to operate in FY 2022/23, operational risk management, specifically fraud risk management became a key focus area. The introduction of the Technology Risk Management Policy and the Exception Reporting Policy was another key milestone which further strengthened the control environment of the Company.

All in all, in a tremendously challenging year, I am pleased to report that LBF's key risks continued to be well managed and within the Board approved prudential limit frameworks.

Ashane Jayasekara
Chairman
- Integrated Risk Management Committee

LBF'S RISK MANAGEMENT APPROACH

LBF risk management approach is based on ensuring consistent and effective management of risk through appropriate accountability and oversight. Effective risk management is vital to support LBF's strategy and is thus seen as an enterprise wide requirement covering all levels of the business.

Objectives

- ▶ Development of a risk culture that fosters awareness of risks and a common understanding of risks across functions and departments
- ▶ Capital protection, both for internal as well as regulatory purposes
- ▶ Limitation of earnings volatility
- ▶ Risk-based performance measurement and decision making
- ▶ Ability to act proactively or to respond quickly and effectively to adverse events
- ▶ Better understanding of risks for competitive advantage
- ▶ Increase transparency and optimise information flows between business functions, control functions, the management committee and the Board of Directors



Fundamental Principles

- ▶ Create values
- ▶ Integral part of organizational processes
- ▶ Part of decision making
- ▶ Explicitly addresses uncertainty
- ▶ Systematic, structured and timely
- ▶ Based on the best available information
- ▶ Tailored
- ▶ Takes human and cultural factors into account
- ▶ Transparent and inclusive
- ▶ Dynamic, iterative and responsive to change
- ▶ Facilitates continual improvements of the organization

RISK UNIVERSE

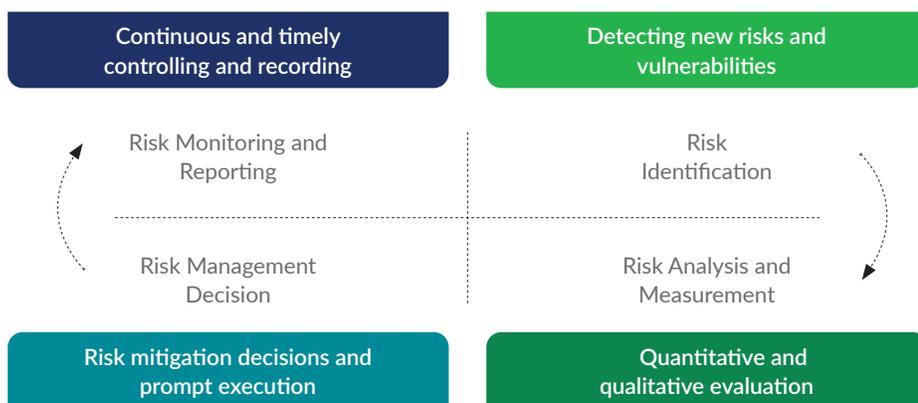
Our risk universe represents the core risks that could potentially impact LBF's short, medium and long term strategy. Continuous and ongoing environmental scans ensure all core risks within our risk universe are identified, assessed, managed and reported effectively at all times.



RISK MANAGEMENT PROCESS

The risk process establishes a standardised mechanism for the identification, and assessment of risk and helps to inform appropriate responses to manage uncertainty in pursuit of strategy, business and operational objectives of the Group. All material risk types, including credit risk, liquidity risk, market risk, strategic risk, operational risk and reputational risk are managed via this Risk Management Process.

The risk process comprises of four key steps



Significant events that had an impact on LBF's risk universe in 2022/23

Event	Credit Risk	Liquidity Risk	Market Risk	Operational Risk
Foreign Exchange crisis			Low	
Challenges to business continuity				Medium
Steep rise in interest rates	Medium		High	
High inflationary pressures resulting lower disposable income	Medium			
Overall Economic crisis	Medium	Low	High	Medium

Risk Identification

Identifying the existence of current and potential risks is the first step in our risk management process. Our approach to risk identification combines both top-down risk assessment by our leadership to determine how changes in the risk universe can stymie LBF's strategic direction, along with a bottom up approach wherein operational teams (1st line of defence) identify risk points that affect the day-to-day business.

Both the top-down and bottom-up approaches have also proven invaluable in identifying new emerging frontier risks that have the potential to affect our business over time.

Risk Analysis and Measurement

Our risk analysis process typically involves quantification of risks under normal and stressed conditions. Apart from this, various other quantitative and qualitative assessment metrics are also used to gauge the impact of specific risks. Risks are then plotted on a Risk Heat Map to measure the likelihood of occurrence against their impact with each risk category assigned a risk score.

The responsibility for risk analysis and measurement rests primarily with LBF's Risk Management Department (RMD).

INTEGRATED RISK MANAGEMENT REPORT

Risk Heat Map

Key Risk Category	Specific risk	Risk likelihood	Risk impact
Credit risk	Default/settlement risk	●	●
	Concentration risk	●	●
Liquidity risk		●	●
Market risk	Interest rate risk	●	●
	Commodity price risk	●	●
	Exchange rate risk	●	●
Operational risk		●	●
Information technology and information security risk		●	●
Human resources risk		●	●
Strategic risk		●	●
Reputation risk		●	●
Legal risk		●	●

Risk indicator ● High ● Moderate ● Low

Risk Treatment and Integration

Risk treatment is a dynamic process that may vary based on the severity of the risk score assigned through the Risk Heat Map. Depending on the risk score, appropriate treatment methodologies may focus on either accepting, transferring, mitigating or avoiding risk. LBF's Risk Management Department under the guidance and oversight of the Board Integrated Risk Management Committee (BIRMC) are tasked with developing appropriate risk treatment approaches.

Risk integration involves creating the necessary risk architecture to embed the relevant risk treatment measures at a functional level. Board-approved Risk Appetite limits and internal control systems provide the foundation for LBF's risk architecture. Risk appetite limits for all key risk categories are accompanied with tolerance thresholds and key risk indicators (KRI's), together with internal control systems including risk-specific policies and procedures create the ecosystem for enterprise-wide risk integration.

The LBF Board, as the highest governing authority in charge of risk management, is responsible for creating the risk architecture

to support the desired level of risk integration, while the Risk Management department provides oversight for the implementation of these covenants.

Risk Monitoring and Reporting

Risk tolerance thresholds and KRI's are continuously monitored and recorded in the Risk Register. The Risk Register is a comprehensive document that captures the progress of ongoing risk identification, evaluation and mitigation approaches. In this

RISK APPETITE

Risk appetite is the maximum level of residual risk that the Group is prepared to accept to deliver its business objectives. In this context, the Risk Appetite aims to strike a balance between the potential benefits of expansion and innovation against the threats that such change inevitably brings.

LBF's Risk Appetite Statement (RAS) is issued by the Board to inform employees on the maximum permissible risk in their respective businesses. The Board works with the Integrated Risk Management Committee (BIRMC) to establish the parameters for the RAS by:

- ▶ Providing strategic leadership and guidance
- ▶ Reviewing and approving annual budgets and forecasts for each department and for the Group as a whole, under both normal and stressed conditions
- ▶ Regularly reviewing and monitoring the Group's risk performance through quarterly reports

way the Risk Register serves as the primary source for the development of new risk treatment methodologies, on an ongoing basis

The RMD is charged with the responsibility for risk monitoring and updating the Risk Register and for reporting risk outcomes to the BIRMC on a quarterly basis.

KEY RISK REPORTS USED IN THE DETERMINATION OF THE RISK REPORT

Report	Frequency	Prepared by	Submitted to (Relevant governing Body)
Key Risk Indicators (KRIs)	Bi-monthly	RMD	BIRMC
	Quarterly		BoD
Risk Database	Quarterly	RMD	BIRMC
Top Risks	Quarterly	RMD	BIRMC and BoD
Qualitative Risk Report	Quarterly	RMD	BIRMC
Branch Risk Assessment	Quarterly	RMD	BIRMC

Risk Appetite Statement

Risk Appetite Criteria	Appetite	Regulatory Limit	As at 31st March 2023
Credit Risk			
Loans and Advances			
Nonperforming loans ratio – Gross	5% - 6%		4.45%
Nonperforming loans ratio – Net	< 1.0%		-0.65%
Exposure to secured loans & advances	>95%		99.80%
Maximum exposure to single borrower-secured - Individual	<=5%	15% of capital funds	0.23%
Maximum exposure to single borrower-secured - Group	<=10%	20% of capital funds	0.27%
Maximum exposure to aggregate unsecured financing	<=4%	5% of capital funds	0.20%
Maximum exposure to single borrower-unsecured – Individual	<=0.5%	1% of core capital	0.03%
Liquidity Risk			
Liquid assets ratio	>12%	Fixed Deposits - 10% Savings -15% Unsecured Borrowings -10%	19.31%
Deposits renewal ratio	>75%		78.77%
Maximum single depositor/group exposure	<=5.0% of total deposits		0.61%
Maximum exposure to bulk deposits (Over Rs.50 mn)	<=20.0% of total deposits		11.73%
Capital Adequacy			
Core capital ratio	12%	10%	30.50%
Total risk weighted capital ratio	16%	14%	31.13%
Capital funds to deposits ratio	12%	10%	33.43%

Right Solutions

Right Value

Right Direction

Right Experience

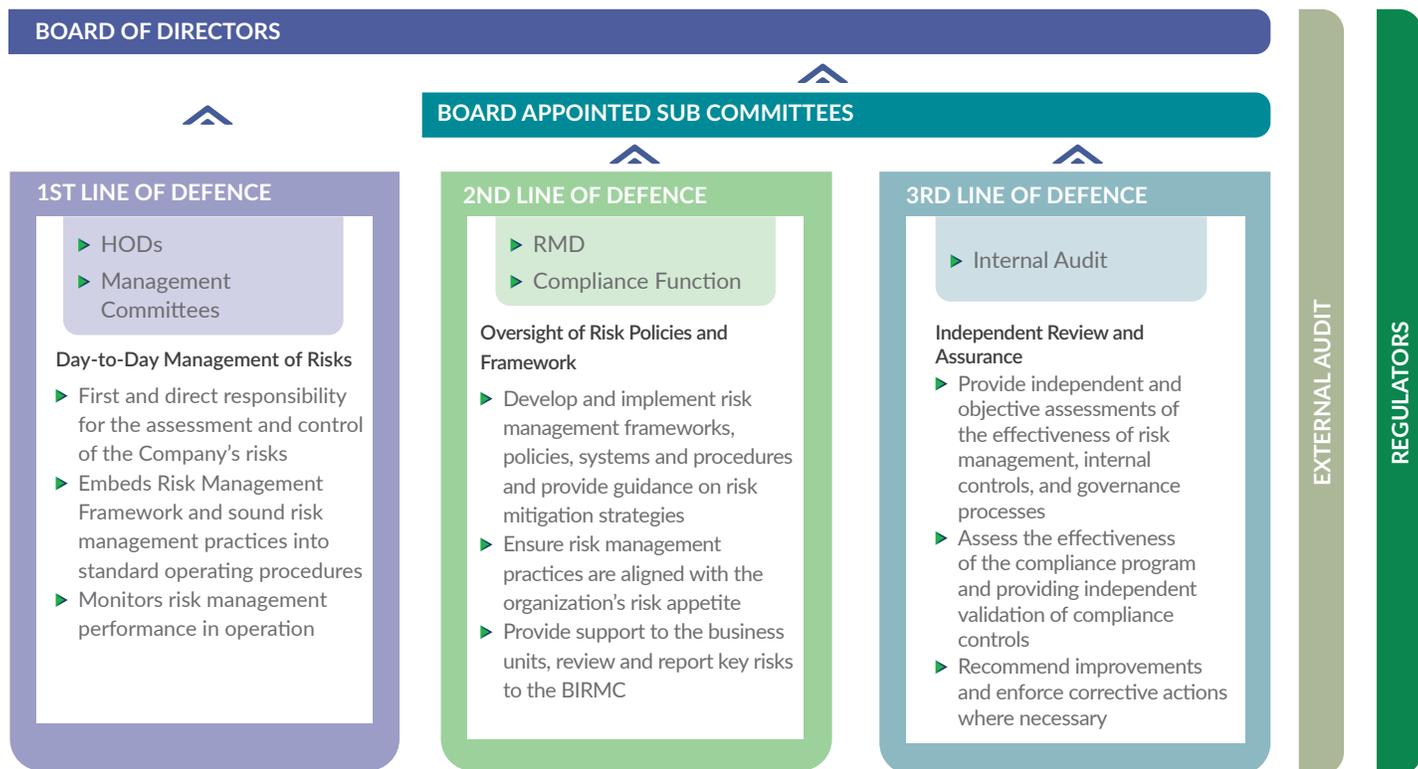
Right Vision

Right Strategy

Introduction

INTEGRATED RISK MANAGEMENT REPORT

RISK GOVERNANCE



1ST LINE OF DEFENCE

The first line of defence comprises of business units, departments and specific Management Committees. The primary responsibility for risk management in the day-to-day operations of the business is borne by the business units. They operate under the supervision of a network of Management Committees appointed for specific purposes.

The Asset and Liability Committee (ALCO) provides oversight for liquidity risk at an operational level. The ALCO's responsibilities include monitoring and managing the assets and liabilities of the Company and also maintaining the Company's overall liquidity position to ensure LBF's liquidity levels are in line with regulatory requirements. Market risk management also comes under the purview of the ALCO. In this regard, the ALCO is responsible for monitoring market risk, reporting and analysing, making proposals, setting limits and guidelines, and formulating and implementing plans relating to market risk management.

The Credit Committee is held accountable for the day-to-day management of credit risk. As part of their duties, the Credit Committee monitors LBF's lending portfolio and oversees the management of asset quality and recovery actions. The Committee also periodically

reviews the credit policy and lending guidelines issued to business segments, vis-a-vis changing market conditions and industry dynamics.

IT Steering Committee (ITSC) is charged with managing operational risk and more specifically IT risk. In doing so, the ITSC provides leadership for the planning and management of IT investment and the execution of LBF's IT strategy to support the achievement of the Company's growth objectives. The ITSC is further responsible for safeguarding the Company's information security infrastructure.

The Sustainability Committee is tasked with safeguarding the Company against reputational risks that could arise as a result of sustainability issues. Accordingly, the Sustainability Committee is responsible for the formulation and the review of LBF's CSR policy and to ensure that CSR and sustainability initiatives undertaken by the Company have the capacity to augment LBF's reputation as a sustainable entity. Stemming from this, the Sustainability Committee is further charged with the responsibility of implementing social and environmental initiatives that demonstrates how sustainability is integrated into our business strategy.

The Business Continuity Management Committee provides guidance, oversight, and strategic direction for the development,

implementation, and maintenance of the organisation's business continuity management (BCM) program. The Committee plays a crucial role in ensuring that the Company is prepared to respond effectively to disruptions, emergencies, and crises. The key responsibilities of the Committee include; the governance and policy development on BCM, strategic direction, risk assessment and impact analysis, BCM plan developments and implementation, testing and exercises, arranging awareness session and monitoring reviewing the current policies.

2ND LINE OF DEFENCE

The second line of defense (L2) comprises of Risk Management and Compliance departments of the Company. This defense of the company refers to the functions, roles, and responsibilities that provide independent oversight, monitoring, and support to ensure effective risk management, compliance, and control within the organization. The second line acts as a check and balance to the activities and operations of the first line of defense, which consists of operational functions directly responsible for managing risks. By operating as the L 2, these functions and roles enhance the overall risk management capabilities of the Company, ensure compliance with laws, regulations and internal policies, and provide independent oversight to

mitigate risks and safeguard the stakeholder's interests.

Risk Management Department of the Company, plays a vital role in the holistic management of risk across the business. It is the responsibility of the Risk Management Department to develop and implement the necessary procedures and instructions for managing risks at all levels of the business operations. In addition, the Risk Management Department is required to monitor on an ongoing basis, all risk metrics to ensure they remain within approved tolerance limits. The Risk Management Department is headed by the Senior Manager – Risk Management who directly reports to the BIRMC and has administrative reporting responsibilities to the MD/CEO.

Compliance Function

The compliance function has been established to assess the LBF's compliance with laws, regulations, regulatory guidelines, and approved policies on all areas of business operations. This function is headed by a dedicated Compliance Officer who directly reports to the BIRMC and has the administrative reporting responsibility to Deputy Managing Director.

3RD LINE OF DEFENCE

The third line of defense which comprises the Internal Audit Department, periodically reviews the adequacy of the Company's governance and risk management infrastructure, the level of compliance with policies, procedure and standards and the completeness and reliability of the risk assessment and reporting process. They are also responsible for providing an independent assurance regarding the efficacy of LBF's overall risk control and management process.

RISK AWARENESS CULTURE

LBF's risk awareness culture reflects the Company's vision, mission and ethics. The

Board sets the tone from the top to promote risk awareness via the risk architecture and control framework. In addition, the RMD conducts regular training and other capacity building initiatives to strengthen the risk awareness culture at all levels of the business.

MANAGING KEY RISKS

CREDIT RISK

Credit Risk remained at elevated levels throughout the current financial year, mainly as a consequence of the severe economic crisis that erupted in April 2022 and continued throughout much of the year. Amidst this backdrop, LBF's credit risk appetite limits were reviewed by the Board and further tightened at the onset of the crisis. These efforts were further supported by stricter tolerance limits on geographical locations, product wise limits and limits for high risk industries such as tourism, transport and construction which were among the worst affected by the economic crisis. Stemming from this, internal LTV's were revisited as part of a focused approach to limit the exposure to these risk elevated industries as well as to curtail large credit facilities. While moving ahead with plans to grow the Gold Loan portfolio, here too LBF adopted a highly selective lending approach based on the customer credit scoring mechanism.

Credit Risk Management framework

The Credit Risk Management Framework is a fully fledged operational mechanism for the management of Credit Risk relating to lending activities in the day-to-day business. LBF's Credit Committee provides oversight for the proper implementation of the Credit Management Framework.

Credit and Operations Manual

The main purpose of the Credit and Operations Manual is to safeguard the quality of the credit granted by LBF. It sets out specific guidelines for Credit Officers outlining

granting criteria under each product category along with the framework of due diligence protocols to be followed at various levels in the loan origination process.

Credit Approval Manual

The purpose of the Credit Approval Manual is to promote greater accountability within the credit decision making hierarchy. It specifies credit thresholds under each product category and details the structural controls including authority limits for credit approvals.

Recovery Manual

The purpose of the Recovery Manual is to ensure post-disbursement credit risk mitigation activities are carried out effectively. The Recovery Manual sets out the procedures to be adopted by Recovery Officers starting from initial follow-up to the repossession of assets. It also contains the responsibilities of Recovery Officers relating to the documentation process to be followed at each stage of the recovery process.

Loan Review Procedure

Loan Review Procedure (LRP) of the Company explains the mechanism the Marketing Officers/ Recovery Officers shall follow after a facility has been disbursed. This contains the procedure that need to be practiced for the loans that are in arrears based on specific cut-off points.

Early Warning Mechanism

The Company's main criteria for early warning mechanism in identifying problem loans shall be based on the aging (arrears position) of the facilities. The LRP includes the process the Recovery Officers shall follow in developing the watch lists and the frequency of meetings that need to be hold in implementing follow-up actions for problem loans.

Default Risk

The potential financial loss to the Company if borrowers do not honour their repayment obligations to the Company as and when they fall due.

How does the risk translate to the business:

Borrowers' failure to meet their debt commitments towards the Company, diminishes LBF's earning capacity in turn causing margin pressure due to increase in loan loss provisioning. It also causes a disruption in the planned cash flow cycle and raises concerns regarding a liquidity mismatch.

Key Risk Indicators:

- ▶ Gross NPL Ratio
- ▶ Provision Coverage Ratio
- ▶ Stage analysis of impairment provisions
- ▶ Gross loans to impairment provision ratio
- ▶ Types of collateral

INTEGRATED RISK MANAGEMENT REPORT

Credit Default Risk Management Approach

LBF's fundamental approach to Credit Risk management is based on secured lending activities along with a selective lending strategy for unsecured loans based on the credit score of the potential customer.

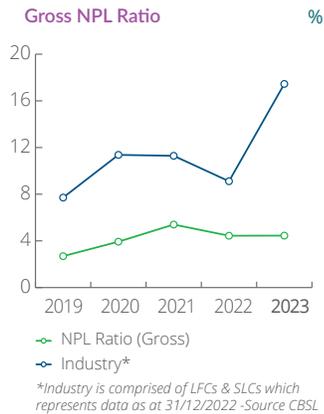
Monitoring and Governance

- » Follow up actions by the Recoveries Department.
- » The Credit Committee periodically reviews and updates the credit policy and lending guidelines issued to business segments, vis-a-vis changing market conditions and industry dynamics.

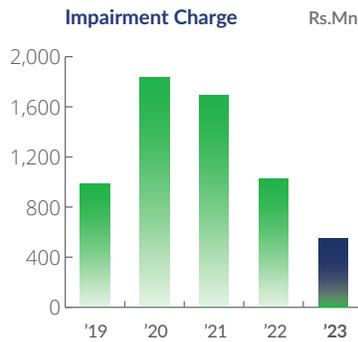
Credit Risk Management update - FY 2022/23

The focus on recoveries was intensified. Branch teams were fully mobilised towards collections. These efforts were supported by more frequent recovery meetings. The LB CIM wallet app was also fully integrated with LBF's core systems to enable real time updates of customer settlements made via the app.

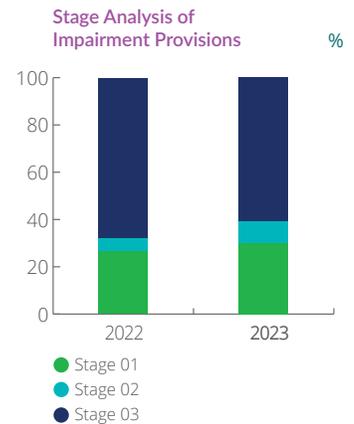
TRENDS



Due to cautious lending approach supported by intensified recoveries, gross NPL ratio stabilised at 4.45%. Company was able to maintain its outperformance against the industry by maintaining a much stronger overall asset quality.



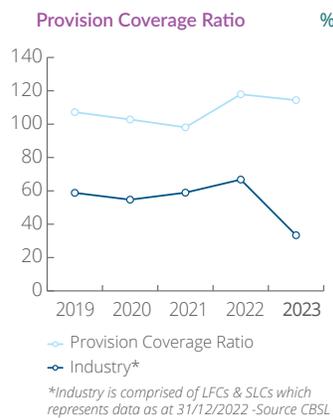
During the year under review the impairment charge dropped mainly due to the improvement of asset quality.



During the current year, stage 3 composition has come down as a result of improved asset quality.

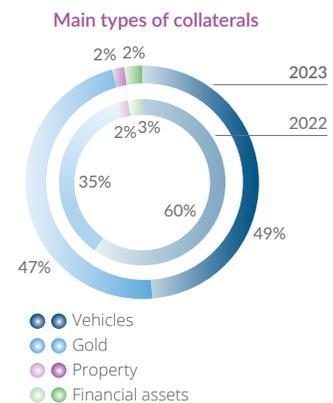


The provision for impairment as a percentage of gross loans and receivables has reduced as a result of decreasing NPL ratio.



As a result of prudent provisioning policy the Company has covered all of its delinquent loans as well as for potential NPLs which may arise from Sri Lankan economic crisis.

Thus, the Company's provision coverage ratio is significantly above the industry.



From total loans and advances 99.4% is secured by either physical or financial collaterals as at 31st March 2023.

Impairment stress test

Stressed scenario- Impairment charge increasing by stressed amounts impacting the Company's capital adequacy ratio.

Total Risk Weighted Capital Ratio 31.13%

Scenario	1	2	3
Magnitude of Shock	10.00%	25.00%	50.00%
Capital Adequacy Ratio	30.67%	29.98%	28.79%

Top 20 customer stress test

Stressed Scenario - Top 20 customers falling into NPL category and if provided fully impacting the capital adequacy ratio

Total Risk Weighted Capital Ratio 31.13%

Scenario	1	2	3
Magnitude of Shock	Top 5	Top 10	Top 20
Capital Adequacy Ratio	30.61%	30.43%	30.15%

Actions Taken by the Company to Manage the Default Risk

LBF's credit risk appetite limits were reviewed and revised by the Board during the year under review.

Automation of loan origination process which allowed greater transparency in credit decision process while reducing the paper consumption significantly.

Additional provisioning was made to capture the NPLs which may result due to the economic crisis in the country.

Focus for the Future

Further strengthening the model validation aspects to enable the improvements of the customer rating scorecard for all core products.

Concentration Risk

The potential financial loss to the Company due to the lack of portfolio diversification.

How does the risk translate to the business:

The overdependence on a specific product may stifle LBF's ability to generate consistent returns in a low credit growth market. Over exposure to a specific customer, sector, geography and etc. will threaten the continuity of the business in the event of unforeseen challenges affecting customer/sector/geography prospects.

Key Risk Indicators:

- ▶ Credit exposure to Top 20 customers
- ▶ Product Concentration
- ▶ Industry Concentration
- ▶ Geographical Concentration

Credit Concentration Risk Management Approach

LBF's approach to minimising Credit Concentration Risk is based on portfolio diversification to prevent accumulation of risky exposures against a specific product/ customers/sector/geographical location. Board approved tolerance limits establish clear threshold limits for each of these key categories.

Monitoring and Governance

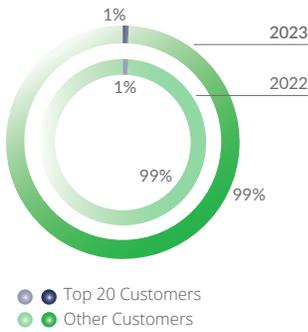
The Risk Management Department closely monitors the lending portfolio to determine movements in the product, industry and geographical concentration.

Credit Concentration Risk Management Update – FY 2022/23

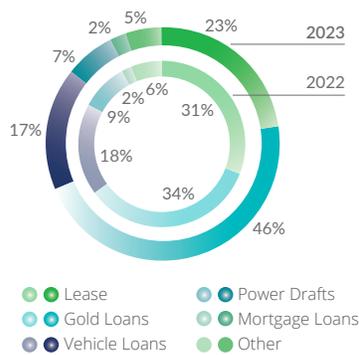
The RMD introduced more frequent portfolio reviews for all portfolios/ sectors / geographies, to detect the likelihood of higher concentration or overexposure. More frequent stress tests were also conducted at the total portfolio and sub-portfolio level to assess the impact of changing economic conditions on LBF's asset quality, earnings performance, capital adequacy and liquidity. All findings were reported to the BIRMC on a weekly basis. As per the recommendations of the BIRMC, additional provisions were made to capture the NPLs which may result due to the economic crisis in the country.

INTEGRATED RISK MANAGEMENT REPORT

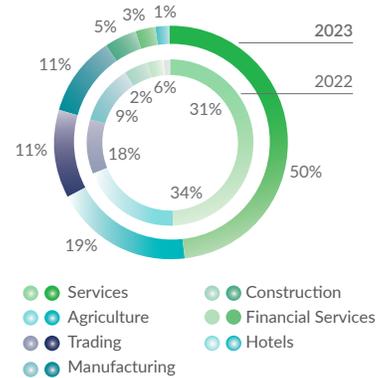
Credit exposure to top 20 customers



Product Concentration



Industry Concentration

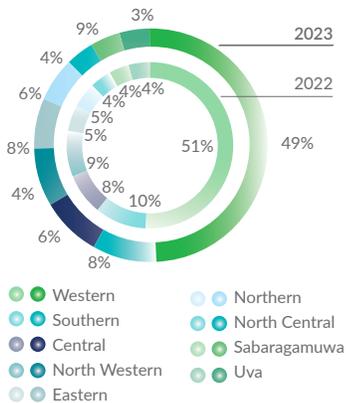


Due to the uncertainty of the country's economy, the Company did not encourage the disbursement of large credit facilities. As a result, the concentration of top 20 customers remained mostly unchanged during the year.

Due to the ban on vehicle imports that prevailed during the year, the concentration on vehicle backed loans (Leasing, Vehicle Loans, power Drafts and HP) further reduced during the year.

Concentration on agriculture sector has declined due to the adverse outcomes of the ban of chemical fertilizer.

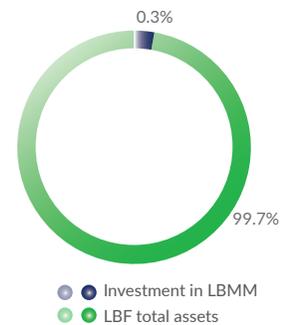
Geographical Concentration



Cross-border risk

The risk that the Company will be unable to obtain payments from its customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, mainly relating to convertibility and transferability of foreign currency is referred to as the cross-border risk. The Company's cross-border assets comprise investment in L B Microfinance Myanmar Company Limited (LBMM).

Exposure to Cross-border Assets



Western province remains to be on the top in terms of geographical concentration.

LBF has only 0.3% from its assets on Myanmar subsidiary.

Actions Taken by the Company to Manage the Concentration Risk

Realigning with the market by promoting leasing and auto finance as a solution for registered vehicles.

Improving portfolio diversity by increasing the skew towards Gold Loans.

Continuous and ongoing monitoring of all portfolios, sectors / geographical

thresholds to detect the likelihood of higher concentration or overexposure.

Stress testing at the total portfolio and sub-portfolio level, to assess the impact of changing economic conditions on LBF's asset quality, earnings performance, capital adequacy and liquidity.

New limits were introduced to the RAS in terms of credit concentration risk.

New stress testing scenarios were introduced under concentration risk, to gauge the impact on capital ratios.

Focus for the future

- » Be vigilant to developments of the economic crisis in order to minimize accumulation of risky exposures.
- » Continuing to follow a cautious approach in lending for large scale facilities.

LIQUIDITY RISK

Liquidity Risk arises when the Group, despite being solvent, is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so at materially disadvantageous to its long term stability. To achieve this objective the Company regularly monitors liquidity position and maintains an adequate buffer of liquid assets. The Company also maintains access to diverse funding sources to meet unforeseen liquidity requirements. All statutory and prudent liquidity ratios are monitored against tolerance limits and stress testing is carried out regularly to assess the effectiveness of liquidity management.

Liquidity risk for a financial institution can take two forms; market liquidity risk and funding liquidity risk.

- ▶ **Market liquidity risk is the inability to exit a position easily or asset ill liquidity.**
- ▶ **Funding liquidity risk means the Company's inability to finance assets continuously at an acceptable borrowing rate.**

How does the risk translate to the business:

Typically, a Company's market liquidity risk is considered to be low if its assets can be liquidated without a significant shift in price.

Funding liquidity risk generally arises when creditors either withdraw credit or change the terms on which funds are granted in such a way they are no longer profitable. Funding liquidity risk would increase if the Company's credit quality is perceived to be deteriorating and also when the financial conditions as a whole are deteriorating.

Liquidity Risk Management Approach

LBF's Liquidity management approach aims to build a solid funding base that will provide a consistent source of funds to ensure that sufficient liquidity is maintained to support the Company's growth strategy, business plans and honour its financial obligations, under normal as well as adverse circumstances. Therefore, the Company aims to maintain an adequate buffer of liquid assets at all times. As part of its overall liquidity management strategy, LBF strives to maintain access to diverse funding sources both locally and internationally. All statutory and prudent liquidity ratios are also monitored against tolerance limits while stress testing is carried out regularly to assess the effectiveness of the Company's liquidity management strategy.

Managed by LBF's Treasury, the Group liquidity management strategy aims to ensure adequate capital and liquidity buffers are in place to comply with the regulatory minimum requirements under normal and stressed conditions.

In this regard, LBF's main source of funding comes from deposit mobilisation activities. To supplement the funds mobilised through savings and deposits, the Group Treasury also pursues diverse funding sources both locally and internationally.

LBF's Asset and Liability Committee (ALCO) provides oversight for the proper implementation of the Liquidity Strategy

Liquidity Risk Management update - FY 2022/23

Tight market liquidity conditions in the April - June 2022 quarter saw the Country's financial sector as whole coming under pressure during this period. With LBF too affected by these challenges, the Treasury undertook more frequent cash flow projections to safeguard the Company's liquidity position during these stress periods, while continuing to work with Banks to secure contingency funding facilities. Also with rising interest rates causing LBF's funding base to skew towards term deposits, the Treasury took steps to minimise the asset and liability mismatch in order to avoid undue stress on the Company's balance sheet. Meanwhile, the RMD under the guidance of the ALCO expanded the scope of the stress testing framework to ensure liquidity buffers remained within Board approved limits throughout the year.

LBF's liquidity ratios remained well above all statutory liquidity ratios.

Key Risk Indicators:

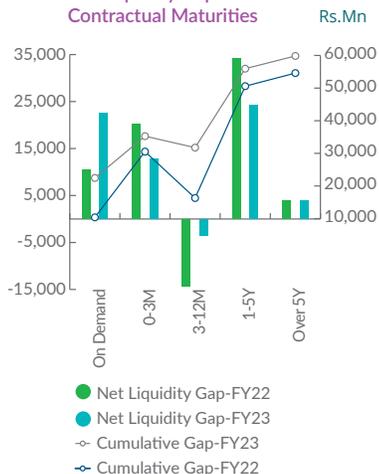
- ▶ Net Liquidity Gap Based on Contractual Maturities
- ▶ Net Loans to Total Assets ratio
- ▶ Loans to Deposit Ratio
- ▶ Deposit Renewal Ratio
- ▶ Statutory Liquid Asset Ratio
- ▶ Funding Mix
- ▶ Interest Bearing Liabilities Mix

Monitoring and Governance

- ▶ The ALCO is responsible for monitoring liquidity risk, reporting and analysing, making proposals, setting limits and guidelines, and formulating and implementing plans relating to liquidity risk management. The Treasury Department prepares forecasted cash flow statement and presents at the ALCO to evaluate the future funding requirements of the Company.
- ▶ The Risk Management Department uses stressed behaviour modelling techniques to determine the Company's cash flow requirements, if any signs of stress are seen.
- ▶ Daily funding requirements are closely monitored by the Treasury Department taking into consideration routine cash flows as well as one-off outflows that relate to large single obligations.

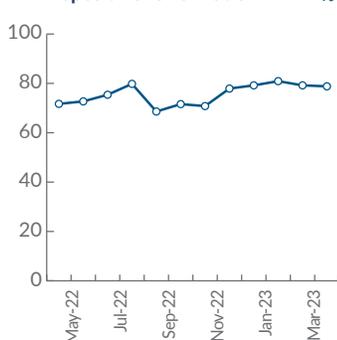
TRENDS

Net Liquidity Gap based on Contractual Maturities



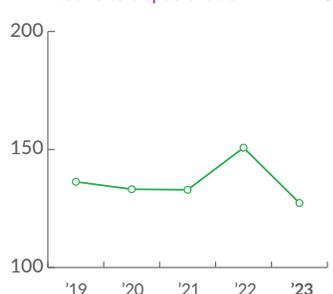
Even though the 3-12 age bracket shows a negative liquidity gap, the fixed deposit renewal ratio above 75% and renewals of gold loans makes the gap positive in the actual position.

Deposit Renewal Ratio



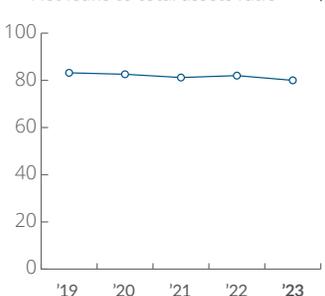
The renewal ratio was maintained above the threshold limit of 75% through out the year despite the economic shocks.

Loans to deposit ratio



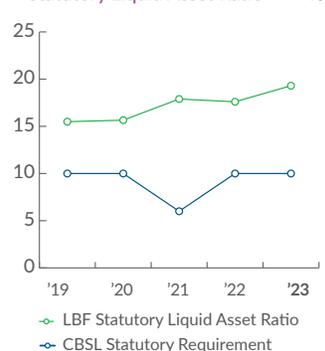
The Company's loan book is predominantly financed by deposits from customers. Loans to deposit ratio over 100% indicates that the Company is making the optimum use of deposit financing by transforming them into interest earning assets.

Net loans to total assets ratio



The consistency in the net loans to total assets ratio of the Company reflects that the Company has maintained the share of loans and advances in total asset base reflecting its focus on growing core business, i.e. loans and advances.

Statutory Liquid Asset Ratio



The Company's statutory liquid asset ratio remained well above the statutory minimum at all times.

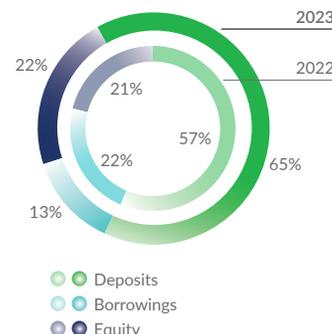
Stress Test on Liquid Asset Ratio

Stressed Scenario - Sudden fall in deposit base impacting liquid asset ratio.

Statutory Liquid assets ratio as a 31st March 2022 - 19.3%

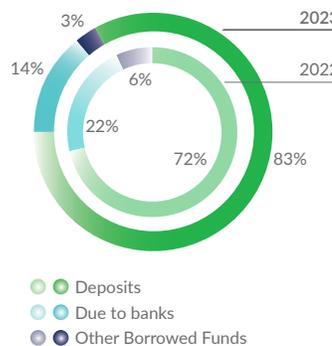
Scenario	1	2	3
Magnitude of Shock	2.50%	5.00%	10.00%
Stressed Statutory Liquid Asset Ratio	17.51%	15.60%	11.48%

Total Funding Mix



As at 31st March 2023, 78% of Company's total assets are funded by either borrowings or public deposits as opposed to 79% as at 31st March 2022.

Interest bearing liabilities mix



Deposits is the main contributor with a contribution of 83% in FY22/23 against 72% in last financial year.

Actions Taken by the Company to Manage the Liquidity Risk

Treasury undertook more frequent cash flow projections to safeguard the Company's liquidity position.

With rising interest rates causing LBF's funding base to skew towards term deposits mainly targeting short tenure products.

The RMD under the guidance of the ALCO expanded the scope of the stress testing framework to ensure liquidity buffers remained within Board approved limits throughout the year.

Focus for the Future

Given the volatility of market interest rates and economic conditions prevailing in the country, the Company is focusing on maintaining adequate liquidity buffers to withstand possible shocks.

CAPITAL MANAGEMENT

Taking into consideration LBF's position as a systemically important NBF, the Company in 2021 took steps to strengthen its Capital Management approach through the voluntary adoption of the ICAAP process specifically recommended under Pillar 2 of the BASEL III framework. A formal Board approved ICAAP policy was established to serve as the basis for the application of the ICAAP process. The Policy mandates that the ICAAP process be integrated into LBF's enterprise-wide risk management programme to consider the impact on the Company's capital adequacy ratios due to changes in risk profiles of all major risk categories - Credit Risk, Operational Risk, Credit Concentration Risk, Interest Rate Risk, Reputation Risk, Strategic Risk, Liquidity Risk, IT Risk, Information Security Risk, and Compliance Risk. Stress testing and scenario-based analysis under the ICAAP process takes into account potential risk of capital being inadequate under stressed conditions, thereby ensuring the Company's strategic plan and risk management plans can be aligned with the capital plan in a meaningful manner with inputs from Senior Management, Management Committees, Board Committees and the Board. In the current financial year, a new ICAAP working Group was appointed to carry out a quarterly ICAAP assessment and report findings to the BIRMC and the Board for appropriate remedial action such as raising additional capital and/ or reduction in exposures etc.

Components of Capital	01/07/2018	01/07/2019	01/07/2020	01/07/2021	01/07/2022
Tier I Capital (%)	6.00	7.00	7.00	8.00	10.00
Total Capital (%)	10.00	11.00	11.00	12.00	14.00
Capital Surcharge on D-SILFC *(%)	-	0.50	1.00	1.00	1.50

*D-SILFC - LFCs with total assets equal or more than Rs. 100bn.

Computation of Capital Adequacy Ratios

Item	FY 2022/23	FY 2021/22
Tier 1 Capital	36,514,610	32,560,423
Total Capital	37,261,024	33,753,675
Total Risk Weighted Amount	119,700,901	125,471,745
Risk Weighted Amount for Credit Risk	97,344,063	101,203,543
Risk Weighted Amount for Operational Risk	22,356,838	24,268,202
Regulatory Minimum Tier I Ratio %	10.00%	8.00%
Company's Tier 1 Capital Ratio %	30.50%	25.95%
Regulatory Minimum Total Capital Ratio %	14.00%	12.00%
Company's Total Capital Ratio %	31.13%	26.90%

INTEGRATED RISK MANAGEMENT REPORT

Computation of Total Capital

Item	FY 2022/23	FY 2021/22
Tier I capital	37,054,375	33,125,218
Stated capital	838,282	838,282
Non-cumulative, Non-redeemable Preference Shares		
Reserve fund	8,539,798	8,116,782
Audited retained earnings/(losses)	27,676,295	24,170,154
(Less) Revaluation gains/surplus of investment property		
General and other disclosed reserves		
Current year's profit/(losses)		
Adjustments to Tier I capital	539,766	564,794
Goodwill (net)		
Other intangible assets (net)	22,629	14,876
Other Comprehensive Income losses	46,750	78,126
Deferred tax assets (net)		
Shortfall of the cumulative impairment to total provisions and interest in suspense		
50% of investment in banking and financial subsidiary companies	460,999	460,581
50% of investment in other banking and financial institutions	9,388	11,212
Shortfall of capital in financial subsidiaries		
SLFRS 9 day one Impact Adjustment		
Tier I Capital (after adjustments)	36,514,610	32,560,423
Tier 2 Capital	1,216,801	1,665,044
Instruments qualified as Tier 2 capital		400,000
Revaluation gains		
General provisions /collective impairment allowances	1,216,801	1,265,044
Eligible Tier 2 Capital	1,216,801	1,665,044
Total Adjustments to eligible Tier 2 Capital	470,387	471,793
50% of investment in banking and financial subsidiary companies	460,999	460,581
50% of investment in other banking and financial institutions	9,388	11,212
Eligible Tier 2 Capital after adjustments	746,414	1,193,252
Total Capital	37,261,024	33,753,675

MARKET RISK

Market risk refers to the possible loss to LBF owing to changes in market interest rates, exchange rate fluctuations, and the movement in commodity prices such as gold. Given the nature of its operations, LBF remains most sensitive to interest rate risk and commodity price risk, in particular gold prices which stems from the exposure to Gold Loans.

Interest Rate Risk

The potential loss LBF would have to bear owing to unexpected movements in interest rates. The Company's exposure to interest rate risk is primarily associated with factors such as;

- ▶ **Re-pricing risk** arising from a fixed rate borrowing portfolio where re-pricing frequency is different to that of the lending portfolio.
- ▶ **Yield curve risk** arising from unanticipated shifts of the market yield curve.

How does the risk translate to the business:

Interest rate volatility has a direct impact on LBF's Net Interest Income (NII) and ultimately Net Interest Margins (NIMs). The fluctuations in market interest rates will result in either weakening or strengthening of NIMs depending on the rate structure (fixed/variable) of rate sensitive assets and rate sensitive liabilities.

Key Risk Indicators:

- ▶ Rate structure of interest bearing borrowings
- ▶ Stress tests on NII

Interest Rate Risk Management Approach

LBF's approach to Interest Rate Risk Management seeks to improve the alignment between interest rate sensitive assets and liabilities and in doing so ensure that the margin spreads are not unduly affected by adverse movements in interest rates. As part of its overall approach, LBF also seeks to;

- ▶ Promote lending products with shorter re-pricing cycle to reduce interest rate sensitive gaps
- ▶ Explore hedging options such as interest swaps.
- ▶ Negotiate interest rate caps on new borrowings

Monitoring and Governance

- ▶ LBF's ALCO provides oversight for the management of Interest Rate Risk. The ALCO closely monitors the interest rate movements and issues directions to lending and borrowing units on interest rate strategies.
- ▶ The Risk Management Department conducts regular stress testing to assess interest rate sensitivity on LBF's asset and liability portfolios and gauge the likely financial impact under adverse scenarios.

Interest rate risk management update - FY 2022/23

Prompted by the upward trend in interest rates in FY 2022/23, LBF moved swiftly to safeguard NII. Accordingly, both lending and borrowing were driven by a short term focus. As per the recommendations of the ALCO, steps were taken to realign interest rate sensitive assets and liabilities. Consequently, the Gold Loan portfolio was strategically re-priced in tandem with interest rate movements in order to minimise the adverse impact on margin spreads. As part of the broader approach to reduce rate sensitivity gaps, it was decided to shed large high cost deposits and instead mobilise more smaller ticket deposits. The RMD continued with regular stress testing of LBF's asset and liability portfolios to assess the impact of interest shocks under both normal and stress conditions

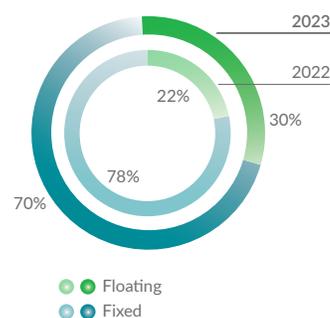
TRENDS

Impact on the Company's Net Interest Income due to fluctuations in market interest rates is closely monitored on an on-going basis. The Company uses the interest rate sensitivity of its assets and liabilities for modelling the financial impact. The table below illustrates the impact on Net Interest Income from different interest rate scenarios.

Stress Test on NII from Parallel Interest Rate Shocks

Impact on NII (Rs. '000)	2023		2022	
	Parallel Increase 100 bps	Parallel Decrease 100 bps	Parallel Increase 100 bps	Parallel Decrease 100 bps
Annual Impact	(+) 297,074	(-) 297,074	(+) 244,991	(-) 244,991

Borrowings-Fixed to Floating Mix



The majority of the borrowings (bank borrowings) are fixed rated which is favourable in an interest rate increasing environment.

Actions Taken by the Company to Manage the Interest Rate Risk

- Strategic repricing of assets to reflect the current market interest rates environment.
- Promote lending products with shorter re-pricing cycle to reduce interest rate sensitive gaps.

Focus for the Future

The Company will further explore the innovative options to minimize the gap between rate sensitive assets and rate sensitive liabilities.

Commodity Price Risk

The potential loss to LBF owing to the volatility in world gold prices.

How does the risk translate to the business:

Movements in world gold prices have a direct bearing on the prospects of the LBF's Gold Loans business. Frequent fluctuations in gold prices will be reflected in earnings volatility in the Gold Loan operation.

Key Risk Indicators:

- ▶ Gold Market Price Vs. Maximum Advances Value
- ▶ Loan-to-value (LTV) ratio of new Gold Loans disbursements

Commodity Risk Management Approach

Commodity risk arising from movements in the world gold prices remained largely hedged owing to the fact that Gold Loans are a secured lending product. However, given that world gold prices are fluid and subject to frequent change, LBF's Gold Loan offering is designed as a short term lending proposition (typically 1 or 3 months), which provides the flexibility to make necessary adjustments in line with world/local market prices. Moreover strict control is exercised to ensure the Board approved safety margin limit is adhered to at all times.

Monitoring and Governance

- ▶ The Risk Management Department uses the Value-at-Risk (VaR) method to compute (on a monthly basis) the potential losses the Company may have to incur in the event of a shift in world gold prices. The VaR calculation is based on the Exponential Weighted Moving Average (EWMA) where a greater weightage is assigned to recent price changes while a progressively lower weightage is allocated to price movements over the preceding 12 month period.

Commodity Risk Management update for FY 2022/23

Despite the growth in the Gold Loan portfolio, LBF's commodity price risk was well managed in FY 2022/23. The fact that LBF's Gold Loan offering is designed as a short term lending proposition (typically 1 or 3 months), in itself provided some indemnity as it allowed LBF to dynamically re-price the portfolio in line with the movement in world/ local market prices. The RMD continued its monitoring efforts using the Value-at-Risk (VaR) method to compute (on a monthly basis) the potential losses the Company may have to incur in the event of a shift in world gold prices. The VaR calculation is based on the Exponential Weighted Moving Average (EWMA) where a greater weightage is assigned to recent price changes while a progressively lower weightage is allocated to price movements over the preceding 12 month period.

TRENDS



The Company has adopted a dynamic lending strategy to determine the Loan to Value ratio based on the global/local gold prices. Advance offered per gold sovereign is constantly adjusted in line with the gold market prices.

During the year under review, the Company managed to maintain a prudent Loan to Value ratio on new disbursements by dynamically adjusting the advanced value.

Actions Taken by the Company to Manage the Commodity Price Risk

In light of LKR depreciation and global price reduction an impact analysis was conducted on gold price.

Continued to adopt VaR calculation methodology which was further strengthened based on new assumptions. with the intention of introducing a dynamic provisioning based on more accurate predictive analysis

Focus for the Future

Continuing to be watchful on the factors affecting the global gold prices and related developments in the local market.

Assessing the adequacy of safety margin time to time in light of gold price fluctuations.

Exchange Rate Risk

The potential loss to LBF owing to the sharp shifts in the local currency (LKR) movement.

The Company is exposed to two types of risks caused by currency volatility.

- ▶ **Transaction risk** arises whenever the Company has contractual cash flows (receivables and payables) whose values are subject to unanticipated changes in exchange rates due to contract being denominated in a foreign currency. This type of exposure is short-term to medium-term in nature.
- ▶ **Translation risk** arises from the effect of currency fluctuations on the Company's consolidated financial statements, particularly when it has foreign subsidiaries. This type of exposure is medium-term to long-term.

How does the risk translate to the business:

Unexpected currency volatility affects the following aspects of the business:

- ▶ Foreign currency received and paid for money exchanging
- ▶ Indirect impact on the local gold prices
- ▶ Consolidation of financial results of the Myanmar operation as part of the LBF Group results
- ▶ Foreign currency denominated loans
- ▶ Foreign currency received through Western Union

Key Risk Indicators:

- ▶ System embedded alerting mechanism when the exchange rate fluctuations surpasses threshold limits.

Management Approach

The total LKR denominated portfolio of Foreign Currency Operations is controlled through the system which act as a cap on the maximum loss the Company can suffer in the event of LKR appreciation.

LBF's total LKR denominated portfolio of Foreign Currency Operations is fully hedged to prevent any impact from currency volatility

Monitoring and Governance

- ▶ The ALCO monitors forex loss/gain position of Foreign Currency Operations regularly.
- ▶ The changes to the total investment limit of the Foreign Currency Operations need to be approved at both the ALCO and Board levels.

Exchange Rate Risk Management update for FY 2022/23

LBF's foreign currency denominated contractual obligations are fully hedged, thus ensuring the Company was fully protected against the unprecedented LKR devaluation in the early part of the financial year. The ALCO continued to monitor forex loss/gain positions attributed to LBF's Myanmar operations with appropriate control measures implemented to safeguard the balance sheet. The Board approved safety margins for the Gold Loan advances were also strictly enforced in order to manage the indirect impact arising from the USD/ LKR rate volatility.

Actions Taken by the Company to Manage the Exchange Rate Risk

- Hedging the foreign currency denominated loans for currency fluctuations.
- Implementation of strategies to mitigate the FX risk from becoming a principal agent of Western Union and inclusion of such strategies in relevant policies.
- System embedded controls to limit the exposure to soft currencies.
- Managing the risk arising from the USD/LKR exchange rate volatility through maintaining an adequate safety margin on gold advances.

Focus for the Future

The Company will strictly adhere to its policy of hedging all the open positions of forex exposures given the extreme volatility of LKR.

Equity Price Risk

The risk of loss based on market changes in the value of equity investments.

Although the Company's exposure to equity price risk is negligible, mark-to-market calculations are conducted monthly on HFT and AFS portfolios. Company's exposure to equity price risk is very insignificant.

INTEGRATED RISK MANAGEMENT REPORT

OPERATIONAL RISK

Operational risk is the potential loss LBF would have bear owing to inadequate human capital resources or breakdown in internal systems and processes, or external event. It encompasses the risk of disruption, financial loss, reputational damage, or legal consequences arising from deficiencies in operational procedures, controls, or management.

The Operational Risk Management Policy and Framework was further reviewed and strengthened to ensure that all major operational risks are addressed systematically and managed proactively.

Considering the nature, scope, and scale of LBF's operations, the updated Operational Risk Management Policy and Framework encompass the following risks;

▶ **Internal fraud** - The risk of misappropriation by employees .

▶ **External fraud** - The risk of misappropriation by third parties.

▶ **Employment practices and workplace safety** - The risk arising due to unsustainable human capital practices and poor working conditions.

▶ **Clients, products and business practices** - The risk associated with the launch of non-viable products or products that fail to comply with regulatory frameworks applicable to the NBF sector.

▶ **Damage to physical assets** - The risk of damage to the Company's

physical assets due to accidents, such as fire, natural disasters, destruction of property, riots, political uprisings, terrorism, etc.

▶ **Business disruption and system failures** - The risk of system failure or a breakdown in processes that could potentially lead to a business disruption.

▶ **Execution, delivery and process management** - The risk of being unable to meet stakeholder deliverables due to inadequate systems, processes and operational controls.

How we assess our Operational Risks

- ▶ The business processes, systems, controls, and external factors are regularly reviewed to identify and document specific risks that could impact the operations.
- ▶ A process has been established to utilize self-assessment mechanisms to assess fraud risks at various levels within respective operational processes of the Company.
- ▶ Collating internal and external fraud event report
- ▶ Independent assurance provided by IAD on operational processes and IT systems covering all core applications and security aspects.
- ▶ Analysing the number of system breakdowns, telecommunication failures, malfunctions and hacking events.

Key Risk Indicators

Customer complaints and satisfaction levels
 Quarterly loss report
 System downtimes / disruptions report
 Cybersecurity incidents and breaches

Operational Risk Management Approach

LBF's employs customised approaches to manage operational risks arising in the course of the day to day operations. These are discussed at length in the Capital Management Reports from page 119 to 201.

Operational Risk Management update for FY 2022/23

Operational Risk remained low during the year.

In light of the challenging external environment and the increase in digital adoption in recent years, fraud risk has become a serious concern for many organisations. Taking proactive steps to mitigate fraud risk, LBF introduced a formal exception reporting Policy in the current financial year. The main objective of the Policy is to identify possible exceptions from the normal business operations that could imply negative / suspicious behaviour in the regular business activities. These may include frauds and fraudulent activities made outside the normal business operations, any suspicious behaviour from both staff and customers, possible money laundering or terrorist financing attempts and inefficiencies and disruptions made to the normal business process. The policy stipulates that exception reporting parameters be evaluated quarterly by the respective process owners (level 01 monitoring) and further tested by Compliance and the RMD (level 02 monitoring), followed by comprehensive investigation by the Internal Audit (level 03 monitoring) with findings and recommendations submitted to the BAC and the BIRMC for their consideration and necessary action.

Hand in hand with the Exception Reporting Policy, the scope of the Fraud Risk Assessment (FRA) Form was further expanded to imbue a bottom-up approach to identifying fraud pain points. A company-wide initiative covering all departments and branches, the Fraud Risk Assessment Form is driven by department/branch-wise fraud risk teams who are tasked with identifying and documenting potential internal and external fraud risk threats applicable to their respective area of operation. In this way the FRA process is also aimed at strengthening the fraud risk awareness culture from the ground-up. Meanwhile the IAD's audit plan was further strengthened to give more priority to potential high risk areas detected through the FRA process.

As part of this same effort, existing policies were reviewed by the Board with several including the Whistleblower policy being updated. The Anti-Bribery and Corruption protocol was operationalized and conducted trainings and awareness sessions to the Board and Senior Management with the assistance of Transparency International of Sri Lanka.

Actions Taken by the Company to Manage the Operational Risk

- ▶ Established internal controls, policies, and procedures to mitigate operational risks. This includes segregation of duties, delegated authorities, checks and balances, and automated controls.
- ▶ Regular monitoring and reporting mechanisms are put in place to ensure ongoing effectiveness.
- ▶ Internal audits are conducted covering the entire branch network and operational processes. The scope of the audit includes the review of adequacy and application of accounting, financial and operational controls
- ▶ Robust business continuity and disaster recovery plans to ensure resilience and continuity of critical operations during disruptive events. This involves establishing backup systems, alternate processing sites, and comprehensive recovery strategies
- ▶ Transferring insurable risk by obtaining insurance policies. Assessing the adequacy and effectiveness of the insurance coverage periodically.
- ▶ Regularly engaged with regulators and participate in industry forums to stay informed about emerging risks and best practices.
- ▶ Regular staff training on technical aspects to comply with security regulations
- ▶ Conducting post completion audits after a successful implementation of system change/modification
- ▶ Use of exception reports and data analytics for detecting trends and unusual transactions

Focus for the future

Artificial Intelligence (AI) powered systems can analyse vast amounts of data, identify patterns, and detect anomalies in real-time, enabling early risk identification and mitigation. The Company is taking efforts to automate and streamline risk assessment processes, enhance control monitoring, and improve incident response process.

Business Continuity Management

LB Finance Business Continuity Management System (BCMS) is established to achieve operational resiliency for the Company. BCMS framework of the Company encompasses business continuity, disaster recovery, crisis management, incident management, emergency management and contingency planning activities. This will ensure the Company's ability to serve its stakeholders with minimum disruptions in the occurrence of an unforeseen event to the business activities arising through manmade, natural or technical disasters.

The BCM Steering Committee which is comprised of key staff members, plays an integral part of the BCM program. BCM Steering committee enables the companywide roll out of the BCM and ensure the alignment of business goals with the BCM goals.

The scope of the BCM includes programme initiation and management, risk evaluation and business impact analysis, developing business continuity strategies, emergency preparedness and response, developing and implementing business continuity plans, awareness building and training, business continuity plan exercise, audit and maintenance, crisis communications and coordination with external agencies.

During the year under review, the Company was able to get a practical experience of

BCM exercises carried out throughout the years, by actually rolling it out during fuel crisis period. Hence the success of BCM exercises was proven to be much effective under real conditions. It also reiterates the importance of carrying out such BCM programs regularly, in order to gain experience on how to roll it out in real world scenarios. Apart from that, the core and other critical systems were operated from the Disaster Recovery (DR) systems during 2022/23.

INFORMATION TECHNOLOGY AND INFORMATION SECURITY RISK

In FY2022/23, LB Finance embraced rapid digitalization to enhance operational efficiency, customer experience, and competitive advantage. However, this digital transformation introduces new Information Technology (IT) risks that require proactive mitigation. LB Finance diligently addresses these risks through the implementation of robust security control measures to mitigate cybersecurity threats.

Further company has identified information as a vital business resource and a key asset to the organization. Hence, any threat exploiting the vulnerabilities of this valuable and important asset can cause adverse impact to the business operation ranging from simple inconvenience to catastrophic in scale. Since every aspect of business relies heavily on Information Technology, it has

emerged as the backbone of and the live wire of the organisations operations and innovations. As a result, Information Security risk is recognised as a significant portion of the potential operational risk.

Information Technology and Information Security Risk Management Approach

LB Finance PLC recognises the criticality of effectively managing IT risks to safeguard its digital operations. The company has implemented a robust and proactive IT risk management approach considering the factors such as cybersecurity, data privacy, and operational resilience.

Cybersecurity measures has been achieved through multi-layered security controls, such as firewalls, intrusion detection systems, and encryption mechanisms, to protect sensitive customer data and prevent unauthorized access. Regular security assessments, vulnerability scanning are conducted to identify and mitigate potential vulnerabilities. LBF places great emphasis on data privacy to ensure compliance with applicable regulations and safeguard customer information. The company has implemented comprehensive data protection measures, including encryption, access controls, and robust data storage practices. LBF began working on adapting mandates set out under the Personal Data Protection Act. Further operational resilience is a key aspect of LBF's IT risk

INTEGRATED RISK MANAGEMENT REPORT

management approach. Company has implemented robust business continuity and disaster recovery plans to mitigate the impact of potential system failures, natural disasters, or other disruptions.

Risk mitigation methodology involves prioritising, evaluating and implementing the appropriate risk treatment techniques such

as technical, operational and management controls to prevent identified risks exploiting the vulnerabilities.

This process is strengthened by the implementation of the Company's Information Security Management System (ISMS), which was established according to the ISO/IEC 27001:2013 standard.

A comprehensive Information Technology (IT) Audit framework further augments these efforts.

The Company's overall approach in this regard is discussed at length in the Intellectual Capital Report on pages 160 to 169.

Information Technology and Information Security Risk Management update for FY 2022/23

During the reviewed year, LB Finance PLC implemented several key initiatives to enhance technology and information security risk management practices within the company.

- ▶ Establishment of a robust IT and cybersecurity strategy, aligning with the organisation's investments in timely, relevant, and effective IT infrastructure to meet the evolving business requirements. Today, a significant portion of the Company's operations rely on information technology based systems, which prompted LBF to focus on improving the resilience of its information security architecture.
- ▶ A formal Technology Risk Management framework was formulated and implemented encapsulating the requirements set out under the Finance Business Act Direction no. 1 of 2022 on Technology Risk Management and Resilience. This framework requires necessary activities to be conducted to ensure that the technology risks are identified and suitable risk management strategies are adopted for their mitigation.
- ▶ Based on the guidelines of the new Finance Business Act Direction no. 1 of 2022, the scope of thematic audits conducted by the IS Audit team were enhanced to focus on cyber security controls, along with special audits to assess the efficacy of web based and digital application security systems in preventing external threats. Further Implemented a structured and systematic approach to address system audit findings, ensuring timely resolution and effective mitigation of identified risks.
- ▶ Actions have been taken to implement a privilege activity monitoring system (PAM). Additionally, a continuous monitoring process for technology privilege access has been established.
- ▶ As a proactive measure to drive the IS risk awareness culture more frequent interaction was encouraged between Company-wide IT stakeholders.
- ▶ Reinforcement of Information Security and Governance team to further enhance the organization's existing technology defense layer. Further Initiation of technology vendor due diligence assessment process for managing risks associated with outsourcing IT services
- ▶ Company first obtained the ISO/IEC 27001 Information Security Standard in 2014 and received recertification in 2021. Company has continued to demonstrate its commitment towards information security by maintaining certification throughout the years.

Refer Intellectual Capital Report on pages 160 to 169 for more detailed information

How we assess our IT and Information Security Risk

- ▶ Conducting technical vulnerability assessment of network, web applications, databases, servers, firewall, wireless networks and web/mobile applications.
- ▶ Conduct third party due diligence assessments
- ▶ Monitoring of system audit trails to identify patterns and anomalies.
- ▶ Conducting comprehensive information system audits to encompass LBF's critical infrastructure and applications.
- ▶ Performing risk assessment exercises on critical technology functions, technology transformation projects, and system implementations.
- ▶ Analysis of information security-related incidents to identify vulnerabilities and weaknesses in the information systems and infrastructure, thereby uncovering gaps and potential loopholes.
- ▶ Inputs taken from other periodic statutory/regulatory audits and ISO 27001 surveillance audits.

Actions Taken by the Company to Manage the IT and Information Security Risk

- ▶ Conduct technical vulnerability assessments on IT infrastructure and timely resolution of findings
- ▶ Promoted strict adherence to established IT and information security (IS) policies and procedures
- ▶ Establishment of System Access and User Management controls
- ▶ Vendor risk assessments
- ▶ Regular companywide awareness of Information Security risk management measures
- ▶ Conduct stringent system/ infrastructure pre and post implementation testing
- ▶ Regular system patching and updates
- ▶ Enhance backup and recovery capabilities
- ▶ Security monitoring and incident detection

Actions Taken by the Company to Manage the Human Resource Risk

- ▶ Training and development to help employees to improve their skills to be better at their current job and prepare for future challenges
- ▶ Strengthen the process for grievance handling and offer work place counselling

LEGAL/REGULATORY RISK

LBF remains firmly committed to conducting its business in accordance with the laws and regulations imposed by the regulatory authorities. Due diligence activities carried out by LBF's internal audit and compliance teams reinforce the Company's zero tolerance approach for non-compliance. Apart from this, the Board and Board Committees continue to monitor the latest regulatory developments in order to promote early adoption. In 2022, LBF began working towards early adoption of the mandates set out under the Personal Data Protection Act No. 9 of 2022.

How we assess our Legal/Regulatory Risk

- ▶ Internal audit reviews are carried out to assess the extent of compliance at branch and departmental level.
- ▶ Regular monitoring of compliance with the directions issued by the regulator.

Actions Taken by the Company to Manage the Legal/Regulatory Risk

Compliance function together with Legal Department regularly reviews the Company's compliance with rules, directions and determinations of regulatory bodies

HUMAN RESOURCE RISK

LBF's Human Capital management strategy underpins the Company's efforts to build a talented, reliable and passionate workforce committed to work towards the Company's success. Faced with labour migration

for overseas employment in 2022, we focused on keeping close tabs on employee turnover ratios across different employee job categories in order to identify skill gaps among operational and front office staff. In response employee development activities were further intensified where more emphasis was given to building the middle management talent pipeline. Human resource risks include but are not limited to;

- ▶ High employee turnover
- ▶ Poor employee management practices
- ▶ Unexpected temporary leave
- ▶ Management error/incompetence
- ▶ Disability (temporary or permanent) death of employee/s

Refer Human Capital Report on pages 148 to 159 for more detailed information.

How we assess our Human Resource Risk

- ▶ Conducting employee engagement surveys to assess the level of motivation, engagement and loyalty
- ▶ Analysis of employee turnover ratios across different employee job categories
- ▶ Analysis of skill gaps among operational and front office staff
- ▶ Review of causes for resignations through exit interview data

STRATEGIC RISK

LBF's well planned approach to business ensures strategic risk is minimal. The Board approved a 3-year strategic plan, annual budget and detailed business plans, together creating the ecosystem to support the achievement of the Group's value creation objectives. The most notable strategic undertakings for the current financial year included; the selective lending strategy for auto finance, expansion of the Gold Loan portfolio and the full integration of the LB CIM wallet app into the Company's core systems.

Refer pages 90 to 98 for more detailed information.

How we assess our Strategic Risk

Conducting reviews of pre and post implementation financial performance for every product, project and investment.

Strategic Risk Management update for FY 2022/23

Strategic Risk is low. LBF has a solid Board approved strategy that underpins the Group's progress towards achieving value creation objectives.

REPUTATIONAL RISK

Sound leadership, robust business strategy and strong risk management fundamentals along with ethical conduct and the commitment to corporate stewardship has enabled LBF to earn a solid reputation. Today, LBF is known as a top tier financial institution in Sri Lanka and one of the few finance companies with A-(Ika)/(RWN) national long term rating assigned by Fitch Ratings Lanka Limited. LBF remains vigilant on potential threats to its reputation by closely monitoring media reports, social media content, inputs from frontline staff and market survey results.

Refer Intellectual Capital Report on pages 160 to 169 for more detailed information.

INTEGRATED RISK MANAGEMENT REPORT

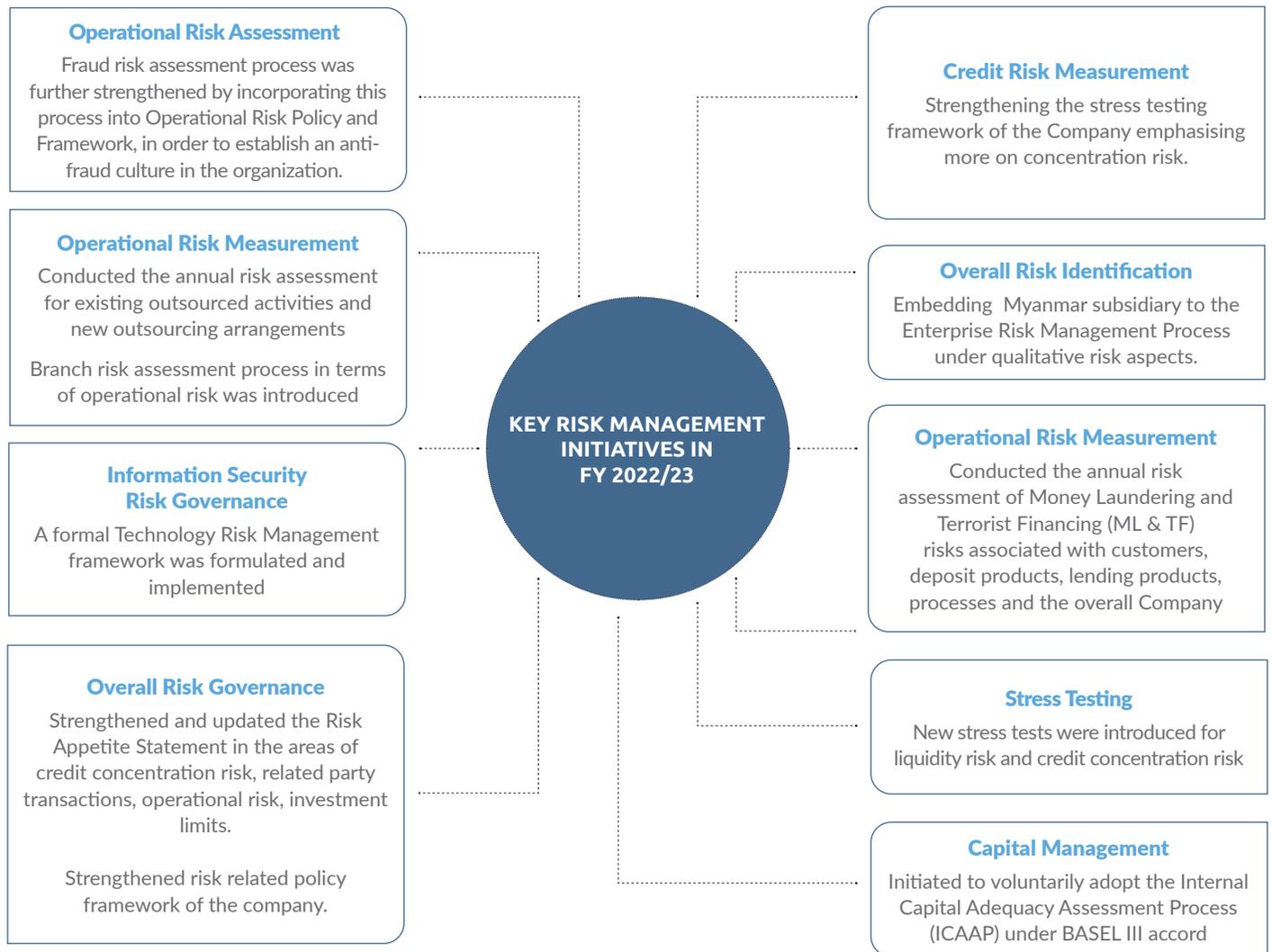
How we assess our Reputational Risk

- ▶ Evaluation of the effectiveness of CSR projects against the stated objectives
- ▶ Evaluation of the number of customer complaints and types of complaints

Actions Taken by the Company to Manage the Reputational Risk

- ▶ Sustainability Committee to play a key role in conceptualising and monitoring CSR initiatives (28 CSR events were carried out during the year incurring a cost of Rs. 24.09 Mn)
- ▶ Close monitoring of any events which could lead to reputational risk by adopting an early warning system including media reports, social media content, inputs from frontline staff and market survey results
- ▶ Training employees on work place professionalism, behaviour and educate them on business ethics
- ▶ Swift and efficient process of resolving customer complaints

Addressing all the risks, key risk management initiatives that the Company had covered during the year under review can be summarised as follows.



CORPORATE GOVERNANCE

COMPLIANCE WITH THE FINANCE BUSINESS ACT DIRECTION

Compliance with the Finance Business Act Direction No. 5 of 2021 Corporate Governance issued by Central Bank of Sri Lanka

Direction Reference	Direction requirement	Remarks
1	BOARD'S OVERALL RESPONSIBILITIES	
1.1	Overall responsibility and accountability	<p>The Board assumed overall responsibility and accountability for the operations of the Company by setting up the strategic direction, Governance Framework, establishing corporate culture and ensuring compliance with all regulatory requirements to drive the organization into a sustainable future.</p> <p>The Board functions are listed in direction 1.2 to 1.7 on pages 391 to 394</p>
1.2	Business Strategy and Governance Framework	
a)	Approving and overseeing the implementation of strategic objectives and overall business strategy	<p>The Board provides leadership, in approving and overseeing the implementation of strategic objectives and overall business strategy of the Company. The Board also ensures that the necessary financial and human resources are in place for the Company to meet its objectives.</p> <p>The Company's Vision and Mission have served as the foundation for developing Board-approved strategic objectives and corporate values, which have been effectively communicated across the organization. The Board is committed to ensuring that the Company fulfills its responsibilities to shareholders and other stakeholders by ensuring their expectations are comprehended and fulfilled.</p> <p>The Company has established strategic plan from 2022/23 to 2024/25 and approved by the Board. Strategic plan has been communicated to all Directors and Senior Management personnel related to different operations of the Company.</p>
b)	Approving and implementing Governance Framework	The Board approved Governance Framework is in place which is in line with the Company's size, complexity, business strategy and regulatory requirements.
c)	Periodic assessment of the effectiveness of Governance Framework	A process is in place to periodically assess the effectiveness of the Governance Framework by the Board.
d)	Appointing the Chairperson and the CEO and define the roles and responsibilities	<p>The Board has appointed the Chairman on 01 December 2021 and MD/CEO on 10 December 2003.</p> <p>Board approved roles and responsibilities are available for Chairman and MD/CEO of the Company.</p> <p>The roles and responsibilities of the Chairman and MD/CEO are given on page 220</p>
1.3	Corporate Culture and Values	
a)	Sound corporate culture	<p>The Company has a sound corporate culture which encourage ethical, prudent and professional behavior of employees of the Company.</p> <p>Various policies, procedures and processes such as HR Policy, Code of Conduct, Anti-Bribery and Anti-Corruption Policy, Whistleblowing Policy, Corporate Communication Policy, Share Trading Policy are in place by the Board to strengthen the corporate culture which encourage ethical, prudent and professional behaviors.</p>
b)	Establishing the corporate culture and values, code of conduct and managing conflicts of interest	<p>A Board approved Code of Conduct and conflict of interest policy is in place.</p> <p>The Board believes that the establishment of a strong corporate culture, built on core values, is facilitated through the implementation of a comprehensive code of conduct. The Board approved Code of Conduct serves as a guiding framework for employees, outlining the expected behaviors and ethical standards that shape the Company's culture. The Company's Code of Conduct was reviewed and approved by the Board.</p> <p>Article 97 of Articles of Association on 'Restrictions on Voting' evidences the procedure for a Director to abstain from voting on any Board resolution when there is conflict of interest and he/ she is not to be counted in the quorum. The Company's Corporate Governance Framework and Policy on conflict of interest also clearly provide guidance on avoiding, managing and disclosing conflicts of interests. The Directors' interests are disclosed to the Board at the start of every meeting. If a Director has an interest in a particular matter, he/ she abstains from voting at such meeting and he/she is not counted in the quorum. Policy on conflict of interest was approved by the Board in November 2022.</p>

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

CORPORATE GOVERNANCE

Direction Reference	Direction requirement	Remarks
c)	Promoting sustainable finance	<p>Environmental, Social and Governance (ESG) factors are integrated into the Company's overall strategy, decision-making processes, and risk management. By considering ESG factors in decision-making processes, the Board ensures that the Company's actions contribute to sustainable growth and long-term value creation.</p> <p>Refer sustainability at LBF on page 204 for ESG initiatives executed by the Company during the period.</p>
d)	Approving the policy of communication	<p>A Board approved Corporate Communication policy with all stakeholder including depositors, shareholders, borrowers and other creditors is in place.</p> <p>A balanced view of Company's performance, position, and prospects is important for transparency, risk management, trust, regulatory compliance, strategic planning, and investor relations. The Board approved Corporate Communication Policy, covering all stakeholder including depositors, shareholders, borrowers and other creditors, has enabled effective communication with the public and regulators, contributing to the stability, growth and success of the Company.</p>
1.4	Risk Appetite, Risk Management and Internal Controls	
a)	Establishing and reviewing the Risk Appetite Statement (RAS)	<p>The Board is responsible for overseeing a strong risk management framework. The Board takes an active role in defining the risk appetite and ensuring its alignment with the Company's business strategy, Governance Framework, capital and financial plans and compensation practices.</p> <p>A Board approved RAS is in place and regularly monitored through the Board Integrated Risk Management Committee (BIRMC).</p>
b)	Implementation of systems and controls to identify, mitigate and manage risks	<p>BIRMC identifies risks related to credit, market, liquidity and operations and ensures that appropriate actions are taken to manage risks. The Committee submits a Risk Assessment Report to the Board within seven days of each meeting. The Integrated Risk Management Report on pages 239 provides further insight in this regard</p>
c)	Effectiveness of the internal control systems and Management Information Systems	<p>The Board ensures that the management maintains a sound system of internal controls to safeguard shareholders' investments and the Company's assets.</p> <p>Internal Controls are designed, among other things to ensure that, each key operations have a policy, process or other measures as well as a control to ensure that such policy, process or other measure is being applied and works as intended. A Board approved information system security policy is in place. The Board Audit Committee (BAC) has been delegated to regularly review the Company's internal control systems and Management Information Systems (MIS). The BAC has put a process in place to periodically ensure the adoption of sound internal control systems and MIS.</p> <p>The Internal Audit team provided independent assurance to the BAC on the integrity of the Internal Control Systems and the MIS through their annual review of Control Assessment Forms and routine internal audit engagement related reports tabled at the monthly BAC meetings.</p> <p>System and observations were monitored by the Board, which confirmed that the internal control system and the Management Information System provide a reasonable assurance over financial reporting.</p>
d)	Approving Business Continuity Plan and Disaster recovery plan	<p>The Board approved Business Continuity management policies are in place for business continuity planning and disaster recovery planning. The Business Continuity Management Committee is appointed to provide strategic direction and support in establishing, implementing, operating, monitoring, reviewing and improving the business continuity management systems of the Company. A frequent BCM drills are conducted covering core business units of the organization to ensure the effectiveness of the Company's business continuity and disaster recovery planning.</p> <p>Board approved business continuity plan and disaster recovery plan is in place and regularly reviewed by the Board.</p>

Direction Reference	Direction requirement	Remarks
1.5	Board Commitment and Competency	
a)	Devoting sufficient time on matters relating to affairs of the Company	The Board of Directors devote sufficient time on dealing with the matters relating to affairs of the Company. The Board meets on monthly intervals and Board Sub Committees meet monthly, bi Monthly or quarterly intervals.
b)	Qualifications, skills, knowledge, and experience of Board of Directors	Appointments to the Board are recommended by the Board Nomination Committee. The Directors including Non-Executive Directors possess necessary qualifications, adequate skills knowledge and experience. Please refer the detail profiles of the Board of Directors on pages 58 to 61.
c)	Training and development needs of the Board of Directors	The Board will review the training and development needs through Board's annual performance evaluation.
d)	Self-assessment of the Directors, Sub Committees and the Board	Annual self-assessments are performed at the end of each financial year which cover individual performance of each Director, performance of Board as a whole and of Board Sub Committees. The Self-evaluation of the Board and Sub-Committees are minuted by respective Secretaries and such records are maintained for effective usage of self-assessment process.
e)	External independent professional advice	A Board approved procedure is in place for this regard. Governance Framework of the Company includes provisions in obtaining independent professional advice to the Board of Directors as and when necessary at Company's expenses to discharge their duties. However, no such instances have occurred during the year when discharging their duties effectively.
1.6	Oversight of Senior Management	
a)	Identifying and designating Senior Management	The positions that can be significantly influenced the Company's policies, direct activities, exercise control over business operations and risk management, have been identified by the Board and designated as Senior Management of the Company.
b)	Areas of authority and key responsibilities for the Senior Management	Accountability and responsibility are delegated to Senior Management officers through the implementation of various policies, procedures, and Job Descriptions (JD). Board approved areas of authority and key responsibilities are available for Senior Management.
c)	Qualifications, skills, experience and knowledge of Senior Management	The Company adopts a stringent procedure in recruiting all Senior Management position as described in the HR Policy. Predefined qualifications, skills, knowledge and experience are stated in the respective JDs. Independent roles related recruitments are referred to the respective Sub-Committee for their inputs. The approval for KRPs are obtained from CBSL. All the Senior Management personnel possess necessary qualifications, skill, experience and knowledge to perform their functions.
d)	Oversight of the affairs of the Company by Senior Management	Oversight of the affairs of the Company by its Senior Management takes place at the regular Board meetings and Sub-Committee meetings. Senior Management personnel make regular presentations to the Board on matters under their purview.
e)	Succession plan for Senior Management	A Board approved one to one succession plan is available for Senior Management personnel including MD and Executive Directors
f)	Regular meetings with Senior Management	The Senior Management are regularly invited to make presentations and participate in discussions on their areas of responsibility at the Board and its Sub Committee meetings and progress towards corporate strategic objectives is a regular agenda item for the Board where Senior Management Personnel are involved regularly.
1.7	Adherence to the Existing Legal Framework	
a)	Ensuring that the Company does not act in a manner that is detrimental or prejudicial to the interests and obligations to stakeholders	Well-established systems and controls are in place for the Board to ensure that Company carries out its activities to the best interest of and obligations to depositors, Shareholders and other stakeholders The Board affirms that the Company has not acted in a manner that is detrimental to the interest of and obligations to any stakeholder.

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

CORPORATE GOVERNANCE

Direction Reference	Direction requirement	Remarks
b)	Compliance with relevant laws, regulations, directions and ethical standards.	Fully fledged Compliance department and Internal Audit department are established to ensure whether company carries out its activities in adherence to the relevant laws, regulations, directions and ethical standards. Procedures in place to obtain periodic assurance by the Board and the Board affirms that the Company adheres to relevant laws, regulations, directions and ethical standards to the best of their knowledge.
c)	Acting with due care and prudence, and with integrity and avoid potential civil and criminal liabilities that may arise from Board's failure to discharge the duties diligently	The Board of Directors act with due care, prudence and with integrity to drive the company for a sustainable growth.
2	GOVERNANCE FRAMEWORK	
2.1	Development of a Governance Framework	<p>The Board has developed and implemented comprehensive Governance Framework including, but not limited, to the following key aspects of good governance.</p> <ul style="list-style-type: none"> a. Roles and responsibilities of the Board – on page 215 b. Matters assigned for the Board – on page 216 c. Delegation of authority – on page 398 d. Board Composition – on page 214 e. Board independence – on page 214 f. Nomination, election, appointment of Directors and Senior Management – on pages 403 and 413 g. Management of conflict of interest – on page 215 h. Access to information and obtaining independent advice – on pages 395 and 410 i. Capacity building of Board members – on page 222 j. Board's performance evaluation – on page 222 k. Role and responsibilities of Chairman and CEO/MD – on page 220 l. Role of Company Secretary – on page 221 m. Board's Sub-Committees, their role and performance evaluation – on page 223 n. Limits on related party transactions – on pages 231, 242 and 405
3	COMPOSITION OF THE BOARD	
3.1	Ensuring the Board composition appropriate for the size, complexity and risk profile of the company	<p>Appointments to the Board are recommended by the BNC. Before recommending to the Board, the nominations to the Board are evaluated by the BNC providing due reference to the size, complexity and current risk profile of the Company.</p> <p>The Directors including Non-Executive Directors are eminent persons with necessary qualifications, adequate skills and knowledge, expertise and experience to bring an independent judgment and their detailed profiles are on pages 58 to 61.</p>
3.2	Number of Directors on the Board	<p>As at 31 March 2023 The Board of Directors Comprise ten (10) members which is within the statutory limit required by the direction.</p> <p>The objective of the Company is to maintain a healthy balance between Executive, Non-Executive and Independent Directors.</p>
3.3	Service Period of Non-Executive Directors	The Service period All the Non-Executive Directors does not exceed 9 years which is within the requirement of this direction.
3.4	Service period of Non-Executive Directors who holds 10% direct or indirect holding of the Company	The service period of all Non-Executive Directors is below the 9 years and hence, no such requirement has arisen during the year.
3.5	Executive Directors	
a)	Criteria for Executive Directors/Senior Management	Four (4) out of the ten (10) Directors are Executive Directors. Transitional provisions are applicable until 1 July 2024.
b)	Shareholding of Executive Directors	Executive Directors or Senior Management does not hold more than 10% of the voting rights of the Company.

Direction Reference	Direction requirement	Remarks
c)	Appointment of an Executive Director as MD/CEO	Mr. Sumith Adhietty is an Executive Director and is designated as MD of the Company.
d)	Availability of Functional reporting lines of Executive Directors	All four (4) Executive Directors are assigned to specific functional areas in the Company where there are clear functional reporting lines. Please refer the organization chart on page 427 for more details.
e)	Reporting lines of Executive Directors to Board of Directors	Three (3) Executive Directors are report to the Board of Directors through Managing Directors of the Company. Please refer the organization chart on page 427 for more details.
f)	Holding Executive Directorships and Senior Management positions by Executive Directors.	All the Executive Directors including MD has declared that they do not hold any Executive Directorships or Senior Management positions in any other entity.
3.6	Non-Executive Directors	
a)	Skills, experience and credible track records of Non- Executive Directors	All appointments to the Board are recommended by the BNC. Directors including Non-Executive Directors are eminent persons who possess credible track records and have necessary knowledge, skills expertise and experience to bring an independent judgment on the issues of strategy, performance, resources and standards of business conducts. Please refer detailed profiles of the Board on pages 58 to 61.
b)	Non-Executive Directors functioning in the CEO/ executive director capacity	An Executive Director functions as the MD of the Company. No Non-Executive Director has been appointed or functioned as MD/ CEO or Executive Director of the Company.
3.7	Independent Directors	
a)	Minimum number of Independent Directors	Three (3) out of Ten (10) Directors are Independent Directors which is within the requirement of this direction.
b)	Qualifications and experience of Independent Directors	The Independent Non-Executive Directors of the Company bring a diverse range of skills and experience to the Board, contributing to effective governance and decision-making. Their collective expertise encompasses various fields, including finance, risk management, legal, regulatory compliance, technology, strategy, and industry knowledge. This diverse skill set enables them to provide valuable insights, independent judgment, and constructive challenge to executive management. The Non-Executive Directors' extensive professional backgrounds and experience in different sectors strengthen the Board's ability to navigate complex challenges, anticipate emerging trends, and drive the Company's long-term success while upholding the highest standards of Corporate Governance. The Board's detailed profiles are on pages 58 to 61.
c)	Independent criteria of Independent Directors	Three (3) out of six (6) Non-Executive Directors are independent The Board evaluates independence of the Directors annually based on the Directors' self-declarations. The criteria defined in this direction are taken into consideration when evaluating the independence each Non-Executive Director. There is a strong and independent element on the Board, with three (3) Independent Non-Executive Directors making up more than one fourth of the Board
d)	Determining any other factors affecting to the independence of the Directors	The Nomination Committee and the Board assess whether there are any circumstances or relationships, beyond those specified in the direction, that could potentially influence the independence of a director or create a perception that their independence may be compromised at the annual evaluation process. However, no such incidents were determined during the year
e)	Immediate disclosure of circumstances that affect the independence of the Directors	A process is in place to disclose immediately to the Board on any change in circumstance that may affect the independence of an Independent Non-Executive Director. No such changes in the status of the independence were reported to the Board during the year
3.8	Alternate Directors	
a)	Appointment of Alternate Directors	No Director on the Board was unable to perform their duties as a result of illness, nor did any Director miss three consecutive Board meetings due to being overseas.
b)	Appointing existing Director as an alternate Director to another existing Director	No Director on the Board was unable to perform their duties as a result of illness, nor did any Director miss three consecutive Board meetings due to being overseas.

CORPORATE GOVERNANCE

Direction Reference	Direction requirement	Remarks
c)	Appointing same person as an alternate Director for two Directors in the same Board	No Director on the Board was unable to perform their duties as a result of illness, nor did any Director miss three consecutive Board meetings due to being overseas.
d)	Appointment of an Alternate Director for an Executive Director	No Director on the Board was unable to perform their duties as a result of illness, nor did any Director miss three consecutive Board meetings due to being overseas.
e)	Independent requirement for Alternate Director appointed for an Independent Director	When Alternate Director is appointed for Independent Non-Executive Director, the Board ensures that the person so appointed shall meet the criteria that apply to an Independent Director. However, there were no Alternate Directors appointed during the year 2022/23.
3.9	Cooling off Periods	
a)	Cooling off period for Directors	BNC monitors the requirement of cooling off period as per this direction. However, no such appointments were made during the year 2022/23.
b)	Cooling off period for Independent Directors	BNC and the Board monitor the requirement of cooling off period as per this direction. However, no such appointments were made during the year 2022/23.
3.10	Appointment of a Director or a KRP of the Company as a Director of another LFC	All the Directors of the Board except Independent Directors are appointed as the Directors of Multi Finance PLC which is a Subsidiary of the Company.
3.11	Limit on holding Directorships by a Director of the Company	No Director hold Directorships or any equivalent positions in more than 20 companies/ societies, bodies including Subsidiaries of the Company.
4	Assessment of Fit and Proper Criteria	
4.1	Fitness and Propriety of Directors	Fitness and Propriety of Directors are assessed annually in terms of the requirements of the Finance Business Act Direction no. 6 of 2021 Assessment of Fitness and Propriety of Key Responsible Persons.
4.2	Maximum age of new Directors	The Age of the MD/CEO has exceeded 70 years and necessary approvals are in place for such appointment.
4.3	Maximum age of existing Directors	The Age of the MD/CEO has exceeded 70 years and necessary approvals are in place for such appointment.
5	Appointment and resignation of Directors and Senior Management	
5.1	The appointments, resignations or removals of Directors and Senior Management	All the appointments and resignations to the Board and Senior Management were made in accordance with the Finance Business Act direction no. 6 of 2021 Assessment of Fitness and Propriety of Key Responsible Persons
6	The Chairperson and the Chief Executive Officer	
6.1	Clear division of responsibilities between the Chairperson and CEO	Board approved Governance Framework provide clear division of responsibilities between the Chairperson and the MD/CEO.
6.2	Independence of Chairperson	The Chairman is a Non-Independent Director. The Board has appointed Independent Non-Executive Director, Mr. Ashane Jayasekara as Senior Director.
6.3	Appointment of a Senior Director when the chairperson is not independent	The Chairman is a Non-Independent Director. Independent Non-Executive Director, Mr. Ashane Jayasekara was appointed as Senior Director with the Board approved TOR to ensure a greater independent element in the Board. The Board as a whole assess the Chairman's performance annually and Senior Director and Non-Executive Directors provide valuable contribution in this evaluation process
6.4	Responsibilities of the Chairperson	
a)	Responsibilities of Chairperson	The Chairman is responsible to provide leadership, guidance, and oversight to the Board, ensuring that it operates effectively, fulfills its responsibilities, and acts in the best interests of the organization and its stakeholders. Board approved Governance Framework includes the Responsibilities of the Chairman For more details on the Chairman's responsibilities please refer page 220.

Direction Reference	Direction requirement	Remarks
6.5	Responsibilities of the CEO	
a)	Responsibilities of the CEO	<p>In terms of duties and responsibilities of the MD/CEO, he is the apex executive who is responsible for day-to-day operations of the Company with the assistance of Executive Directors and members of the Senior Management and is accountable to the Board to recommend the Company's strategy implementation and ensure appropriate internal controls are in place to assess and manage risks</p> <p>Board approved Governance framework includes the Responsibilities of the MD.</p> <p>For more details on the MD's responsibilities please refer page 220.</p>
7	Meetings of the Board	
7.1	Regular Board meetings	<p>The Board meets regularly approximately at monthly intervals and special Board meetings are convened whenever necessary.</p> <p>The Board met on thirteen (13) occasions during the year 2022/23. The consent of the Board is usually obtained at meetings with due notice given with Board papers.</p> <p>Consent obtained by circulation has been kept at minimal and it was only in twelve (12) instances.</p>
7.2	Directors to include matters and proposals in the agenda	The Board approved process is in place which enable equal opportunities for all the Directors to include matters and proposals in the agenda for regular Board meetings. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals to the agenda.
7.3	A notice of Board Meetings	Board meeting dates were agreed by the Board members in advance for the calendar year. Agenda and all Board papers are uploaded through a secured link to iPad for Directors to access seven (7) days prior to the Board meetings.
7.4	Directors to devote sufficient time to prepare and attend to Board meetings	All the Directors actively contribute at the Board meetings by providing views and suggestions to the best interest of the Company.
7.5	Quorum of the Board meetings	All Board meetings held during the financial year were duly constituted with one half (1/2) of the number of Directors present and one fourth (1/4) of the number of Directors constituting the quorum being Independent Directors.
7.6	Board meetings without the presence of Executive Directors	One (1) meeting was held by the Chairperson without the presence of the Executive Directors. to facilitate effective communication, engagement, and collaboration within the Board. This process supports the smooth functioning of the Board and enhance the overall Governance and decision-making processes.
7.7	Director abstain from voting relating to matters of relating to him	Board approved conflict of interest Policy is in place where a Director is required to abstain from voting in relation to a matter in which such Director or his/her relatives or a concern in which he has substantial interest.
7.8	Attendance of Directors at Board meetings	<p>All Directors have attended at least two-third of the meetings held during the year and no Director has been absent from three consecutive regular Board meetings during the year financial year 2022/23.</p> <p>Please refer page 220 for details of individual Directors' attendance at Board meetings.</p>
7.9	Scheduled Board Meetings and Ad Hoc Board Meetings	<p>Participation in person is encouraged for all scheduled Board Meetings</p> <p>Twelve (12) Board meetings were held physically while One (1) meeting was held through electronic means.</p>

CORPORATE GOVERNANCE

Direction Reference	Direction requirement	Remarks
8	COMPANY SECRETARY	
8.1	a) appointment of a Company Secretary	Ms. PW Corporates (Pvt) Ltd functions as the Company Secretary of the Company. In house Company Secretary to be appointed subject to transitional provisions.
	b) Qualifications of Company Secretary	Ms. PW Corporates (Pvt) Ltd functions as the Company Secretary of the Company. In house Company Secretary with required qualifications to be appointed subject to transitional provisions.
8.2	Access to advice and services of the Company Secretary	A Board-approved Governance Framework is in place to enable all Directors to access the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed. Directors have separate and independent access to the Company Secretary.
8.3	Delegating responsibilities to the Company Secretary	Preparation of the agenda is delegated to the Company Secretary and is approved by the Chairman.
8.4	Maintenance minutes of the Board	The Company Secretary maintains meeting minutes and circulates them to all Board members which shall be open for inspection at any reasonable time to any Director. Additionally, the Directors have access to past Board papers and minutes through a secure electronic link. The Company Secretary maintains minutes with all submissions for a minimum period of six (6) years.
8.5	Maintenance of Board minutes in an orderly manner	The Company maintains meeting minutes in an orderly manner and follows the proper procedures laid down in the Articles of Association of the Company.
8.6	Recording minutes of Board meetings with sufficient details	Company Secretary maintain Board minutes with sufficient details. The Board meeting minutes included the minimum of; a) Data and information used by the Board in its deliberations b) Matters considered by the Board c) Fact-finding discussions d) Explanations and confirmations from relevant parties on compliance of strategies, policies, laws, regulations and directions e) Company related risk concerns f) Decisions and resolutions
8.7	Inspection of minutes	Board approved Governance Framework includes provisions to inspect Board minutes by Directors.
9	DELEGATION OF FUNCTIONS BY THE BOARD	
9.1	Delegation of authority	Board approved Delegation of Authority is in place to give clear directions to the Senior Management, as to the matters that can be approved by the Board before decisions are made by the Senior Management, on behalf of the Company.
9.2	Absence of Board Sub Committees	All the required Sub Committees are in place with Board approved TOR as required by the direction.
9.3	Senior Management Committees	The Board has established management level committees such as ALCO, Credit Committee, ITSC, Sustainability Committee, Business Continuity Management Steering Committee to assist Board in effective decision making. Please refer Management Committees, related tasks and composition on pages 223 to 224.

Direction Reference	Direction requirement	Remarks
9.4	Delegation of matters to Sub Committees, Executive Directors or Senior Management	Board approved Governance Framework includes key areas assigned for the Board which cannot be delegated to Board Sub Committees, Executive Directors or Senior Management.
9.5	Review of delegation process	Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.
10	BOARD SUB-COMMITTEES	
10.1	Board Sub-Committees on asset base	
	FCs with asset base of more than Rs. 20 bn	
a)	Establishment of Board Sub Committees	<p>The Following Committees have been appointed by the Board and each such committee is required to report to the Board</p> <ol style="list-style-type: none"> 1. Board Audit Committee on page 236 2. Board Integrated Risk management committee on page 239 3. Board Nomination committee on page 235 4. Board Human resource and Remuneration committee on page 234 5. Board Related party transactions review committee on page 242 <p>Meetings are held as defined in the direction or more frequently as per the respective TOR of the Sub-Committee.</p> <p>Recommendations of these committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the Board meeting.</p>
	Frequency of Sub Committee meetings	BAC meetings are held on monthly basis and BIRMC meetings are held on every other month.
b)	Terms of reference	Board Approved TOR is available for each Board Sub Committee.
c)	Report on performance of duties and functions of Sub Committees	<p>The Company has presented report on the performance, duties and functions of each Committee in the Annual report for the financial year 2022/23</p> <p>Please refer respective Board Sub-Committee reports for more details on pages 234 to 243</p>
d)	Appointment of a Secretary to Sub Committees	Company Secretary functions as the Secretary for the Board Sub Committees.
e)	Minimum number of Directors of each Sub Committee	Each Committee comprises at least three (3) Board members who possess skills, knowledge and experience relevant to the responsibilities of the Board Sub Committees. Composition of the Board Sub Committees are disclosed in the pages 223 to 224 of the annual report.
f)	Occasional rotation of members	Occasional rotation of members and Chairpersons of the Board Sub Committees are considered as and when required.
10.2	Board Audit Committee	
a)	The Chairperson of the Board Audit Committee	Chairperson of the Committee is a Non-Executive Director. Independent Director will be appointed as the Chairperson subject to transitional provisions.
b)	Composition of the Board Audit Committee	All three (3) members of the Committee are Non-Executive Directors out of which two (2) of them are Independent.
c)	Secretary of the Board Audit Committee	Chief Internal Auditor will be appointed as the Secretary to the Committee subject to transitional provisions
d)	External Audit Function	
I)	Appointment of the External Auditor	The BAC has Recommended the reappointment of M/S Ernst & Young, Chartered Accountants as External Auditor for audit services; the implementation of guidelines issued by Central Bank of Sri Lanka; the application of accounting standards in consultation with the Chief Financial Officer and External Auditors; the service period, audit fees, resignation or dismissal of an auditor, re-engaging the audit partner in line with the regulatory requirements.
II)	Service period of the External Audit firm and audit partner	Engagement period of current audit partner is 1 year. External Audit firm will be rotated subject to the transitional provisions.
III)	The External Audit Partner	Audit Partner is not a Director or employee and does not hold any Senior Management position of the Company. A declaration has been obtained confirming that the audit partner does not hold any shares of the Company.

CORPORATE GOVERNANCE

Direction Reference	Direction requirement	Remarks
IV)	Independence and objectivity of External Auditor and effectiveness of the audit process	The External Auditor has provided an independent confirmation in compliance with the guidelines for appointment of auditors of listed companies. In order to safeguard the objectivity and independence of the External Auditor, the Board Audit Committee reviewed the nature and scope taking in to account of the regulations and guidelines.
V)	Provision of non-audit services by the External Auditor	The BAC with the approval of the Board of Directors developed and implemented a policy for engagement of auditors to provide non-audit services in order to ensure that the non-audit services do not impair the independence and objectivity of the External Auditor. The said policy addresses the skills and experience of the auditor, treatments to independence, objectivity and fee for the non audit services was last reviewed and approved by the Board in June 2022.
VI)	Determine the nature and scope of the audit	The Auditors make a presentation at the BAC meeting with details of the proposed audit plan and the scope including assessment of company's compliance with regulatory requirements and internal controls over financial reporting, preparation of financial statements in conformity with relevant accounting principles and reporting obligations, and co-ordination between the other Auditor of the group. Members of the BAC obtain clarifications in respect of the contents of the presentation, if deemed necessary.
VII)	Review of financial information of the company by the Board Audit committee	Annual and quarterly financial statements are circulated well in advance to the BAC. A detailed discussion focused on major judgement areas, changes in accounting policies, significant audit judgements in the financial statements, going concern assumptions and compliance with accounting standards and other legal requirements takes place and required clarifications are obtained in respect of all areas before being recommended for Board approval.
VIII)	Discussion of issues, problems and reservations arising from the interim and final audits	The BAC met the External Auditors without the presence of the Executive Directors and Senior Management two (2) time during the financial year 2022/23
IX)	Review of external Auditor's management letter and management response	The BAC has reviewed the management letter for year 2021/22 and Senior management responses there to at very next BAC monthly meeting, but not later than three months of its submission, and reported to the Board.
e)	Review of effectiveness of the system of internal controls	A process is in place to obtain self-declaration from the respective process owners on the internal controls put in place to mitigate the potential risks. The BAC through Internal Audit Department review the compliance and effectiveness of the Internal control system of the Company. A report of such review is included in the pages 249 to 250 in the annual report of the Company.
f)	KMPs taking necessary corrective actions on findings made by auditors and supervisory bodies	Internal control weaknesses, non-compliance with policies, laws and regulations, and other discrepancies identified by the External Auditor, supervisory bodies and the Internal Audit function The Committee continuously follow up the Management letter and other reports issued by the regulatory bodies to ensure that necessary corrective actions are taken to address any internal control weaknesses, non-compliance with policies, laws and regulations
g)	Internal Audit function:	
I)	Establishment of an independent Internal Audit function	A fully-fledged Internal Audit Department (IAD) is in place to provide independent assurance to the committee on the quality and effectiveness of the existing internal control systems of the Company, risk management, governance practices and processes.
II)	Mandate, independence and reporting line of Internal Audit Function	The Chief Internal Auditor directly reports to the BAC. Internal Audit function have a clear mandate to carry out its functions within the Company. The BAC reviews and ensures that Internal Audit function has sufficient expertise and authority to carry out its work independently, effectively and objectively. The Board approved Internal Audit Procedure manual is in place for effective discharging of its duties. The Internal Audit Procedure manual was last reviewed and approved by the Board in June 2022.

Direction Reference	Direction requirement	Remarks
III)	Review of internal audit function	<p>The BAC has reviewed the information provided in the risk- based audit plan and concluded that scope, functions, skills and resources of the Internal Audit Department (IAD) are sufficient to carry out its functions. The Committee ensured that the internal audit function is independent of the activities it audits and provided necessary authority to perform its duties effectively and objectively. The BAC has reviewed and approved the Internal Audit Plan for the Financial Year.</p> <p>The Committee meets at monthly intervals to effectively discharge its duties. The Committee reviewed and discussed the Internal Audit programs and reports tabled by the Chief Internal Auditor and ensured that appropriate action is taken by the management on the Internal Audit recommendations. Relevant Senior Management personnel are invited for such discussions. The Committee follows up through the IAD until the matters are being remediated as per the action plan.</p> <p>BAC has evaluated the performance of Chief Internal Auditor and senior staff members who are one level below Chief Internal Auditor.</p> <p>The BAC ensures the independence of the Internal Audit function from the activities it audits and ensures that audits are conducted with impartiality, proficiency, and due professional care and confidentiality was maintained throughout the audit process. The Internal Audit Department staff reports directly to the Chief Internal Auditor, who in turn reports directly to the BAC. All these aspects are clearly covered in the Internal Audit Procedure manual to established uniformity in all engagements.</p> <p>Periodic reviews are conducted by the IAD on regulatory reporting to regulatory bodies such as CBSL, FIU, IRD. Annual Audit plan included the reviewing of Compliance function during the year.</p> <p>Whenever a need arises, The BAC and Senior Management assigns special internal investigations on certain matters to the Internal Audit Department and reviews major findings with the management responses thereto and ensures that the recommendations are implemented.</p>
h)	Review of statutory examination reports of CBSL	The progress of implementing the time-bound action plan on statutory investigation report issued by CBSL (on-site investigation report) has been reviewed at its monthly meetings by BAC and ensured whether corrective actions are taken in a timely and effective manner
i)	Meetings of the Committee	
l)	Meetings of the Board Audit Committee	<p>The BAC meeting dates were agreed to by Committee members in advance for the calendar year. The Committee meets regularly, at least monthly, and the agenda, minutes and all other Committee papers are uploaded through a secure link to iPad for Committee members to access seven days prior to the BAC meetings</p> <p>The minutes of the meetings are recorded and maintained by the Company Secretary. All matters discussed are duly recorded in detail including the conclusions made in discharging Committees duties and responsibilities</p> <p>The Committee has met thirteen (13) times during the year and the attendance at those meetings is set out on page 236 in the Board Audit Committee report.</p>
II)	Participants of the Board Audit Committee meetings	Members of the BAC, Chief Internal Auditor attend to the meeting. Executive Directors and other Senior Management personnel are attended to the meeting by invitation.
III)	Private Meetings with the External auditor	Two (2) meetings were held with the External Auditors during the year without the presence of any other Directors, Senior Management or employees.
10.3	Board Integrated Risk Management Committee (BIRMC)	
a)	Composition of Board Integrated Risk Management committee	<p>The Chairman of the Committee is an Independent Non-Executive director.</p> <p>The Committee consists of three (3) Non-Executive Directors with sufficient knowledge and experience in banking, finance, risk management issue and practices. Majority of the Committee members including the Chairman are Independent Non-Executive Directors.</p> <p>The CEO/MD, the Chief Risk Officer (CRO) Executive Directors and relevant Senior Management personnel are attended by invitation.</p> <p>The Committee closely work with Senior Management personnel and makes decisions on behalf of the Board within the Board approved Terms of Reference of the Committee.</p>

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

CORPORATE GOVERNANCE

Direction Reference	Direction requirement	Remarks
b)	Secretary of the Board Integrated Risk Management Committee	Company Secretary functions as the Secretary to the Committee. Chief Risk Officer will be appointed as the Secretary to the Committee subject to transitional provisions.
c)	Risk Assessment	<p>The Committee has Board approved policies on credit risk management, operational risk management and overall enterprise risk management which provide a framework for management and assessment of risk.</p> <p>Accordingly, bi-monthly reports on quantitative as well as qualitative risks are presented to the Board through BIRMC incorporating appropriate risk indicators, management information and make recommendations on risk strategies and risk appetites.</p> <p>Please refer the BIRMC report on pages 239 for more details.</p>
d)	Development of a Risk Appetite Statement	<p>Board approved RAS is in place which identifies the risk tolerance limits of the Company. RAS includes quantitative measures in relation to earnings, capital, liquidity etc. The RAS defined the boundaries and business considerations which the Company expected operate</p> <p>Risk appetite is monitored by the Chief Risk officer regularly and reports to the BIRMC any identified risks.</p> <p>A dedicated Compliance Officer is in place at Senior Management level to provide assurance to the Board through BIRMC on statutory, regulatory and other compliance related matters. The risks relating to compliance, money laundering and unethical practices are also considered and discussed at the meetings.</p>
e)	Review of Risk policies and Risk Appetite statement	Risk policies and RAS are reviewed by the BIRMC on an annual basis.
f)	Review the adequacy and effectiveness of Senior Management level Committees	<p>The Committee reviews the adequacy and effectiveness of Senior Management level Committees to address specific risks and manage those risks within quantitative and qualitative risk limits as specified by the Committee</p> <p>Please refer Senior Management level Committees and its' scope and composition on pages 224 to 226.</p>
g)	Assessing of all aspects of risk management including business continuity and disaster recovery plans	<p>The Committee has reviewed the Business Continuity Plan and Disaster Recovery Plan.</p> <p>Please refer BIRMC Report on pages 239 for more details.</p>
h)	Assessment of performance of Compliance Officer and Chief Risk Officer	The Committee will assess the performance of the Compliance Officer and Chief Risk Officer subject to the transitional provisions.
i)	Compliance function	
l)	Independent Compliance function	Independent Compliance function is in place to assess the Compliance with laws, regulations, rules, directions, regulatory guidelines and Board approved policies on the Business operations.
II)	Appointment of a dedicated Compliance Officer (LFCs with assets base more than Rs. 20 Bn)	<p>A Senior Management Officer with appropriate seniority has been designated as the Company's Compliance Officer. This Compliance Officer reports directly to the BIRMC and does not engage in any management, operational activities, or income-generating functions while fulfilling his role as the Compliance Officer.</p> <p>The Board approved Compliance Policy is in place to govern the Compliance function of the Company.</p>
III)	Appointment of a dedicated Compliance Officer (LFCs with assets base less than Rs. 20 Bn)	Not applicable

Direction Reference	Direction requirement	Remarks
IV)	Responsibilities of the Compliance Officer	<p>The Job Description (JD) of the Compliance Officer has been reviewed by the BIRMC in Compliance with in this direction and best practices. The Compliance Officer's JD and Compliance Policy cover mainly the following;</p> <ul style="list-style-type: none"> » Minimizing the regulatory risk by developing and implementing policies and procedures. » Establishing Compliance culture through proper communication » Regular reviews on regulatory rules and internal Compliance standards » Applying new legal and regulatory developments applicable to the Company » Early involvement in ensuring conformity with regulatory, internal Compliance and ethical standard requirements when designing new products or systems. » Addressing serious or persistent compliance issues within acceptable timeline, in concurrence with the management » Maintaining good working relationship with the regulators.
j)	Risk management function	
I)	Establishment of an independent risk management function	The BIRMC has established an independent risk management function for managing risk-taking activities across the Company.
II)	Risk Management department and dedicated Chief Risk Officer	Separate risk management department is established with a dedicated CRO
III)	Implementing the risk management policies and processes including RAS	<p>The CRO of the Company has taken measures to implement the Risk management policies and monitor the Risk Appetite based on the Board approved RAS.</p> <p>The CRO ensures that Company's risk management function is robust and effective to support the strategic objectives to fulfill stakeholder objectives.</p>
IV)	Developing and implementing a Board approved integrated risk management framework	<p>The Committee has Board approved policies on credit risk management, operational risk management and overall enterprise risk management which provide a framework for management and assessment of risks. Accordingly, regular reports on quantitative as well as qualitative risks are being reviewed by the Committee in discharging its responsibilities as per the terms of reference.</p> <p>The risk management framework covers: potential risks and frauds, possible sources of such risks and frauds, process of identifying, assessing, monitoring and reporting risks, controls and mitigating factors and accountabilities.</p> <p>The BIRMC reviews and updates the framework at least on annual basis.</p>
V)	CRO participating in decision making related to capital and liquidity planning and new product/ service development	CRO participates for ALCO meetings where capital and liquidity is planned. Further, new products and services are reviewed by CRO in order to identify and mitigate the risks.
VI)	Maintaining a risk register	The updated risk register is submitted to the BIRMC on quarterly basis.
VII)	Submission or risk assessment report by BIRMC to the Board meeting.	The Committee had kept the Board informed of their risk assessment of the Company by forwarding a risk report for upcoming Board meeting seeking Board's views and directions.
10.4	Board Nomination Committee	
a)	Composition of the Board Nomination Committee (BNC)	The Committee comprised three (3) Non-Executive Directors out of whom majority are independent. Independent Non-Executive Director was appointed as the Chairman of the Committee. The CEO/MD attended the meeting by invitation.
b)	Secretary of the BNC	Company Secretary functions as the Secretary to the BNC
c)	Formal and transparent procedure to select/ appoint new Directors and Senior Management.	<p>A formal and transparent procedure to select/appoint new Directors and Senior Management to be developed subject to transitional provisions.</p> <p>The Senior Management are appointed with the recommendation of relevant Executive Directors and the CEO/MD, except CIA, CRO and Compliance Officer.</p>
d)	Fitness and propriety of Directors and Senior Management	<p>Fitness and propriety for Board of Directors are evaluated on an annual basis and for Senior Management fitness and propriety is evaluated at the time of appointment, promotion, renewal of contracts or on lateral moves.</p> <p>Process of reviewing fit and propriety of Directors and Senior Management are closely monitored by the BNC.</p>

CORPORATE GOVERNANCE

Direction Reference	Direction requirement	Remarks
e)	The selection process of Directors	The criteria set out in this direction are considered at the selection and recommendation process of Directors by the BNC and the Board.
f)	Board composition is not dominated by any individual or a small group of individuals	The Committee ensured that the composition of the Board does not dominate by any individual or a group of individuals in a manner that is detrimental to the interest of the stakeholders of the Company.
g)	Setting off of criteria on qualification, experience and key attributes required to be appointed to the post of CEO and Senior Management	Qualifications, experience and key attributes required for eligibility for the appointment to the post of MD/CEO and Senior Management positions to be developed subject to transitional provisions. However, when recommending to the Board, the Committee ensured the availability of adequate qualifications, experience, skills and key attributes required for eligibility to discharge duties as CEO, Directors and Senior Management personnel.
h)	Disclosures to shareholder upon the appointment of a new Director	Details of new Directors are disclosed to the shareholders at the time of their appointment by way of announcements made to the Colombo Stock Exchange (CSE) as well as in the Annual Report. Prior approval for appointment of new Directors is obtained from the Director of Department of Supervision of Non-Bank Financial Institutions of Central Bank of Sri Lanka and notification is sent to CSE. All new appointments are reviewed by the Committee.
i)	Re-election of current Directors	The Committee makes recommendations to the Board considering that the combined knowledge of the Board existed, performance towards strategic demand faced by the Company and contribution made by each Director towards discharge of Board's overall responsibilities.
j)	Additional/new expertise and the succession arrangements for retiring Directors and Senior Management	Board approved succession plan for MD/CEO, Executive Directors and Senior Management is in place.
k)	Participating in decision making relating to own appointment/reappointment	The members of the BNC does not participate in decision making relating to own appointments or reappointments. Further, Chairman of the Board abstains from the meeting when matters related to his successor is discussed.
10.5	Board Human Resources and Remuneration Committee:	
a)	Composition of the Board Human Resources and Remuneration Committee (BHRRRC)	All the three (3) members of the Committee are Non-Executive Directors of which two (2) of them are Independent Directors. The Committee is chaired by Independent Non-Executive Director.
b)	Secretary of the BHRRRC	The Company Secretary functions as the Secretary to the Committee.
c)	Remuneration policy for Directors and Senior Management	The Committee determines the remuneration policy relating to Executive Directors and Senior Management. Fees and allowances of Non-Executive Directors are decided by the Board of Directors as a whole. Please refer BHRRRC Report on page 234 for more details on the remuneration policy of the Company.
d)	Formal and transparent procedure in developing the remuneration policy.	The remuneration policy has been developed to achieve fair and equitable benefits with transparent guidelines. The policy was recommended by the Human resource and remuneration committee and approved by the Board of Directors. Please refer Board Human Resources and Remuneration Committee Report on page 234 for more details.
e)	Remuneration policy for employees of the Company	The Remuneration Policy is reviewed periodically and recommended by the Committee for the approval of the Board on paying salaries, allowances and other financial incentives for employees of the Company.
f)	Remuneration structure to be in line with the business strategy, objectives, values, long-term interests and cost structure of the Company	The remuneration structure is in line with the business strategy, objectives, values. Long-term interests and cost structure of the Company and it also incorporated measures to avoid conflict of interest. The Committee is mindful to abstain from incentivizing employees for taking excessive risks or act in self-interests.

Direction Reference	Direction requirement	Remarks
g)	Review of performance of Senior Management	The performance of the Senior Management (excluding CIA, Compliance Officer and Chief Risk Officer) against the set targets and goals will be reviewed by the Senior Management subject to transitional provisions. However, effective annual evaluation process is in place to determine the basis for revising remuneration and other performance-based benefits for the Senior Management.
h)	Senior Management abstain from attending meetings when matters related to them are being discussed	Respective Senior Management Personnel shall abstain from attending meetings, when matters related to them are discussed. The Committee reviewed and ensured the Compliance of such requirement.
11	INTERNAL CONTROLS	
11.1	Adopting a well-established internal control system	Well established internal control system is in place which includes Board approved organization structure and segregation of duties, clear reporting lines for management and operational procedures and policies for all the required areas of the Company in order to mitigate the operational risks. Please refer the organization structure on page 427 for further details.
11.2	Expected outcomes of an internal control system	The Board has established a compressive internal control system which ensured the promoting effective and efficient operation, providing reliable financial information, safeguarding the Company's assets, minimizing the operational risks, ensuring effective risk management system and ensuring compliance with laws, regulations, directions and internal policies and procedures. The Board ensured the effectiveness and compliance of the internal control mechanism through various processes as discussed in Directors' Statement on Internal Control on page 249 and the External Auditor has provided an independent assurance on the Directors' Statement on Internal Control over Financial Reporting on page 251 in the Annual Report.
11.3	Responsibilities of employees on internal control	All employees were made accountable and responsible for internal controls as part of their routine functions through the various policies and procedures of the Company. Adherence to the Board established internal controls are monitored by the Board through IAD.
12	RELATED PARTY TRANSACTIONS	
12.1	Policy and procedures for Related Party Transactions	A Board approved policy for Related Party Transactions is available for govern the related party transactions.
a)	Composition of the Board Related Party transactions review committee (RPTRC)	The Board has appointed a Board Related Party Transactions Review Committee in conformity with the direction. The Committee comprised of three (3) Non-Executive Directors of which majority are Independent. The Committee is also chaired by an Independent Non-Executive Director.
b)	Prior review and approval of related party transactions	The Board approved policy is in place for govern the Related Party Transactions. As defined in the Policy, Related Party Transactions are reviewed and recommended by RPTRC for Board's approval.
c)	Types of related party transactions	Board approved RPT policy outlines the transactions that can be carried out by the company to avoid any non-compliance and conflicts of interest.
12. 2	Avoiding conflicts of interest List of identified related parties	The Board appointed RPTRC ensures that the transactions with Related Parties are in accordance with best practices. The RRPT Review Policy is in place which describes the related parties, types of related party transactions and stipulates that no Director shall participate in any discussion of a proposed related party transaction for which he or she is a related party, provided however he or she may participate in discussion to express, propose and providing information concerning to Related Party Transaction to the committee. A system for monitoring and reporting of data pertaining to such transactions has been established and through that system the Company ensures that no favourable transaction has been entered in to with such parties. Transactions carried out with Related Parties in the ordinary course of business (Recurrent transactions) are disclosed in the Financial Statements on 'Related Party Disclosures' under Note 6.1 on page 359 in Financial Statements The RPTRC has identified a list of related parties in compliance with this direction and periodic reviews are conducted as and when need arises.

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

CORPORATE GOVERNANCE

Direction Reference	Direction requirement	Remarks
12.3	Engage in business transactions with related parties with more favorable treatments	<p>The Board-approved Related Party Transactions Review Policy contains provisions to ensure compliance and the Related Party Transactions Review Committee ensures that all the transactions with Related Parties are on arm's length basis.</p> <p>The Company has developed a separate system to monitor Related Party Transactions to ensure that related party transactions are not entered into on more favorable terms than those offered to others, and where applicable relevant approvals of the Related Party Transactions Review Committee/Board are obtained</p>
13	GROUP GOVERNANCE	
13.1	Responsibilities of the FC as a Holding Company	
a)	Exercising adequate oversight over subsidiaries and associates	<p>The Group consist of 2 subsidiary companies, Multi Finance PLC and LB Microfinance Myanmar Limited.</p> <p>The Board approved Governance framework provide guidelines on the responsibilities of the company to oversight the affairs of Subsidiary Companies.</p>
b)	The Board of the FC shall	
I)	Group Governance Framework	The Board approved Governance Framework clearly defines the roles and responsibilities for the oversight and implementation of group-wide policies.
II)	Content of the group Governance Framework	The differences in the operating environment including legal and regulatory requirements for each Company are properly understood by the Board and included in the Group Governance Framework.
III)	Reporting arrangements that promote the understanding and management of material risks and developments	The reporting arrangement that promote the understanding and management of material risks and developments are included in the Group Governance Framework.
IV)	Group internal control framework	The Board assessed whether the Internal Control Framework of the Group has adequately addressed the risks across the Group including intra-group transactions.
V)	Adequate resources are allocated to effectively monitor compliance at the group	The Compliance team of the Parent Company overlook the effectiveness and the compliance of legal and regulatory requirements in both parent and subsidiary Companies.
c)	group structure does not undermine its ability to exercise effective oversight. Clearly defined process of approving the creation of new legal entities	As apex entity, the LBF ensured that Group structure does not undermine the ability to exercise effective oversight. The Board has established clearly defined process through Group Governance Framework to effectively discharge this direction.
d)	validate that the objectives, strategies, policies and Governance Framework set at the group level are fully consistent with the regulatory obligations of the company	The Board approved objectives, strategies, policies and Governance Framework are fully consistent with the regulatory obligations of the company. Further, through the Integrated risk management committee, the Board ensure that company specific risks are identified and addressed adequately.
e)	Avoiding setting up complicated structures	The company has not set up complicated group structure that lack economic substance or business purpose that can considerably increase the complexity of the operations.
13.2	The company is a subsidiary of another financial institution subject to prudential regulation	Company is not a subsidiary of another financial institution
14	CORPORATE CULTURE	
14.1	Code of Conduct	Board approved Code of Conduct and Conflict of Interest Policies are in place issuing guidelines on appropriate conduct on confidentiality, conflict of interest, integrity of reporting, protection and proper use of Company assets and fair treatment of customers.
14.2	Records of breaches of code of conduct	If a breach of the Code of Conduct is reported, the Company maintains records on such breaches of Code of Conduct.
14.3	Whistleblowing Policy	<p>The Company has a Board-approved Whistleblowing Policy whereby employees of the Company are entitled to raise concerns in confidence about the malpractices in the Company. The BAC ensures that a proper process is in place in line with the Board approved policy for a fair and independent investigation and appropriate follow-up action on such matters.</p> <p>The Whistleblowing Policy has been reviewed and revised by the Board on March 2023 and communicated to the staff in all three languages.</p>

Direction Reference	Direction requirement	Remarks								
15	CONFLICTS OF INTEREST									
15.1										
a)	Avoiding conflicts of interest by Directors	<p>A Board approved conflict of interest policy is in place that covers the stipulated requirements.</p> <p>Article 97 of Articles of Association on 'Restrictions on Voting' evidences the procedure for a Director to abstain from voting on any Board resolution when there is conflict of interest and he/ she is not to be counted in the quorum.</p> <p>The Company Secretaries obtained disclosure of interest from Directors at every Board meeting and conflict of interest (if any) is managed based on this statement. Directors abstain from voting in such a situation and they are not counted in the quorum.</p>								
b)	Conflict of Interest Policy	A Board approved Conflict of Interest Policy is in place covering all aspects of this directions and best practices.								
16	DISCLOSURES									
16.1	Preparation of annual and periodic financial statements and publishing them in newspapers in Sinhala, Tamil and English	<p>Annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards.</p> <p>Further, such statements are published in the newspapers in Sinhala, Tamil and English.</p>								
	Minimum disclosures in the Annual Report of the Company									
I)	Financial statements	Compliance with applicable accounting standards and regulatory requirements has been reported under the Annual Report of the Board of Directors on the Affairs of the Company on page 227 and Statement of Directors' Responsibility for Financial Reporting on page 252.								
II)	Chairperson, CEO and Board related disclosures	<p>Details of the Directors are given in the profiles of the Board of Directors on pages 58 to 61.</p> <p>Details of the Senior Director is stated on page 59</p> <p>Attendance of Board Meetings and Sub-Committee meetings are given on pages 220 and 224 respectively.</p>								
III)	Appraisal of Board performance	<p>The performance evaluations of the Board and the Sub-Committees have been completed based on the pre-agreed objectives.</p> <p>Details on performance evaluation of Board and Sub-Committee are disclosed in Corporate Governance report on pages 222 and 224 respectively.</p>								
IV)	Remuneration	<p>Remuneration policy</p> <p>A statement on remuneration policy has been disclosed in Board Human Resource and Remuneration Committee Report appeared on page 234 of the Annual report.</p> <p>Aggregate remuneration paid to Directors and Senior Management</p> <table border="1"> <thead> <tr> <th></th> <th>2022/2023</th> </tr> <tr> <th></th> <th>Rs.'000</th> </tr> </thead> <tbody> <tr> <td>Directors</td> <td>631,691</td> </tr> <tr> <td>Senior Management</td> <td>87,787</td> </tr> </tbody> </table>		2022/2023		Rs.'000	Directors	631,691	Senior Management	87,787
	2022/2023									
	Rs.'000									
Directors	631,691									
Senior Management	87,787									
V)	<p>Related Party Transaction</p> <p>Nature of any relationship between chairman and MD/CEO and the relationships among the members of the Board</p>	Refer the Annual report of the Board of Directors on the affairs of the Company on pages 227 to 233.								

CORPORATE GOVERNANCE

Direction Reference	Direction requirement	Remarks
---------------------	-----------------------	---------

Total net accommodation granted to Related Parties

Category of related party transactions	2022/23		
	Net Accomodation granted	Net accomodation outstanding as at 31 March 2023	Percentage of the core capital
	Rs.'000	Rs.'000	Rs.'000
1 Directors and Senior Management	10,500	10,541	0.04
2 Shareholders who directly or indirectly holds more than 10% of the voting rights of the Company	-	-	-
3 Subsidiaries, Associates, Affiliates, Holding Company, Ultimate parent Company and any other party that Company exert control over or vice versa	-	2,271	0.01
4 Directors and Senior Management of legal persons above 2 &3	-	-	-
5 Relatives of a natural person described in 1, 2 and 4	-	-	-
6 Any concern in which any of the Director, Senior Management or a relative of any of the company's director or senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest	-	-	-

Aggregate value of transactions with Senior Management

For the year ended	2022/2023 Rs. '000
Accomodations granted	10,541
Deposits/investments made	599,385
	609,926

VI)	Board appointed Committees	<p>Details of Chairperson, members and the attendance of the below mentioned Sub-Committees are stated in respective Sub-Committee reports as follows.</p> <p>Board Audit Committee Report – page 236</p> <p>Board Integrated Risk Management Committee Report – page 239</p> <p>Board Nomination Committee Report – page 235</p> <p>Board Human Resources and Remuneration Committee Report – page 234</p> <p>Board Related Party Transaction Review Committee Report – page 242</p>
VII)	Group structure	<p>The Group Structure of the Company is stated on page 34.</p> <p>The Group Governance Framework is disclosed in Corporate Governance report on page 226 of the annual report.</p>
VIII)	Director's report	<p>Refer Annual Report of the Board of Directors on the Affairs of the Company on pages 227 to 233 for the following disclosures;</p> <ul style="list-style-type: none"> » Declaration on not engaging in any activity, which contravenes laws and regulations » Director's declaration on all RPT with the Company and abstained voting » Fair treatments to all stakeholders » Going concern » Review of internal controls covering material risks to the Company and have obtained reasonable assurance

Direction Reference	Direction requirement	Remarks
IX)	Statement on Internal Control	<p>Report by the Board on internal control mechanism of the Company that confirms the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting – Directors' Statement on Internal Control on page 249.</p> <p>External Auditor's Assurance statement on effectiveness of the internal control mechanism – Independent Assurance Report to the Board of Directors on page 251.</p> <p>Report on compliance with prudential requirements, regulations, laws and internal controls – Directors' Statement on Internal Control on page 249</p> <p>A statement on regulatory and supervisory concerns – Directors' Statement on Internal Control on page 249</p>
X)	Corporate Governance report	<p>The Corporate Governance Report is set out on pages 210 to 226 of the Annual Report of the Company.</p> <p>The Company has obtained an independent assurance report from the External Auditors over compliance with Finance Business Act Direction No. 05 of 2021 on Corporate Governance</p>
XI)	Code of Conduct	<p>A Board approved Code of Conduct for Directors and for all employees are in place. Please refer Corporate Governance Report on pages 210 to 226 for more details.</p> <p>Refer "Chairman's statement" on pages 52 to 54 that the company has no violations of any of the provisions of this code.</p>
XII)	Management report	Refer "Management Discussion and analysis" on page 70 of this annual report.
XIII)	<p>Communication with shareholders –</p> <p>The policy and methodology for communication with shareholders.</p> <p>The contact person for such communication.</p>	<p>A Board approved Communication Policy is in place which covers all stakeholders including Depositors, Creditors, Shareholders, and Borrowers. The Board of Directors, officers, and employees comply with the policy in order to ensure effective communication for the best interests of all stakeholders</p> <p>The Company Secretary communicates with the shareholders through the Annual report, Quarterly Reports, and by notices issued to the shareholders.</p> <p>More details on communications with shareholders are stated Corporate Governance Report on page 218.</p>

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

CORPORATE GOVERNANCE

COMPLIANCE WITH CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

Compliance with the Code of Best Practice on Corporate Governance 2017 (The Code) issued by The Institute of Chartered Accountants of Sri Lanka

Code Ref.	Requirement	Reference	Complied
A	DIRECTORS		
A.1	The Board	<p>The Board comprised ten (10) Directors as at 31st March 2023, six (6) of whom functioned in Non-Executive capacity, having the required professional competence, skills and experience in the fields of entrepreneurship, banking, finance, legal, IT, economics and marketing to lead and control the Company.</p> <p>The Board gives leadership in setting the strategic direction and implement sound control environment for the successful functioning of the Company. Directors are elected by shareholders at the AGMs with the exception of the Executive Directors who are appointed by the Board and remain as Executive Directors until retirement, resignation or termination of such appointment. The Board has appointed several Sub Committees to assist in discharging Board's collective responsibilities.</p>	✓
A.1.1	Board Meetings	<p>The Board meets at monthly intervals and special Board meetings are convened whenever necessary. The Board met 13 times during the year. Attendance at meetings is summarized on page 220.</p> <p>The structure and process of submitting information is agreed on and documented by the Board. Information that monthly reports to the Board are included the financial and operational performance comparisons against KPIs, budgets, previous periods, ALCO meeting updates, Sub Committee updates, compliance and risk updates, share trading of the Company and Directors, ongoing legal proceedings, subsidiary operations related updates.</p>	✓
A.1.2	Role & Responsibilities of the Board	<p>The Board engages in providing direction in formulating a sound business strategy and closely monitors the implementation of the strategy effectively. Well-defined strategy of the company provides a clear vision and direction for the business and enabled to align the efforts and work towards common goals. A strategic plan has been developed covering three years from 2022/23 to 2024/25 and was approved by the Board.</p> <p>Mr. Ashane Jayasekara, Independent Non-Executive Director functions as the Senior Independent Director and provides strong leadership to the independent element of the Board.</p> <p>Human Resources and Remuneration committee ensures that the CEO and the Key Management Personnel (KMP) have the required skills, experience and knowledge to implement and sustain the strategy.</p> <p>An effective succession strategy has been reviewed and approved by the Board during the year.</p> <p>To enable the effective discharge of its stewardship, the Board has delegated its authorities to Sub Committees to overlook the specific responsibilities under the pre-agreed terms of references and operational responsibilities have been delegated to Senior Management led by CEO/MD within preapproved limits.</p> <p>The Board ensures the availability of effective systems to secure integrity of information, internal controls, business continuity planning, risk management and compliance with laws, regulations and ethical standards.</p> <p>Please refer following reports for further insights in this regard.</p> <p>The Directors statement on internal controls over financial reporting - page 249</p> <p>The Corporate governance report - page 210</p> <p>The Integrated risk management report - page 370</p> <p>The Board Audit committee report - page 236</p>	✓
A.1.3	Act in accordance with laws and seek professional advice	<p>The Board collectively and Directors individually, recognize their duty to comply with laws of the country. The Board of Directors ensures that procedures and processes are in place to ensure that the Company complies with all applicable laws and regulations. In order to preserve the independence of the Board and to strengthen the decision-making, the Board seeks independent professional advice when deemed necessary.</p> <p>The Governance Framework outline the procedure to be followed in obtaining independent professional advice.</p>	✓

Code Ref.	Requirement	Reference	Complied
A.1.4	Access to advice and services of Company Secretary	All Directors have access to the Company Secretary, a company registered as a qualified Secretary. Their services are available to all Directors and they advise the Board on corporate governance matters, Board procedures and applicable rules and regulations. A comprehensive insurance cover is in place for Board members and KRPs.	✓
A.1.5	Independent Judgement	All Directors are responsible for bringing independent judgment on issues of strategy, performance, resource allocation, risk management, statutory and regulatory compliance and standard of business conduct. Non-Executive Directors also provide independent judgment on the proposals made by the Managing Director and Executive Directors.	✓
A.1.6	Dedicate adequate time and effort Board pack	Every Director has dedicated adequate time and effort to the meetings of the Board and Sub Committee meetings to ensure that the duties and responsibilities are satisfactorily discharged and all the Board papers are loaded through a secure link to the iPad at least seven days prior to the Board meetings for the Directors to access prior to the Board Meeting. Additional information and clarification requirements are made through the company Secretary and all matters that require follow up are discussed at the immediately succeeding Board meeting.	✓
A.1.7	If necessary, in the best interest of the Company, one-third of the Directors can call for a resolution to be presented to the Board	Necessity did not arise during the year	✓
A.1.8	Board induction and training	Every Director was given appropriate induction when first appointed to the Board with regard to the affairs of the Company and laws and regulations applicable to the Company. It is mandatory for the Directors to attend Director Forums organised by the CBSL. Further the Corporate Management and external experts make presentations with regard to the business environment to update the knowledge. Further strengthening the anti-bribery and anti-corruption environment within the organization, a comprehensive knowledge sharing session has been conducted by Transparency International of Sri Lanka to the LBF Board. The Board regularly reviews and agrees on the training and development needs of the Directors, to effectively discharge their duties.	✓
A.2	Chairman & Chief Executive Officer	The positions of Chairman and MD/CEO have been separated in line with the best practices and there is a clear division of responsibilities between two designations to ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Independent Non Executive Director, Mr. Ashane Jayasekara was appointed as Senior Independent Director with documented TOR to ensure a greater independent element in the Board.	✓
A.3	Chairman's Role in Preserving Good Corporate Governance	The Chairman provides leadership to the Board, ensures that the Board works effectively and discharges its responsibilities and ensures that all key and appropriate issues are discussed by the Board in a timely and effective manner. The Chairman approved the detailed agenda for each meeting in consultation with MD/CEO, Directors and company secretary and ensures effective participation and balance of power between executive and Non-Executive Directors to make their fullest contribution for the benefit of the Company. All Directors are encouraged to seek information considered necessary to discuss matters on the agenda of the meetings. The views of the Directors on issues under consideration are ascertained and a record of such deliberations reflected in the minutes.	✓
A.4	Availability of Financial Acumen	The Chairperson of the Board Audit Committee is a Fellow member of The Chartered Institute of Management Accountants of UK (CIMA-UK) and the Chairman of the Integrated Risk Management Committee is also a Fellow member of The Institute of Chartered Accountants of Sri Lanka and a Fellow member of the CIMA-UK. Further, the Non-Executive Director and an Executive Director are qualified finance professionals with experience in finance and management. The remaining members of the Board also possess experience in finance and banking thus there is sufficient financial acumen and knowledge within the Board to offer guidance on matters of finance. The profiles of the Board of Directors are given on page 58 to 61.	✓

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

Code Ref.	Requirement	Reference	Complied
A.5	Board Balance	<p>It is preferable for the Board to have a balance of Executive and Non-Executive Directors as such that no individual or small group can dominate the Board's decision-taking</p> <p>Balance of Executive and Non-Executive Directors in the Board</p> <p>The Board includes a strong presence of Non-Executive Directors and no individual or small group of individuals can dominate its decision making. During the financial year under review, the Board comprised six (6) Non-Executive Directors and four (4) Executive Directors facilitating the required balance within the Board.</p> <p>Strong independent element in the Board</p> <p>The Board has determined three (3) out of six (6) Non-Executive Directors are independent as at 31.03.2023 as per this Code.</p> <p>Evaluating independence of Directors</p> <p>The Board evaluates the independence yearly using annual declarations submitted by the Directors according to the Code criteria. This process ensures whether such Directors are independent of the management and free of any business or other relationship that could interfere with the exercise of their unfettered and independent judgment.</p> <p>Signed declaration of independence by the Non-Executive Directors</p> <p>All Non-Executive Directors provided the signed declarations of independence for 2022/23 as per Schedule K of the Code.</p> <p>Based on the annual declarations submitted by the Directors, there are six (6) Non-Executive Directors and out of them, three (3) are independent.</p> <p>Determination of the Independence and Non-Independence of each Non-Executive Director annually</p> <p>Independence of each Non-Executive Director has been reviewed by the Board during the year 2022/23 and has determined that the submission of the declaration by the Non-Executive Directors, as to their independence is a fair representation. The process of evaluating the independence of Non-Executive Directors has considered all criteria set out in the code and this will continue as an annual event.</p> <p>Appointing an Alternate Director</p> <p>No Alternate Directors were appointed during the year.</p> <p>Appointing Senior Independent Director (SID) and confidential discussion with other Directors by the SID</p> <p>The roles of the Chairman and the CEO being held by two different individuals. Independent Non-Executive Director, Mr. Ashane Jayasekara was appointed as a Senior Independent Director since Chairman of the Board is a Non-Independent Non-Executive Director. Board approved TOR is available for the Senior Independent Director.</p> <p>SID met Non-Executive and Executive Directors at the Sub-Committee meetings and discussed matters related to Governance Framework of the company and updated the Chairman on the outcome of the discussions.</p> <p>Meetings held by the Chairman with Non-Executive Directors, without the Executive Directors being present</p> <p>The Chairman held meetings with Non-Executive Directors, without the Executive Directors being present.</p> <p>Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved</p> <p>There were no instances where the Directors could not unanimously resolve matters and accordingly no such matters were recorded in the minutes.</p>	✓

Code Ref.	Requirement	Reference	Complied
A.6	Provision of Appropriate and Timely Information	<p>The Board should be provided with timely information in a form and of quality appropriate to enable it to discharge its duties</p> <p>Management should provide timely information to the Board. The Chairman should ensure that all Directors are properly briefed on issues arising at Board meetings</p> <p>Timely and accurate information is provided by the Management to the Board generally seven days prior to the Board meetings. The members of Corporate Management make presentations to the Directors on important issues relating to the financial performance, strategy, risk, systems and procedures, corporate governance matters, information technology developments, cybersecurity measures, legal and regulatory compliance.</p> <p>The Directors make further inquiries from management team, where necessary, to obtain further clarity on matters scheduled for discussions. Requested clarifications are obtained prior to the Board meetings to make effective decision making.</p> <p>The minutes, agenda and papers required for a Board meeting should be provided before seven (7) days</p> <p>The minutes of the previous meeting, agenda and Board papers are uploaded through a secure link to the iPad for the Directors to access seven (7) days prior to the Board meeting.</p>	✓
A.7	Appointments to the Board	<p>The appointment of new Directors should be processed through a formal and transparent procedure</p> <p>Nomination Committee</p> <p>The Nomination Committee makes recommendations to the Board on all new appointments to the Board. The Committee was set up pursuant to the Code of Best Practice on Corporate Governance and terms of reference of the committee is reviewed and approved by the Board.</p> <p>The nomination committee composition and the activities performed during the year are discussed in the report of the Nomination Committee is given on page 235 of the Annual Report.</p> <p>Assessment of Board composition by the Nomination Committee</p> <p>The Nomination Committee reviews the new appointments and re-elections to the Board with strategic direction of the Company to attract and retain Board members with relevant experience and qualifications and to ensure that Board appointees are fit and proper.</p> <p>Disclosure requirements when appointing of new Directors to the Board</p> <p>Details of new Directors are disclosed to the shareholders at the time of their appointment by way of announcements made to the Colombo Stock Exchange as well as in the Annual Report. Prior approval for appointment of new Directors is obtained from the Director of Department of Supervision of Non-Bank Financial Institutions of Central Bank of Sri Lanka and notification is sent to Colombo Stock Exchange. All new appointments are reviewed by the Nomination Committee.</p>	✓
A.8	Re-election of Directors	<p>All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years</p> <p>Re-election of Directors</p> <p>At each Annual General Meeting one-third of the Non-Executive Directors for the time being who are subject to retirement, or, if their number is not a multiple of three, the number nearest to (but not greater than) one third, retire and seek re-election by the shareholders.</p> <p>The provisions of the Company's Articles of Association also require Directors appointed by the Board to hold office until the next Annual General Meeting and seek appointment by the shareholders at that meeting.</p> <p>When Directors submit themselves for re-election or reappointment, minimal disclosures as defined in the code of best practice on corporate governance are made to all shareholders to make informed decisions on their election. The fitness and propriety of each Director are reviewed by the Nomination Committee and make recommendations for re-election.</p> <p>Resignation</p> <p>A process is in place, if a Director who wish to resign prior to completion of appointed term. However, there were no resignations during the year.</p>	✓

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

Code Ref.	Requirement	Reference	Complied
A.9	Appraisal of Board & Sub Committee's Performance	<p>Board should periodically apprise their own performance in order to ensure that Board responsibilities are satisfactorily discharged</p> <p>Appraisal of Board performance</p> <p>The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily. This process requires each Director to fill Board Performance Evaluation Forms in line with this Section of the Code. The responses are reviewed by the Company Secretary who collates them and submits it to the Chairman for necessary action as appropriate as decided by the Board.</p> <p>Annual self-evaluation by the Board of its Sub Committees</p> <p>A formal process is in place for Sub Committee to carry out its self-evaluations to determine the effectiveness of their performance. All Sub Committees have performed self-evaluations of their performance during 2022/23 and areas identified for improvements are also discussed at their respective meetings and updated the Board by respective Chairperson.</p> <p>Review of each Director at the time of re-election</p> <p>The Board has a process to review the participation, contribution and engagement of each Director at the time of re-election.</p> <p>Disclosure in the Annual Report about the Board's performance evaluation methodology.</p> <p>Board approved procedure is in place. The process adopted by the LBF is detailed on page 222 of this report.</p>	✓
A.10	Annual Report to Disclose Specified Information Regarding Directors	<p>Shareholders should be kept advised of relevant details in respect of Directors</p> <p>Annual Report disclosure in respect of Directors</p> <p>Profiles of the Board of Directors are given on pages 58 to 61 including other Directorships held by the Directors and memberships of Board Committees. Directors' attendance is disclosed on page 220.</p>	✓
A.11	Annual appraisal of the CEO	<p>The Board should be required, at least annually, to assess the performance of the CEO</p> <p>Targets for CEO at the commencement of each financial year and performance evaluation</p> <p>CEO/Managing Director's performance targets are aligned with business strategies of the Company. Financial and non-financial targets are set at the beginning of every financial year by the Board which is in line with the short- medium- and long-term objectives of the Company. At the end of each financial year the Board evaluates the set targets and the actual performance.</p>	✓
B.	DIRECTORS' REMUNERATION		
B.1	Remuneration Procedure	<p>The Company should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Directors should be involved in deciding his/her own remuneration</p> <p>Setting up of Remuneration Committee</p> <p>The Board has established Human Resources and Remuneration Committee within the agreed terms of reference to overlook the company's framework of remunerating the Executive Directors.</p> <p>The functions of the Committee include determination of compensation and benefits of the Managing Director/CEO and Executive Directors while ensuring that no Director is involved in setting his/her own remuneration.</p> <p>Composition of Remuneration Committee</p> <p>Composition of Human Resource and Remuneration Committee is in line with the code. This committee consists of 3 Non-Executive Directors of which 2 are independent in accordance with the code. Independent Non-Executive Director has been appointed as Chairman of the Human Resources and Remuneration Committee, by the Board.</p> <p>Disclosure in the Annual Report about the Remuneration Committee members</p> <p>BHRRC report is given on page 234 of the Annual Report.</p> <p>Remuneration of Non-Executive Directors</p> <p>The Non-Executive Directors receive a fee for being a Director of the Board and additional fee whenever they serve on Board Sub Committees and their fee structure is decided by the Board.</p> <p>Remuneration Committee consults the Chairman and MD/CEO on matters relating to the Remuneration Committee, Executive Directors and access to the professional advice</p> <p>The Committee consults the Managing Director when recommending the remuneration of other Executive Directors and also has access to professional advice when deemed necessary.</p>	✓

Code Ref.	Requirement	Reference	Complied
B.2	Level & Make up of Remuneration	<p>Level of remuneration of both the Executive and the Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Director's remuneration should be structured to link rewards to corporate and individual performance</p> <p>Remuneration of Executive Directors Remuneration of Executive Directors consists of performance-based incentive payment to attract, retain and motivate them to achieve long-term success of the Company. The Executive Director does not participate in the Human Resources and Remuneration Committee meetings when matters pertaining to his remuneration are discussed.</p> <p>Remuneration packages in line with industry practices The Human Resources and Remuneration Committee reviews the information relating to competitors of the Company and due care is taken to ensure that remuneration is on par with industry standards and the relative performance.</p> <p>Remuneration packages in line with other companies in the Group Size and scale of the Company's operations are not comparable with other Companies of the Group and therefore guidance could not be drawn from them.</p> <p>Performance-related payments to Executive Directors A transparent, stretching and rigorously applied performance-related elements of remuneration is available for Executive Directors with the objective of providing appropriate incentives to those Directors to perform at the highest level.</p> <p>Executive Share Option There are no Share Option schemes offered by the Company.</p> <p>Designing schemes of performance related remuneration In deciding the remuneration of the Managing Director, Executive Directors and Senior Management, the Company takes note of the provisions set out in Schedule E of this code.</p> <p>Early termination of service of Directors Consideration of termination of service of the Executive Directors will be in accordance with their contract of service.</p> <p>Remuneration of Non-Executive Directors Non-Executive Directors are remunerated by the Company considering the time commitment, responsibilities of the role and the market practices. The Company has not offered any Share Option plans to either Executive Directors or Non-Executive Directors.</p>	✓
B.3	Disclosures related to Remuneration in Annual Report	<p>Annual Report of the Company should contain a statement of Remuneration Policy and details of remuneration of the Board as a whole</p> <p>Disclosure in the Annual Report about the Remuneration Committee members, statement of Remuneration Policy and aggregate remuneration paid Remuneration Committee report is given on page 234 which sets out the details on the composition of Committee and the remuneration policy. The aggregate remuneration paid to the Board of Directors is disclosed in Note 6.1.6 to the Financial Statements on page 359.</p>	✓

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

Code Ref.	Requirement	Reference	Complied
C.	RELATIONS WITH SHAREHOLDERS		
C.1	Constructive use of the AGM & Other General Meetings	<p>The Board should use the Annual General Meeting (AGM) to communicate with shareholders and should encourage their participation</p> <p>Adequate notice for the AGM to the shareholders</p> <p>The Annual Report including Financial Statements and the Notice of the Meeting are sent to shareholders 15 working days prior to the date of the AGM as stipulated by the Companies Act.</p> <p>Separate resolutions for substantially separate issues</p> <p>Separate resolutions are placed before shareholders for each substantial matters that require approval of shareholders at the Annual General Meetings (AGM).</p> <p>The LBF propose a separate resolution for the adoption of company's Annual Report and accounts during the AGM. It is treated as a distinct agenda item, giving the shareholders a dedicated opportunity to review and evaluate the contents of the report.</p> <p>Use of proxy votes</p> <p>The Company has recorded and counted all proxy votes for each resolution prior to the general meeting.</p> <p>Availability of all Board Sub-Committee Chairmen and SID at the AGM</p> <p>The Chairman of the Board ensures the presence of the Chairmen of all Sub Committees, including the Audit Committee, Human Resources and Remuneration Committee, Nomination Committee, Integrated Risk Management Committee, Related Party Transactions Review Committee, and Senior Independent Director, during the Annual General Meeting (AGM). This arrangement allows the Chairmen to be available and ready to address any inquiries or concerns raised by the shareholders.</p> <p>Procedures of voting at general meetings</p> <p>Shareholders right to appoint a proxy for voting at AGM appears on Notice of Meeting and on the Form of Proxy. Voting procedures at general meetings appear on the Form of Proxy.</p>	✓

Code Ref.	Requirement	Reference	Complied
C.2	Communication with shareholders	<p>The Board should implement effective communication with shareholders</p> <p>Channel to reach all shareholders to disseminate timely information</p> <p>There are many channels of communication for engaging with shareholders. These include press releases and notices and required disclosures to the CSE which are published on the CSE website. The quarterly Interim Financial Statements are disseminated to the CSE within 45 days, the exception being for the last quarter of the financial year where the Company has 60 days to publish those interim financial statements.</p> <p>Half yearly Financial Statements are published in daily newspapers in all three languages as per the Finance Companies Guidelines No. 2 of 2006. Notice of Annual General Meeting is circulated together with the Annual Report and Accounts which includes any other special business (if any) to be transacted at the AGM. Where necessary, Extra Ordinary General meetings are convened after giving statutory notice to all shareholders. Annual General Meeting provides a platform for shareholders to discuss and seek clarification on the activities of the Company.</p> <p>Policy and methodology of communicating</p> <p>The Company provides fair disclosure with emphasis on the integrity, accuracy, timeliness and relevance of the information provided. The Company has implemented a Corporate Communication Policy that outlines various communication channels aimed at reaching all shareholders of the LBF effectively. This policy ensures the timely dissemination of important information to shareholders, utilizing multiple channels of communication.</p> <p>Refer Stakeholder engagement on pages 40 to 50 in the Annual Report for further details.</p> <p>Implementation of the communication policy and methodology</p> <p>Shareholders receive the Annual Report from the Company either by way of a CD or in hard copy form. Shareholders may at any time elect to receive the Annual Report from the Company in printed form without any charge.</p> <p>Refer Stakeholder engagement on pages 40 to 50 in the Annual Report for further details.</p> <p>Disclosure of the contact person as per communication policy</p> <p>Shareholders have the freedom to raise questions, request publicly available information, and provide comments and suggestions to the Directors or Senior Management of the Company at any time. To facilitate this, they are encouraged to direct their inquiries, requests, and comments to the Company Secretary, who will ensure that they are appropriately addressed.</p> <p>Key spokespersons are discussed in details in the corporate communication policy which was reviewed and approved by the Board on 23 February 2022.</p> <p>Awareness of Directors on major issues and concerns of shareholders</p> <p>Process to make all Directors aware on major issues and concerns of shareholders has been established through the Corporate Communication Policy. The Company Secretary maintains a record of all correspondence received and will deliver as soon as practicable such correspondence, which require Board attention to the Board or individual Director/s as applicable.</p> <p>Contact person for shareholders in relation to shareholders' matters</p> <p>Company Secretary can be contacted for any queries of shareholders.</p> <p>Process for responding to shareholders</p> <p>Process has been formulated through a Board approved Policy in responding shareholder matters. The Corporate Communication Policy was last reviewed and approved by the Board in February 2022.</p>	✓
C.3	Disclosure of major and material transactions	<p>Directors should disclose all proposed corporate transactions which would materially alter/ vary the net asset base of the Company or the Group</p> <p>Disclosure of major and material related party transactions</p> <p>During the year, the Company did not engage in or commit any major related party transactions which materially affected the Company's/Group's net asset base</p> <p>Disclosure to Security and Exchange Commission (SEC) and Colombo Stock Exchange (CSE)</p> <p>The company did not engage in or commit any major and material related party transaction during the year which materially affected the company's/group's net asset base to make a disclosure to SEC and CSE.</p>	✓

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

Code Ref.	Requirement	Reference	Complied
D	ACCOUNTABILITY & AUDIT		
D.1	Present a balanced and understandable assessment of the Company's financial position, performance and prospects.	<p>The Board should present a balanced and an understandable assessment of the Company's financial position and prospects</p> <p>Presenting true, fair, balanced and understandable Annual Report with financial statements in conformity with relevant laws and regulations</p> <p>The Company has reported a true and fair view of its financial position and performance for the year ended on 31st March 2023 and at the end of each quarter of the financial year and all price sensitive information has been disclosed in a timely manner.</p> <p>The Board obtained declarations from CEO and CFO that Company's interim and annual financial statements are prepared in conformity with applicable accounting standards, relevant laws and regulations and gives true and fair view of the financial position and performance, risk management and effectiveness of the internal controls.</p> <p>Directors' Report in the Annual Report</p> <p>Annual Report of the Board of Directors on the affairs of the Company is given on page 227 covering all areas of this section.</p> <p>Annual Report disclosure stating Board's and Auditors' responsibility</p> <p>Statement of Directors' Responsibility for Financial Reporting is given on page 252 and Auditors responsibility is given in the Independent Auditor's Report on page 253 respectively.</p> <p>Management discussion and analysis</p> <p>Management discussion and analysis is given on page 70</p> <p>Industry structure and developments on page 70</p> <p>Opportunities and threats on page 77</p> <p>Risks and concerns - Risk Management report on page 370</p> <p>Internal control systems and their adequacy on page 249</p> <p>Social and environmental protection activities carried out by the Company on page 170</p> <p>Financial performance on page 122</p> <p>Material developments in Human Resource industrial relations and on page 148</p> <p>Prospects for the future on page 99</p> <p>Serious loss of Net Assets</p> <p>The probability of such an event occurring is highly unlikely. Nonetheless, in the event that such a situation does arise, an Extraordinary General Meeting (EGM) will be promptly scheduled, and shareholders will receive timely notifications regarding the meeting.</p> <p>Disclosure of Related Party Transactions</p> <p>A detailed Board-approved documented process is available in the Company for monitoring and reporting of Related Party Transactions. The Company Secretary makes necessary disclosures of any Related Party Transactions which require disclosure as per the rules. All related party transactions as defined in Sri Lanka Accounting Standard -24 (LKAS 24) on 'Related Party Transactions' are disclosed in Note 6.1 to the Financial Statements on pages 359.</p> <p>The company maintains a comprehensive record of related parties and related party transactions. This record is designed to capture the necessary information to ensure compliance with the related party disclosure requirements mandated by regulatory bodies such as Central Bank of Sri Lanka (CBSL), Securities and Exchange Commission (SEC), Sri Lanka Accounting Standards, Sri Lanka Auditing Standards, and other relevant regulations</p> <p>Please refer the CBSL CG table on page 391 for more details on the process adopted.</p>	✓

Code Ref.	Requirement	Reference	Complied
D.2	Process of Risk Management and a sound system of internal control to safeguard shareholders' investments and the Company's assets	<p>The Board is responsible for formulating and implementing appropriate processes for risk management and internal control systems to safeguard shareholder investments and assets of the Company</p> <p>The Board Integrated Risk Management Committee (BIRMC) assists the Board in discharge of its duties with regard to risk management and the Board Audit Committee assists the Board in discharge of its duties in relation to internal control of the company.</p> <p>A process has been setup to provide reasonable assurance on reliability of internal controls over financial reporting process. The Board Audit Committee annually reviews the effectiveness of internal controls and risk management process through fully fledged internal audit department to ensure effective discharge of their duties.</p> <p>The responsibilities and functions of the Board Audit Committee are given in Audit Committee Report on page 236. The BIRMC is supported by the Risk Management Department of the company and a comprehensive report of how the company manages risk is included on pages 239 to 241.</p>	✓
D.3	Audit Committee	<p>The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the company's Auditors</p> <p>Composition of the Audit Committee</p> <p>The Board Audit Committee comprises with three Non-Executive Directors of whom majority are independent. The composition, scope and profiles of the Board Audit Committee members are stated in Board Audit Committee report on page 236 The Board is satisfied that the members of the committee has recent and relevant experience in financial reporting and internal controls.</p> <p>The terms of reference of the committee</p> <p>The Board approved Board Audit Committee Charter is in place. The committee acts according to the Charter and assists Board in discharging its duties.</p> <p>The Committee responsibilities and activities performed during the period are given in Board Audit Committee report on page 236.</p> <p>Reviewing the scope and results of the audit and its effectiveness and independence and objectivity of the External Auditor</p> <p>The Board Audit Committee periodically reviews the scope and results of the audit and its effectiveness. Further, independence and the objectivity of the Auditors are also reviewed periodically. The Committee would consider independence when providing non-audit services related engagements to the External Auditor. It is also responsible to make recommendations on the appointment, reappointment and removal of Auditors.</p> <p>The Committee responsibilities and activities performed during the period are given in Board Audit Committee report on page 236.</p> <p>Disclosures made in the Annual Report about Audit Committee</p> <p>Board Audit Committee report is given on page 236 of the Annual Report</p>	✓
D.4	Related Party Transactions Review Committee	<p>Procedure to ensure that the company does not engage in transactions with related parties in a manner that would grant "more favourable treatment" to such parties</p> <p>A documented process is in place for identification of related parties and related party transactions as defined in LKAS 24 and other regulations. The Board has established a Related Party Transactions (RPT) Review Committee consisting three Non-Executive Directors of whom majority are independent. Independent Non-Executive Director functions as Chairperson of the committee and CEO and Executive Directors attend the meetings by invitation.</p> <p>RPT Review Committee has a written terms of reference, dealing clearly with its authority and duties which should be approved by the Board.</p> <p>Report on Related Party Transaction Review Committee is given on page 242.</p>	✓

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

CORPORATE GOVERNANCE

Code Ref.	Requirement	Reference	Complied
D.5	Code of Conduct and Ethics	<p>The Board must adopt Code of Business Conduct and Ethics for Directors, KRPs and other Employees</p> <p>Code of Business Conducts / Whistleblowing policy</p> <p>The Board approved policies on Code of Conduct and whistleblowing for Directors, KRPs and all staff members are in place covering the major areas of; conflict of interest, bribery and corruption, entertainments and gifts, accurate accounting and record keeping, fair and transparent procurement practices, corporate opportunities, confidentiality, fair dealing, protection and proper use of company assets, compliance with laws, rules and regulations and encouraged to report of any illegal, fraudulent and unethical behaviour.</p> <p>A process is in place to obtain declaration from Directors, KRPs and all staff members on compliance of these policies.</p> <p>The Chairman and the Board affirm that all Directors and KRPs have declared compliance with this Code and the Chairman is not aware of any violation of any of the provisions in these Codes.</p>	✓
D.6	Corporate Governance Disclosures	<p>The Board should disclose the extent of compliance with good corporate governance principles and practices</p> <p>Disclosure of Corporate Governance Compliance</p> <p>The requirement is met with the presentation of this Corporate Governance Report from pages 210 to 226 of the Annual Report.</p>	✓
E/F	INSTITUTIONAL AND OTHER INVESTORS		
	Encourage voting at AGM – institutional and other investors	<p>Institutional and individual shareholders, investing directly in shares of the companies are encouraged to perform adequate analysis on governance arrangements, Board structure, composition in addition to the other financial factors. All investors should be encouraged to ensure their voting intentions are translated into practice</p> <p>The Company has 4,938 ordinary voting shareholders of which above 92.4% are institutional shareholders.</p> <p>The Company conducts regular structured dialogue with the large institutional shareholders and any concerns of these institutional shareholders expressed at the meetings is communicated to the Board as a whole.</p> <p>All shareholders are encouraged to participate at AGM and cast their votes. Investor relations hotline/ email is open for any investor to reach out to the CEO/Director if required. From the Company's perspective, the AGM provides a forum for the Board to inform the shareholders what the Company does and how it has performed during the year. For investors, it provides a forum to learn more about the business and ask questions from the Directors and to use their votes responsibly.</p>	✓
G.	INTERNET OF THINGS & CYBERSECURITY		
G.1	Identify connectivity and related cyber risks	Please refer page - 163, 167, 168 and 217	✓
G.2	Appoint a CISO and allocate budget to implement a cybersecurity policy	Please refer page - 217 - IT Governance	✓
G.3	Include cyber security on Board agenda	Please refer page - 240 of Integrated Risk Management Report	✓
G.4	Obtain periodic assurance to review effectiveness of cybersecurity risk management	Please refer page - 164 - Information security governance	✓
G.5	Disclosures in Annual Report	Please refer page - 177 - Information security governance	✓
H.	ENVIRONMENT, SOCIETY & GOVERNANCE		
H.1	ESG Reporting	Please refer page 204	✓

COMPLIANCE WITH LISTING RULES

Compliance with the Rules 7.6 and 7.10 of Listing Rule – Section 7 (Continuing Listing Requirements) issued by the Colombo Stock Exchange.

Rule No.	Principle and compliance	Complied	Page reference
7.6	CONTENTS OF ANNUAL REPORT		
7.6 (i)	Names of persons who were Directors of the Company during the financial year	✓	220
7.6 (ii)	Principal activities of the Company and its subsidiaries during the year	✓	227
7.6 (iii)	Information on 20 largest shareholders at the end of the year	✓	138
7.6 (iv)	The public holding percentage	✓	137
7.6 (v)	Directors' and Chief Executive Officer's holding in shares	✓	139
7.6 (vi)	Information pertaining to material foreseeable risk factors	✓	233
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	✓	232
7.6 (viii)	Information on buildings/land holdings and investment properties as at the end of the year	✓	322
7.6 (ix)	Number of shares representing the stated capital as at the end of the year	✓	337
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and related information	✓	138
7.6 (xi)	Ratios and market price information on equity, debt, change in credit rating	✓	138
7.6 (xii)	Significant changes in the Company's or Subsidiaries' fixed assets	✓	232
7.6 (xiii)	Details of funds raised through a public issue, Rights Issue and a Private Placement during the year -There were no share issues, rights issues or private placements during the year	✓	N/A
7.6 (xiv)	Information in respect of Employee Share Ownership or Stock Option schemes - The Company does not have any Employee Share Ownership or Stock Option Schemes at present.	✓	N/A
7.6 (xv)	Disclosure pertaining to Corporate Governance practice in terms of Rules 7.10.3, 7.10.5 c and 7.10.6 c of Section 7 of the Listing Rules	✓	422
7.6 (xvi)	Related party transactions exceeding 10% of the Equity or 5% of the total assets of the entity - The Company did not have any Related Party Transactions exceeding this threshold during the year.	✓	N/A

Rule No.	Principle and compliance	Complied
7.10	CORPORATE GOVERNANCE	
7.10.1	Non-Executive Directors	
7.10.1 (a)	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors. As at 31st March 2023 The Board comprised six (6) Non-Executive Directors out of a total of ten (10) Directors which is 60 as a percentage	✓
7.10.1 (b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting. The Board comprised 10 Directors as at the conclusion of the immediately preceding AGM.	✓
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change. The cessation and the appointment of the Directors as disclosed in 7.10.1 (b) complied with the requirement.	✓
7.10.2	Independent Directors	
7.10.2 (a)	Two or one-third of Non-Executive Directors, whichever is higher, should be independent. The Board has determined that three (3) Directors out of six (6) Non-Executive Directors are Independent.	✓
7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format. All Directors have submitted annual declarations in respect of the year under review.	✓

CORPORATE GOVERNANCE

Rule No.	Principle and compliance	Complied
7.10.3	Disclosures Relating to Directors	
7.10.3 (a)	The Board shall make determination of Independence/Non- Independence annually and Names of Independent Directors should be disclosed in the Annual Report. Please refer pages 58 to 61 of the Annual Report	✓
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report. Such situation has not arisen during the year	✓
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report including the areas of expertise Please refer pages 58 to 61 in the Annual Report.	✓
7.10.3 (d)	A brief resume of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public. Please refer page 58 to 61 in the Annual Report.	✓
7.10.4	Criteria For Defining of Independence	
7.10.4 (a-h)	Requirements for meeting criteria to be independent. All Independent Directors of the Company met the criteria for independency specified in this Rule.	✓
7.10.5	Remuneration Committee	
7.10.5 (a)	A listed Company shall have a Remuneration Committee. The remuneration committee shall comprise a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher. Board appointed Human Resource and Remuneration Committee is in place. Please refer page 234 of the Annual Report. Two out of a total of three Non-Executive Directors in the Human Resources and Remuneration Committee are independent. Mr. Ashane Jayasekara who is an Independent Non-Executive Director is the Chairman of the Committee.	✓
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors. Please refer the Report of the Human Resources and Remuneration Committee on page 234 of the Annual Report.	✓
7.10.5 (c)	The Annual Report shall set out; I. The names of the Directors that comprise the remuneration Committee; II. A statement of remuneration policy; III. Aggregate remuneration paid to Executive and Non- Executive Directors. Please refer the page 234 of Remuneration Committee Report and note 6.1 of financial statements.	✓

Rule No.	Principle and compliance	Complied
7.10.6	Audit Committee	
7.10.6 (a)	<p>The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher.</p> <p>One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board.</p> <p>The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.</p> <p>The Chairman or one member of the Committee should be a member of a recognise professional accounting body.</p> <p>Majority of the members of the Board Audit Committee are Independent Non- Executive Directors. Mrs. Yogadinusha Bhaskaran is the Chairperson of the Committee who is a Non-Executive Director. Both the Managing Director and the Chief Financial Officer attend the meetings by invitation. The Chairperson of the Audit Committee is a fellow member of The Chartered Institute of Management Accountants of UK. Please refer page 58 to 61 of Directors' profiles and Mr. A Jayasekara, a member of the Committee is also a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.</p>	✓
7.10.6 (b)	<p>Function</p> <p>The functions of the Audit Committee shall be as set out in section 7.10 of the Listing Rules.</p> <p>The Board Audit Committee oversees financial reporting, compliance function, risk management and make recommendations to the Board on matters relating to the external auditor. Please refer Board Audit Committee Report on page 236 to 238 of the Annual Report.</p>	✓
7.10.6 (c)	<p>Disclosure in the Annual Report</p> <p>Annual Report shall set out;</p> <p>The names of the Directors who comprise the Audit Committee</p> <p>The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination</p> <p>A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the Listing Rules</p> <p>Please refer the Board Audit Committee Report' on page 236 to 238 for the required disclosure.</p>	✓

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

REPORTING ON ANTI-CORRUPTION PROGRAMMES

TRANSPARENCY IN CORPORATE REPORTING ASSESSMENT, ISSUED BY TRANSPARENCY INTERNATIONAL SRI LANKA

1. Does the company have a publicly stated commitment to anti-corruption?

Commitment to anti-corruption with Anti-bribery and corruption policy

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

- Enhanced due diligence should be carried out where any payment is made to a Politically Exposed Person (PEP) as defined in company's Anti-Money Laundering Policy.
- No political contribution to a candidate for public office, an elected official, a political party or political action committee, can be made, on behalf of LB Finance PLC.

Frequently we communicate these policies to our employees and also continuously reiterate the importance of legal and regulatory compliance.

The Board and Senior Management participated in a comprehensive training session facilitated by Transparency International Sri Lanka, focusing on anti-bribery and corruption. The training addressed current and potential risks, aiming to enhance the Company's anti-bribery and corruption programs

2. Does the company publicly commit to be in compliance with all relevant laws including anti-corruption laws?

Internal processes are in place to ensure that the Company comply with all laws regulations, directions and internal policies of the Company. The Board affirms that the Company complies with all relevant laws, regulations, directions and internal policies of the Company.

3. Does the company leadership (senior membership or board) demonstrate support for anti-corruption?

The Board approved Anti-Bribery and Corruption (ABC) Policy is in place. Operationalization and compliance of the policy is ensured through the Compliance Officer.

4. Does the company code of conduct/ anti-corruption policy explicitly apply to all employees and directors?

The Board approved Code of Conduct, ABC policy are in place. These policies have been duly communicated to all employees of the Company in all three languages and employee acknowledgements have been obtained. Further, periodic e-flyers related to ABC have been circulated through e-mails among all employees aiming continuous awareness and compliance.

5. Does the company's anti-corruption policy explicitly apply to persons who are not employees but are authorised to act on behalf of the company or represent it (for example: agents, advisors, representatives or intermediaries)?

The Company ABC Policy explicitly applies for all stakeholders including agents, advisors, representatives and all other intermediaries.

6. Does the company require external entities that provide goods or services under contract (for example: contractors, subcontractors, suppliers) to abide by the company's anti-corruption programme or supplier code?

The Company ABC Policy explicitly applies for external entities that provide goods and services under contracts to comply with company's ABC policy requirements.

Regular AML and ABC Due diligence are conducted on all business partners including external entities that provide goods and services under contracts

7. Does the company have in place an anti-corruption training programme for its employees and directors?

The Board and Senior Management participated in a comprehensive training session facilitated by Transparency International Sri Lanka, focusing on anti-bribery and corruption. The training addressed current and potential risks, aiming to enhance the Company's anti-bribery and corruption programs. Further, periodic e-flyers related to ABC have been circulated through e-mails among all employees aiming continuous awareness and compliance.

8. Does the company have a policy on gifts, hospitality and expenses?

These guiding principles are supported by a company ABC policy, Policy on Managing Conflicts of Interests and code of conduct dealing with anti-bribery and corruption, including conflicts of interests, gifts and hospitality, facilitation payments, hosting of customer events, marketing sponsorships, and due diligence of third party service providers. In addition, receiving or giving/ offering gifts and hospitality that is excessive, inappropriate, in breach of applicable laws and LBF policies, can be damaging to LBF's reputation, create conflicts of interests, and harm our business relationships. Suppliers shall not use third parties to perform illegal and improper activities, whether directly or indirectly on their behalf like paying bribes or making facilitation payments.

9. Does the policy on gift and hospitality or expenses include a definition of threshold (descriptive or quoted as amounts) as well as procedures and reporting requirements?

The ABC policy, Policy on Managing Conflicts of Interests and code of conduct set out definitions of descriptive thresholds and outline the procedures to be followed when such situation is arose. Additionally, these documents specify the obligations for reporting such incidents and the channels through which they should be reported.

10. Is there a policy that explicitly prohibits facilitation payments?

Refer point 8 above

11. Does the company provides a mechanism/channel through which employees can report suspected act of corruption or breaches of anti corruption policies, and does mechanism/channel allow for confidential and/or anonymous reporting (whistle blowing) ?

Board approved whistle blowing policy is in place. Frequent awareness campaigns are conducted through various means to encourage the reporting of suspected wrongdoings, acts of corruption or breaches of anti-corruption policies. It allows for confidential and/or anonymous reporting (whistle-blowing) and there is a two-way communication with the whistle blower for any needed follow up on the disclosure.

The compliance officer submitted a confidential report on quarterly basis to the members of the BAC on of any whistleblowing and actions taken in compliance with the policy.

Quarterly awareness programmes are carried out to build employee capacity and help them to develop a sensitivity to situations of real or perceived conflict of interest and learn how to deal with them when they arise.

12. Does the whistle blowing mechanism/channel enable employees and other to raise concerns and report suspected acts of corruption or breaches of anti corruption policies without of risk of reprisal?

The policy on whistleblowing clearly outlines the process for reporting or raising concerns about suspected acts of corruption or violations of anti-corruption policies, ensuring that individuals can do so without fear of retaliation.

Few incidents have been reported for which necessary actions were taken without affecting those who reported the suspected acts.

The BAC remains committed to follow-up on any future complaints/incidents, should they occur. There no employee would suffer demotion, penalty or other reprisals for raising concerns or reporting violation.

13. Does the mechanism/ channel provide for two way communication with the whistle blower for any needed follow up on the concern/s raised?

Regular awareness campaigns are implemented using diverse methods to promote the reporting of suspected misconduct, corruption, or violations of anti-corruption policies. These campaigns enable individuals to report confidentially and/or anonymously (whistleblowing), and establish a two-way communication channel with whistleblowers for any necessary follow-up on the information disclosed.

14. Does the company carry out regular monitoring of its anti-corruption programme to review the programme's suitability, adequacy and effectiveness, and implement improvements as appropriate?

A process is in place to carry out annual review of anti-corruption programme to ensure the suitability, adequacy and effectiveness of the ABC programme.

The process of mitigating the ABC risk through three (3) lines of defense are stated below,

Assessing Bribery and Corruption Risk (BC Risk)

- Bribery and corruption risks to business operations of the company where applicable shall be identified, periodically assessed, monitored and managed effectively by the respective process owners in order to maintain a strong control system.

Role of the Risk Department: Each business unit should assess the BC risk when carrying out their respective Risk Assessment which is rolled out and reviewed by the Risk Department.

- Role of Compliance Department: Compliance being an independent function will monitor non-compliance of this policy with relevant reporting by the respective business unit or the Human Resource Department or as detected by the Internal Audit Department and with the related Risk assessment reviewed by the Risk Department and company takes appropriate action to address policy violations.

Head of Compliance being the subject policy owner will report any Non-compliance of this policy to the Board

Audit Committee (BAC) on a Quarterly basis as specified consequent to the above process monitored by Compliance department to escalate actual or potential Bribery and Corruption risks identified during the quarter under review.

- Role of Internal Audit: Internal Audit being an independent function from the business operations, will carry out the audit function in line with the Board approved Audit methodology for providing the assurance. As per board approved annual plan required verifications/tests will be included to assess the adequacy of the controls established within the entity in addressing the risks which include BC risks where applicable

15. Does the company have a policy on political contributions that either prohibits such contributions or if it does not, requires such contributions to be publicly disclosed?

The Company has a policy on political contribution that prohibits political sponsorships/contributions. This aspect clearly covers in the ABC policy.

16. Does the company disclose its ultimate beneficial owner/s? *

A process is in place to identify Ultimate Beneficial Owners of the company and is disclosed in the Annual report of the Company.

Which of the following information does the company disclose for all of its fully consolidated subsidiaries?

17 full list with names

Refer of the 2.3 Principal Business Activity, nature of operations of the group and ownership by the company in its subsidiary on page 264.

18 percentages owned in each of them

Refer of the 2.3 Principal Business Activity, nature of operations of the group and ownership by the company in its subsidiary on page 264.

19 countries of incorporation (for each entity)

Refer Investment in Subsidiary on page 316 Refer Annual report of the board of directors on the affairs of the company on page 227.

REPORTING ON ANTI-CORRUPTION PROGRAMMES

20 countries of operations

Refer Investment in Subsidiary on page 316
Refer Annual report of the board of directors on the affairs of the company on page 227.

Which of the following information does the company disclose for all of its non fully consolidated holdings, such as associates, joint-ventures?

21 full list with names

N/A

22 percentages owned in each of them

N/A

23 country of incorporation

N/A

24 country of operations

N/A

25. Does the company disclose its revenue/sales in Sri Lanka?

LB Microfinance Myanmar Limited - Rs. 217Mn. (Refer segmental information in Notes to the financial statements on page 364)

26. Does the company disclose its capital expenditure in Sri Lanka?

LB Microfinance Myanmar Limited - Rs. 13.4 Mn. (Refer segmental information in Notes to the financial statements on page 364)

27. Does the company disclose its pre-tax income in Sri Lanka?

LB Microfinance Myanmar Limited - Rs. 103.8 Mn. (Refer segmental information in Notes to the financial statements on page 364)

28 Does the company disclose its income tax in Sri Lanka?

LB Microfinance Myanmar limited has not paid any taxes during the financial year owing to a carried forward tax over payment made in the previous financial year. Total tax payable for current financial year Rs. 3.9 Mn. Tax paid Rs. 2.5 Mn.

29. Does the Company disclose its community contribution in Sri Lanka?

Refer social and relationship capital on page 170.

30 Does the Company have a publicly stated policy against sexual harassment?

Board approved HR policy of the company include the zero tolerance against sexual harassments or equivalents. The company is committed to fight any form of harassment at the work place.

31 Does the company have an explicit, publicly stated commitment to non-discrimination based on gender?

Board approved HR policy of the company include the company's commitment to non discrimination based on the gender.

32. Does the Company adopt a gender inclusive/equal opportunity recruitment policy?

An explicit commitment to non-discrimination on the basis of gender is in place when recruiting new employees to the company. 45% (2021/22 - 40%) of the workforce is females which shows a continuous improvement. Refer Human Capital in the Annual report on page 148.

33. Does the Company adopt a gender inclusive/equal opportunity promotion policy?

There is an explicit commitment in the HR policy on non-discrimination on the basis of gender when promoting employees. 43% of the employees promoted during 2022/23 are female employees.

34. Does the company have a policy for bidding on government contracts/tenders?

Not Applicable.

The company does not engage for bidding on government contracts/tenders

35. Does the company disclose its current contracts with local and/or foreign governments?

Not Applicable.

The company does not engage in any contract with local and/ or any foreign government

36. Does the company publish tendering and post award documents for government contracts and awarded tenders?

Not Applicable.

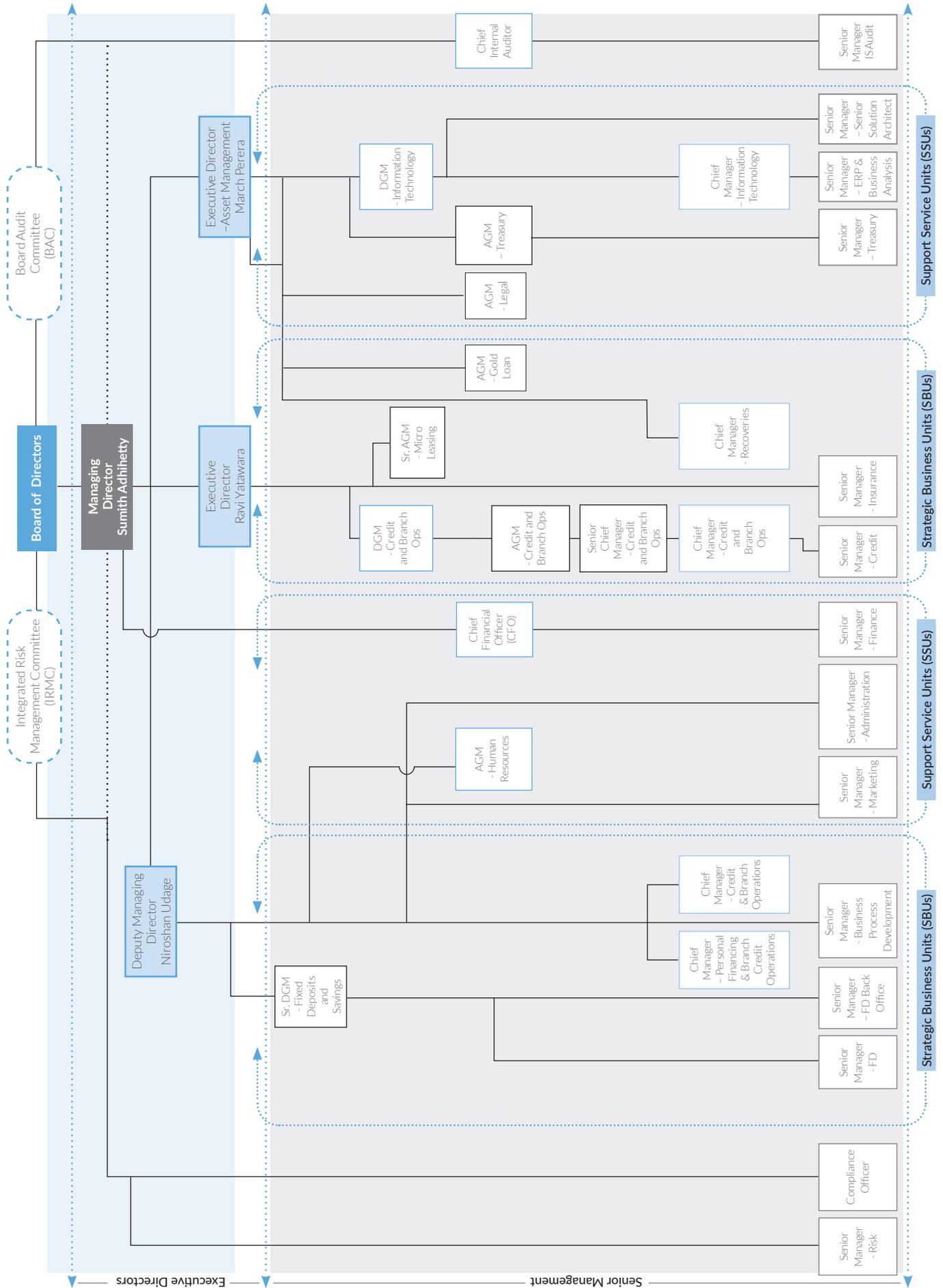
The company does not engage in any business transactions with the Government

37.Does the company disclose audited financial accounts for government contracts and awarded tenders?

Not Applicable.

The company does not engage in any business transactions with the Government

ORGANIZATION CHART



Introduction | Right Strategy | Right Vision | Right Experience | Right Value | Right Solutions

IR ASSURANCE REPORT



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

Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 557 8180
Email: eysl@lk.ey.com
ey.com

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF LB FINANCE PLC ON THE INTEGRATED ANNUAL REPORT- 2022/23

Scope

We have been engaged by LB Finance PLC (“the Entity”) to perform a ‘limited assurance engagement,’ as defined by Sri Lanka Standard on Assurance Engagements, here after referred to as the engagement, on its Integrated Annual Report for the year ended 31st March 2023.

(the “Subject Matter”).

Criteria applied by LB Finance PLC

In preparing the Subject Matter, LB Finance PLC applied the Guiding Principles and Content Elements given in the IFRS Foundation/International Integrated Reporting Council (IIRC)’s Integrated Reporting Framework (<IR> Framework) (“Criteria”).

Such Criteria were specifically designed for purpose of assisting in determining whether the capital management, stakeholder engagement, business model, strategy, organizational overview & external environment outlook presented in the Integrated Annual Report is in accordance with the relevant criteria; As a result, the subject matter information may not be suitable for another purpose.

LB Finance PLC’s responsibilities

LB Finance PLC’s management is responsible for selecting the Criteria, preparation and presentation and self-declaration of the information and statements contained within the Integrated Annual Report in

accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

Ernst & Young’s responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the Sri Lanka Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (SLSAE 3000 (Revised), and the terms of reference for this engagement as agreed with the LB Finance PLC on 02 May 2023. Those standards require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Subject Matter is presented in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the Professional

Accountants issued by CA Sri Lanka and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, 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.

Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management’s internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajjewan FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACA, D L B Karunathilaka ACA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the subject matter and related information and applying analytical and other appropriate procedures.

Our procedures included:

- » Performed a comparison of the content of the Integrated Annual Report against the Guiding Principles and Content Elements given in the Integrated Reporting Framework (<IR> Framework).
- » Checked whether the information contained in the Integrated Annual Report – Financial Capital element information has been properly derived from the audited financial statements.
- » Conducted interviews with the selected key management personnel and relevant staff and obtained an understanding of the internal controls, governance structure and reporting process relevant to the Integrated Report.
- » Obtained an understanding of the relevant internal policies and procedures developed, including those relevant to determining what matters most to the stakeholders, how the organization creates value, the external environment, strategy, approaches to putting members first, governance and reporting.
- » Obtained an understanding of the description of the organization's strategy and how the organization creates value, what matters most to the stakeholders and enquiring the management as to whether the description in the Integrated Report accurately reflects their understanding.
- » Checked the Board of Directors meeting minutes during the financial year to ensure consistency with the content of the Integrated Report.

- » Tested the relevant supporting evidence related to qualitative & quantitative disclosures within the Integrated Report against identified material aspects.
- » Read the Integrated Report in its entirety for consistency with our overall knowledge obtained during the assurance engagement

We also performed such other procedures as we considered necessary in the circumstances.

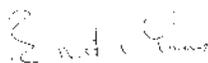
Emphasis of matter

Economic, Natural, Social and Intellectual capital management data/information are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Integrated Annual Report.

Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to the Entity's Integrated Annual Report as of 31st March 2023 in order for it to be in accordance with the Criteria.



31 May 2023
Colombo

DECADE AT A GLANCE

Key Indicators		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating Results											
Net Interest Margin (NIM)	%	10.38	12.67	12.17	10.91	11.15	11.87	11.96	12.15	13.28	11.86
Interest Spread	%	9.45	11.55	11.09	9.59	9.65	10.32	10.46	10.62	11.98	9.15
Cost to Income	%	41.29	35.88	35.89	39.01	37.37	34.22	33.44	30.56	29.28	32.42
Financial Position											
Total Assets to Equity	No. of times	9.80	8.52	8.07	8.21	7.87	7.40	6.26	4.99	4.97	4.78
Debt to Equity	No. of times	8.54	7.15	6.73	6.89	6.58	6.02	5.01	3.74	3.77	3.60
Equity to Deposits	%	13.46	17.45	19.63	20.71	21.04	22.14	25.77	32.83	37.07	33.43
Investor Information											
Return on Equity (ROE)	%	23.23	30.88	40.40	34.09	30.52	29.93	25.04	26.58	28.29	23.78
Return on Assets (ROA)	%	2.33	3.40	4.89	4.18	3.80	3.93	3.70	4.78	5.68	4.88
Equity to Assets	%	10.21	11.74	12.40	12.17	12.70	13.51	15.98	20.05	20.11	20.90
Net Assets Value per Share	Rs.	11.20	14.31	18.91	22.58	27.70	33.26	41.51	50.88	59.65	68.79
Earnings per Share (EPS)	Rs.	2.42	3.94	6.71	7.07	7.67	9.12	9.36	12.28	15.63	15.27
Dividend per Share (DPS)	Rs.	6.50	10.00	7.50	9.00	11.00	12.00	-	7.00	5.00	5.00
Dividend Cover	No. of times	2.98	3.15	3.58	3.14	2.79	3.04	-	1.75	3.13	3.05
Dividend Yield	%	6.49	6.66	7.07	7.60	9.25	9.99	-	14.77	8.62	9.09
Dividend Payout	%	33.59	31.74	27.94	31.82	35.84	32.88	-	57.01	31.98	32.74
Price Earning Ratio (PE)	No. of times	5.17	4.77	3.95	4.19	3.87	3.29	3.22	3.86	3.71	3.60
Price to Book Value (PBV)	No. of times	1.12	1.31	1.40	1.31	1.07	0.90	0.73	0.93	0.97	0.80
Market Price per Share	Rs.	100.10	150.20	106.10	118.40	118.90	120.10	120.50	47.40	58.00	55.00
Market Capitalisation	Rs. Million	6,933	10,402	14,696	16,400	16,469	16,636	16,691	26,262	32,135	30,473
Interest Cover	No. of times	1.26	1.56	1.92	1.72	1.56	1.60	1.56	1.81	2.35	1.57
Growth											
Income	%	19.88	8.51	5.81	23.76	29.35	16.90	6.64	(4.67)	1.32	41.77
Interest Income	%	20.78	7.65	5.42	24.13	30.62	16.97	6.57	(5.84)	0.19	44.10
Interest Expense	%	20.05	(16.65)	(2.96)	40.52	41.74	12.64	5.13	(15.37)	(23.23)	133.03
Net Interest Income	%	21.72	38.76	11.86	13.20	21.41	21.16	7.86	2.51	17.13	1.95
Profit before Taxation	%	(26.05)	78.33	59.81	10.33	10.26	19.50	(1.68)	22.29	27.98	(1.38)
Profit after Taxation	%	(21.27)	62.84	70.37	5.39	8.49	18.91	2.62	31.15	27.33	(2.33)
Total Assets	%	12.16	11.06	25.13	21.59	17.57	12.89	5.55	(2.35)	16.92	10.94
Lending Portfolio	%	9.99	13.75	27.87	24.59	14.80	10.85	4.78	(3.98)	17.75	8.03
Customer Deposits	%	18.98	(1.44)	17.50	13.16	20.76	14.08	7.26	(3.81)	3.82	27.90
Equity	%	16.48	27.72	32.20	19.37	22.70	20.06	24.81	22.56	17.23	15.34
Employee											
Profit before Tax per Employee	Rs. '000	875	1,387	1,940	1,823	1,883	2,139	2,110	2,631	3,116	3,298
Profit after Tax per Employee	Rs. '000	627	908	1,354	1,216	1,235	1,397	1,438	1,923	2,266	2,375
Total Assets per Employee	Rs. '000	28,497	28,131	30,800	31,904	35,112	37,697	39,923	39,755	43,005	51,192
No. of Branches		134	135	146	154	159	163	165	169	181	192
No. of Employees		2,134	2,401	2,744	3,221	3,441	3,618	3,606	3,536	3,822	3,562
Employees per Branch		16	18	19	21	22	22	22	21	21	19

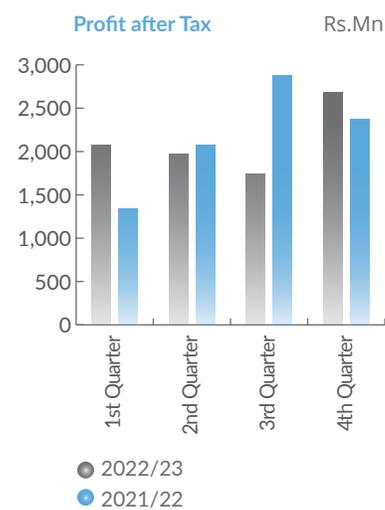
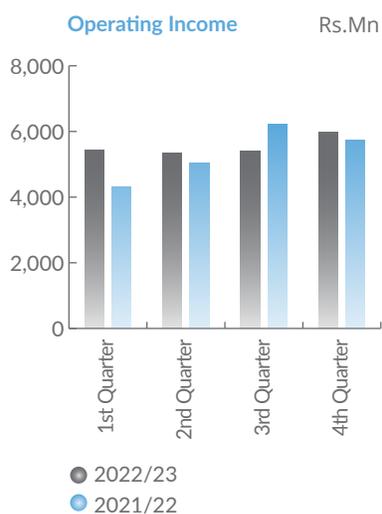
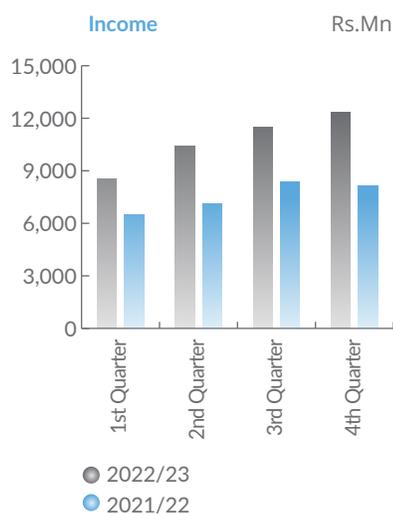
Financial Statements - Company

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Income Statement										
Income	13,628,497	14,787,757	15,646,467	19,363,429	25,046,202	29,278,024	31,222,860	29,766,124	30,159,476	42,756,458
Interest Income	12,714,089	13,687,070	14,428,729	17,909,935	23,394,115	27,363,768	29,160,292	27,457,741	27,510,530	39,643,934
Interest Expenses	7,137,897	5,949,496	5,773,255	8,112,337	11,498,408	12,951,323	13,615,391	11,522,802	8,846,608	20,615,585
Net Interest Income	5,576,191	7,737,574	8,655,474	9,797,599	11,895,707	14,412,445	15,544,901	15,934,939	18,663,922	19,028,349
Other Operating Income	914,408	1,100,686	1,217,737	1,453,493	1,652,087	1,914,256	2,062,567	2,308,383	2,648,946	3,112,524
Total Operating Income	6,490,600	8,838,260	9,873,212	11,251,092	13,547,795	16,326,701	17,607,469	18,243,322	21,312,868	22,140,873
Impairment Charges	1,942,291	2,019,766	411,793	(40,064)	670,623	983,154	1,831,057	1,691,734	1,025,981	545,744
Total Operating Expenses	2,559,981	3,171,408	3,543,352	4,389,212	5,062,788	5,587,279	5,887,565	5,575,890	6,239,874	7,178,002
Tax on Financial Services	119,936	315,232	593,452	1,027,101	1,336,693	2,015,619	2,278,560	1,669,323	2,136,551	2,670,575
Profit before Taxation	1,868,390	3,331,853	5,324,615	5,874,843	6,477,691	7,740,649	7,610,287	9,306,375	11,910,462	11,746,552
Income Tax Expense	528,361	1,149,727	1,606,822	1,956,639	2,226,969	2,685,989	2,423,234	2,503,778	3,248,604	3,286,221
Profit for the Year	1,340,029	2,182,126	3,717,792	3,918,204	4,250,721	5,054,660	5,187,053	6,802,597	8,661,858	8,460,331
Statement of Financial Position										
Assets										
Cash and Cash Equivalents	1,865,100	6,067,670	6,051,898	2,895,085	5,874,375	4,040,586	6,162,637	6,187,300	14,458,986	4,524,032
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	7,595	10,063	10,645	10,068	9,683	6,866	4,648	10,862	13,208	10,653
Financial Assets at Amortised Cost - Loans and Receivables	18,893,238	22,262,761	26,449,169	33,488,779	39,855,398	47,395,025	58,239,254	66,778,188	92,837,601	111,093,620
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	30,299,455	33,695,516	45,104,836	55,660,963	62,489,686	66,050,429	60,626,670	47,359,635	41,558,002	34,095,554
Financial Assets Measured at Fair Value Through Other Comprehensive Income	1,468,602	140,587	138,411	118,021	121,624	89,710	59,141	77,789	86,102	117,388
Other Financial Assets	5,186,548	2,140,178	4,142,716	6,721,526	6,772,554	10,804,517	9,119,681	10,453,903	5,598,624	21,685,834
Other Non Financial Assets	817,629	1,206,275	538,898	305,047	815,808	1,067,360	967,469	920,406	454,711	474,347
Investment in Subsidiaries	-	-	-	-	152,915	318,999	521,162	521,162	921,162	921,998
Property, Plant and Equipment	2,067,928	1,984,160	2,045,295	3,514,356	4,680,619	6,577,379	8,221,248	8,241,259	8,421,741	8,633,347
Intangible Assets	36,425	35,305	34,765	49,189	48,119	39,847	41,809	26,021	14,875	22,628
Deferred Tax Assets	171,857	-	-	-	-	-	-	-	-	767,186
Total Assets	60,814,380	67,542,519	84,516,636	102,763,035	120,820,780	136,390,718	143,963,719	140,576,525	164,365,012	182,346,587
Liabilities										
Due to Banks	1,423,642	7,703,265	14,577,233	23,778,147	22,838,038	24,633,508	22,771,085	16,467,179	26,858,737	19,369,784
Financial Liabilities at Amortised Cost - Due to Depositors	46,095,205	45,430,551	53,379,801	60,401,955	72,943,833	83,214,949	89,256,435	85,860,070	89,143,982	114,011,699
Debt Instruments Issued and Other Borrowed Funds	5,475,903	3,529,575	2,601,282	2,044,216	5,152,832	3,107,783	3,111,186	3,113,916	8,564,617	3,882,024
Other Financial Liabilities	1,165,526	1,776,066	1,869,940	2,007,402	1,761,418	1,974,490	2,766,410	3,043,526	3,305,112	3,255,862
Other Non Financial Liabilities	250,496	516,719	597,806	673,436	852,715	2,070,632	909,266	1,028,054	1,134,771	1,090,091
Current Tax Liabilities	103,717	534,744	741,251	691,091	633,058	1,395,971	766,752	1,872,154	1,882,242	2,255,830
Deferred Tax Liabilities	-	11,930	143,142	503,488	1,058,750	1,309,722	1,037,580	637,073	111,486	-
Post Employment Benefit Liability	93,198	112,574	126,858	153,621	231,240	256,512	345,456	365,265	316,973	365,557
Total Liabilities	54,607,691	59,615,427	74,037,317	90,253,356	105,471,884	117,963,567	120,964,170	112,387,237	131,317,920	144,230,847
Equity										
Stated Capital	838,282	838,282	838,282	838,282	838,282	838,282	838,282	838,282	838,282	838,282
Reserves	2,103,132	1,908,324	2,670,537	3,412,318	4,270,522	5,210,097	6,216,939	7,596,106	8,038,658	8,493,049
Retained Earnings	3,265,273	5,180,485	6,970,499	8,259,079	10,240,092	12,378,772	15,944,328	19,754,900	24,170,152	28,784,409
Total Equity	6,206,688	7,927,091	10,479,319	12,509,680	15,348,896	18,427,151	22,999,549	28,189,288	33,047,092	38,115,740
Total Liabilities and Equity	60,814,380	67,542,519	84,516,636	102,763,035	120,820,780	136,390,718	143,963,719	140,576,525	164,365,012	182,346,587

QUARTERLY FINANCIAL STATEMENTS

Income Statement - Company

For the 3 Months Ended	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	30.06.2022	30.06.2021	30.09.2022	30.09.2021	31.12.2022	31.12.2021	31.03.2023	31.03.2022
	Rs. '000	Rs. '000						
Income	8,524,817	6,519,387	10,387,022	7,114,937	11,496,971	8,387,950	12,347,648	8,137,202
Interest Income	7,738,975	6,082,300	9,539,093	6,535,601	10,805,229	7,674,622	11,560,637	7,218,007
Less: Interest Expenses	3,082,431	2,192,548	5,046,984	2,084,305	6,107,231	2,169,073	6,378,939	2,400,682
Net Interest Income	4,656,544	3,889,752	4,492,109	4,451,296	4,697,998	5,505,549	5,181,698	4,817,325
Fee and Commission Income	755,941	402,466	747,088	541,459	672,177	673,975	775,859	849,811
Net Trading Income	(3,759)	(2,737)	6,304	154	(5,285)	14,326	644	(9,350)
Other Operating Income	33,660	37,358	94,537	37,723	24,850	25,027	10,508	78,734
Total Operating Income	5,442,386	4,326,839	5,340,038	5,030,632	5,389,740	6,218,877	5,968,709	5,736,520
Less: Impairment Charges	190,998	593,955	247,717	166,495	88,543	(160,711)	18,487	426,242
Net Operating Income	5,251,388	3,732,884	5,092,321	4,864,137	5,301,197	6,379,588	5,950,222	5,310,278
Less: Operating Expenses								
Personnel Expenses	869,309	763,260	880,132	784,334	867,700	862,105	927,996	790,255
Depreciation of Property, Plant and Equipment	207,538	180,062	199,705	200,920	204,049	205,953	205,441	202,775
Amortisation of Intangible Assets	2,258	3,529	2,035	2,895	1,639	2,459	2,251	2,263
Other Operating Expenses	630,520	530,654	630,659	472,162	751,406	609,231	795,363	627,017
Operating Profit before Tax on Financial Services	3,541,763	2,255,379	3,379,790	3,403,826	3,476,403	4,699,840	4,019,171	3,687,968
Less: Tax on Financial Services	614,079	367,975	598,294	503,662	692,881	667,228	765,321	597,686
Profit before Taxation	2,927,684	1,887,404	2,781,496	2,900,164	2,783,522	4,032,612	3,253,850	3,090,282
Less: Income Tax Expense	856,002	544,514	815,940	830,266	1,038,205	1,150,470	576,074	723,354
Profit for the Year	2,071,682	1,342,890	1,965,556	2,069,898	1,745,317	2,882,142	2,677,776	2,366,928



Statement of Financial Position - Company

As at	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	30.06.2022	30.06.2021	30.09.2022	30.09.2021	31.12.2022	31.12.2021	31.03.2023	31.03.2022
	Rs. '000							
Assets								
Cash and Cash Equivalents	9,366,958	10,715,053	6,313,830	11,653,336	5,843,040	13,910,952	4,524,032	14,458,986
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	9,448	8,126	15,752	8,280	10,467	22,606	10,653	13,208
Financial Assets at Amortised Cost - Loans and Receivables	99,951,306	69,311,663	107,528,012	74,465,307	112,140,521	81,983,566	111,093,620	92,837,601
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	38,681,820	45,497,073	37,048,400	43,425,016	35,441,300	42,285,442	34,095,554	41,558,002
Financial Assets Measured at Fair Value Through Other Comprehensive Income	71,368	64,385	109,940	73,567	99,968	111,614	117,388	86,102
Other Financial Assets	8,231,082	8,903,760	13,999,273	4,170,689	13,057,631	6,780,511	21,685,834	5,598,624
Other Non Financial Assets	512,327	720,849	603,070	573,839	587,502	503,859	474,347	454,711
Investment in Subsidiaries	921,997	521,162	921,998	521,162	921,998	521,162	921,998	921,162
Property, Plant and Equipment and Right-of-Use Assets	8,488,014	8,428,955	8,499,623	8,516,970	8,590,201	8,484,920	8,633,347	8,421,741
Intangible Assets	12,618	22,492	10,583	19,598	17,581	17,139	22,628	14,875
Deferred Tax Assets	-	-	-	-	-	-	767,186	-
Total Assets	166,246,938	144,193,518	175,050,481	143,427,764	176,710,209	154,621,771	182,346,587	164,365,012
Liabilities								
Due to Banks	23,442,194	15,499,407	26,527,662	17,701,871	23,700,712	20,693,815	19,369,784	26,858,737
Financial Liabilities at Amortised Cost - Due to Depositors	94,049,620	86,800,380	100,541,867	84,222,357	107,635,568	87,607,227	114,011,699	89,143,982
Debt Instruments Issued and Other Borrowed Funds	8,201,488	5,991,918	8,402,045	6,152,696	3,968,260	7,605,051	3,882,024	8,564,617
Other Financial Liabilities	3,042,460	2,963,143	3,220,951	3,182,720	3,224,748	3,126,155	3,255,862	3,305,112
Other Non Financial Liabilities	3,638,864	1,205,927	1,270,104	1,127,937	1,022,903	1,206,463	1,090,091	1,134,771
Current Tax Liabilities	1,757,335	1,202,292	962,460	638,109	1,289,975	1,056,397	2,255,830	1,882,242
Deferred Tax Liabilities	111,486	637,073	111,486	637,072	111,486	637,072	-	111,486
Post Employment Benefit Liability	327,698	374,605	333,986	383,378	341,292	387,777	365,557	316,973
Total Liabilities	134,571,145	114,674,745	141,370,561	114,046,140	141,294,944	122,319,957	144,230,847	131,317,920
Equity								
Stated Capital	838,282	838,282	838,282	838,282	838,282	838,282	838,282	838,282
Reserves	8,127,585	7,851,279	8,264,434	8,274,441	8,341,729	8,888,916	8,493,049	8,038,658
Retained Earnings	22,709,926	20,829,212	24,577,204	20,268,901	26,235,254	22,574,616	28,784,409	24,170,152
Total Equity	31,675,793	29,518,773	33,679,920	29,381,624	35,415,265	32,301,814	38,115,740	33,047,092
Total Liabilities and Equity	166,246,938	144,193,518	175,050,481	143,427,764	176,710,209	154,621,771	182,346,587	164,365,012
Quarterly NPL Information								
NPL Ratio - Gross	5.07%	6.08%	4.81%	6.65%	4.44%	5.39%	4.45%	4.44%
NPL Ratio - Net	-0.18%	0.35%	-0.33%	0.88%	-0.67%	-0.03%	-0.65%	-0.80%

FINANCIAL STATEMENTS IN USD

Following Income Statement, Statement of Comprehensive Income and Statement of Financial Position have been presented in USD purely for the information purposes of stakeholders.

Income Statement (USD)

Year ended 31 March	Company			Group		
	2023	2022	Change	2023	2022	Change
	USD '000	USD '000	%	USD '000	USD '000	%
Income	130,755	92,232	42	131,907	92,225	43
Interest Income	121,236	84,131	44	122,243	84,117	45
Less: Interest Expenses	63,045	27,054	>100	63,193	27,103	>100
Net Interest Income	58,191	57,077	2	59,050	57,014	4
Fee and Commission Income	9,025	7,547	20	9,133	7,569	21
Net Trading Income	(6)	7	(>100)	(6)	7	(>100)
Other Operating Income	500	547	(9)	537	532	1
Total Operating Income	67,710	65,178	4	68,714	65,122	6
Less: Impairment Charges	1,669	3,138	(47)	1,588	3,400	(53)
Net Operating Income	66,041	62,040	6	67,126	61,722	9
Less: Operating Expenses						
Personnel Expenses	10,841	9,786	11	11,222	9,930	13
Depreciation of Property, Plant and Equipment	2,498	2,415	3	2,551	2,425	5
Amortisation of Intangible Assets	25	34	(27)	41	44	(7)
Other Operating Expenses	8,587	6,847	25	8,907	6,945	28
Total Operating Expenses	21,951	19,082	15	22,721	19,344	17
Operating Profit before Tax on Financial Services	44,090	42,958	3	44,405	42,378	5
Less: Tax on Financial Services	8,167	6,534	25	8,188	6,534	25
Profit before Taxation	35,923	36,424	(1)	36,217	35,844	1
Less: Income Tax Expense	10,050	9,935	1	10,062	9,923	1
Profit for the Year	25,873	26,489	(2)	26,155	25,921	1
Profit Attributable to:						
Equity Holders of the Company	25,873	26,489	(2)	26,160	26,088	0
Non-Controlling Interest	-	-	-	(5)	(167)	(97)
Profit for the Year	25,873	26,489	(2)	26,155	25,921	1
Earnings Per Share: Basic/Diluted (USD)	0.05	0.05	(2)	0.05	0.05	0
Dividend per Share (USD)	0.02	0.02	-			

A common exchange rate of LKR 327 to 1 USD has been used on both current financial year and the previous financial year for the ease of comparison.

Statement of Comprehensive Income (USD)

Year ended 31 March	Company			Group		
	2023	2022	Change	2023	2022	Change
	USD '000	USD '000	%	USD '000	USD '000	%
Profit for the Year	25,873	26,489	(2)	26,155	25,921	1
Other Comprehensive Income that will be Reclassified to Income Statement						
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations	-	-	-	(216)	360	(>100)
Net Other Comprehensive Income that will be Reclassified to Income Statement	-	-	-	(216)	360	(>100)
Other Comprehensive Income that will never be Reclassified to Income Statement						
Net Gains/(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income	96	27	>100	96	27	>100
Actuarial Gains/(Losses) on Defined Benefit Plans	23	263	(91)	25	263	(91)
Less: Deferred Tax Charge/(Reversal) on Actuarial Gains and Losses	7	63	(89)	7	63	(89)
Net Actuarial Gains/(Losses) on Defined Benefit Plans	16	200	(92)	18	200	(91)
Net Other Comprehensive Income that will never be Reclassified to Income Statement	112	227	(51)	114	227	(50)
Other Comprehensive Income for the Year, Net of Tax	112	227	(51)	(102)	587	(>100)
Total Comprehensive Income for the Year, Net of Tax	25,985	26,716	(3)	26,053	26,508	(2)
Attributable to:						
Equity Holders of the Company	25,985	26,716	(3)	26,058	26,675	(2)
Non-Controlling Interest	-	-	-	(5)	(167)	(97)
Total Comprehensive Income for the Year, Net of Tax	25,985	26,716	(3)	26,053	26,508	(2)

A common exchange rate of LKR 327 to 1 USD has been used on both current financial year and the previous financial year for the ease of comparison.

FINANCIAL STATEMENTS IN USD

Statement of Financial Position (USD)

As at 31 March	Company			Group		
	2023	2022	Change	2023	2022	Change
	USD '000	USD '000	%	USD '000	USD '000	%
Assets						
Cash and Cash Equivalents	13,835	44,217	(69)	14,315	44,754	(68)
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	33	40	(19)	33	40	(19)
Financial Assets at Amortised Cost - Loans and Receivables	339,736	283,907	20	343,216	287,147	20
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	104,268	127,089	(18)	104,403	127,340	(18)
Financial Assets Measured at Fair Value Through Other Comprehensive Income	359	263	36	359	263	36
Other Financial Assets	66,318	17,121	>100	66,393	17,296	>100
Other Non Financial Assets	1,451	1,391	4	1,690	1,531	10
Investment in Subsidiaries	2,820	2,817	0	-	-	-
Property, Plant and Equipment and Right-of-Use Assets	26,402	25,755	3	26,505	25,838	3
Investment Properties	-	-	-	14	218	(94)
Intangible Assets	69	45	52	414	401	3
Deferred Tax Assets	2,346	-	-	2,346	-	-
Total Assets	557,637	502,645	11	559,688	504,828	11
Liabilities						
Due to Banks	59,235	82,137	(28)	59,304	82,147	(28)
Financial Liabilities at Amortised Cost - Due to Depositors	348,660	272,612	28	349,383	273,635	28
Debt Instruments Issued and Other Borrowed Funds	11,872	26,191	(55)	11,872	26,191	(55)
Other Financial Liabilities	9,957	10,107	(1)	10,040	10,225	(2)
Other Non Financial Liabilities	3,334	3,470	(4)	3,531	3,616	(2)
Current Tax Liabilities	6,899	5,756	20	6,917	5,734	21
Deferred Tax Liabilities	-	341	-	-	341	-
Post Employment Benefit Liability	1,118	969	15	1,124	990	13
Total Liabilities	441,075	401,583	10	442,171	402,879	10
Equity						
Stated Capital	2,564	2,564	-	2,564	2,564	-
Reserves	25,973	24,583	6	26,578	25,405	5
Retained Earnings	88,025	73,915	19	88,057	73,657	20
Total Equity Attributable to Equity Holders of the Company	116,562	101,062	15	117,199	101,626	15
Non-Controlling Interest	-	-	-	318	323	(2)
Total Equity	116,562	101,062	15	117,517	101,949	15
Total Liabilities and Equity	557,637	502,645	11	559,688	504,828	11
Commitments and Contingencies	7,352	5,182	42	7,352	5,182	42
Net Asset Value per Share (USD)	0.21	0.18	15	0.21	0.18	15

A common exchange rate of LKR 327 to 1 USD has been used on both current financial year and the previous financial year for the ease of comparison.

LIST OF ABBREVIATIONS

AFS	Available for Sale
AGM	Annual General Meeting
ALCO	Assets and Liabilities Management Committee
APSP	Average Petroleum Spot Price
ASPI	All Share Price Index
ATM	Automated Teller Machine
AWDR	Average-Weighted Deposit Rate
AWFDR	Average-Weighted Fixed Deposit Rate
AWPLR	Average Weighted Prime Lending Rate
BFI	Banking Finance Insurance
BN	Billion
BOD	Board of Directors
BPO	Business Process Outsource
BPS	Basis Points
CAR	Capital Adequacy Ratio
CBSL	Central Bank of Sri Lanka
CDS	Central Depository System
CDM	Cash Deposit Machine
CMU	Customer Management Unit
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CRO	Chief Risk Officer
CRM	Customer Relationship Management
CSE	Colombo Stock Exchange
CSR	Corporate Social Responsibility
DR	Disaster Recovery
EIR	Effective Interest Rate
EPF	Employees' Provident Fund
EPS	Earnings per Share
ERP	Enterprise Resource Planning System
ESC	Economic Service Charge
ETF	Employees' Trust Fund
FVtPL	Fair Value through Profit or Loss
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
HFT	Held for Trading
HODs	Head of Departments
HP	Hire Purchase
HTM	Held to Maturity
ICASL	The Institute of Chartered Accountants of Sri Lanka
IFA	Investment Fund Account
IFRS	International Financial Reporting Standard
IIRC	International Integrated Reporting Council
BIRMC	Board Integrated Risk Management Committee
IRMU	Integrated Risk Management Unit
ISO	International Standard Organisation
IT	Information Technology
KMP	Key Management Personnel
KPIs	Key Performance Indicators
KRIs	Key Risk Indicators

L&R	Loans and Receivables
LRA	Lanka Rating Agency
LBF	L B Finance PLC
LBMF	LB Microfinance Myanmar Company Limited
LCB	Licensed Commercial Bank
LFC	Licensed Finance Company
LKAS	Lanka Accounting Standards
LKR	Sri Lankan Rupees
LTV	Loan to Value
MN	Million
M3	Cubic Meter
MOU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
MRMR	Monthly Risk Management and Reporting
NBFI	Non-Bank Financial Institutions
NBT	Nation Building Tax
NCRE	Non-Conventional Renewable Energy
NPA	Non-Performing Advances
NII	Net Interest Income
NIM	Net Interest Margin
NPL	Non-Performing Loans
OCI	Other Comprehensive Income
PAT	Profit after Tax
PAYE	Pay As You Earn
PDC	Product Development Committee
PER	Price Earnings Ratio
PLC	Public Limited Company
RMD	Risk Management Department
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
RWA	Risk-Weighted Assets
SBU's	Strategic Business Units
SEC	Securities and Exchange Commission
SLC	Specialised Leasing Company
SLA	Statutory Liquid Assets
SLAR	Statutory Liquid Asset Ratio
SLAS	Sri Lanka Accounting Standard
SLCF	Sri Lanka Carbon Fund
SLFRS	Sri Lanka Financial Reporting Standard
SLIPS	Sri Lanka Inter-Bank Payment System
SME	Small and Medium Enterprises
UOM	Unit of Measurement
USD	US Dollar
VAR	Value at Risk
VAT	Value Added Tax
WHT	Withholding Tax

GLOSSARY OF TERMS

A

ACCOUNTING POLICIES

Accounting policies The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

ACCRUAL BASIS

The system of accounting wherein revenue is recognised at the time it is earned and expenses at the time they are incurred, regardless of whether cash has actually been received or paid out.

ALLOWANCE FOR IMPAIRMENT

A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

AMORTISATION

The systematic allocation of the depreciable amount of an intangible asset over its useful life. Amortised cost Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any deduction for impairment or uncollectability.

ASSET AND LIABILITY COMMITTEE (ALCO)

The committee that is responsible for managing assets and liabilities of the Company.

AVERAGE WEIGHTED DEPOSIT RATE (AWDR)

AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates. Average weighted prime lending rate (AWPLR) AWPLR is calculated by the Central Bank weekly based on commercial bank's lending rates offered to their prime customers during the week

B

BASIS POINT (BP)

One hundred of a percentage point (0.01 per cent); 100 basis points is 1 percentage points: Used in quoting movements in interest rates or yields on securities.

C

CAPITAL ADEQUACY RATIO

The relationship between capital and risk weighted assets as prescribed by the Central Bank of Sri Lanka.

CASH EQUIVALENTS

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CASH FLOWS

Cash equivalents are short-term, highly liquid investment that are readily convertible to know amount of cash and which are subject to an insignificant risk of changes in value.

COLLECTIVE IMPAIRMENT

Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant and to cover losses that have been incurred but has not yet been identified at the reporting date.

COMMERCIAL PAPER (CP)

An unsecured, debt instrument issued by a company, to finance short-term funding requirements. The debt is usually issued at a discount, reflecting prevailing market interest rate.

COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the reporting date. Compounded annual growth rate (CAGR) The rate at which it would have grown if it grew at an even rate compounded annually.

CONTINGENCIES

A condition or situation existing at reporting date where the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

COST METHOD

A method of accounting where by the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profiles of the investee rising subsequent to the date of acquisition.

CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

CORPORATE SUSTAINABILITY

Business approach that creates long-term consumer and employee value by creating a 'green' strategy aimed toward the natural environment and taking into consideration every dimension of how a business operates in the social, cultural and economic environment.

COHORT METHOD

A study design where one or more samples (called Cohorts) are followed prospectively and subsequent status evaluation with or outcome are conducted to determine which initial participants exposure characteristics (risk factors) are associated with it.

COST TO INCOME RATIO

Operating expenses excluding impairment charge/gold loan auction losses as a percentage of total operating income (net of interest expenses).

CREDIT RATING

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

CREDIT RISK

Risk of financial loss, if a customer or counterparty fails to meet an obligation under a contract.

CREDIT RISK MITIGATION

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

CUSTOMER DEPOSITS

Money deposited by account holders. Such funds are recorded as liabilities.

D

DEFERRED TAXATION

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

DEPRECIATION

The systematic allocation of the depreciable amount of an asset over its useful life.

DERECOGNITION

Removal of a previously recognised financial asset or liability from an entity's Statement of Financial Position.

DISCOUNT RATE

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

DIVIDEND COVER

Profit attributable to ordinary shareholders as a percentage of gross dividends; indicates number of times dividend is covered by current year's distributable profits.

DIVIDEND PAY-OUT RATIO

Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

DIVIDEND PER SHARE (DPS)

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

DIVIDEND YIELD

Dividend expressed as a percentage of market value of a share. In absence of any capital gains, this shows the return on investing on a share relative to its market price.

E

EARNINGS PER SHARE (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's earnings attributable to an ordinary share in issue.

ECONOMIC VALUE ADDED (EVA)

A measure of performance considering cost of total invested equity.

EFFECTIVE INTEREST RATE (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

EFFECTIVE TAX RATE

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

EQUITY METHOD

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee

EVENTS AFTER THE REPORTING PERIOD

Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, but which give rise to the contingencies and commitments.

EXPOSURE

A claim, contingent claim or position which carries a risk of financial loss.

F

FAIR VALUE

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset or financial liability that is held-for trading or upon initial recognition designated by the entity as fair value through profit or loss.

FINANCE LEASE

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all risks and rewards of ownership to the lessee.

FINANCIAL ASSETS

Any asset that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity.

FINANCIAL GUARANTEE CONTRACT

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

FINANCIAL INSTRUMENT

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

FINANCIAL LIABILITIES

A contractual obligation to deliver cash or other financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

GLOSSARY OF TERMS

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.

GOING CONCERN

The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

GROSS DIVIDEND

The proportion of profit distributed to shareholders including the tax withheld.

GUARANTEES

An assurance made by a third party (Guarantor) who is not a party to contract between two others, that the guarantor will be liable if the Guarantee fails to fulfil the contractual obligation

H

HIRE PURCHASE

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I

IMPAIRED LOANS

Impaired loans are loans where the company does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

IMPAIRMENT

This occurs when the recoverable amount of an asset is less than its carrying amount.

IMPAIRMENT CHARGE/(REVERSAL)

An increase/(decrease) of the difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset compared to the previous reporting date.

INDIVIDUAL IMPAIRMENT

Impairment is measured on an individual basis for non-homogeneous groups of lending facilities that are considered as individually significant.

INDIVIDUAL SIGNIFICANT LOANS

Exposures which are above a certain threshold decided by the management which should be assessed for objective evidence, measurement and recognition of impairment on an individual basis.

INTANGIBLE ASSET

An identifiable non-monetary asset without physical substance.

INTEGRATED REPORTING

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long-term in its economic, social and environmental context.

INTEREST COVER

Earnings before interest and taxes divided by interest cost. This indicates the number of times interest expenses is covered by earnings before interest and tax; ability to cover interest expenses.

INTEREST SPREAD

Represents the difference between the average interest rate earned on average interest earning assets and the average interest rate paid on average interest bearing liabilities.

K

KEY MANAGEMENT PERSONNEL (KMP)

People those who are having authority and responsibility for planning, directing and controlling the activities of the entity.

L

LENDING PORTFOLIO

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

LETTER OF CREDIT (LC)

Written undertakings by a Bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily.

LOSS GIVEN DEFAULT (LGD)

The percentage of an exposure that a lender expects to lose in the event of obligor default.

LOAN TO VALUE RATIO (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

M

MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of a share as at a date.

MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of financial statement.

N

NET ASSETS VALUE PER SHARE (NAV)

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

NET INTEREST INCOME

The difference between interest income earned from interest earning assets and interest expenses incurred on interest-bearing liabilities.

NET INTEREST MARGIN (NIM)

Net interest income expressed as a percentage of average interest earning assets.

NON-PERFORMING LOANS/ ADVANCES (NPL)

The aggregate value of the advances portfolio that has been delinquent for a period of more than six months.

NON-PERFORMING LOANS COVER

Cumulative loan provision as a percentage of total non-performing loans (net of interest in suspense)

NPL RATIO

Total non-performing loans as a percentage of the total lending portfolio.

NON-RECURRING PROFIT

A one time or highly infrequent profit.

O

OFF-BALANCE SHEET TRANSACTIONS

Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, which give rise to the commitment and contingencies in future.

OPERATIONAL RISK

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

PRICE EARNINGS RATIO (P/E RATIO)

Market price of a share divided by earnings per share; reflects number of years that would be taken to recoup shareholders' capital outlay in the form of earnings.

PROBABILITY OF DEFAULT (PD)

An internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

R

RELATED PARTY

Parties have the ability to control or exert a significant influence over the company's financial and operating decisions.

RETURN ON ASSETS (ROA)

Net profit for the year expressed as a percentage of average total assets; indicates overall effectiveness in generating profits with available assets.

RETURN ON EQUITY (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average shareholders' funds/equity.

REPURCHASE AGREEMENT (REPO)

Contract to sell and subsequently repurchase government securities at a specified date and price.

RISK-WEIGHTED ASSETS

On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

S

SHAREHOLDERS' FUNDS

Total of issued and fully paid share capital and revenue reserves.

T

TIER I CAPITAL

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

TIER II CAPITAL

Supplementary capital representing revaluation reserves, general provisions and debt instruments such as subordinated term debts and other hybrid capital instruments which combine certain characteristics of equity and debt.

TOTAL SHAREHOLDER RETURN

Combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage.

U

USEFUL LIFE

The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

VALUE ADDED

Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y

YIELD TO MATURITY

Discount rate at which the present value of future cash flows would equals the security's current price.

CORPORATE INFORMATION

NAME OF COMPANY

L B Finance PLC

LEGAL FORM

Public Limited Liability Company
Incorporated in Sri Lanka under the provisions of the Companies Ordinance No.51 of 1938 (Cap 145) and re-registered as per the Companies Act No. 07 of 2007 on 06th June, 2008.

A Licensed Finance Company under the Finance Business Act No. 42 of 2011.

A Registered Financed Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000.

STOCK EXCHANGE LISTING

The Company was admitted to the official list of the Colombo Stock Exchange on 30th December, 1997, in which the Company's Ordinary Shares are listed currently.

DATE OF INCORPORATION

30th May 1971

COMPANY REGISTRATION NUMBER

PQ 156

TAX PAYER IDENTIFICATION NUMBER

104033431

VAT REGISTRATION NUMBER

104033431 7000

CENTRAL BANK REGISTRATION NUMBER

RFC 1003

PRINCIPAL ACTIVITIES

The Company provides a comprehensive range of financial services encompassing acceptance of Fixed Deposits, maintenance of Savings Accounts, providing Finance Leases and Vehicle Loan Facilities, Mortgage Loans, Gold Loans, Personal Loans, other Credit Facilities, Digital Financial Services and Value Added Services.

Principal Activities of the Company's Subsidiaries

L B Microfinance Myanmar Company Limited - carries on Microfinance lending in Myanmar.

Multi Finance PLC – carries on business as a Licensed Finance Company and its business activities include acceptance of Fixed Deposits, maintenance of Savings Accounts, providing Finance Leases and Vehicle Loan Facilities, Mortgage Loans, Gold Loans, Personal Loans, other Credit Facilities.

REGISTERED OFFICE

No. 275/75, Prof. Stanley Wijesundara Mawatha, Colombo 07.

Tel: 011- 2 200 000 Fax: 011-5 345 327

CORPORATE OFFICE

No. 20, Dharmapala Mawatha, Colombo 03.

Tel: 011-2 155 000 Fax: 011-2 575 098

OUTLETS

One Hundred and Ninety Two (192) Branches

WEBSITE

www.lbfinance.com

FINANCIAL YEAR END

31 March

CREDIT RATING

The Company has been affirmed a national long-term rating at A-(lka) Rating Watch Negative by Fitch Ratings Lanka Limited.

BOARD OF DIRECTORS AND BOARD APPOINTED COMMITTEES

Board of Directors

Mr. G A R D Prasanna
– Chairman

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

Mr. Sumith Adhithetty
(Managing Director)

Mr. Niroshan Udage
(Deputy Managing Director)

Mr. B D A Perera
(Executive Director)

Mr. Ravindra Yatawara
(Executive Director)

Mrs. Yogadinusha Bhaskaran
(Non-Executive Director)

Mrs. Ashwini Natesan
(Independent Non-Executive Director)

Mr. Dharmadasa Rangalle
(Non-Executive Director)

Ms. Yanika Amarasekera
– Independent Non-Executive Director

Board Audit Committee

Mrs. Yogadinusha Bhaskaran
(Chairperson)

Mr. Ashane Jayasekara
Mrs. Ashwini Natesan

Board Human Resource and Remuneration Committee

Mr. Ashane Jayasekara
(Chairman)

Mr. G A R D Prasanna
Ms. Yanika Amarasekera

Board Nomination Committee

Mr. Ashane Jayasekara
(Chairman)

Mr. G A R D Prasanna
Mrs. Ashwini Natesan

Board Related Party Transactions Review Committee

Mrs. Ashwini Natesan
(Chairperson)

Mr. Ashane Jayasekara

Mr. Dharmadasa Rangalle

Board Integrated Risk Management Committee

Mr. Ashane Jayasekara
(Chairman)

Mrs. Ashwini Natesan

Mrs. Yogadinusha Bhaskaran

SECRETARIES

P W Corporate Secretarial (Pvt) Ltd.
No. 3/17, Kynsey Road,
Colombo 08
Tel: 011- 4640360-3
Fax: 011- 4740588
Email: pwcs@pwcs.lk

EXTERNAL AUDITORS

Ernst & Young,
Chartered Accountants

INTERNAL AUDITORS

Internal Audit Department of the Company
under the scrutiny of the Chief Internal
Auditor.

BANKERS

Bank of Ceylon
Commercial Bank of Ceylon PLC
DFCC Bank PLC
Hatton National Bank PLC
National Development Bank PLC
Nations Trust Bank PLC
Pan Asia Banking Corporation PLC
People's Bank
Sampath Bank PLC
Seylan Bank PLC
Standard Chartered Bank
Union Bank of Colombo PLC
Habib Bank Limited
Public Bank Berhad

SUBSIDIARY COMPANY

**L B Microfinance Myanmar
Company Limited**

(Company incorporated in the Union of the
Republic of Myanmar)

Company Registration Number of Subsidiary

844FC of 2016 - 2017 (YGN)

Registered Office of Subsidiary

Myawaddy Bank Luxury Complex,
4th Floor
Apt 401 Bo Gyoke Road Cnr,
W A Dan Street
Lanmadaw Township
Yangon, Myanmar.

Board of Directors of Subsidiary

Mr. Sumith Adhietty
Mr. Nirosan Udage
Mr. B D A Perera
Mr. Ravindra Yatawara

Multi Finance PLC

Company Registration Number of Subsidiary

PB 891 PQ

Registered Office of Subsidiary

No. 275/75
Prof. Stanley Wijesundara Mawatha
Colombo 07
Telephone: 011-2200000
Fax: 011-5345327

Board of Directors of Subsidiary

Mr. G A R D Prasanna
Mr. Sumith Adhietty
Mr. Nirosan Udage
Mr. B D A Perera
Mr. Ravindra Yatawara
Mrs. Yogadinusha Bhaskaran
Mr. Dharmadasa Rangalle

CORPORATE MEMBERSHIPS AND ASSOCIATIONS

The Finance Houses Association of Sri Lanka
Leasing Association of Sri Lanka
The Ombudsman Sri Lanka (Guarantee)
Limited
Mercantile Cricket Association
Mercantile Football Association

NOTICE OF ANNUAL GENERAL MEETING

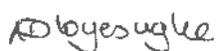
NOTICE IS HEREBY GIVEN that the Fiftieth (50th) Annual General Meeting of L B Finance PLC will be held at the Auditorium of the Corporate Office of the Company, No. 20, Dharmapala Mawatha, Colombo 3 on Friday, 30th June 2023 at 8.30 a. m. to conduct the following businesses:

1. To receive the Annual Report of the Board of Directors on the affairs of the Company and its subsidiaries and the Financial Statements for the year ended 31st March 2023 and the Report of the Auditors thereon.
2. To declare a Final Dividend of Rs. 3.00 per Ordinary Share as recommended by the Board of Directors.
3. To re-elect Mr. Ashane Jayasekara as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company.
4. To pass the Ordinary Resolution set out below to re-appoint Mr. John Anthony Sunil Sumith Adhihetty who attained the age of 72 years on 4th July 2022, as a Director of the Company;

"IT IS HEREBY RESOLVED THAT the age limit stipulated in Section 210 of the Companies Act No.07 of 2007 shall not apply to Mr John Anthony Sunil Sumith Adhihetty who attained the age of 72 years on 4th July 2022 and that he, be and is hereby re-appointed as a Director of the Company."

5. To re-appoint the retiring Auditors Messrs Ernst & Young, Chartered Accountants, as the Company's Auditors and to authorize the Directors to determine their remuneration.
6. To authorize the Directors to determine donations for the year ending 31st March 2024 and up to the date of the next Annual General Meeting.

By Order of the Board
LB Finance PLC



P W Corporate Secretarial (Pvt) Ltd
Secretaries

7 June 2023

Notes:

1. A shareholder is entitled to appoint a Proxy to attend and vote at the meeting on his/her behalf.
2. A Proxy need not be a shareholder of the Company.
3. A Form of Proxy accompanies this Notice.
4. Please refer to the circular to shareholders with regard to the health guidelines that should be followed by the shareholders/proxy holders who wish to attend to the Annual General Meeting.

FORM OF PROXY

I/We*

(holder of NIC No.) of

..... shareholder/s of L B FINANCE PLC hereby appoint

..... (holder of NIC No.) of

..... or failing him*

- | | |
|---|------------------|
| Mr. Godewatta Arachchige Rasika Dimuth Prasanna | or failing him * |
| Mr. Moderage Ashane Joseph Wass Jayasekara | or failing him* |
| Mr. John Anthony Sunil Sumith Adhihetty | or failing him* |
| Mr. Nirosan Udage | or failing him* |
| Mr. Biyanwilage Dudley Auburn Perera | or failing him* |
| Mr. Ravindra Shanaka Yatawara | or failing him* |
| Mrs Yogadinusha Bhaskaran | or failing her* |
| Mrs Ashwini Natesan | or failing her* |
| Mr. Dharmadasa Rangalle | or failing him* |
| Ms Yanika Amarasekera | |

as my/our* proxy to represent me/us* to speak and to vote as indicated hereunder for me/us* and on my/our* behalf at the Fiftieth (50th) Annual General Meeting of the Company to be held on 30th June 2023 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To declare a Final Dividend of Rs. 3.00 per Ordinary Share as recommended by the Board of Directors.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. Ashane Jayasekara as a Director in terms of Article 85 and 86 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To pass the Ordinary Resolution set out below to re-appoint Mr John Anthony Sunil Sumith Adhihetty who is 72 years of age, as a Director of the Company;	<input type="checkbox"/>	<input type="checkbox"/>
“IT IS HEREBY RESOLVED THAT the age limit stipulated in Section 210 of the Companies Act No.07 of 2007 shall not apply to Mr. John Anthony Sunil Sumith Adhihetty who attained the age of 72 years on 4th July 2022 and that he be and is hereby re-appointed a Director of the Company.”	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint the retiring Auditors Messrs Ernst & Young, Chartered Accountants as the Company's Auditors and authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorize the Directors to determine donations for the Financial Year ending 31st March 2024 up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our* hands this day of Two Thousand and Twenty Three.

.....
Signature of Shareholder/s

*Please delete what is inapplicable.

FORM OF PROXY

Instructions for completion

1. The full name, National Identity Card number and the registered address of the shareholder appointing the Proxy and the relevant details of the Proxy should be legibly entered in the Form of Proxy which should be duly signed and dated.
2. The completed Proxy should be deposited at the Registered Office of the Company, No.275/75, Professor Stanley Wijesundera Mawatha, Colombo 07, by 8.30 a.m. on 28th June 2023.
3. The Proxy shall –
 - (a) In the case of an individual be signed by the shareholder or by his/her attorney, and if signed by an Attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
 - (b) In the case of a company or corporate/statutory body either be under its Common Seal or signed by its Attorney or by an Officer on behalf of the company or corporate/statutory body in accordance with its Articles of Association or the Constitution or the Statute (as applicable).
4. Please indicate with a 'X' how the Proxy should vote on each resolution. If no indication is given, the Proxy in his/her discretion will vote as he/she thinks fit.
5. Articles 59 to 62 of the Articles of Association of the Company dealing with voting are quoted below for information of the shareholders.

59 METHOD OF VOTING

At any General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by-

- i. the Chairman of the meeting; or
- ii. not less than three persons present in person or by Attorney or representative or by proxy and entitled to vote; or
- iii. a Member or Members present in person or by Attorney or representative or by proxy and representing not less than one tenth of the total voting rights of all the Members having the right to vote at the meeting; or
- iv. a Member or Members present in person or by attorney or representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right.

A demand for a poll may be withdrawn, unless a poll be demanded (and the demand be not withdrawn) a declaration by the Chairman of the meeting that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

60 HOW A POLL IS TO BE TAKEN

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the meeting may direct, and the results of a poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The Chairman may (and if so requested shall) appoint scrutinizers and may adjourn the meeting to some place and time fixed by him for the purpose of declaring the result of the poll.

- 61 In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.
- 62 A poll demanded on the election of a Chairman of the meeting or on a question of an adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately.

FEEDBACK FORM – ANNUAL REPORT 2022/23

We would like to hear thoughts, concerns or problems about this report so that we may take measures for improvement.

Please mention your relationship with L B Finance – Please tick (✓) the appropriate box.

Shareholder	<input type="checkbox"/>	Employee	<input type="checkbox"/>	Customer	<input type="checkbox"/>
Business Partner	<input type="checkbox"/>	Regulators/Government	<input type="checkbox"/>	Society	<input type="checkbox"/>

Select the preferred communication method to contact you – Please tick (✓) the appropriate box.

Phone	<input type="checkbox"/>	Website	<input type="checkbox"/>	Letter	<input type="checkbox"/>
Email	<input type="checkbox"/>	Other	<input type="checkbox"/>		

Your views on Annual Report 2020/21 - Please tick (✓) the appropriate box.

Indicator	Excellent	Good	Bad	Poor
Design and layout	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Content and Disclosures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Theme and focus	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please write details of your feedback here:

.....

.....

.....

.....

Comments/Suggestions

.....

.....

.....

Please provide your contact details

Name :

Tel :

Email :

Thanking you for taking your time. You can post or Email your feedback to:

Manager – Integrated Reporting and Sustainability

LB Finance PLC

Corporate office

No. 20, Dharmapala Mawatha, Colombo 3.

Email : thusithaw@lbfinance.lk

Tel : 0112155504

Designed & produced by



Digital Plates & Printing by
Softwave Printing and Publishing (Pvt) Ltd



www.lbfinance.com