

L B Finance PLC | Annual Report 2021/22

Risk Management and Corporate Governance Report



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EMPOWERING THE JOURNEYS OF MANY

At L B Finance PLC, we believe that no journey can be undertaken alone. Over the years, even as we made new strides in the industry and achieved unmatched progress, we continued to value and nurture the partnerships we made along the way; driving the collective development of the individuals and communities that surrounded us, through a spirit of collaboration that ensured mutual growth.

Today, as we venture into the future, we reinforce our pledge to strengthen and prioritise the needs of the many stakeholders that have contributed towards our success story. We are focused on inspiring every individual who partners with us to embark on a path filled with infinite possibilities. We are doing far more than simply advancing steadily towards our goals. We are also enabling the countless lives we impact to experience the life they envision for themselves; assisting them to achieve their aspirations both now, and in the years ahead.

Read on, and discover how L B Finance is built on a foundation designed to empower the journeys of many.

INTEGRATED RISK MANAGEMENT REPORT



Risk management is at the core of LBF's operating structure. In fact the nature of the Group's business as a financial service provider requires risk management as a fundamental capability towards ensuring sustained growth and supporting consistent value generation over time.

Delivering on our mandate requires that we proactively manage both risks and opportunities and ensure that we do so in a sustainable manner at all times. In this past year, we continued to closely monitor developments related to the COVID-19 pandemic and its wide-ranging negative impacts. As part of our robust risk management process, we applied a number of stress scenarios to anticipate the consequences of plausible events like outright defaults and possible delays in the collection of maturing assets in part or in full in order to assess the adequacy of LBF's capital and liquidity. These stress tests revealed that LBF is well capitalised and has sufficient liquidity buffers to weather possible adverse scenarios. Even after considering the implications of the pandemic from the perspectives of solvency, liquidity, operational risk, credit risk, market risk, loan loss provisioning, the Group has not faced any significant challenges since the start of pandemic in 2020 and does not expect to face any material impact on its operations and financials. On a related note, we began a new initiative focused on creating a more cohesive Group-wide risk management framework through the wider application of our ERM framework at a subsidiary level.

We also remained vigilant on the economic uncertainties that arose in the latter part of 2021 as a result of the forex liquidity shortage in the Country. While LBF did not encounter any major impacts due to this scenario, the Group will continue to operate in a prudent manner to safeguard its capital and liquidity position in this uncertain environment.

Ashane Jayasekara
Chairman - Integrated Risk Management Committee

LBF'S RISK MANAGEMENT APPROACH

RISK UNIVERSE

LBF's risk universe represents the key (Quantitative and Qualitative) risks that the Company may be exposed to as a result of the environment in which it operates. What we consider to be our key risks are those that can have an impact on the Company's business model, ability to achieve its strategic objectives or sustainable growth of the Company.



Quantitative Risks

Credit risk

Liquidity risk

Market risk

Strategic risk

Capital management



Qualitative Risks

Operational risk

IT and Information Security risk

HR risk

Legal risk

Reputational risk



Emerging Risks

Forex crisis

Shortage of essential goods

Food shortage

Political instability

Social unrest

RISK MANAGEMENT PROCESS

RISK GOVERNANCE STRUCTURE

RISK GOVERNANCE FRAMEWORK

Reflecting its efforts to take a holistic approach towards managing the risks inherent to the Group's strategy, business and operations, LBF has adopted an Enterprise Risk Management (ERM) framework. By setting out a standardised mechanism to identify, assess, manage and mitigate all quantitative, qualitative and emerging risks within the Group's risk universe, the ERM framework ensures that risk management is entrenched in all facets of the Group's planning and decision-making processes at all levels of the business through a clearly defined risk governance structure.

RISK IDENTIFICATION

The purpose of risk identification is to detect and describe risks that may have bearing on LBF's ability to achieve its objectives. Various identification methodologies and techniques are applied to detect uncertainties and to identify risks, be it from the sources within the Group's control or otherwise.

We follow a two-pronged approach; a top-down risk assessment to determine significant events in our immediate operating environment as well as the broader operating context and how they may impact the strategic direction of our business over the medium and long term. This is paired with a bottom-up evaluation to identify operational risks that may impact the course of our day-to-day business activities.

This process has also proven to be a vital source for identifying new emerging frontier risks that have the potential to affect our business over time.

Risks are identified mainly by the 1st line of defense.

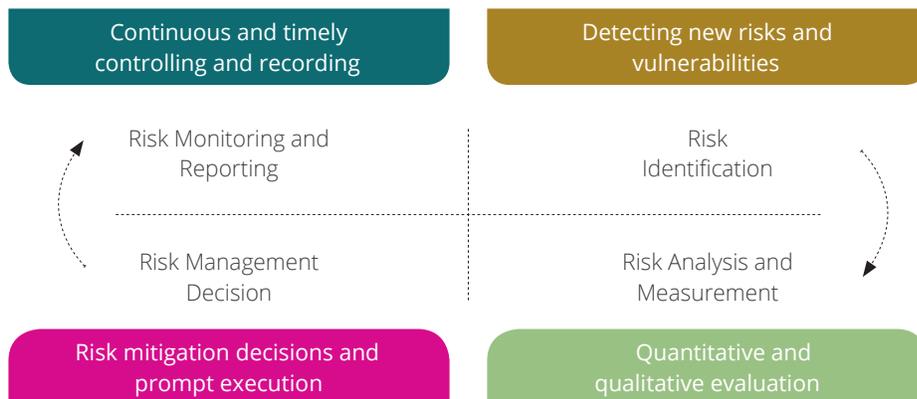
RISK ANALYSIS AND MEASUREMENT

The purpose of risk analysis is to comprehend the nature of risk and its characteristics. Risk analysis is undertaken in varying degrees of detail and complexity, depending on the purpose of the analysis, the availability and reliability of information. Analysis techniques can be qualitative, quantitative or a combination of these, depending on the circumstances and intended use.

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 2021/22

Event	Impact on Key Risk Categories				
	Default Risk	Credit Concentration Risk	Liquidity Risk	Market Risk	Operational Risk
Economic downturn induced by the pandemic	Low	Low	Low	-	-
Disruptions to agriculture sector	Low	-	-	-	-
Ban on vehicle imports	-	High	-	-	-
Power crisis	-	-	-	-	High

Risks are further analysed using the impact and likelihood matrix, to enable each risk category to be assigned a risk score. This process is applied to measure risks under normal and stressed conditions. In addition, branch-specific risk measurements are also performed in terms of operational risk.

The responsibility for risk analysis and measurement comes under the purview of LBF's Risk Management Department.

RISK TREATMENT AND INTEGRATION

The Risk Management Department under the guidance of the IRMC works to put in place appropriate treatment measures with due consideration that there may be more than one type of outcome, which may result in a variety of tangible or intangible consequences. Consequently, risks are accepted, transferred, mitigated or avoided, based on the outcome of risk evaluation. Risk treatment is typically an iterative process that may vary based on the severity of the risk score and the fluidity of the operating environment in which the score was established.

INTEGRATED RISK MANAGEMENT REPORT

Risk integration involves creating the necessary tools to implement risk treatment measures at a functional level. Board-approved Risk Appetite limits serve as the foundation for this purpose. Risk appetite limits are set for all key risk categories. Cascading from this, risk tolerance levels are established for all key risk indicators (KRIs), while a set of risk-specific policies and procedures ensure the necessary control framework for integrating risk principles at an operational level.

RISK MONITORING AND REPORTING

LBF's Risk Management Department undertakes to proactively monitor tolerance limits and KRIs for all risk categories. Risk monitoring also includes scheduled reviews with the risk owners for the identification of any emerging risks.

The Risk Register is the main tool used for reporting of risk. It contains details of ongoing risk identification, evaluation and mitigation efforts. The Risk Register is maintained under the stewardship of LBF's Risk Management Department and is used by the Head of the Risk Management Department to disseminate risk data and discuss new treatment actions with respective risk owners. The Risk Register is updated and key highlights are summarised and presented to the IRMC 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	IRMC
	Quarterly		BoD
Risk Database	Quarterly	RMD	IRMC
Top Risks	Quarterly	RMD	IRMC and BoD
Qualitative Risk Report	Quarterly	RMD	IRMC
Branch Risk Assessment	Quarterly	RMD	IRMC

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 (IRMC) to establish the parameters for the RAS by:

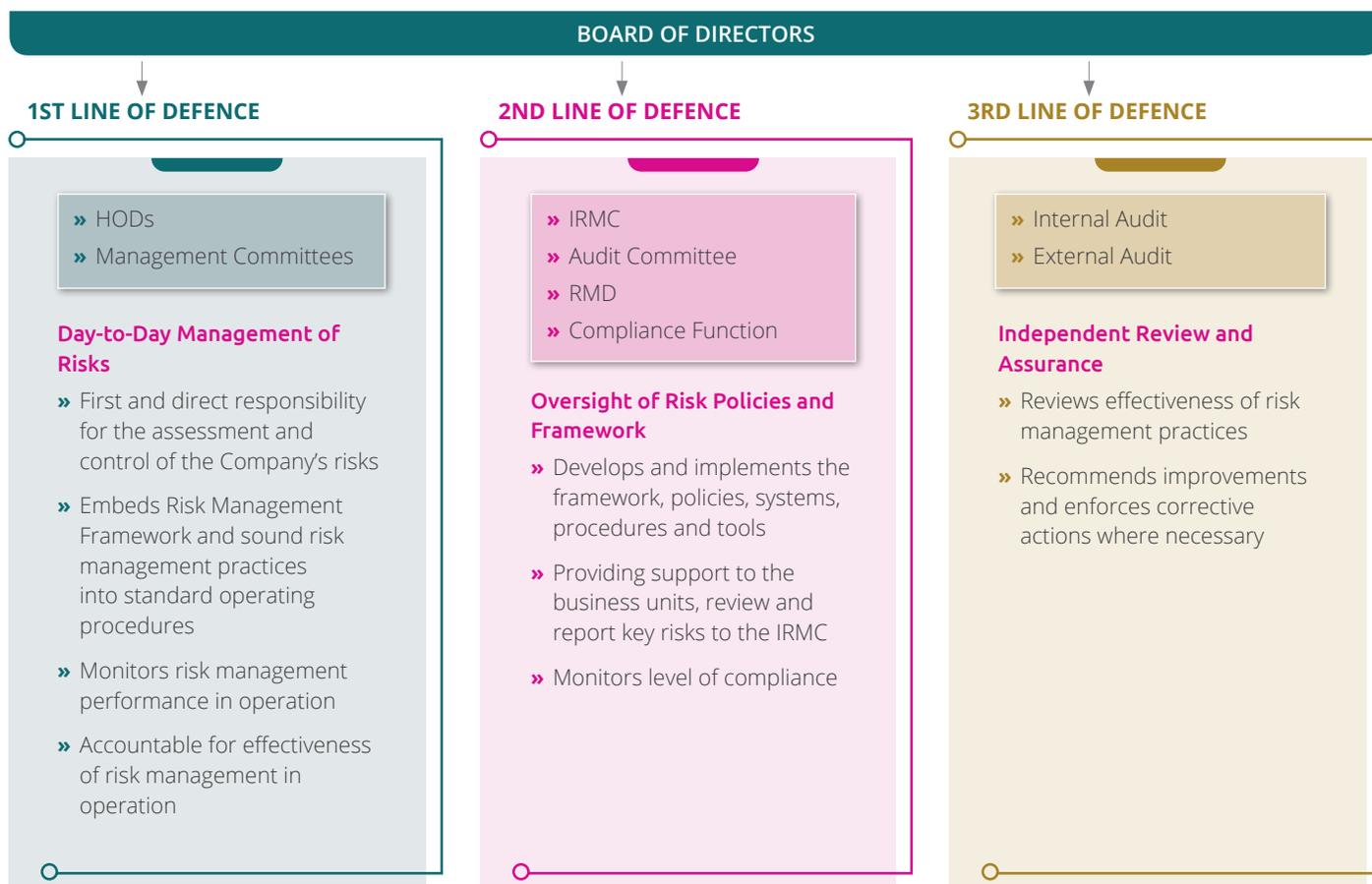
- » Providing strategic leadership and guidance
- » Reviewing and approving annual budgets and forecasts for each department and for the Group as a whole, under both normal and stressed conditions
- » Regularly reviewing and monitoring the Group's risk performance through quarterly reports

Risk Appetite Statement

Risk Appetite Criteria	Appetite	Regulatory Limit	Actual as at 31st March 2022	Actual as at 31st March 2021
Credit Risk				
Loans and Advances				
Non-performing loans ratio – Gross	5%-7%		4.44%	5.36%
Non-performing loans ratio – Net	< 1.0%		-0.80%	0.10%
Exposure to secured loans and advances	>95%		99.00%	97.00%
Maximum exposure to single borrower – secured - Individual	<=5%	15% of capital funds	1.24%	1.67%
Maximum exposure to single borrower – secured - Group	<=10%	20% of capital funds	1.24%	1.67%
Maximum exposure to single borrower – unsecured – Individual	<=0.5%	1% of Core capital	0.24%	0.07%
Maximum exposure to aggregate unsecured financing	<=4%	5% of capital funds	0.05%	0.58%

Risk Appetite Criteria	Appetite	Regulatory Limit	Actual as at 31st March 2022	Actual as at 31st March 2021
Liquidity Risk				
Liquid assets ratio	12.00%	Fixed Deposits - 10% Savings - 5% Unsecured Borrowings - 10%	17.60%	17.89%
Deposits renewal ratio	>=75%		79.24%	83.52%
Maximum single depositor/group exposure	<=5% of total deposits		1.08%	2.10%
Maximum exposure to large deposits (Over Rs.50 mn)	<=20% of total deposits		17.24%	18.06%
Capital Adequacy				
Core capital ratio	9.00%	8.00%	25.95%	23.87%
Total risk weighted capital ratio	15.00%	12.00%	26.90%	25.32%
Capital funds to deposits ratio	12.00%	10.00%	37.07%	32.83%
Market Risk (Increase in market interest rates on rate sensitive liabilities)				
% Impact on Net Interest Income from 100 bps shock	5.00%		3.51%	3.35%
% Impact on Net Interest Income from 200 bps shock	10.00%		7.02%	6.70%
% Impact on Net Interest Income from 300 bps shock	15.00%		10.54%	10.05%
% Impact on Net Interest Income from 400 bps shock	20.00%		14.05%	13.40%

RISK GOVERNANCE



INTEGRATED RISK MANAGEMENT REPORT

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 analyzing, 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.

2ND LINE OF DEFENCE

Two Board appointed Sub Committees (Integrated Risk Management Committee and the Board Audit Committee) along with the Risk Management Department form the second line of defence.

The Integrated Risk Management Committee (IRMC) - Please refer to page 236 of this report for a detailed account of the IRMC's composition, key functions and activities for the current financial year.

The Board Audit Committee - Please refer to page 233 of this report for a detailed account of the Audit Committee's composition, key functions and activities for the current financial year.

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 Managing Director and has a functional reporting line to the Board of Directors and the IRMC.

Compliance Function

A 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 reports to the BAC and the BIRMC.

3RD LINE OF DEFENCE

The third line of defence which comprises the **Internal Audit Department and the External Auditors**, periodically review the adequacy of the Company's risk management infrastructure, the level of compliance with policies and standards and the completeness and reliability of the risk assessment and reporting process. They are also collectively responsible for providing an assurance regarding the efficacy of LBF's overall risk control and management process.

RISK CULTURE

The Board takes the lead in embedding the risk-awareness culture across the Group. In this regard, the Board has delegated its authority to LBF's Risk Management Department to promote frequent and ongoing conversation with risk owners to strengthen risk awareness among risk owners. The Risk Management Department also conducts training on specific risk related topics to raise awareness among employees in order to ensure every member of the LBF team can contribute proactively towards the risk identification in their day to day work.

MANAGING KEY RISKS

Summary of Key Risks

Risk Type	Risk Level	Objective	Trend
Credit Risk	●	To safeguard the asset quality and reduce exposures to high risk segments	▲
Liquidity Risk	●	To safeguard against funding constraints that prevent growth and meet demands of depositors/investors	▲
Capital Management	●	To maintain adequate capital buffer to withstand unexpected losses	—
Market Risk	●	To safeguard against adverse movement of market factors arising out of price sensitivities of funding sources, investments, commodity prices	▲
Operational Risk	●	To improve the reliability and effectiveness of business operations and enhance organisational capability in ensuring safety of staff.	▲
Strategic Risk	●	To minimize risks associated with Company's business strategy, strategic objectives and strategy execution	▲
IT and Information Security Risk	●	To safeguard information asset and ensure business continuity	▲
Legal/Regulatory Risk	●	To minimize the cost of non-compliance and litigation	—
Human Resource Risk	●	To ensure the availability of skilled and competent human resources to successfully conduct business operations	—
Reputational Risk	●	To safeguard the Company's brand value / goodwill against adverse internal and external events	—

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

▲ Increasing ▼ Decreasing — Stable

CREDIT RISK

Credit Risk is the potential loss to the Group as a result of failure by borrowers to meet their contractual obligations towards LBF. Credit Risk typically has three components; default, concentration and settlement risk. However in LBF's context, settlement risk is also considered as part of default risk.

Concentration risk refers to the exposure to a particular customer, geography, or portfolio.

Given the nature of LBF's core business of lending, Credit Risk is inherent and as such the RAS assigns a significantly more weightage on managing Credit Risk, with tolerance limits set on multiple levels. This is supported by clearly defined protocols for managing both Credit (Default/ Settlement Risk) and Credit Concentration Risk.

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.

INTEGRATED RISK MANAGEMENT REPORT

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

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.

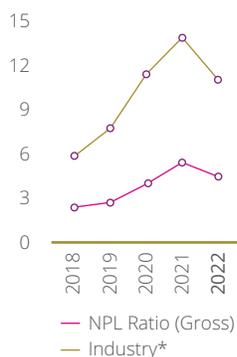
Credit Risk Management update - FY 2021/22

LBF's Credit Risk declined in the year under review bolstered by a strong inflow of repayments on the back of improved economic activity from mid-2021 onwards. The high vehicle prices and the low interest rates also contributed towards the higher customer settlement ratio.

LBF's 150 day Gross NPL ratio stabilised at 4.44% by end-March 2022, slightly below the benchmark 5 - 7% tolerance range. Meanwhile the quality of loans granted during the year also improved significantly owing to LBF's cautious lending approach supported by the new credit scoring model to rate customer credibility based on a series of credit risk criterion.

TRENDS

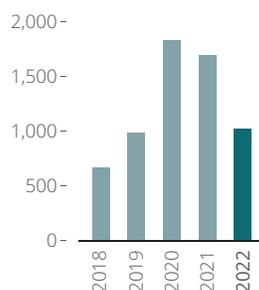
GROSS NPL RATIO %



*Industry is comprised of LFCs & SLCs which represents data as at 31/12/2020. Source CBSL

Due to the revival of economic activities from mid-2021 onwards the asset quality of both industry and LBF improved in a significant manner. Company was able to maintain its outperformance against the industry by maintaining a much stronger overall asset quality.

IMPAIRMENT CHARGE Rs.Mn



During the year under review the impairment charge dropped mainly due to the improvement of asset quality.

STAGE ANALYSIS OF IMPAIRMENT PROVISIONS %



During the current year, stage 3 composition has come down as a result of improved asset quality.

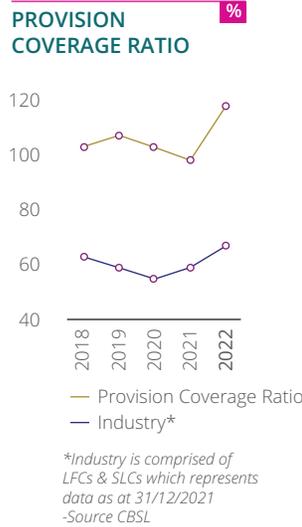
TRENDS

GROSS LOANS AND IMPAIRMENT PROVISION



The provision for impairment as a percentage of gross loans and receivables has reduced as a result of decreasing NPL ratio.

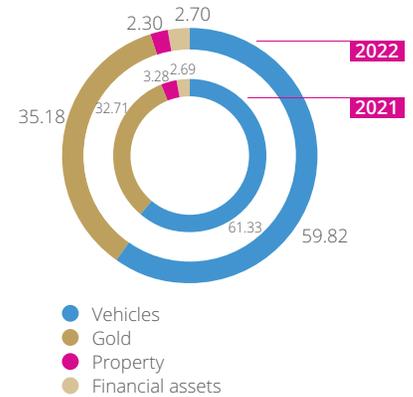
PROVISION COVERAGE RATIO



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.

MAIN TYPES OF COLLATERALS



From total loans and advances 96.7% is secured by either physical or financial collaterals as at 31st March 2022.

Impairment stress test

Stressed scenario- Impairment charge increasing by stressed amounts impacting the Company's capital adequacy ratio.

Total Risk Weighted Capital Ratio 25.32%			
Scenario	1	2	3
Magnitude of Shock	10.00%	25.00%	50.00%
Capital Adequacy Ratio	26.46%	25.80%	24.66%

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 25.32%			
Scenario	1	2	3
Magnitude of Shock	10.00%	25.00%	50.00%
Capital Adequacy Ratio	26.66%	26.48%	26.22%

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

Expedite the testing and model validation aspects to enable the implementation of the Customer Rating Scorecard for all core products.

INTEGRATED RISK MANAGEMENT REPORT

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.

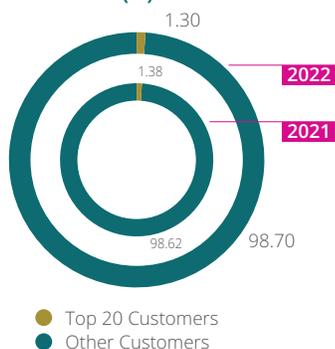
Monitoring and Governance

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 2021/22

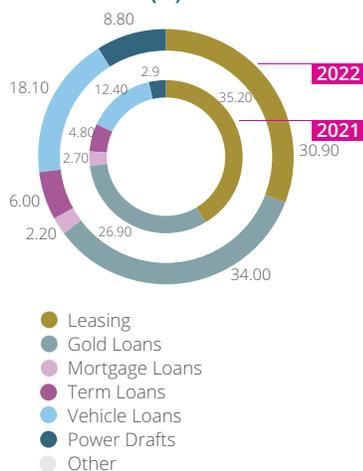
Credit Concentration Risk remained under control supported by strict monitoring of single borrower exposures (individual and Group). These efforts were further supported by tightening of tolerance limits on geographical locations, products wise limits and limits for high risk industries such as tourism, transport and construction which remained under stress due to the prolonged impact of the pandemic induced downturn. At the same time, the stress testing framework was further expanded with new stress tests introduced in terms of credit concentration risk. Meanwhile the exposure to secured lending increased slightly owing to LBF's strategic focus on growing the Gold Loan portfolio. Nonetheless, the Gold Loan portfolio continued to be well managed with historically low NPL's recorded as at 31st March 2022.

CREDIT EXPOSURE TO TOP 20 CUSTOMERS (%)



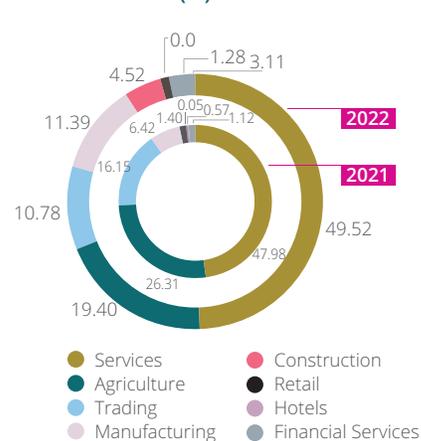
Due to the uncertainty of the country's economy, the Company did not encourage the disbursement of large credit facilities. As a result, the concentration of top 20 customers remained mostly unchanged during the year.

PRODUCT CONCENTRATION (%)

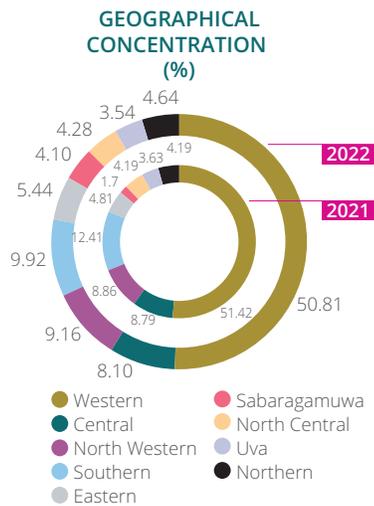


Due to the ban on vehicle imports that prevailed during the year, the concentration on vehicle backed loans (Leasing, Vehicle Loans, power Drafts and HP) further reduced during the year.

INDUSTRY CONCENTRATION (%)



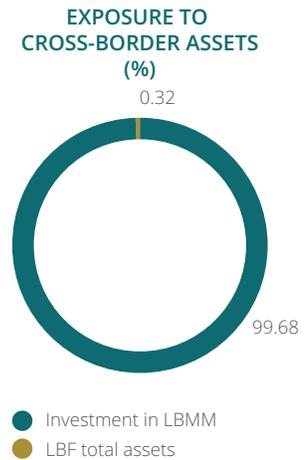
Concentration on agriculture sector has declined due to the adverse outcomes of the ban of chemical fertilizer.



Western province remains to be on the top in terms of 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).



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.

INTEGRATED RISK MANAGEMENT REPORT

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.

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

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

Monitoring and Governance

- » The ALCO is responsible for monitoring liquidity risk, reporting and analyzing, 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 modeling 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.

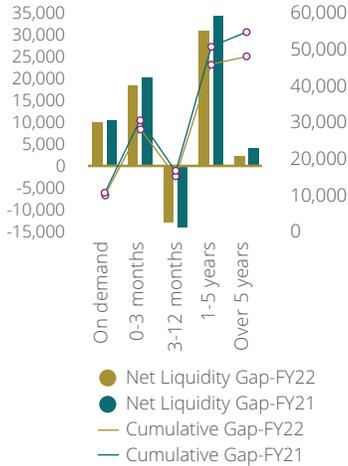
Liquidity Risk Management update - FY 2021/22

LBF's Liquidity Risk reduced amidst the broad based improvement in recoveries throughout the year. To further strengthen its liquidity position, LBF secured two tranches of USD funding, the first USD 15 million in April 2021 followed by another USD 8 million in December 2021. Moreover with the interest rates on the upward trend from August 2021, the Treasury began working proactively to reduce the maturity mismatch between the assets and liabilities, while all liquidity ratios continued to be strictly monitored to ensure they remain within Board approved tolerance limits.

LBF's ratios remained well above all statutory liquidity ratios, even after minimum liquidity requirements for NBF's were increased back to pre-covid levels.

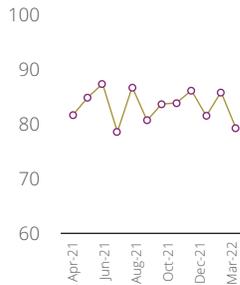
TRENDS

NET LIQUIDITY GAP BASED ON CONTRACTUAL MATURITIES Rs.Mn



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 %



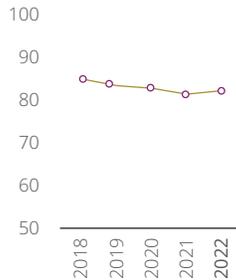
The renewal ratio was maintained above the threshold limit of 75% through out the year despite the economic shocks.

LOANS TO DEPOSIT RATIO %



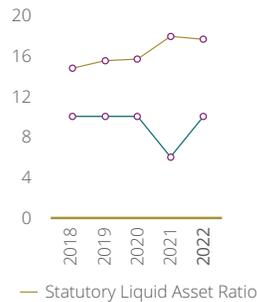
The Company's loan book is predominantly financed by deposits from customers. Loans to deposit ratio over 100% indicates that the Company is making the optimum use of deposit financing by transforming them into interest earning assets.

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.

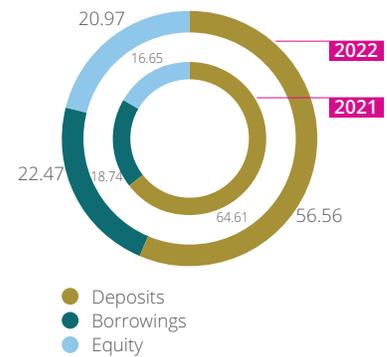
Statutory Liquid assets ratio as a 31st March 2022 - 17.60%

Scenario	1	2	3
Magnitude of Shock	2.50%	5.00%	10.00%

Statutory Liquid assets ratio as a 31st March 2022 - 17.60%

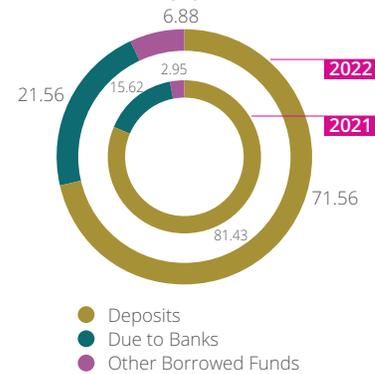
Scenario	1	2	3
Magnitude of Shock	2.50%	5.00%	10.00%
Stressed Statutory Liquid Asset Ratio	15.23%	13.42%	9.52%

FUNDING MIX (%)



As at 31st March 2022, 79.0% of Company's total assets are funded by either borrowings or public deposits as opposed to 83.4% as at 31st March 2020.

INTEREST BEARING LIABILITIES MIX (%)



The Company secured few term loan facilities from local banks capitalizing on the low interest rate environment prevailed during the 1st half. Also two foreign loans were too obtained during year under review. As a result the contribution from deposits came down during the year.

INTEGRATED RISK MANAGEMENT REPORT

Actions Taken by the Company to Manage the Liquidity Risk

Maintenance of committed contingent facilities with banks whilst testing the availability regularly.

The ALCO regularly reviews the forecasted cash flow statements and take prompt decisions if any sign of liquidity stress is foreseen.

Realigned the funding mix by systematically replacing large deposits with higher number of more sustainable smaller-ticket deposits (More details on page 103 - Deposits).

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

LBF's approach to capital management aims to support the Company's business strategy and ensure an adequate level of capital is available under all market conditions, including to withstand severe macroeconomic downturns without breaching regulatory requirements.

In the year under review, LBF's Capital Adequacy levels further strengthened owing to early action taken by the Company to comply with the capital adequacy directive for NBFIs issued by the CBSL in June 2018. As per the original directive, NBFIs with an asset base over 100 billion were required to ensure Tier I capital of 8% and total capital adequacy of 12% by end June 2020. Although the requirement was suspended for another year due to COVID-19 in the previous year, LBF with 25.95% (Tier I) and 26.90% (Total capital adequacy) as at 31st March 2022, continued to remain fully compliant with the new requirements.

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 2021/22	FY 2020/21
Tier I Capital	32,560,423	27,889,835
Total Capital	33,753,675	29,575,195
Total Risk Weighted Amount	125,471,745	116,826,438
Risk Weighted Amount for Credit Risk	101,203,543	92,703,346
Risk Weighted Amount for Operational Risk	24,268,202	24,123,092
Regulatory Minimum Tier I Ratio	8.00%	7.00%
Company's Tier I Capital Ratio	25.95%	23.87%
Regulatory Minimum Total Capital Ratio	12.00%	11.00%
Company's Total Capital Ratio	26.90%	25.32%

Computation of Total Capital

Item	FY 2021/22	FY 2020/21
Tier I capital	33,125,218	28,276,871
Stated capital	838,282	838,282
Non-cumulative, Non-redeemable Preference Shares		
Reserve fund	8,116,782	7,683,689
Audited retained earnings/(losses)	24,170,154	19,754,900
(Less) Revaluation gains/surplus of investment property		
General and other disclosed reserves		
Current year's profit/(losses)		
Adjustments to Tier I capital	564,794	387,036
Goodwill (net)		
Other intangible assets (net)	14,876	26,021
Other Comorehensive Income losses	78,126	87,583
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	460,581	260,581
50% of investment in other banking and financial institutions	11,212	12,851
Shortfall of capital in financial subsidiaries		
SLFRS 9 day one Impact Adjustment		-
Tier I Capital (after adjustments)	32,560,423	27,889,835
Tier 2 Capital	1,665,044	1,958,792
Instruments qualified as Tier 2 capital	400,000	800,000
Revaluation gains		
General provisions /collective impairment allowances	1,265,044	1,158,792
Eligible Tier 2 Capital	1,665,044	1,958,792
Total Adjustments to eligible Tier 2 Capital	471,793	273,432
50% of investment in banking and financial subsidiary companies	460,581	260,581
50% of investment in other banking and financial institutions	11,212	12,851
Eligible Tier 2 Capital after adjustments	1,193,252	1,685,360
Total Capital	33,753,675	29,575,195

Capital Management Update - FY 2021/22

During the year under review the Company took another bold step towards capital management by initiating Internal Capital Adequacy Assessment Process (ICAAP). This allows firms to assess their capital adequacy and requires them to have appropriate risk management techniques in place. ICAAP came under Basel III accord and it is currently a regulatory requirement for licensed commercial/specialized banks in Sri Lanka. ICAAP also provides valuable inputs for evaluating the required capital in line with future business plans. It integrates strategic focus and risk management plans with the capital plan in a meaningful manner with inputs from Senior Management, Management Committees, Board Committees and the Board, and also takes into account potential risk of capital being inadequate under stressed conditions. It also supports profit optimisation through proactive decisions on exposures both current and potential through measurement of vulnerabilities by carrying out stress testing and scenario-based analysis. The ICAAP process also identifies gaps in managing qualitative and quantitative aspects of reputational risk and strategic risk. LBF as a Company with a clear strategic drive saw the importance of ICAAP well in advance and took steps to initiate ICAAP for the in FY 2021/22.

INTEGRATED RISK MANAGEMENT REPORT

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 2021/22

Interest Rate risk for LBF was moderate. With interest rates rising from August 2021 onwards, LBF's efforts to dynamically realign its pricing strategies in tandem with the market helped to maintain greater income consistency. The asset book was also repriced in line with the increase in treasury bill rates towards the end of the year. Meanwhile, steps taken by the Treasury to lower the cost of funding through active negotiation helped to prevent any major escalation in funding costs.

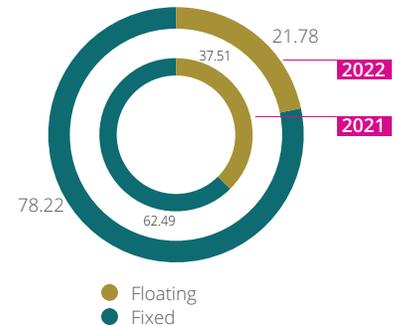
TRENDS

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

Annual Impact on NII	2022		2021	
	Parallel Increase	Parallel Decrease	Parallel Increase	Parallel Decrease
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
1%	244,991	(244,991)	135,282	(135,282)
2%	489,981	(489,981)	270,564	(270,564)
3%	734,972	(734,972)	405,846	(405,846)

BORROWINGS - FIXED TO FLOATING MIX (%)



The majority of the borrowings (bank borrowings and debentures) are fixed rated which is favorable 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.

Reduce the rate sensitivity of the funding base by shedding high cost deposits and increasing the share of savings deposits which by nature are less rate sensitive.

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.

INTEGRATED RISK MANAGEMENT REPORT

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

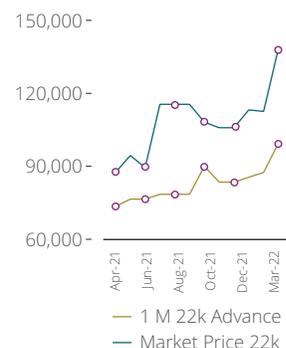
- » The Risk Management Department uses the Value-at-Risk (VaR) method to compute (on a monthly basis) the potential losses the Company may have to incur in the event of a shift in world gold prices. The VaR calculation is based on the Exponential Weighted Moving Average (EWMA) where a greater weightage 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 2021/22

Commodity Risk remained low. Prompted by higher World Gold prices as well as higher local Gold prices due to import restrictions, Gold Loan granting volumes increased, but overall exposures were well managed supported by LBF's prudent lending and re-pricing approaches, along with strict follow up and recovery action.

TRENDS

GOLD MARKET PRICE VS. MAXIMUM ADVANCED VALUE
(LKR per 22k Sov.)



LOAN TO VALUE RATIO OF GOLD BACKED LOANS - NEW DISBURSEMENTS %



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

Strategically realigning the gold loan product to take advantage of the upward movement in world/local gold prices.

Continued to adopt VaR calculation methodology which was further strengthened based on new assumptions during FY 2020/21, 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

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

Key Risk Indicators:

- » System embedded alerting mechanism when the exchange rate fluctuations surpasses threshold limits.

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 2020/21

Exchange Rate Risk was well managed. Despite the sharp depreciation in the Rupee in early 2022, the impact was minimal as all exposures were fully hedged.

Actions Taken by the Company to Manage the Exchange Rate Risk

Introduction of the policy for Foreign Exchange Risk Management Policy and Procedure for Foreign Currency Borrowings by Treasury Department.

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.

In the year under review Operational Risk Management Policy and Framework was further reviewed to ensure that all major operational risks are addressed systematically and managed proactively.

Taking into consideration the nature as well as the scope and scale of LBF's business, the following risks are covered under the new Operational Risk Management Policy and Framework;

» **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

- » Operational process reviews are conducted regularly to identify loopholes in the operation.
- » Collating internal and external fraud event report.
- » Independent IT system audits on all core applications and system security.
- » Analysing the number of system breakdowns, telecommunication failures, malfunctions and hacking events.

Key Risk Indicators

Quarterly loss report

Operational Risk Management Approach

LBF's employs customized 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 120 to 222.

Operational Risk Management update for FY 2021/22

Operational Risk remained low. All operational aspects were well managed ensuring uninterrupted operations throughout the year. LBF adhered to health and safety recommendations, including monitoring COVID infections and other preventive measures, to keep premises safe for employees, customers and suppliers. Employees continued to be mobilised to work-from-home during lockdown periods, while all employees were encouraged to obtain the recommended COVID-19 vaccinations. LBF's digital infrastructure continued to be enhanced in order to expand the suite of digital financial solutions offered to customers.

However, given the increased risk of business disruptions owing to the COVID-19, LBF proceeded to further strengthen its operational risk management framework. A formal Operational Risk Management Policy was implemented setting out operational controls for all key aspects of the business. To further complement these efforts, a programme of due diligence audits was developed and implemented under the stewardship of the internal audit function to capture operational risks at a functional level on an ongoing basis.

Under the stewardship of the Board, a new focused initiative to develop an anti-fraud culture was also launched. The effort saw the fraud risk self-assessment process being implemented, with all functional heads asked to document the perceived fraud risk in their respective functions. As part of this same effort, existing policies were reviewed by the Board with several including the Whistleblower policy being updated. A new anti-bribery protocol was also developed and incorporated into the Code of Conduct.

Actions Taken by the Company to Manage the Operational Risk

- » Segregation of duties, well defined demarcated responsibilities for employees, use of procedural manuals, dual controls
- » Periodic internal audits are conducted covering the entire branch network. The scope of the audit includes the review of adequacy and application of accounting, financial and operational controls
- » Transferring insurable risk by obtaining insurance policies
- » Installing access controls to identified high impact areas
- » Staff training on technical aspects to comply with security regulations
- » Assessing the adequacy and effectiveness of the insurance coverage periodically
- » Conducting post completion audits after a successful implementation of system change/modification
- » Disaster Recovery (DR) planning and Business Continuity Planning (BCP)
- » Use of exception reports and data analytics for detecting trends and unusual transactions

Focus for the future

The Company is taking all the efforts to carry out branch operations as usual amidst the energy crisis and shortage of resources due to import restrictions. Also Company is seeking for alternative solutions to address the issues in a sustainable manner.

Business Continuity Management

LBF 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 under review the Company was able to get a practical experience of BCM exercises carried out through out the years, by actually rolling it out during prolonged lock down periods. 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 in August 2021.

STRATEGIC RISK

Strategic risk can be seen as the impact on the Company's earnings or capital, due to poor business policy decisions, improper implementation of business strategies or lack of responsiveness to industry changes. Hence, strategic risk could arise due to internal or external factors.

(Refer "Delivering our Strategy and Resource Allocation" section on page 74 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 2021/22

Strategic Risk is low. LBF has a solid Board approved strategy that underpins the Group's progress towards achieving value creation objectives. Comprehensive details about the Group Strategy are captured on page 92 - 101

Actions Taken by the Company to Manage the Strategic Risk

- » Quarterly budget reviews
- » Monthly variance analysis on key income and expense items

IT RISK

IT Risk arises due to vulnerabilities created due to the inability of LBF's IT infrastructure and systems to facilitate day-to-day operations. Information Security Risk is also a key component of IT Risk. The migration to digital platforms exposes LBF data assets to Information Security Risks.

IT Risk Management Approach

The Group has adopted a systematic approach to manage IT risk based on global best practices. LBF has invested in setting up multiple data centers supported by robust DR infrastructure as part of its business continuity plans. These measures are further strengthened through the scheduled BCP drills conducted year round.

Meanwhile LBF's approach to managing cyber resilience is founded on the ISO 270001 Information Security Standard. A comprehensive Information Security (IS) Audit framework further augments these efforts. The Group's overall approach in this regard is discussed at length in the Intellectual Capital Report on page 172 - 183.

INTEGRATED RISK MANAGEMENT REPORT

IT Risk Management update for FY 2021/22

IT Risk was well managed. The Group prioritised the early adoption of the Finance Business Act Direction no. 1 of 2022 on Technology Risk Management and Resilience.

The ISO 27001 coverage was further extended to include the DFS and the LBF's network of data centers, while the scope of the IS (Information Security) Audit programme was expanded specifically to address the risks associated with the work-from-home work arrangements introduced during the pandemic

IS Audits and the ISO 27001 surveillance audit did not reveal any gaps in LBF's information security systems.

Meanwhile, given the rising global concerns regarding IT risk, the IRMC introduced a dedicated risk register to document all matters pertaining to Information Security Risk. This was introduced as a proactive response to dynamically address emerging IT Risks. The IT Risk register was maintained under the custody of the Information Security & Governance with the supervision of Risk Management Department on the implementation of mutually agreed risk mitigation strategies. This risk report is presented to the IRMC on a quarterly basis.

INFORMATION SECURITY RISK

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. This includes but not limited to events such as cyber-attacks, breakdowns, failures or interruptions which result in a system down time, frauds and malpractices through errors and manipulations, technological obsolescence and insufficient or ineffective infrastructure to support evolving business needs, falling behind the competitors in terms of the information technology.

Since every aspect of business relies heavily on Information Technology, it has emerged as the backbone of and the live wire of the organizations operations and innovations. As a result Information Security risk is recognized as a significant portion of the potential operational risk.

(Refer Intellectual Capital Report on page 166 for more detailed information).

In this context, Company has recognized information, information systems and technical infrastructure as assets of paramount importance and value to the organization. Therefore, with the objective of identifying and managing all IT-related risks effectively and efficiently in a consistent manner across the organization, Company has rolled out a comprehensive Information Technology Risk Management Programmes during the year.

IS risk mitigation methodology involves prioritizing, 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. With the implementation of ISMS, following information security objectives have been identified:

ISMS Objectives

- » Establish safeguards to protect Company's information/information systems from theft, abuse, misuse and any form of damages.
- » Assess and evaluate the established control mechanism and implement corrective and preventive actions.
- » Maintain the confidentiality, integrity and availability of information.

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.

As part of IS Risk assessment and mitigation methodology, IS Audit & Compliance Division conducts independent IS risk reviews and audits of new IS developments/modifications whilst carrying

out regular system and security audits for each system related functions.

Cyber Risk Management is key focus areas of IS Risk Management function in light of heightening threats of cyber-attacks which are continuously escalating in scale and sophistication. The Company obtains the service from an independent service provider to conduct cyber security related vulnerability assessments and surveys periodically. In addition, as a proactive measure to combat growing external threats, the Company obtains Information Security Operations Center service from an external service provider with Online Monitoring System capability.

At present the Company's Cyber Security Strategies include but not limited to evaluating vulnerabilities by conducting regular network vulnerability assessments covering external and internal security vulnerabilities, comprehensive web application security vulnerability assessment, comprehensive firewall security assessment and wireless network security assessment.

How we assess our IT and Information Security Risk

- » Conducting information security review meeting with key functional heads.
- » Monitoring of system audit trails to identify patterns and anomalies.
- » Performing systems audit for every core system module before deploying into production environment.

- » Thorough post implementation review following the changes to IT Systems or technical infrastructure, to ensure no unintended repercussions have occurred.
- » Analysis of information security related incidents to identify the gaps and loopholes in the information system and infrastructure.

Actions Taken by the Company to Manage the IT and Information Security Risk

- » Regular companywide awareness of Information Security risk management measures currently in pace
- » Strict adherence to documented IT change management process
- » Strengthening of NDA's with vendors by inclusion of information security clause
- » Implementation of disciplinary action procedure for information security violations
- » Promoting clear desk and clear screen policy

LEGAL/REGULATORY RISK

Legal/Regulatory risk is the risk of loss caused by non-compliance with existing or new legislation or supervisory regulations, disadvantageous changes to existing laws or supervisory regulations. Furthermore, legal risk includes losses due to ambiguity of laws or unfavourable contract clauses and loose contracts.

(Refer Corporate Governance Report on page 206 for more detailed information).

The Company conducts its business in accordance with the Company's code of conduct, laws and regulations imposed by the regulatory authorities with zero tolerance for failure or breach of such obligations.

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

Human Resource risks are events that prevent employees from fulfilling their responsibilities and thus keep the business from operating at full efficiency. 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 page 154 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

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

REPUTATIONAL RISK

Reputational risk arises from an event or behaviour that could adversely impact market 'perception' of the Company's goodwill. As reputation itself is a valuable business asset, the Company takes great care in managing its reputation risk. The exponential growth in channels of communication especially social media increases the risk of exposure to reputational risk given the extent of freedom allowed to a wider spectrum of stakeholders directly and indirectly associated with the Company's business. As all other types of risks impact reputation risk, efficient management of other risks also forms part of our management of reputational risk.

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

INTEGRATED RISK MANAGEMENT REPORT

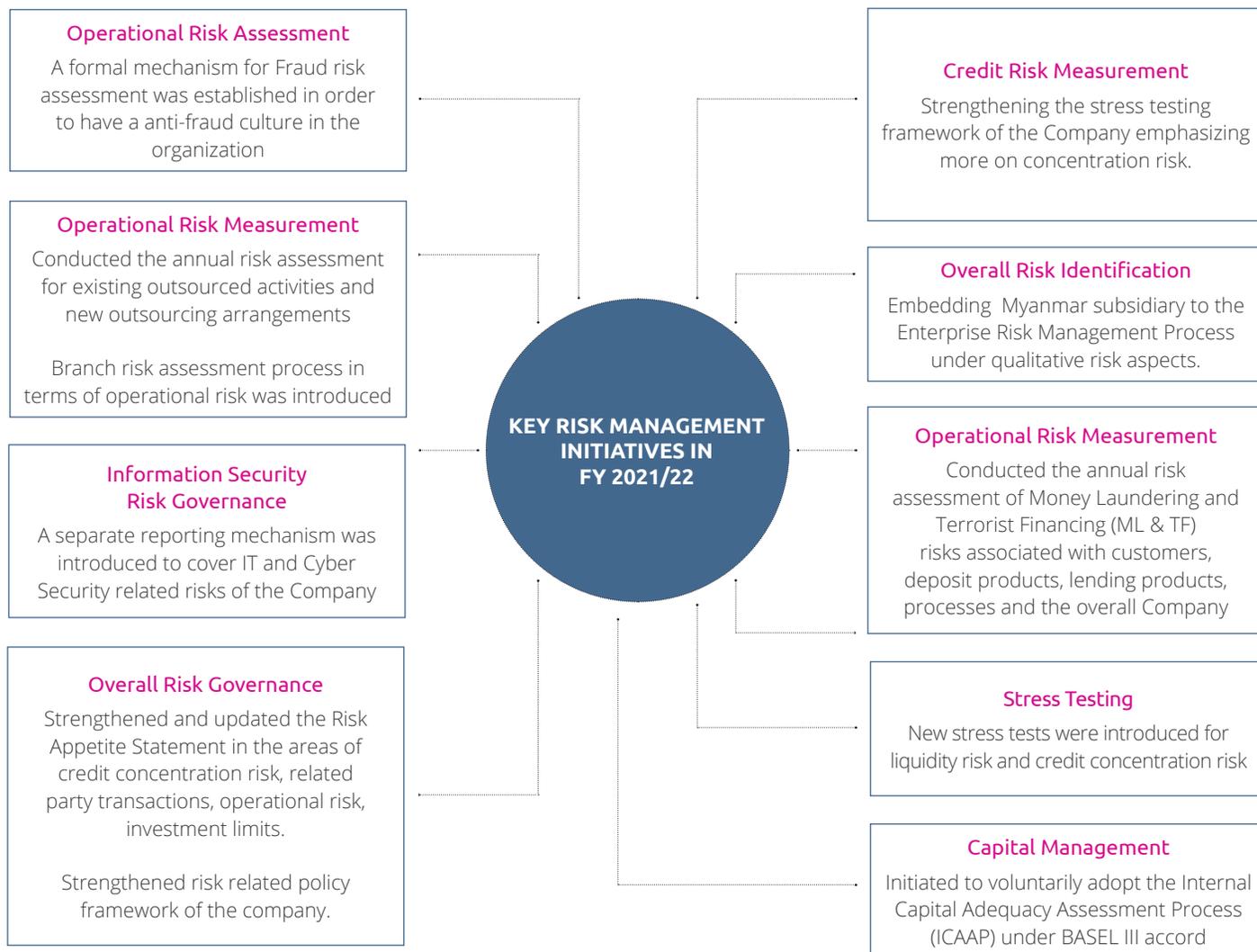
Reputational Risk Management Update - FY 2021/22

Reputation Risk is low. LBF has a solid reputation as one of the largest players in the NBFi industry, backed by A-(lka) issuer rating assigned by Fitch Ratings Lanka Limited. The Group's efforts to safeguard its reputation are depicted throughout this report.

Actions Taken by the Company to Manage the Reputational Risk

- » Sustainability Committee to play a key role in conceptualising and monitoring CSR initiatives (25 CSR events were carried out during the year incurring a cost of Rs. 12.94 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



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COMPLIANCE WITH FINANCE COMPANIES DIRECTION

Compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and amendments thereto as specified in Finance Companies (Corporate Governance-Amendment) Direction No. 4 of 2008, No. 6 of 2013 and No 05 of 2020 issued by Central Bank of Sri Lanka.

Rule No.	Principle and compliance	Complied
2	RESPONSIBILITIES OF THE BOARD OF DIRECTORS	
1)	Strengthening the Safety and Soundness of the Company	
a)	<p>Approving and overseeing strategic objectives and corporate values</p> <p>The Board provided leadership, set strategic aims and ensures that the necessary financial and human resources are in place for the Company to meet its objectives; Board-approved strategic objectives and corporate values have been derived from the Company's Vision and Mission and it has been communicated throughout the Company. The Board ensures that obligations to shareholders and others are understood and met.</p> <p>The Company has established a Strategic Plan - 2021/22 to 2023/24 and approved by the Board. This has been communicated to all the Directors, DGMS, AGMs, Senior Managers and other managers relevant to different operations of the company</p>	✓
b)	<p>Approving overall business strategy including risk policy and management procedures</p> <p>The Board approved the 'Strategic Plan' of the Company and established a framework of prudent and effective controls which enables risk to be assessed and managed; the Board reviews Company management performance at monthly Board meetings. The Risk Management Policy is with measurable goals, includes a well-developed risk appetite well-defined responsibility for risk management in particular and control functions in general and was reviewed and recommended by the Board Integrated Risk Management Committee (BIRMC) and approved by the Board.</p>	✓
c)	<p>Risk management</p> <p>The Board is responsible for overseeing a strong risk governance framework.</p> <p>The Board takes an active role in defining the risk appetite and ensuring its alignment with the Company's strategic, capital and financial plans and compensation practices. Board Integrated Risk Management Committee 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 Risk Management Report on pages 262 to 266 provides further insight in this regard</p>	✓
d)	<p>Communication with stakeholders</p> <p>The Board-approved Communication Policy is available and ensures the effective internal and external communication of corporate information with all stakeholders including depositors, creditors, shareholders, borrowers and employees of the Company.</p> <p>The Company discloses information on a timely basis. In disclosing information, Company ensures the descriptiveness, detailed and forthcoming as possible, and avoids boilerplate disclosures. To further strengthen the communication between company and its stakeholders, The Board has reviewed and revised the LBF Corporate Communication Policy during the year.</p>	✓
e)	<p>Reviewing Internal Control Systems and Management Information Systems (MIS)</p> <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 operation has 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. Internal Auditors reviewed the integrity of the Management Information System and Internal Control.</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>	✓

Rule No.	Principle and compliance	Complied
f)	<p>Key Management Personnel (KMP)</p> <p>The Board-identified Key Management Personnel according to the Sri Lanka Accounting Standards and as per the Direction issued by the Central Bank of Sri Lanka on Corporate Governance and the latter includes the Board of Directors, Senior DGM – Deposits, DGM- Strategy & Digital Finance, DGM IT, DGM Credit and Branch Operations, CFO, CRO, Senior AGM - Micro Leasing, AGM- Legal, AGM - Credit and Branch Operations, AGM HR, CIA, Chief Manager- Treasury, Head of Gold Loan, and Compliance Officer as Key Management Personnel (KMP). The Directors have been identified as KMPs as per the Accounting Standards.</p>	✓
g)	<p>Authority and responsibility for the Board and Key Management Personnel</p> <p>The Board sets out clearly the role, responsibilities, accountability and reporting relationships of Board and Key Management Personnel, and has these properly documented. The delegation of authority from the Board to the Key Management Personnel is formal and clear.</p>	✓
h)	<p>Oversight of affairs of the Company by KMP</p> <p>Oversight of the affairs of the Company by its Key Managerial Personnel takes place at the regular Board meetings and Subcommittee meetings and Key Management Personnel make regular presentations to the Board on matters under their Purview.</p>	✓
i)	<p>Assess effectiveness of governance practices</p> <p>Selection, nomination, and election of Directors and appointment of KMP.</p> <p>Management of conflicts of interests.</p> <p>Determination of weaknesses and implementation of changes where necessary.</p> <p>The Board has delegated the functions of selection and nomination of Directors to the Nomination Committee (NC). 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. The Board and the Board sub committees have a formal self- evaluation process annually in order to identify and rectify the weaknesses. A summary of these evaluation forms is submitted to the Board by the Company Secretaries for further recommendations.</p>	✓
j)	<p>Succession Plan for KMPs</p> <p>The Company has a Board approved one-to-one succession plan in place for the Key Management Personnel.</p>	✓
k)	<p>Regular meetings with KMPs</p> <p>The Key Managerial Persons regularly make presentations and participate in discussions on their areas of responsibility at the Board and its sub-committee meetings and progress towards corporate objectives is a regular agenda item for the Board where Key Management Personnel are involved regularly.</p>	✓
l)	<p>Understanding the regulatory environment</p> <p>The Board of Directors closely monitors regulatory compliances at monthly Board meetings by means of a regular monthly Board paper and presentations on compliance. Further, the Compliance Officer presents changes to the regulatory environment from time to time and any other necessary information to the Board. All Board members attend the Directors' and CEOs' forums arranged by the CBSL and the Management personnel of the Company maintain dialogues on an ongoing basis</p>	✓
m)	<p>Hiring and oversight of External Auditors</p> <p>The Board Audit Committee is responsible for hiring and oversight of the External Auditors and on the recommendation of the Board. External Auditors are appointed by the shareholders of the Company at the AGM. External Auditors annually submit a statement confirming their independence as required by the regulatory authorities in connection with the external audit.</p>	✓

CORPORATE GOVERNANCE

Rule No.	Principle and compliance	Complied
2)	<p>Appointment of the Chairman and CEO and defining and approving their functions and responsibilities</p> <p>The Board has appointed the Chairperson and the Chief Executive Officer (CEO) and there is a clear division of the documented functions and responsibilities of the Chairperson, CEO and Board to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.</p>	✓
3)	<p>Obtaining independent professional advice by the Directors</p> <p>The Directors are able to obtain independent professional advice as and when necessary at Company expense and the Board approved procedure is in place. However, no such instances have occurred during the year.</p>	✓
4)	<p>Managing conflict of interest</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>	✓
5)	<p>Availability of formal schedule of matters specifically reserved for the Board</p> <p>The Board has adopted a policy for a formal schedule of matters specifically reserved for the Board. Present agenda of meeting ensures that the direction and the control of the Company is under the Board's control and authority</p>	✓
6)	<p>Disclosure of probable solvency issues</p> <p>The Board is aware of the need to inform the Director of the Department of Supervision of Non-Bank Financial Institutions and no such situation arose during the year and we do not visualise such situations in the foreseeable future.</p>	✓
7)	<p>Publish Corporate Governance Report on compliance with the Direction in the Annual Report</p> <p>The Annual Corporate Governance Report has been published by the Company in the Annual Report 2021/22 on page 225 to 243.</p>	✓
8)	<p>Self-assessment of Directors</p> <p>The Company has adopted a self-assessment process to be undertaken by each Director annually.</p>	✓
3	MEETINGS OF THE BOARD	
1)	<p>Regular Board meetings</p> <p>The Board meets regularly approximately at monthly intervals and special Board meetings are convened whenever necessary. The Board met on 14 occasions during the year 2021/22. The consent of the Board is usually obtained at meetings with due notice given with Board papers. Consent obtained by circulation has been kept at minimal.</p>	✓
2)	<p>Directors to include matters and proposals in the agenda</p> <p>All the members were given equal opportunities to include matters and proposals in the agenda and the procedures are in place for this. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals to the agenda.</p>	✓
3)	<p>Notice of Board meetings</p> <p>Board meeting dates were agreed to by Board members in advance for the calendar year. Agenda and all Board papers are uploaded through a secure link to iPad for Directors to access seven days prior to the Board meetings.</p>	✓
4)	<p>Attendance of Directors at Board meetings</p> <p>All Directors have attended at least two-thirds of the meetings held during the year and no Director has been absent from three consecutive regular Board meetings during the year 2021/22. Directors' Attendance at Board and Subcommittee meetings, refer page 235 for details of individual Directors' attendance at Board meetings.</p>	✓

Rule No.	Principle and compliance	Complied
5)	<p>Appointment of a Company Secretary</p> <p>P W Corporate Secretarial (Pvt) Ltd., a company registered with the Registrar of Companies as a qualified secretary, handles the secretarial services to the Board and shareholder meetings and carries out other functions specified in related laws and regulations.</p>	✓
6)	<p>Delegating responsibility to the Company Secretary</p> <p>Preparation of the agenda is delegated to the Company Secretary and is approved by the Chairperson.</p>	✓
7)	<p>Access to service and advice of Company Secretary</p> <p>A Board-approved procedure 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.</p>	✓
8)	<p>Maintenance of minutes of Board meeting</p> <p>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.</p>	✓
9)	<p>Recording minutes of Board meetings in sufficient detail</p> <p>The Company Secretary maintains detailed minutes of Board meetings to satisfy all requirements of this direction. Minutes are approved by the Chairperson and the other members of the Board after making required amendments, if necessary.</p>	✓
4	COMPOSITION OF THE BOARD	
1)	<p>Number of Directors on the Board</p> <p>The Company's Board comprised of 10 Directors from April to June, 11 from July to November, 12 from December to February and 11 during the month of March of the financial year 2021/22 which is within the statutory limit required by the direction. The objective of the Company is to maintain a healthy balance between Executive, Non-Executive and Independent Directors.</p>	✓
2)	<p>Period of service of a Director</p> <p>The total period of service of all Non-Executive Directors does not exceed nine years. Chairperson /Independent Non-Executive Director, Mrs. Anandhiy Gunawardhana retired w.e.f from 1st of March 2022 after completion of 9 years in compliance with the Direction requirement.</p>	✓
3)	<p>Appointment, election or nomination of an employee as a Director</p> <p>Board balance was maintained throughout the year. No employee has been appointed, elected or nominated as a Director of the company during the Financial year.</p>	✓
4)	<p>Board balance and criteria for independence</p> <p>There is a strong and independent element on the Board, with Independent Directors making up more than one-fourth of the Board. The Board comprised of 3 Independent Non-Executive Directors from April to June, 4 from July to February and 3 during the month of March as per the definition of this Direction which complies with at least 1/4th of the Board. The Board evaluates independence of the Directors annually based on the Directors' self-declarations.</p>	✓
5)	<p>Alternate Director</p> <p>There were no Alternate Directors appointed during the year 2021/22.</p>	✓
6)	<p>Skills and experience of Non-Executive Directors</p> <p>Appointments are recommended by the Nomination Committee. The Directors including Non-Executive Directors are eminent persons with knowledge, expertise and experience to bring an independent judgment and their detailed profiles are on pages 40 to 45.</p>	✓
7)	<p>Quorum at Board meetings</p> <p>All Board meetings held during the financial year were duly constituted with one-half of the number of Directors present and one half of the number of Directors constituting the quorum being Non-Executive Directors.</p>	✓

CORPORATE GOVERNANCE

Rule No.	Principle and compliance	Complied
8)	<p>Disclosure of Independent Non-Executive Directors, Board composition in corporate governance communications and in the Annual Report</p> <p>The Independent Non-Executive Directors are expressly identified in all corporate communication that discloses the names of all Directors of the Company. Composition of the Board of Directors including the category of Directors has been disclosed on pages 40 to 45 In addition to the disclosures on profiles of Directors.</p>	✓
9)	<p>Formal and transparent procedure for appointment of new Directors</p> <p>The new appointments to the Board are based on the recommendations made by the Nomination Committee and there is a procedure in place for the succession of appointments to the Board. After this procedure the names are referred to the CBSL for approval prior to appointment.</p>	✓
10)	<p>Re-election of Directors appointed to fill a casual vacancy</p> <p>All Directors appointed to the Board are subject to re-election by the shareholders at the first Annual General Meeting after their appointment and there were no casual vacancies during the year.</p>	✓
11)	<p>Disclosure of resignations/removal of Directors</p> <p>Resignation of Directors and their reasons are duly communicated to the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and other regulatory authorities. Appointment, removal or resignations of Directors are informed to shareholders, with immediate notification to the Colombo Stock Exchange (CSE). However, there were no such resignation or removal during the year.</p>	✓
5	CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS	
1)	<p>Age of Directors should not exceed 70 years (except Managing Director as per Amendment to CG Direction No 05 of 2020)</p> <p>Age of all Directors' are in line with the given criteria as per the Direction and Amendment to the Corporate Governance Direction No 05 of 2020.</p>	✓
2)	<p>Holding office as a Director of more than 20 companies</p> <p>The total number of positions held as a Director or any other position in companies/entities/institutions inclusive of subsidiaries or associate companies of the Company is less than 20.</p>	✓
6	DELEGATION OF FUNCTIONS	
1)	<p>Delegation of Board functions</p> <p>As per the Articles of Association the Board may delegate any of their powers to the Board-appointed committees, Managing Director, Executive Directors and Key Management Personnel upon such terms and conditions. All delegations are made in a manner that it would not hinder the Board's ability to discharge its functions.</p>	✓
2)	<p>Review delegation of Board functions on a periodic basis</p> <p>Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.</p>	✓
7	CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER	
1)	<p>Separation of roles of Chairman and CEO</p> <p>There exists a clear separation of duties between the roles of the Chairperson and the CEO/Managing Director.</p>	✓
2)	<p>Designation of an Independent Non-Executive Director as the Senior Director when the Chairman is not an Independent Non-Executive Director</p> <p>Chairman appointed w.e.f 1st of March is a Non-Executive Director where Independent Non-Executive Director, Mr. Ashane Jayasekara is appointed as a Senior Director with documented Terms of Reference to ensure greater independent element in the Board.</p>	✓
3)	<p>Disclosure of relationship between the Chairman, CEO and members of the Board</p> <p>The Board has adopted a formal procedure to identify and disclose the relationships between the CEO and the Chairperson and among other Directors. Accordingly, the Board has declared that there are no material relationships [including financial, business, family or other material/relevant relationship(s)] between the Chairperson and Chief Executive Officer/Managing Director and among the members of the Board which will impair their respective roles. Details of the Chairperson and Chief Executive Officer are disclosed in the Annual Report on page 42.</p>	✓

Rule No.	Principle and compliance	Complied
4)	<p>Role of the Chairman</p> <p>Provide leadership to the Board;</p> <p>Ensure that the Board works effectively and discharges its responsibilities;</p> <p>Ensure that all key and appropriate issues are discussed by the Board in a timely manner.</p> <p>Board-approved list of functions and responsibilities of Chairman includes 'Providing Leadership to the Board' as a responsibility of the Chairman. The Board as a body worked effectively and discharged its responsibility as set out in the Annual Report. The annual self-assessment of the Board includes a criterion that evaluates the effectiveness of the Chairman in facilitating the Board's discharge of its responsibilities. All key and appropriate issues are discussed by the Board on a timely basis.</p>	✓
5)	<p>Role of Chairman in the preparation of the agenda for Board meetings</p> <p>Preparation of the agenda has been delegated to the Company Secretary who circulates a formal agenda prior to the Board meeting which is approved by the Chairperson.</p>	✓
6)	<p>Ensure that all Directors are informed adequately and timely of the issues arising at Board meetings</p> <p>The Chairperson ensures that all Directors are properly briefed on issues arising at Board meetings through submission of agenda and Board papers with sufficient time prior to meeting.</p>	✓
7)	<p>Encouraging all Directors to make an active contribution to Boards affairs</p> <p>All Directors actively participate in Board affairs and the Board acts in the best interests of the Company.</p>	✓
8)	<p>Encourage participation of Non-Executive Directors and relationship between Executive and Non-Executive Directors</p> <p>Executive and Non-Executive Directors work together in the best interests of the Company. Non-Executive Directors participate in Board sub-committees. This process is further strengthened through the annual self- evaluation of the Board and Board Sub Committees where views of all Directors are canvassed in respect of the performance of the Board and Sub Committees as a whole.</p>	✓
9)	<p>Avoidance of engaging in activities involving direct supervision of KMP or executive duties by the Chairman</p> <p>Chairperson does not directly get involved in the supervision of Key Management Personnel or any other executive duties.</p>	✓
10)	<p>Effective communication with shareholders</p> <p>The Annual General Meeting of the Company is the main forum where the Board maintains effective communication with shareholders and they are given the opportunity to take up matters for which clarification is needed and also their views are communicated to the Board. Further, the Board-approved Corporate Communication Policy evidences the Company's process in this regard and the Policy has been reviewed and revised during the year to more strengthen the communication with it's stakeholders..</p>	✓
11)	<p>Role of Chief Executive Officer</p> <p>In terms of duties and responsibilities of the Managing Director (CEO), he is the apex executive of the Company who is responsible for day-to-day operations of the Company with the assistance of Executive Directors and members of the Corporate 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>	✓

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Rule No.	Principle and compliance	Complied
8	BOARD APPOINTED COMMITTEES	
1)	<p>Establishing Board Committees, its functions and reporting</p> <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. Human Resource and Remuneration Committee 2. Board Integrated Risk Management Committee 3. Nomination Committee 4. Board Audit Committee 5. Related Party Transactions Review Committee. <p>Recommendations of these committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings. The Company has presented report on the performance, duties and functions of each committee in the Annual Report.</p>	✓
2)	<p>Board Audit Committee (BAC)</p>	
a)	<p>Chairman of the Board Audit Committee</p> <p>The Chairperson of the Board Audit Committee is a Non-Executive Director who is a fellow member of the Chartered Institute of Management Accountants of UK. Qualifications and experience are disclosed on page 43 of this Annual Report.</p>	✓
b)	<p>Composition of Board Audit Committee</p> <p>All the members of the Board Audit Committee are Non-Executive Directors of whom majority are independent.</p>	✓
c)	<p>Functions of the Board Audit Committee</p> <p>the appointment of the External Auditors</p> <p>the implementation of the Central Bank Guidelines Issued to the Auditors</p> <p>the application of the relevant accounting standards; and</p> <p>the service period, audit fee and any resignation or dismissal of the Auditor;</p> <p>The Board Audit Committee has recommended; the re-appointment of M/s. Ernst & Young, Chartered Accountants as External Auditors 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. No resignation or dismissal of the Auditor has taken place during the year under review. The Committee ensures that the requirement of rotation of External Audit Engagement Partner, once in every five (5) years, is met</p>	✓
d)	<p>Review and monitor External Auditor's independence and objectivity and the effectiveness of audit processes</p> <p>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 account of the regulations and guidelines.</p>	✓
e)	<p>Provision of non-audit services by External Auditor</p> <p>The Board Audit Committee 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 Auditors. The said policy addresses the skills and experience of the Auditor, threat to the independence, objectivity and fee for the non-audit services. The Policy for engaging External Auditors to provide Non Audit Services was last reviewed and approved by the Board in June 2021.</p>	✓
f)	<p>Determine scope of external audit</p> <p>The Auditors make a presentation at the Board Audit Committee 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 standards. Members of the BAC obtain clarifications in respect of the contents of the presentation, if deemed necessary.</p>	✓

Rule No.	Principle and compliance	Complied
g)	<p>Review financial information of the Company by the Audit Committee</p> <p>Quarterly Financial Statements as well as year-end Financial Statements are circulated to the Audit Committee. A detailed discussion focused on major judgemental areas, changes in accounting policies, significant audit judgments in the Financial Statements, going concern assumption 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.</p>	✓
h)	<p>Discussion of issues, problems and reservations arising from the interim and final audits with the External Auditor</p> <p>The Committee met the External Auditors without the presence of the Executive Directors and Corporate Management twice during the financial year 2021/22.</p>	✓
i)	<p>Review of External Auditors' Management Letter and Management's response</p> <p>Upon receipt of the management letter, Auditors are invited to make a presentation at the Board Audit Committee with the responses of the corporate Management to discuss the significant findings which have arisen during the audit and instructions are given to Department Heads to take remedial actions, if necessary.</p>	✓
j)	<p>Review of Internal Audit function</p> <p>A fully-fledged internal audit department is in place to provide independent assurance to the committee on company affairs. The committee ensures the internal audit function is independent of the activities it audits and performed duties with due professional care. The Board Audit Committee has reviewed the information provided in the risk- based audit plan and concluded that scope, functions and resources of the Internal Audit Department (IAD) are sufficient to carry out its functions. The Board Audit Committee has reviewed and approved the Internal Audit Plan for the Financial Year. The committee has reviewed the performance of chief internal auditor during the year.</p>	✓
k)	<p>Major findings of internal investigations and Management's response</p> <p>Whenever a need arises, the Audit Committee 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>	✓
l)	<p>Participants of Board Audit Committee meetings</p> <p>The Committee met twice with the External Auditors without the presence of Executive Directors. The Managing Director/CEO, Executive Directors, DGM - DFS & Strategy, DGM - IT, Chief Internal Auditor, Head of Risk, Chief Financial Officer, Compliance Officer, Chief Manager Treasury and Information System (IS) Auditor normally attend all meetings. Where it is deemed necessary, members of the corporate management may also attend meetings by invitation.</p>	✓
m)	<p>Authority and resources of the Board Audit Committee</p> <p>The Board Audit Committee is guided by a Board-approved terms of reference which sets out authority and responsibility of the said Committee. The BAC is authorized to obtain external professional advice and to invite outsiders with relevant experience to attend if necessary. The Committee also has full access to information in order to investigate into matters relating to any matter within its terms of reference.</p>	✓
n)	<p>Meetings of the Board Audit Committee</p> <p>The Committee meets regularly and the audit reports were issued to its members in advance and the minutes of the meetings maintained by the Company Secretary. The Committee has met 13 times during the year and the attendance at those meetings is set out on page 254 in the Board Audit Committee Report</p>	✓
o)	<p>Disclosure in Annual Report</p> <p>The Report of the Board Audit Committee is on page 254 - 256 and includes the detailed activities, meetings held during the year and the Directors attendance at the BAC Meetings.</p>	✓
p)	<p>Recording and maintenance of minutes of meetings</p> <p>The Company Secretary acts as the Secretary of the Board Audit Committee and records and maintains all minutes of the meetings.</p>	✓

CORPORATE GOVERNANCE

Rule No.	Principle and compliance	Complied
q)	<p>Whistle-blowing policy and relationship with External Auditors</p> <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 Board Audit Committee 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. The Whistleblowing Policy has been reviewed and revised by the Board in March 2022 and communicated to the staff in all three languages.</p>	✓
3)	BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)	
a)	<p>Composition of Integrated Risk Management Committee</p> <p>The BIRMC consists of three Non-Executive Directors, four Executive Directors including Managing Director(CEO), Deputy Managing Director and other Key Management Personnel, namely Chief Financial Officer, Chief Manager – Treasury, Chief Risk Officer and Compliance Officer. The members of the senior management may also attend meetings by invitation. Terms of reference of IRMC was amended during the Financial Year to pre-adopt the provisions of Corporate Governance Direction no 5 of 2021</p>	✓
b)	<p>Risk assessment</p> <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 and as well as qualitative risks are being reviewed by the Committee in discharging its responsibilities as per the terms of reference. Following the introduction of Finance Business Act No. 5 of 2021 on Corporate Governance, the committee voluntarily pre-adopted the bi-monthly IRMC meeting requirement (which has a transitional provision until 01.07.2024) from the quarterly meeting frequency earlier.</p>	✓
c)	<p>Review adequacy and effectiveness of all executive level committees</p> <p>The Committee reviews the adequacy and effectiveness in addressing specific risk and managing the same within the quantitative and qualitative risk limits set by such respective committees such as Asset and Liability Management Committee and Credit Committee.</p>	✓
d)	<p>Corrective action to mitigate the effect of risks exceeding the prudent levels decided by the Committee</p> <p>The risk indicators introduced have been reviewed against the benchmark and prompt corrective actions are taken to mitigate the effects of such risks that are at level beyond the prudent levels decided by the committee. Review of this process is minuted at the BIRMC for their review and action if deemed necessary.</p>	✓
e)	<p>Frequency of meetings</p> <p>The Committee has met five times during the year to assess the risks of the Company.</p>	✓
f)	<p>Action against officers for failure to identify specific risks and take prompt corrective action</p> <p>Committee refers such matters, if any, to the HR Department for necessary action. However, the specific risk and limits identified by the Board Integrated Risk Management Committee and such decisions are taken collectively.</p>	✓
g)	<p>Submission of risk assessment report to the Board</p> <p>The Committee had kept the Board informed of their risk assessment of the Company by forwarding a risk report.</p>	✓
h)	<p>Establish a compliance function</p> <p>An independent compliance function is established as second line of defence.</p> <p>This function is responsible for, among other things, ensuring that the Company operates with integrity and in compliance with applicable, laws, regulations and internal policies. Dedicated compliance officer appointed with sufficient authority, stature, independence, resources and access to the Board.</p>	✓

Rule No.	Principle and compliance	Complied
9	RELATED PARTY TRANSACTIONS	
2)	<p>Avoid conflict of interest</p> <p>The Board appointed Related Party Transactions Review Committee ensures that the transactions with Related Parties are in accordance with best practices. The Related Party Transactions 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 387 in Financial Statements.</p>	✓
3)	<p>Related party transactions covered in the direction</p> <p>A Board-approved process is in place to identify the related party transactions and the Related Party Transactions Review Committee ensures that all the transactions with Related Parties are on arm's length basis.</p>	✓
4)	<p>Prohibit engaging in transactions with a related party in a manner that would grant such party "more favourable treatment"</p> <p>Granting accommodation in excess of prudent percentage of regulatory capital</p> <p>Charging lower rate than the best rate on accommodation and paying upper rate compared to unrelated counterparty</p> <p>Allowing preferential treatment compared to unrelated parties in the normal course of business. Providing or obtaining services without proper evaluation</p> <p>Maintaining reporting lines and information flows that may give benefits to related parties other than performance of legitimate duties</p> <p>The Board-approved Related Party Transactions 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. The Company has developed a separate system to monitor Related Party Transactions to ensure that related party transactions are not entered into on more favourable terms than those offered to others, and where applicable relevant approvals of the Related Party Transactions Review Committee/Board are obtained.</p>	✓
10	DISCLOSURES	
1)	<p>Disclosure of financial statements</p> <p>Relevant Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements are published in the newspapers, in all three languages.</p>	✓
2)	<p>Responsibility of the Board to ensure appropriate disclosure in the Annual Report</p>	✓
a)	<p>A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures</p> <p>Compliance with applicable accounting standards and regulatory requirements has been reported under the 'Statement of Directors' Responsibility for Financial Reporting' on page 300.</p>	✓
b)	<p>Report on Company's internal control systems</p> <p>Directors' Responsibility Statement on Internal Control Systems Over Financial Reporting is given on page 298.</p>	✓

CORPORATE GOVERNANCE

Rule No.	Principle and compliance	Complied																																													
c)	<p>External Auditor's certification on the effectiveness of the internal control mechanism</p> <p>The Company obtained a certification from the External Auditors on the effectiveness of the internal control mechanism. The independence assurance report on effectiveness of the internal control report over financial reporting is given on page 298.</p>	✓																																													
d)	<p>Details of Directors, including names, transactions with the Company.</p> <p>A comprehensive biography of Board of Directors are given on page 40 to 45. Refer note 6.1.2 - Transactions, Arrangements and Agreements Involving KMPs and their Close Members of the Family (CMFs) for transactions of Directors with the company.</p>	✓																																													
e)	<p>Fees/remuneration paid by the Company to the Directors in aggregate</p> <p>Refer tables given under point (f) below.</p>	✓																																													
f)	<p>Net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds</p> <table border="1"> <thead> <tr> <th>Category of related party transactions</th> <th>2020/2021 Rs. '000</th> <th>Percentage of the capital</th> <th>2021/2022 Rs. '000</th> <th>Percentage of the capital</th> </tr> </thead> <tbody> <tr> <td>Directors</td> <td>-</td> <td>0%</td> <td>-</td> <td>0%</td> </tr> <tr> <td>KMP</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Non-Executive Directors and their close family members</td> <td>-</td> <td>0%</td> <td>-</td> <td>0%</td> </tr> <tr> <td>Key Management Personnel and their close family members (Includes the Executive Directors)</td> <td>1,814</td> <td>0.01%</td> <td>6,651</td> <td>0.02%</td> </tr> <tr> <td>Subsidiaries</td> <td>-</td> <td>0%</td> <td>-</td> <td>0%</td> </tr> <tr> <td>Joint Venture</td> <td>-</td> <td>0%</td> <td>-</td> <td>0%</td> </tr> <tr> <td>Entities which Directors and their close family members have a substantial interest</td> <td>-</td> <td>0%</td> <td>-</td> <td>0%</td> </tr> <tr> <td>Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka</td> <td>-</td> <td>0</td> <td>-</td> <td>0%</td> </tr> </tbody> </table>	Category of related party transactions	2020/2021 Rs. '000	Percentage of the capital	2021/2022 Rs. '000	Percentage of the capital	Directors	-	0%	-	0%	KMP					Non-Executive Directors and their close family members	-	0%	-	0%	Key Management Personnel and their close family members (Includes the Executive Directors)	1,814	0.01%	6,651	0.02%	Subsidiaries	-	0%	-	0%	Joint Venture	-	0%	-	0%	Entities which Directors and their close family members have a substantial interest	-	0%	-	0%	Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka	-	0	-	0%	✓
Category of related party transactions	2020/2021 Rs. '000	Percentage of the capital	2021/2022 Rs. '000	Percentage of the capital																																											
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Statement of Financial Position – Company																																															
For the year ended		2019/2020	2020/2021	2021/2022																																											
		Rs. '000	Rs. '000	Rs. '000																																											
Assets																																															
Loans and advances		1,417	10,298	42,045																																											
Total		1,417	10,298	42,045																																											
Liabilities																																															
Deposits		536,051	697,325	758,400																																											
Securities sold under repurchase agreements		-	-	-																																											
Debentures		-	-	-																																											
Total		536,051	697,325	758,400																																											

Rule No.	Principle and compliance				Complied
g)	Aggregate value of remuneration paid to and transactions with KMPs				✓
	Transaction with KMP				
	For the year ended	2019/2020	2020/2021	2021/2022	
		Rs. '000	Rs. '000	Rs. '000	
	Short-term employment benefits				
	Directors	426,116	427,670	534,911	
	KMPS	51,048	50,828	114,042	
	Post-employment benefits				
	Directors				
	KMPS	1,625	Not Paid	Not Paid	
	Total	478,789	478,498	648,953	
	Transactions, arrangements and agreements involving KMP and their Close Family Members (CFM).				
	CFM of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependents of the KMP or the KMP's domestic partner. CFM are related parties to the Company.				
		Year end balance	Year end balance	Year end balance	
		2019/2020	2020/2021	2021/2022	
		Rs.	Rs.	Rs.	
	Undrawn facilities	-	-	-	
	Total	-	-	-	
	Share-based transactions of KMP and CFM				
	For the year ended	2019/2020	2020/2021	2021/2022	
	Number of ordinary shares held (Average balance)	524,439	*2,255,568	2,797,815	
	Dividends paid (Rs. '000)	3,764	7,223	9,619	
	*The Company affected a sub-division of ordinary shares on the basis of a sub-division of every one ordinary share into four ordinary shares during the financial year.				
h)	Certification of compliance				✓
i)	Non-compliance report				✓
	There were no significant lapses in the Company's Risk Management or non-compliance with this Direction that have been pointed out by the Director of the Department of Supervision of Non-Bank Financial Institutions and/ or directed to be disclosed to the public by the Monetary Board.				
j)	External Auditors certification of compliance				✓
	The External Auditors has performed procedures set out in Sri Lanka Standards on Related Service 4750 issued by The Institute of Chartered Accountants of Sri Lanka (SLSRS 4750), to meet the compliance requirement of the Corporate Governance Directions. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any material inconsistencies to those reported above by the Board. The recommendations made by the Auditors where relevant will be implemented in 2021/22 as done previously				
11	TRANSITIONAL PROVISIONS				✓
	Transitional and other provisions				

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	The Board comprised 11 Directors as at 31st March 2022, six of whom functioned in Non-Executive capacity, having the required professional competence, skills and experience in the fields of entrepreneurship, banking and finance, legal and marketing to lead and control the Company. 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.	✓
A.1.1	Board Meetings	The Board usually meets at monthly intervals and special Board meetings are convened whenever necessary. The Board met 14 times during the year. Attendance at meetings is summarized on page 235.	✓
A.1.2	Role & Responsibilities of the Board	The Board engages in providing direction in formulating a sound business strategy and closely monitors the implementation of the strategy effectively. A Strategic Plan has been developed covering three years from 2021/22 to 2023/24 and was approved by the Board.	✓
A.1.3	Act in accordance with laws and seek professional advice	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.	✓
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.1.5	Independent Judgement	All Directors are responsible for bringing independent judgment on issues of strategy, performance, resources and standard of business conduct. Non-Executive Directors are responsible for providing 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.	✓
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	✓

Code Ref.	Requirement	Reference	Complied
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. 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 the Managing Director/CEO have been separated in line with best practices with a view to maintain the balance of power and authority. The chairperson/independent Non-Executive Director Anandhiy Gunawardhana retired w.e.f 1st of March 2022 after completion of 9 years period. Non Executive Director/ Chairman Mr. Prasanna Godewatta was appointed w.e.f 1st March 2022. Independent Non Executive Director, Mr. Ashane Jayasekara was appointed as Senior 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 manner.	✓
A.4	Availability of Financial Acumen	The Chairman of the Board Audit Committee is a Fellow member of The Chartered Institute of Management Accountants of UK and the Chairman of the Integrated Risk Management Committee and 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 40 to 45.	✓

CORPORATE GOVERNANCE

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>The Board should include at least two Non-Executive Directors or one-third of total Directors whichever is higher.</p> <p>During the financial year under review, the Board comprised Six (6) Non-executive Directors and Five (5) Executive Directors facilitating the required balance within the Board.</p> <p>Two or one-third of Non-Executive Directors whichever is higher should be independent.</p> <p>The Board has determined three (3) out of Six (6) Non-Executive Directors are Independent as at 31.03.2022 as per this Code.</p> <p>Evaluation of independence of Non-Executive Directors.</p> <p>The Board evaluates the Independence yearly using annual declarations submitted by the Directors according to the Code criteria.</p> <p>Signed declaration of independence by the Non-Executive Directors</p> <p>All Non-Executive Directors provided the signed declarations of independence for 2021/22 as per Schedule K of the Code.</p> <p>Determination of the Independence and Non-Independence of each Non-Executive Director annually.</p> <p>The Board has reviewed the declarations submitted by the Non-Executive Directors, and determined their independence.</p> <p>If an Alternate Director is appointed by a Non-Executive Director such Alternate Director should not be an Executive Director and if an Alternate Director is appointed by an Independent Director, the person who is appointed also should meet the criteria of independence.</p> <p>No Alternate Directors were appointed during the year.</p> <p>Senior Independent Director (SID). 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 was appointed as a Senior Director w.e.f 01st of March 2022 along with the appointment of the Chairman (Non-Independent Non-Executive Director) to comply with the rule. Board approved TOR is available for the Senior Director.</p> <p>Meetings held by the Chairman with Non-Executive Directors, without the Executive Directors being present</p> <p>The Chairperson 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.</p> <p>The minutes, agenda and papers required for a Board meeting should be provided before seven (7) days.</p> <p>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>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.</p> <p>The report of the Nomination Committee is given on page 253 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.</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 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. 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>Resignation</p> <p>There were no resignations during the year.</p>	✓

CORPORATE GOVERNANCE

Code Ref.	Requirement	Reference	Complied
A.9	Appraisal of Board & Sub Committee's Performance	<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 Board for necessary action as appropriate as decided by the Board.</p> <p>Annual self-evaluation by the Board of its sub-committees.</p> <p>The appraisal of the performance of sub-committees was presented to the Board.</p> <p>Review at the point of re-election of the Directors</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.</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 40 to 45 including other directorships held by the Directors and memberships of Board Committees. Directors' attendance is disclosed on page 235.</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.</p> <p>CEO/ Managing Director's performance targets are aligned with business strategies of the Company. 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. Evaluation of the performance at the end of fiscal year. At the end of each financial year the Board evaluates the set targets and the actual performance.</p>	✓

Code Ref.	Requirement	Reference	Complied
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. 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. Composition of Human Resource and Remuneration Committee is in line with the code. This committee consist of 3 Non-Executive Directors of which 2 are independent in accordance the code</p> <p>Disclosure in the Annual Report about the Remuneration Committee members. Remuneration Committee report is given on page 252 of the Annual Report.</p> <p>Remuneration of Non-Executive Directors. 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 Chairperson/ MD on matters relating to the Remuneration Committee, Executive Directors and access to the professional advice. 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>	✓

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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.</p> <p>Remuneration packages in line with industry practices. The Human Resource 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.</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 Group Companies and therefore guidance could not be drawn from them.</p> <p>Performance-related payments to Executive Directors. There are performance-related elements of remuneration 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.</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.</p> <p>Remuneration Committee report is given on page 252 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 6.1.1 to the Financial Statements on page 416.</p>	✓

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. 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 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>Use of proxy votes.</p> <p>The Company has recorded all proxy votes for each resolution prior to the general meeting.</p> <p>Arrangement made by the Chairman of the Board that all Chairmen of Subcommittees make themselves available at the AGM.</p> <p>The Board includes the Chairmen of the Audit, Human Resource and Remuneration, Integrated Risk Management and Nomination Committees, and they are available at the AGM to answer any questions.</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>	✓

CORPORATE GOVERNANCE

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 accounts. 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. Refer Stakeholder engagement on page 68-81 in the Annual Report.</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>Disclosure of the contact person as per communication policy.</p> <p>Shareholders may, at any time, direct questions and request for publicly available information from the Directors or Management of the Company.</p> <p>Awareness of Directors on major issues and concerns of shareholders.</p> <p>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 the net asset base of the Company or the Group.</p> <p>Major transactions.</p> <p>During the year, the Company did not engage in or commit any major transactions which materially affected the Company's/Group's net asset base</p>	✓

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>Board should present interim and other price sensitive information to the public and reports to regulators.</p> <p>The Company has reported a true and fair view of its financial position and performance for the year ended on 31st March 2022 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>Company's Financial Statements are prepared inconformity with applicable accounting standards 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 244 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 300 and Auditors responsibility given in the Auditors' Report to the Internal Control is given on page 298 respectively.</p> <p>Management discussion and analysis.</p> <p>Management discussion and analysis is given on page 50</p> <p>Industry structure and developments 50</p> <p>Opportunities and threats 62</p> <p>Risks and concerns - Risk Managment report 262</p> <p>Internal control systems and their adequacy 298</p> <p>Social and environmental protection activities carried out by the Company 184</p> <p>Financial performance 120</p> <p>Material developments in Human Resource industrial relations and 158</p> <p>Prospects for the future 109</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 416.</p>	✓

CORPORATE GOVERNANCE

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. 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 internal audit department to ensure effective discharge of their duties. The responsibilities and functions of the Board Audit Committee are given in Audit Committee Report on page No. 254. 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 257 to 257.</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.</p> <p>Reviewing the scope and results of the audit and its effectiveness and independence and objectivity of the Auditors.</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 engagements to the External Auditor. It is also responsible to make recommendations on the appointment, reappointment and removal of Auditors.</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>Disclosures made in the Annual Report about Audit Committee.</p> <p>Board Audit Committee report is given on page 254 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>The Board has established a Related Party Transactions (RPT) Review committee consisting three Non-Executive Directors of whom majority are independent.</p> <p>RPT review committee has 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 260.</p>	✓

Code Ref.	Requirement	Reference	Complied
D.5	Code of Conduct and Ethics	<p>The Board should include this in the Annual Report setting out the manner and extent for it to be complied.</p> <p>Disclosure of corporate Governance Compliance</p> <p>The requirement is met with the presentation of this Corporate Governance Report from pages 225 to 243 of the Annual Report.</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 225 to 243 of the Annual Report.</p>	✓
E/F	INSTITUTIONAL AND OTHER INVESTORS		
	Encourage voting at AGM – institutional and other investors	<p>The company has 5,127 ordinary voting shareholders of which above 92.46% are institutional shareholders.</p> <p>We have a 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 - 55 and 232, 258	
G.2	Appoint a CISO and allocate budget to implement a cybersecurity policy	Please refer page - 239 - IT Governance	
G.3	Include cyber security on Board agenda	Please refer page - 258 of Integrated Risk Management Report	
G.4	Obtain periodic assurance to review effectiveness of cybersecurity risk management	Please refer page - 177 - Information security management	
G.5	Disclosures in Annual Report	Please refer page - 177 - 178 - Information security management	
H.	ENVIRONMENT, SOCIETY & GOVERNANCE		
H.1	ESG Reporting	Please refer page 184, 212	

CORPORATE GOVERNANCE

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	✓	40-45
7.6 (ii)	Principal activities of the Company and its subsidiaries during the year	✓	244-245
7.6 (iii)	Information on 20 largest shareholders at the end of the year	✓	145
7.6 (iv)	The public holding percentage	✓	146
7.6 (v)	Directors' and Chief Executive Officer's holding in shares	✓	146
7.6 (vi)	Information pertaining to material foreseeable risk factors	✓	251
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	✓	250
7.6 (viii)	Information on buildings/land holdings and investment properties as at the end of the year	✓	273
7.6 (ix)	Number of shares representing the stated capital as at the end of the year	✓	332
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and related information	✓	142, 145
7.6 (xi)	Ratios and market price information on equity, debt, change in credit rating	✓	146
7.6 (xii)	Significant changes in the Company's or Subsidiaries' fixed assets	✓	250
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	✓	NA
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.	✓	NA
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	✓	28
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.	✓	NA
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 2022 The Board comprised six Non-Executive Directors out of a total of 11 Directors which is 55 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 11 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 Directors out of six Non-Executive Directors three 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.	✓	

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 40 to 45 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. Not applicable	✓
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 40 to 45 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 40 to 45 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 252 of the Annual Report. Two of the Non-Executive Directors in the Human Resource 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 Resource and Remuneration Committee on page 252 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 252 of Remuneration Committee Report	✓

CORPORATE GOVERNANCE

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 recognised 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 254 to 256 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 shall oversee 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 254 to 256 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 254 to 256 for the required disclosure.</p>	✓



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