L B FINANCE

Integrated Risk Management Framework

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1. INTRODUCTION

As a financial institution engaged in a varied offering of financial services, assuming and active management of financial risks are integral parts of our business strategy. This implies that the core mission for risk management is adequate risk steering, as opposed to mere risk avoidance or minimization. Risk management therefore is an integral part of the management and control system, ensuring the timely identification, analysis, measurement, management and reporting of risks. This system provides the basis for successful value-based management, including the efficient allocation of capital and the optimization of key performance measures through consistent consideration of risk-return implications.

Company's risk management process is mandated by the Board of Directors and steered by the Board Integrated Risk Management Committee (BIRMC). The Board of Directors defines what levels of risk-taking are deemed adequate for the Company, taking into account all relevant limitations as well as the Company's business strategy.

On this background, the establishment of a formal governance framework for risk management at the Company's strategic level is of central and vital importance to meet

- Internal requirements for risk information on behalf of the Board of Directors,
- Risk based Capital and other requirements as required by the local regulator CBSL (Central Bank of Sri Lanka)

2. OBJECTIVE

An appropriate and effective risk management system ensures that risks and their impacts are identified and evaluated at an early stage and that mitigation plans and measures are in place where necessary to handle risks and to prevent their accumulation.

Through proper implementation of an Integrated Risk Management Framework (IRMF), the Company works towards the following goals:

- Explicitly stipulate overall risk management objectives, risk tolerance levels, policies, guidelines and approaches for the management of risk exposures.
- Define responsibilities of different parties involved in the integrated risk management function.
- Development of a risk culture that fosters awareness of risks and a common understanding of risks across functions and departments
- Capital protection, both for internal as well as regulatory purposes
- Limitation of earnings volatility
- Risk-based performance measurement and decision making
- Ability to act proactively or to respond quickly and effectively to adverse events
- Better understanding of risks for competitive advantage
- Increase transparency and optimise information flows between business functions, control functions, the management committee and the board of directors

3. OWNERSHIP, REVIEW AND UPDATE

The Board of Directors holds the ownership for the risk framework and defines the risk strategy for the Company. The risk strategy reflects the risk appetite and tolerance and, thereby, the desired level of confidence in achieving business targets.

The Company's risk management function and the BIRMC are responsible for proposing revisions to this risk management framework, in line with the developments in the business and regulatory environment.

The Board of Directors reviews and approves the risk management framework at least on an annual basis.

4. DEFINITIONS

4.1 Risk

Risk is any event, situation, or circumstance which, if it occurred, would adversely impact the achievement of objective of the LB Finance PLC (LBF) including the failure to capitalize on opportunities.

4.2 Risk Management

Risk Management is the process of systematically identifying, quantifying, and managing all risks and opportunities that can affect achievement of a corporation's strategic and financial goals.

4.3 Risk Strategy of LB Finance PLC

The Risk Strategy of LBF defines the Company's standpoint towards dealing with various risks associated with the business. It includes the Company's decision on the risk tolerance levels, and acceptance, avoidance or transfer of risks faced by the LBF.

4.4 Risk Assessment

Risk Assessment is defined as the overall process of risk analysis and evaluation based on impact & likelihood.

4.5 Risk Estimation

Risk Estimation is the process of quantification of risks and qualitative factors also taken in to consideration.

4.6 Risk Tolerance/Risk Appetite

Risk tolerance or Risk appetite indicates the maximum quantum of risk which the LB Finance is willing to take as determined from time to time in accordance with the Risk Strategy of the LBF.

4.7 Risk Description

A Risk Description is a comprehensive collection of information about a particular risk recorded in a structured manner.

4.8 Risk Register

The 'Risk Register' is a data base for recording the risks encountered at various locations and levels in a standardized format of Risk Description

5. FUNDAMENTAL PRINCIPLES OF RISK MANAGEMENT

1. Create values
2. Integral part of organizational processes
3. Part of decision making
4. Explicitly addresses uncertainty
5. Systematic, structured and timely
6. Based on the best available information
7. Tailored
8. Takes human and cultural factors into account
9. Transparent and inclusive
10. Dynamic, iterative and responsive to change
11. Facilitates continual improvements of the organization

Source: ***ISO 31000:2009 (****Risk management — Principles and guidelines)*

6. RISK CATEGORIZATION

LB Finance assesses and manages risk exposures which are material and relevant for its operations. The scope of these risk categories consists of quantifiable and non-quantifiable risks under Basel recommendations. Following broader risk categories are in focus. Descriptive versions of policies, guidelines, strategies and practices for the management of different types of risk exposures are formulated in the respective frameworks.

6.1 CREDIT RISK

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

6.1.1 **Default risk** as the risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the Company's loans and advances to customers.

6.1.2 **Concentration risk** is the credit exposure being concentrated as a result of excessive build-up of exposure to a single counterparty, industry, product, geographical location or insufficient diversification

6.1.3 **Settlement risk** is the risk of loss arising from trading/investment activities when there is a mutual undertaking to deliver on a progressive basis,
For example, when the Company enters in to a reverse-repo transaction with a primary dealer, counterparty could fail to fulfil its contractual obligations by delivering the assigned security to the Company's custodian account after Company had advanced money.

The management of credit risk is included in the Credit Risk Management Framework and Policy.

6.2 LIQUIDITY RISK

The risk of loss resulting from the danger that short-term current or future payment obligations cannot be met or can only be met on the basis of altered conditions, along with the risk that in the case of a liquidity crisis of the Company, refinancing is only possible at higher interest rates or that assets may have to be liquidated at a discount. Liquidity risk for a financial institution can take two forms: transactions liquidity, a property of assets or markets and funding liquidity, which is more closely related to creditworthiness.

Transaction liquidity risk is the risk of moving the price of an asset adversely in the act of buying or selling it. Company's transaction liquidity risk is low if assets can be liquidated without moving the price too much.

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

The management liquidity risk is included in Company's Asset and Liability Management & Liquidity Management Policy.

6.3 MARKET RISKS

Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, exchange rates, equity prices and commodity prices. Among them, interest rate risk and commodity risk have been identified as the most critical risks given Company's business profile.

6.3.1 **Interest rate risk** is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to Company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as;

- **Reprising risk** arising from a fixed rate borrowing portfolio where reprising frequency is different to that of the lending portfolio.
- **Yield curve risk** arising from unanticipated shifts of the market yield curve

6.3.2 **Commodity price risk** refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities/gold. Commodity risk could arise from either of adverse movements in the world prices, exchange rates movements, basis difference between local and world prices.

6.3.3 <u>Equity risk</u> is the risk of loss based on market changes in the value of equity or a participation portfolio.

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

6.4 OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (Basel II definition). Management of operational risk is integrated across the functions since occurrence of one such risk may compound another.

Operational risk may result in a financial loss and a reputation risk to the Company. Company broadly identifies, assesses and aims to mitigate the following operational risk categories:

- Internal fraud
- External fraud
- Work place safety
- Business disruptions
- Process risk
- Damage to physical assets

The management of operational risk is included in the Operational Risk Management Framework and Policy.

6.5 REPUTATIONAL RISK

The risk of loss caused by a decline in the reputation of the Company from the point of view of its stakeholders – shareholders, customers, staff, business partners or the general public. Reputational risk can be a consequence of losses in all risk categories such as market or credit risks, as well as a cause for them.

6.6 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;

- Employee turnover
- poor employee management practices
- unexpected temporary leave
- management error/incompetence
- disability (temporary or permanent) death

6.7 STRATEGIC RISK

The risk of an unexpected negative change in the Company value, arising from the adverse effect of top-level decisions on both business strategies and their implementation. This risk is a function of the compatibility between strategic goals, the business strategies developed to achieve those goals and the resources deployed against these goals. Strategic risk also includes the ability of the management to effectively analyze and incorporate external factors, which could impact the future direction of the Company.

6.8 INFORMATION TECHNOLOGY RISK

The risk associated with the ownership, use, processing, operation, involvement and adoption of information systems, information technology and technical infrastructure has been identified as IT risk by the Company. This includes but not limited to events such as breakdowns, failures or interruptions which result in a system downtime, frauds through errors and system manipulations, technological obsolescence and insufficient infrastructure to support business volumes, falling behind competitors in terms of the information technology.

Company has identified information as a vital business resource and a key asset to the organization. Hence, the potential of a threat exploiting the vulnerabilities of this valuable and important asset can cause dverse impact to the business operation ranging from simple inconvenience to catastrophic in scale.

The management of Technology Risk is included in the Technology Risk Management Framework.

6.9 CAPITAL ADEQUACY RISK

For a financial institution capital is a buffer against insolvency. It is available to absorb unforeseen losses so that the Company can remain in business. The more capital the Company has relative to the risks it takes, the more confident the stakeholders are that it will meet its obligations to them. Capital adequacy risk arises from Company's inability to maintain the required amount of capital which is perceived to be adequate to absorb the unexpected losses. The Company's capital management objectives can be summarized as follows:

- Maintain sufficient capital to meet minimum regulatory capital requirements.
- Hold sufficient capital to support the Company's risk appetite.
- Allocate capital to businesses to support the Company's strategic objectives.
- Ensure that the Company maintains capital in order to achieve debt rating objectives and to withstand the impact of potential stress events.

6.10 REGULATORY RISK (COMPLIANCE RISK) AND LEGAL RISK

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 unfavorable contract clauses and loose contracts.

6.11 SUSTAINABILITY RISK

Sustainability risk encompasses the potential challenges and adverse impacts that may arise from an organization's environmental, social, and governance (ESG) practices and their long-term implications on financial stability and operational performance. Within the Integrated Risk Management Framework, sustainability risk involves assessing how factors such as climate change, resource depletion, social inequality, and regulatory shifts could affect the assets, liabilities, and overall business model. Effective management of sustainability risk requires the integration of ESG considerations into risk assessment processes, strategic decision-making, and portfolio management to ensure resilience against emerging threats and alignment with long-term sustainability goals. By proactively addressing these risks, LBF enhances its ability to sustain growth, maintain regulatory compliance, and uphold its reputation in a rapidly evolving global landscape.

7. RISK GOVERNANCE AND RISK ORGANIZATION

Risk Governance Framework

The Company has adopted a "**Three Lines of Defence**" governance framework**.** The three lines of defence framework operate as follows;

I. **First line of defence** represents risk owners. They have the first and direct responsibility for the assessment and control of the Company's risks. (management committees, management and staff attached to different business units);

II. **Second line of defence** comprises of units providing the independent risk oversight. They co-ordinate, facilitate and oversee the effectiveness and integrity of the Company's risk management framework (Risk management function and Compliance Function);

III. **Third line of defence** provides independent review of effectiveness of risk management practices and internal control framework and recommend for improvements where necessary (Internal and External Audit)

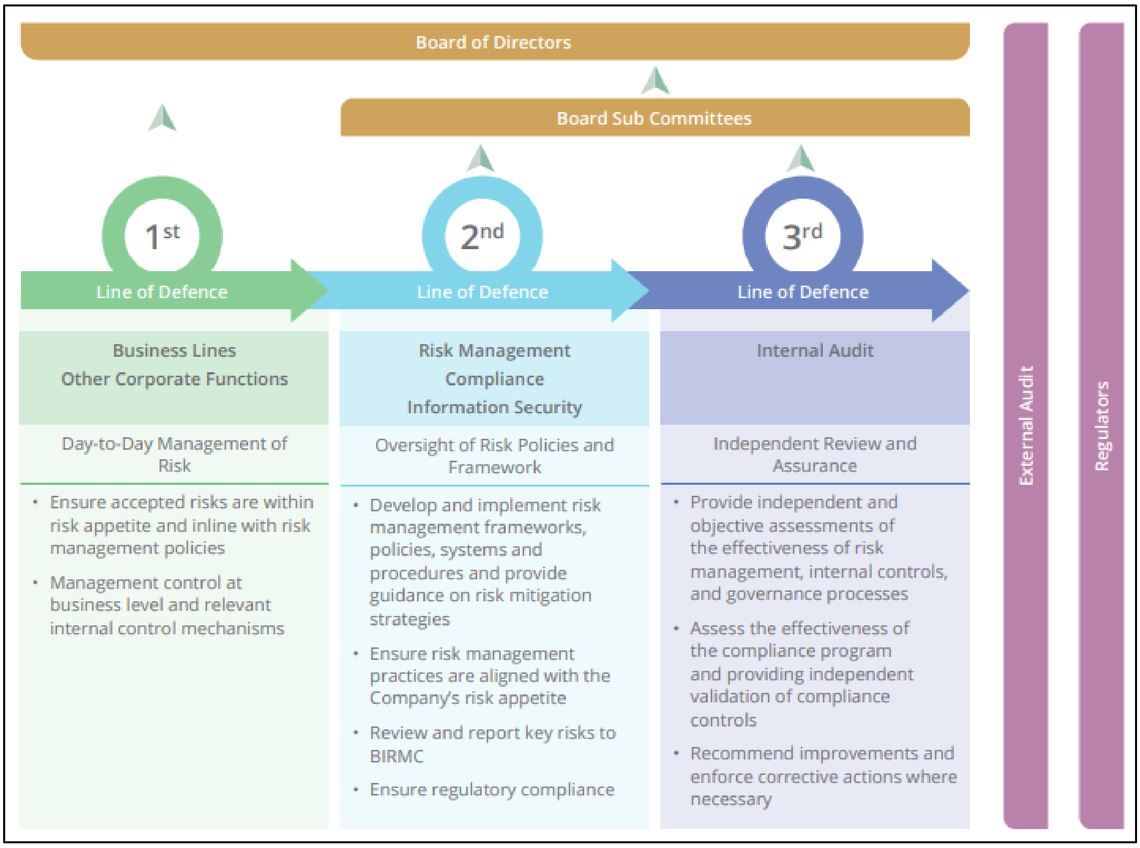

Figure 1- Three Lines of Defense

Roles and Responsibilities

7.1 BOARD OF DIRECTORS

The Board of Directors in principle is responsible for maintenance of prudent risk management mechanisms and orderly implementation of this framework in LBF. The Board approves the policies, strategies and systems and operational approach for risk management. The effective implementation of the risk management function is carried out through the BIRMC and the senior management.

7.2 BOARD SUB COMMITTEES RELATED TO THE RISK MANAGEMENT FUNCTION

a. **Board Integrated Risk Management Committee (BIRMC)**
The Board has delegated its authority to Integrated Risk Management Committee which is responsible for developing and monitoring Company's risk management policies. The committee consists of three Board members and is headed by an Independent Non-Executive Director. Details of the committee composition, functions, responsibilities and meeting frequency are stipulated in the Board-approved BIRMC Terms of Reference. The minutes of BIRMC meetings are submitted to the Board of Directors and they are duly updated of its activities.

b. **Board Audit Committee (BAC)**
Audit committee is a formally constituted sub-committee of the main Board, and consists of three Board members who are Non-Executive Directors. The members of the committee are appointed by the Board. The primary function of the committee is to assist the Board to fulfil its stewardship responsibilities with regard to financial reporting requirements and information requirements of the Companies Act and other relevant financial reporting regulations and requirements. It also has oversight responsibility for reviewing the effectiveness of internal control and risk management systems. The committee assesses the independence and performance of the Company's auditors, both internal and external auditors. The minutes of BAC meetings are submitted to the Board of Directors.

c. **Board Information Security Committee (BISC)**
The Board Information Security Committee was established by the Board of Directors to provide strategic oversight and governance of the company's information security program. The committee's primary objectives include ensuring the protection of information assets, maintaining compliance with regulatory standards, overseeing the implementation of robust cybersecurity measures, and managing risks associated with information security. Through continuous evaluation and improvement of security policies, controls, and practices, the committee aims to safeguard the integrity, confidentiality, and availability of the company's information systems. The Committee compose of two Independent Non-Executive Directors and one Executive Director.

d. **Board Sustainability Committee (BSC)**
The Board Sustainability Committee was established with the purpose of streamlining the Company's sustainability related activities, and thereby add value to the environment, society while strengthening governance and economic performances of the business. The Committee compose of three Independent Non-Executive Directors and one Executive Director.

7.3 MANAGEMENT COMMITTEES

a. Assets and Liabilities Management Committee (ALCO)

Assets and Liabilities Management Committee (ALCO) is chaired by the Managing Director and comprises of Executive Directors, Head of Treasury, Head of Fixed Deposits, Chief Financial Officer and Head of Risk Management. The committee meets regularly to monitor and manage the assets and liabilities of the Company and also overall liquidity position to keep the Company's liquidity at healthy levels, whilst satisfying regulatory requirements. Details of the responsibilities and guidelines of ALCO are stipulated in the Board-approved ALCO Charter. Minutes of ALCO meetings are submitted to BIRMC for information.

b. Credit Committee

Credit Committee is chaired by the Managing Director and comprises of Executive Directors, representatives from Credit Department, Chief Financial Officer and Head of Risk Management. The committee meets regularly to monitor and manage the Company's lending portfolio, asset quality and recovery actions. The committee also periodically reviews Company's credit policy and lending rates to different business segments, in line with prevailing market conditions and industry dynamics. Details of the responsibilities are stipulated in the Board-approved Credit Committee Charter. Minutes of Credit Committee meetings are submitted to BIRMC for information.

c. Information Technology Security and Steering Committee (ITSSC)

Information Technology Steering Committee is headed by Executive Director – Asset Management and comprises of Head of IT and representatives from relevant departments. The committee is responsible for providing leadership for the planning and management of IT investment on a Company wide basis and also for both strategic and operational aspect of information security and technology risk management. Members of the steering committee ensure that the Company's Information Technology needs and objectives are being adequately addressed. The committee helps to ensure that IT strategy is aligned with the strategic goals of the Company whilst its strongest mandate is to find and align business solutions that may leverage technology. Minutes of ITSSC meetings are submitted to BIRMC for information.

d. Business Continuity Management Steering Committee (BCMS Committee)

BCM Steering Committee in LB Finance PLC (LBF) is responsible for governing the Business Continuity Management System (BCMS). Led by the Deputy Managing Director (BC Chairman), the committee comprises Executive Directors, BC Manager, Department Heads, and other relevant members. It provides clear direction and management support for all activities related to the BCMS. The BCM Steering Committee aligns operational goals with BCMS goals, evaluates organizational changes and their impact on the BCMS, and reviews and approves policies and standards. It ensures adequate resources and support for BCMS activities and conducts periodic reviews to ensure the effectiveness and adequacy of the BCMS. The committee reports to the Board of Directors, providing updates on BCMS-related activities

e. Sustainability Committee (SC)

Sustainability Committee, led by the Deputy Managing Director is tasked with the responsibility of steering the Company's sustainability activities and facilitating the Board Sustainability

Committee in driving the overall sustainability strategy of the company. SC ensures that sustainability activities are integrated into the Company's operations.

f. Operational Risk Management Committee (ORMC)

Operational Risk Management Committee (ORMC) is tasked to ensure the effective functioning of the Operational Risk management process as per the approved policies and the guidelines by the BIRMC and the Board. The committee meets on quarterly basis. ORMC is chaired by the Managing Director or Deputy Managing Director and comprises with Executive Directors and Heads of various departments, such as risk management, Finance, compliance, internal audit, and business units. Minutes of ORMC meetings are submitted to BIRMC for information.

7.4 RISK MANAGEMENT DEPARTMENT (RMD)

The Risk Management Department provides an independent oversight function, acting as second line of defence within the organization. RMD is tasked with the responsibility of assisting the business units and functional departments in identifying and managing the risks related to their respective operations and processes and independently monitoring the status and effectiveness of the mitigation action plans. RMD is headed by Head of Risk Management who directly reports to the BIRMC and has the administrative reporting to Managing Director.

<u>Main duties and responsibilities of the RMD</u>

a) Develop and update the Company's risk management policies.

b) Coordinate and facilitate the training of the Company's staff to recognize risks in their work so as to foster a strong risk culture.

c) Provide and enhance tools and methods for quantitative and qualitative risk measurement.

d) Propose the Company's risk management development plan and ensure that developments are at the minimum in line with local regulatory requirements.

e) Support regulatory issues that affect risk management (capital adequacy rules, minimum requirements for risk management).

f) Assess the capital adequacy under normal and stress circumstances and propose capital augmentation as required.

g) Evaluate and / or recommend risk mitigation strategies, Track and follow-up all risk mitigation actions taken.

h) Provide an independent view on the risk-return impacts of plans and decisions and feed comments and recommendations into planning and decision processes.

i) Consolidate risk related reports and prepare regular and ad-hoc reports for the BIRMC and Board of Directors.

j) Collaborate with the Company's other control functions to achieve efficient, timely and consistent communication to the Company's management, reducing potential overlap.

The Risk Management Department has the following rights in order to carry out its duties:

a) Right of access to all premises of the Company and the right to inspect all correspondences, files, records, accounts and all other documents held by the Company as are necessary to perform its duties.

b) Right to interview and / or require staff of the Company to supply information and explanations as is necessary for the performance of its duties.

8. RISK MANAGEMENT PROCESS

Management of risks within the Company takes place in several steps. These apply in principle to all risk categories. The risk management process on its broadest level can be broken down into the following generic steps;

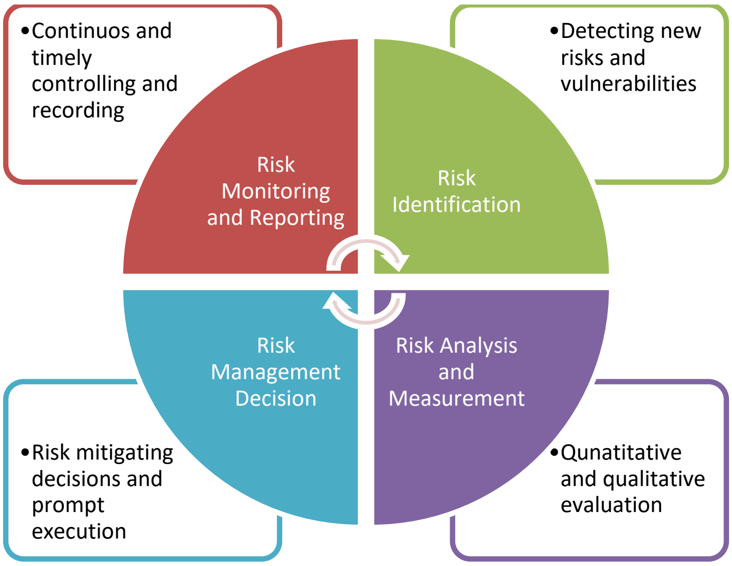

Figure 2 The risk management process

Precise procedures, responsible parties, frequency of analysis and reporting requirements for specific risk management processes depend on the methodology employed. A deeper insight into each of the four generic process steps provided above.

A. Risk Identification

In the context of risk identification, all existing risk categories, their sub-risks as well as their risk sources within the Company's business are determined and clearly distinguished from each other on an on-going basis. New risks can occur, given that the business environment is constantly changing and that new products are being developed and brought into the market. Early and comprehensive identification of risk is an essential element for the early warning system. Before commencing business with new products, types of business and in new markets, the risks inherent in them and the resultant effects on risk management are identified. Given the strong risk culture within the Company, risk identification at LBF is undertaken by employees at all levels. In the top down approach, Company leadership/BOD perceive the emerging risks that could affect the strategic goals of LBF while in the bottom up approach, the operational teams identify the risk sources while performing the day-today business.

B. Risk Analysis and Measurement

This process focusses on assessing the likelihood and severity of the identified risks. A range of quantitative and qualitative tools are used for this purpose depending on the principal risk type. These include; the Risk Matrix, VaR models, Financial analysis, Maturity of Assets and Liabilities analysis, Sensitivity of Assets and Liabilities, cash flow analysis, HHI, etc. Stress impact analysis under stress circumstances is also performed on continuous basis. Interdependencies are considered, and risk concentrations or accumulation risks are continuously analysed and evaluated. Risk analysis and measurement is a primary responsibility of the Risk Management Department of LBF.

C. Risk Management Decision and Execution

Risk treatment is a dynamic process where appropriate treatment methodology is selected for each assessed risk separately, to either accept, transfer, mitigate or avoid the risk. This involves redesigning of existing controls introducing new controls, entering in to hedging transactions, diversifying portfolios, developing contingency plans, etc. LBF's Risk Management Department under the guidance and oversight of the Board Integrated Risk Management Committee (BIRMC) are tasked with developing appropriate risk treatment approaches.

D. Risk Monitoring and Reporting

The quantifiable risks are restricted by risk appetite limits. The development of risk limits for controlling and monitoring risk positions, risk exposure in particular to avoid risk concentrations for sectors, customers and security types forms is an essential part of the Company's risk management approach. All non-quantifiable risks are managed and limited via appropriate approaches or methods. Risk Register serves as a primary document which comprehensively captures the progress of ongoing risk identification, evaluation and mitigation approaches. Monitoring ensures that the risk management decision is implemented appropriately and on timely manner. It includes both the monitoring of deviations from the prescribed risk limits and the monitoring of methods, procedures and processes used for quantifiable and non-quantifiable risks. The Risk Management Department is charged with the responsibility of continuous risk monitoring and periodic risk reporting to the senior management, BIRMC and BOD.

9. RISK APPETITE STATEMENT

Risk appetite is the types of risks and the aggregate amount of risks that the Company is prepared to be exposed to at any given point in time which is approved by the Board of Directors. After a careful consideration of the regulatory requirements, capital, funding and liquidity position, strategic objectives and the risk management framework, the Company has put in place a risk appetite statement which clearly defines the Company's risk appetite and the strategic risk objectives. The actual position against the regulatory and prudent risk limits is informed to the BIRMC on periodic basis for necessary advice and direction. Risk Appetite statement is reviewed at lease annually in line with business strategy and governance framework.

10. RISK MANAGEMENT & REPORTING PROCEDURE

Risk Management & Reporting (**RMR**) procedure allows the RMD and the Head of Risk Management to identify and assess risks affecting the entire business on an on-going basis.

a) RMR procedure starts with the initial identification of key risks concerning each business unit/function. Risk identification is a collective exercise carried out with the active participation and contribution of the respective HoDs (Risk Owners) on a quarterly basis where RMD's role primarily is to facilitate the process.

b) For quantifiable risks, Key Risk Indicators (KRIs) are defined and tolerance levels are set for monitoring purposes. KRIs should be evaluated on regular basis for appropriateness and relevance. Any new identified KRIs should be added to enhance effective risk monitoring. A comprehensive set of KRIs are prepared on a monthly basis and reviewed by Head of Risk Management. Any risk highlighted is communicated to the relevant HoDs and executive leadership of the Company to mitigate the negative consequences.

c) For qualitative non-quantifiable risks, RMD initiate and formulate risk mitigation plans together with the respective business divisions. For agreed mitigation actions clear timelines are set for completion and responsibilities are assigned.

d) RMD is responsible for submitting the Key Risk Indicators to the members of BIRMC on every other month which should include the status of compliance with the KRI tolerance levels.

e) Head of Risk Management is responsible for escalating any proposed mitigation strategy beyond the scope/authority of the business units/HoD or RMD to the executive leadership and seek necessary approvals for the implementation.

f) RMD regularly communicates with the risk owners for the purpose of monitoring KRIs and ensure the implementation of agreed mitigation strategies. Risk owners are responsible for providing all necessary information to the RMD and Head of Risk Management to facilitate independent supervision.

g) Head of Risk Management is responsible for submitting Risk Register, Key Risk Indicators and Branch risk assessment, Stress Testing results based on the RMR procedure to the BIRMC on a quarterly basis.

   Head of Risk Management is responsible for submitting summarized version of the Corporate Risk Profile and actual risk position against the Risk Appetite Statement to the Board of Directors at least on a quarterly basis.

All employees of the Company have an obligation to report irregularities of which they become aware and to disclose any information which they believe shows serious maladministration or wrongdoing within the Company. A failure to do so shall constitute wilful suppression/concealing of material facts detrimental to the Company and shall be grounds for disciplinary action.

11. INTERNAL CONTROLS

Internal controls are a key element in the risk management framework. They include processes to assess, mitigate and monitor risks. LBF has embed internal controls throughout its processes and as part of its overall governance structures and reporting systems. LBF's internal controls system comprise of set of policies and procedures that, ensure the integrity of financial and accounting information, promote compliance and operational efficiency, and prevent fraud. Policy reviews and Internal Control Assessment Process are conducted at least on annual basis to ensure that those are UpToDate and effective.

12. INTERNAL AUDIT AND COMPLIANCE REVIEW

The Internal Audit periodically carries out an independent review of the implementation of the guidelines stipulated in this framework and risk policies covering different risk categories. Further, Compliance department carry out an independent review to ensure timely implementation of regulatory specifications. These review reports are submitted to BIRMC.

13. REVIEW OF THE FRAMEWORK

The Board of Directors reviews and approves the Integrated Risk Management Framework at least on an annual basis.