

MANAGING KEY RISKS

SNAPSHOT OF LBF'S KEY RISKS

Risk Category	Description	Risk Events for FY 2022/23	Risk Level		
			2022/23	2021/22	
Credit Risk Potential loss to LBF as a result of failure by borrowers to meet their contractual obligations towards LBF	Default / Settlement Risk	Borrowers' failure to meet their debt commitments towards the Company, thus affecting LBF's earning capacity and margins due to increase in loan loss provisioning. It also causes a disruption in the planned cash flow cycle and raises concerns regarding a liquidity mismatch	Economic crisis, rising inflation and high interest rates affecting the repayment capacity of individuals and businesses, especially SME's		
	Concentration Risk	Overdependence on a specific product or over exposure to a specific customer, sector, geography etc. will threaten the continuity of the business in the event of unforeseen challenges affecting customer/sector/geography prospects	Extension of the government-led moratoria for the tourism and transport sectors, preventing collection activities in order to reduce the exposures to these sectors		
Liquidity Risk		Inability to maintain or generate sufficient liquid resources to meet payment obligations as they fall due	Sri Lanka's sovereign rating downgrade resulting in the inability to access foreign currency denominated funding		
Market Risk Possible loss to LBF owing to changes in market interest rates, the movement in commodity prices such as gold and the fluctuations in the exchange rate	Interest Rate Risk	Impact on Net Interest Income arising from the mismatch between borrowing and lending rates due to unforeseen interest rate volatility	Rapid increase in short term interest rates		
	Commodity Price Risk	Impact on earnings generated through the Gold Loan operation owing to fluctuations in world gold prices	Volatility of global price of gold due to the increase in interest rates to curb inflation		
	Exchange Rate Risk	Impact on profitability owing to the impact of exchange rate fluctuations on foreign currency denominated contractual obligations and the impact to the consolidated balance sheet from overseas subsidiary operations	The sudden appreciation of LKR towards the end of financial year which resulted in sudden drop in local price of gold. The price later recovered to normal levels along with global price appreciation and LKR depreciation.		

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Operational Risk	Potential loss LBF would have bearing owing to inadequate human capital resources or breakdown in internal systems and processes	Economic uncertainty leading to fraudulent activities by customers and other stakeholders	●	●
Information Technology and Information Security Risk	Impact to earnings, profitability and reputation owing to cyber-attacks, system failures and interruptions or ineffective infrastructure to support evolving business needs	Heightened threat (internal and external) of information security breaches due to increased digital adoption	●	●
Human Resources Risk	Events that prevent employees from fulfilling their responsibilities and thus keep the business from operating at full efficiency	Labour migration influenced by the economic crisis in the country	●	●
Strategic Risk	Impact on the Company's earnings, profits and / or reserves due to poor business policy decisions, improper implementation of business strategies or lack of responsiveness to industry changes.	The prevailing ban on vehicle importation is a barrier to expand the company's franchise of vehicle financing business. Also the negative economic growth of the country decreases the demand for credit	●	●
Reputation Risk	Arises from an event or behaviour that could adversely impact market 'perception' of the Company's goodwill	The credit rating of the Company remained unchanged during the year while the rating of many other financial institutions' including banks got downgraded.	●	●
Legal Risk	Risk of loss caused by non-compliance with existing or new legislation or supervisory regulations, disadvantageous changes to existing laws or supervisory regulations	No regulatory penalties or non-compliances were reported.	●	●

Risk indicator ● High ● Moderate ● Low

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction