

FINANCING



OUR STRATEGY

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

MANAGEMENT APPROACH

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

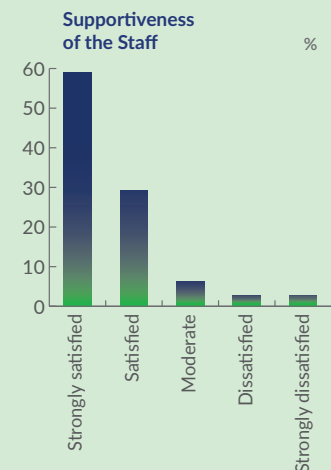
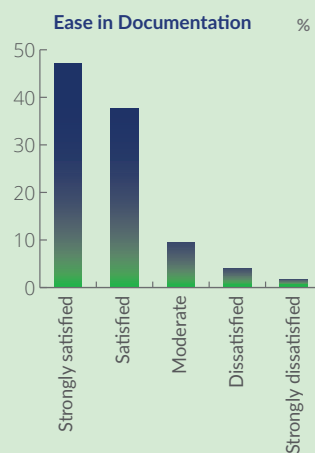
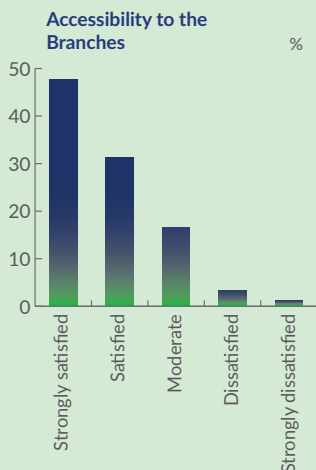
efforts. The acute economic uncertainties that weakened corporate prospects and personal incomes were a major factor in LBF's financing strategy. In light of this situation, LBF took a cautious approach to increasing access to credit. The paradigm of selective lending, which attempted to preserve credit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

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

Survey Insights by



Marketing Department of
University of Sri Jayewardenepura



BUSINESS REVIEW

FINANCING

CORE COMPETENCIES

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

STAKEHOLDERS EXPECTATIONS

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

Product offerings



BUSINESS PERFORMANCE

GOLD LOAN

Grew by

46%

VEHICLE LOAN

Grew by

3%

CIM BUSINESS LOAN

Grew by

28%

PERSONAL LOAN

Reduced by

8%

LEASING

Reduced by

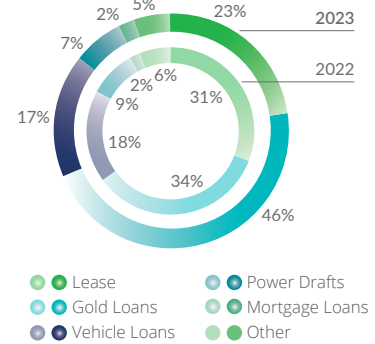
17%

POWER DRAFT

Reduced by

16%

Product Concentration



Customer awareness



AUTO FINANCE



Strategy and performance

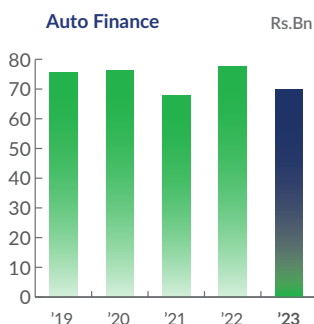
Amidst the backdrop of another challenging year, LBF's Leasing & Auto Finance business stayed on track to deliver satisfactory performance considering the muted credit appetite and other challenges encountered in FY 2022/23.

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

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

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

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



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

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

Future prospects

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

POWER DRAFT



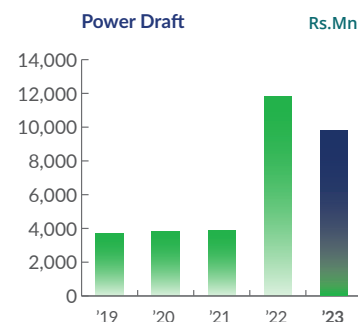
Strategy and performance

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

Key Macro-Economic challenges

Looking ahead, we will focus on:

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



Future prospects

Increase market share to achieve market leadership

GOLD LOAN



Strategy and performance

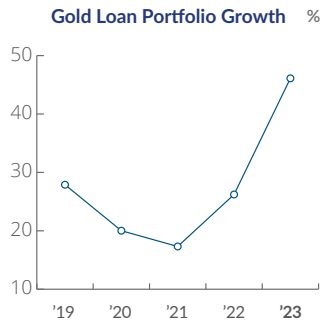
Building on the success achieved in the previous year, LBF's Gold Loan operation made excellent headway in the current financial year by surpassing all growth targets set for the year.

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

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

BUSINESS REVIEW

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

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

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

Future prospects

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



MICRO - LEASING



Strategy and performance

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

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

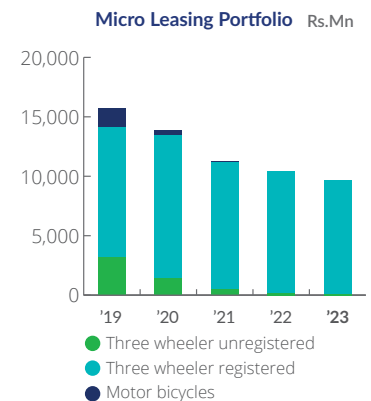
Future prospects

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

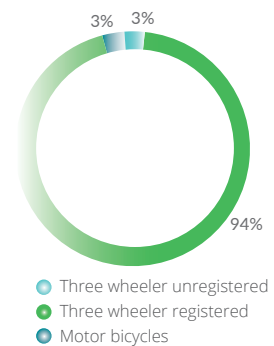
Key Macro-Economic challenges

Looking ahead, we will focus on:

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



Micro Leasing Customer Base Composition



PERSONAL LOANS



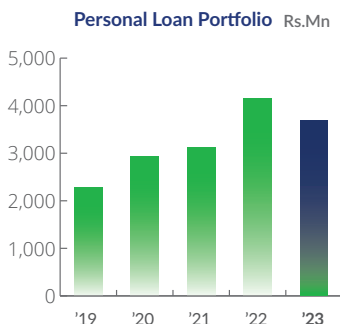
Strategy and Performance

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

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

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

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



Future prospects

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

MORTGAGE LOAN



Strategy and performance

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

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

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

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

Future prospects

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

FACTORING



Strategy and performance

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

Future prospects

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

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

BUSINESS REVIEW

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Customer awareness



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BUILDING FOR FUTURE

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