

DEFINING OUR MATERIAL MATTERS

6 MATERIALITY BEHAVIOUR

THEME 1 Challenging economic conditions

Low

LBF's ability to control

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

Positives

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

Negatives

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

Short-term objectives

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

Medium-term objectives

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

Long-term objectives

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

Link to strategic objectives

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

Opportunities for future value creation

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



Mitigating risk and maximising opportunity

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

Principal risks affected | Credit risk, Market risk

Strategic relevance

BS BO

SDG impact

8 11 17

Capitals impacted

FC MC IC

Stakeholders impacted

SH E C



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

Positives

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

Negatives

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

Short-term objectives

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

Medium-term objectives

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

Long-term objectives

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

Link to strategic objectives

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

Opportunities for future value creation

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

Mitigating risk and maximising opportunity

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

Principal risks affected | Information security risk, operational risk

Strategic relevance

BO IG

SDG impact

9 11

Capitals impacted

FC IC SC

Stakeholders impacted

E C

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

DEFINING OUR MATERIAL MATTERS

THEME 3 Legal, regulatory and compliance management

Medium

LBF's ability to control

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

Positives

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

Negatives

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

Short-term objectives

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

Medium-term objectives

- ▶ Invest in strengthening ESG integration across the business

Long-term objectives

- ▶ Achieve recognition for compliance leadership in the NBF sector

Link to strategic objectives

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

Opportunities for future value creation

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

Mitigating risk and maximising opportunity

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

Principal risks affected | Reputation risk, operational risk

Strategic relevance

BS BSF

SDG impact

1 2 3 4 13

Capitals impacted

FC NC SC

Stakeholders impacted

SH S/C C

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

Positives

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

Negatives

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

Short-term objectives

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

Medium-term objectives

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

Long-term objectives

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

Link to strategic objectives

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

Opportunities for future value creation

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

Mitigating risk and maximising opportunity

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

Principal risks affected | Reputation risk, operational risk

Strategic relevance

BSF IG

SDG impact

5 10

Capitals impacted

IC SC

Stakeholders impacted

E C

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Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

DEFINING OUR MATERIAL MATTERS

THEME 5 Customer-centricity and business innovation

Medium

LBF's ability to control

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

✓ Positives

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

✗ Negatives

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

Short-term objectives

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

Medium-term objectives

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

Long-term objectives

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

Link to strategic objectives

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

Opportunities for future value creation

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

Mitigating risk and maximising opportunity

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

Principal risks affected | Market risk, Reputational risk

Strategic relevance

BSF IG

SDG Impact

8 9

Capitals impacted

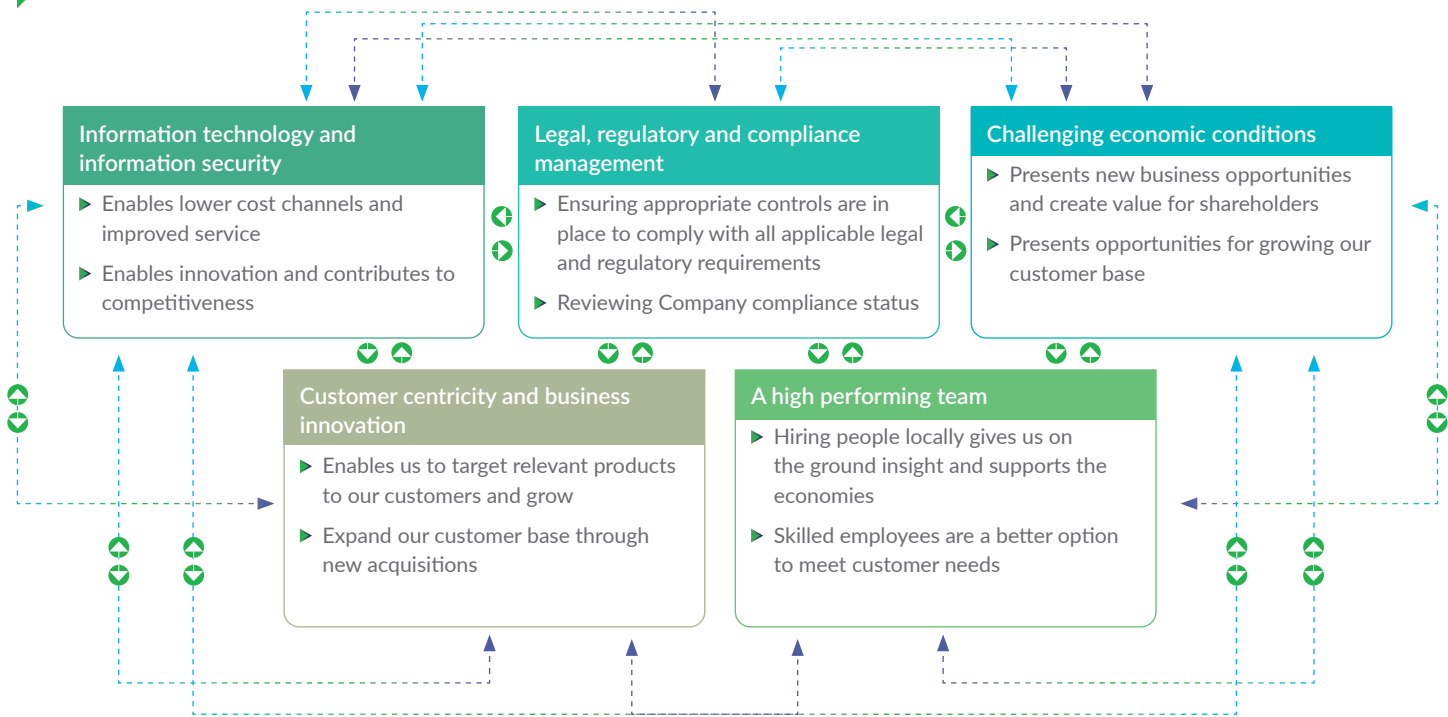
MC HC SC

Stakeholders impacted

E C BP S/C

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7 INTERRELATIONSHIP BETWEEN MATERIAL ISSUES

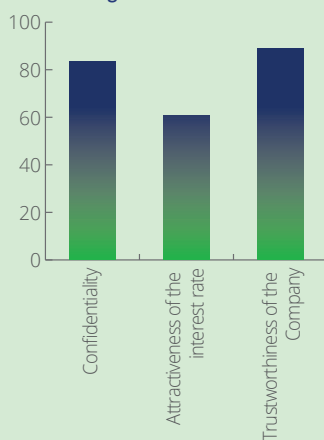


Survey Insights by



Marketing Department of
University of Sri Jayewardenepura

Top Three Factors for Choosing a Financial Institution for Savings



Top Three Factors for Choosing a Financial Institution for Loans

