

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT



Ashane Jayasekara

Chairman – Board Integrated Risk Management Committee

The exceptional circumstances faced throughout the year called for a more resilient and forward-thinking approach to risk management. In response to the rapid changes in the operating landscape, the BIRMC conducted thorough reviews and continuous revisions during the year.

COMPOSITION OF THE COMMITTEE

Board member	Board status
Mr. Ashane Jayasekara	Independent Non-Executive Director (Senior Director)
Mrs. Yogadinusha Bhaskaran	Non-Executive Director
Mrs. Ashwini Natesan	Independent Non-Executive Director

The Managing Director, Deputy Managing Director, Executive Directors and the senior management of LBF including Chief Risk Officer attended the meetings by invitation.

MEETING ATTENDANCE

Board member	Attendance
Mr. Ashane Jayasekara - Independent Non-Executive Director (Senior Director)	6/6
Mrs. Yogadinusha Bhaskaran - Non-Executive Director	6/6
Mrs. Ashwini Natesan - Independent Non-Executive Director	6/6

The Board Integrated Risk Management Committee (BIRMC) is a Board appointed committee chaired by an Independent Non-Executive Director in compliance with the Finance Business Act Direction No. 5 of 2021 Corporate Governance issued by the Monetary Board of the Central Bank of Sri Lanka.

The Company Secretary functioned as the Secretary to the Integrated Risk Management Committee and the proceedings of the Committee were reported regularly to the Board.

COMMITTEE RESPONSIBILITIES

The responsibilities of the Integrated Risk Management Committee as mandated by the Board of Directors are as follows:

- ▶ Develop risk appetite through a Risk Appetite Statement (RAS), which articulates the individual and aggregate level and types of risk that the Company will accept, or avoid, in order to achieve the strategic business objectives.
- ▶ Review and approve, at least annually, the Company's overall risk governance structure, and the risk management policy & procedure.

- ▶ Assess all material risks i.e. credit, market, liquidity, operational, strategic, IT and information security risk of the Company at least once in two months basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board.
- ▶ Monitor and approve, as required, the Company's material strategies, frameworks, plans, policies, processes, models, limits and regulatory requirements in place to govern risk-taking that are consistent with the risk management strategy and the established risk appetite of the Company.
- ▶ Review the adequacy and effectiveness of all management level committees such as Credit Committee, Asset-Liability Committee, IT Steering Committee, Sustainability Committee and Business Continuity Management Committee to address specific risk and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.
- ▶ Review any issues raised by Regulator, External Audit or Internal Audit that may materially impact the Company's risk management framework or the risk management.
- ▶ The Committee shall:
 - receive reports from management concerning risks related to capital adequacy, asset quality, credit, market, liquidity, operational and any emerging risks in order to oversee these risks and assess their effect on capital levels.

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- receive reports from management concerning resolution of significant risk exposures and risk events, in order to monitor them.
- ▶ Take prompt corrective action to mitigate the effects of specific risk in the case such risks are at levels beyond the prudent levels, decided by the Board on the basis of the Company's policies and regulatory and supervisory requirements.
- ▶ Assess all aspects of risk management including business continuity and disaster recovery plans.
- ▶ Submit a risk assessment report to the Board Meeting following the BIRMC meeting seeking the Board's view, concurrence and /or specific directions.
- ▶ Oversee and review the outcomes of stress testing of the risk portfolio, including both scenario analysis and sensitivity analysis for the capital adequacy assessment process and liquidity adequacy assessment process.
- ▶ Oversee the reports from management regarding the Company's insurance strategy.
- ▶ Review new products / processes of the Company and recommend the proposed products / processes for Board approval.
- ▶ Oversee management processes to ensure adherence to the Company's Risk Management Policy & Procedure.
- ▶ Review the overall and the individual branch level risk reports on a quarterly basis.

COMMITTEE ACTIVITIES DURING THE FINANCIAL YEAR

Credit Risk

- ▶ Existing credit risk limits in the Risk Appetite Statement were reviewed.
- ▶ Reviewed the Credit Scoring Methodology and rationale used for internal customer credit scoring model
- ▶ Local and global macro-economic factors were discussed with a view to identify the impact of such factors on the Company in order to initiate actions in a proactive manner.

- ▶ Reviewed the activities of the Credit Committee through the assessment of the performance of significant exposures against the Company.
- ▶ Reviewed and approved the amendments to the Credit Risk Management Framework and Policy.

Capital Adequacy

- ▶ The Company proactively adopted the Internal Capital Adequacy Assessment Process (ICAAP) in accordance with the BASEL III accord. While this regulatory requirement is typically applicable only to banks, the Company voluntarily embraced it.

Liquidity and Market Risk

- ▶ Undertook more frequent cash flow projections to safeguard the Company's liquidity position especially in the tight market liquidity environment.
- ▶ Performed frequent stress testing to ensure liquidity buffers remained within Board approved limits.
- ▶ Reviewed the Gold Price outlook to assess the impact of gold price volatility.
- ▶ Reviewed the adequacy and effectiveness of ALCO activities by assessing the asset and liability limits, single borrower exposure/single group exposure, single depositor exposure/large depositor exposure, duration of deposits and optimal funding mix.
- ▶ Reviewed the liquidity position and liquidity management strategies of the Company.
- ▶ Risk Appetite Statement was further strengthened by reviewing the investment limits.

IT and Information Security

- ▶ A formal Technology Risk Management framework was formulated and implemented encapsulating the requirements set out under the Finance Business Act Direction no. 1 of 2022 on Technology Risk Management and Resilience. This framework has been broadly reviewed by committee members to ensure the framework covered committee expectations and company risk spectrum.

- ▶ Close attention from committee on rectification of reported cyber and technology audit findings and ensured management commitment towards technology and cyber governance
- ▶ Close attention has been given on the newly established IT and Cyber Security policies to ensure company's tech directions are correctly placed to meet organizational objectives
- ▶ Continuous attention has been given on the implementation status of technology controls as per the requirements set forth in the tech direction.
- ▶ Quarterly review of Tech and Cyber risk register to check the management commitment towards mitigating the open cyber risks.
- ▶ Close attention has been given on the implementation of policy framework and provided expertise advisory on aligning personal data protection aspects as per new Personal Data Protection Act.
- ▶ More direct close attention has been given on the tech and cyber risk aspects discussed in ITSC.

Operational and Human Resource Risks

- ▶ Fraud risk assessment process was further strengthened by incorporating this process into Operational Risk Policy and Framework, in order to establish an anti-fraud culture in the organization.
- ▶ Continuous reviewed and strengthened of Branch risk assessment process in terms of operational risk.
- ▶ Reviewed the adequacy of insurance risk coverage.
- ▶ Reviewed the operational risks pertaining to LB Microfinance Myanmar subsidiary.

Compliance

- ▶ Continuous monitoring of implementing new rules and regulations issued by the regulatory authorities.
- ▶ Reviewed the annual risk assessment for existing outsourced activities and new outsourcing arrangements.

- ▶ Reviewed quarterly Anti Money Laundering (AML) and Countering of Financing of Terrorism (CFT) reports tabled by the Compliance Officer.
- ▶ Reviewed the annual risk assessment of Money Laundering and Terrorist Financing (ML & TF) risks of the customers, deposit products, lending products, processes and the overall Company.
- ▶ Assessed the Group's compliance with laws, regulations and regulatory guidelines, CBSL directions, internal policies in all areas of business operations.

General

- ▶ Monitored the effectiveness of the risk communication framework in place to escalate the new risks faced by each department in a timely manner and improvements were recommended to streamline the process.
- ▶ Potential risks arising from recent changes in the business environment were discussed with a view to identify the impact of such events on the achievement of the Company's objectives and to initiate remedial action in a proactive manner.
- ▶ Reviewed the Key Risk Indicators to identify any significant risks and emerging risks.
- ▶ Reviewed and approved the risk appetite statement of the Company.
- ▶ Reviewed and approved amendments to the BIRMC Terms of Reference as per relevant regulations and best practices.
- ▶ The results of stress tests were reviewed in terms of material risks such as credit default / concentration risk, liquidity risk and market risk.



Ashane Jayasekara
Chairman
Board Integrated Risk Management
Committee

5 June 2023

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