



Mr. Ravi Yatawara
Executive Director



MANUFACTURED CAPITAL

Six question roundup with our Leaders



Mr. B D A Perera
Executive Director

Q1 What manufactured capital means to LBF?

By definition, manufactured capital refers to the main channels that enable customers to access an organisation's products and services. As a financial institution, LBF's manufactured capital consists of the Company's island-wide branch network and other physical touchpoints like the Western Union sub-agent network, cash deposit machines along with our digital channels such as the LB CIM wallet app, and our corporate website.

Q3 What are the key material drivers identified, which were raised by the stakeholders?

Based on our materiality determination process, we have identified the following matters as material to our manufactured capital. Each matter is grouped under a relevant materiality theme that speaks to our broader operating context.

Brand loyalty and Company Reputation	Regional expansion	Social licenses to operate
Business continuity	Business model Innovation	

Q6 What are key strategic drivers for developing manufactured capital and how does the Company manage trade-offs against other capitals?

Investing in digital channels will drive better customer experiences and thereby augment the Company's reputation. Digitization and automation also enhance the work environment and contribute to employee motivation as follows.

- ▶ Strengthen LBF's physical and digital footprint.
- ▶ Adoption of world-class IT systems.
- ▶ Improve customer-centricity of distribution channels.

Q2 How manufactured capital supports our value-creation goals?

Over the years we have continued to invest in developing and strengthening our manufactured capital in order to improve LBF's competitive positioning in the market, which we hope will pave the way for LBF to grow captive market share in all key customer markets.

Q4 What are the challenges and opportunities associated with the developing manufactured capital?

Being a large financial institution, LBF has the flexibility and expertise to customise its channel architecture in tandem with customers' behaviour. However, such investments must be well-planned to correlate with the Company's risk/return targets.

Q5 What is LBF's approach to differentiate its manufactured capital from peers?

To demonstrate our commitment to deliver a superior customer experience, we continue to review our existing branch layout and the digital context in order to understand the need for change or improvement. Based on these findings, each year we invest in relocating / upgrading facilities at our branches. At the same time, we have begun modernising the internal layout and external façade of our branches to reflect greater uniformity and clarity across the network. Alongside these efforts, we have launched a widespread digitalisation strategy to transform selected branches into fully equipped digital hubs. This also connects to our overall IT strategy, where we look to leverage on the latest digital technology to enhance the efficiency and effectiveness of internal processes in order to deliver a seamless customer experience every time.



STAKEHOLDER'S EXPECTATIONS

STAKEHOLDERS

Reach	✓	✓				
IT infrastructure	✓	✓		✓		
Expansion	✓	✓		✓	✓	✓
Accessibility	✓	✓		✓	✓	

SPACE FOR DEVELOPMENT

- ▶ Fit for purpose branch network
- ▶ Customer focused and digitally enabled workforce
- ▶ Adoption of world class IT systems
- ▶ Launch alternate digital channels
- ▶ Introduce non-financial services

CHALLENGES

- The cost involved in keeping up with rapid changes in technology
- Difficulty in planning for the long term due to political instability
- Competitive landscape in regional markets

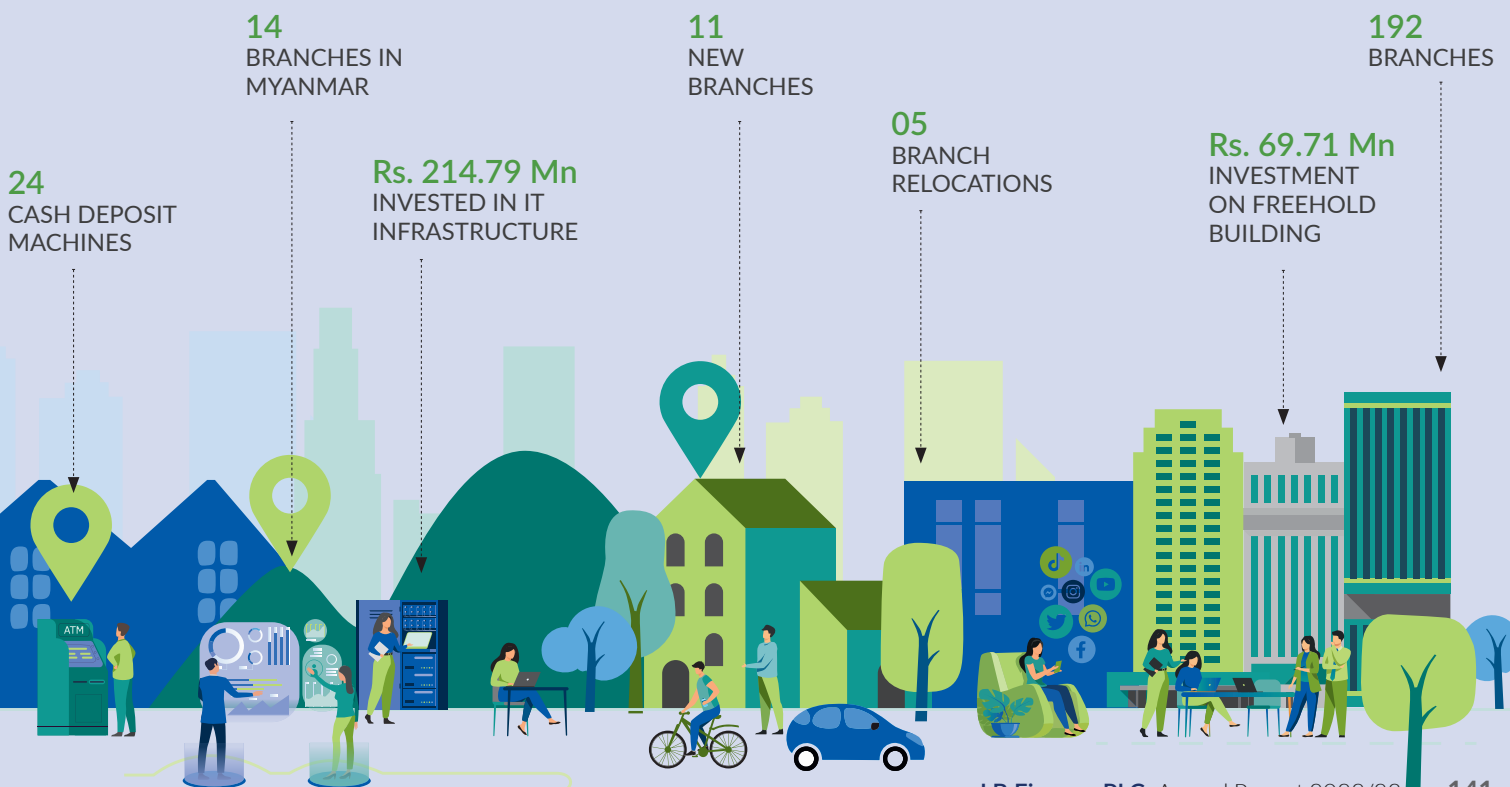
WAY FORWARD

- Advance process productivities to increase deployment of manufactured capital
- Boost infrastructure to meet upcoming business opportunities
- Build and expand strong digitally enabled financial solutions

Related strategic themes



SDG Impact



MANUFACTURED CAPITAL

MANAGING MANUFACTURED CAPITAL - MAKING THE RIGHT MOVE AT RIGHT TIME



CRITICAL SUCCESS FACTORS

- ▶ Reorienting infrastructure to improve cost efficiency and promote service excellence
- ▶ Leveraging manufactured capital to drive innovation and value addition that exceeds customer expectations

1 ENHANCE VALUE PROPOSITIONS

Historically, LBF’s manufactured capital consisted only of its brick-and-mortar branch network. However, over the decade, the Company has moved beyond this conventional approach to transforming its manufactured capital based on customer preferences, industry norms, and global trends. Today our conventional branch channel works in parallel to serve existing customers and attract new customers from all markets across Sri Lanka.

2 BUILDING A DISTINCTIVE PHYSICAL PRESENCE

In the past decade, LBF has undertaken substantial investments to develop a solid branch footprint across Sri Lanka. Our decision to invest in branches is a strategic one, that reflects our desire to bring prosperity to a wider cross-section of the country’s population. Our decision to establish new branches or even relocate branches within a particular area are influenced by a variety of factors, such as population density, financial literacy levels, key industries operating in the area, the long-term business potential of the region, educational metrics, etc.

In 2022, LBF accelerated its branch expansion strategy to penetrate new territories in the Northern and Eastern provinces where a total of 9 new branches were opened during the course of the current financial year. With these latest

additions to the network, LBF now boasts one of the most expansive and geographically widespread branch networks among all financial institutions in Sri Lanka. In line with our strategy to optimise the reach and accessibility provided by our branches, 5 existing branches were relocated in the current financial year.

As of 31st March 2023, LBF’s branch network consisted of 192 fully-fledged branches, all equipped to offer the entire gamut of financial products and services including access to digital services. Since unveiling the concept of premier branches to offer a range of tailor-made services for discerning customer segments, LBF has continued to make good headway in reinforcing its bespoke solutions via the premier branch network which now stands at 3.

	Western	Central	Eastern
Branches	82	17	25
Employees	1,964	307	280
Population 2022 ('000)	5,851	2,572	1,555
GDP 2021 (Rs. Bn)	7,541	1,787	975

	Northern	North-central	North-western
Branches	23	8	11
Employees	190	125	212
Population 2022 ('000)	1,061	1,267	2,380
GDP 2021 (Rs. Bn)	740	875	1,956

	Sabaragamuwa	Southern	Uva
Branches	7	13	6
Employees	140	233	111
Population 2022 ('000)	1,929	2,447	1,266
GDP 2021 (Rs. Bn)	1,287	1,604	922



Rajagiriya branch



Trinco city branch



Aluthmawatha branch

3 MODERNISING CHANNEL ARCHITECTURE

The severity of the economic challenges encountered in 2022, prompted LBF to adopt a fresh approach to modernising channel architecture. Focusing on more effective ways to support our customers in these tough time, we pursued innovation and explored the possibility of introducing technology to deliver hybrid solutions to reform the delivery mechanisms offered at our physical touchpoints. As always these efforts were accompanied by more focused training interventions to reinforce staff commitment to service excellence.

4 REGIONAL PRESENCE

LB Finance's presence in the wider Asian region is represented by LB Microfinance Myanmar Company (LBMM). Since its incorporation in 2017, LBMM has made good headway in establishing its presence and propagating its unique brand of microfinance solutions to customers in the Bago, Magway and Ayeyarwady regions of Myanmar. Today, LBMM has a network of 14 branches through which it serves over 25,000 customers in these territories.



 Refer page 114

As our primary interface for accessing our financial services, the LB CIM (Cash-In-Mobile) app enables retail customers to access a variety of financial services. Meanwhile, the LB CIM business application is built with a very high degree of integration with our core banking system to create a seamless omnichannel environment through which customers can access their leases, loans, and deposit accounts from a single digital platform without being interrupted.

5 RESOURCE UTILISATION

Industry-leading digital channels

In 2019, LBF took the local financial services industry by storm with the launch of the LB CIM (Cash-In-Mobile) wallet application to become one of the few NBFIs to venture into the delivery of financial products in the digital space.

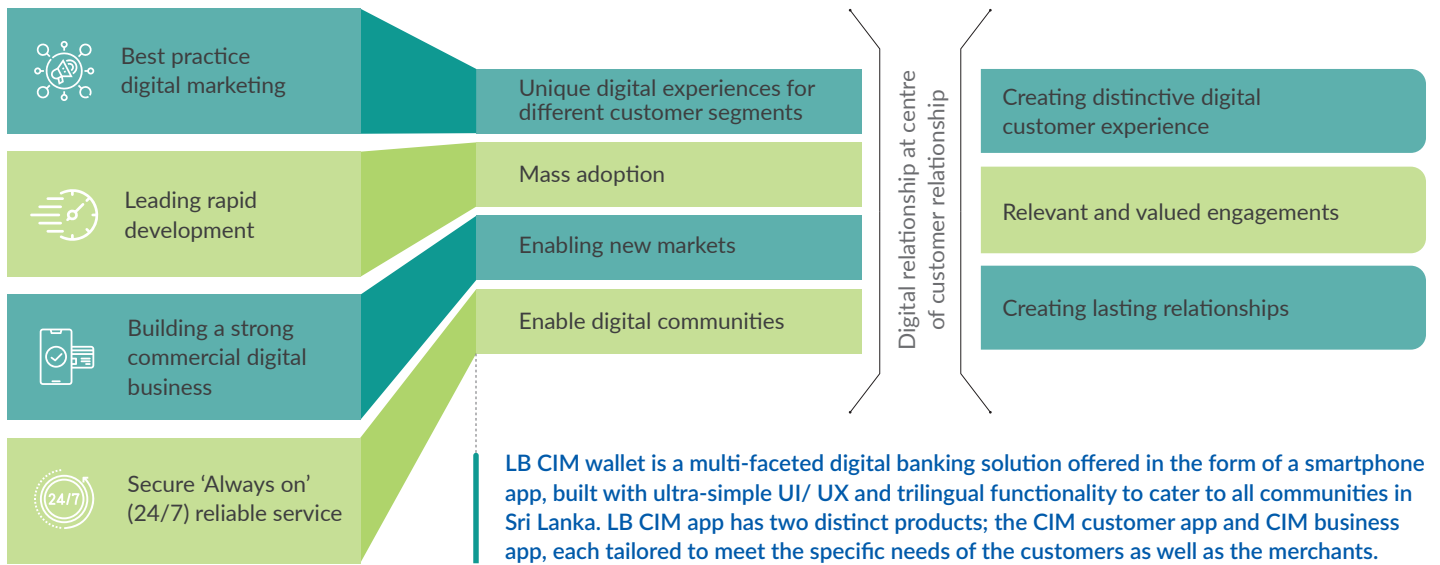
The first product introduced through the CIM app was the gold loan digital top-up, which has shown a continuous increase in customer uptake since its launch in 2021. The CIM business loan and the CIM personal loan, both launched in 2022 have also gained good traction, testifying to the CIM app's ability to drive customer reach and access.

Efficiency improvements and cost control

Cost control has always remained a key consideration in LBF's efforts to build an effective manufactured capital base. While proceeding with our expansion plans for the financial year 2022/23, we did so with extreme caution owing to the rapid inflation-induced cost increases seen in 2022. Accordingly, baseline cost structures for branch commissioning were revised to factor in an additional allowance for inflation and this was accompanied by stringent monitoring to ensure actual costs do not exceed the new baseline parameters.

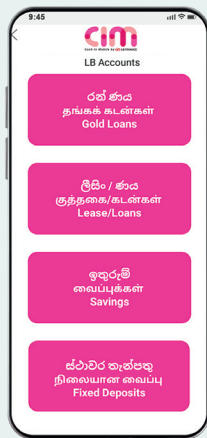
Strict cost containment measures were enforced to curb Avondale's operational costs. In this regard, the branch upgrade program was temporarily suspended with only mandatory maintenance work carried out across the branch network.

MANUFACTURED CAPITAL



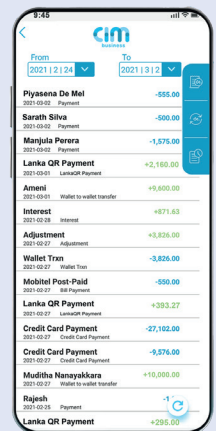
CIM CUSTOMER APP CAPABILITY

- ▶ Earn an attractive interest for the balance in the CIM digital account (secured under the deposit insurance scheme of the Central Bank of Sri Lanka)
- ▶ Review the status and pay the installments for LB lease/loans or gold loans anytime
- ▶ Monitor FD portfolio details
- ▶ Link bank accounts and pull money using the top-up account facility
- ▶ Instant fund transfer facilities
- ▶ Reload mobiles and pay all utility bills
- ▶ Pay credit card bills with no convenience fee
- ▶ Pay any insurance premium in real-time
- ▶ Make payments at LankaQR accepted +200,000 merchants anywhere
- ▶ Settle any payment automatically using the standing order feature
- ▶ Transaction history reporting and the monthly e-statement

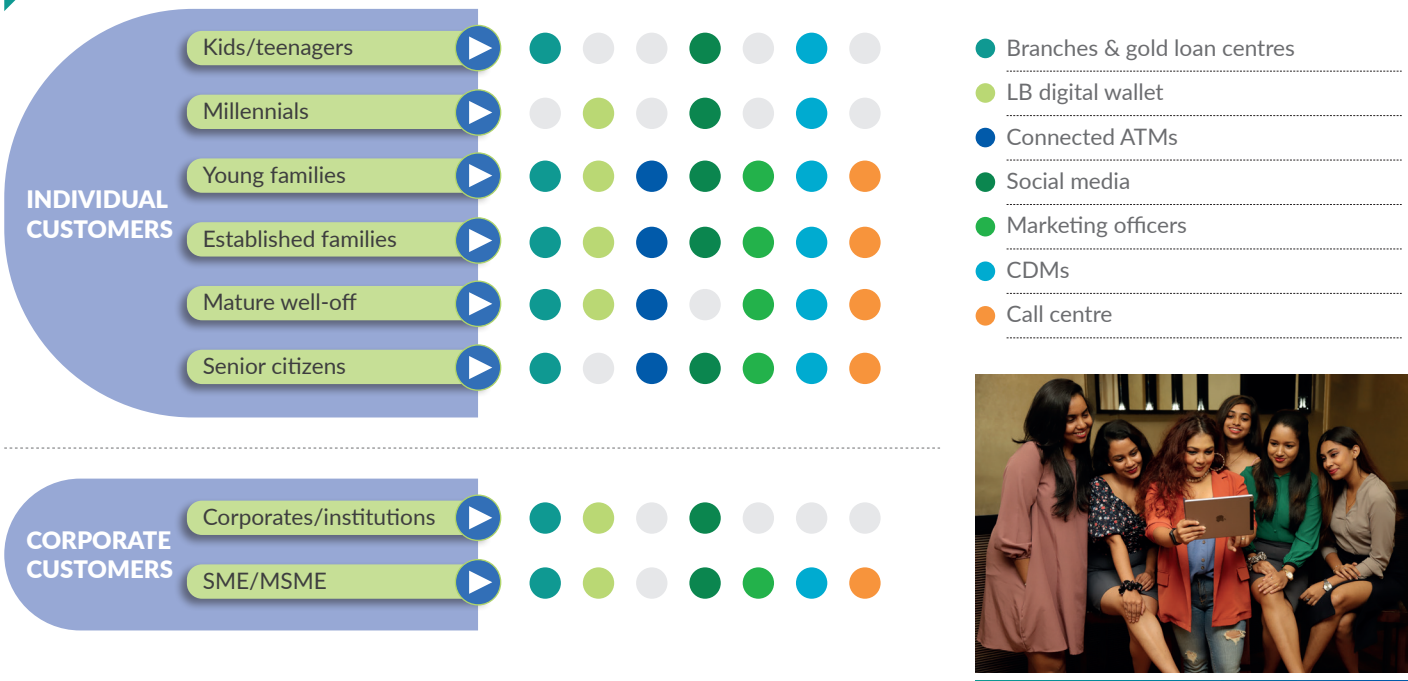


CIM BUSINESS APP CAPABILITY

- ▶ Integrated with LankaQR to facilitate interoperability between mobile wallets, whilst offering the lowest fees in the market
- ▶ Convenient and cost-effective solution to make supplier payments, utility bill payments, salary payments and money transfers to any third-party savings or current account
- ▶ Get money credited to the wallet savings account directly to start earning interest instantly
- ▶ Direct debit instructions in real-time
- ▶ Real-time tracking of all transactions



6 CUSTOMER CHANNEL PREFERENCE



7 TRANSFORM SERVICE DELIVERY

Network support

LBF's network infrastructure creates the underlying ecosystem for safeguarding the integrity of our manufactured capital. Planned reviews of our network infrastructure by our IT Steering Committee help to measure the efficacy of each component and also determine if the desired level of synergy is being achieved between elements to support optimal efficiency. Based on the findings of the bi-annual review conducted in mid-2022, a decision was made to shift the Company's data servers to SLT's fully-fledged tier 3 data center in Pitipana. The enhanced scalability resulting from this move enables LBF to drive enterprise-level network upgrades as needed.

Intellectual capital report on pages 160 - 169

8 RELATIONSHIP BETWEEN CAPITALS

Trade-off between capitals

	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Investment in digital finance	▼	▲	▲	—	—	▼		▲	▲	▲	▲	▲						▲
Branch expansion	▼	▼▲	▼▲	▲	▲	▲				▲	▲	▲	▲	▲	▲			
Branch relocations	▼	▲	▲							▲	—	—	▲	—	—			

S - Short term M - Medium term L - Long term ▲ Increase ▼ Decrease — Neutral

MANUFACTURED CAPITAL

SWOT ANALYSIS

S STRENGTHS

- ▶ Early adoption of digital technology to gain first mover advantage in the market
- ▶ The ability to develop and launch new digital solutions at a faster rate through our well managed digital evolution

W WEAKNESSES

- ▶ Ensure that appropriate policy frameworks are in place to effectively monitor and manage risks associated with digital interfaces

O OPPORTUNITIES

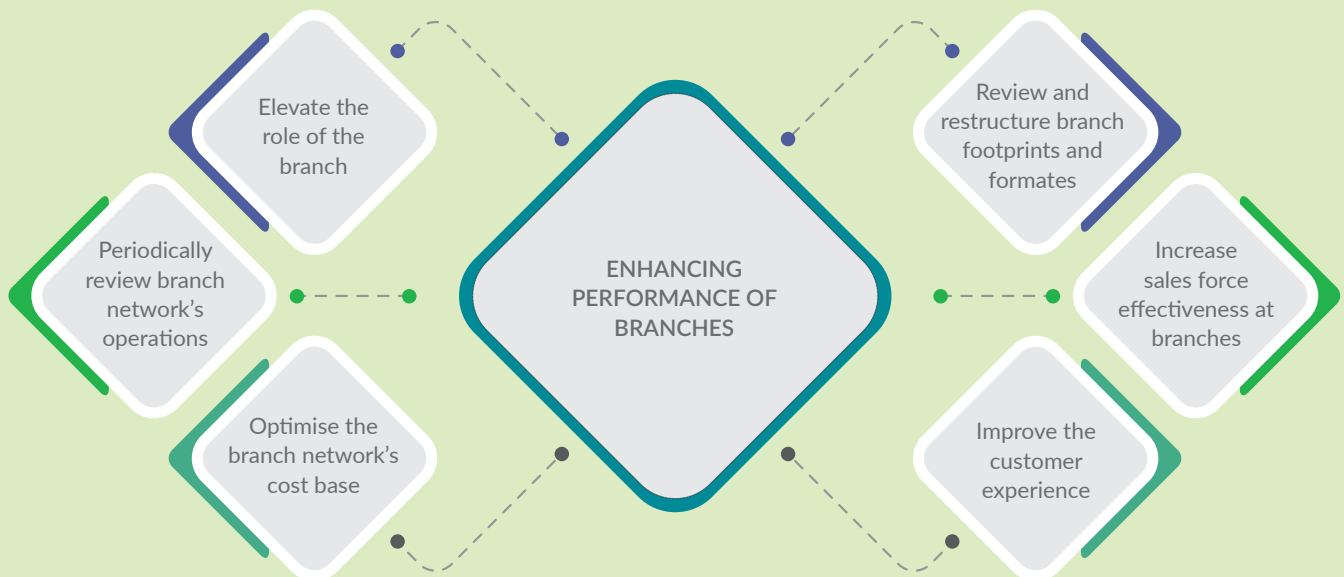
- ▶ Adoption of international best practices benchmarks

T THREATS

- ▶ The high cost of keeping pace with the latest technological developments

Enhancing network performance

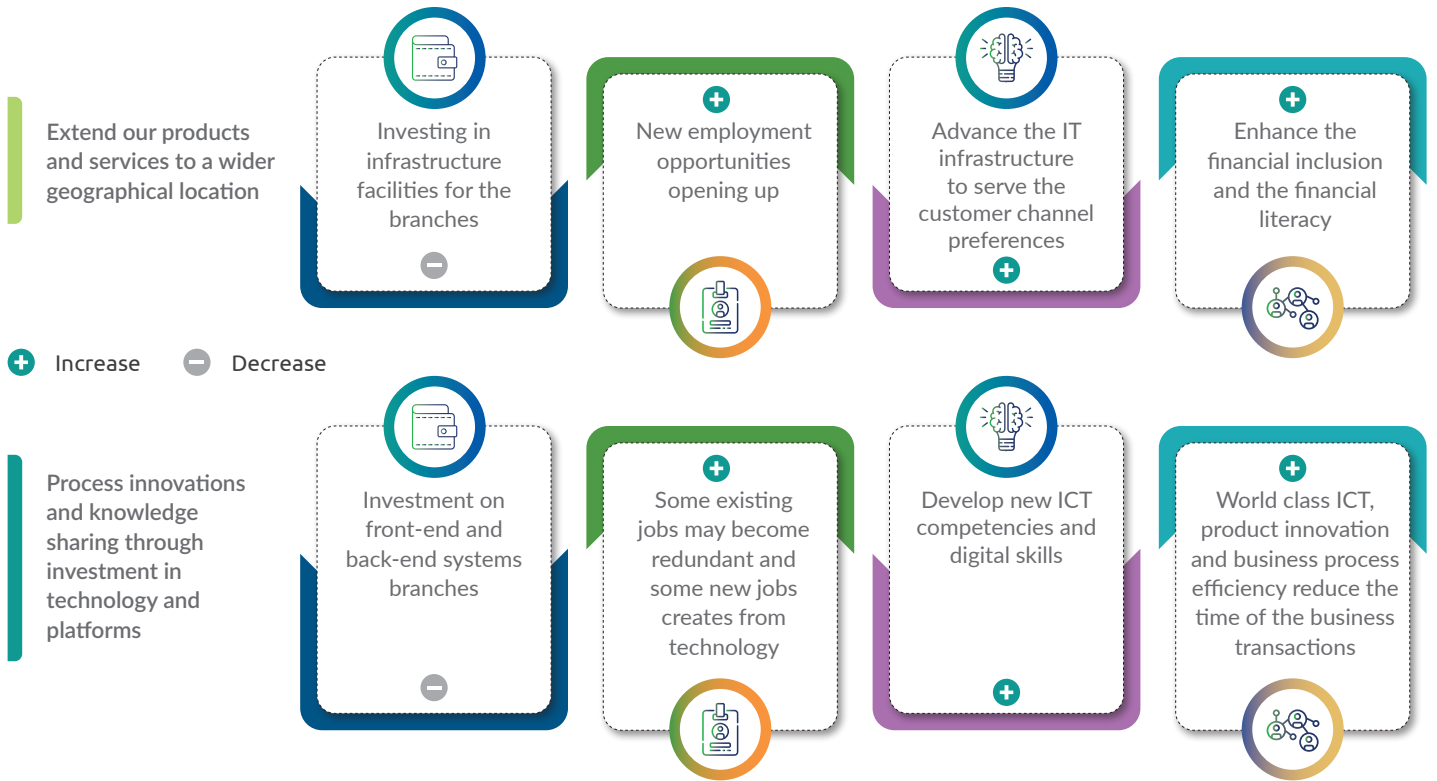
The process of enhancing the performance of our branches are shown diagrammatically below. This strategy leads to a higher return on LBF's manufactured capital investment by way of improving quality of service.



Conventional branches are transformed to new age customer convenience centres by upgrading the ambience and service standards. Technological improvements are vital and LBF has identified relevant infrastructure development requirements which will be invested more and more in future. The branches will be converted to high-profit centres with operational strategies stemming from the overall corporate strategy. Sales targets will be set accordingly after comprehensive market research and analysis in driving core business functions. Relevant training requirements will be identified at the branch level and strategic human resource development solutions will be provided to enhance employee performance. Every branch will be reviewed periodically, identifying strengths and weaknesses while updating their set goals followed by a review.

Reaping benefits of investing in manufactured capital

By enabling process innovations and knowledge sharing through investment in technology and platforms expenditure in IT infrastructure



9 BUILDING FOR THE FUTURE

Strategic objective

Developing leaders at all levels by providing them with the tools and resources they need to contribute to LBF's high-performance culture.

