Lanka Rating Agency

Rating Report

LB Finance PLC	Report Contents

Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
28-Jan-2026	A+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating of LB Finance PLC ("LBF" or "the Company") reflects its position as one of the leading players in the Leasing & Finance Companies (LFCs) industry in Sri Lanka supplemented by consistent performance and very strong asset quality. LBF is one of the largest Licensed LFCs in Sri Lanka, accounting for ~12.3% of the sector's total asset base and ~12.4% of the sector's deposits as of Sep'25. The Company is a subsidiary of Vallibel One Group, which holds a majority stake of ~51.75%. The group is ultimately controlled by Mr. Dhammika Perera, a distinguished and renowned businessman, possessing ownership stakes in several conglomerates in Sri Lanka.

LBF's well-established market outreach is augmented by its extensive nationwide footprint (~221 branches as of Sep'25), coupled with technological advancements and robust controls in place. Over the years, the Company has diversified its portfolio with relatively lower contribution from gold loans while maintaining its superior asset quality. As of Sep'25, LBF's lending portfolio comprised gold loans (Sep'25: ~38%; FY25: ~42%), followed by leasing and vehicle loans (~42%), with the balance comprising power drafts (~13%), term loans (~5%), and mortgage loans (~2%). While the relatively high exposure to gold loans exposes the Company to gold price volatility, the risk is partially mitigated through strong controls, including daily price monitoring, conservative margin requirements, and periodic portfolio reviews.

The Company's earnings profile remains resilient, with its Net Interest Income (NII) increasing by ~3.2% YoY to LKR~25.1bn in FY25 and further improving to LKR~14.2bn in 6MFY26 (6MFY25: LKR~12.3bn). Backed by improved NII, lower asset impairment, and growth in the loan portfolio, LBF's posted sound profitability of LKR~10.8bn in FY25 and LKR~5.8bn in 6MFY26, a ~23.7% YoY increase for the same period. LBF's core strength of prudent credit evaluation in its primary lending areas is evident by its low NPLs. The Company's gross and net NPL ratios clocked in at ~1.55% and -1.36%, respectively, as of Sep'25, significantly below the industry averages. LBF's Capital Adequacy Ratio (CAR) stands at ~23.66%, comfortably above the CBSL regulatory minimum of ~14% for large LFCs. The Company relies on a mix of deposits and borrowings to meet its funding needs, with an inclination towards deposits (~63% deposits and ~37% borrowings as of Sep'25). LBF strategizes on increasing its reliance on deposits to fuel further expansion, supported by its diversified deposit base and a high retention rate. On the other hand, the Company envisages diversifying its loan mix, focusing on expanding in the vehicle financing segment.

Lately (Nov'25), LBF has acquired a controlling stake in Associated Motor Finance PLC (AMF), with ownership of over ~73%. The merger process is expected to be completed by March 31, 2027. The acquisition demonstrates LBF's strong foothold in the industry and aligns with its strategic focus to expand in the vehicle financing segment. The merger is expected to strengthen the Company's business scale, operational efficiency, and regulatory alignment.

The rating is dependent on LBF's ability to sustain its market position, credit quality, and performance indicators. Continued diversification of the loan portfolio and effective management of funding avenues remain imperative. Meanwhile, the Company's ongoing acquisition of AMF will be closely monitored to assess its unfolding impact on the Company's overall risk profile, strategic direction, and financial discipline.

Disclosure

Name of Rated Entity	LB Finance PLC
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	
Related Research	Sector Study | Leasing & Finance Companies(Feb-25)
Rating Analysts	Gayani Randima Ariyawansa | gayani@lra.com.lk | +94 114 500099

Profile

Structure LB Finance PLC ("LBF" or "the Company") was incorporated as a private limited liability company in May 1971 under the provisions of the Companies Ordinance No. 51 of 1938 and later converted into a public limited liability company in 1982. The Company was listed on the Colombo Stock Exchange in 1997.

Background In 2003, LBF became a part of the Vallibel One PLC group. LBF has a subsidiary, LB Microfinance Myanmar Company Limited, which is a 100% owned subsidiary as of FY25. Multi Finance PLC was initially acquired by LBF in March 2022 (64.76% FY24) and subsequently became a wholly owned subsidiary in FY25, following which it was amalgamated with and fully integrated into LBF.

Operations The principal business activities of LBF include acceptance of fixed deposits, maintenance of savings accounts, providing finance lease, mortgage loans, gold loans, personal loans, other credit facilities, digital financial services and value added services.

Ownership

Ownership Structure The largest shareholding of the Company vests with Vallibel One PLC, with an ownership of ~51.75%. The ultimate ownership lies with Mr. Dhammika Perera. Meanwhile, the second largest shareholding vests with Royal Ceramics Lanka PLC with a ~26.1% stake. The total effective shareholding of Vallibel One PLC in LB Finance PLC is 66.3%.

Stability The Company draws stability from its major shareholder, Vallibel One PLC, with ~51.75% stake.

Business Acumen Mr. Dhammika Perera, a renowned Sri Lankan entrepreneur who is recognized as a visionary leader in Sri Lanka's corporate domain, has served as the Chairman and the Board Member of a large number of conglomerates in diversified sectors.

Financial Strength The Company draws financial strength through the Group which has business ventures in different segments, namely lifestyle, leisure, aluminium, investments, consumer and financial services. The Vallibel One Group maintains a strong financial profile, with a consolidated asset base of LKR~477.6bn and equity of LKR~165.5bn as of Sep'25, generating revenues of LKR~39.0bn and profits of LKR~7.5bn during the same period.

Governance

Board Structure The Board has twelve directors, of which four (4) are Executive Directors, and four (4) are Non-Executive Independent Directors. There is a clear division of responsibilities between the Chairperson and the Chief Executive Officer (CEO).

Members' Profile The Board members have decades of experience in their respective fields. The Chairman of the Company, Mr. R. D. Prasanna, is a Non-Independent Non-Executive Director ("NED") of the Company. He holds directorships in Royal Ceramics Lanka PLC, Rocell Bathware Ltd and many other companies. He has been serving as the Chairperson since December 2021.

Board Effectiveness LBF has formed seven Board sub-committees.

Financial Transparency The External Auditors of the Company, KPMG, issued an unqualified audit opinion on the annual financial statements of the Company for FY25.

Management

Organizational Structure The Company has a well-defined organizational structure and the head of the Organization remains the Chairman and the Board of Directors.

Management Team The management team is headed by the Managing Director of the Company, Mr. Niroshan Udage. Mr. Udage counts over 30 years of experience in the field of leasing and finance, including ten (10) years at Lanka Orix Leasing Company PLC, where he started his career in 1990, and three (3) years at Mercantile Investments Limited.

Effectiveness LBF has formed six (6) management committees, namely, Assets and Liability Management Committee, Credit Committee, IT Security and Steering Committee, Sustainability Committee, Operational Risk Management Committee and Business Continuity Management Committee.

MIS For the core banking solutions, LBF relies on Eclipse and E-Financials and uses Oracle Fusion as the ERP system.

Risk Management Framework The Company has an independent risk management department, approved risk appetite and risk tolerance levels along with well defined procedures to support effective management of risk. The Company's risk management process is mandated by the Board of Directors and steered by the BIRMC. Currently, gold loan price risk is identified as one of the prime risks where the Company has implemented strong control mechanisms to evaluate the volatility of prices as risk mitigation strategies.

Business Risk

Industry Dynamics There are thirty-four (34) Licensed Finance Companies (LFCs) in Sri Lanka, out of which twenty-seven (27) are listed on the CSE. The Profit After Tax (PAT) of LFCs and Specialized Leasing Companies sector for 6MFY26 stood at LKR~41.9bn. The sector's Net interest income (NII) improved by ~26.6% in 6MFY26 to clock in at LKR~119.7bn (LKR~94.5bn in 6MFY25). The total asset base of the LFC sector stood at LKR~2.5tn as of 6MFY26 (LKR~1.8tn as of 6MFY25, a strong growth of ~39% YoY).

Relative Position The Company is considered a large-sized Licensed Finance Company ("LFC"). LBF accounts for ~12.3% of the Sector's total asset base as of Sep'25. In terms of deposits, LBF accounted for ~12.4% of the Industry's deposits as of Sep'25. Meanwhile, in terms of net advances, LBF held ~12.8% share of the Sector (Sep'25).

Revenues The Interest income of the Company stood at LKR~41.8bn in FY25 (LKR~23.6bn in 6MFY26), posting a decrease of ~8.6% YoY. The interest expense of the Company stood at LKR~16.7bn in FY25 (6MFY26: LKR~9.4bn), registering a decline of ~21.9% from LKR~21.4bn in FY24. Consequently, LBF earned a net interest income of LKR~25.1bn in FY25 (6MFY26: LKR~14.2bn), a ~3.2% increase as compared to FY24.

Performance LBF earned a PAT of LKR~5.8bn in 6MFY26 (LKR~4.7bn in 6MFY25), reflecting an increase of ~23.7% YoY. The Company's PAT increased by ~13.0% in FY25 to LKR~10.8bn, compared to FY24 (LKR~9.6bn). The improvement in profitability was largely supported by the prudent management of net interest margins through timely repricing of interest-sensitive assets and liabilities, as well as lower impairment charges, and a stringent control on operating expenses to improve the overall operational efficiency.

Sustainability As part of its sustainability and long-term growth strategy, LBF has successfully consolidated its position in the non-bank financial sector through the acquisition of a significant stake in Associated Motor Finance Company PLC. Following regulatory approvals and subsequent market actions, LBF now holds ~73.11 % of AMF's issued shares, reflecting broad acceptance of its mandatory offer to AMF shareholders and underscoring its commitment to structural consolidation in the industry.

Financial Risk

Credit Risk The Company's Gross Non-Performing Advances to Total Advances indicate low credit risk as these are well below the industry averages over the periods. LBF's NPLs stood at ~1.55% as of Sep'25 and ~2.25% as of Mar'25. This strong credit quality reflects strong provisioning buffers, disciplined credit practices, and effective recovery mechanisms, underscoring the Company's prudent risk management framework.

Market Risk The Company has decreased its investments in government securities from LKR~11.0bn in FY24 to LKR~7.5bn in FY25. High concentration of gold loans exposes the Company to price volatility of underlying commodity.

Liquidity And Funding The Company is majorly dependent on deposits for funding, as these constituted ~77% (6MFY26: ~63%) of its funding base in FY25. The top 20 depositors' concentration remains modest at around 8% in 6MFY26, indicating a granular deposit base.

Capitalization The Total Capital Adequacy Ratio (CAR) of the Company stood at ~23.66% in 6MFY26 and ~31.31% in FY25, while the minimum requirement is ~14.0%. The Tier 1 Capital Ratio stood at ~22.74% in 6MFY26 and ~30.45% in FY25 - well above the minimum regulatory requirement of 10%.

Lanka Rating Agency

LB Finance PLC Public Limited Company	Sep-25 6M	Mar-25 12M	Mar-24 12M	Mar-23 12M
A BALANCE SHEET				
1 Total Finance-net	255,940	200,262	162,631	146,178
2 Investments	8,884	8,899	13,735	9,132
3 Other Earning Assets	20,904	16,994	12,278	14,363
4 Non-Earning Assets	23,920	17,231	14,872	13,662
5 Non-Performing Finances-net	(3,525)	(2,495)	(1,340)	(989)
Total Assets	306,122	240,890	202,177	182,347
6 Funding	241,124	180,914	150,002	137,264
7 Other Liabilities	12,701	8,710	8,549	6,967
Total Liabilities	253,825	189,624	158,550	144,231
Equity	54,762	51,266	43,626	38,116
B INCOME STATEMENT				
1 Mark Up Earned	23,639	41,815	45,730	39,644
2 Mark Up Expensed	(9,445)	(16,687)	(21,380)	(20,616)
3 Non Mark Up Income	3,430	4,915	3,500	3,113
Total Income	17,624	30,044	27,851	22,141
4 Non-Mark Up Expenses	(5,405)	(9,788)	(8,670)	(7,178)
5 Provisions/Write offs	(434)	256	(373)	(546)
6 Reversals	-	-	-	-
Pre-Tax Profit	11,784	20,511	18,808	14,417
7 Taxes on Financial Services	(2,432)	(4,170)	(3,628)	(2,671)
Profit Before Income Taxes	9,353	16,342	15,180	11,747
8 Income Taxes	(3,552)	(5,536)	(5,617)	(3,286)
Profit After Tax	5,800	10,806	9,564	8,460
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	30.7%	32.6%	31.1%	32.4%
b ROE	21.9%	22.8%	23.4%	23.8%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	107.8%	113.2%	112.4%	111.5%
b Accumulated Provisions / Non-Performing Advances	187.7%	154.0%	122.4%	114.4%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	16.3%	16.5%	18.2%	18.3%
b Borrowings from Banks and Other Financial Institutes / Funding	37.0%	23.4%	18.1%	16.9%
4 MARKET RISK				
a Investments / Equity	16.2%	17.4%	31.5%	24.0%
b (Equity Investments + Related Party) / Equity	1.4%	1.4%	1.9%	2.8%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	17.9%	21.3%	21.6%	20.9%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	13.4%	17.5%	14.6%	13.4%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-Term Rating
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
D	Obligations are currently in default.

Scale	Short-Term Rating
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business / financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.	Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.	It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.	A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) LRA finds it impractical to surveil the opinion due to lack of requisite information.	A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening. Rating actions may include "maintain", "upgrade", or "downgrade".

Note: This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Company

Rating Team Statements

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit- worthiness of any issuer or a specific issue of securities. https://www.sec.gov.lk/credit-rating-agency/

Conflict of Interest

(2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)

(2)ii.LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(2) iii.In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

Restrictions

(3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)

(3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)

(4) The LRA will not appoint any individual as a member of the rating committee who:

(a) has a business development function of the Credit Rating Agency; or

(b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

Conduct of Business

(5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

Independence & Conflict of interest

(7) LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA´s opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity, and independence of its ratings.

(8) LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

Monitoring and review

(10) For purposes of transparency the LRA will publish sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:

(a) all internal records to support its credit rating opinions;

(b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and

(c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies)

(11) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination (Section 53 – Rules applicable to Credit Rating Agencies)

Probability of Default

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

Proprietary Information

(14) All information contained herein is considered proprietary by LRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without LRA's prior written consent.