



Lanka Rating Agency

Rating Report

Lanka Credit and Business Finance PLC

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
28-Apr-2026	BB	Positive	Upgrade	-
11-Mar-2025	BB-	Stable	Upgrade	-
06-Jun-2023	B+	Positive	Initial	Yes

Rating Rationale and Key Rating Drivers

Lanka Credit & Business Finance PLC (“LCBF” or “the Company”) is a relatively small player within Sri Lanka’s highly competitive Licensed Finance Company (LFC) Sector. During FY26, there were some changes in the ownership structure at both the Company and its parent, Lanka Credit and Business Limited (LCBL). At the parent level, the exit of a shareholder resulted in a somewhat more dispersed ownership profile. At the Company level, the parent’s shareholding decreased from approximately 72% to around 55%.

The rating upgrade reflects LCBF’s improved profitability, financial performance and strengthened capital position. This is supported by growth in loan portfolio, in line with sector dynamics. LCBF’s loan portfolio grew by ~25.6% to LKR 10.3Bn in 9MFY26 (FY25: LKR ~8.2Bn), while profitability improved to LKR ~264.0Mn during 9MFY26 (FY25: LKR ~205Mn). The gold loan portfolio doubled during this period. Despite the increase in total assets, the Company’s growth was broadly in line with the industry, enabling it to maintain its relative market share. LCBF has maintained relatively stable spreads, benefiting from the more frequent downward repricing of its deposit base compared to its relatively longer tenor term loans (~59% of the loan portfolio) and are repriced less frequently. However, top 20 advances concentration remained elevated at ~30.6%. LCBF demonstrated marginal improvement in asset quality, as reflected by the Gross Non-Performing Loans ratio declining to ~9.0% as of 9MFY26 (FY25: ~10.1%). This remained above the industry average of 6.1% (FY25: ~8.6%).

The capitalization of the Company remains robust and well above the regulatory requirement, with a CAR of ~33.5%. This capital buffer is expected to provide adequate headroom for the envisaged portfolio growth, supporting the achievement of its FY26 projected growth. The Company’s deposit base grew by ~22.3% to LKR ~5.7Bn during 9MFY26, comprising ~73.0% of the funding mix, although top 20 deposit concentration remained high at 44.6%. The rating remains constrained by the Company’s modest market position within the LFC Sector, as reflected by its asset base that constitutes ~0.41% of total industry assets as of 9MFY26, and relatively lower profitability.

LCBF has identified the agriculture and tourism sectors as key growth avenues and intends to expand its branch network to strengthen its presence in rural and semi-urban areas, thereby enhancing its reach to agrarian segments.

The rating is assigned a “Positive Outlook” that reflects the Company’s sustained performance indicators. Realization of growth plans and envisaged profitability are important for upward rating movement. Improvement in core income, higher market share and reduction in NPLs will support the rating. Deviation or deterioration in key financial metrics, especially profitability and asset quality will have negative rating connotation.

Disclosure

Name of Rated Entity	Lanka Credit and Business Finance PLC
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Non-Banking Financial Institution Rating(Jul-24)
Related Research	Sector Study Leasing & Finance Companies(Apr-26)
Rating Analysts	Nipuni Mihirangi nipuni@lra.com.lk +94 114 500099



Leasing & Finance Companies

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Profile

Structure LCB Finance PLC (“LCBF” or “the Company”) was originally incorporated on 3rd March 1962 and subsequently re-registered as a Public Limited Liability Company on 10th March 2008 under the Companies Act No. 07 of 2007. The Company is incorporated and domiciled in Sri Lanka with limited liability. LCB is listed on the Colombo Stock Exchange (“CSE”) following the listing of its ordinary shares on 16th November 2021 and was registered as a Public Quoted Company on 21st January 2022.

Background Lanka Credit and Business Finance PLC (formerly known as City Finance Corporation Limited). was restructured as a result of an investment made by Lanka Credit and Business Limited under the guidance of the Central Bank of Sri Lanka in May 2018. The Company's ultimate parent and controlling party is Lanka Credit and Business Limited.

Operations The Company provides a comprehensive range of financial services, including accepting deposits and offering credit facilities such as finance leases, hire purchase, vehicle loan facilities, mortgage loans, gold loans, revolving loans, business/personal loans, and other credit facilities.

Ownership

Ownership Structure The major shareholding of the Company vests with Lanka Credit and Business Limited (“LCBL”), which remains the largest shareholder with a ~55% stake as at 9MFY26.

Stability Future Life Investment Limited holds ~12.4% of Lanka Credit and Business Limited (“LCBL”). The stability of LCB Finance PLC (“LCBF”) is supported by LCBL, which remains the major shareholder.

Business Acumen Future Life Investments Ltd (“FLI”) is the largest shareholder of Lanka Credit and Business Limited (“LCBL”), which in turn is the majority shareholder of LCB Finance PLC (“LCB”). LCBL does not have any operations other than the management of its investment in LCBF.

Financial Strength The financial strength of the Company is derived from its shareholders, who are well-known for their business investments.

Governance

Board Structure The Board of LCB Finance PLC (“LCB”) comprises eight members, including four Non-Executive/Independent Directors, three Non-Executive/Non-Independent Directors, and one Executive Director, who is the Chief Executive Officer (“CEO”) of the Company.

Members’ Profile The Board comprises individuals with knowledge, expertise, and experience in various fields, including IT, law, finance, and government services. Mr. Dushmantha Thotawatta serves as the Chairman of the Company and was appointed to the Board in 2020.

Board Effectiveness LCBF operates with seven (7) board sub-committees, namely Board Audit Committee (“BAC”), Board Human Resource and Remuneration Committee (“BHRC”), Board Integrated Risk Management Committee (“BIRMC”), Credit Committee (“CC”) and Board Related Party Transactions Review Committee (“BRPTRC”), Nomination and Governance Committee (“BSNGC”) and Board IT Steering Committee.

Financial Transparency The External Auditors of the Company, E&Y Chartered Accountants of Sri Lanka, issued an unqualified audit opinion on the annual financial statements of the Company for FY25.

Management

Organizational Structure The Company maintains a well-defined organizational structure encompassing key functional areas, including finance, credit, compliance, recovery, legal, information technology, audit, human resources, marketing, and fund mobilization. Strategic and operational oversight rests with the CEO, who reports directly to the Board of Directors. Additionally, the Board Integrated Risk Management Committee, Board Audit Committee, and the Company Secretary maintain a direct reporting line to the Board.

Management Team The management team is led by Mr. Kandegoda Gamage Leelananda, who serves as the CEO and Executive Director. He possesses the relevant qualifications and over 30 years of professional experience in the industry.

Effectiveness The Company has formed seven (7) management committees that assist the Company to effectively carry out its operations.

MIS The Company operates a centralized IT function reporting to the CEO, with core operations on the e-Financials platform and real-time MIS dashboards. IT security, payroll, and customer communications are effectively managed.

Risk Management Framework LCBF has established a dedicated risk management department, separate from the finance department which overlooks policy implementation for integrated and operational risk management.

Business Risk

Industry Dynamics There are thirty-three (33) Licensed Finance Companies (LFCs) in Sri Lanka, out of which twenty-eight (28) 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 represents ~0.45% of total deposits, ~0.44% of net loans and advances, ~0.41% of total assets, and ~0.42% of sector profitability as at 9MFY26, reflecting its position within the LFC sector.

Revenues LCBF’s interest income increased to LKR ~1,341 Mn in 9MFY26 (FY25: ~1,323 Mn; FY24: ~1,202 Mn), driven mainly by loans and advances (~LKR 1,041 Mn, contributing ~78% of total interest income). The lending portfolio remains anchored by term loans (~LKR 783 Mn), while gold loans showed strong growth (~LKR 232 Mn), indicating increasing contribution from this segment. Interest expenses remained broadly stable at ~LKR 467 Mn (FY25: ~476 Mn). Net interest income improved to ~LKR 874 Mn in 9MFY26 (FY25: ~847 Mn), indicating steady earnings from core lending operations.

Performance LCBF’s profitability improved in 9MFY26, with PAT increasing to ~LKR 264 Mn (FY25: ~LKR 205 Mn). The expansion in total assets to ~LKR 11,274 Mn as at 9MFY26 (FY25: ~LKR 9,249 Mn) supported an improvement in ROA to ~3.4% as at 9MFY26 (FY25: ~2.5%; FY24: ~1.9%), indicating enhanced efficiency in asset utilization. Similarly, the growth in total equity to ~LKR 3,269 Mn contributed to a stronger ROE of ~11.0% (FY25: ~6.8%; FY24: ~4.3%), reflecting improved returns to shareholders. Overall, the Company demonstrates better earnings generation supported by balance sheet growth.

Sustainability LCBF is focusing on expanding its branch network and digital capabilities to enhance customer reach and operational efficiency. The Company plans to add seven new branches to its existing 23, implement the CEFT system, and deploy an integrated IT platform to automate branch operations.

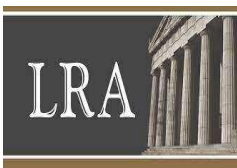
Financial Risk

Credit Risk LCBF’s gross NPL is recorded at ~9.18% in 9MFY26 (FY25: ~10.66%; FY24: ~19.3%), while the net NPL stood at ~4.76% (FY25: ~5.01%; FY24: ~10.0%), which remains slightly above the industry average due to the nature of the product being offered by the Company.

Market Risk Treasury Bills formed the largest portion of the Company’s investment portfolio, accounting for ~92% of total investments in 9MFY26 (~LKR 606 Mn of total ~LKR 658 Mn), up from ~88% in and ~15% in FY24). Overall, the portfolio reflects a continued shift toward safer, more liquid instruments, supporting the Company’s liquidity position.

Liquidity And Funding LCBF’s majority funds are from customer deposits and represent ~72% of the total funding in 9MFY26. The deposit base of the Company has significantly risen in 9MFY26 to LKR ~5,680 Mn (FY25: LKR ~4,644 Mn and FY24: LKR ~3,270 Mn). The Company’s top 20 depositor come out to be ~45% of the total deposit as at 9MFY26.

Capitalization As at 9MFY26, LCBF’s Total Capital Adequacy Ratio (CAR) stood at ~33.51%, down from ~36.73% in FY25 and ~42.07% in FY24. The Tier I ratio was ~31.51% in 9MFY26, compared to ~36.77% in FY25 and ~42.07% in FY24. Although CAR ratios are well above the CBSL stipulations, it also reflect the unutilized potential of capital invested.



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LCB FINANCE PLC
Public Listed Company

LKR mln *LKR mln* *LKR mln* *LKR mln*

Dec-25 **Mar-25** **Mar-24** **Mar-23**
9M **12M** **12M** **12M**

A BALANCE SHEET

1 Total Finance-net	9,382	7,388	4,435	3,893
2 Investments	608	553	1,087	628
3 Other Earning Assets	79	156	167	150
4 Non-Earning Assets	738	735	599	518
5 Non-Performing Finances-net	467	416	726	689
Total Assets	11,274	9,248	7,013	5,877
6 Funding	7,868	5,863	3,946	3,019
7 Other Liabilities	137	262	148	62
Total Liabilities	8,005	6,125	4,094	3,081
Equity	3,269	3,123	2,919	2,796

B INCOME STATEMENT

1 Mark Up Earned	1,341	1,323	1,202	1,032
2 Mark Up Expensed	(467)	(476)	(620)	(427)
3 Non Mark Up Income	71	133	177	72
Total Income	945	980	760	677
4 Non-Mark Up Expenses	(459)	(502)	(416)	(325)
5 Provisions/Write offs/Reversals	(44)	(89)	(123)	(91)
Pre-Tax Profit	443	388	221	260
6 Taxes on Financial Services	(123)	(106)	(72)	(48)
Profit Before Income Taxes	320	283	149	213
7 Income Taxes	(56)	(78)	(26)	(50)
Profit After Tax	264	205	122	163

C RATIO ANALYSIS

1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	48.5%	51.2%	54.8%	48.1%
b ROE	11.0%	6.8%	4.3%	5.9%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	131.0%	140.1%	141.7%	162.1%
b Accumulated Provisions / Non-Performing Advances	49.6%	49.5%	37.1%	31.0%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	9.9%	13.9%	28.8%	33.3%
b Borrowings from Banks and Other Financial Institutions / Funding	22.8%	18.3%	15.3%	18.8%
4 MARKET RISK				
a Investments / Equity	18.6%	17.7%	37.2%	22.5%
b (Equity Investments + Related Party) / Equity	0.0%	0.6%	0.6%	0.5%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	29.0%	33.8%	41.6%	47.6%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	6.2%	7.0%	4.4%	4.3%



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

<p>Outlook (Stable, Positive, Negative, Developing) 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'.</p>	<p>Rating Watch 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.</p>	<p>Suspension 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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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 | e) Holding Company Rating |
| b) Corporate Rating | f) Independent Power Producer Rating |
| c) Debt Instrument Rating | g) Microfinance Institution Rating |
| d) Financial Institution Rating | h) Non-Banking Finance Company |

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Regulatory and Supplementary Disclosure

(Rules applicable to Credit Rating Agencies, No. 19 of 2021 - issued on 15th March 2022)

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

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