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Lanka Credit and Business Finance PLC

SUSTAINABLE FINANCE POLICY

Manual

Version II

Owner - Finance Department

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Table of Contents

1. INTRODUCTION	4
2. PURPOSE	4
3. SCOPE.....	4
4. DEFINITION	5
5. GOVERNANCE FRAMEWORK FOR SUSTANABLE FINANCIAL ACTIVITIES	3
6. SUSTAINABLE FINANCE PILLARS.....	6
6.1. DRIVING INCLUSIVE GROWTH: BUSINESS ACTIVITIES.....	6
6.2. RISK MANAGEMENT	5
6.2.1 ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT	6
6.2.2 CLIMATE-RELATED RISKS	6
6.2.3 REVENUE GENERATION:	6
6.2.3.1 SUSTAINABLE LENDING.....	7
6.2.3.2 SUSTAINABLE INVESTING	7
6.2.3.3 SUSTAINABLE PRODUCTS AND PROGRAMS	7
6.2.3.4 SMALL AND MEDIUM ENTERPRISES, MICROFINANCE AND ENTREPRENEURS.....	7
6.3. MANAGING FOOTPRINT: OPERATIONAL ACTIVITIES.....	8
6.3.1 ECOLOGICAL FOOTPRINT	8
6.3.2 SOCIAL FOOTPRINT	8
6.4 SUSTAINABLE FINANCE INITIATIVES.....	8
6.5 DIGITAL TRANSFORMATION	8
7. CAPACITY BUILDING AND INOVATION	7
8 . DISCLOSURE AND REPORTING	7
9 STAKEHOLDERS' ENGAGEMENT	9
9.1 EMPLOYEES	9
9.2 CUSTOMERS	10
9.3 COMMUNITY	10
9.4 REGULATORS	10
9.5 SHAREHOLDERS & INVESTMENT COMMUNITY	10
9.6 PEERS	10
10. SUSTAINABLE FINANCE SYSTEM	
10.1 SUSTAINABLE FINANCE THEMATIC COMMITMENTS.....	10
10.2 SUSTAINABLE FINANCE GOVERNANCE.....	10
10.2.2 SUSTAINABLE FINANCE STEERING COMMITTEE	11
10.2.3 SUSTAINABILITY SCORECARD – ESG PERFORMANCE METRICS	11

10.3	POLICIES AND PROCEDURES	11
10.4	PROCESSES, WORKFLOW, AND DOCUMENTATION	11
10.5	HUMAN POWER AND CAPACITY BUILDING	12
10.6	MONITORING AND EVALUATION	12
10.7	ESG AUDITING	12
10.8	REPORTING, DISCLOSURES, AND TRANSPARENCY.....	12

1. INTRODUCTION

LCB FINANCE PLC recognizes the responsibility of the financial industry to be a key driver of system transformation to achieve sustainable development and drive circular economies and inclusive growth.

LCB FINANCE PLC embraces the system thinking approach to growth and acknowledges the powerful synergies that could potentially result from connecting the financial sector with the broader ecosystem. LCB FINANCE PLC understands the importance of its role in redressing environmental degradation, global warming, rising greenhouse gas emissions, and pollution as well as poverty, inequality, and unemployment, among other challenges.

In light of the above, LCB FINANCE PLC asserts its commitment to achieving growth while advancing sustainable development through its product offerings. LCB FINANCE PLC understands that its commitment to delivering value creation to its stakeholders and the ecosystem is subject to its understanding and implementation of sustainable finance in its business operations. LCB FINANCE PLC is committed to aligning its sustainable finance strategy in line with the United Nations' Sustainable Development Goals (UNSDGs).

LCB FINANCE PLC's approach to sustainable finance is comprised of interconnected pillars addressing its economic, environmental, social, and governance (EESG) impact. It also consists of ensuring the optimization of its digital capabilities to provide a supporting infrastructure for each pillar.

This policy is complemented by LCB FINANCE PLC's Sustainable Finance Policy Statement and supplementary policies. It has been developed in alignment with national, regional, and international agreements, goals, and standards concerning sustainability.

2. PURPOSE

This policy asserts LCB FINANCE PLC's commitment to implementing sustainable finance across its lines of business by integrating the environmental, social, and governance principles into its policies, procedures, operations, and culture.

This policy defines and sets a comprehensive framework that translates the Company's commitments into actions and instills a governance framework to monitor proper implementation.

3. SCOPE

LCB FINANCE PLC's Sustainable Finance Policy is applicable to all the Company's departments, functions, and lines of business. It provides guidance to all internal stakeholders who are responsible for aligning with the requirements of this policy in their respective areas of responsibility

4. DEFINITION

LCB FINANCE PLC believes that sustainable finance is a driving force for economic, environmental, and social development, which depends on upholding governance rulings. LCB FINANCE PLC understands that sustainable finance represents the integration of the economic, environmental, social, and governance aspects in all business operations. Accordingly, this implies that our business operations respect and advance the protection of the environment, human rights, labor rights, good governance, and business ethics.

5. Governance Framework for Sustainable Finance Activities/initiatives

5.1. Board of Directors need to effectively and efficiently oversee the sustainable finance activities in LCBF.

- a) **identifying and managing of ESG risks, and risks relating to sustainable finance activities; and**
- b) **parameters and metrics for measuring the progress of sustainable finance activities.**

5.2. The Chief Executive Officer and relevant Key Responsible Persons of LCB, under the guidance provided by BODs, are requested to ensure the followings:

- a) **policies, tools, metrics, operational procedures and controls implemented by LCB in respect of sustainable finance activities are reviewed and updated at least annually, and integrated with other relevant policies and procedures of LCB;**
- b) **adequate resources, skills and expertise are allocated to the implementation and management of sustainable finance activities;**
- c) **clear articulation of roles and responsibilities of business units and functions in managing risks associated with sustainable finance activities; and**
- d) **BODs are informed in a timely manner on the progress and material issues, relating to sustainable finance activities.**

6. SUSTAINABLE FINANCE PILLARS

6.1. DRIVING INCLUSIVE GROWTH: BUSINESS ACTIVITIES

LCB FINANCE PLC is committed to value creation. For this reason, the Company's business activities work on enhancing long-term value drivers and ensuring economic growth, all while advancing social, environmental, and governance considerations.

6.2. RISK MANAGEMENT

6.2.1. ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT (ESRM)

LCB FINANCE PLC's approach to risk management is dynamic and progressive in terms of understanding and addressing the environmental, social, and evolving non-traditional risks of its portfolio as well as the emerging systemic risks. The Company's approach also includes addressing these risks in its constantly revised Environmental and Social Risk Management Framework (ESRM). LCB FINANCE PLC's ESRM framework integrates Social and Environmental Credit Risk Management into its business processes. This occurs in a set of actions that is implemented concurrently with LCB FINANCE PLC's risk management procedures according to international best practices.

6.2.2. CLIMATE-RELATED RISKS

LCB FINANCE PLC's approach to climate change is to create a robust framework for the Company's risk management practices, which ensures its understanding of said practices. This framework also guarantees that the Company is well protected against potential negative impacts arising from climate change and climate-related risks.

6.2.3. REVENUE GENERATION:

LCB FINANCE PLC understands the need to implement its environmental and social management system while observing the ESG criteria across all revenue-generating functions to inspire innovation and achieve sustainable and inclusive growth.

LCB FINANCE PLC's ESRM framework is used to determine, assess, and manage social and environmental risks in projects, and is primarily intended to provide a minimum standard for due diligence to support responsible risk assessment and decision-making.

6.2.3.1. SUSTAINABLE LENDING

LCB FINANCE PLC acknowledges the need to understand the ESG risks associated with different industries, clients, and projects through assessing their sustainability as part of the sustainable lending appraisal process. This is to avoid and mitigate any negative impact on the environment and/or society and to uphold the commitments to national and international standards.

6.2.3.2. SUSTAINABLE INVESTING

LCB FINANCE PLC will assess ESG risks and opportunities associated with the Company's investment practices.

6.2.3.3. SUSTAINABLE PRODUCTS AND PROGRAMS

LCB FINANCE PLC is keen on offering products and programs to customers addressing environmental or social challenges such as promoting financial inclusion and/or the mitigation of climate change. **Sustainable** Financial products need to be developed to facilitate to the following priority sectors as mentioned in the CBSL guide line on Sustainable Finance Activities,

- a) **forestry and logging;**
- b) **agriculture;**
- c) **manufacturing;**
- d) **electric power generation, transmission and distribution;**
- e) **water supply, sewerage and waste management;**
- f) **construction;**
- g) **transportation and storage;**
- h) **tourism and recreation;**
- i) **information and communication technology;**
- j) **financial services (facilitating provision of affordable insurance products to increase climate resilience of agriculture and tourism activities); and**
- k) **other activities such as, gas, steam, and air conditioning supply, underground permanent geological storage of CO₂, Hydrogen storage.**

6.2.3.4. SMALL AND MEDIUM ENTERPRISES, MICROFINANCE AND ENTREPRENEURS.

LCB FINANCE PLC strives to support the growth of small and medium enterprises and entrepreneurs. LCB FINANCE PLC is also committed to serving un-banked and/or under-banked segments of society by facilitating access to finance, financial products, and services with close emphasis on women and youth empowerment. LCB FINANCE PLC invests in

its digital capabilities and relies on its proximity to its customers to create value for the unbanked and under-served communities.

6.3. MANAGING FOOTPRINT: OPERATIONAL ACTIVITIES

LCB FINANCE PLC is committed to pursuing environmental and social responsibility in the Company's day-to-day operations.

6.3.1 ECOLOGICAL FOOTPRINT

LCB FINANCE PLC is committed to measuring, reducing, and improving the Company's environmental footprint. LCB FINANCE PLC strives to meet high standards for safety and limit the environmental impact of its premises by regulating its emissions and ensuring the safe removal and management of its waste.

6.3.2 SOCIAL FOOTPRINT

LCB FINANCE PLC is committed to contributing to the development of human capital through its business operations by promoting gender equality, fair working conditions, talent management and development, diversity and inclusion, and social engagement. LCB FINANCE PLC does not tolerate discrimination or any form of harassment based on gender, age, disability, ethnicity, or religious belief. LCB FINANCE PLC will assess social and environmental risks in its supply chain management and encourage local suppliers in its procurement process.

6.4 SUSTAINABLE FINANCE INITIATIVES

LCB FINANCE PLC aspires to make a positive contribution to the broader society by investing in and sponsoring initiatives and projects that have a positive impact on the environment and society at large.

6.5 DIGITAL TRANSFORMATION

LCB FINANCE PLC believes that the digitalization of the financial sector is an integral component of the Company's approach to creating shared value. The Company's digitalization policies and practices create value not only for its business, but also for its customers, community, economy, and environment.

As part of its value creation and data-driven approach to its product offering, LCB FINANCE PLC integrates financial technologies to revolutionize its financial services. LCB FINANCE PLC is committed to introducing innovative banking practices that are integral to its commitment to financial inclusion and to having a positive economic, social, and environmental impact

7. Capacity Building and Innovation

7.1. LCB to imitate the following;

- a) **develop ESG risk management skills of its staff members through internal or external trainings;**
- b) **develop internal expertise to implement sustainable finance related activities or hire sustainable finance professional/s as appropriate, for such implementation; and**
- c) **develop expertise in environmental stress testing and scenario analyses.**

8. Disclosures and Reporting

8.1. LCB shall disclose the following information related to sustainable finance activities in the annual reports:

- a) **an overview on sustainable finance policies and activities;**
- b) **identified ESG and sustainable finance related risks and associated mitigation measures;**
- c) **the environmental and social impact of current and proposed investments and business activities;**
- d) **the progress made on sustainable finance related activities including implementation of the Roadmap and the action plan for the next year; and**
- e) **the total and annual amounts of sustainable funds raised for and funds allocated to sustainable finance related activities.**

8.2. LCB shall disclose the environmental and social impact generated from business activities using internationally recognized reporting frameworks, such as Global Reporting Initiative and recommendations of the Task Force on Climate-related Financial Disclosures.

9. STAKEHOLDERS' ENGAGEMENT

LCB FINANCE PLC is committed to achieving long-term value creation for all stakeholders. The Company's Sustainable Finance approach is built around growth achieved through establishing connections with the stakeholders and the ecosystem at large. This ranges from employees, clients, investors, regulators, and peers, to the environment and society.

9.1 EMPLOYEES

As employees represent its most valuable asset, LCB FINANCE PLC is committed to attracting qualified candidates regardless of gender, age, disability, or belief. LCB FINANCE PLC ensures proactive and effective management of its employees' well-being, work-life balance, and development. LCB FINANCE PLC is committed to fostering a diverse and inclusive workforce that encourages innovation and ensures the sustainability of its operations and its leading position in the market.

9.2 CUSTOMERS

LCB FINANCE PLC is committed to supporting its customers and helping them achieve their financial and non-financial aspirations and to grow their businesses. LCB FINANCE PLC partners with individuals and both small and large-scale projects to establish true value creation. LCB FINANCE PLC is committed to ensuring customer privacy, data protection, and responsible customer management.

9.3 COMMUNITY

LCB FINANCE PLC is committed to helping the economic development and societal prosperity of the communities it serves whether directly through its operations or indirectly through its philanthropic foundation established for this purpose.

9.4 REGULATORS

LCB FINANCE PLC is committed to having a proactive approach with regulators and national authorities to deliver timely and correct information, ensuring compliance and transparency. LCB FINANCE PLC is also keen on supporting regulators to advance sustainable finance.

9.5 SHAREHOLDERS & INVESTMENT COMMUNITY

LCB FINANCE PLC is committed to keeping shareholders and the investment community informed at all times. This is to establish long-term relationships with its shareholders, which entails value creation, trust, and transparency. The Company is committed to provide current and future shareholders with relevant and timely information.

9.6 PEERS

LCB FINANCE PLC is committed to actively engaging with its peers in the financial sector and promoting ESG and sustainability practices within the industry. The Company capitalizes on its maturity and leading position in the market to lead by example and advocate for responsible business models.

10 SUSTAINABLE FINANCE SYSTEM

10.1 SUSTAINABLE FINANCE THEMATIC COMMITMENTS

LCB FINANCE PLC is keen on developing comprehensive, dynamic and progressive ESG commitments that act as the Company's guiding principles for sustainable finance. This is in addition to ensuring compliance and alignment with related national and international frameworks and standards to which the Company is committed.

10.2 SUSTAINABLE FINANCE GOVERNANCE

10.2.1 SUSTAINABLE FINANCE BOARD OVERSIGHT

Sustainability risks and opportunities are positioned at the top of the Company's Board of Directors' agenda who are committed to advancing the governance structures to ensure the integration of ESG into the Company's policies, operations, and culture. The integration of sustainability into LCB FINANCE PLC's strategies and systems starts at the highest level with sign-off from the Company's Board of Directors through availing the right resources and monitoring periodic

progress.

10.2.2 SUSTAINABLE FINANCE STEERING COMMITTEE

The Sustainable Finance Steering Committee reports to the Management Committee. The Committee's mission is to establish, guide, empower and monitor the Sustainable Finance Function in line with LCB FINANCE PLC's business needs and in accordance with international best practices.

The Sustainable Finance Steering Committee will consist of the following officials

- CEO/ Executive Director (Chairperson of the Committee)
- Deputy General Manager (Credit) Secretary to the Committee
- DGM (Administration and Operations)
- DGM (Business Development & Fund Mobilization)
- DGM (IT)
- AGM (Finance & Strategic Planning)
- Chief Risk Officer
- Head of Finance
- Head of Leasing
- Manager Gold Loans

Meetings – Quarterly or Need based

Quorum – 7 with Chairperson

TOR – Implement the requirements in this manual

10.2.3 SUSTAINABILITY SCORECARD – ESG PERFORMANCE METRICS

The Sustainability Scorecard (SS) is a strategic management tool and metrics framework to measure the extent to which the Company lives up to the shared values and objectives it has committed itself to. The SS will assist the Company's management to identify, assess, measure, and report on economic, environmental, social, and governance (EESG) performance. The SS includes:

- **SUSTAINABILITY BUSINESS OBJECTIVES** for all the Company's functions to set financial and non-financial goals (quantitative and qualitative goals) to create value to the Company's stakeholders.
- **SUSTAINABILITY KPIS:** Economic, Environmental, Social, and Governance (EESG) KPIs to measure the performance and progress of these goals.

POLICIES AND PROCEDURES

LCB FINANCE PLC is committed to developing policies and procedures that support the Sustainable Committee to translate and integrate ESG criteria and risks into their specific function to reflect sustainability assessments and considerations and effectively spread sustainable finance into the culture and operations of the Company.

10.3 PROCESSES, WORKFLOW, AND DOCUMENTATION

LCB FINANCE PLC creates efficient processes, workflows, and templates to endorse set policies and procedures to ensure competent and periodic reporting mechanisms for the different functions and departments of the Company. This will allow to keep track, compare and improve its performance.

10.4 HUMAN POWER AND CAPACITY BUILDING

LCB FINANCE PLC works on ensuring sustainable capacity building and providing a knowledge-sharing platform for the Company's employees, clients, and the financial industry. This is to increase the awareness level and/or technical expertise of LCB FINANCE PLC's employees in different functions as well as that of its stakeholders to advance the company's sustainable finance strategy.

10.5 MONITORING AND EVALUATION

LCB FINANCE PLC is keen on implementing the Sustainability Scorecard to introduce EESG KPIs, which act as performance indicators to measure and assess the performance of individuals and departments. The Monitoring and Evaluation System will ensure diligent gathering and tracking of metrics and will allow evaluation and improvement.

10.6 ESG AUDITING

LCB FINANCE PLC is committed to implementing ESG Auditing to help create different layers of assurance for the efficiency of integrating EESG KPIs across the Company. It also ensures systematic and regular monitoring of board-approved SFS objectives and KPIs.

10.7 REPORTING, DISCLOSURES, AND TRANSPARENCY

LCB FINANCE PLC is committed to transparency and public disclosure of sustainability performance in the LCB FINANCE PLC Annual Report and/or standalone sustainability reports, in accordance with local and global reporting frameworks and guidelines, LCB FINANCE PLC is also committed to tracking sustainability performance and periodically benchmarking progress and communicating it to stakeholders.

This Manual will be reviewed / renewed annually

Recommended to the Board of Directors to grant approval to adopt this manual,

**Assistant General Manager
(Finance and Strategic Planning)**

CEO/ Executive Director

