

Board Paper No 2024/760/07/J

Board Meeting No 75

Date 26 July 2024



INVESTMENT POLICY & PROCEDURES MANUAL

Version 4

Owner – Finance Department

Approval - Board of Directors

Approved on 26th July 2024

Investment Policy

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1. Introduction

This statement of investment policy was adopted by the Board of Directors of LCB Finance PLC to provide for the creation of, and guidelines for the management of, various funds held by the organization. These policies supersede any and all prior actions regarding investment policies.

This investment policy encompasses the strategic management of the excess liquidity for the purpose of managing investment risk and to optimize investments returns within acceptable risk parameters. For the purpose of this investment policy, the excess liquidity excludes the statutory liquidity requirement to be maintained at each reporting date as stipulated in the Directions, Rules, Determinations, Notices and Guidelines being given by the Central Bank of Sri Lanka.

2. Purpose

The purpose of this investment policy is to provide a clear statement of the organization's investment objective, to define the responsibilities of the Board of Directors and any other parties involved in managing the organization's investments, and to identify or provide target assets allocations, permissible investments and diversification requirements.

By extension, therefore, the purpose of the Company's investment policy is to:

- Assess the availability of financial assets to be invested and align the invested assets in line with the Company's strategic goals.
- Assign an investment manager to evaluate the investment opportunities which provides protection and safety of the Company's invested assets.
- Assign Investment Committee (IC) to direct and achieve reasonable returns on invested assets within an acceptable risk tolerance.
- Maximize the return on the invested assets while minimizing risk and expenses.
- Maintain adequate liquidity to support the Company's activities in consideration of current business expectations and long-range plans.

3. Responsibilities

The investment policy of LCB Finance PLC falls under the authority of the Board of Directors, who in turn assigns authority for its formulation, revision and administration to the Investment Committee (IC). Ultimate responsibility for effective management of invested assets rests with the Board of Directors and as such, the Board is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to hiring an outside investment management consultant, appointing an authorized person and any other additional specialists.

3.1 Responsibilities of Board of Directors

The Board of Directors has the ultimate responsibility for the implementation and ensuring adherence to this policy. The Board will, at least annually, formally review this policy with the Company's management. The Board of Directors will, at least quarterly, review the investments activities of the Company. This review will include:

- The minutes of the Investment Committee (IC) meetings and Asset/Liability Committee (ALCO) meetings held since the last board meeting.
- An analysis of the company's liquidity position.
- An analysis of the company's cash flow projections
- An analysis of the company's invested assets, maturity analysis and expected returns.

The specific responsibilities of the Board include;

- Communicating the Company's financial needs to the Chief Executive Officer on a timely basis
- Determining the Company's risk tolerance and investment horizon and communicating these to appropriate parties.
- Establishing reasonable and consistent investment objectives, policy guidelines and allocations which will direct the investment of the assets, to be reviewed by the Board on an annual basis.
- Prudently and diligently selecting qualified and experienced personnel as authorized person and outside professionals, if required, as investment consultant (s).
- Regularly evaluating the performance of the Investment Committee to assure adherence to policy guidelines and to monitor investment objective progress.
- Developing and enacting proper control procedure; e.g., replacing consultant(s) due to a fundamental change in the investment management process, or failure to comply with established guidelines.

The Directors shall endeavour to operate the company's investments in assets in compliance with Central Bank of Sri Lanka (CBSL) directions, all applicable local laws and regulations concerning management of investment assets.

3.2 Responsibilities of Investment Committee

The Committee is a fiduciary, and is responsible for administering and monitoring the investment management of the various invested assets of the Company. The following represent the primary recurring responsibilities of the Committee, as delegated by the Board, in carrying out its oversight responsibilities.

The Committee will review and provide guidance to the Board and management regarding;

- Operating the invested assets in a way to provide sufficient cash to meet the day-to-day financial obligations of the Company in a timely manner.

- Optimizing the investment return within an acceptable risk tolerance and exposure limits.
- Diversifying the invested assets with a view to minimize risk.
- Providing guidelines for upgrading the investment policy in line with Company's strategic goals.
- Hiring or replacing an investment management consultant(s)

The specific responsibilities of the investment committee include;

- Discretionary investment management, including decisions to buy, sell, or hold individual securities, and to alter allocation within the guidelines established in this policy.
- Reporting, on timely basis, monthly investment performance results
- Communicating any major changes in the economic outlook, investment strategy, or any other factors that affect implementation of investment process.
- Administering the Company's investments at a reasonable cost, balanced with avoiding a compromise on quality. These costs include, but are not limited to, management fees and salaries, transactions costs and other administrative costs involved in administering the assets invested.
- Reduced risk when valuations look stretched and respond quickly to changing market conditions to minimize any probable losses.
- Meet minimum return/s established for each assets class by covering any probable losses that may arise on any underperforming assets.

3.2 Members to the Investment Committee

The members to the committee shall be appointed from the senior management and held responsible equally for those decisions taken by committee. In general, following members will be appointed to committee.

- Chief Executive Officer/Executive Director
- DGM -Credit
- AGM Finance & Strategic Planning
- Head of Finance
- Chief Risk Officer
- Such other Official Deemed Necessart

3.4 General Provisions

The Board of Directors shall review and approve any other data, analyses, and transactions as may be appropriate in view of their overall responsibility for the investment activities of the company.

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- All transactions shall be for the sole benefit of the company
- The Directors shall consider updating the company's investment policy on an annual basis.
- The Directors shall conduct an annual review of the company's investment assets to verify the existence and marketability of the underlying assets or satisfy themselves that such a review has

been conducted in connection with an independent audit (if any) of the company's financial statements.

- Any investment that is not expressly permitted under this policy must be formally reviewed and approved by the Directors

4. Allowable Investment Assets

Investments in assets shall be made solely in the best interest of the Company. The assets shall be invested with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent investor acting in like capacity and familiar with such matters would use in the investment by the Investment Committee. Investment in assets shall be diversified as to minimize risk of large losses, unless under the circumstances it is clearly prudent not to do so. A large loss is considered to be a loss when incurred is greater than ten percent (10%) of the cost of that investment. Cash is to be employed productively at all times by investment in short-term cash equivalents to provide safety, liquidity and return.

The Company requires that all investment assets be invested in marketable securities, defined as securities that can be traded quickly and efficiently for the Company, with minimal impact on market prices.

The Investment Committee appointed by the Board could select following assets for investments within all policies, guidelines, constraints, philosophies and authority levels outlined in this investment policy.

- Cash and cash equivalents
- Fixed Income Securities
- Public Equity Securities
- Other Debt Instruments
- Mutual Funds and Unit Trusts that invest in securities as allowed in this policy statement.

4.1 Cash and Cash Equivalents

As one of the most basic and secure of assets classes, cash typically consists primarily of liquid (or nearly liquid) interest-bearing instruments, such as deposits held at banks, or other financial institutions.

Although cash alternatives are not generally high-return investments, they are often insured or secured. For such deposits, individual or institutional investors bear little risk relative to the security of the capital or its expected returns. As regulated institutions, banks and finance companies are subject to safety and soundness oversight and are required to submit financial information to the Central Bank of Sri Lanka at regular intervals. These deposits provide the backbone of the activities of financial institutions by providing the pool of capital these institutions use to underwrite other activities.

The Investment Committee could select one or more of following categories of cash and cash equivalents for investments within all policies, guidelines, constraints, philosophies and authority levels outlined in this investment policy.

- Saving deposits
- Fixed deposits
- Call deposits

- Government treasury bills
- Repo Investments (Repos)
- Money Market Funds
- Certificate of Deposits

4.2 Fixed Income Securities

Fixed income securities consist of bonds and other short-and long-term, fixed return debt instruments issued by a wide range of institutions, including government, quasi-government bodies, public and private corporations. Fixed income has been generally regarded as one of safer, more conservative investment opportunities and has served as a core holding for many institutional investors.

The Investment Committee could select one or more of following categories of fixed income securities for investments within all policies, guidelines, constraints, philosophies and authority levels outlined in this investment policy.

- Government treasury bonds
- Corporate quoted bonds
- Corporate quoted debentures
- Corporate securitized papers

4.3 Public Equity Securities

The public equities market consists of the publicly traded stocks of corporations in diversified sectors. Generally operating through highly regulated and highly liquid stock exchanges, equities offer the prospects of higher returns than earlier cash or fixed income, although with correspondingly higher risk and volatility. During the last half of twentieth century, they became an investment vehicle used increasingly in the core portfolios of individual and institutional investors.

Equities represent ownership in corporations, and therefore, theoretically come with certain rights and opportunities for responsible investors with a considerable stake of ownership, to influence management of these companies. In practice, however, because ownership of public equities is so broadly dispersed and highly liquid, the ability of stockowners to function directly as active owners is somewhat limited and rests primarily with large institutional or activist investors.

The Investment Committee could select one or more public equity securities of following categories traded in the Colombo Stock Exchange for investments within all policies, guidelines, constraints, philosophies and authority levels outlined in this investment policy.

- All Share Price Index (ASPI)
- S & P SL 20

The price movement of above investments are closely monitored by reviewing CSE reports regularly and recognize gain or loss to Income Statement/Other Comprehensive Income Statement on monthly basis. The same will be updated to the ALCO and Investment Committee for seeking approval to liquidate immediately or hold for future gain.

4.3.1 Stop Loss limits of Equity Investment

Risk Management division should provide time to time market analysis of each security on Equity Share Investment. Finance Division should analyse the share price movement in history and current of Invested shares and analysis should be submitted to the investment committee. Based on Risk analysis by the Risk Management division and analysis made by Finance division, the Investment committee should take decision to limit maximum loss of particular equity to 20% on the equity price If particular shares have been continuing declining trend.

4.3.2 Price Risk monitoring Mechanism of Equity

Finance division should Monitor the Equity Prices regularly of investment portfolio and inform to

the Investment Committee which stock should sel or which stock should by to minimise the Price

Risk of the equity and to stop the Loss.

4.4. Other Debt Instruments

- Corporate Debentures
- Commercial Papers

4.5 Unit Trusts /Mutual Funds

A unit trust, also referred to as a mutual fund is a collective investment scheme which pools together into one account, all the contributions made by many investors with a common investment objective. The money is then used to purchase a portfolio of financial securities; such as, shares, treasury bills, treasury bonds, debentures and other securities. In exchange for the money, the unit trust/mutual fund issues units to the investors, who are then known as unit holders.

A unit trust/mutual fund is set up by Trust Deed and is an independent legal entity, maintaining its own financial accounts and filling its own tax return. The trust/fund is administered by its Trustee, often a reputed bank. In Sri Lanka, unit trusts/mutual funds are governed by the Securities Exchange Commission under the Unit Trust Code of 2011 and Trustees are either banks or primary dealers approved by the Central Bank of Sri Lanka.

Unit trusts/mutual funds have many advantages over investing directly in individual securities; such as,

- Increased diversification - A trust/fund normally holds many securities; diversification decreases risk.
- Daily liquidity –Investors of open-ended trust/fund may sell their holdings back to the trust/fund at the close of every trading day at a price equal to the closing net asset value of the trust/fund's holdings.
- Professional investment management –Open-and-closed-end trusts/funds hire portfolio managers to supervise the trusts/funds' investments.
- Government oversight –Unit trusts/mutual funds are regulated by the SEC

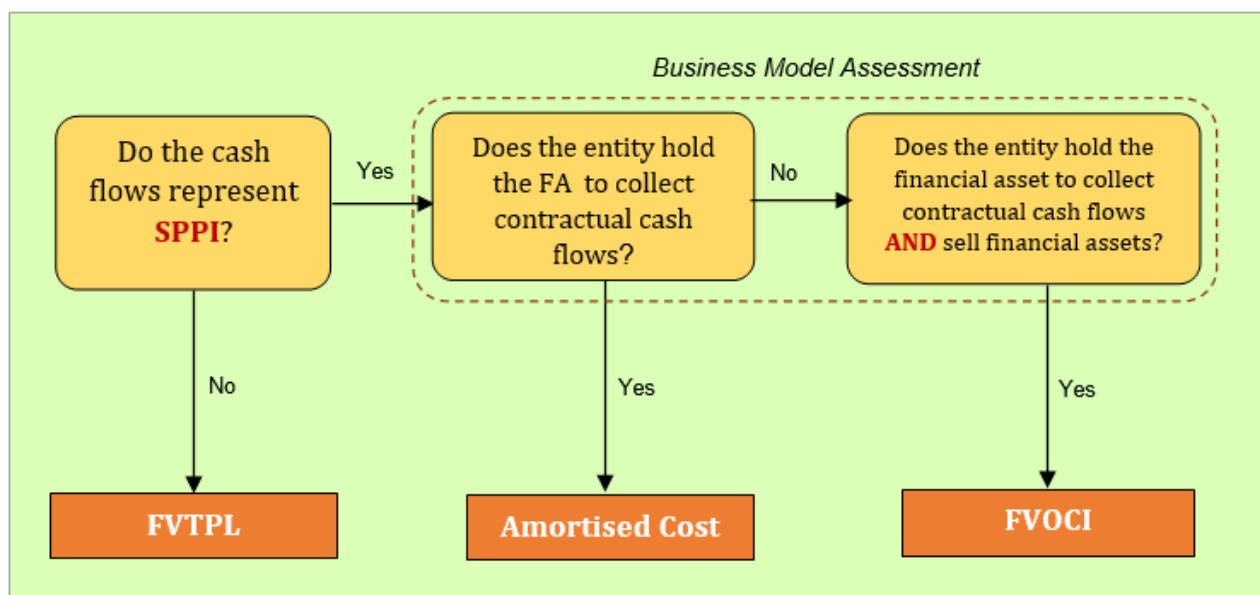
- **Ease of comparison** –All unit trusts/mutual funds are required to report the same information to investors, which makes them easy to compare.
- **Tax exemption** – Dividends received from unit trusts/mutual funds are exempted from both WHT and Income Tax.

The Investment Committee could select investing in one or more open-ended unit trusts/mutual funds that invest in following securities for investments within all policies, guidelines, constraints, philosophies and authority levels outlined in this investment policy. Open-ended trusts/funds are trusts/funds where investors can enter the trust/fund at any time and existing investors can exit out of the trust/fund at any time without any restrictions.

- Government Securities
- Corporate Debt Securities
- Bank Deposits
- Repo Investments
- Public Equity Securities

5. Classification of Financial Assets

Financial assets are classified according to their contractual cash flow characteristics and the business models under which they are held. Instruments will be classified either at amortised cost, the newly established measurement category fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). Investment Committee uses increased amount of judgement in performing the contractual cash flow characteristics test and the business model assessment in classifying the underline financial assets.



16. Diversification

The Investment Committee should maintain a reasonable diversification of investment assets between asset classes and investment categories at all times. They should adhere to followings when investing in assets classes.

- Investments in the equity securities of any one company shall not exceed five percent (5%) of the investment portfolio nor shall the total securities position (fixed income and equity) in any one company exceed twenty five percent (25%) of the investment portfolio.
- Reasonable sector allocations and diversifications shall be maintained in investing in publically quoted securities. No more than twenty five percent (25%) of the entire equity securities portfolio may be invested in quoted securities of any one sector.
- Investments in the equity securities portfolio should be highly liquid and readily marketable

17. Delegation of Authority

Authority is delegated as mentioned below, to conduct operations covering the operations connected to the classes of assets where investments could be made, whilst operating in compliance with the policies, guidelines, constraints, and philosophies outlined in this investment policy.

Accordingly, Investment Committee has Authority to make investments within the delegated limits of authority in the table below.

The approval of the Board of Directors should be obtained by circulation. to make investments exceeding the limits of authority delegated to the committee in the ` table below, backed by the justification and recommendations of the committee.

The Limits of authority delegated in the table below is for the purpose of investing in Financial Instruments such as Government Securities, Repo, Commercial Papers, Unit Trust, Gilt-edge Funds, Corporate Debentures, Equities and Fixed Deposits with LCBs and LFCs considering the Single borrower limits and other regulatory requirements.

TABLE - DELEGATED LIMITS OF AUTHORITY

Financial Instrument	Credit Rating of the Investee Company	Authority Limits	
		Investment Committee	Board of Director
Government Securities	N/A	Any amount	
Commercial Paper Investment	- BBB to A-	Up to Rs.300Mn	Above Rs.301Mn
	A- or above	Up to Rs.400Mn	Above Rs.401Mn
Fixed Deposits in LCBs	-BBB or above	Up to 300Mn	Above 301Mn
Equity Investment	-BBB to BBB+	Up to 40Mn	Above 41Mn

	A- and above	Up 50Mn	Above 51Mn
Unit Trust Money Mkt Investments	A- and above	Up to Rs.400Mn	Above 401Mn
Long Term Corporate Debentures	BBB+ and above	Up to 200Mn	Above 201Mn

Further the Board of Directors delegate the authority to negotiate with investees and to operate under the approved investments as follows,

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18. Operating instructions – Authorised Signatories

Executive Director/CEO in the “A” class category JOINTLY WITH any one in the “B” class category are authorized to act and execute documents on matters relating to investments, on behalf of the company.

A Class

Executive Director/CEO

B class B

Assistant General Manager Finance

Head of Finance

Finance Manager

19. Investment Grade

The Company should determine its own criteria for quality standards of the companies that are to be invested based on investment objectives and risk tolerance. It is prohibited carrying out transactions below those approved investment grade companies for each asset classes as stipulated in *table (1)* below unless and otherwise approved by Board of Directors.

Investment Grades

Asset Class	Investment Grade	Channel
Cash and Cash Equivalent	BBB+ and over	<ul style="list-style-type: none"> • Commercial Banks, • Finance Companies, • CBSL approved Primary Dealers
Fixed Income Securities	BBB and over	<ul style="list-style-type: none"> • Commercial Banks, • Finance Companies,

		<ul style="list-style-type: none"> • CBSL approved Primary Dealers
Public Equity Securities	Shares traded in ASPI and/or S & P SL 20 index.	<ul style="list-style-type: none"> • First Capital Stock Brokers.
Unit Trusts /Mutual Funds	As selected by Unit Trust/Mutual Fund for the pool of their assets	<ul style="list-style-type: none"> • Unit Trusts/ Mutual Funds governed by SEC under Unit Trust Code of 2011

(Table 1)

20. Investment Return

The objective of management of the investment portfolio is to prudently manage the excess liquidity of the company and to achieve a short-term growth of principal invested while avoiding excessive risk. The Investment Committee should make sure that the investment portfolio will result in a growth of principal invested and yield an average return on the total investment portfolio basis in excess of the average saving deposit rates offered by the bankers of the Company as at each Balance Sheet date. The dividends received from investments on public equity securities will fall part of the capital appreciation on those securities in arriving at the overall average return of the total investment portfolio.

21. Prohibitions

Transactions on any other asset classes other than assets classes being mentioned in this investment policy are strictly prohibited unless and otherwise approved by the Board of Directors.

22. Compliance

Current laws and regulations, Central Bank Directions, as well as prudent and generally accepted finance business practices, will be the foundation for and will act as the guiding hand in the development of policies, procedures, strategies and tactics relating to the management of the Company's investment assets.

23. Philosophy

The company, in its philosophy, follows ethical principles of not engaging in financial transactions with business entities where the principle business activities of those entities will result in environment pollution, animal slaughter, health hazards, gambling and other similar kind which are not ethical in nature and/or harmful to the environment or to the society at large. The Investment Committee and all other authorized personnel having delegated authority limits for carrying out investments activities within the various policies, guidelines, constraints, and philosophies outlines in this investment policy should strictly comply with those ethical principles of the Company.

24. Policy Considerations

24.1 Exceptions

All investment activities pre-dating the adoption of this policy and not in conformity with its various sections will be considered as exceptions to this policy. Management will make a concerted effort to bring the investment activities of the Company into compliance with the various policies, guidelines, constraints, and philosophies outlines in this investment policy, subject to sound financial practices.

24.2 Revision

The Investment Committee shall review the policy at least semi-annually or as frequently as deemed necessary and shall recommend all necessary changes to the Board for consideration and adoption. This policy is intended to be flexible to deal with rapidly changing conditions; therefore, this policy can be amended by the unanimous vote of the members of the Committee. Any and all modifications of this policy are to be reported to the Board of Directors for approval at its next regularly scheduled meeting.

25. Adoption

This policy and any changes made during the annual reviews shall be adopted by resolution of the Board of Directors.

Recommended to the Board of Directors to approve adoption of this Manual

AGM (Finance & Strategic Planning)

CEO/ Executive Director