IdealRatings®

LB Finance Gap Analysis Report

May 2026

Prepared for ▶ LB FINANCE

Table of Contents

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Summary Report

LB Finance Plc.

Year	Industry
2026[1]	Consumer Financial Services
Nation	ISIN
Sri Lanka	LK0301N00008

AAA
271.00

CC	CCC	B	BB	BBB	A	AA	AAA
0-89.99	90-119.99	120-149.99	150-179.99	180-209.99	210-239.99	240-269.99	270-300

ESG Score by Pillar

Environmental	85.0
Social	92.0
Governance	94.0

ESG KPI Performance

Top Performing KPIs	Score	Bottom Performing KPIs	Score
Air Emissions	100%	Consumer Rights - Data Privacy	25.00%
Anti-Corruption	100%	Human Capital - Diversity	71.43%
Community Development	100%	Environmental Management	73.21%

Peer Benchmarking

Relative Industry Peers[2]	
Peer A	A
Peer B	A
Peer D	A
Peer C	BB

Controversies[3]	
Environmental	Not Involved
Social	Not Involved
Governance	Not Involved

ESG Relative Performance

	Rating	Score
Global Average	BB	151
Regional Average	B	148
Industry Average	B	143
Industry Leader	AAA	275

1 *Based on data for fiscal year 2026.*
2 *Selected peers based on close market cap, nation/region, and sector.*
3 *Company is marked 'Involved' if found in a relevant lawsuit.*

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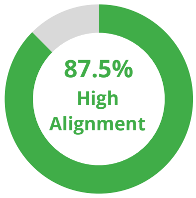
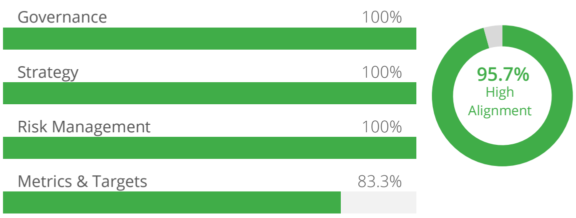
International Sustainability Standards Board (ISSB)

ISSB Alignment based on Public Data

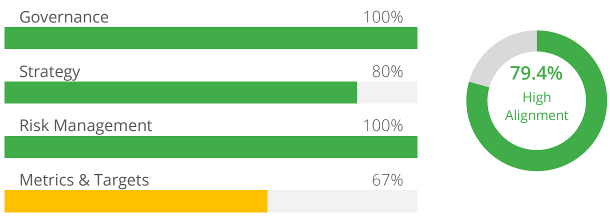


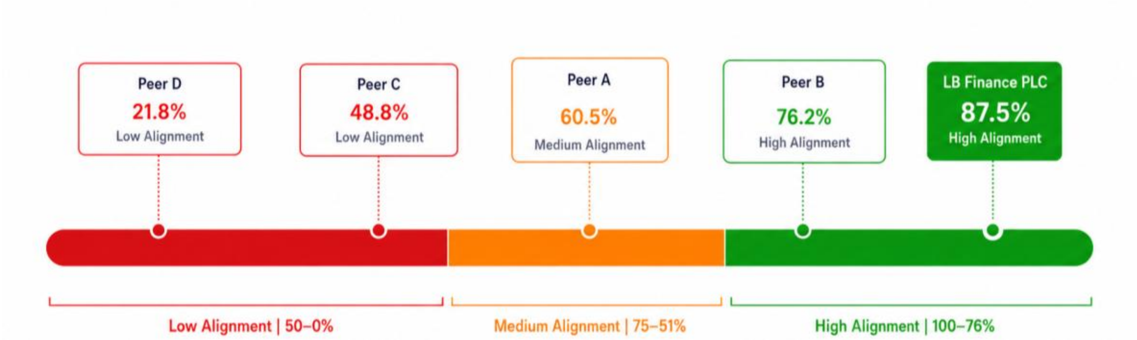
Level of Disclosure

S1: General Sustainability-Related Disclosures

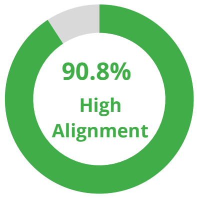


S2: Climate-Related Disclosures



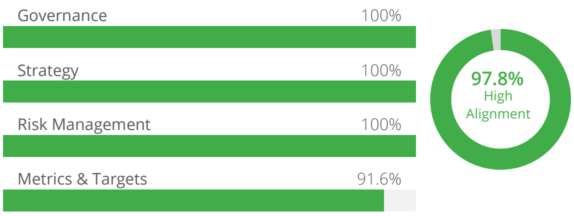


ISSB Alignment based on Public & Internal Data

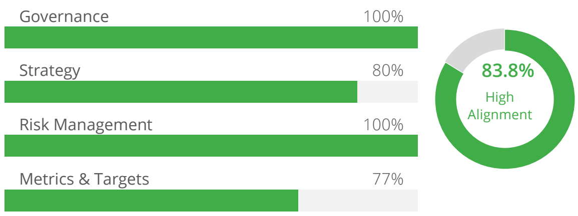


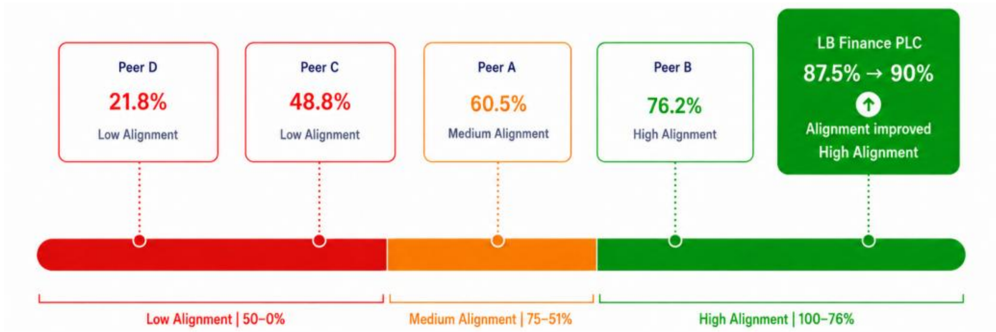
Level of Disclosure

S1: General Sustainability-Related Disclosures



S2: Climate-Related Disclosures





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International Norms

United Nations Global Compact

Signatory

100.0%

Principle 1: Support and respect the protection of internationally proclaimed human rights	Principle 2: Ensure non-complicity in human rights abuses
Principle 3: Uphold freedom of association and recognize the right to collective bargaining	Principle 4: Eliminate all forms of forced and compulsory labor
Principle 5: Abolish child labor	Principle 6: Eliminate discrimination in employment and occupation
Principle 7: Support a precautionary approach to environmental challenges	Principle 8: Undertake initiatives to promote greater environmental responsibility
Principle 9: Encourage the development and diffusion of environmentally friendly technologies	Principle 10: Work against corruption in all its forms, including extortion and bribery

Sustainable Development Goals

100.0%

1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS

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Introduction and Strategic Purpose

This Sustainability Gap Analysis provides a comprehensive, independent evaluation of LB Finance PLC's (LBF) current ESG reporting architecture, data disclosure maturity, and regulatory compliance positioning. The overriding objective of this analysis is to equip the LBF Sustainability Team with a unified, data-backed operational roadmap for the upcoming reporting cycle.

To ensure maximum analytical depth, LBF's sustainability disclosure ecosystem was evaluated across three frameworks: IdealRatings ESG Rating & Screening frameworks, international capital-market reporting standards (ISSB / IFRS S1 & S2 Criteria, which the company has adopted via SLFRS; the national version of these international frameworks), and local statutory guidelines (Central Bank of Sri Lanka Direction No. 5 of 2021).

The entire analysis was conducted twice, first using public data only and second using public data in addition to internal data. While this dual assessment approach did not affect the IdealRatings ESG score, it significantly affected the ISSB S1 and S2 scores, isolating clear opportunities to enhance capital-market readiness. Consequently, the evaluation maps out these two distinct performance states to uncover low-barrier improvement opportunities.

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Executive Summary: Comprehensive Sustainability Diagnostic & Optimization Roadmap

IdealRatings ESG Framework

LB Finance demonstrates definitive market leadership, securing a top-tier AAA rating (Score: 271). Notably, LBF sits just 4 points below the absolute global Industry Leader (Score: 275), placing its foundational ESG architecture near world-class standards while significantly outperforming local financial peers.

- **Environmental (85.00%):** LBF maintains maximum maturity (100%) in Air Emissions data tracking and green target formulation. The remaining 15% represents an optimization opportunity tied exclusively to voluntary reporting via the Carbon Disclosure Project (CDP), rather than any operational gap.

- **Social (92.00%):** The company exhibits advanced community infrastructure, human rights enforcement, and verified labor safety logs. However, the overall score is tempered by narrow technical omissions in customer privacy policy disclosures—specifically regarding third-party personal identifiable information (PII) access rules—and a board-level diversity threshold where female representation sits below 20% according to recent company announcements.

- **Governance (94.00%):** LBF dominates its peer group in ethical oversight and anti-corruption controls. It's limited from achieving a perfect score only by standard international rating deductions concerning non-independent board structures (Chairman and director majority) and the practice of publishing aggregated, rather than names-based, director remuneration figures.

International Financial Reporting Standards (IFRS S1 & S2)

LBF has established an advanced disclosure trajectory, and this report evaluates its structural alignment with the international ISSB standards, for which the company has locally adopted as the SLFRS S1 and S2 blueprints for its 2024/25 reporting cycle.

- **IFRS S1 - General Sustainability Requirements (95.65% Public / 97.83% Internal):** The corporate governance, operational strategy, and enterprise risk integration components are fully mature. The small remaining gap is technical, tied to the omission of a formalized statement defining data estimation uncertainties and the clear disclosure of historical target revisions.

- **IFRS S2 - Climate-Related Disclosures (79.00% Public / 84.00% Internal):** LBF possesses advanced multi-scenario climate stress modeling mapped across four temperature pathways (1.5°C, 1.8°C, 2.7°C, and 4.4°C). However, the pillar carries a +5.00% optimization potential because critical data tracked internally, such as Scope 2 contractual energy structures, target baseline anchors, and explicit greenhouse gas breakdowns, has not yet been moved into the public reporting domain. Persistent structural gaps include a lack of formalized shadow carbon pricing and the qualitative, rather than quantitative, scaling of investment portfolio transition risks.

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Statutory Alignment (CBSL Corporate Governance Direction No. 5)

Unlike other sections in this report where the assessment was conducted through both a qualitative lens and a quantitative alignment percentage, this section's evaluation is qualitative only, focusing purely on thematic structural execution.

Under this qualitative framework, LBF maintains a flawless regulatory posture, certifying full compliance across all 16 thematic modules of the Central Bank of Sri Lanka (CBSL) Corporate Governance mandate. LBF effectively leverages formal regulatory permissions and extensions from the CBSL where strict limits intersect with business continuity (such as term extensions for major shareholder-representative directors and age ceilings for Key Responsible Persons). Furthermore, LBF manages international ratings challenges regarding board independence through a highly sophisticated local counterweight: the active appointment of Independent Non-Executive Director Mr. Ashane Jayasekara as the Senior Director, operating under a distinct, board-approved Terms of Reference to protect minority shareholder interests.

International Norms

LBF clears traditional sector bottlenecks by demonstrating verified alignment with all 17 UN Sustainable Development Goals (SDGs) and operating as an official UN Global Compact (UNGC) Signatory with 10/10 principles compliance. Unlike local competitors, LBF protects its claims from "SDG Washing" by mapping operations directly to underlying UN target codes and multi-page report indices.

Actionable Data Optimization Roadmap

To systematically eliminate outstanding disclosure gaps and capture the identified internal data optimization margins, the Sustainability Team should implement the following steps in the upcoming reporting cycle:

Direct Framework Alignment

- **Anchor Quantitative Targets to Baseline Years:** Ensure that every emissions reduction target explicitly declares its baseline anchor year within the reporting index (e.g., "LB Finance aims to achieve a 10% reduction in Scope 1 and 2 emissions by 2030 against a verified FY2023/24 baseline").

- **Publish Contractual Energy and Gas Specifications:** Move existing internal datasets regarding utility contracts and greenhouse gas tracking directly into the public performance tables. Explicitly specify the greenhouse gases covered (CO_2, CH_4, N_2O) and clarify whether power purchase lines are tied to green tariffs or Renewable Energy Certificates (RECs).

- **Insert Standard Target Revision Declarations:** Introduce a standard compliance statement within the metrics index to clear international rating ambiguities: "During the reporting period, no historical revisions were made to the company’s established sustainability targets."

Refine Social & Governance Policy Disclosures

- **Clarify the Customer Data Privacy Clause:** Dedicate a distinct subsection within consumer rights disclosures to explicitly define the boundaries of third-party data access. To resolve the current

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ratings deficit, introduce binding, contractually restrictive language: "LB Finance PLC strictly prohibits the sale, rental, or unauthorized sharing of customer personal identifiable information (PII) to third-party commercial entities, binding all external service vendors to strict non-disclosure and single-use processing agreements."

- **Transition from Local Aggregate to Global Individual Remuneration Tracking:** While LB Finance fully complies with the Sri Lanka Companies Act No. 07 of 2007 and local financial sector norms by publishing the aggregate remuneration paid to Directors (Rs. 746.67 Mn), this aggregate presentation triggers an automatic point deduction under IdealRatings ESG ratings. To differentiate LBF on the global stage, the Board Human Resources and Remuneration Committee (BHRRC) should transition upcoming reports toward advanced international governance practices. Moving away from fully aggregated figures to provide a granular, itemized, and names-based breakdown of individual director fee structures, variable components, and performance-linked metrics will improve this rating and demonstrate world-class transparency to foreign institutional funds.

- **Highlight the Senior Director Framework as an ESG Shield:** Feature a dedicated corporate governance text block explaining the strategic oversight role of the Senior Director (Mr. Ashane Jayasekara). Explicitly demonstrate to global rating agencies that this structure, combined with an independent-led Audit Committee and the execution of Executive Director-free board caucuses, provides a powerful balancing mechanism that actively manages non-independent board risks.

Framework Integration & Impact Tracking

- **Mathematically Link SDG Appendices to IFRS S2 Capital Allocations:** Do not leave LBF’s extensive SDG index isolated from its technical climate disclosures. The commercial portfolios highlighted under SDG 7 and SDG 13 - such as the Solar Loan product portfolio (Rs. 7.35 Bn) and the structural solarization of 40 corporate branches - should be calculated as quantitative capital allocation values directly within your IFRS S2 climate mitigation tracking tables.

- **Convert Project Listings to Quantitative Impact Trends:** Elevate the data rigor of existing sustainability appendices by moving community projects into formalized disclosure blocks within your GRI 303 (Water) and GRI 304 (Biodiversity) indexes. Transition from simple qualitative descriptions to year-over-year performance trends, tracking the exact cubic meters of purified water delivered via the Sunanda Maha Vidyalaya system or the verified survival and growth rates of trees planted across the Yagirala Forest Reserve and branch openings.

- **Signal Environmental Integrity via a CDP Roadmap:** Introduce a concise corporate roadmap stating LBF's intent to officially align with or submit data to the Carbon Disclosure Project (CDP) index in subsequent reporting cycles, immediately positioning the company ahead of a localized peer group that completely lacks CDP representation.

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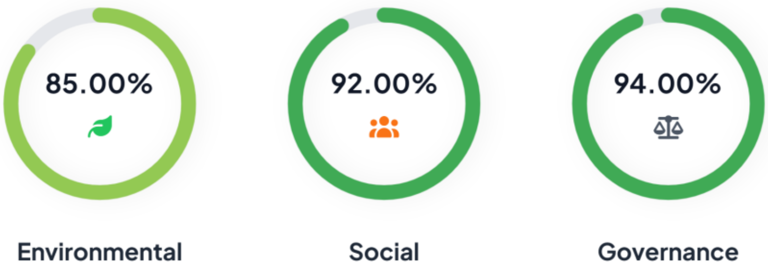
Section 1: Alignment with IdealRatings ESG Framework

IdealRatings ESG Ratings Performance

This section provides an objective evaluation of LB Finance PLC's sustainability performance under the IdealRatings ESG Ratings framework. To establish a rigorous baseline, LB Finance's performance is analyzed across two distinct benchmarks: a localized peer cohort (comprising Peer A, Peer B, Peer C, and Peer D) and broader macroeconomic benchmarks (Global, Regional, and Industry sector averages).

With an ESG Score of 271 and an ESG Rating of AAA, LB Finance PLC demonstrates definitive market leadership. The company significantly outperforms global, regional, and industry averages. Furthermore, LB Finance sits just 4 points below the absolute global Industry Leader (Score: 275), indicating that its sustainability reporting and structures are near world-class standards.



1 LB Finance ESG Rating (Total & Pillar Breakdown)

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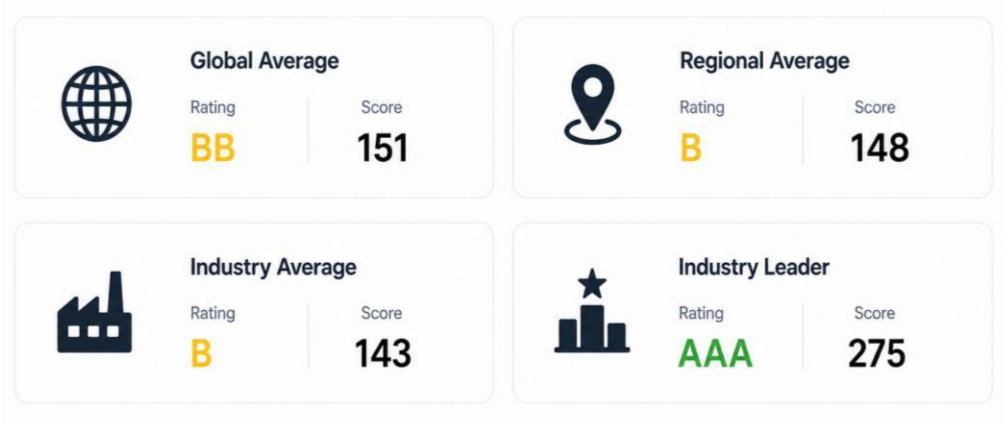
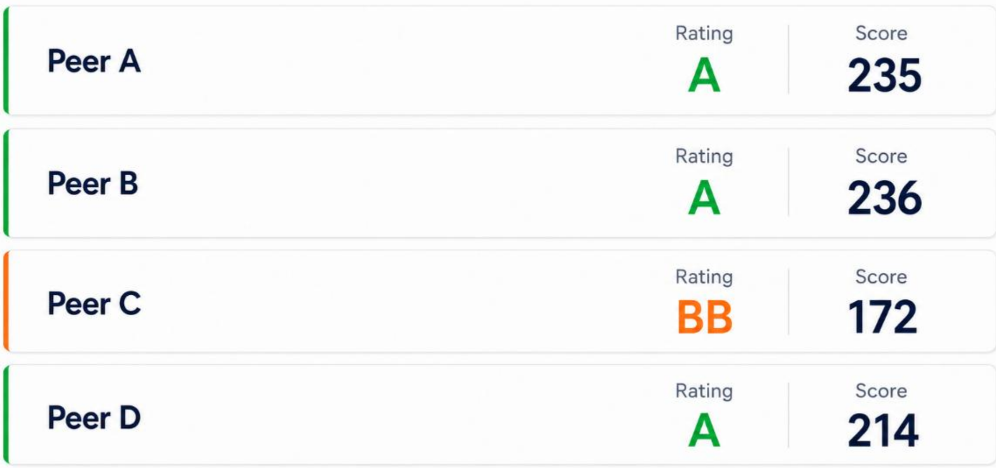
Comprehensive ESG Performance & Benchmarking

The diagrams below contextualize LB Finance's performance against both its immediate competitors and broader market averages.



2 Market-Level Benchmarks



3 ESG Rating: LB Finance vs. Local Peer Group

Macro-Benchmark Performance Analysis

Global, Regional, and Industry Averages

LB Finance exhibits profound outperformance against all baseline sector markers:

- **Industry Average (Score 143 / Rating B)**: LB Finance surpasses the standard sector score by 128 points, signaling that its disclosure protocols far exceed the baseline requirements of the financial services industry.
- **Regional (Score 148) and Global (Score 151) Averages:** The company maintains a distinct advantage over both geographical cohorts, demonstrating that its sustainability framework satisfies international expectations, not just local market norms.

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Industry Leader Proximity

LB Finance PLC occupies an elite position in the global financial sector, sitting immediately behind the top-performing industry leader, which commands the absolute benchmark score of 275. LBF's baseline score of 271 places is within a narrow 4-point margin of global apex performance. This minimal variance demonstrates that the structural foundation of LBF's ESG strategy is highly mature.

An evaluation against IdealRatings diagnostic indicators reveals that the market leader secures its marginal 4-point advantage through four highly specific disclosure parameters that LBF currently omits or underreports:

- **Carbon Disclosure Platform Collaboration:** The company actively participates in the Carbon Disclosure Project (CDP), whereas LBF currently lacks formalized reporting integration with this global environmental platform.

- **Audit Committee Financial Background Expertise:** 100% of the leader's audit committee members are publicly verified as possessing explicit financial background expertise, ensuring a flawless evaluation on committee capability metrics.

- **Granular Remuneration Transparency:** The company avoids aggregate reporting traps by fully disseminating itemized details regarding individual directors' remuneration structures, variable components, and performance metrics.

- **Strict Customer Data Privacy Boundaries:** Company's public policies explicitly state that the entity does not allow third-party access to personal identifiable information (PII), neutralizing data security risk flags.

By implementing the targeted disclosure refinements outlined in this roadmap, specifically adopting itemized remuneration reporting, restricting third-party data access clauses, and establishing a baseline trajectory for future CDP participation, LB Finance PLC can entirely erase this 4-point deficit and secure joint global market leadership in the upcoming reporting cycle.

Environmental KPIs

With an overall Environmental Pillar score of 85%, LB Finance PLC establishes a commanding lead over its localized peer group, significantly outperforming its closest competitors who remain anchored at a lower performance baseline. This market-leading position reflects LBF's advanced structural capabilities in tracking and verifying quantitative ecological data.

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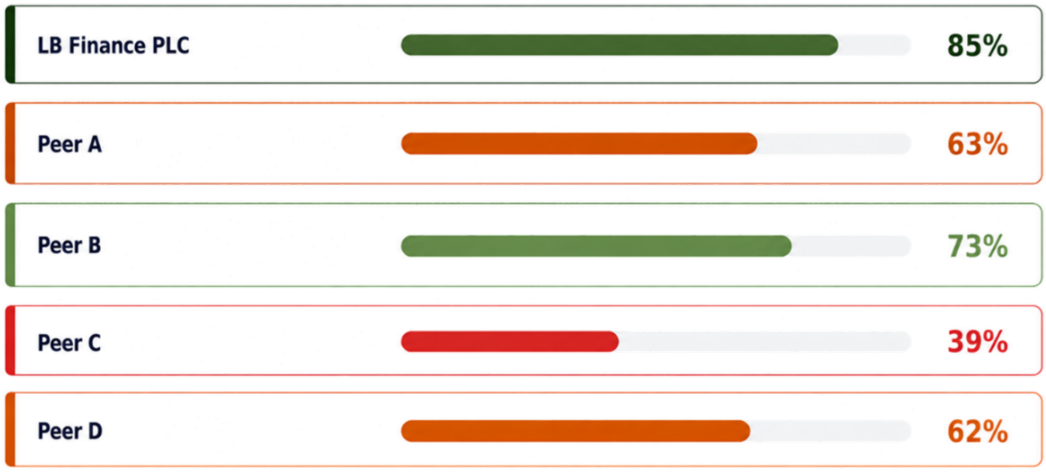

Figure 4 Environmental Pillar (E) LB Finance vs. Local Peer Group

To pinpoint the exact disclosure mechanics driving LB Finance PLC's 85% Environmental Pillar score, this subsection breaks down performance into two core Key Performance Indicators (KPIs): Air Emissions and Environmental Management—the two core Key Performance Indicators (KPIs) identified by IdealRatings methodology as uniquely relevant to the consumer financial services industry. LB Finance's performance cross-referenced with peer scores and mapped against specific IdealRatings question codes to isolate structural strengths and explicit reporting gaps.

LB Finance achieves maximum maturity (100%) in Air Emissions disclosures but faces a clear optimization gap in Environmental Management (73.2%). The primary bottleneck preventing a perfect score across this pillar is a lack of participation in global carbon disclosure platforms.

Figure 5 Environmental Pillar (E) Breakdown by KPI

Environmental KPI Benchmarking

The table below outlines how LB Finance compares against its peer group at the granular KPI level:

Table 1 - Environmental KPIs: LB Finance vs. Local Peers

KPI Category	LBF	Peer A	Peer B	Peer C	Peer D
Air Emissions	100.0%	77.3%	100.0%	45.5%	75.0%
Environmental Management	73.2%	51.8%	51.8%	33.9%	51.8%

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Deep-Dive KPI & Indicator Analysis

Air Emissions (Score: 100.0%) – Peer Leader

LB Finance achieves absolute alignment within this category, matching Peer B and significantly outperforming the rest of the peer group.

- Fulfilled Requirements (Strengths Matrix):
  - **Renewable Energy Targets:** LBF actively tracks and sets quantifiable goals for integrating renewable energy into its brick-and-mortar operations. The company's official *Environmental Strategy* outlines a clear target to increase renewable energy adoption, aiming for ≥ 25% of commercial branches to be equipped with active solar installations by 2026/27, and scaling to ≥ 50% by 2030. The company actively logs and tracks the exact kilowatt-hours (kWh) generated by these solarized branches.
  - **Greenhouse Gas Emissions:** Quantitative greenhouse gas data is fully disclosed in public records, moving beyond superficial qualitative assertions. The company publicly reports its complete greenhouse gas inventory across Scope 1, Scope 2, and Scope 3 emissions, which totaled 36,934.07 tCO_2e for the 2024/25 reporting period. To ensure data integrity, these figures are independently verified by Control Union Sri Lanka in strict accordance with ISO 14064-1:2018 standards.
  - **Emissions Reduction Plans:** LBF has formulated a comprehensive, forward-looking mitigation roadmap. Backed by a Board-approved Climate Policy, the company has formally committed to achieving net-zero operational carbon emissions by 2050. Interim targets include a mandatory 10% reduction in Scope 1 and Scope 2 emissions by 2030 against its established baseline.

    Additionally, the company actively mitigates its real estate and vehicle fleet footprint (including financed emissions) by structurally incentivizing the commercial leasing of electric vehicles (EVs) and hybrid models.

Environmental Management (Score: 73.2%) – Area for Optimization

While LB Finance leads its closest competitors (who are tied at 51.8%) by over 21 percentage points, the 73.2% score indicates that unfulfilled indicators are pulling down the overall environmental rating.

- Fulfilled Requirements (Strengths Matrix):
  - **Environmental Policy:** LBF has implemented a comprehensive, formalized corporate "Environmental, Social and Governance Policy". Under the Environmental Pillar of this master document, the company maintains active, dedicated sub-policies regulating specific resource streams: Energy Management, Water Management, Waste Management, Emissions Management, and a localized Climate Policy.
  - **Business Integration:** Environmental and climate-related risks are structurally integrated directly into core business operations, asset allocation, and financial frameworks. LBF mandates the consideration of environmental exposures across all credit underwriting, investment, and operational decisions. Crucially, sustainability and climate risk variables

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have been formally institutionalized within the company's enterprise-wide risk register, ensuring they receive equal weight to traditional financial risk categories during executive evaluations.

- **Stakeholder Involvement:** LBF demonstrates clear commitments to engaging stakeholders regarding its ecological impacts. The master ESG Policy explicitly requires the Board to systematically review stakeholder engagement processes and incorporate external feedback into strategic corporate planning. The company maintains an active Stakeholder Engagement Matrix that outlines dedicated dialogue initiatives for both "Society/Communities" and the "Environment" to evaluate ongoing localized impacts.

- **Grievance Mechanisms:** LBF structurally oversees environmental grievances by weaponizing its corporate governance framework. The company's comprehensive Whistleblowing Policy is designed to function as a broad-spectrum control against internal and external misconduct, explicitly categorizing "damage to the environment" as a severe, reportable offense that triggers independent corporate investigations.

- Identified Critical Gap:
  - **Carbon Disclosure Project - CDP Participation:** LB Finance does not currently participate in or submit data to the Carbon Disclosure Project (CDP). While CDP disclosure is entirely voluntary and currently omitted by all localized peers, formal participation is highly recommended to demonstrate an advanced level of environmental integrity. Consequently, this single public omission remains the primary contributor to the 26.8% deficit in this category.

Actionable Recommendations for the Upcoming Sustainability Report

To systematically move the Environmental Management score toward 100% and secure the absolute industry-leader position, the Sustainability Team should implement the following steps:

- **Formalize a Timeline for CDP Alignment:** While full registration with the Carbon Disclosure Project requires a structured corporate framework, establishing a formal roadmap allows LBF to signal market-leading integrity in a peer cohort that completely lacks CDP representation. The upcoming report should explicitly state LB Finance's intent or roadmap to align with or submit to the CDP index in subsequent cycles.

  In the interim, publishing a "CDP-aligned reference table" using existing, verified internal GHG data can serve as a high-integrity proxy to immediately boost compliance ratings.

- **Quantify Grievance Mechanism Outputs:** Move beyond just stating that an environmental grievance mechanism exists. In the upcoming report, provide a small data block or table summarizing the number of cases logged, resolved, or managed during the financial year (even if the count is zero) to demonstrate active governance.

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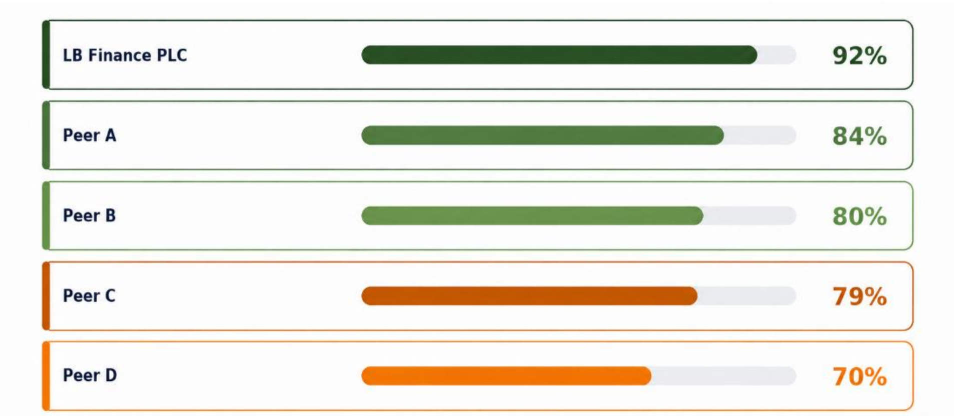
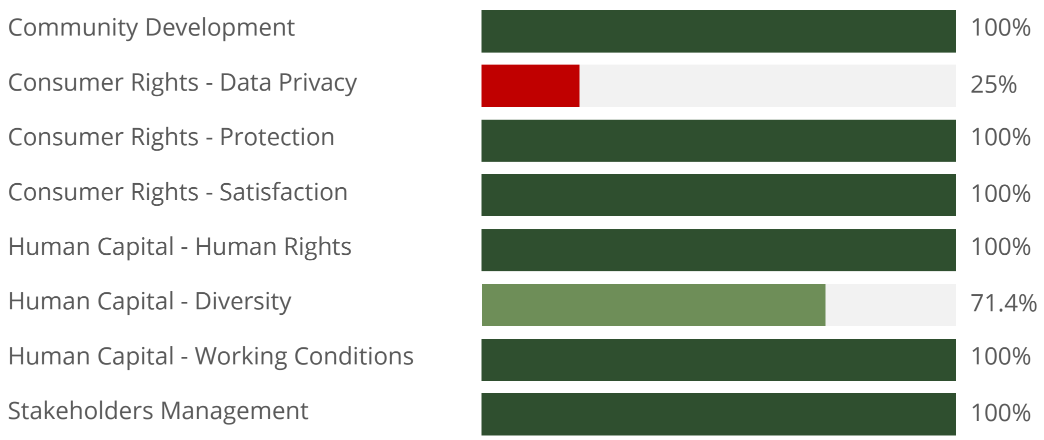
Social KPIs

Securing an overall Social Pillar score of 92%, LB Finance PLC cements its absolute market-leading position within the local financial services sector, outperforming its closest competitor, Peer A (84%), and establishing a massive performance delta against lower-tier peers like Peer D (70%).



6 Social Pillar (S): LB Finance vs. Local Peer Group

The analysis demonstrates that LB Finance achieves maximum maturity (100%) across six out of eight social performance categories. However, its overall score is weighted down by specific structural and policy disclosure omissions in Consumer Rights - Data Privacy (25.0%) and Human Capital - Diversity (71.4%). Addressing these specific indicators in the upcoming sustainability report will secure full framework alignment.



7 Social Pillar (S) Breakdown by KPI

Social KPI Benchmarking

The table below contextualizes LB Finance's performance against immediate competitors across all IdealRatings social dimensions:

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Table 2 Social KPIs: LB Finance vs. Local Peer Group

KPI Category	LBF	Peer A	Peer B	Peer C	Peer D
Community Development	100.0%	80.0%	60.0%	80.0%	35.0%
Consumer Rights - Data Privacy	25.0%	25.0%	25.0%	28.6%	100.0%
Consumer Rights - Protection	100.0%	100.0%	100.0%	0.0%	0.0%
Consumer Rights - Satisfaction	100.0%	100.0%	100.0%	100.0%	100.0%
Human Capital - Diversity	71.4%	100.0%	100.0%	42.9%	71.4%
Human Capital - Human Rights	100.0%	78.6%	85.7%	92.9%	78.6%
Human Capital - Working Conditions	100.0%	100.0%	86.7%	86.7%	100.0%
Stakeholders Management	100.0%	100.0%	100.0%	100.0%	16.7%

Deep-Dive KPI & Indicator Analysis

Established Core Strengths (Score: 100.0%) – Peer Leader

LB Finance exhibits a comprehensive disclosure architecture across the majority of the social indices, setting industry benchmarks in the following categories:

- Fulfilled Requirements (Strengths Matrix):
    - **Community Development:** Secures maximum maturity through documented, senior manager-led initiatives providing healthcare access (free clinics and funding for the Little Heart Foundation and HelpAge Eye Hospital), educational access (developing 120 pre-schools, digital classrooms, and the LCES Tailoring School), and localized financial inclusion (Myanmar microfinance operations and SME workshops), all independently verified by publishing an employee volunteering log of 7,552 volunteer hours.
    - **Human Capital - Human Rights & Working Conditions:** Drives absolute framework alignment through formal adherence to ILO Core Labor standards, GRI-aligned human rights performance reporting, and an unblemished regulatory record with zero reported incidents of discrimination or forced labor, balanced by transparent disclosure of talent metrics (44% overall staff turnover and a 10.1% talent turnover ratio) alongside formalized wellness and flexible work policies.
    - **Consumer Protection:** Maintained through robust technical and operational data safeguards, verified by the successful enterprise-wide re-certification of the ISO/IEC 27001:2022 Information Security standard alongside independent complaint redress tracks governed by the Financial Consumer Protection Policy, which successfully achieved an 89% grievance resolution rate over the reporting period.
    - **Stakeholder Management:** Factored systematically into sustainable growth strategies via engaging communities through targeted CSR partnerships and micro-entrepreneur capacity workshops, and managing customer experience feedback loops; this architecture is robustly protected by discrete internal grievance channels (confidential HR

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redress, direct hotlines, "Smile Counselling") and a survivor-centered reporting framework for Gender-Based Violence and Harassment (GBVH) integrated into the Whistleblowing Policy to handle discrimination, harassment, and workplace abuse.

Primary Reporting Gaps & Vulnerabilities (Score: Variable) – Areas for Optimization

While foundational social frameworks are mature, structural data gaps hamper performance across explicit operating and governance indicators.

- **Consumer Rights - Data Privacy (Score: 25.0%):** While the company possesses a formal customer data privacy policy statement, it currently fails a critical technical indicator by allowing third-party access to personal information, implying that public disclosures either lack explicit clauses legally restricting third-party data sharing or fail to clearly define the operational perimeter of data privacy protocols, thereby exposing the organization to severe information security rating penalties.

- **Human Capital - Diversity (Score: 71.4%):** LB Finance successfully discloses strong workforce diversity figures and anti-discrimination policies. However, although the report's public disclosures indicate that the company meets the minimum 20% representation of women or minorities on the board, recent company announcements regarding subsequent board changes reveal that the current ratio has fallen below 20%. This operational shift triggers a performance gap at the governance tier under the specific indicator requiring at least 20% women and/or minorities representation on the Board of Directors

Actionable Recommendations for the Upcoming Sustainability Report

To systematically recover the lost percentages in Data Privacy and Diversity, the Sustainability Team should incorporate the following disclosures in the coming report:

- **Update and Clarify the Third-Party Data Privacy Clause:** Dedicate a technical subsection within the customer data privacy disclosures to explicitly define third-party data rules—a competitive best practice currently applied by Peer D in its privacy policy to secure a perfect rating. If LB Finance restricts third-party access, clearly state: "LB Finance PLC strictly prohibits the sale, transfer, or sharing of customer personal identifiable information (PII) to unauthorized third parties without explicit customer consent." This clear disclosure will immediately transition the indicator from "No" to "Yes" in subsequent evaluations, effectively closing this specific peer vulnerability.

- **Contextualize Board Diversity and Roadmap Strategy:** While changing Board composition requires long-term corporate adjustments, the upcoming report can mitigate the qualitative impact of this deficit. Introduce a specific section outlining the Board's current nomination criteria, emphasize the 20% workforce diversity achievement, and state any active commitments or governance goals regarding future board-level diversification.

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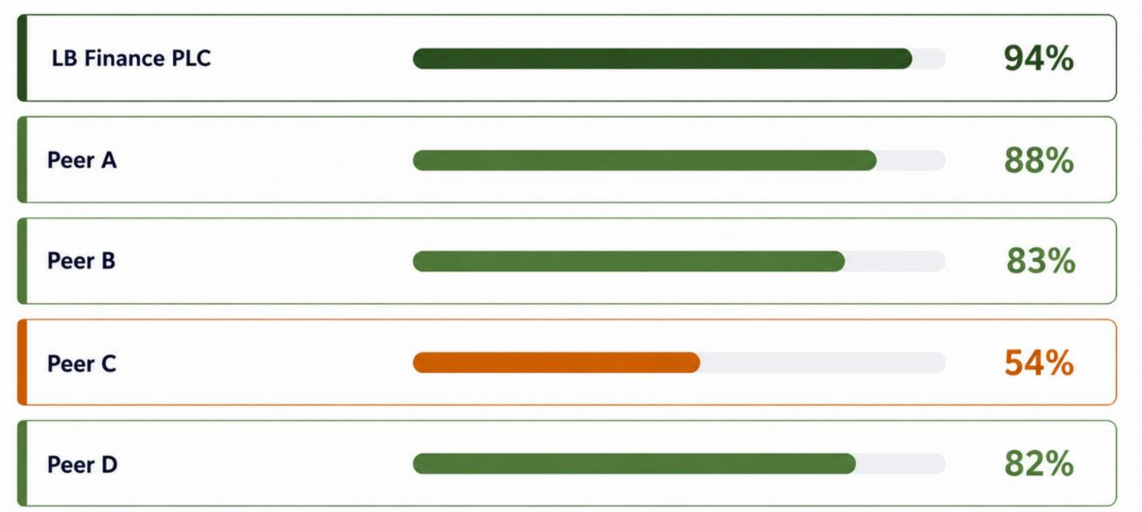
Governance KPIs

A comprehensive evaluation of LB Finance PLC's corporate governance architecture was conducted under the IdealRatings Governance Pillar framework. LB Finance secures a dominant market-leading position with an overall Governance Score of 94%, outperforming its closest competitor, Peer A (88%), and significantly outpacing lower-performing peers such as Peer C (54%).



8 Governance Pillar (G): LB Finance vs. Local Peer Group

LB Finance demonstrates maximum maturity (100%) across three of the five governance sub-categories: Anti-Corruption, Anti-Competition, and Business Ethics. However, specific structural and reporting limitations prevent a perfect score, primarily within Management (73.3%) and Reporting & Transparency (90.9%). These gaps are driven by board-level independence thresholds and incomplete transparency regarding executive compensation breakdowns.

9 Governance Pillar (G): Breakdown by KPI

Governance KPI Benchmarking

The table below details LB Finance's standing against its peer group across all IdealRatings governance dimensions:

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Table 3 Governance KPIs: LB Finance vs. Local Peers Group

KPI Category	LBF	Peer A	Peer B	Peer C	Peer D
Anti-Corruption	100.0%	100.0%	100.0%	76.2%	76.2%
Anti-Competition	100.0%	100.0%	62.5%	62.5%	100.0%
Business Ethics	100.0%	88.5%	100.0%	50.0%	100.0%
Management	73.3%	86.7%	86.7%	73.3%	60.0%
Reporting & Transparency	90.9%	68.2%	59.1%	18.2%	68.2%

Deep-Dive KPI & Indicator Analysis

Established Core Strengths (Score: 100.0%) – Peer Leader

LB Finance exhibits an exemplary baseline of structural accountability and ethical oversight, securing full points across compliance frameworks.

- Fulfilled Requirements (Strengths Matrix):
    - **Anti-Corruption & Anti-Competition:** LB Finance PLC demonstrates an elite governance posture within the consumer financial services sector by operationalizing a Board-approved Anti-Bribery and Corruption (ABC) Policy that enforces a strict zero-tolerance mandate against all expressions of corporate malpractice. This framework ensures deep institutional compliance through mandatory ABC training deployed during employee induction and systematically reinforced via regular refresher modules and e-learning courses. The real-world efficacy of these preventative boundaries is validated by the company's adherence to global compliance standards, officially certifying an unblemished regulatory track record completely free of confirmed fraud or corruption incidents, as well as zero active legal proceedings regarding anti-competitive, anti-trust, or monopoly practices.
    - **Business Ethics:** The company maintains rigorous operational integrity through a comprehensive, Board-approved Governance Framework aligned with the Code of Best Practice, which implements a strict Code of Conduct governing all Directors, Key Management Personnel (KMPs), and general employees. Market security and corporate transparency are heavily protected by a broad-spectrum Whistleblowing Policy that secures anonymous reporting channels and strict non-retaliation safeguards, a formalized Share Trading Policy designed to systematically prevent insider trading, and an absolute prohibition against any form of political contributions made on behalf of the firm. Furthermore, instead of relying on an isolated responsible investment team, LBF strategically drives its green financing objectives and low-carbon portfolio alignment through the integrated oversight of its dedicated Corporate Sustainability Department and senior-level Sustainability Management Committee.

Primary Reporting Gaps & Vulnerabilities (Score: Variable) – Areas for Optimization

Rigid architectural rules regarding board alignment and granular financial transparency introduce specific reporting

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limits.

- **Management (Score: 73.3%):** While LB Finance PLC achieves absolute compliance at the national level under the Central Bank of Sri Lanka (CBSL) Direction No. 5 of 2021 for Licensed Finance Companies—properly separating the roles of Chairman and CEO and maintaining a one-third (1/3) independent board composition—its non-independent Chairman and non-independent numerical board majority trigger standard ratings penalties under global governance criteria. This creates a classic structural mismatch where local regulatory alignment diverges from borderless, international market benchmarks (such as the UK Corporate Governance Code or SEC standards) that enforce un-tiered independent leadership requirements regardless of the lighter mandates prescribed for non-bank financial institutions nationally. Consequently, despite robust committee-level safeguards like the Senior Director balancing framework, the company is automatically penalized by global ESG algorithms; however, framing this in the upcoming report as a structural reflection of national law, rather than an internal governance failure, allows LBF to transparently justify its board architecture to international investors while highlighting its local statutory integrity.

- **Reporting & Transparency (Score: 90.9%):** While the company excels across its corporate governance benchmarks by publishing assured sustainability reports, complying with recognized IFRS/GAAP financial frameworks, transparently disclosing director stock ownership, and—most notably—tying executive compensation structures directly to its long-term ESG strategy, it triggers an international rating deficit because information regarding directors' remuneration is only disclosed as an aggregate figure and is not detailed by name. Although this aggregate presentation (totaling Rs. 746.67 Mn) fully complies with the Sri Lanka Companies Act No. 07 of 2007 and local financial sector norms, it triggers an automatic point deduction under algorithmic global criteria like IdealRatings because the resulting lack of a names-based layout leaves this key pay-for-performance metric unverified.

Actionable Recommendations for the Upcoming Sustainability Report

Because changes to board composition require long-term corporate shifts, the Sustainability Team should focus the upcoming report on disclosure optimization to maximize the remaining points in Reporting & Transparency:

- **Resolve the Remuneration Ambiguity:** To resolve this operational implication and differentiate LBF on the global stage, the Board Human Resources and Remuneration Committee (BHRRC) should transition upcoming reports toward advanced international governance practices by moving away from fully aggregated tables to provide a granular, itemized breakdown of individual director fee structures, variable components, and performance-linked bonuses, thereby eliminating this global rating penalty, improving its overall transparency score, and demonstrating world-class accountability to foreign institutional funds.

- **Contextualize Board Governance and Independence:** In the Corporate Governance chapter, clearly articulate the mitigating oversight mechanisms that balance the non-independent majority, especially as prominent domestic competitors actively transition toward global governance ideals, exemplified by Peer A and Peer B establishing independent chairmen, and Peer D maintaining a full majority of independent directors. The narrative must highlight the absolute independence and deep financial expertise of LBF's Audit and Risk Committee, while clearly detailing the concrete operational protocols used to manage the non-independent Chairman's influence objectively to protect minority shareholder interests. Providing this explicit contextualization demonstrates robust internal checks and balances, enabling LBF to transparently defend its board architecture

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against algorithmic global rating criteria while acknowledging progressive local peer benchmarks.

- **Highlight the ESG-Linked Executive Compensation:** Since LB Finance successfully ties executive compensation to ESG outcomes (a rare and mature milestone that many peers miss), this mechanism should be prominently highlighted in the narrative. Clearly explain the KPIs used to evaluate executives to demonstrate world-class accountability.

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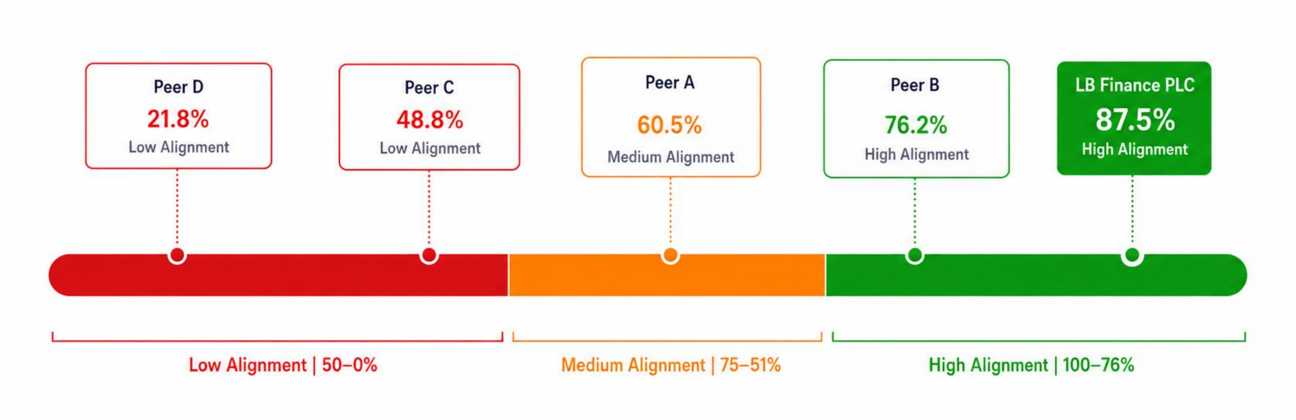
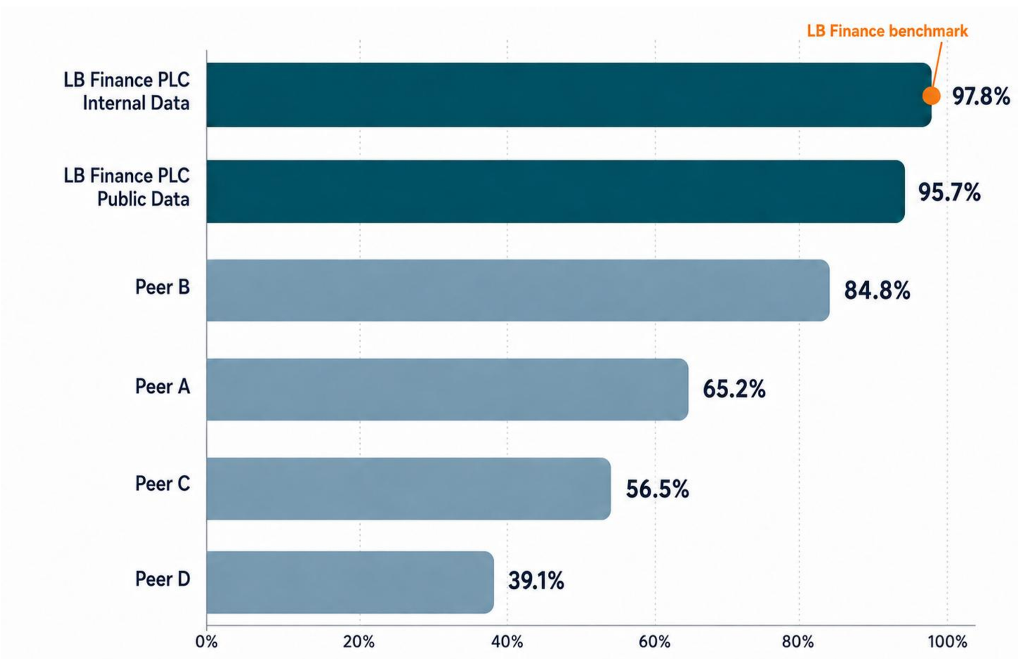
Section 2: Alignment with ISSB S1 and S2

Market Context & Peer Benchmarking

An evaluation of LB Finance PLC's public sustainability disclosures was conducted to assess alignment with the International Sustainability Standards Board (ISSB) Framework—specifically IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures).
Based strictly on publicly available reports, LB Finance leads the peer group with an overall alignment score of 88%, earning a classification of "High Alignment." This indicates a robust baseline of sustainability and climate-related reporting relative to the local financial sector. However, specific granular gaps remain, particularly regarding metrics, uncertainties, and general core requirements. Charts below outline alignment scores across the benchmarked peer group:



10 ISSB Alignment Score: LB Finance vs Local Peers Group



11 ISSB S1 Alignment Score: LB Finance vs Local Peers Group

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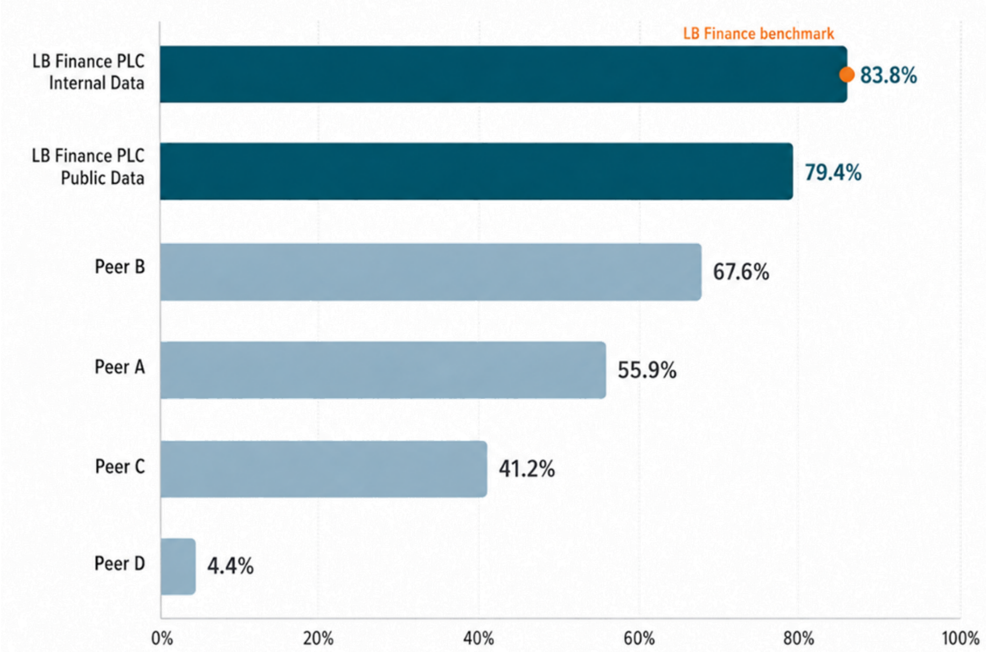


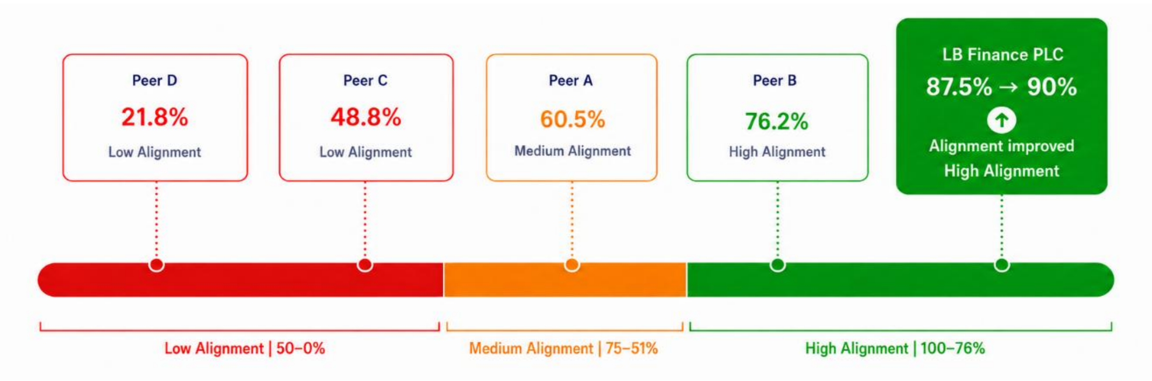
12 ISSB S2 Alignment Score: LB Finance vs Local Peers Group

Internal Data Optimization Potential (The Master View)

To identify immediate opportunities for reporting optimization, a comparative analysis was conducted between LB Finance PLC's current public disclosures and its internal data capabilities. This assessment evaluates how the integration of existing, non-disclosed internal data into the upcoming sustainability report would impact overall alignment with the IFRS S1 and IFRS S2 standards.

The analysis reveals that LB Finance already possesses internal data that, if publicly disclosed, would increase its overall ISSB alignment from 88% to 91%. This demonstrates that the company can achieve a higher degree of compliance and reporting maturity without establishing new data collection mechanisms, simply by formalizing the publication of existing internal metrics.

The diagrams below illustrate the component breakdown and optimization potential when transitioning existing internal data points into the public domain:



13 ISSB S1 Alignment Score: LB Finance vs Local Peers Group (after integrating internal data)

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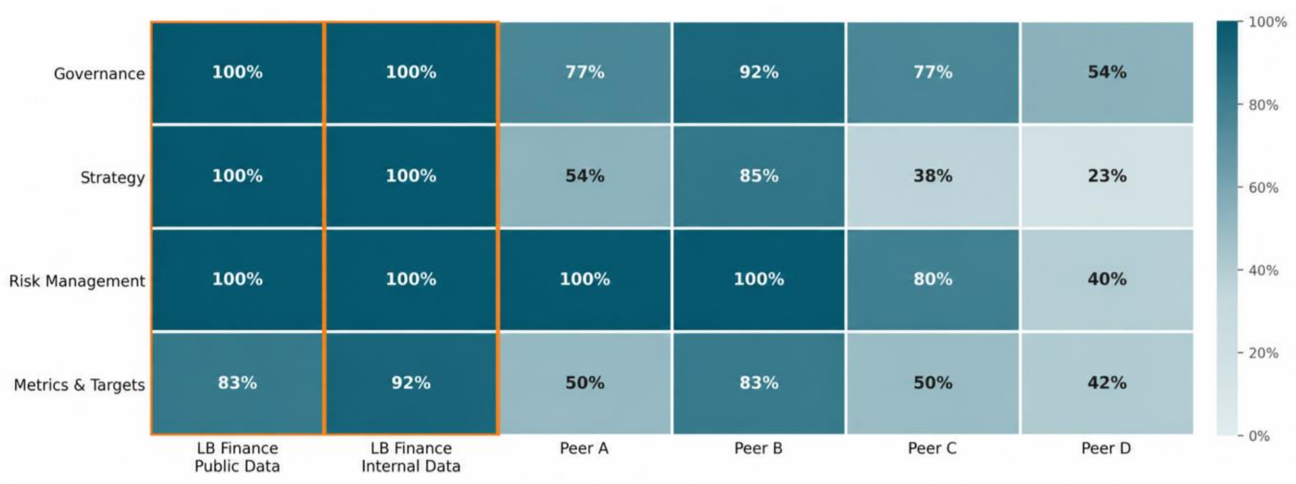
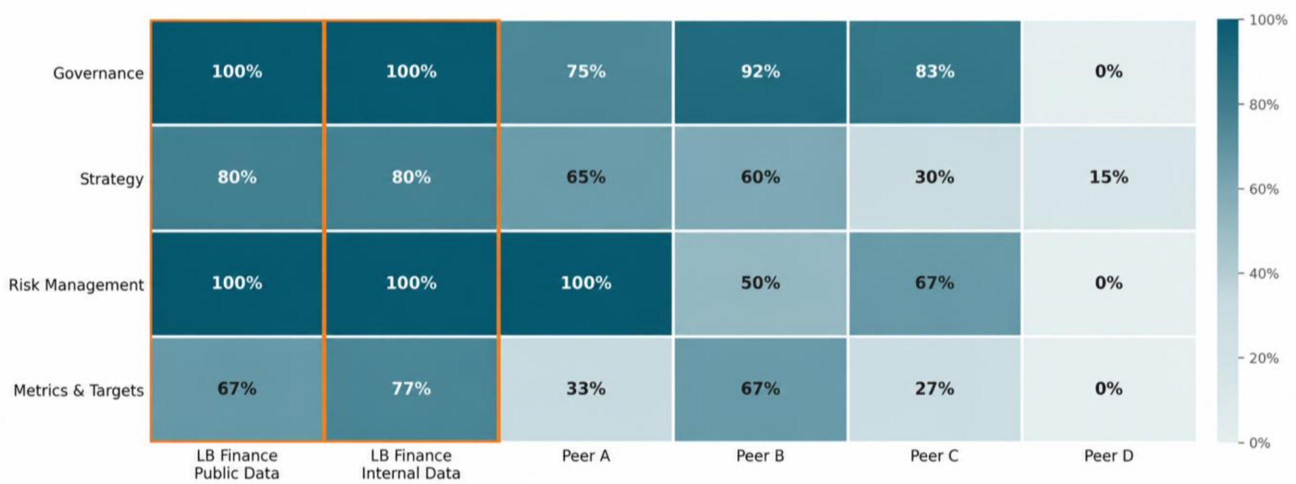
Table 4 ISSB Alignment: Public Data vs. Public & Internal Data

Evaluation Dimension	Public Data Only	Public & Internal Data	Net Variance	Alignment Status
Total Percentage	88%	91%	+3%	High Alignment
ISSB - S1 (General)	96%	98%	+2%	High Alignment
ISSB - S2 (Climate)	79%	84%	+5%	High Alignment



14 ISSB S1 KPIs Alignment: LB Finance Vs Peers



15 ISSB S2 KPIs Alignment: LB Finance Vs Peers

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IFRS S1 Detailed Diagnostic & Directives

This subsection provides a technical diagnostic of LB Finance PLC's alignment with IFRS S1, locally adopted as SLFRS S1. LB Finance demonstrates a highly mature baseline, achieving an IFRS S1 Public Disclosure score of 95.65%, which optimizes to 97.83% when internal data channels are fully leveraged.

Core Architecture Breakdown & Pillar Analysis

- **Governance (100% Alignment – Fully Maintained):** LB Finance has established a comprehensive dual-tier governance mechanism that fully satisfies IFRS S1 requirements (References: S1:26–27, S2:5–6).The Board Sustainability Committee (BSC) holds ultimate accountability for identifying and integrating sustainability-related risks, reviews exposures quarterly, and participates in academic/expert ESG educational sessions to maintain competency. Operationally, the Sustainability Management Committee, chaired by the Deputy Managing Director, actively drives strategy and materiality assessments, with performance-appraisal processes explicitly trying executive compensation to ESG targets.

- **Strategy (100% Alignment – Fully Maintained):** The strategic framework is robust and cleanly indexed (References: S1:28–42, S2:8–23), effectively navigating the transition phase of standard adoption. The company clearly details short-, medium-, and long-term climate risk horizons (e.g., extreme weather impacts) and concentrates disclosures on vulnerable zones (branches in high-risk flood zones and agricultural portfolios). It provides a dedicated narrative acknowledging the trade-offs between driving socio-economic progress and environmental integrity, backed by a formalized double-materiality disclosure framework (Reference: S1:17–18). For financial outcomes and metrics impacting future assets/liabilities, LB Finance objectively justifies the omission of quantitative figures by citing the transitional provision of SLFRS S1 paragraph 34(b), which exempts first-year adopters from providing quantitative financial impact data. Resilience is validated through the integration of sustainability perspectives into the company's enterprise-wide stress testing framework, confirming Capital Adequacy Ratios (CAR) remain comfortably above regulatory minimums.

- **Risk Management (100% Alignment – Fully Maintained):** Sustainability and climate risks are formally captured in the corporate Risk Register (References: S1:43–44, S2:24–26) and treated with the same weight as traditional financial risk categories. Disclosures clearly outline the structural change from prior periods, explicitly highlighting the formal adoption of SLFRS S1 and S2 standards to enhance disclosure consistency.

- **Metrics & Targets (83% Alignment – Gaps Identified):** While this pillar is highly detailed (References: S1:45–53, S2:27–28)—backed by verified sources (GRI, SASB Consumer Finance Standard) and explicit accounting methodologies (such as the Partnership for Carbon Accounting Financials [PCAF] blueprint for Auto Finance financed emissions)—it contains the primary areas of variance. Public reporting notes specific emissions reduction targets (e.g., 10% reduction in Scope 1 & 2; 5% reduction in Scope 3) and phased horizons (2025/26, 2030, 2050).

  Despite such efforts, a clear baseline year is not explicitly stated within the public domain, creating an anchor gap for external analysts. Public disclosures omit formal statements regarding target revisions or confirmations that no adjustments occurred. Integrating internal management records regarding target maintenance resolves this, driving the component score optimization from 83% to 92% (+9% variance) in the internal data state.

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- **Judgements, Uncertainties, and Errors (Technical Gaps):** LB Finance meets the baseline by disclosing its boundary-setting processes and utilizing a double-materiality lens across business units. It establishes high reporting integrity by explicitly disclosing that the company did not receive any information after the end of the reporting period (but before the date on which the sustainability-related financial disclosures were authorized for issue) that required an update to the disclosures in respect of conditions that existed at the end of the reporting period.

  However, a key deficit remains in its estimation uncertainty disclosures; while specific assumptions are noted (e.g., GHG reduction calculations for hybrid/electric corporate vehicles), the disclosures do not systematically identify the broader sources of estimation uncertainty or outline data sensitivity to future changes.

Directives for the Coming Sustainability Report

To secure absolute compliance and solidify the IFRS S1 reporting architecture, the Sustainability Team is recommended to incorporate the following entries into the upcoming report:

- **Formally Declare Target Baselines:** Ensure that every quantitative target listed across LBF's extensive metrics index explicitly states its baseline year. For example: *"LB Finance aims to achieve a 10% reduction in Scope 1 and 2 emissions by 2030 against a FY2023/24 baseline."*

- **Insert a Standard Target Revision Statement:** To capture the optimization margin identified in the internal data assessment, introduce a standard compliance phrase: *"During the reporting period, no historical revisions were made to the company's established sustainability targets."* This eliminates reporting ambiguity.

- **Formulate an Estimation Uncertainty Disclosure:** Add a concise technical paragraph inside the accounting methodologies index addressing measurement uncertainty. Disclose where data relies on estimations (such as proxy data used for financed emissions calculation under PCAF options) and state the parameters governing data volatility or recalculation protocols if those underlying assumptions shift.

IFRS S2 Detailed Diagnostic & Directives

A technical diagnostic of LB Finance PLC's alignment with IFRS S2, locally adopted as SLFRS S2, was conducted. LB Finance establishes a strong reporting foundation, achieving an IFRS S2 Public Disclosure alignment score of 79%. When integrating existing internal datasets, this score optimizes to 84%.

Core Architecture Breakdown & Pillar Analysis

- **Governance & Risk Management (100% Alignment – Fully Maintained):** LB Finance maintains absolute alignment across climate oversight and risk protocol tracks. The Board Sustainability Committee (BSC) holds an explicit mandate to monitor climate commitments, evaluating strategic trade-offs quarterly. Operationally, the Sustainability Management Committee (chaired by the Deputy Managing Director) manages risk identification, supported by localized "Sustainability Champions" embedded across departments. Climate risks are formally institutionalized within the corporate Risk Register, treated with equal weighting to traditional financial risk classes. Transition and physical risk data flows directly to the Board Integrated Risk Management Committee (BIRMC).

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- **Strategy & Climate Resilience (80% Alignment -Highly Mature Baseline):** The company exhibits highly advanced strategic planning capabilities regarding climate uncertainty. Resilience testing and climate scenario analysis are supported by multi-scenario climate stress modeling across four pathways—Net Zero (1.5°C), Optimistic (1.8°C), Middle (2.7°C), and Pessimistic (4.4°C)—with core non-financial resilience and defined climate-related risks (Reference: S2:22). Physical impacts (such as Non-Performing Loans [NPL] spikes at weather-exposed branches) and transition liabilities (carbon taxation impacts) are qualitatively mapped. Quantitative financial outcomes are omitted, which is fully justified under the transitional provisions of SLFRS S1 (paragraph 34b), noting that quantitative financial impacts are exempted during the initial year of standard adoption.

- **Metrics & Targets (+10% Delta- Analysis of Optimization Vectors):** The evaluation shows that LB Finance stores unissued climate data internally. Transitioning these parameters into the public domain increases the Metrics & Targets score from 67% to 77%, specifically bolstering the GHG Emissions & Climate Metrics index (Reference: S2:29):

- **Scope 2 Contractual Disclosures:** Current public reporting covers location-based Scope 2 emissions (2,241 tCO_2e) but lacks details on underlying power purchase agreements (PPAs) or Renewable Energy Certificates (RECs). Internal data tracks these variables, offering an immediate disclosure update.

- **Target Baseline Transparency:** The report defines absolute reduction goals (10% lower Scope 1 & 2; 5% lower Scope 3 by 2030/2050) but fails to state the anchor baseline year. This baseline is maintained internally and should be published.

- **Greenhouse Gas Specification:** While gross emissions are properly calculated using the GHG Protocol and ISO 14064-1:2018 standards, the specific gases included in the targets (e.g., carbon dioxide, methane, nitrous oxide) are listed only in internal working papers.

Persistent Structural Gaps

These parameters remain completely unfulfilled across both evaluated data states—meaning they are entirely absent from the standalone Public State (published disclosures) and remain completely unresolved even within the combined Public & Internal State (where public reporting and internal management registries are fully leveraged). Because no hidden internal datasets exist to optimize these scores, the Sustainability Team cannot resolve these gaps through simple reporting shifts; instead, they must construct entirely new operational tracking frameworks and collect brand-new datasets from scratch:

- **Transition Risk Quantification:** While physical risk is cleanly quantified (0% of branches located in high-risk flood zones on Page 342), transition risk exposure is expressed only in qualitative terms. The financial portfolio's structural exposure to high-carbon sectors remains unquantified.

- **Internal Carbon Pricing:** LB Finance does not currently apply an internal shadow price per ton of carbon to guide capital allocation, investment choices, or product design.

- **Climate-Specific Remuneration:** Executive rewards are linked to general ESG targets (per S1 criteria), but the disclosures do not isolate the explicit percentage or distinct weightings tied to climate metrics.

- **Target Verification:** The current climate roadmap is designed around Science Based Targets

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initiative (SBTi) principles, but formal third-party validation from the SBTi board has not yet been achieved.

Actionable Recommendations for the Upcoming Sustainability Report

To bridge the 5% gap using internal data and position the company for full compliance, the upcoming report should implement these updates:

- **Activate Internal Climate Metrics:** Move existing internal records directly into the upcoming report's performance tables. Explicitly name the greenhouse gases covered (CO_2, CH_4, N_2O), state the target baseline year (e.g., Baseline Year: FY2023/24), and clarify the contractual parameters of energy supply lines (confirming if any RECs or green tariffs apply).

- **Quantify Transition Portfolio Exposure:** Go beyond qualitative descriptions of transition risk. Leverage the existing PCAF motor vehicle loan financed emissions data (disclosed at 27,245.12 tCO_2e) to state the percentage of the leasing portfolio exposed to traditional internal combustion engines (ICE) versus hybrid or electric vehicles (EV).

- **Separate Climate out of ESG Compensation:** In the remuneration disclosure section, clarify how climate targets specifically factor into executive evaluations. If a precise bonus percentage cannot be isolated, provide a descriptive breakdown showing how energy reduction goals and green finance portfolio expansion (Rs. 7.35 Bn) directly shaped executive performance appraisals.

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Section 3: Alignment with CBSL Finance Business Act Direction No. 5 of 2021

Regulatory Context & Comprehensive Compliance Summary

A high-level statutory diagnostic of LB Finance PLC's (LBF) internal governance structures was conducted against Direction No. 5 of 2021 (Corporate Governance for Licensed Finance Companies) issued by the Central Bank of Sri Lanka (CBSL). Rather than a fragmented, clause-by-clause review, this evaluation applies a unified thematic approach to assess how LBF integrates regulatory mandates into its operational risk infrastructure and strategic planning loops. Based on verified corporate disclosures, LB Finance PLC maintains a flawless 100% "Complied" status across all 16 statutory governance directives. Where rigid structural limits interface with leadership continuity or board independence thresholds, the company successfully utilizes formal regulatory approvals and built-in corporate counterweights to maintain full compliance.

Thematic Corporate Governance Assessment

Theme 1: Strategic Planning, Group Governance, and Business Strategy (Directions 1, 2, & 13)

The Board of Directors holds ultimate accountability for LBF's operations, culture, and risk tolerances.

- **Strategy Execution:** The Board maintains a rolling 3-year corporate strategic plan (covering FY 2023/24 to 2025/26) containing clear, measurable milestones that undergo comprehensive annual reviews.

- **Sustainable Finance:** ESG and sustainability metrics are institutionalized directly within the enterprise strategy and risk management models, with governance oversight driven by the Board Sustainability Committee.

- **Subsidiary Supervision:** Group governance rules ensure adequate risk and legal oversight over LBF's foreign subsidiary, LB Microfinance Myanmar Company Limited, while strictly avoiding complex corporate structures that lack economic substance.

Theme 2: Board Composition, Balance, and Independence Counterweights (Directions 3, 4, 5, & 6)

LBF maintains a highly structured 12-member board architecture designed to prevent any individual or executive cohort from dominating corporate decision-making.

- **Board Balance:** The board consists of four (4) Executive Directors with clear functional reporting lines and eight (8) Non-Executive Directors (NEDs). Within the NED cohort, five (5) members are formally certified as independent.

- **Regulatory Permissions:** term limits for NEDs are strictly capped at 9 years. For shareholder-representative directors who hit this threshold, LBF utilizes built-in statutory permissions; a formal term extension was successfully secured for Non-Executive Director Ms. Yogadinusha Bhaskaran from the Department of Supervision of Non-Bank Financial Institutions of the CBSL. Similarly, the

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company holds active CBSL approvals allowing the Managing Director/CEO to maintain office after exceeding the standard 70-year age ceiling.

- **The Senior Director Core Shield:** LBF's corporate Chairman is a Non-Independent Non-Executive Director. To balance this structural profile, Independent NED Mr. Ashane Jayasekara was appointed as the Senior Director. Operating under a board-approved Terms of Reference (TOR), he ensures a powerful independent element is maintained across all stakeholder interactions.

Theme 3: Operational Governance, Meeting Rigor, and Secretariat Control (Directions 7, 8, & 9)

Boardroom administrative functions operate with high velocity and technical discipline to ensure rigorous, evidence-based oversight.

- **Meeting Discipline:** The Board convened for twelve (12) regular physical meetings during the financial year, with all directors maintaining flawless attendance exceeding the mandatory 2/3 threshold. To facilitate independent evaluation, the Chairperson held two (2) separate board assemblies completely free of Executive Directors.

- **Information Logistics:** Comprehensive board papers are uploaded to secure iPad portals exactly seven (7) days prior to sessions, guaranteeing adequate preparation time.

- **Record Integrity:** Under the supervision of a qualified in-house Company Secretary (complying with Section 222 of the Companies Act), minutes are legally preserved for a minimum of 6 years. These logs are structured to detail all data utilized, material matters debated, and explicit director contentions or dissents.

Theme 4: Specialized Sub-Committee Infrastructure & Control Systems (Directions 10, 11, & 12)

Because LBF's asset base significantly exceeds the statutory Rs. 20 billion benchmarks, the Board has deployed seven (7) specialized Board Sub-Committees to enforce granular risk and financial controls:

1. **Board Audit Committee (BAC):** Comprises 3 Non-Executive members (2 Independent) and is chaired by an Independent NED who is a Fellow of CA Sri Lanka and CIMA UK with over 20 years of senior auditing experience. The BAC met 13 times and held 2 private sessions with External Auditors (M/s KPMG Sri Lanka) completely free of management.

2. **Board Integrated Risk Management Committee (BIRMC):** Monitors enterprise risk boundaries via a formal Risk Appetite Statement (RAS) updated annually (last approved January 2025). The committee enforces a strict 7-day compliance loop, escalating a Risk Assessment Report to the full Board within seven days of every session.

3. **Compliance & Risk Autonomy:** LBF maintains a separate Risk Management Department led by an AGM-RM and an independent Compliance function led by a dedicated, Senior Management-tier Compliance Officer who is strictly prohibited from participating in any operational or income-generating activities.

4. **BRPTRC & BHRRC:** A dedicated committee ensures all related party transactions occur strictly on an arm's-length basis. Human resource packages are managed by an independent-led

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remuneration committee to align incentives with long-term strategies rather than excessive risk-taking.

Theme 5: Corporate Culture, Ethics, and Transparency (Directions 14, 15, & 16)

- **Whistleblowing Infrastructure:** Ethical conduct is backed by a board-approved Whistleblowing Policy that was comprehensively reviewed and updated in September 2024. The policy is distributed across the workforce in all three native languages, with the Compliance Officer escalating reported incidents to the BAC on a confidential, quarterly basis.

- **Financial Reporting:** Periodic financial statements are prepared in full compliance with IFRS/GAAP and published across English, Sinhala, and Tamil daily newspapers. LBF also provides transparent data regarding related-party outstanding values and accommodations granted to Key Management Personnel.

Actionable Recommendations for the Upcoming Sustainability Report

While LB Finance maintains a clean statutory compliance log under the Central Bank of Sri Lanka, the Sustainability Team should focus the upcoming report on bridging these local regulatory achievements with global ESG rating criteria:

- **Resolve the Remuneration Disclosure Bottleneck (Address IdealRatings Gap):** While LBF complies with CBSL rules by publishing the aggregate remuneration paid to Directors (Rs. 746,676,287) and Senior Management (Rs. 173,158,030), this aggregated format triggers an automatic "In-conclusive" penalty flag under global ESG ratings.

    - Action: Work with the Board Human Resources and Remuneration Committee (BHRRC) to transition the upcoming report toward the best international practice by providing an itemized, name-based breakdown of individual director fees and performance-linked bonuses.

- **Capitalize on the Senior Director Counter-Weight Narrative:** Global ESG scoring models typically deduct points automatically if the corporate Chairman is non-independent. LBF can effectively minimize the qualitative impact of this rating penalty.

    - Action: Ensure the Corporate Governance chapter features a prominent narrative detailing the active role of Mr. Ashane Jayasekara as Senior Director. Clearly explain to rating agencies that his board-approved Terms of Reference (TOR), combined with an independent-led Audit Committee and the execution of Executive Director-free board caucuses, provides a powerful balancing mechanism that safeguards minority shareholder interests.

- **Map Local Compliance Directly to ISSB Frameworks:** LBF treats sustainability issues with high regulatory gravity, maintaining a dedicated Board Sustainability Committee and integrating ESG variables directly into corporate risk registers.

    - Action: In the upcoming reporting cycle, directly link these statutory milestones to your IFRS S1 and S2 disclosures. Formally state that the Board Sustainability Committee

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reviews climate risk tolerances and capital allocations quarterly, transforming a local regulatory compliance point into an international investor-readiness benchmark.

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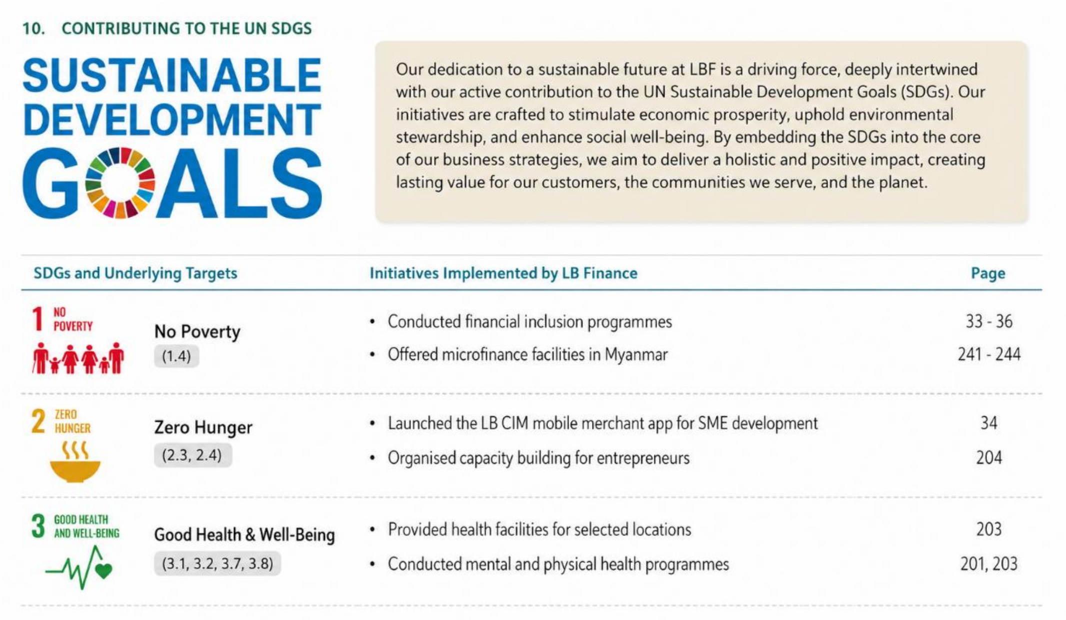
Section 4: International Norms

In recognition of LB's proactive efforts to align its operations with international norms, this dedicated section has been introduced to capture and evaluate these global commitments.

Sustainable Development Goals (SDG)

This section determines the extent to which an institution's operational practices, corporate social responsibility (CSR) initiatives, and financing portfolios positively contribute to the 17 global sustainability vectors.

Based on our review of LBF's reporting, LB Finance PLC achieves an absolute alignment score of 100%, mapping out verified initiatives against all 17 SDGs. LBF completely insulates itself from the typical rating risk of "SDG Washing" by publishing a highly granular, audit-ready index. Unlike its localized peer group—who provide high-level, qualitative goal-mapping—LBF explicitly connects each macro-goal to concrete, underlying UN target codes (e.g., Target 1.4, 2.3, 7.2, 12.5) and provides direct report page references for independent validation.



10. CONTRIBUTING TO THE UN SDGS

SUSTAINABLE DEVELOPMENT GOALS

Our dedication to a sustainable future at LBF is a driving force, deeply intertwined with our active contribution to the UN Sustainable Development Goals (SDGs). Our initiatives are crafted to stimulate economic prosperity, uphold environmental stewardship, and enhance social well-being. By embedding the SDGs into the core of our business strategies, we aim to deliver a holistic and positive impact, creating lasting value for our customers, the communities we serve, and the planet.

SDGs and Underlying Targets		Initiatives Implemented by LB Finance	Page
1 NO POVERTY	No Poverty (1.4)	• Conducted financial inclusion programmes • Offered microfinance facilities in Myanmar	33 - 36 241 - 244
2 ZERO HUNGER	Zero Hunger (2.3, 2.4)	• Launched the LB CIM mobile merchant app for SME development • Organised capacity building for entrepreneurs	34 204
3 GOOD HEALTH AND WELL-BEING	Good Health & Well-Being (3.1, 3.2, 3.7, 3.8)	• Provided health facilities for selected locations • Conducted mental and physical health programmes	203 201, 203

16 Part of LB Finance Disclosure of its Contribution to the SDGs

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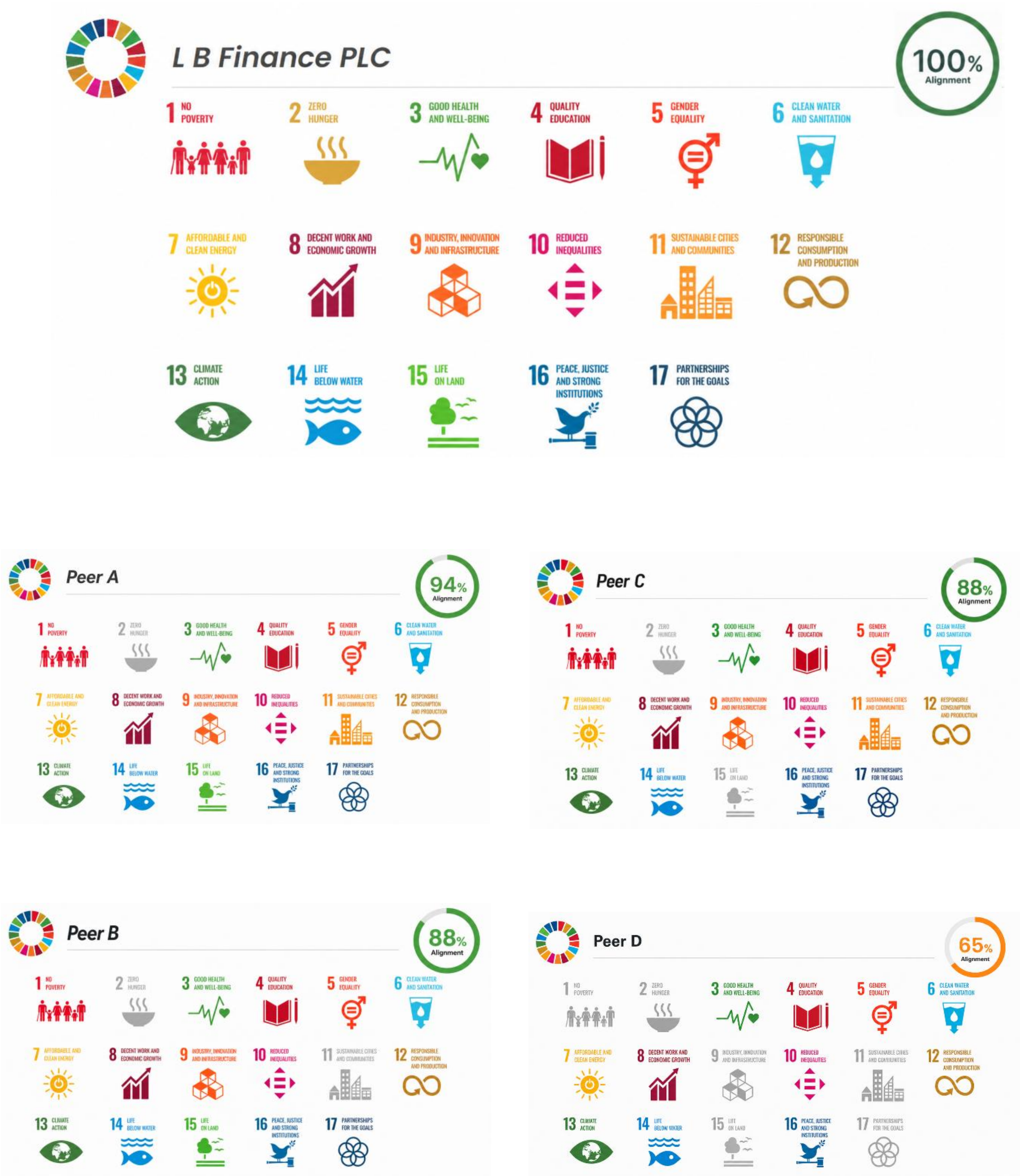
SDG Alignment Benchmarking

The figures below illustrate the comparative performance of LB Finance PLC against its industry competitors regarding SDG coverage and integration:



17 SDG Alignment: LB Finance Vs Peers

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Detailed Operational Evidence & Peer Advantage Analysis

LBF's disclosure architecture stands out as a clear sector benchmark because it explicitly links financial products and environmental outputs to specific sub-targets.

Resolving the Sector-Wide SDG 2 (Zero Hunger) Deficit

While localized competitors did not demonstrate institutional alignment with SDG 2, LB Finance successfully breaks through this sector bottleneck by mapping Targets 2.3 and 2.4 directly to active commercial and developmental frameworks. This impact trajectory is validated by clear empirical evidence, specifically the launch of the LB CIM mobile merchant app optimized for SME development (p. 34) and the deployment of systematic capacity-building programs for agricultural and commercial entrepreneurs, effectively bridging financial inclusion with food security and localized economic resilience.

Quantitative Product and Operational Links (SDGs 7, 8, & 13)

LBF goes beyond qualitative assertions by cross-referencing its core business strategy with clean energy and economic development indicators:

- **SDG 7 (Affordable and Clean Energy - Targets 7.2, 7.3):** Operational alignment is proved by the structural conversion of 40 commercial branches to hybrid solar power systems, active energy audits, and the commercial deployment of a specialized Solar Loan product.

- **SDG 8 & 9 (Economic Growth & Innovation):** Verified via documented SME services, m-commerce platforms, country-wide QR-based payment networks, and the deployment of Artificial Intelligence (AI) to optimize internal business workflows.

Advanced Ecological Disclosures (SDGs 14 & 15)

While competitors like Peer B, Peer C, and Peer D routinely omit or underreport marine and terrestrial biodiversity goals, LBF tracks these parameters with distinct project-level citations:

- **SDG 14 (Life Below Water - Target 14.2):** Active marine protection is established through the Beach Caretaker initiative and the specialized Color Fish Project.

- **SDG 15 (Life on Land - Targets 15.2, 15.5, 15.7):** Backed by active reforestation campaigns in the Yagirala Forest Reserve, a mandatory tree-planting protocol integrated into every new branch opening, and localized mangrove planting in Ittapana.

Actionable Recommendations for the Upcoming Sustainability Report

Because the Sustainability Team has already established an advanced multi-framework ecosystem by maintaining dedicated appendices for the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), UN Global Compact (UNGC), and the Integrated Reporting (IR) Framework, the strategic focus is now recommended to shift toward unified cross-framework interoperability. Instead of treating these appendices as independent compliance segments, the upcoming reporting cycle should use them as an integrated data foundation to directly validate LBF's financial and newly adopted ISSB (IFRS S1 & S2) disclosures.

- **Establish an ISSB Cross-Mapping Matrix within Existing Appendices:** Introduce a consolidated "Global Standards Interoperability Index" within the report's appendices. Map overlapping

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disclosure parameters across all five frameworks simultaneously to eliminate reporting redundancies and demonstrate advanced data architecture. For example, structure the matrix to show how a single data point—the Solar Loan product portfolio—simultaneously fulfills SDG 7 (Affordable & Clean Energy), aligns with UNGC Environment Principles, tracks against SASB Consumer Finance metrics, satisfies GRI 302 (Energy), and serves as a quantitative capital allocation value under IFRS S2.

- **Embed Quantitative Impact Trends Directly into Framework Tables:** Enhance the data rigor of the existing appendices by transitioning project-level listings into formalized disclosure blocks within the GRI and SASB indexes. For example, the community water initiatives and reforestation data currently supporting SDG 6 (Clean Water) and SDG 15 (Life on Land) should not sit isolated in narrative chapters. Port these numbers directly into your GRI 303 (Water and Effluents) and GRI 304 (Biodiversity) disclosure tables as year-over-year performance trends—tracking the exact cubic meters of purified water delivered or the verified survival/growth rate of trees planted across the Yagirala Forest Reserve and branch openings. This converts standard compliance appendices into high-integrity, data-driven performance dashboards that satisfy strict external ESG rating audits.

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UN Global Compact (UNGC) Principles

This assessment evaluates two operational tiers: official commitment as a corporate signatory and the maturity of public disclosures tracking Human Rights, Labor, Environment, and Anti-Corruption.
LB Finance PLC maintains a distinct market-leading posture by being an official UNGC Signatory, Since 2024, with 100% operational alignment across all 10 principles. LBF solidifies this compliance rating by embedding comprehensive disclosure paths across multiple chapters of its corporate reporting framework. Rather than relying on passive statements, LBF actively defends its performance by dual-referencing specific operational indices across multiple sections of its report, offering verifiable proof of principle integration.

UNGC Commitment and Principal Benchmarking

The matrix below maps out the signatory status and the explicit operational compliance indicators across the benchmarked peer group:

Company	Signatory	Principle Alignment									
		1	2	3	4	5	6	7	8	9	10
LB Finance PLC	✓ Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Peer A	✗ No	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Peer B	✓ Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Peer C	✗ No	✓	✓	✗	✓	✓	✓	✓	✓	✓	✓
Peer D	✗ No	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

18 UNGC Alignment: LB Finance vs. Peers

Comparative Analytical Insights

The Signatory Advantage vs. Unofficial Alignment

A distinct governance gap exists in the market between formalized commitment and unofficial operational alignment.

- Although primary peer competitors including Peer A, Peer C, and Peer D are not formal participants of the United Nations Global Compact (UNGC), they do adopt select internal measures and corporate governance practices that could be linked to specific UNGC principles. However, because these institutions remain outside the global registry and operate in a state of "unofficial compliance" without participating in the platform's formal monitoring frameworks, they cannot claim the same level of standardized external corporate validity, rigorous reporting transparency, or global market accountability as LB Finance PLC.

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- As an official participant, LB Finance is subject to the UNGC Communication on Progress (CoP) mandatory annual reporting requirement. This structural obligation enhances transparency and protects the organization against risks of narrative overstatement.

Isolation of Peer Structural Deficits (Labor Rights)

The peer data reveals a specific compliance breakdown in the local financial sector regarding labor relations:

- The Freedom of Association Gap: Peer C records an operational failure under indicator (Upholding freedom of association and the recognition of the right to collective bargaining).

- LB Finance eliminates this exposure by maintaining open channel policies, labor alignment protocols, and clear internal mechanisms for employee representation.

Detailed KPI Deep-Dive & Gap Analysis

Human Rights & Marginalized Group Inclusion (Principles 1 & 2)

Fully Evidenced LB Finance backs its high-level human rights commitments with concrete socio-economic programs and internal labor parameters.

- Fulfilled Requirements (Strengths Matrix):
  - **Socio-Economic Inclusion:** detailed targeted programs that promote financial inclusion for marginalized groups.
  - **Workplace Equity:** proved that internal policies actively uphold fundamental employee rights and enforce strict equal pay across all genders. This is supported by core governance statements establishing zero tolerance for human rights abuses.

Labor Standards & Employee Development (Principles 3, 4, 5, & 6)

High-Integrity Disclosure LBF's disclosure index systematically addresses operational protections, showcasing a significant transparency advantage over competitors like Peer C.

- Fulfilled Requirements (Strengths Matrix):
  - **Fair Working Conditions (Principle 3):** highlighted enforced frameworks for fair working conditions and employee safety. This backs LBF's corporate narrative regarding its adherence to ILO declarations and its track record of zero industrial disputes.
  - **Human Capital Growth (Principles 4, 5, & 6):** demonstrated active employee development programs and continuous training opportunities. LBF reinforces this by publishing clear monitoring statements confirming that no incidents of forced labor, child labor, or workplace discrimination occurred.

Environmental Precaution & Infrastructure Solarization (Principles 7, 8, & 9)

LBF connects its environmental commitments directly to clean energy deployments and circular economy initiatives across its branch network.

- Fulfilled Requirements (Strengths Matrix):

  - **Energy Efficiency (Principles 7 & 8):** demonstrated concrete corporate commitments to solar energy projects and resource optimization. This builds upon baseline risk strategies.

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- **Green Certifications & Waste Management:** documented the rollout of green building certifications and operational waste management initiatives. This supports the broader diffusion of eco-friendly technologies.

Anti-Corruption Governance & Protocol Strengthening (Principle 10)

Fully Evidenced The company isolates its anti-financial crime structure through a dual-layered reporting mechanism.

- Fulfilled Requirements (Strengths Matrix):
    - **Risk Management Monitoring:** defined core anti-money laundering (AML) and anti-bribery initiatives managed by the compliance team.
    - **Technical Enforcement:** demonstrated the active strengthening of internal compliance protocols to structurally prevent corruption, extortion, and bribery.

Actionable Recommendations for the Upcoming Sustainability Report

Because the Sustainability Team has already established a mature framework with multi-page indexation tables, the focus for the upcoming report must center on cross-framework interoperability to cleanly link these UNGC principles to LBF's newly adopted ISSB (IFRS S1 & S2) data architecture:

- **Incorporate UNGC Compliance Directly into IFRS S2 Metrics (Climate Integration):** In the upcoming reporting cycle, use the page disclosures for Principles 7, 8, and 9 to explicitly support your technical climate reporting. Ensure that the solar energy commitments and green building certifications are calculated as quantitative capital allocation values under your IFRS S2 metrics. This will show rating auditors that LBF's high-level UNGC environmental commitments are driven by concrete, financed carbon-reduction systems.

- **Link Principle 3 Narrative to Core Social Grievance Data:** To further strengthen the disclosure under Principle 3, directly connect the statement regarding "zero industrial disputes" and fair working conditions to your core GRI 400 (Social). Explicitly specify the direct internal communication channels and employee feedback loops that allowed the company to maintain these strong internal relationships without triggering formal disputes. This moves the disclosure from a passive status report to an active, audited risk management tracker.

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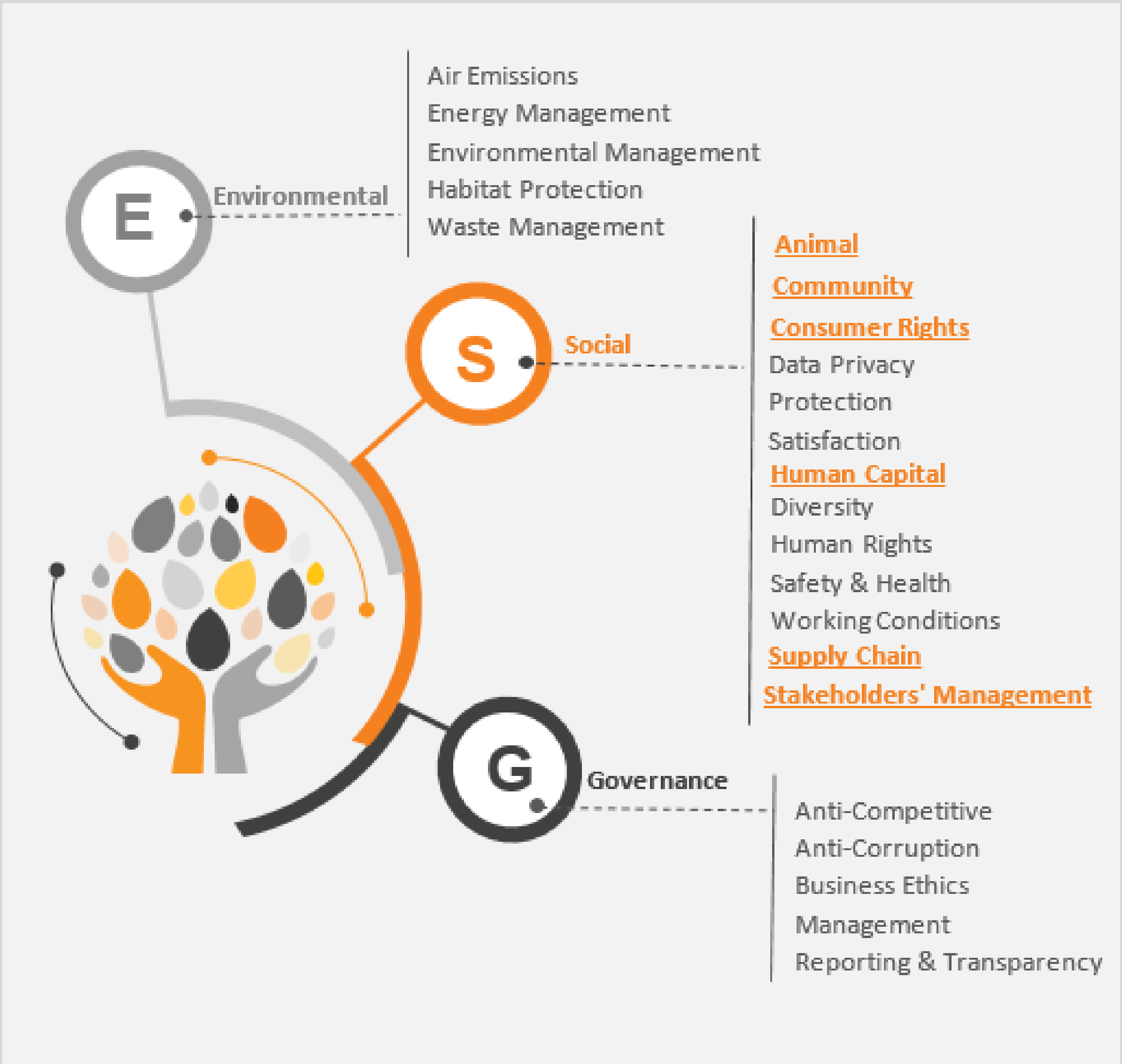
Appendices

Appendix A: IdealRatings ESG Model

Due to increased global climate and resource risks, shifting demographics, regulatory changes, and increased investor awareness, incorporating ESG considerations into investment decisions has become increasingly popular among all types of investors.

It is also important for the companies themselves to consider ESG factors and risks. Companies that are aware of their ESG-related performance and opportunities will not only attract ESG-conscious investors — they will also be better situated for future success.

The IdealRatings ESG model consists of three main pillars (Environmental, Social and Governance). Each pillar is divided into subcategories called Key Performance Indicators (KPIs), and each KPI contains a series of inputs (detailed in the IdealRatings ESG & Responsible Investment Solutions Product Guide).



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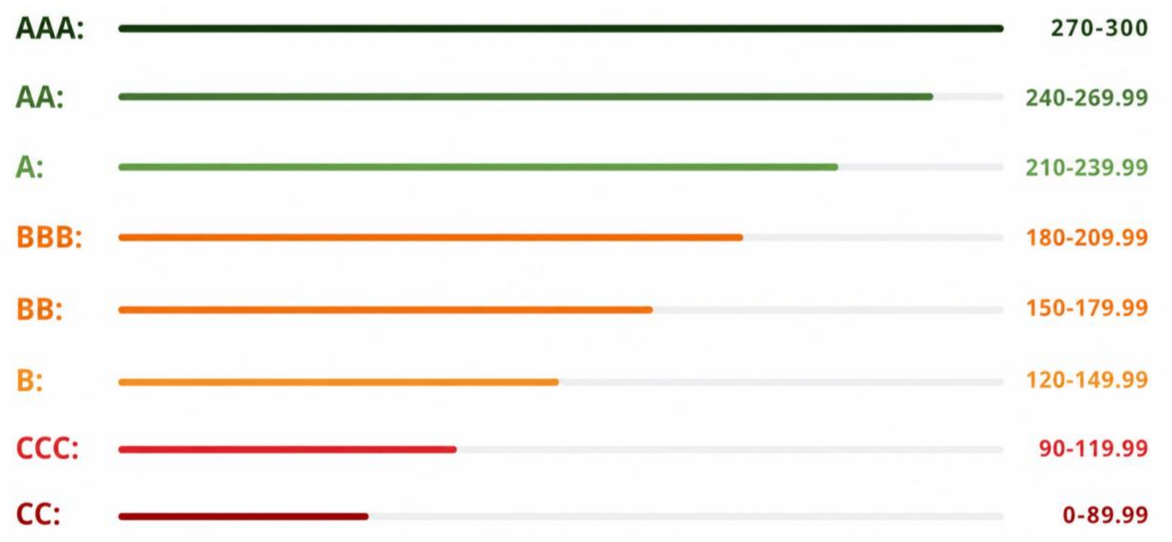
Appendix B: IdealRatings ESG Scoring Methodology

IdealRatings determines a Group's ESG rating by researching and documenting answers to a series of questions (or inputs) for each of the three pillars (E, S and G). There is over 350+ inputs captured during the research process.

The weight of each pillar and KPI, contributes to a Company's overall score, is based on an industry-relative model. For example, inputs under the Waste Management KPI of the environmental pillar could have a weight of 0% (meaning the inputs have no effect on a Group's score) for a Company in the Financial Services Industry, yet a weight of 15% (meaning the KPI contributes 15% to the overall numerical score for the environmental pillar) for a Company involved in energy production.

The sum of the three pillar scores becomes the Company's IdealRatings ESG score, which can be converted to a letter grade as shown in the table.

Users can also build their own rating and scoring methodology by selecting to include only certain ESG KPIs and/or inputs and weighting them according to their own scale.



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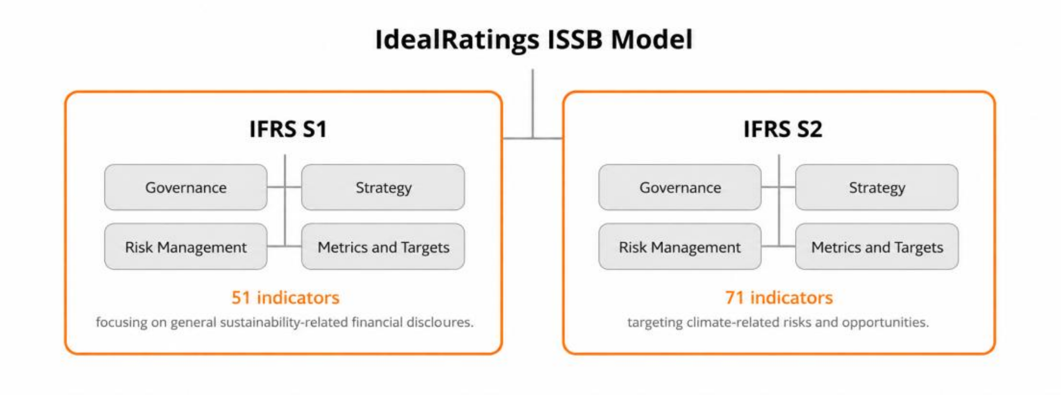
Appendix C: International Sustainability Standards Board (ISSB)

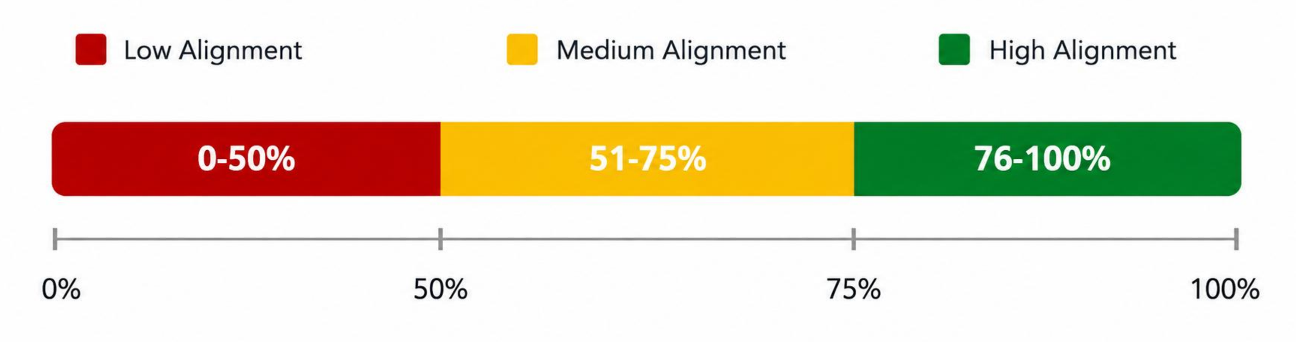
IdealRatings has developed its ISSB model centered around the first two pillars and their respective KPIs and indicators. This model involves mapping the required standards with in-house qualitative and metric indicators for comprehensive analysis and evaluation.



IdealRatings assessment utilizes a quantitative methodology to evaluate a company's compliance with the ISSB Standards. Each compliance dimension, IFRS S1 and IFRS S2, is independently scored out of 100 points. To ensure objective evaluation, the total score for each of these two components within a pillar is determined by assigning an equal weighting to every underlying disclosure indicator relevant to that component. A score of 1 is assigned when an indicator is fully disclosed and aligned with ISSB-defined criteria; a score of 0 is applied when no disclosure is present or the information fails to meet the standards, and a partial score of 0.5 is used for disclosures that are incomplete or partially aligned.

For metric-based data elements, Boolean logic is applied to reflect disclosure status, with non-disclosure scored as zero. These indicator-level scores are aggregated upwards to calculate the performance of individual KPIs, which in turn determine the alignment of each pillar.

The overall company alignment with ISSB Standards is derived from the cumulative results across all pillars and is expressed on a predefined rating scale. Companies achieving a total alignment score of 76–100% are classified as High Alignment, those scoring 51–75% fall under Medium Alignment, and those between 0–50% are categorized as Low Alignment.



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Data Output & Delivery

Basic Offering	Detailed Offering
Overall company alignment performance level, with underlying performance levels of the underlying pillars (ISSB S1, ISSB S2) and respective KPIs (Governance, Strategy, Risk Management, and Metrics and Targets).	Comprehensive data, including granular assessments underlying indicators.

Data is available in user-friendly forms such as Excel, CSV, API, or tailored bulk data feeds based on sector, region, or company-level requirements.

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Appendix D: International Frameworks

Companies engaged in activities that have a decent impact on the environment and/or society.

Sustainable Development Goals (SDGs)

A set of 17 global goals set by the UN in 2015 with a target of achieving them by 2030. Companies are screened against being involved in attaining these goals or not. Accordingly, users have access to; a list of companies explicitly mentioning they are involved in SDGs, list of SDGs per company, and a list of companies not mentioning they are involved in SDGs, but their community development programs have been mapped against the 17 goals.

United Nations Global Compact (UNGC)

The non-binding UN guidelines encourage businesses globally to adopt & report on the implementation of sustainable and socially responsible policies. The UNGC includes ten principles covering human rights, labor, environment, and corruption aspects. The list of UNGC signatories is updated on a weekly basis Moreover, non-signatory companies are also screened against the 10 principles to ensure abidance or violation of such standards. IdealRatings has developed the IdealRatings United Nations Global Compact Principles Screening to identify whether companies comply with the defined principles. If a company is a UNGC signatory, each input automatically receives a “yes.” For companies that are not UNGC signatories, the IdealRatings team researches each question/input (listed below) and records the answers as “yes,” “no.” Users have access to a list of UNGC signatories, UNGC delisted companies, and a list of companies abiding by these principles even if not signatories.

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