First Capital
A Janashakthi Group Company

EQUITY | SRI LANKA | DIVERSIFIED FINANCIALS

EARNINGS UPDATE | 15 JUNE 2026

LB FINANCE PLC [LFIN.N0000]

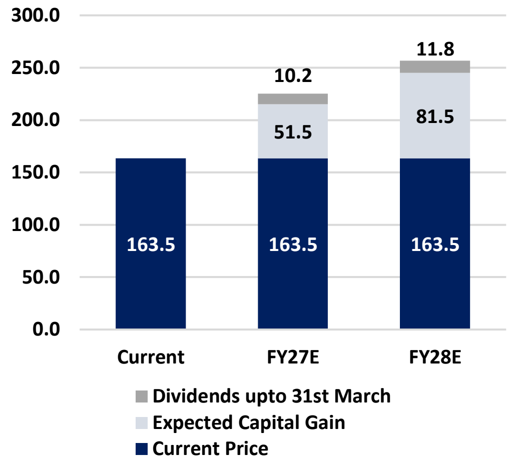
MAINTAIN BUY

"TACKLING SLIPPERY ROADS WITH STRONG FUNDAMENTALS"

Fair Value: FY27E - LKR 220.0 [+35%] **FY28E - LKR 250.0 [+53%]**

Total Return with DPS: FY27E - 41% [AER 55%] *FY28E - 60% [AER 30%]*

We maintain our BUY recommendation on LFIN with a newly introduced fair value estimate of LKR 250.0/share and estimate a DPS of LKR 11.8/share for FY28E, implying an annualized total return of 30.1%. Despite revising our earnings forecasts downward to reflect the impact of tighter LTV ratios, higher surcharges, and LKR depreciation on credit demand, we continue to expect profitability growth of 21.8%YoY and 16.1%YoY in FY27E and FY28E, respectively. We expect NIM expansion to continue as rising interest rates support the repricing of the lending book, particularly given that nearly 30.0% of loans are linked to variable rates. While loan growth is likely to normalize to 12.0%-14.0%YoY in FY27E following the exceptionally strong expansion seen in FY26, growth should remain supported by a diversified portfolio, already expanded loan book, and LFIN's leading position in the gold loan market. Furthermore, strong fee-based income generation through digital channels, improving asset quality, and a provision coverage ratio of c.200% provide additional support to earnings resilience. In our view, 1) continued NIM expansion, 2) leading market position in gold loans, 3) strong capital buffers well above regulatory requirements, and 4) a high-quality balance sheet with improving asset quality make LFIN one of the most attractive counters in the NBFI sector. MAINTAIN BUY



LKR (Mn)	4QFY25	4QFY26	YoY	FY25	FY26	YoY
Earnings (LKR 'Mn)						
Net interest income	6,431	9,078	+41%	25,418	31,328	+23%
Total operating income	8,167	11,944	+46%	30,373	39,868	+31%
Net operating income	8,596	10,968	+28%	30,634	37,832	+23%
PBT	4,815	5,938	+23%	16,413	20,456	+25%
Profit attributable to equity holders	3,661	4,942	+35%	10,860	13,971	+29%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	51,590	62,098	+20%	51,590	62,098	+20%
Loans and Advances	199,271	332,999	+67%	199,271	332,999	+67%
NAVPS	93.1	112.1		93.1	112.1	

FIRST CAPITAL RESEARCH

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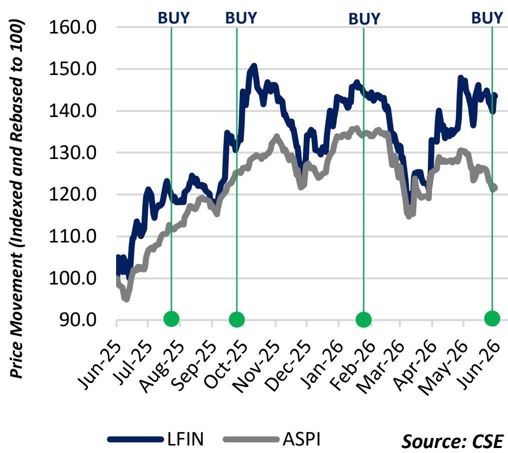
Price Movement of LFIN vs ASPI (Indexed and Rebased to 100)



Source: CSE

LFIN posts a 35.0% earnings surge in 4QFY26, closing the year with record-high profits

LFIN delivered a strong 4QFY26 performance, reporting earnings of LKR 4.9Bn, up 35.0%YoY, broadly in line with expectations. The result was primarily driven by robust net interest income growth of 41.2%YoY to LKR 9.1Bn and a sharp 71.4%YoY increase in fee and commission income to LKR 2.7Bn. NII expansion was underpinned by a 55.9%YoY rise in interest income, supported by growth in the leasing and gold loan portfolios, which more than offset a 78.8%YoY increase in interest expenses, reflecting a higher-cost funding mix and greater reliance on debt. A modest improvement in NIM was also observed during the quarter. Fee-based income remained a key earnings driver, benefiting from a growing online customer base and elevated transaction volumes, underscoring LFIN's continued strength in digital channels. On the cost side, impairment charges increased by over >300.0%YoY, while operating expenses rose 37.8%YoY, partially tempering overall profitability momentum. For FY26, LFIN posted record earnings of LKR 14.0Bn, representing 30.0%YoY growth, broadly in line with our forecasts.

Loans to grow 12.0%–14.0%YoY in FY27E, as demand normalizes while tighter LTVs hit the brakes

LFIN's loan book expanded strongly by 67.1%YoY (10.3%QoQ) to LKR 333.0Bn in 3QFY26. Growth was primarily driven by robust performance in the leasing, vehicle loans and gold loan portfolios, supported by increase in vehicle imports and registrations, particularly during Jan-26 and Mar-26. Rising gold prices further supported the expansion of the lending portfolio. Asset quality improved during the quarter, with the gross NPL ratio declining to 1.35% in 4QFY26, compared to 1.46% in 3QFY26 and 2.55% in 4QFY25. Looking ahead, FCR expects LFIN's loan book to grow by 12.0%-14.0%YoY in FY27E, supported by a more balanced portfolio. Vehicle loan growth is expected to moderate as vehicle demand and imports normalizes, with tighter LTV limits, higher import surcharges, and LKR depreciation creating additional headwinds. We expect loan growth in 1HFY27E to be supported by already-opened LCs, though momentum is likely to soften through 2HFY27E as these tailwinds fade. Rising interest rates are expected to drive leasing rates higher, supporting NIM expansion as lending rates reprice faster; aided by the approximately 30.0% of the loan book on variable rates. We expect NII to grow 25.9%YoY to LKR 39.5Bn in FY27E, and a further 18.5% to LKR 46.7Bn in FY28E.

Deposits grow 36.5%YoY, while capital buffers remain well above minimum thresholds

LFIN's deposit base expanded 36.5%YoY to LKR 189.6Bn in 4QFY26, underpinned by broad-based growth across fixed deposits and strong renewals of longer-tenor instruments amid an elevated interest rate environment. Looking ahead, we forecast deposit growth of c.21.0%YoY in FY27E, supported by sustained investor confidence and competitive pricing strategies. We expect the deposit base to remain a key funding driver, with deposits accounting for c.50.0% of total funding by FY28E, broadly in line with historical funding mix trends, while borrowings are expected to stabilize at c.20.0% of total funding as higher interest rates continue to incentivize deposit mobilization. As of 31 Mar-26, LFIN reported a Tier 1 capital ratio of 16.39% and a total capital ratio of 16.13%, despite growth in risk-weighted assets. While both ratios moderated marginally QoQ, they remain comfortably above regulatory minimums of 10.00% and 14.00%, respectively. In addition, a provision coverage ratio of c.200% provides a strong buffer against potential asset quality deterioration, supporting overall balance sheet strength.

FY27E target price revised down to LKR 220.0 and introduces a new target price for FY28E at LKR 250.0

We revised our earnings forecasts downward for FY27E and FY28E by 8.5% and 6.6%, respectively, to LKR 17.1Bn and LKR 19.8Bn. The revisions reflect our expectation that tighter LTV ratios, surcharges, and LKR depreciation will weigh on loan growth. In addition, rising interest rates are likely to further reduce loan affordability, although they should support the repricing of both lending and deposit books. Despite these headwinds, we forecast net profit growth of 21.8%YoY in FY27E and 16.1%YoY in FY28E, underpinned by NIM expansion and the already-expanded loan book. Reflecting the softer growth outlook, we value LFIN at justified PBV of 1.6x for FY28E, below its 10-year average of 1.9x, arriving at a fair value estimate of LKR 250.0/share, implying a total annualized return of 30.1%. Accordingly, we maintain our recommendation as MAINTAIN BUY.

Minimum Return for BUY:

Buy Below FY28E - [AER of 15% with DPS]: LKR 203.9

LFIN.N categorized as 'Grade A' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of LFIN during the five trading days prior to the issuance of this document.

Key risks associated with our recommendation

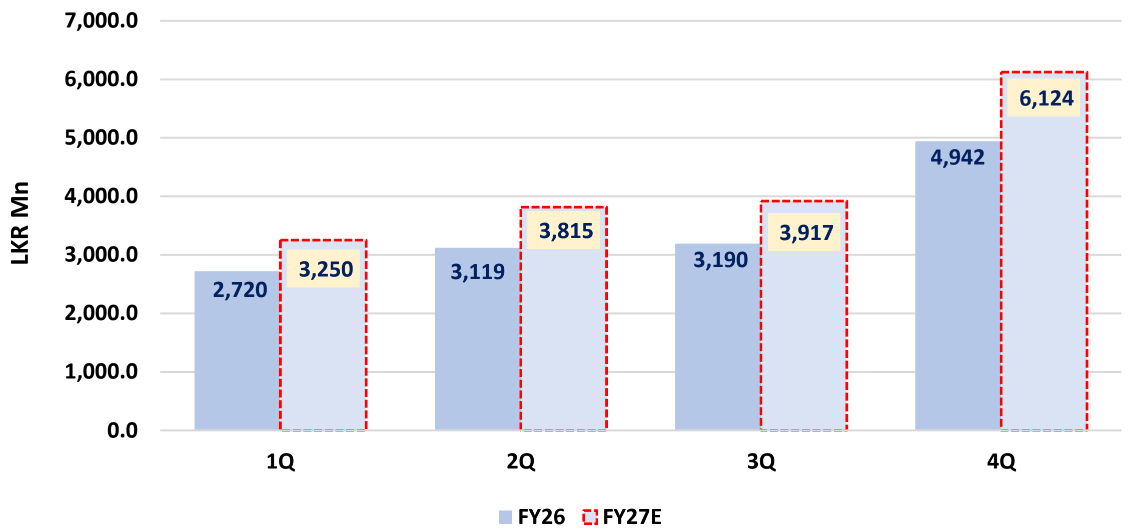
Downside risks

- Interest and exchange rate risk
- Regulatory risk
- Lower LTV ratio may dampen the loan growth
- Greater than anticipated slowdown in vehicle imports

Upside risks

- Greater than anticipated demand for vehicles
- Increase in gold prices due to global economic uncertainty
- Further easing of CBSL's monetary policy stance
- Removal of SSCL
- Greater than anticipated digital penetration of LFIN's CIM app

Quarterly Earnings



Estimate Revision

In LKR Mn	FY27E - O	FY27E - R	% Change	FY28E - O	FY28E - R	% Change
Earnings Estimate						
Net Interest Income	46,368	39,456	-14.9%	52,679	46,766	-11.2%
Total Operating Income	56,423	49,896	-11.6%	64,274	57,918	-9.9%
Pre Income Tax Profit	28,122	25,531	-9.2%	31,986	29,643	-7.3%
Net Profit	18,701	17,106	-8.5%	21,271	19,861	-6.6%
Adjusted EPS	33.8	30.9	-8.5%	38.4	35.8	-6.6%
Growth YoY	*33%*	*22%*		*14%*	*16%*	
Balance Sheet Estimate						
Financial Assets at Amortised Cost - Loans and Receivables	350,319	380,571	8.6%	395,861	426,239	7.7%
Equity attributable to parents	73,528	73,559	0.0%	87,779	86,866	-1.0%
Adjusted NAVPS	**132.7**	**132.8**		**158.4**	**156.8**	
Ratio Estimate						
ROE (%)	***27.8%***	***25.2%***		***27.8%***	***24.8%***	
PER (x)	***4.9x***	***5.3x***		***4.9x***	***4.5x***	
PBV (x)	***1.5x***	***1.0x***		***1.5x***	***1.0x***	

Valuation Table

P/E 31 March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Estimates (LKR 'Mn)							
Net Interest Income	19,310	24,642	25,418	31,328	39,456	46,766	53,950
Other Revenue	3,160	3,533	4,954	8,539	10,439	11,152	11,716
Total Operating Income	22,469	28,175	30,373	39,868	49,896	57,918	65,666
Net Profit	**8,553**	**9,707**	**10,862**	**14,043**	**17,106**	**19,861**	**22,498**
Adjusted EPS (LKR)	15.4	17.5	19.6	25.3	30.9	35.8	40.6
YoY Growth (%)	1%	13%	12%	29%	22%	16%	13%
Valuations							
PER (x)	***10.6x***	***9.3x***	***8.3x***	***6.5x***	***5.3x***	***4.6x***	***4.0x***
PBV (x)	***2.4x***	***2.1x***	***1.8x***	***1.5x***	***1.2x***	***1.0x***	***0.9x***
DY (%)	***3.1%***	***3.1%***	***4.0%***	***5.0%***	***6.2%***	***7.2%***	***8.2%***
Adjusted NAVPS (LKR)	***69.2***	***79.3***	***93.1***	***112.1***	***132.8***	***156.8***	***184.0***
DPS	***5.0***	***5.8***	***6.5***	***8.2***	***10.2***	***11.8***	***13.4***
Dividend Payout (%)	***32.4%***	***32.8%***	***33.2%***	***32.4%***	***33.0%***	***33.0%***	***33.0%***

Ratio Analysis

		FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Growth	Asset	10.9%	11.0%	18.6%	72.5%	7.8%	10.4%	11.9%
	Deposit	27.7%	7.7%	12.6%	36.9%	21.0%	18.7%	17.7%
	Loan	8.0%	11.0%	21.8%	68.3%	14.2%	12.0%	10.0%
Profitability	Return on Average Equity	23.9%	23.6%	22.7%	24.8%	25.2%	24.8%	23.8%
	Return on Average Assets	4.9%	5.0%	4.9%	4.3%	4.0%	4.2%	4.3%
	Net Interest Spread	11.3%	10.7%	9.4%	9.6%	10.6%	10.5%	9.5%
	Net Interest Margin	14.0%	12.5%	10.5%	10.4%	11.6%	12.0%	11.8%
Funding & liquidity	Loan / Deposits	128.1%	132.1%	142.9%	175.8%	165.9%	156.6%	146.3%
	Loan / Total Assets	80.0%	80.0%	82.2%	80.2%	84.9%	86.2%	84.7%
	Deposit / Liabilities	79.0%	77.3%	73.0%	53.8%	61.2%	66.8%	71.0%

Valuation Summary

Expected LFIN Price	FY27E	FY28E
Justified PBV based target price	216.1	249.9
PER Valuation based target price	216.1	250.9
RI Valuation based target price	222.5	251.4
Average Target Price	218.3	250.8
Target Price after Rounding off	220.0	250.0

Return	FY27E	FY28E
Target Price	220.0	250.0
Current Price	163.5	163.5
Capital Gain (LKR)	56.5	86.5
Dividends upto 31st March (LKR)	10.2	11.8
Capital Gain %	35%	53%
Dividend Yield %	6%	7%
Total Return %	41%	60%
Annualized Return %	55%	30%

Residual Income Valuation

Residual Income based Valuation	FY27E	FY28E
PV of Residual Income	61,207	65,730
No. of Shares ('Mn)	554	554
RI per Share	110.5	118.6
Opening Book value per Share	112.1	132.8
Value per Share	222.5	251.4

COE	FY27E	FY28E
Rf	10%	10%
Rm	17%	17%
Growth %	3%	3%
β	1.0	1.0
Ke=Rf+β(Rm-Rf)	17%	17%

Justified PBV Valuation

Justified PBV based Valuation	FY27E	FY28E
ROAE	25.2%	24.8%
Growth	3.0%	3.0%
COE	16.7%	16.7%
PBV	1.6	1.6
NAVPS	132.8	156.8
Target Price	216.1	249.9

PER Valuation

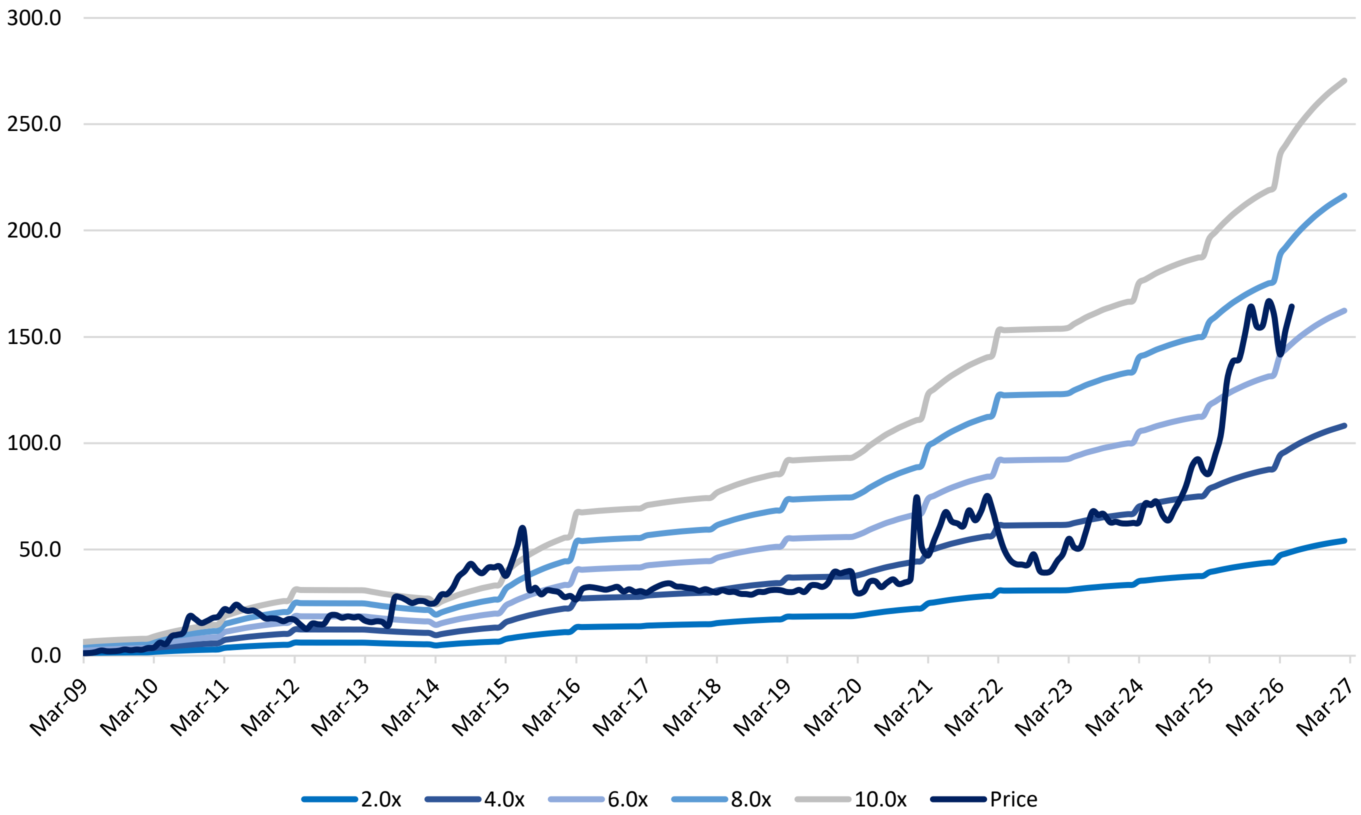
PER based Valuation	FY27E	FY28E
Earnings (LKR 'Mn)	17,106	19,861
No. of Shares ('Mn)	554	554
EPS	30.9	35.8
Expected PER	7.0x	7.0x
Price at 7.0x Earnings	216.1	250.9

Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	15.00%	11.00%	11.00%
Grade B	Rest of the Companies	18.00%	13.00%	13.00%
Grade C	Companies less than LKR 1Bn Market Cap	21.00%	16.00%	16.00%

PER Chart



Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR Mn) P/E 31st Mar	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Income	43,133.4	49,635.8	47,156.3	62,896.4	86,458.1	99,155.5	112,484.7
Interest Income	39,973.6	46,102.5	42,201.9	54,357.3	76,018.7	88,003.7	100,768.7
Interest Expenses	(20,664.0)	(21,460.6)	(16,783.7)	(23,028.8)	(36,562.2)	(41,237.6)	(46,819.0)
Net Interest Income	**19,309.6**	**24,641.9**	**25,418.2**	**31,328.5**	**39,456.5**	**46,766.1**	**53,949.8**
Fee and commission income	2,986.4	3,217.5	4,642.9	8,032.8	9,882.4	10,560.4	11,084.6
Net trading income	(2.1)	141.6	101.1	96.6	106.2	95.6	86.0
Other operating income	175.6	174.2	210.3	409.8	450.7	495.8	545.4
Total Operating Income	**22,469.5**	**28,175.1**	**30,372.6**	**39,867.6**	**49,895.9**	**57,918.0**	**65,665.8**
Less: Impairment charges	(519.1)	(270.1)	261.0	(2,036.0)	(2,812.7)	(3,256.1)	(3,728.4)
Less: Gold loan auction losses	-	-	-	-	-	-	-
Net operating income	**21,950.4**	**27,905.0**	**30,633.6**	**37,831.6**	**47,083.2**	**54,661.8**	**61,937.3**
Less : operating expenses	(7,429.7)	(8,940.4)	(10,037.7)	(12,191.1)	(14,968.8)	(17,375.4)	(19,699.7)
Profit before tax on financial services	**14,520.7**	**18,964.7**	**20,595.9**	**25,640.4**	**32,114.4**	**37,286.5**	**42,237.6**
Less: Taxes on Financial Services	(2,677.6)	(3,630.2)	(4,183.2)	(5,184.5)	(6,583.5)	(7,643.7)	(8,658.7)
Profit Before Tax	**11,843.1**	**15,334.4**	**16,412.7**	**20,455.9**	**25,531.0**	**29,642.7**	**33,578.9**
Income Tax Expense	(3,290.2)	(5,627.4)	(5,550.7)	(6,413.1)	(8,425.2)	(9,782.1)	(11,081.0)
Profit for the Year	**8,552.9**	**9,707.0**	**10,861.9**	**14,042.8**	**17,105.7**	**19,860.6**	**22,497.9**
Profit attributable to Equity Holders	**8,552.9**	**9,707.0**	**10,861.9**	**13,971.0**	**17,105.7**	**19,860.6**	**22,497.9**
Adjusted EPS	**15.4**	**17.5**	**19.6**	**25.3**	**30.9**	**35.8**	**40.6**

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn) as at 31st Mar	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Assets							
Cash and cash equivalents	4,681.0	7,651.3	9,074.7	19,108.4	6,676.7	5,187.7	18,184.5
Financial investments - held for trading	10.7	1,923.0	718.4	4,250.3	5,312.9	7,172.4	9,682.7
Loans and receivables	146,371.6	162,521.7	199,436.1	332,998.8	380,570.9	426,239.4	468,863.4
Property, plant and equipment	8,667.2	9,034.1	1,262.3	1,086.2	1,303.5	1,368.7	1,437.1
Other assets	23,287.7	22,017.8	32,853.1	58,041.8	54,267.5	54,741.1	55,270.0
Total Assets	**183,018.1**	**203,147.9**	**241,984.4**	**415,568.3**	**448,131.5**	**494,709.3**	**553,437.7**
Liabilities							
Due to banks	19,392.5	21,955.9	37,799.7	103,456.5	87,938.0	74,747.3	56,060.5
Due to customers	114,248.3	123,034.5	138,823.9	189,559.7	229,367.2	272,258.9	320,448.7
Debt instruments issued & other borrowed funds	3,882.0	5,491.4	5,005.4	45,400.4	37,400.4	31,400.4	25,400.4
Other financial liabilities	3,283.1	3,815.9	4,305.4	6,245.7	6,870.3	7,557.3	8,313.1
Other non-financial liabilities	1,154.7	1,591.4	1,719.0	2,697.1	6,203.3	14,267.7	32,815.7
Other liabilities	2,629.5	3,250.8	2,740.9	4,860.4	6,792.9	7,611.7	8,459.9
Total liabilities	**144,590.1**	**159,139.9**	**190,394.3**	**352,219.8**	**374,572.2**	**407,843.4**	**451,498.3**
Equity							
Stated capital	838.3	838.3	838.3	838.3	838.3	838.3	838.3
Reserves	28,794.7	33,975.5	41,118.7	50,799.6	62,260.5	75,567.1	90,640.6
Retained earnings	8,691.1	9,097.4	9,633.2	10,460.5	10,460.5	10,460.5	10,460.5
Equity attributable to equity holders	**38,324.1**	**43,911.3**	**51,590.1**	**62,098.4**	**73,559.3**	**86,865.9**	**101,939.5**
Non-controlling interest	103.9	96.7	-	-	-	-	-
Total equity	38,428.0	44,008.0	51,590.1	62,098.4	73,559.3	86,865.9	101,939.5
Total Liabilities & Shareholders' Funds	**183,018.1**	**203,147.9**	**241,984.4**	**414,318.3**	**448,131.5**	**494,709.3**	**553,437.7**
NAVPS	**69.2**	**79.3**	**93.1**	**112.1**	**132.8**	**156.8**	**184.0**

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About us:

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