LOLC FINANCE

LOLC FINANCE PLC | Annual Report 2017/18

BIGGER THAN BEFORE

BIGGER THAN BEFORE

The sheer scale and magnitude of the ocean is immense, and the potential that lies within, even more so. In fact, even as we discover awe-inspiring sights at every turn, much of the ocean's depths remain as yet unexplored. This seemingly limitless expanse forms through the merging of rivers and rivulets, creating a phenomenon that has captivated mankind since the dawn of time.

Here at LOLC Finance, we have grown considerably during the year under review, following a strategic merger with LOLC Micro Credit Limited, transforming into a formidable entity that has the potential to reach even further than it has before. Now, much like the vast ocean, unimaginable possibilities lie before us, as far as the eye can see.

As the largest NBFI in Sri Lanka, we are bigger than before, and we're exploring the vast resources we now possess to bring you endless value in the years to come.

Contents

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www.lolcfinance.com

About this Report

Scope and Boundary

This report has been prepared for the period 1st April 2017 to 31st March 2018 and covers the activities of LOLC Finance PLC and its Islamic Business Unit, Al-Falaah.

Endorsing by the principles of materiality-focused reporting, the sustainability section of this report illustrates how material aspects are established through active stakeholder feedback and then goes on to discuss how these aspects impact the Company's operational framework.

In doing so, a concerted effort has been made to also align with the Global Reporting Initiative (GRI), G4 guidelines for sustainability reporting.

Forward Looking Statements

Throughout this report there will be statements made that are 'forward-looking statements'. By their nature, forward-looking statements are speculative and allude to known and unknown risks, opportunities, macro-economic issues and any factors that could cause the actual results, performance or achievements of the Company to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are not guarantees of future performance and reflect the Company's view at the date of publication of this report. LOLC Finance PLC is not obliged to publically update or revise these forward-looking statements on events or circumstances occurring after the date of publication of this report.

Board Responsibility Statement

The Board of Directors (the Board) of LOLC Finance PLC acknowledges its responsibility to ensure the accuracy of this Annual Report for the 2017/18 financial year and in doing so has applied its collective expertise in the compilation of this report. Accordingly, the Board is of the opinion that, this report successfully addresses all material issues and is a balanced and accurate representation of the Company's performance in the year under review.

Key Highlights of the Year

Net Profit after Tax

38.7%

Rs. 2.2 Bn

Interest Income

18.4%

Rs. 22 Bn

Total Income

23.0%

Rs. 26 Bn

Customer Deposit

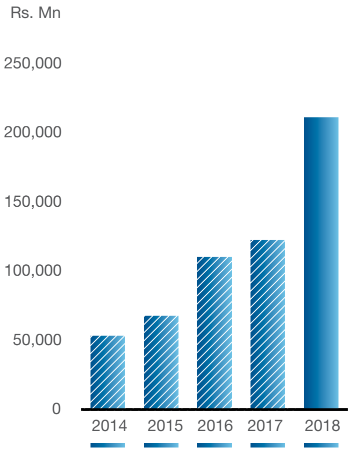
36.5%

Rs. 110 Bn

Operational Highlights

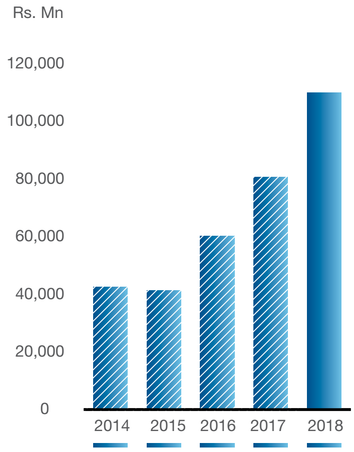
Total Assets

211,114 Mn



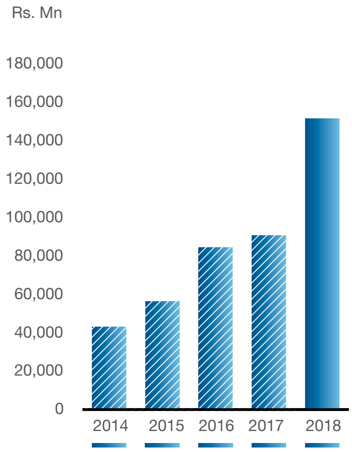
Customer Deposits

110,027 Mn



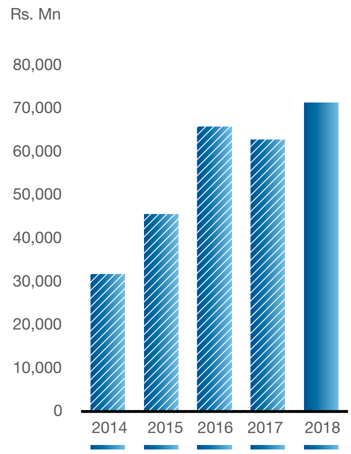
Portfolio

151,317 Mn



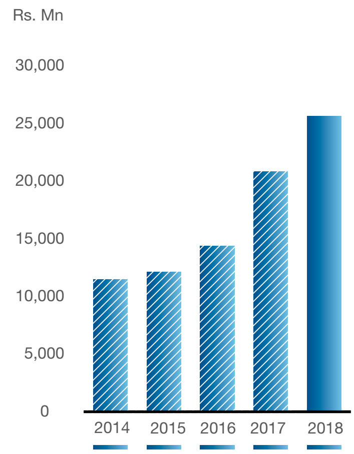
New Executions

71,354 Mn



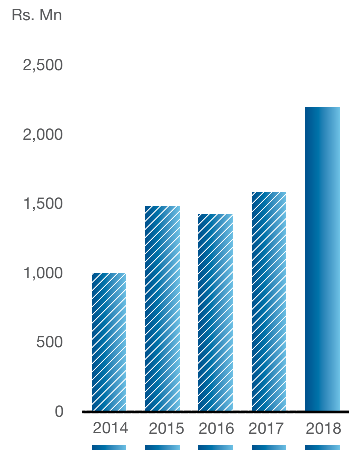
Total Revenue

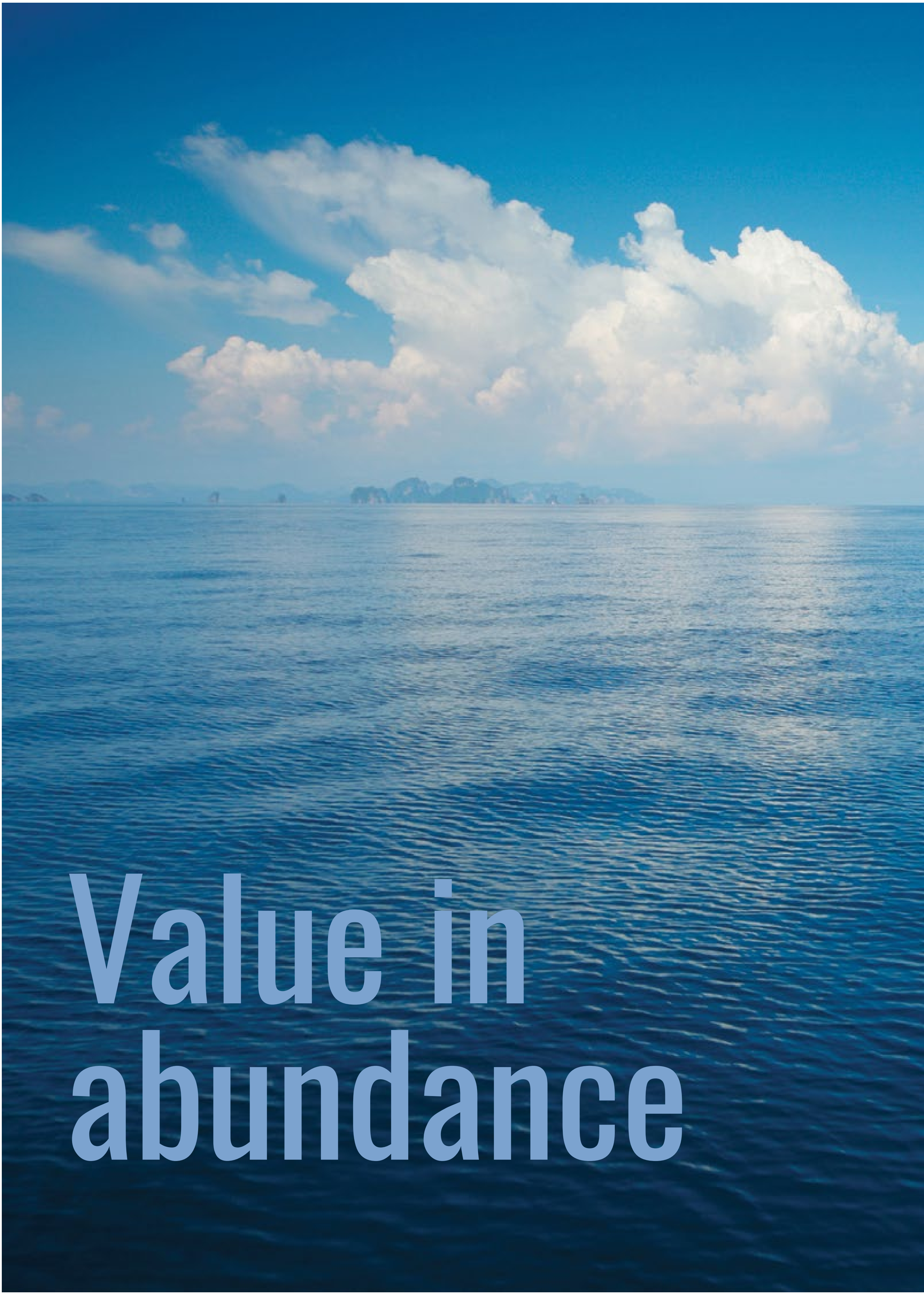
25,635 Mn



Profit After Tax

2,201 Mn




Value in
abundance

The Company

Vision

"We believe in an inclusive financial service that requires client advocacy and stewardship, a passion for leading-edge solutions and the delivery of services that exceed customer expectations."

Mission

"Our mission is to help set the industry standard in Non-Bank Financial Services. We reach out to all Small and Medium Enterprises and provide them with affordable and convenient financial services tailored to their specific needs."

Corporate Values

"We are committed to the highest standards of ethical conduct in all we do. We believe that honesty and integrity engenders trust, which is the cornerstone of our business. We abide by the laws of the land and strive to be good citizens and take responsibility for our actions. We recognise that our success as an enterprise depends on the talents, skills and expertise of our staff and our ability to function as a closely-integrated team. We appreciate our diversity and believe that respect – for our employees, customers, partners, regulators and all those with whom we interact – is an essential element of all positive and productive business relationships. We understand the importance of our mission and the trust our customers place in us. With this in mind, we strive to excel in every aspect of our business and approach, every challenge with a determination to succeed."

An Outstanding Profile

LOLC Finance won three top awards at the LankaPay Technnovation Awards 2017·

- *Financial Institution of the Year for Customer Convenience*
- *Best Mobile Payment Application of the Year*
- *Most Popular Electronic Payment Product of the Year*

Silver award for the Entity of the Year, Gold for Window/Unit of the Year and Silver for CSR Project of the Year at the Islamic Finance Forum of South Asia (IFFSA) Awards 2017.

Winner of the Best Islamic Bank category for Sri Lanka in the IFN Best Banks Poll 2017.

Al-Falaah bagged two Bronze awards for The Best Leasing Company of the Year and Social Upliftment Award at the Sri Lanka Banking and Financial Institution (SLIBFI) awards 2018.

iPay was recognised at the Open Group Conference and Awards for Innovation and Excellence, Bangalore, 2018.

Milestones

2001

Incorporated as LOLC Finance Company Limited, a wholly-owned subsidiary of Lanka ORIX Leasing Co. PLC.

2002

Licensed as a Registered Finance Company.

2003

- Registered as a Finance Leasing Establishment on 05th June 2003.
- Commenced commercial operations from No. 79, C.W.W. Kannangara Mawatha, Colombo 07.
- Changed name to Lanka ORIX Finance Company Limited.
- Opened two branches in Kandy and Anuradhapura.

2004

Registered as a Market Intermediary to function as a Margin Provider by the Securities and Exchange Commission.

2005

- Entered into a Refinance Agreement with the Central Bank of Sri Lanka as a Participatory Financial Institution for loans granted to recommence or rehabilitate micro, small and medium enterprises affected by the Tsunami.
- Opened six branches in Kurunegala, Rajagiriya, Gampaha, Ratnapura, Kochchikade and Kiribathgoda.
- Entered into a Memorandum of Understanding with Medi-Calls (Private) Limited for a special scheme for the benefit of depositors.

2006

Obtained approval to operate a Mobile Deposit Mobilisation Unit.

2007

- Opened 13 branches in Kalutara, Nuwara Eliya, Matara, Embilipitiya, Polonnaruwa, Badulla, Galle, Wattala, Colombo 02, Kegalle, Mahiyanganaya, Mount Lavinia and Chilaw.
- Al-Falaah, the Islamic Business Unit of Lanka ORIX Finance PLC, was launched.
- Fitch affirmed the BBB+(lka) National Rating assigned for implied long-term unsecured senior debt with a Stable Outlook.
- Obtained a unique Issuer Identification Number for Payment Cards issued by the Company.
- Opened a Students Savings Centre at Royal College, Polonnaruwa.
- Entered into an Agreement with Commercial Bank to issue ATM and Debit Cards and the usage of the Commercial Bank ATM network.

2009

- Relocated the branch at Colombo 07 to Wellawatte.
- Opened six branches in Dambulla, Ampara, Kattankudy, Jaffna, Vavuniya and Batticaloa.
- Joined SWIFT and assigned Banker Identification Code LOFCLKLC.
- Fitch Ratings Lanka affirms Rating of A-(lka) with Stable Outlook.

2010

- Entered into a Worker Remittance Agreement with Xpress Money.
- Opened nine branches in Trincomalee, Elpitiya, Avissawella, Mathugama, Monaragala, Divulapitiya, Nawalapitiya, Kalmunai and Ambalangoda.
- Joined SEEDS in their project titled ‘Leveraging Remittances for Socioeconomic Development in Sri Lanka’ to develop special remittance products.
- Obtained license as a Service Provider of Payment Cards.

2008

- Conducted a lottery with a house as the prize.
- Commenced operating savings centres at LIOC fuel distribution points.
- Obtained approval to engage in Foreign Currency Business including maintenance of Foreign Currency Fixed Deposits and Savings Accounts and engaging in Inward Worker Remittances.
- Joined Mastercard International to use the Maestro service mark on ATM Cards issued.
- Fitch assigns rating of A-(lka) with Stable Outlook.
- Opened a branch in Horana.

2011

- Obtained the license to engage in money changing business.
- Opened 13 branches in Homagama, Pettah, Kilinochchi, Kohuwala, Hatton, Panadura, Neluwa, Morawaka, Udappuwa, Negombo, Cotta Road Rajagiriya, Dehiwala and Pelmadulla.
- Entered into a Worker Remittance Agreement with Money Exchange S.A., Spain.
- Obtained a USD Grant from IFAD for the implementation of the project ‘Economic Prosperity for Rural Poor’ through remittances disbursed via Lanka ORIX Finance.
- Commenced cash collection operations in 65 Isuru Diriya Centres located in Post Offices.
- Entered into a Worker Remittance Agreement with Valutrans S.P.A., Italy.
- 2010 Annual Report of Al-Falaah - the Islamic Business Unit of LOLC Finance, won Bronze at the League of American Communications Professionals (LACP) Vision Awards 2011.

Milestones

2012

- Opened 15 branches in Kekirawa, Ja-ela, Nikaweratiya, Tissamaharama, Akkaraipattu, Balangoda, Akurana, Aralaganwila, Chunnakam, Nelliyadi, Chawakachcheri, Medawachchiya, Dehiattakandiya, Mannar and Mullaitivu.
- Fitch affirms National Long-Term Rating of A-(lka) with Negative Outlook.
- Opened a Student Savings Center at Fathima Muslim Ladies College, Colombo 12.

2014

- Launched our latest value added service – SMS Alerts for Savings accounts transactions.
- ICRA Lanka affirmed issuer rating of (SL) A- and resulted Outlook to Negative.
- Al-Falaah Islamic Business Unit of Lanka ORIX Finance clinched 3rd place as the Best Islamic Bank by Sector – Best Islamic Leasing Provider and was runner-up for the Best Islamic Bank by Country – Indian Sub-Continent / Sri Lanka at IFN Best Banks Poll Global Awards 2014.
- Entered into a Remittance Agreement with Cash Wiz, Australia and DFCC, Lanka Money Transfer.
- Opened six Branches in Hingurakgoda, Tambuttegama, Maharagama, Maradana, Kollupitiya and Piliyandala.
- Joined Sri Lanka Interbank Payment System as secondary participant.
- Al-Falaah clinched Gold awards for 'Islamic Finance Entity of the Year 2014' and for 'Social Upliftment Award (CSR)' category. A further recognition with a Silver award in the category for the 'Rising Islamic Personality of the Year 2014' was also awarded to Ilsam Awfer, a member of the Al-Falaah team.

2013

- New product launch of Speed Draft.
- Al-Falaah was adjudged Runner-up for Best Islamic Leasing Provider (by Asia/MENA/GCC region) and Runner-up for Best Islamic Bank (Country Winner - Sri Lanka) by the Islamic Finance News (IFN) Global Polls Awards held in Kuala Lampur, Malaysia, February 2014.
- Opened four Branches in Ambalantota, Digana, Kuliyapitiya and Nittambuwa.
- Al-Falaah Islamic Banking Unit of Lanka ORIX Finance took the Silver award for Islamic Finance (IF) Entity of the Year 2013 at the Sri Lanka Islamic Banking and Finance Industry (SLIBFI) award, a Merit award for the Social Upliftment category and Al-Falaah Ladies Business Unit / Empress Discount Card clinched the Silver award for Islamic Finance Product/Deal of The Year.
- Opened a Student Savings Centre at D S Senanayake Model Primary School – Anuradhapura.
- Al-Falaah Business Unit launched a loyalty Empress Discount Card for its Al-Falaah Ladies accountholders.
- Entered the LMD 100 - Sri Lanka's Leading Listed Companies for Financial Year 2012/13.
- Launched our latest product – Lanka ORIX Finance Fixed Deposit Bond.
- Launched Visa ATM and Debit Cards.

2016

- Relocated the Jaffna Branch to its very own premises at No.62/40, Stanley Road, Jaffna.
- The Bandarawela Isuru Diriya Centre relocated to No. 348, Badulla Road, Bandarawela.
- Anuradhapura Branch relocated to its very own premises at No. 242/2, Maithripala Senanayake Mawatha, Anuradhapura.
- Hatton Branch relocated to a new premise at No. 151, Dimbula Road, Hatton.
- LOLC Real Time, the real-time fund transfer/payment platform of LOLC Finance was officially launched to the public with the commencement of the mass media campaign covering TV, radio, press and digital media.
- Nelliyadi Branch relocated to a new premises located at No. 216/1, Jaffna Road, Nelliyadi.
- Al-Falaah secured the 'IFN Deal of the Year for Sukuk (Alternate option for Securitisation)' at the 'IFN Deals of the Year for 2016' awards ceremony.
- Al-Falaah, was recognised at the Islamic Finance News, Global Poll, IFN-Best Banks Awards 2016 for the fourth consecutive year. The recognitions received of the two nominated categories are 'Best Islamic Leasing Provider, Runner Up' where LOLC Al-Falaah moved up from 3rd Place in 2015 and maintained the position of 'Best Islamic Bank Sri Lanka, Runner Up" for 2016 as well.
- Al-Falaah secured two prestigious awards at the Global Banking & Finance Review (GBFR) Awards 2016 - United Kingdom, by being crowned the 'Best Islamic SME Leasing and Finance Company' and the 'Most Innovative Islamic Investment Product (Wakala)' in Sri Lanka for 2016.

2015

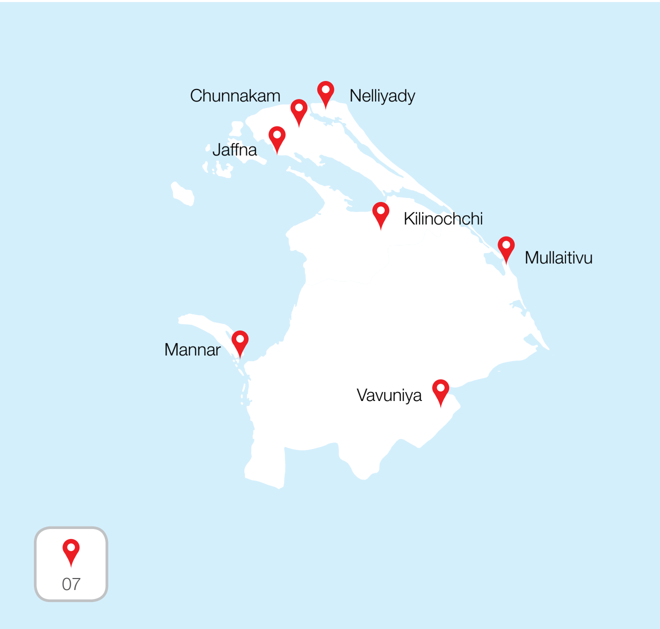
- Launch of a new value added service - ORIX Real Time (internet banking).
- Changed name to LOLC Finance PLC.
- ICRA Lanka affirmed issuer rating of Revised to [SL]A and resulted Stable Outlook.
- The Islamic Business Unit (LOLC Al-Falaah) secured Runners-Up award for Best Islamic Leasing Provider Category (Overall) 2015 at the IFN Best Bank Polls 2015.
- Opened 11 new Branches – Horowpathana, Kaduwela, Baduraliya, Galenbindunuwewa, Homagama, Galnewa, Hanwella, Eheliyagoda, Ruwanwella and Warakapola.
- Relocated Al-Falaah Rajagiriya Office to No. 481, T.B Jayah Mawatha (Darley Road), Colombo 10 and launched the Al-Falaah Corporate Centres in Colombo and Kandy.
- Joined the Common Electronic Fund Transfer switch with LankaPay.

2017

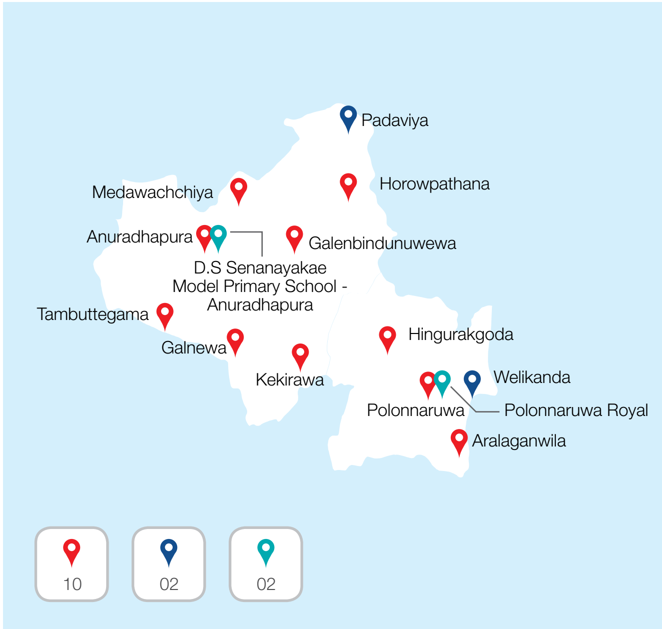
- ICRA Lanka affirmed issuer rating of [SL]A and resulted Stable Outlook.
- LOLC Micro Credit merged with LOLC Finance.
- Launched the door-step Savings Cash Collection Service.
- Opened a New Branch in Mawanella.
- Relocated the Dehiattakandiya, Polonnaruwa, Avissawella and Gampaha Branches.
- Closed the Kalmunai Service Centre at 93 Batticaloa Road, Kalmunai.
- LOLC Finance won three top awards at the 2017 LankaPay Technnovation Awards. LOLC Finance was bestowed with the coveted titles including the Financial Institution of the Year for Customer Convenience, Most Popular Electronic Payment Product and Best Mobile Payment Application of the Year.
- Al-Falaah was awarded as the 'Best Islamic Bank in Sri Lanka for 2017' by Islamic Finance News (IFN), Malaysia.
- Al-Falaah secured two Bronze awards for 'The Best Leasing Company of the Year' and 'Social Upliftment Award' at the Sri Lanka Banking and Financial Institution (SLIBFI) awards 2018.
- At the 2017 Islamic Finance Forum of South Asia (IFFSA) Awards, Al-Falaah secured the Silver award for the Entity of the Year, Gold for Window/Unit of the Year and Silver for the CSR Project of the Year.
- iPay was recoginised at the Open Group Conference and Awards for Innovation and Excellence, Bangalore, 2018.

Branch Network

Northern Province



North-Central Province

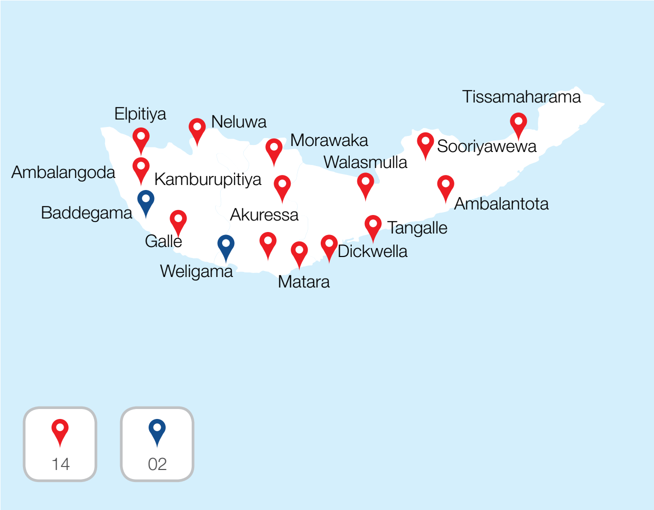


North-Western Province

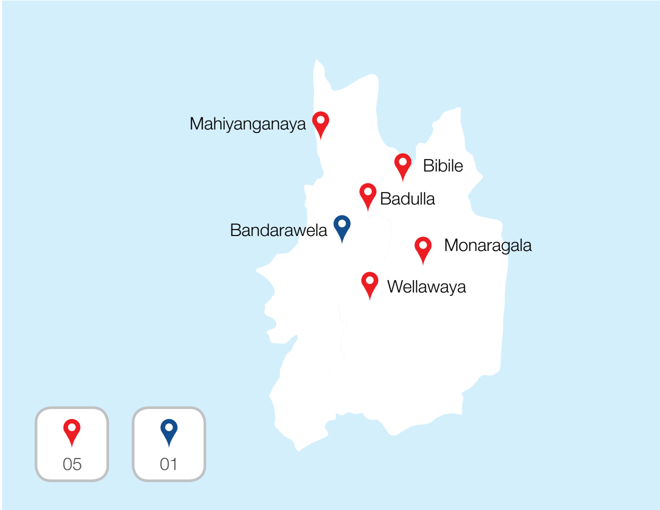
Central Province

Sabaragamuwa Province

Southern Province



Uva Province



Eastern Province

Western Province

as at 31st March

LOLC Finance Branches

LOLC Finance Service Centres

LOLC Finance Savings Centres

LOLC Finance, Al-Falaah Centres
LOLC Finance, Al-Falaah Savings Centres

Board of Directors

Mr. B C G de Zylva

Mr. I C Nanayakkara

Mr. R D Tissera

Mrs. K U Amarasinghe

Mrs. D P Pieris

Mr. P A Wijeratne

Mr. A Nissanka

Board of Directors

Mr. B C G de Zylva

Non-Executive Chairman

Mr. Brindley de Zylva is the Chairman of the Boards of LOLC Finance PLC & LOLC (Cambodia) PLC. He is also the Managing Director of LOLC Myanmar Micro-Finance Company Limited. He also served the LOLC Group as the MD/CEO of LOLC Finance PLC from 2003 to 2015 and Director LOLC Micro Credit in 2017/18. Prior to joining the LOLC Group, he had served the Non-Bank Financial Services Industry (NBFI) in Sri Lanka since 1984 in both Licensed Finance Companies and Specialised Leasing Companies holding Board and General Management positions. He has a wide range of expertise and experience in the NBFI sector; covering Marketing & Sales, Credit and Recovery Management, and Finance. Mr. de Zylva, a Fellow of the Sri Lanka Institute of Credit Management served as its Honorary Secretary for a period of five years between 2010 & 2015. He also served as a Member of the Council of Management of the Finance Houses Association of Sri Lanka for nine years four of which as a Vice Chairman.

He also served as a Director of the Financial Ombudsman Sri Lanka (Guarantee) Limited. These positions were relinquished in 2015. He is also a Non-Executive Director of Navajeevana Rehabilitation – Tangalle, a Non-Governmental Organisation in Sri Lanka serving the disabled.

Mr. I C Nanayakkara

Executive Deputy Chairman

Mr. Ishara Nanayakkara is a prominent entrepreneur serving on the boards of many corporates and conglomerates in the region. He initially ventured into the arena of financial services with a strategic investment in Lanka ORIX Leasing Company PLC and was appointed to the Board in 2002. Today, he is the Deputy Chairman of LOLC Group, holding directorships in many of its subsidiaries and associate companies. His vision to cater to the entire value chain of the finance sector manifested in the development of microfinance, Islamic finance, factoring through LOLC Factors, LOLC Life & General Insurance Companies and stock broking through LOLC Securities Ltd. Leveraging LOLC Group's expertise in the SME sector, the expansion into the micro sector was spearheaded by Mr. Nanayakkara, through LOLC Micro Credit Ltd., and BRAC Lanka Finance PLC. This interest in microfinance led to the growth of LOLC Group's international footprint, starting with an investment in PRASAC, the largest microfinance Company in Cambodia, followed by the inauguration of LOLC Myanmar Microfinance Company Ltd., a green field investment in Myanmar in which he was the founding Chairman, as well as his strategic involvement in LOLC Cambodia Ltd., the fifth largest microfinance company in Cambodia. Building upon his forte in microfinance, LOLC Group has further expanded its offshore portfolio with Mr. Nanayakkara serving as a Director of Pak Oman Microfinance Bank Limited, a joint venture based in Pakistan between the Governments of the Islamic Republic of Pakistan and the Sultanate of Oman. Mr. Nanayakkara's motivation to expand into various growth peripheries is further illustrated through his role as the Executive Chairman of Browns Investments PLC. Through various strategic investments, he is committed to catalysing development in the growth sectors of the Sri Lankan economy. Endorsing his entrepreneurial spirit, Mr. Ishara Nanayakkara received the prestigious 'Young Entrepreneur of the Year' Award at the Asia Pacific Entrepreneurship Awards (APEA) in 2012. He holds a diploma in Business Accounting from Australia.

Key appointments: Deputy Chairman – Lanka ORIX Leasing Company PLC & Seylan Bank PLC, Executive Chairman - Browns Investments PLC, Chairman - LOLC Life Assurance Ltd., BRAC Lanka Finance PLC, Director - Associated Battery Manufacturers (Cey) Ltd., Sierra Construction Ltd., PRASAC, the largest microfinance company in Cambodia, LOLC Myanmar Microfinance Co. Ltd., Pak Oman MFB, LOLC Holdings (Pvt) Ltd., LOLC Asia (Pvt) Ltd., LOLC International Private Limited and LOLC Private Limited.

Mr. R D Tissera

Executive Deputy Chairman

Mr. Ravi Tissera joined the LOLC Group in 1993 and is a Development Finance Specialist. Mr. Tissera is the founder CEO of LOLC Micro Credit Ltd. (LOMC), Sri Lanka's largest microfinance provider. LOMC was amalgamated with LOLC Finance PLC (LOFIN) on 29th March 2018 to create Sri Lanka's largest Non Bank Financial Institution where he will continue to serve on the Board.

He also serves on the Boards of LOLC Cambodia PLC, LOLC Myanmar Microfinance Ltd., Pak Oman Microfinance Bank Pakistan and BRAC Lanka Finance Plc. Mr. Tissera has obtained his Post Graduate in Marketing from the Chartered Institute of Marketing

UK. He has also followed strategic leadership training at Harvard Business School.

During his tenure as CEO, LOMC became the only microfinance provider in Sri Lanka to receive the certification for the Client Protection Principals from the SMART Campaign USA and also became a case study at INSEAD Business School.

Mrs. K U Amarasinghe

Executive Director

Mrs. Kalsha Amarasinghe holds an Honours Degree in Economics and has an outstanding vision for investments. She serves on the Boards of subsidiaries of Browns Group of Companies and Lanka ORIX Leasing Company PLC.

Other key appointments: Executive Director – Lanka ORIX Leasing Company PLC, LOLC Finance PLC, LOLC Life Assurance Limited, Palm Garden Hotels PLC, Riverina Resorts (Pvt) Ltd., Eden Hotel Lanka PLC, Brown & Co. PLC, Browns Investments PLC, Browns Capital PLC, Green Paradise (Pvt) Ltd., Sun & Fun Resorts Ltd. and Browns Holdings Ltd.

Mrs. D P Pieris

Independent Director

Mrs. Priyanthi Pieris, an Attorney-at-Law of the Supreme Court of Sri Lanka, has over 38 years of experience in Corporate and Financial Law. Mrs. Pieris is also a Solicitor of England & Wales. She is currently in Private Practice.

Mrs. Pieris served on the Boards of Forbes & Walker Ltd., Forbes Ceylon Ltd, Forbes Stock Brokers Ltd., Forbes Air Services Ltd. (General Sales Agent for Emirates), Vanik Corporate Services Ltd., Office Network (Pvt) Ltd., Capital Reach (Holdings) Ltd and Associated Motorways Ltd.

Mrs. Pieris currently serves on the Boards of Associated Electrical Corporation Ltd., Abans Electricals Ltd., Asia Asset Finance PLC, PW Corporate Secretarial (Pvt) Ltd., Asian Centre for Lease Education (Pvt) Ltd., MTN Corporate Consultants (Pvt) Ltd., Sithijaya Fund (Pvt) Ltd.

Mrs. Pieris served as the Legal Adviser to the Ministry of Finance from 2002–2004 and as Legal Consultant to the Colombo Stock Exchange from 2004–2011.

Mrs. Pieris is also a member of the Committees set up by the Securities & Exchange Commission of Sri Lanka to recommend amendments to the Takeovers & Mergers Code 1995 (as amended) and the Rule for Corporate Governance.

Mr. P A Wijeratne

Independent Director

Mr. Wijeratne has over 20 years of experience in Accounting, Financial reporting, Investment of internal funds, Foreign loan disbursements and repayments, Auditing and Administration as an ex-Officio of the Central Bank of Sri Lanka. He has joined CBSL in 1991 and has worked in the Finance, Public Debt Management and Internal Audit deportments till his retirement in year 2016.

He holds a BA degree in Economics (Special Field – Commerce) from University of Kelaniya and a postgraduate Diploma in Accounting and Financial Economics. He has read for his MSc in Accounting and Financial Economics at the University of Essex, UK.

Mr. A Nissanka

Executive Director/Chief Executive Officer

Mr. Nissanka counts over 25 years of experience in the Banking and Finance sector having commenced his career in 1993 with Seylan Bank PLC prior to joining LOLC Group in 1998 and having held the responsibilities of Strategic Marketing Planing, Development and Management of the Retail Channels for LOLC Finance PLC, LOLC Micro Credit Ltd., and LOLC Insurance Ltd.

He possesses an MBA from Edith Cowan University, Australia, a Graduate Diploma from Chartered Institute of Marketing – UK (CIM), a Certified Management Accountant from the Institute of Certified Management Accountants Australia (CMA) as well as a member of Sri Lanka Institute of Marketing (SLIM).

He currently serves as a Member of the Council of Management of the Finance Houses Association of Sri Lanka, Board of Director of the Leasing Association of Sri Lanka, Deputy Chairman of the Financial Ombudsman Sri Lanka (Guarantee) Limited and Council Member of the Institute of Certified Management Accountants Australia (CMA).

Corporate Management

Rohan Perera
Group Treasurer - LOLC Group

Sharmini Wickremasekera
Chief Risk Officer - LOLC Group

Sunjeevani Kotakadeniya
Chief Financial Officer - LOLC Group

Susaan Bandara
Chief Officer - Marketing Communications - LOLC Group

Jayantha Kelegama
Chief Credit Officer - LOLC Group

Kithsiri Gunawardena
Chief Operating Officer - LOLC Chief Legal Officer - LOLC Group

Pradeep Uluwaduge
Chief Human Resources Officer - LOLC Group

Solomon Jesudason
Chief Officer - Marketing Operations - LOLC

Gayani de Silva
Chief Officer - Customer Relationship Management - LOLC

Anura L. Dharmaprema
Corporate Executive Officer - Recoveries - LOLC

Conrad Dias
Chief Information Officer - LOLC Group
Managing Director/Chief Executive Officer - Lanka ORIX Information Technology Services Ltd/ LOLC Technologies Limited

Gunendra Jayasena
Chief Administration Officer - LOLC Group

Operational Management

Jithendra Gunatilake
Head of Finance Operations - LOLC

Mehra Mendis
DGM, Fleet Management Services - LOLC

Montini Warnakula
Head of SME Business Unit - DGM, Western II & North Western Regions

Chandana Jayanath
Chief Operating Officer, Recoveries - LOLC

Roshani Weerasekera
Head of Liability Management - LOLC Finance PLC

Sanjaya Kalidasa
DGM, Treasury - LOLC

Bahirathan Shanmugalingam
AGM, Finance - LOLC

Mallika Abeykoon
AGM, Finance - LOLC

Dilum Mahawatta
Compliance Officer - LOLC Finance PLC

Chinthaka Jayasinghe
Head of Business Solutions, Banking LOLC Technologies Ltd.

Enoka Jayampathy
Head of Tax Management and Compliance – LOLC

Indika Ariyawansa
AGM, Credit Risk Management - LOLC

Indunil Herath
DGM, North Western & North Central II Regions

Jayantha Dharmapriya
AGM, Legal - LOLC

Shashika Dias
AGM, Legal - LOLC

Gamini Jayaweera
DGM Northern & North Central Regions

Hasala Thilakaratne
DGM Southern II & Western II Regions

Buddhika Weeratunge
Head of Finance - LOLC Finance PLC

Operational Management

Nalaka Mohotti
DGM, Southern & Sabaragamuwa Regions

Shantha Rodrigo
DGM, Central Region

Shiraz Refai
DGM, Al-Falaah Islamic Business Unit

Sudath Premaratne
AGM Recoveries, LOLC

Yanik Fernando
DGM Eastern & Uva Regions

Sudarshini de Almeida
AGM, Marketing Operations - LOLC

Amarasi Gunasekera
AGM, Strategic Business Research & Development - LOLC

Gayantha Weerakoon
DGM, Enterprise Risk Management - LOLC

Raveendrini Seneviratne
Company Secretary

Thomas Ponniah
Deputy Regional Head - Metro I

Rashmi Hettige
Manager HR, LOLC

Chamika Wijewarnasooriya
Deputy Regional Head - Southern II & Western II Regions

Johnny Coilpillai
Deputy Regional Head - Metro II

Prasanna Siriwardena
Chief Information Officer - Financial Services - LOLC Technologies Ltd.

Seeking new horizons

Executive Reviews

Chairman's Statement

This strategic merger propels your Company to the forefront of the industry as the largest Non-Bank Financial institution (NBFI) in the country with a total assets base of Rs. 211 billion and a lending book of Rs. 151 billion.

Dear Shareholder,

It gives me great pleasure to present to you the Annual Report and Financial Statements for the year ended 31st March 2018.

Macro-economic Review

Sri Lanka is attempting to sustain economic growth while maintaining macroeconomic stability. The Government's high debt payments and bloated civil service cadre, which have contributed to historically high budget deficits and low tax revenues, remain a concern. Government debt is about 75% of GDP and remains among the highest of the emerging markets. The Government will need to balance its elevated debt repayment schedule with its requirement to maintain adequate foreign exchange reserve levels in the coming years.

Sri Lanka's economy grew 3.2% year-on-year in Q1 2018, slowing from 3.5% in the Q4 2017, due to political uncertainty and a weaker currency. The growth for 2017 of 3.3% is the lowest since the economy contracted in 2001, with growth subdued by a combination of tight economic policies and the Agriculture sector suffering a double whammy of drought and floods.

The financial sector showed improved performance as the supportive prudential measures continued to preserve stability of the financial system in 2017. The improved performance of the financial sector was broad-based and mainly contributed by the banks, other deposit-taking financial institutions and contractual savings institutions.

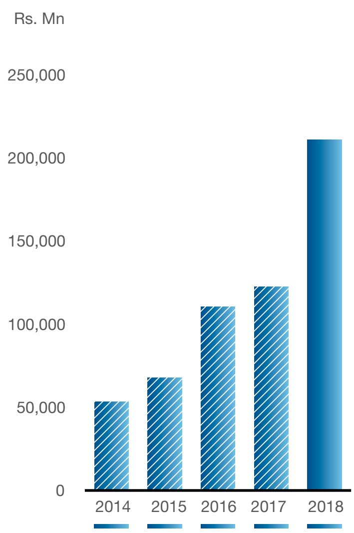
The performance of the Non-Bank Financial Institution sector moderated during 2017 with low credit growth, declining profitability and increase in non-performing loans. The slowdown in the sector was mainly due to fiscal and macro-prudential policy measures taken to curtail importation of motor vehicles, moderate economic growth and natural calamities such as floods and drought conditions that prevailed in 2017.

Acquisition of and Merger with LOLC Micro Credit Limited

The Company merged with LOLC Micro Credit Limited on 29th March 2018, in accordance with the directions received from the Central Bank of Sri Lanka and in compliance with the Companies Act. This strategic merger propels your company to the forefront of the industry as the largest Non-Bank Financial

Rs.211Bn

Total Assets



institution (NBFI) in the country with a total assets base of Rs. 211 billion and a lending book of Rs. 151 billion.

The high-yielding microfinance portfolio acquired through this merger aptly complements the SME book of your company, while the ability to raise public deposits enables the micro clientele to access savings and Fixed Deposit products. Further the microfinance customer base is poised to enjoy many benefits as a result of this merger, which includes digital engagement in financial services with fin-tech solutions.

Your Company offers a wide range of financial services solutions spanning from loans and leases, fixed deposits and savings including foreign currency deposits and is also one of the prominent players in the Islamic finance space in the country, offering innovative solutions. The Company has established a strong presence across the country with a footprint of 134 branches covering all strategic cities. The distribution model of the company leverages its experienced and strong sales and marketing team complementing the branch network. Now we go ‘beyond financial inclusion’ to offer these services to almost 500,000 customers of the merged Micro Credit arm.

LOLC Micro Credit was also the largest agriculture financier in the country and played a key role in rural development providing the much-needed finances for mechanisation and industrialisation in the micro sector, contributing positively to the improvement of the country’s GDP. The unique business practices resulted in receiving several international

The microfinance customer base is poised to enjoy many benefits as a result of this merger, which includes digital engagement in financial services with fin-tech solutions.

Chairman's Statement

The merged entity embodies strength and stability with a wider client base and even stronger distribution network, holding the largest public deposit base within Non-Banking Financial Institutions, complemented by the strong funding portfolio from foreign partners.

accreditations, including certification by the SMART Campaign in Client Protection Principles (CPP), marking the company as the sole recipient in Sri Lanka of this accolade. The micro credit business was also used as a case study at the INSEAD Business School.

The merged entity embodies strength and stability with a wider client base and even stronger distribution network, holding the largest public deposit base within Non-Banking Financial Institutions, complemented by the strong funding portfolio from foreign partners.

Summary of Financial Results

The principal activities of your Company include savings and deposits in local and foreign currency, loans and leases mainly for auto finance and Islamic Finance.

During the year ended March 31, 2018, your Company reported a net profit of Rs.2.2 billion on a total asset base of Rs.211 billion. This is a result of a robust franchise, good competitive position and a professional and experienced management team. However, it is crucial for focus on recoveries and control incremental slippages to keep NPAs within reasonable levels.

Your company operates with 134 branches in the country managed by an experienced senior management team, with knowledge in retail lending. A prudent loan origination policy and effective loan monitoring process, provides early warning signals and helps in adjusting loan policies in line with the evolving credit trends. A prudent provisioning policy which is stringent than the regulatory requirement is in place. The Company's asset quality was relatively moderate with gross NPA ratio at 3.87%. Maintaining a comfortable asset quality would be a key going forward.

A fairly diverse funding profile, with funding from various sources including, foreign funding agencies, local banks and public deposits has been a key to liquidity management.

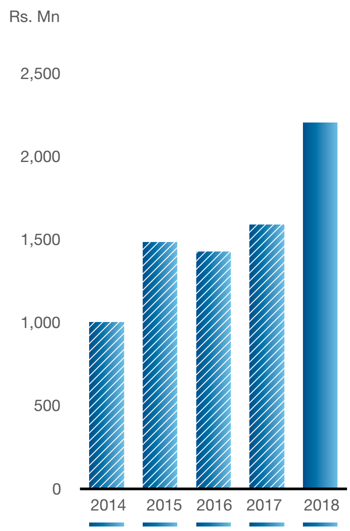
Return on Assets moderated to an extent on account of higher credit cost, largely on account the increase in the systemic rates; overall the profitability was however adequate with a Return on Assets of 1.6% and a Return on Equity of around 18.1%.

Looking Ahead

We look to the year ahead with renewed optimism. The opportunity to offer the newly acquired customers of LOLC Micro

Rs.2.2Bn

Net Profit after Tax



Credit access to Savings and Deposits completing another pillar in taking them towards financial inclusion. The wide array of Digital Financial Services offered will take our services literally to their palms through the LOLC Real Time application giving them the opportunity to inter alia make utility payments, transfer money (account-to-account) online real time to banks and other financial institutions.

The launch of our very own Credit Card (Internally) and iPay - The Platform Beyond Payments augurs well in our quest to go beyond inclusion and be within reach of each and every Sri Lankan whilst managing costs effectively.

Appreciation

I take this opportunity to thank the Board of our parent company, Lanka ORIX Leasing Comapny PLC, the former Board of LOLC Micro Credit Limited and my colleagues on the Board for their leadership and strategic insights that has been instrumental in LOLC Finance's ability to deliver growth, consistent financial results, regardless of the external shocks. I also wish to applaud the Executive Deputy Chairman, Director/ CEO, Senior Management and all employees across the LOLC Group who have supported LOLC Finance's success with their hard work and commitment.

To the Governor of the Central Bank of Sri Lanka and the Officials of the Department of Supervision of Non-Bank Financial Institutions, a big thank you for all the support and advice.

In conclusion, I wish to thank the shareholders, depositors and all other stakeholders of LOLC Finance PLC, for the trust and confidence placed in the Company and look forward to your continued support in the years ahead.

Mr. B C G de Zylva
Non Executive Chairman

22nd June 2018

Deputy Chairman's Statement

Post-merger, LOMC's micro customers immediately benefit from access to a wider product basket and can now just as easily take advantage of LOLC Finance's savings and Fixed Deposit propositions, which have a solid reputation in the market.

Dear Stakeholders,

The year 2017/18 is one of monumental significance for all of us at LOLC Finance, for not only does it bear witness to the historical merger between LOLC Finance and LOLC Micro Credit Limited (LOMC), but more importantly marks the point at which LOLC Finance is thrust to the forefront of the local financial sector as the largest Non-Bank Financial Institution (NBFI) in the country backed by a total assets base of Rs.211 billion.

The merged entity, LOLC Finance, further embodies the strength and stability of a wider client base and even stronger distribution network in addition to the distinction of holding the largest public deposit base within the NBFI sector.

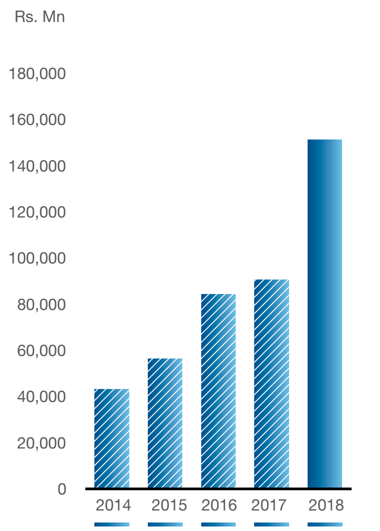
Having taken over as Deputy Chairman of LOLC Finance in late March 2018, I write to you with the intention of offering some clarity on our thinking behind the merger and to provide some context as to where we expect our new business strategy to take us in the near future.

What I find most reassuring is that the business models of both LOLC Finance and LOMC complement each other perfectly. LOLC Finance's focus on SMEs and LOMC's concentration on the micro segment offers considerable potential for business scalability within these client segments. For instance, post-merger, LOMC's micro customers immediately benefit from access to a wider product basket and can now just as easily take advantage of LOLC Finance's savings and Fixed Deposit propositions, which have a solid reputation in the market. A number of operational synergies are also evident, in particular LOLC Finance's strong track record of mobilising public deposits, serves as a stable and cost effective funding pipeline for LOMC's micro lending operation.

Given what appears to be an endless number of possibilities, I look forward to the future with heightened anticipation, for I expect it to be a time of fast-paced evolution and aggressive growth for LOLC Finance. In this context, we have set ourselves an ambitious target of reaching every household in Sri Lanka over the next five years, and have drawn up a five-year roadmap to catalyse our 2023 vision. In achieving what we have set out to do, we would look to provide the wide customer base with the opportunity to enjoy unparalleled benefits by delivering innovative customer experiences through traditional channels as well as through digital engagement in financial services and by combining the latest ground-breaking fin-tech solutions to reach grassroot level customer segments.

Rs.151Bn

Total Portfolio



Moreover, I welcome the opportunity to work with the strong team of committed professionals, who I have no doubt will take up the challenge to drive our growth agenda.

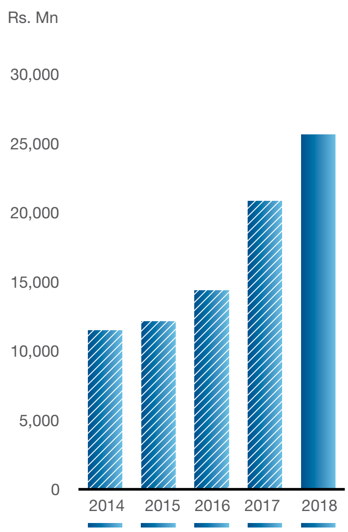
With a clear strategy and a strong team spearheading our efforts over the next five-year timeframe, I am confident that LOLC Finance is equipped with the right formula to achieve even bigger and better things in the years ahead.

Mr. R D Tissera
Executive Deputy Chairman

22nd June 2018

Rs.25.6Bn

Total Revenue



In this context, we have set ourselves an ambitious target of reaching every household in Sri Lanka over the next five years, and have drawn up a five-year roadmap to catalyse our 2023 vision.

Chief Executive Officer's Review

It is with much pride that I acknowledge that LOLC Finance continues to remain the leading deposit-taking institution in the NBFI sector, a position that we have held for the past several years even amidst interest rate pressure.

The year 2017/18 is one of particular significance for LOLC Finance. Aside from producing solid financial results and maintaining the (SL) A (Stable) credit rating, we made good progress on our IT transformation strategy to position LOLC Finance as a fin-tech solutions provider.

However, the highpoint for the year by far was the merger between LOLC Finance and our sister-company LOLC Micro Credit Ltd (LOMC) on 29th March 2018. With a combined asset base of Rs.211 billion, a joint lending book of Rs.151 billion, a footprint of 134 branches and a 2,000 plus workforce as at the merger date, LOLC Finance today is not only bigger and better, but is also now the largest Non-Bank Financial Institution (NBFI) in the country.

Operating Environment

The NBFI sector succeeded in tabling what is best described as a moderate performance, as credit expansion indicated clear signs of slowing down amidst Government-led fiscal and macro prudential policy measures taken in the previous year to curb the import of vehicles to the country, a move that continues to bring pressure on the sector's traditional lending model.

Meanwhile, due to slow economic growth, the currency depreciation in September and natural calamities such as floods and drought conditions throughout the year, all affected the demand for credit in 2017 and also pushed up the sectors' non-performing loans.

Sector-wide credit growth decelerated to 9.8% in 2017, down from a robust 21% in 2016, while asset quality deteriorated as NPL's rose to 5.9% in 2017 from 5.3% reported in 2016.

Nonetheless, profitability of the NBFI sector increased by 11.5%, albeit at a slower pace than what was reported in the previous year.

Operational Overview

Despite these headwinds, LOLC Finance has remained consistent in its operational performance, reporting demonstrably above-peer growth year after year. The year under review too was no exception, marked by solid all-round results.

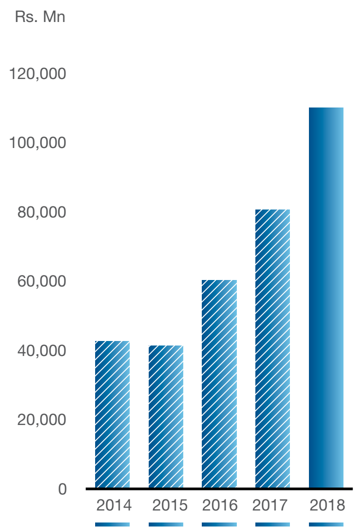
Deposits

It is with much pride that I acknowledge that LOLC Finance continues to remain the leading deposit-taking institution in the NBFI sector, a position that we have held for the past several years even amidst interest rate pressure.

In 2017/18, our deposit base grew by 36.5% year-on-year, driven by a strong increase in new customer acquisitions.

Rs.110Bn

Customer Deposits



This, I feel is a testament to LOLC Finance's resistance to interest rate volatility. Moreover, our ability to attract deposits irrespective of shifting in interest rates is also a clear endorsement of the public trust in our franchise.

While it is encouraging to see the growth in our deposit book, we are mindful that our deposit mix is largely skewed towards fixed deposits, with savings contributing to less than 6.7% of the total mix. To reduce our dependency on fixed deposits we worked diligently throughout the year, to boost the share of savings in our deposit mix. Efforts in this regard were led by the 'LOLC Finance Savings Cash Collection' service, a convenient solution that allows the customer to directly deposit cash to their savings account without having to visit an LOLC Finance branch. The success of the initiative lies in promoting a savings culture at a grass-root level, thus creating a platform for LOLC Finance to mobilise lower-denomination savings from the wider public.

Lending

Seemingly unaffected by the low credit momentum in the industry, the demand for our core lending products stayed strong throughout the year. I believe this is the result of our unequivocal focus to fulfill every financial need of our target customer segments and our firm commitment to ensure the right mix of products are made available to them at the right time and at the right price.

Of our main products, the Capital Lease has time and again proven to be immensely popular among SMEs, with over 26.5% of lending volumes for 2017/18 attributed to the product. Not taking our success for granted, we

To reduce our dependency on fixed deposits we worked diligently throughout the year, to boost the share of savings in our deposit mix. Efforts in this regard were led by the 'LOLC Finance Savings Cash Collection' service.

Chief Executive Officer's Review

The branch network remains at the center of our channel strategy. Over the years we have built a strong and enviable presence and with 134 branches across the country, LOLC Finance today has one of the strongest and most geographically dispersed footprints in Sri Lanka's NBFI sector.

continued with efforts to expand the Capital Lease USP through the launch of Riya Hariya in September 2017, a new proposition aimed at deepening our penetration into the SME market.

Meanwhile Speed Draft, LOLC Finance's flagship product mainly for individuals and to a lesser extent SME's, continues to break new ground in the consumer finance space. Now in it 6th year of the product life cycle, the demand for Speed Draft has grown exponentially, making it the fastest-growing consumer finance solution in the NBFI sector.

With our core lending products performing above par, LOLC Finance's loan book grew by 6.7% to reach Rs.96.5 billion as at 31st March 2018, from Rs.90.5 billion reported a year ago.

Asset Quality

LOLC Finance's asset quality deteriorated in 2017/18 with NPLs increasing compared to the previous year as many of our SME clients found their businesses challenged by weak economic activity and weather-related impacts.

However, I am happy to note that our stringent recovery efforts helped restrict LOLC Finance's NPL ratio to 3.87% in 2017/18, well below the industry average of 5.8% reported for 2017.

Delivery Channels

The branch network remains at the center of our channel strategy. Over the years we have built a strong and enviable presence and with 134 branches across the country, LOLC Finance today has one of the strongest and most geographically dispersed footprints in Sri Lanka's NBFI sector.

In an effort to further consolidate our presence and strengthen brand visibility, in the year under review, we began phasing out the window operations at Isuru-Diriya Centres (IDC), with all 13 IDC operations being relocated as new service centres in the same areas. This was followed by a programme to install Cash Deposit Machines (CDM) at selected branches.

At the same time our digital channel strategy was also expedited with several new enhancements to the LOLC Real Time platform, key among them the new utility payment model with a 60+ merchant network and the rollout of Sinhala and Tamil versions of the App. Testifying to the success of our efforts, the LOLC Real Time platform remains ever popular with our customers, with the customer base and transaction volumes reporting double digit growth each year.

Financial Results

Despite the challenging environment, the profitability of the Company was resilient and managed to sustain its profitability levels. Though there was a dip in the profit before tax compared to the previous year, the tax expense for the period was a reversal arising from the deferred tax asset recognition on the acquisition of LOLC Micro Credit Limited. Accordingly, the PAT of the Company grew by 39% and stood at Rs.2,201 million. The total assets of the Company stood at Rs.154.3 billion reflecting a growth of 26% over the previous year. The growth in the asset base was driven mainly by the lending portfolio which increased by Rs.6 billion which was a growth of 7%. The lending portfolio constituted 63% of the total assets and amounted to Rs.96.5 billion. LOLC Finance reported Rs.22 billion of interest income during the year which was an 18% increase compared to the previous year. This was achieved despite the 7% marginal portfolio growth.

IT Transformation Strategy

IT transformation is something we feel very strongly about, for we believe it is what will enable LOLC Finance to stay ahead of the curve. By leveraging on the latest digital disruptive technology, our IT transformation strategy is designed to provide the impetus to improve our products and services and implement business process reforms across the Company. In the year under review, our efforts focused on several key themes including customer convenience, process digitisation and cyber security. We also undertook the mammoth task of creating an integrated IT platform to accommodate the merger between LOLC Finance and LOMC. And I am pleased to report that in each case, we made steady progress in achieving what we set out to do as detailed in our IT report on page 52.

Inspired by the progress made so far, we have now raised our ambitions even further and have begun focusing the next phase of our IT Transformation strategy to position LOLC Finance as a leading Fintech (Financial Technology) specialist in Sri Lanka. Taking the first steps towards achieving this goal, we began working on iPay, a groundbreaking new online payment tool that uses next-generation software architecture to support cashless transactions.

Outlook and Strategy

I look forward to the future with a great deal of optimism, for the post-merger synergies bring endless possibilities for LOLC Finance in the years ahead.

As a first step, we expect to use our scale advantage - our formidable field force of 134 widespread branch network, and superior digital platforms - to advance our strongholds in the SME and Micro segments. Our intention is to reach out to all of the estimated six million households in the country by giving customers access to wider and more compelling propositions.

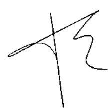
At the same time we will continue to pursue opportunities for cost reduction that will significantly improve our cost-to-income ratio and boost our bottom line.

In the long-term, our intention is to map these successful operational models to catalyse our regional expansion agenda and thereby further accelerate LOLC Finance's growth trajectory in the years to come.

Appreciations

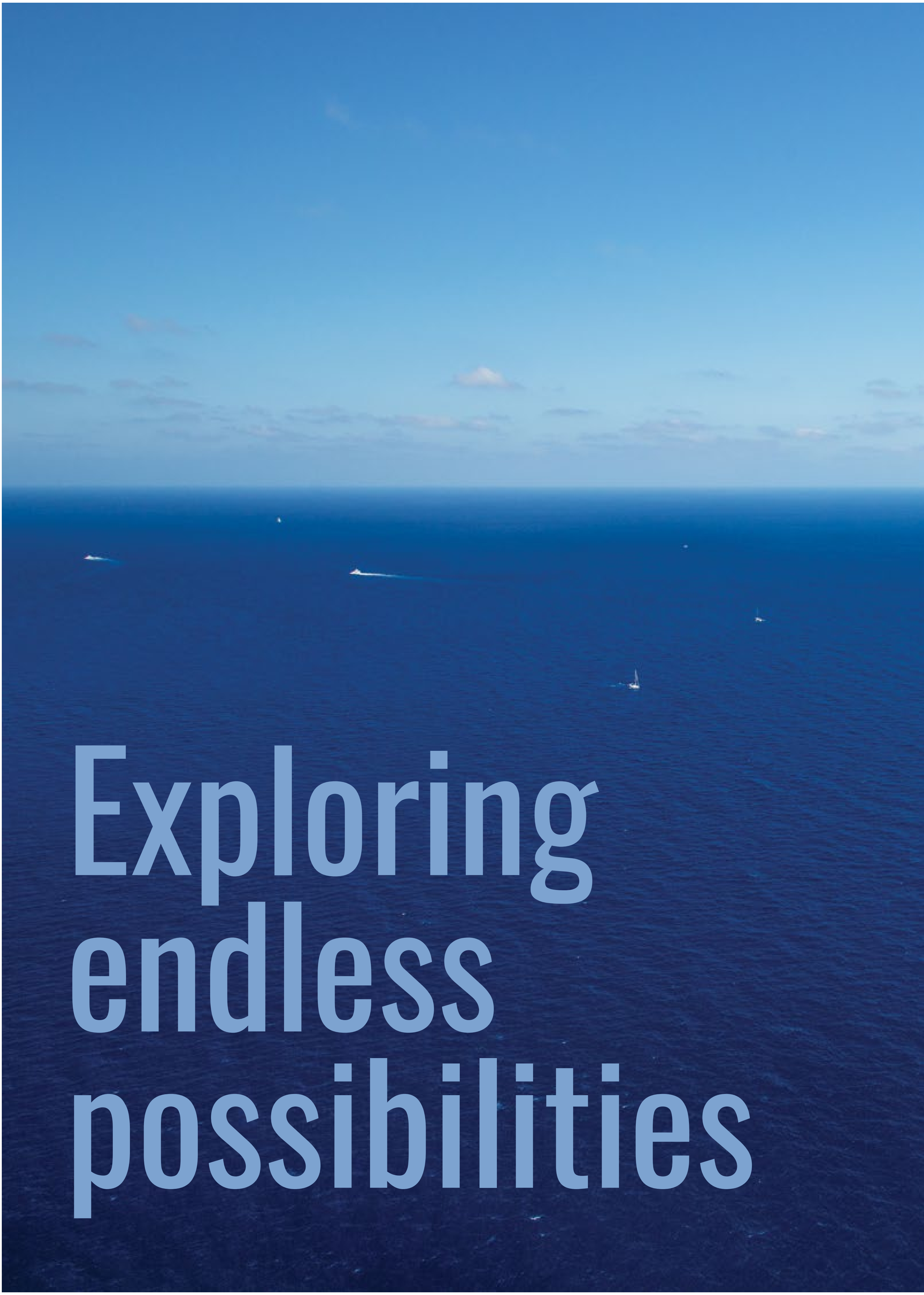
I wish to express my sincere thanks to the Chairman and the Board of Directors of LOLC Finance PLC for their support, guidance and wise counsel. I also extend a special thank you to the management and staff of LOLC Finance for their unquestionable loyalty and steadfast commitment towards the Company's year-round success.

I take this opportunity also, to welcome the LOMC team and look forward to working together in realising our corporate goals. A special word of thanks to our depositors, customers, bankers and other stakeholders for their long-standing support, and finally to our shareholders, I thank you for the trust and confidence placed in the Company over the years. I seek your continued patronage as we move forward to discover the limitless potential that waits LOLC Finance in the years ahead.



Mr. Ashan Nissanka
Chief Executive Officer

22nd June 2018


Exploring
endless
possibilities

Management Discussion & Analysis

The Business

Product Portfolio

At LOLC Finance, one of our goals is to remain in a continuous state of innovation. And so, over the years we have branched out into avenues such as Auto and SME Finance, Working Capital Finance and Foreign Currency Solutions, among others, in the hope that we may empower all citizens of Sri Lanka to envision a future of endless opportunity.

LOLC Finance Fixed Deposits

Un-Fixed Deposits

Flexi - investment plan ranging from 12 to 60 months at the most competitive interest rates.

Key features:

- Option to withdraw interest monthly, annually or at maturity.
- Withdrawals can be made on the completion of one month without any penalty.
- Insured by the Deposit Insurance Scheme of the Central Bank of Sri Lanka.
- Free interbank transfers.

Fixed Deposit Bond

A flexible long-term financial tool pioneered by LOLC Finance.

Key features:

- Available for corporates and individuals for three to five years.
- Original value can be gifted or transferred at any time.

LOLC Finance Savings

General Savings Account

Simple and easy financial planning for everyone.

Key features:

- Needs only an initial deposit of Rs.1,000.

Super Savings Account

Better rates for high savers.

Key Features:

- Available to locally-registered companies, citizens and Sri Lankan resident visa holders.

- Initial deposit of Rs. 2,000.
- No registration fee or monthly fee.
- Interest is calculated daily and credited monthly.
- Free unlimited withdrawals and deposits.
- Accommodates Standing Orders.
- Free visa-enabled Debit card.
- Maestro international debit card issued free of charge.

SME Finance

Speed Draft

The fastest solution for all your financial needs.

Key features:

- Funds on demand.
- Usable for a variety of purposes including; working capital, Import financing, purchasing of assets, re-stocking of inventory, higher education, etc.
- Interest charged on the amount utilised.
- Hassle-free processing service.
- Complete flexibility in usage.

Flex Loan

An innovative and flexible financial tool.

Key features:

- An extended loan repayment period of 10 years.
- Attractive monthly installments.
- Offered on floating rate of interest.

LOLC Champ

Designed principally for children, the LOLC Champ Account helps parents make financial provisions for their child's future ambitions and aspirations. It is also the perfect way to get children into the savings habit at an early age.

Key Features:

- No registration fee or monthly fee.
- Initial deposit of Rs. 100.
- Can be opened at all branches.
- Competitive annual interest rates.
- Free debit card upon reaching 18 years of age.

PFCA Fixed/Savings Accounts

Designed for locals working abroad, the NRFC Fixed/Savings Accounts enable the customer to save and earn interest in a foreign currency. Through LOLC Finance's partner network with Lanka Money Transfer, customers are assured of quick transfers, with minimum delays and they are able to send money from any bank.

Special Foreign Investment Deposit Account (IIA)

Ideal for non-Sri Lankan citizens and non-resident Sri Lankan citizens, the SFIDA is the perfect way to enjoy the most attractive interest rates for foreign currency deposits. SFIDA customers have the option to either maintain a foreign currency account or convert funds into Sri Lankan Rupees, and benefit from the prevailing market interest rates, at any given time.

Value Enhancements

VISA Debit Card

Offered in partnership with VISA International, the LOLC Finance VISA Debit Card is made available to all savings account holders and comes loaded with a variety of premium, merchant offers and seasonal discounts for the card holder.

LOLC Real Time

LOLC Finance's internet banking module, LOLC Real Time is made available to all account holders through a simple registration process. LOLC Real Time allows the customer to manage personal finances, make Transfers to Outside accounts and over 60 merchant payments, etc.

Specialist Services

LOLC Wealth

An exclusive, personalised service for liability products catering to the clients' financial priorities. The service is made available by a specialised team of LOLC Finance professionals who remain committed to assisting our clientele.

Islamic Finance from LOLC Al-Falaah

In keeping with the growing global popularity and local demand, Al-Falaah's customised and innovative product portfolio offers a superior range of Shari'ah compliant financial solutions.

Margin Trading Solutions

A dynamic option that allows customers to leverage on the value of their share portfolio to earn additional income.

Currency Exchange

As an authorised money changer, LOLC Finance is probably the only financial institution in the country to offer currency exchange services at all LOLC Finance branches islandwide.

Remittance Services

LOLC Finance offers a secure and efficient channel for transferring foreign currency to Sri Lanka. As the only Non-Banking Financial Institution operating in this line of services, LOLC Finance's services are on par with the quality standards offered by banking institutions. Customers are assured of quick transfers, with LOLC Finance's partnership with Lanka Money Transfer, providing a safe passageway for Customers to transfer money from any Bank Worldwide.

The Business Model

STAKEHOLDERS

Customers
Investing in solutions to improve the customer experience

Shareholders
Meeting shareholder expectations by delivering sustainable returns year after year

Employees
Develop a robust workplace which promotes both professional and personal growth of employees

Communities
Create long-term socio-economic value by promoting greater financial inclusion

Environment
Offset the negative environmental impact caused by the business

VALUE ADDING ACTIVITIES

Growth Strategy
An integrated growth strategy that drives economic, social and environmental value for the benefit of all stakeholders

Customer-centric business model
Offering a full range of financial products and services made accessible through multiple channels

Technology and Innovation
Invest in the latest technology to ensure efficient delivery of products, data security and business continuity

Financial Stability
Improve financial performance to strengthen core fundamentals and build resilience

Risk Management
Monitor and manage key risks in order to mitigate the impact on the business

Corporate Governance
Strong governance framework to provide oversight, ensure best practices and regulatory compliance

VALUE SCORECARD 2017/18

Customers
LOLC Real Time APP

12,000+

(Downloads for a 12 - month period) -
Page 52 to 54

Shareholders
NPAT

Rs.2,201Mn

ROE

18.1%

Employees
Total training cost

Rs.18Mn

Training hours per employee

15 Hours

Communities
LOLC Finance contributes to the economic and social development of the communities through initiatives that focus on environment conservation, paperless branch concept, plant a tree social media campaigns as well as branch level, regional level community development activities.
Page 63

Review of Operations

Operating Environment

Non-Bank Financial Services Sector (NBFI) Performance

Overview

Marked by low credit growth and higher non-performing loans, the NBFI sector reported a moderate performance in 2017.

The overall lack of credit expansion led to a slowing down the NBFI sector growth during the year 2017, mainly on account of the tight fiscal and macro prudential policy measures taken to curtail the importation of motor vehicles and lending towards unregistered vehicles. Moderate economic growth witnessed in the economy during the year and high interest rates that prevailed in the market also had a bearing on the weak appetite for credit.

Meanwhile in an unusual turn of events, the sectors' funding mix appeared to change indicating that assets were mainly funded through deposits while borrowings of the sector declined compared to the high growth recorded during the previous year.

Assets

As a result of the low credit demand, the industry-wide Asset base grew at a rate of 11.8% compared to the 21.7% growth reported in 2016. Consequently, the asset base grew by only Rs.143 billion during the year reaching Rs.1,355 billion

Rs. 1,355 Bn

↑ 11.8%

Assets

As a result of the low credit demand, the industry-wide Asset base grew at a rate of 11.8% compared to the 21.7% growth reported in 2016.

Review of Operations

Operating Environment

The sector remained well-capitalised and consistently above the minimum requirement during the year, demonstrating increased resilience towards any perceived adverse shocks.

by end 2017. Loans and advances, accounted for 78% of the Assets and hence was the main growth driver for the year. Finance leases accounted for 50% of the loans and advances followed by other secured loans, which accounted for 40%.

Asset Quality

The NBFI sectors' Asset quality deteriorated in 2017 with the gross Non-Performing Loans (NPLs) portfolio increasing by Rs.12.9 billion in 2017. The higher NPLs were mainly due to the pressure brought on by the prolonged drought and the slowing down of the economic activity, which affected the repayment capacity of the business community.

The higher volume of NPL's together with the lower than expected growth in loans and advances saw the industry-wide NPL ratio increase to 5.9% in 2017 from 5.3% in 2016.

Liabilities

Customer deposits became the major portion of liabilities in 2017 and accounted for 50.7% of the total liabilities of the sector, with borrowings showing a negative growth of 9.7% compared to the high growth of borrowings of 39.6% experienced during 2016.

The increasing reliance on deposits was mainly attributed to the declining trend of deposit interest rates, making it a more viable source of funds.

Sector-wide deposits grew by 29.4% to Rs.686.7 billion in 2017, compared to the growth of 10.4% in 2016. Time deposits grew by 29.2% in 2017 compared to the growth of 11.1% in the year 2016 and savings deposits by 35.3% compared to the negative growth of 1.7% recorded in the previous year. Nonetheless, Time deposits accounted for over 95% of total deposits.

Profitability

Net interest income of the sector recorded growth of 11.5% in 2017, albeit at a slower rate than in 2016. As a result, net interest margin of the sector declined marginally to 7.7% in 2017 from 7.9% in 2016. The loan loss provisions made against NPLs increased, in turn affecting the profitability of the sector. Accordingly, the sector posted a profit after tax of Rs.25.8 billion, down by 18% from the profit of Rs.31.5 billion recorded in the year 2016.

Industry-wide ROA for 2017 declined by 80 basis points to 3.2%, while ROE dropped by nearly 700 basis points, to 16.1%, indicative of the stress on the profitability of the sector.

Rs.686.7Bn

Sector-wide Deposits

156Bn

29.4%

Liquidity and Capitalisation

The sector remained well-capitalised and consistently above the minimum requirement during the year, demonstrating increased resilience towards any perceived adverse shocks. The total regulatory capital improved by 25.1% to Rs.145.3 billion, mainly due to efforts taken by the companies to enhance the minimum capital requirement up to Rs.1 billion by 01 January 2018 as required, coupled with increase in retained profits.

The sector continued to maintain healthy capital adequacy ratios well above the minimum threshold level. Core capital and total capital ratios increased to 12.4% and 13.1%, respectively, compared to 11.3% and 11.7% recorded in 2016.

Source: CBSL Annual Report 2017

Operating Results

Performance Overview – LOLC Finance

SAVINGS AND DEPOSITS

LOLC Finance's Deposit unit registered a strong performance for the year under review, amidst stiff competition from peers. Driven by consistent BTL activities conducted across the branch network, the Deposit book recorded a year-on-year growth of 36.5%, in turn enabling LOLC Finance to retain its position as the No.1 deposit-taking institution in Sri Lanka's NBFI sector. Further demonstrative of the public confidence in LOLC Finance and also the Company's resistance to interest rate movements, the customer base grew by 17.04% over the previous year.

Of the Deposit products offered by LOLC Finance, the senior citizen product recorded the highest growth, marked by a 44.55% year-on-year growth in the portfolio together with a 19.11% increase in the customer base.

The Deposit mix remained more or less unchanged from the previous year, with Fixed Deposits (FDs) accounting for over 20.12% of new customer acquisitions. Notably however given the uncertainty surrounding interest rate movements, the trend towards shorter-term FD tenures was evident throughout the year.

The emphasis on increasing the savings base continued in this year as well, with effort being expedited through the launch of the doorstep savings cash collection service, a solution that gives the customer the ability to directly deposit cash to their savings account without having to visit the branch. Aimed at promoting a savings culture, the 'LOLC Finance Savings Cash Collection' service is a convenient option that reduces the risk of carrying and keeping cash and also eliminating the hassle of travelling to a branch.

The concept was piloted at 16 branches, with a team of marketing officers being trained and equipped with mobile cash collection devices (POS terminals) linked to the Company's core IT framework enabling them to provide the customer with immediate system-generated cash receipt. Necessary IT-related changes were also made to ensure the accountholder will receive an instant

Rs.110 Bn

36.5%

Deposit Book

The Deposit book recorded a year-on-year growth of 36.5%, in turn enabling LOLC Finance to retain its position as the No.1 deposit-taking institution in Sri Lanka's NBFI sector.

Review of Operations

Operating Results

Several important steps were taken during the year to expand the Capital Lease USP; most notable among them, the launch of Riya Hariya in September 2017 aimed at penetrating micro level of SMEs to promote budget four-wheelers.

SMS alert confirming the fund transfer and are further able to immediately verify the transaction through the LOLC Real Time app. The service is offered to customers free of charge and is supported by a 24-hour call centre. To augment the cash collection USP, an island-wide network of 50+ authorised cash collection merchants were also provided with similar POS terminals. Since its launch in March 2017, the concept has generated considerable interest among customers and is expected to gather momentum in the year ahead.

LENDING

LOLC Finance's lending business registered a strong performance with the total loan book expanding by 6.7% year-on-year.

Serving mainly individuals and SMEs all products performed well throughout the year. The Capital Lease portfolio in particular tabled exceptional results growing by over 38% year-on-year. The demand for Capital Leases, which targets the registered three-wheeler and two-wheeler markets, remained strong throughout the year, thanks to the ongoing ATL campaign to reinforce LOLC Finance's USP. Consequently, over 23.5% of the total new business generated for 2017/18 was through the Capital Lease product.

Several important steps were taken during the year to expand the Capital Lease USP; most notable among them, the launch of Riya Hariya in September 2017 aimed at penetrating micro level of SMEs to promote budget four-wheelers. As part of the initial promotional strategy for Riya Hariya, LOLC Finance tied up with www.ikman.lk to provide special concessionary rates in a limited time offer.

To further support the growth of all Capital Lease products and Riya Hariya in particular, a number of internal processes were automated to enhance efficiency and improve service delivery to the customer, among them; fast-tracking of the RMV registration process and the issuance of the purchase order at dealer points to provide the customer with one-day service.

The Speed Draft continues to be a key growth driver in LOLC Finance's lending model, contributing approximately 26.5% to the total loan book as at 31st March 2018. Now in its sixth year of the product cycle, the product has gained traction across the country and has made a name as the most convenient snap loan solution available in the market. While island-wide volumes continue to grow, a notable uptick in demand was observed from the Southern Province in the year under review, with certain branches showing a high concentration.

Other notable developments for the year included the first phase of the Easy-loan roll out. Under the Easy-loan scheme, customers who have fully repaid their loans become entitled to receive a top up loan within the limits of the pre-approved facility. The product appears to be well received by the market showing signs of steady growth within the first few months of its launch in 2017.

RECOVERIES

A challenging year for the recoveries unit as low-level economic activity and adverse weather conditions brought pressure on the repayment capacity of individuals and businesses, especially SMEs.

Amidst this environment, LOLC Finance's recoveries unit re-doubled its efforts to prevent customers from reaching the non-performing loan category. Call centre operations were centralised and additional resources deployed to strengthen monitoring and follow up processes. A number of administrative procedures were further simplified to facilitate loan rescheduling that would offer some relief to customers.

These strategies succeeded in containing LOLC Finance's NPL ratio to 3.87% for the year under review, enabling the Company to stay well below the industry average of 5.8%.

BRANCH NETWORK

The main strategic thrust for LOLC Finance's branch network was to consolidate the existing footprint. In this context, a strategic decision was made to move out all LOLC Finance service centres located at Isuru-Diriya Centres (IDC) within the regional post office network.

Consequently, all 13 service centres located at post offices at different parts of the island were vacated and relocated to more spacious locations in the same locality while nine Branches/ Service Centres were relocated in order to provide greater visibility and more convenience to customers. Further, during the last financial year one standalone branch was opened in Mawanella leaving the footprint of LOLC Finance at 134 after IDC service centres at Thanamalwila and Keppitipola were closed down as it was felt the customers of those two locations could be served by other LOLC Finance branches within a 25-km radius of these areas.

The programme to install Cash Deposit Machines (CDM) at branches which kicked off the previous year continued to expand this year with several initiatives taken to increase the number of CDM machines and make it available 24/7 which will be completed within FY 2018/19. Further, in order to enhance service levels to customers and also to contribute towards conservation of the environment blue prints were laid during the year to move in to a paperless office solution which is also expected to be completed within FY 2018/2019.

Meanwhile in an attempt to strengthen administrative oversight across the network, the overall supervisory architecture was restructured with the number of regional officers being increased from 8 to 9, with effect from September 2017.

ISLAMIC BUSINESS UNIT

LOLC Finance's Islamic Business Unit, Al-Falaah, continues to demonstrate its leadership position in the market. Commemorating its 10th year in operation Al-Falaah registered a strong performance in the year under review, with all performance metrics tabling improved results. Revenue reached Rs.2.48 billion, up by 20% from the Rs.2.07 billion reported in the previous year, while Profit before Tax decreased by 12% to Rs.0.48 billion in 2017/18 from Rs.0.55 billion in 2016/17, all commendable achievements, given the subpar economic performance and moderate credit growth in the NBFI sector.

With the loan to value (LTV) direction introduced by the Government in the previous financial year continuing to impact Ijarah leasing business, the Company's lending portfolio registered only a marginal increase of 0.36% in 2017/18. With the core Ijarah business under pressure, the Company realigned its lending mix to focus on promoting other offerings in the product basket, while additional emphasis was also placed on margin management in order to safeguard the bottom line.

Meanwhile testifying to the Company's solid reputation and public trust in the brand, a steady growth in deposit volumes was observed throughout the year, enabling Al-Falaah's Deposit book to cross the 10 billion mark and reach Rs.10.28 billion as at 31st March 2018.

In other notable developments, Al-Falaah was awarded the 'Best Islamic Bank in Sri Lanka' in the IFN Best Banks Poll 2017. This award for the most popular brand amongst Islamic finance entities signifies Al Falaah's market leadership, innovation and compliance. Al-Falaah also bagged two Bronze awards for 'The Best Leasing Company of the Year' and 'Social Upliftment Award' at the Sri Lanka Banking and Financial Institution (SLIBFI) Awards 2018 which is symbolic of Al-Falaah's market-leading efforts in these areas.

Review of Operations

Financial Review

The Company continued to reap benefits from the far-reaching branch network established over the years and further improved its No. 1 position in the NBFI sector in terms of total assets and customer deposits.

Overview

As a leading company of the Non-Banking Financial Institution (NBFI) sector in the country, LOLC Finance PLC (LOFC) concluded yet another successful financial year while sustaining its impressive growth and consolidating its position in the NBFI Sector. The Company continued to reap benefits from the far-reaching branch network established over the years and further improved its No. 1 position in the NBFI sector in terms of total assets and customer deposits. This position was strengthened by the strong confidence placed by the customers in the LOLC brand and the superior customer service of the Company.

The most significant event of the year was the amalgamation with LOLC Micro Credit Limited as at 29th March 2018, which propelled the Company to become the largest NBFI in the country in terms of the asset base. As the amalgamation took place at the end of the year the Statement of Financial Position as at 31st March 2018 reflects the position of the Merged entity, but the Statement of Profit or Loss reflects the results of LOLC Finance PLC as a stand-alone entity. Therefore, for the purpose of this financial review the ratios and the results are calculated and discussed on a stand-alone basis to enable comparison with previous year.

The financial year under review experienced a challenging economic environment, pressure increasing on credit quality. This resulted in significant pressure on the profit margins. To arrest the situation, the management took steps to focus on better quality credit vs portfolio growth. This resulted in the Company establishing even stronger credit controls and focussing on asset backed lending. As a result, the overall growth in the portfolio was lower than the expected levels. Further, significant focus was on collections to manage the risk of bad debts.

Strong customer confidence placed in the Company saw a significant inflow of deposits. This assisted the Company to change its borrowings mix by reducing the proportion of bank borrowings and increasing the proportion of retail customer deposits. These strategies assisted the Company to sustain and improve profitability from previous year levels.

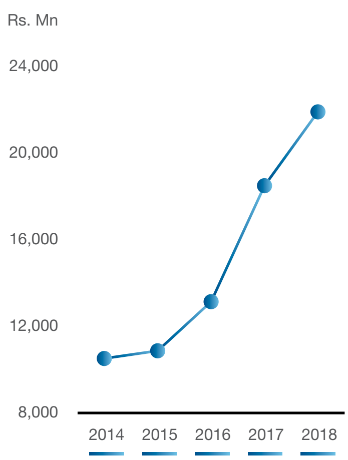
A detailed analysis of the financial performance and financial position of the Company follows in this section of the Annual Report.

Interest Income

LOFC reported Rs.22 billion of interest income during the year which was an 18% increase compared to the previous year. This was achieved despite the portfolio growth being a marginal 7% and is primarily attributable to effective portfolio re-organisation strategies followed by the Company. These strategies enabled the Company to show a continuous growth in interest income over the last five years as reflected in the graph below.

Movement of Interest Income in last Consecutive Five Years

Rs.3,409 Mn



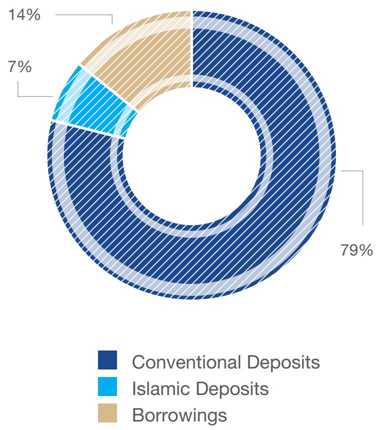
Interest Income Comparison (2016/17 & 2017/18)

An evaluation of product wise income shows that the interest income from leases grew by 46% and stood at Rs.4.8 billion. Leases constituted 22% (2016/17-18%) of total interest income. This was achieved by the high yield generated by the leasing portfolio. The interest income from factoring grew by 13% and stood at Rs.3.8 billion. Factoring contributed 18% of total interest income as same as the previous period. However, Interest income on loans showed a modest growth of 10% year on year surpassing Rs.11.4 billion during the financial period. Loans were the biggest revenue generator and contributed 52% to the total income. Interest income on overdue rentals and other category showed positive growth and increased by 26% over last year.

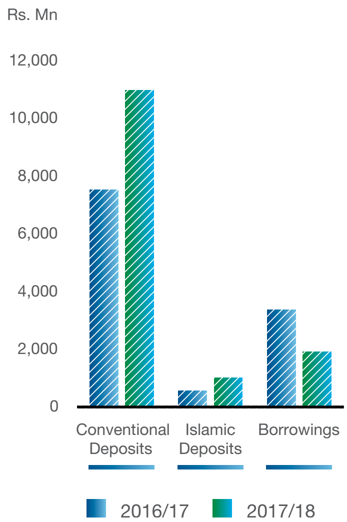
Interest Expenses

Total interest expense grew by 21% primarily as a result of rising interest rates. The Company's primary funding source is customer deposits, of which a significant portion (above 81%) is short term deposits. Given the increasing interest rates, re-pricing of these deposits caused significant increase in interest expenses. 86% of the total interest expenses were on customer deposits and the balance on borrowings. The interest on conventional deposits grew by 46% and the cost of profit-returns paid on Islamic deposits grew by 82% keeping in line with the growth in the deposit base and the increase in the cost of deposits. The interest on borrowings showed a decrease of 43% primarily due to the settlement of short term loans and capital payment of other-loans during the period.

Interest Expenses Composition 2017/18



Interest Expense Comparison (2016/17 & 2017/18)



Net Interest Income, Other operating income and Expenses

The growth in the top line together with the increase in borrowing costs resulted in a net interest income of Rs.8 billion which is a 14% growth over the comparative period's net interest income (NII) of Rs.7 billion.

Other operating income increased by 59% and amounted to Rs.3.7 billion compared to Rs.2.3 billion reported in the previous year. This was primarily as a result of increase in the investment portfolio, consisting of government securities maintained for statutory reserve requirements and increase in term deposits which are maintained as part of hedging strategy and liquid assets requirements.

As a result of the robust, efficient collection strategies followed by the Company, the non-performing loans (NPL) ratio was maintained at 5.04% as at 31st March 2018 (2017: 4.41%), despite the challenging economic conditions and deteriorating credit quality in the market. Provision for impairment losses and Written-off increased to Rs.3,709 million compared to Rs.1,329 million recorded in the previous year. Further, the provision and write off expenses compared to the average portfolio was 4% (increased from 2017/18-1.52%).

Total overheads increased only by 2% despite tough market conditions and shows the efficiency of operations. The effective strategies implemented by the company resulted in growth in the net interest income and efficient management of resource curtailed the increase in expenses and this resulted in the cost to income ratio decreasing to 48% from 59%. However, the overhead margin (total overheads/average lending portfolio) was maintained at the same level around 6%.

Profitability

Despite the challenging environment the profitability of the Company was resilient and sustained its profitability levels. Though there was a dip in the profit before tax compared to the previous year, the tax expense for the period was a reversal arising from the deferred tax asset recognition on the acquisition of LOLC Micro Credit Limited.

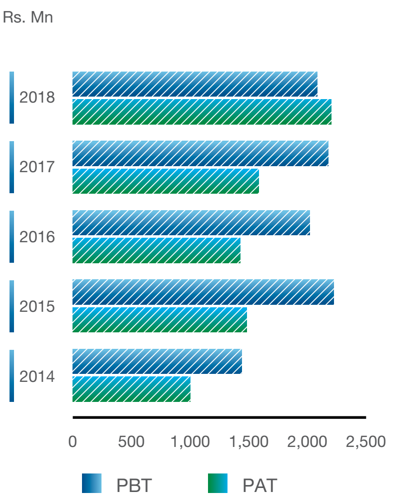
Consequently, the PAT of the Company grew by 39% and stood at Rs.2,201 million. The ability to retain and grow profits can be primarily attributed to

Financial Review

the ability of the management of the Company to make timely decisions and the agility of the organisation to adopt to challenging economic conditions.

The return ratios saw a slight increase from previous year. The return on equity (ROE) stood at 18.1% and the return on assets (ROA) stood at 1.6% when compared to 15.7% (ROE) and 1.4% (ROA) in the previous year respectively.

Profitability



Asset Base (LOLC Finance PLC stand-alone – pre amalgamation)

The total assets of the Company stood at Rs.154.3 billion showing a growth of 26% over the previous year. The growth in the asset base was driven predominantly by the lending portfolio which increased by Rs.6 billion (7%). The lending portfolio constituted 63% of the total assets and amounted to Rs. 96.5 billion. Investments in Government securities, deposits with banks and other financial institutions stood at Rs.17.8 billion, a 12% of total assets. During the year based on the actual usage of certain properties, a reclassification was made from property, plant and equipment (PPE) to investment properties amounting to Rs.1.6 billion. This resulted in the PPE of the Company showing a decrease of 37.4% and amounted to Rs.1.6 billion (1.1% of total assets). Investment properties grew to Rs.5.4 billion and represents 4% of total assets.

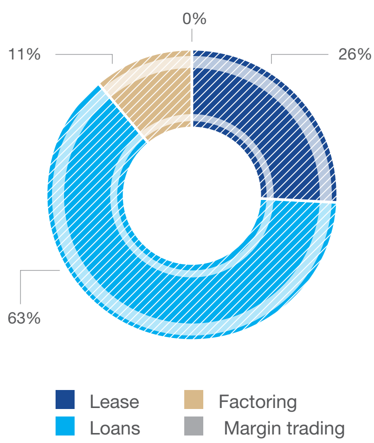
Lending Portfolio (LOLC Finance PLC stand-alone – pre amalgamation)

The growth in the lending portfolio was complimented by all the major products offered by the Company. The leasing portfolio expanded from Rs.18.4 billion in 2017 to Rs.25.5 billion by 38%, while the loan portfolio showed a lesser modest growth of 9%.

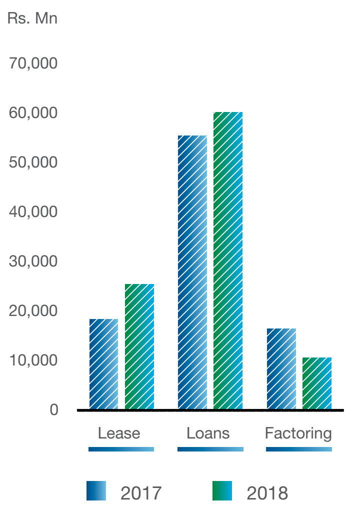
The major part of the portfolio (62%) constituted of loans, which includes revolving, term and mortgage loans. Leases were the second largest product constituting 26% of the portfolio and factoring business showed a decline and amounted to 11% of the lending book.

The gross lending portfolio of the IBU stood at Rs.11.3 billion which was 12% of the total lending portfolio and is continuously gaining prominence within the business of LOFC.

Lending Portfolio



Comparison of Main Components in Lending Portfolio (2016/17 & 2017/18)

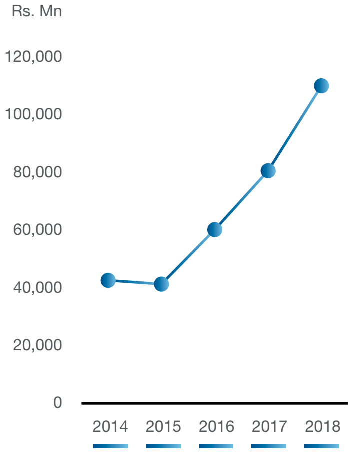


Funding – Deposits and Borrowings (LOLC Finance PLC stand-alone – pre amalgamation)

LOFC continued to experience a significant influx of customer deposits, resulting in the deposit base by over Rs.29 billion (37% growth) to stand at Rs.110 billion at end of the year. This phenomenal growth ensured that the Company retained its crown as the largest deposit-taking institution in the NBFI sector.

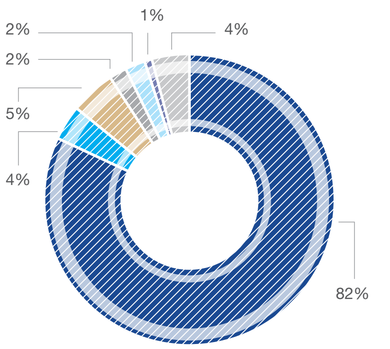
Movement of Deposit Base in Consecutive Five Years

Rs. 29,420 Mn



Conventional fixed deposits remain as Company's primary source of funding and it showed a growth of 29% while increasing the value from Rs.69.4 billion (2016/17) to Rs.89.1 billion. Deposits from the IBU increased by 54% from Rs. 6.6 billion in 2016/17 to Rs.10.1 billion in 2017/18. The foreign currency base of the company has shown a significant increase of 320% and amounted to Rs.7.3 billion at end of the financial year. The risk of exchange rate fluctuations is effectively managed via forward exchange rate contracts and back to back deposits entered by the Company covering the entire exposure.

Deposit Composition 2017/18



During the year, with the significant inflow of deposits and effective management of portfolio growth, the Company opted to settle its short term bank borrowings. As a result, the borrowing base reduced by 33% and stood at Rs.16.4 billion at end of the current financial year.

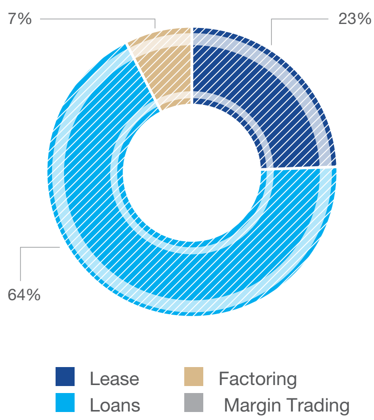
The funding mix of the Company changed significantly compared to the previous year, where the deposit constituted 84% (Up from 2017's 75%) of the total borrowings and the balance 16% (down from 25% last year) was from borrowings.

Asset base and Lending portfolio (LOLC Finance PLC merged entity)

Subsequent to the amalgamation with LOLC Micro Credit Limited (LOMC), total assets of the merged entity stood at Rs.211 billion and the total portfolio stood at Rs.151 billion at the end of the current financial year. Further, borrowings of the company amounted to Rs.70 billion primarily arising from the borrowing base absorbed after the merger with LOMC.

The composition of the lending portfolio post-merger was as follows.

Lending Portfolio



With the amalgamation with LOMC which was predominantly funded by foreign borrowings from a multitude of DFIs, the funding mix of the company changed and post-merger the deposits constitutes 60% of total funding and balance 40% is represented by external borrowings.

To maintain capital adequacy requirements within regulated limit, the Company made a rights issue which resulted in an increase of the stated capital by Rs.5.9 billion.

Regulatory ratios (LOLC Finance PLC merged entity)

Capital Adequacy Ratio (CAR)

The year's profits and the rights issue improved the core capital of the company. Consequently, the Tier I / Core capital adequacy ratio of the Company was 10.15% (2016/17 - 10.91%) and the total Capital Adequacy Ratio was 11.10% (2016/17- 13.31%). This was higher than the minimum requirement laid out by the CBSL of 5% and 10% respectively.

Capital Funds to Deposit Ratio

As a result of the significant increase in the deposit base the capital funds to deposits ratio reduced to 17.29% at the end of the current year compared to 17.30% at end of the previous year. However, the ratio was significantly higher than the required minimum ratio of 10%.

Liquid assets

The liquid assets of the Company stood at Rs.22,016 million which was well above the required minimum amount of Rs.16,947 million. The liquid assets are maintained in government securities and deposits with banks and other financial institutions optimising returns to the Company.

Non-performing loans and advances (NPL)

The NPL ratio of the company decreased and stood at 3.87% during the current period (2016/17 standalone - 4.41%). This was due to the company managing the NPL portfolio and as a result of new portfolio added from the LOLC Micro Credit Limited which had a lower NPL ratio.

In conclusion, the Company is optimistic on the future and the strategies implemented to contain deteriorating credit quality. The strong financial base resulting from the amalgamation is expected to have a significant positive effects and is expected to result in higher profitability in the future periods.

Technology

LOLC Real Time received Top honours at the inaugural LankaPay Technnovation Awards.

Today for LOLC Finance, information and communication technology has become more than a mere business enabler. The priority for ICT now is to expedite the Company's journey towards financial technology or Fintech adoption, with LOLC Finance's current ICT Strategy geared to promote faster adoption of Fintech solutions that will allow the Company to be agile, flexible and responsive to the market and customer needs, while at the same time enhancing internal process efficiencies.

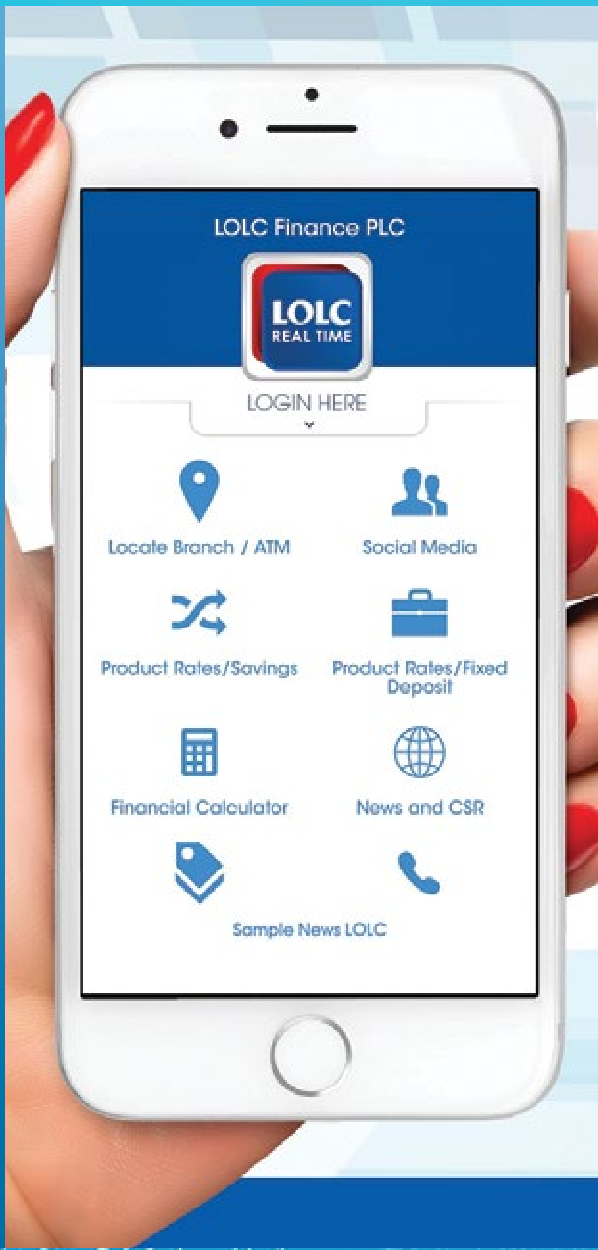
In the 2017/18 financial year, LOLC Finance's IT strategy was anchored on six key pillars;

1. Improving Customer Accessibility through Real Time Solutions

With the increasing adoption of smart phones fueling the customers' appetite for real-time access, the demand for online financial solutions have grown considerably over the past few years. Having anticipated this demand quite early on, LOLC Finance was among the first in the local NBFI sector to invest in an online and mobile banking solution under the brand LOLC Real Time in 2015, which was launched to the public in 2016.

Since then, the LOLC Real Time platform and the mobile app in particular have gained considerable traction in the market, thanks to ongoing upgrades that augment the value proposition and enhance customer usability, accessibility and convenience. To improve the relevance of the mobile app to the micro segment customer base, efforts were put in to introduce multi-lingual platforms adding both Sinhala and Tamil versions in the year under review, in addition to the existing English version. Furthermore, over 60 new utility merchants were added into the Real Time Platform making it more convenient for the customer to pay their utility bills through the LOLC Real Time web portal and the mobile app.

In testimony to its superior value proposition, the LOLC Real Time mobile app received several accolades at the prestigious LankaPay Technnovation Awards 2017, beating out numerous contenders in the Banking and Financial Services Sector, to secure awards for the Most Popular Electronic Payment Product and Best Mobile Payment Application of the Year 2017.



LOLC Finance was among the first in the local NBFI sector to invest in an online and mobile banking solution under the brand LOLC Real Time.

CHECK	Your account balance while you wait for the train
VIEW	Account history during the movie break!
TRANSFER	Funds to an account with LOLC Finance PLC or any other commercial bank
PAY	Bills including leasing and gold loan payments
MANAGE	Funds; create a FD account
FIND	The nearest LOLC branch or contact ATM, using location services

2. Supporting Customer Convenience

The ‘LOLC Finance Savings Field Cash Collection’ service marks an important milestone in LOLC Finance’s strategy to combine both digital and physical elements of the Company’s business model to introduce a phy-gital customer service model. To successfully operationalise the concept, several changes needed to be made to create a real-time link between the Company’s core banking systems and the mobile cash collection devices (POS terminals) used to record cash collections, mainly to allow the customer to be provided with an immediate system-generated cash acceptance receipt, followed by an SMS alert confirming the deposit along with the ability to immediately view the transaction through the LOLC Real Time app.

3. Cyber Security and Data Privacy

Cyber security and data privacy are deemed key underpinning factors in LOLC Finance’s IT strategy to build customer trust in the digital era. As such LOLC Finance remains proactive in its efforts to keep abreast of cyber security threats as they evolve and to ensure appropriate counter-measures are implemented to safeguard against potential risks. As part of the ongoing investment to strengthen the Company’s multi-layered cyber defense framework, new Enterprise Security Architecture was introduced during the year.

Additionally, the current data centre security infrastructure was upgraded with the introduction of a new Web Application Firewall (WAF) layer that provides additional protection specific to web application and application programming interfaces (API)’s, while re-enforcing the defence in depth concept. From a business perspective, this means increased agility and availability to customer interfaces, prevention of malicious attacks, data loss and leakage, which would negatively impact the organisation from both a financial and reputational risks.

As the enterprise network and security infrastructure becomes more complex and sophisticated, it has become imperative to adopt multilayered security architecture that provides an agile, unified, end-to-end change automation and orchestration solution in order to facilitate the effective management and administration of resources. In the year under review, LOLC Finance undertook to implement a complete automated security policy management and orchestration engine to bring agility demanded by digital organisation and to achieve security compliance across the infrastructure.

Technology

4. Digitisation and Digitalisation to Reduce Costs and Boost Profitability

Among the key process improvements made in this regard was the roll out of the digitisation of the document flow, which aims to assist LOLC Finance to migrate towards a paperless environment. The other notable development was the project undertaken to digitalise the loan origination process. The first phase of the project focused on digitising the original documents received from the customer at source and storing them electronically to be used throughout the process and for future reference. The second phase of the project involved enhancing the credit approval system to introduce digital scorecard based authorisation mechanism by which to cut down time delays associated with existing semi-manual processing.

Work also began on automating the collection process at the call centre through the introduction of a fully-integrated Smart Collection system that would provide an information-driven framework to facilitate the collection processes. The aim of the exercise is to provide a framework to enable call centre agents to systematically follow up on dues and drive field staff to expedite physical collection.

Meanwhile, following the Government directive on WHT deductions on FD's, all necessary system changes were completed to automate the WHT calculations deductions at source and make available necessary documentary proof to customers.

5. Adopting a Fintech Model

The advanced software architecture of iPay includes a host of features designed to securely integrate the customer and merchant ecosystem.

While breaking into the Fintech (Financial Technology) remains one of the overarching priorities of LOLC Finance's medium-term growth agenda, doing so successfully requires gaining crucial first mover advantage. Taking the first steps in this regard, work began on introducing iPay, an app-based cashless payment platform that offers a safe and convenient online payment solution. The advanced software architecture of iPay includes a host of features designed to securely integrate the customer and merchant ecosystem that makes a true Fintech application beyond just payments.

Having made good progress, the development stage was completed within the 2017/18 financial year, with trial runs commencing ahead of the scheduled commercial launch of iPay set for early 2018/19.

6. Special Projects – System Amalgamation to Facilitate the Merger between LOLC Finance and LOLC Micro Credit

The most complex and challenging project undertaken during 2017/18 was the merging of the core banking IT infrastructure of both LOLC Finance and LOMC in order to facilitate the late March 2018 merger between the two entities. Despite both entities using the same application systems, the fact that the two legal entities were using separate application and database instances brought about several challenges in the merging process. However, in spite of these challenges, the two systems were merged successfully on the required date with zero business disruption. This was achieved through careful planning over a period of four months and precise execution of the project with the support of a cross-functional team of LOLC Finance's business and IT personnel. The key achievement to note is that the two business systems were merged while digital online customer service channels like ATM, Kiosk, Internet and Mobile were kept intact during the actual merger process enabling customers to carry out there daily activities without interruption. There is no doubt that this was the first of kind of project in the country and possibly the first time in the history of the banking and financial services, globally where technology systems were merged simultaneously while live operations were being carried out.

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Sri Lanka's Non-Banking Financial Institution (NBFI) giant, LOLC Finance PLC, bagged three top awards at the LankaPay Technnovation Awards 2017 held for the very first time competing against prestigious banks and NBFIs to gain these top positions. At the glittering awards ceremony, LOLC Finance was bestowed with the following coveted titles:

1) Financial Institution of the Year for Customer Convenience
2) Most Popular Electronic Payment Product
3) Best Mobile Payment Application of the Year

LankaPay Technnovation Awards, an initiative of Lanka Clear, the operator of the national payment network, is an effort to enhance the efficiency of the country's national payment infrastructure and promote the use of electronic transactions. The awards recognise member banks and Non-Banking Financial Institutions who have excelled in electronic transactions during the financial year starting 1st April 2016 to 31st March 2017. Central Bank of Sri Lanka Governor Dr. Indrajit Coomaraswamy graced the occasion as the Chief Guest.

Commenting about the achievements at the first-ever LankaPay Technnovation Awards, Director/CEO of LOLC Finance, Mr. Ashan Nissanka, said: "Winning three prestigious awards at the LankaPay Technnovation Awards 2017 clearly demonstrates that our customers have come to embrace our value-added payment process and that it is well accepted in the industry purely due to its hassle-free and user friendly features. This is also an honour bestowed upon us that pays tribute to the expertise and dedication of our team of professionals."

Mr. Nissanka further stated, "Through our sustained focus on innovation, we continue to lead the market with a range of value added services, thereby engaging with our customers more than ever before and offering them the very quintessence of convenience. Our vision is to become a truly customer-centric organisation that is on par with any international bank or NBFI, by adopting digitalisation because we believe that digital services have become the preferred means of interaction between customers and their financial institutions. Digitalisation has helped us to know our customers better and to offer them truly personalised products and services. We are ever so vigilant of our customers' needs and move with the times to provide them with the latest and best in the industry. At LOLC Finance, our business model is driven by trust and confidence, underpinned by close customer relationships which helps us to forge ahead as a leading Financial Institution in digital transformation."

Mr. Conrad Dias, LOLC Group's Chief Information Officer, said: "In the 2015/2016 financial year, the total number of instant transactions through LOLC Real Time was 3,257. However, this has surged tremendously in the last financial year to 28,394 transactions. These statistics as well as the recent wins at the Technnovation Awards prove that LOLC Real Time is now immensely popular amongst customers as it is not only a convenient tool that offers direct and easy access to our customers' LOLC Finance accounts but it is also designed on a scalable architecture that complies with the highest levels of information security standard. We also have USSD base option specially catering to our micro financing customers who are not using smart devices. Moving further, we hope to introduce the ability

Technology

to utilise pre-approved loans online and implement trilingual support for the convenience of customers. We also hope to introduce the low value payment for merchants facilitated through Justpay from Lanka Clear and integrate it to LOLC Real Time."

LOLC Real Time, the fully-integrated, online payment platform of LOLC Finance, enables customers to send and receive money, instantly via CEFTS (Common Electronic Fund Transfer Switch) and SLIPS (Sri Lanka Interbank Payment System). These mobile and internet banking solutions offer unparalleled convenience to customers who seek a superior level of speed, ease and security. Through LOLC Real Time, customers are able to transfer funds directly and instantly from their LOLC Finance Savings account to any account of the recipient, with the use of any device. Some of the solutions that are offered for the convenience of customers through this user-friendly mobile app includes, checking of personal account balances and transaction history, payment of utility bills, transferring of funds in real time, monitoring expenses, scheduling postdated business transactions and instructing standing orders. Furthermore, all this can be done at absolutely no cost. This service is also supported by a 24-hour call centre which is equipped to handle customer enquiries on LOLC Real Time as well as ATM and other enquiries. Customers can register at any LOLC Finance branch to access the services of LOLC Real Time. LOLC Finance takes pride in claiming to be the first financial institution in the country to enable instant fund transfers and the first to introduce CEFTS transfers through a mobile app.

From Left: Mr. Channa de Silva, General Manager/CEO, Lanka Clear (Pvt) Ltd., Mr. Anil Amarasuriya, Chairman Lanka Clear (Pvt) Ltd., Dr. Indrajit Coomaraswamy, Governor of the Central Bank of Sri Lanka, Mr. Ashan Nissanka, Director/CEO of LOLC Finance, Mrs. Roshani Weerasekera, Head of Liability Management, LOLC Finance and Mr. Chinthaka Jayasinghe, Head of Business Solutions, Banking – LOLC Technologies.

Mr. Ashan Nissanka, Director/CEO of LOLC Finance, receiving the award for the Most Popular Electronic Payment Product from Central Bank Governor, Dr. Indrajit Coomaraswamy.

Sustainability Report

Stakeholder Relationships and Materiality Assessment

Stakeholder Dialogue

Operating in the highly-competitive NBFI sector, we have found that listening to our various stakeholders, engaging in an open dialogue with them and responding to their views has become an increasingly important part of how our business functions. Rather than having one-off consultations around specific topics, we prefer to take an integrated approach and have an ongoing dialogue with each stakeholder group, for we believe this helps LOLC Finance to systematically respond to their issues by integrating these concerns into our business strategies.

Stakeholders	Goals	Our Responses	Method of Engagement	Frequency
Shareholders and Investors	To inspire investor confidence by creating wealth, sustainable growth and enhance shareholder value by reinvesting earnings and strengthening governance to establish strong internal processes and policies	Superior financial performance and sustainable wealth Effective risk management policies and adequate internal controls through governance and transparency Ensure regulatory compliances Business expansion plans	• Annual reports • Annual General Meeting • Interim Financial Statements • Extraordinary General Meeting • Announcements to Colombo Stock Exchange • Corporate website • Investor presentation • One-to-one discussions	Annually Annually Quarterly As required As required Continuous As required As required
Customers	Product innovation and flexibility with quality of service and safeguard their interest and be a responsible financial institution and comply with all regulatory and statutory obligations	Customer security and privacy Product innovations Customer service Quality of service Dispute resolution	• Branches • Call center • Corporate website • Relationship managers • Media advertisements • Sponsorship for community events	Regularly Regularly Continuous Continuous As required As required
Employees	Attracting talent and to develop their knowledge and skills to establish a leadership pipeline with stability, security and equal opportunity to all our employees	Remuneration, rewards and recognition policies Training and development Effective performance appraisal process Future plans Career progression Maintain equal opportunities and conducive labour relations practices	• Managers meeting • Open door policy • Training programs • Internal circulars • Latest updates through emails • Special events such as pirith ceremony, get together and sports day • Exit interviews upon resignation	Monthly As required As required As required As required Annually As required

Sustainability Report

Stakeholder Relationships and Materiality Assessment

Stakeholders	Goals	Our Responses	Method of Engagement	Frequency
Suppliers and business partners	Focus on long-term partnerships and ethical business practices to balance cost considerations with sustainable procurement practices	Contractual performance Comprehensive and transparent procurement policy Future business opportunities	• Onsite visits and meetings • Official communications such as calls, letters etc • Tender invitations • Suppliers registration	As required As required As required Annually
Regulators	Ensure regulatory compliance while maintaining a high ethical standard	Compliance with regulations, codes and directives	• On-site and off-site surveillance • Meetings and consultations • Press releases • Periodic returns	Annually/ periodically As required As required As specified
Community	To contribute to national priorities, create sustainable communities through action in entrepreneurship and upliftment of rural livelihood	Financial awareness and access to funds Recruitment Ethics and business conducts Other contributions and sponsorships	• Delivery channels • Sponsorships for community events • Donations • Social media	Regularly As required As required Regularly

Materiality Assessment

We combine the results of our stakeholder dialogue with an analysis of our operating environment together with our risk horizon scan, to conduct a Materiality Assessment that helps to identify the topics we should prioritise in order to further improve outcomes for LOLC Finance's stakeholders. The topics with the highest priority for stakeholders and the strongest impact on our business have been plotted on the matrix below;

Sustainability Report

Stakeholder Value Creation

As a financial services organisation, our people are our most valuable asset, for not only are they the key drivers of our business, they are also the most powerful envoys of the LOLC Finance brand.

Sustainability Strategy

The key sustainability topics identified through the Materiality Assessment are integrated into the business and form the basis of LOLC Finance's sustainability strategy and operationalised vis-à-vis three key themes; Valuing Our Human Resources, Exceeding Customer Expectations and Serving Our Communities.

Valuing Our Human Resources

As a financial services organisation, our people are our most valuable asset, for not only are they the key drivers of our business, they are also the most powerful envoys of the LOLC Finance brand.

It is why our recruitment strategy is designed to attract qualified, well-educated, innovative people who are open to learning and eager to create value for LOFIN and its stakeholders. To be able to access the best talent in the industry we pursue a fair hiring policy focused on equal opportunity without any discrimination on the basis of gender, age or any other status protected by law. Further in alignment with globally accepted Human Rights practices, child labour is strictly prohibited and students applying for internships are required to be 18 years or over. Forced and compulsory labour too is strictly prohibited and any LOLC Finance employee is free to resign at any time, provided they comply with the terms on their employment contracts.

When vacancies do arise, they are first announced to LOLC Finance employees, although internal applicants too are subjected to the same evaluation criteria as external candidates. Our aim is to retain the most appropriate candidates in the most suitable position by employing competence-based objective measurement and evaluation methods.

In recruiting for branches, LOLC Finance pursues a policy of employing local residents and gives preference to candidates living within close proximity of these regions.

Further reinforcing our commitment to our people, in the year under review the groundwork was put in place in preparation for the roll out of the new integrated HRIS that would greatly enhance the visibility offered to employees and also support better management decision-making through the provision of broader range of MIS tools.

Gender Analysis	
Female	318
Male	815
Grand Total	1,133

Recruitments - Age Group Analysis

Age Group	Active
21-30	312
31-40	38
41-50	8
Below 21	46
Grand Total	404

Recruitments - province Analysis

Province	Active
Central	44
Eastern	42
North	26
North Central	26
Sabaragamuwa	28
Southern	29
Uva	3
Western	169
North Western	37
Grand Total	404

Remuneration

We believe suitable remuneration is the key to building employee loyalty and encouraging performance improvement. Hence our remuneration policy is

2,165

The total cadre of LOLC Finance as at 31st March 2018 as a merged entity.

structured to attract and retain high-performing employees with the capacity to drive LOLC Finance's long-term objectives.

Employees with similar roles and responsibilities are paid similar salaries and those who perform better than their benchmarks based on the results of the Performance Evaluation System, are suitably incentivised through increments and bonuses.

Meanwhile in recruiting employees with no previous work experience, LOLC Finance maintains a minimum entry-level compensation policy applied across the Company.

We regularly review our remuneration polices and every year participate in a salary survey study to ensure our remuneration framework remains competitive and in line with industry benchmarks.

While no material changes were made to the remuneration structure itself in the year under review, LOLC Finance did take several important steps towards streamlining the remuneration policy. Remuneration and benefits plans for each employee category were formalised and uploaded to the new HRIS, with all employee records updated accordingly and employees able to view the status of their current entitlements through the HRIS.

Performance Management

Aligned to the LOLC group, LOLC Finance follows a transparent and flexible Performance Management System to reward employees effectively in accordance with its corporate goals. The main aim of the Performance Management process is to assess the contributions and performances of employees in a fair and objective manner and to correlate their career growth in line with LOFIN's long-term objectives.

As part of this process, all LOLC Finance employees go through performance evaluation once a year to establish their performance against pre-agreed KPIs, identify the need for training and determine an employee's ability to advance their careers by taking on bigger roles and greater responsibilities. The performance of corporate employees is reviewed by their immediate supervisor, while all branch employees are subject to a dual evaluation, first by their immediate supervisor, most often the branch manager and then signed off by the regional manager.

Career Management

To retain the right people who are capable of taking ownership for the continuity of the Company, LOLC Finance's career management programme looks to develop existing employees through detailed career mapping, investment in training and development coupled with mentoring and coaching to prepare the related employees for the envisioned positions.

Training and Development

We believe that every LOLC Finance employee is entitled to receive training in order to acquire the necessary skills to excel in their job roles. The aim of our training and development framework is to support our employees starting from their first day of employment and throughout their career with LOFIN.

Keeping in mind the needs of the employee as well as that of the Company, LOFIN has adopted a six-point training model;

Orientation – helps to integrate new employees into LOLC Finance's corporate culture and value system

On-the-job Training – provides employees with the framework for continuous learning

Competency Training – timely and relevant training to ensure employees consistently improve productivity

Cross Training - allow employees to expand their career horizons through exposure to other departments other than the one they are specialised in.

Career Training - specific training requirements identified as part of the employee career mapping process

Special Assignments - provides employees the opportunity to special target-driven projects to sharpen their leadership and networking skills.

Employee Dialogue

We believe that continuous and ongoing dialogue with our employees creates an opportunity to discuss matters of mutual concern and allows our employees to acquire a full understanding of the business activities and the objectives of the Company. LOFIN employs an internal intranet system in order to facilitate effective and easy access to information by employees and to reinforce communication.

We do however strongly believe in two-way communication and maintain an open door policy to encourage our employees to freely talk to their supervisors on any concerns they may have regarding their work, while employees who wish to lodge a formal complaint can do so through the official grievance mechanism. All complaints received in this manner are investigated promptly with the assurance of complete confidentiality.

We also have several organised forums where employees have the opportunity to approach corporate management, including the CEO. This common ground keeps the internal synergy dynamic, reinforces mutual communication and increases employee motivation to reach common targets. These forums also serve as a platform to share knowledge and to find solutions to other important matters such as the health and safety at the workplace and our concern for the community.

Health and Safety

LOLC Finance is fully committed to the health and safety of all employees and in doing so remains fully compliant with all legal and regulatory obligations that ensure a safe working environment.

Sustainability Report

Stakeholder Value Creation

Due to the nature of its operations as a financial services organisation and as a result of strong emphasis on a safety culture, LOLC Finance has continued to maintain a perfect safety record.

Employee Engagement

To improve motivation, and to strengthen internal communications, LOLC Finance maintains an active event calendar throughout the year to celebrate various national, religious and cultural events along with other social gatherings that reinforce team spirit.

Exceeding Customer Expectations

At LOFIN, our aim is to not just serve the customer but exceed their expectations every single time. We want to be the first in the market to offer products and services as and when our customers need them, coupled with the superior customer service, all aimed at increasing their satisfaction, and inspiring trust and loyalty. Our customer model is premised on;

Enhancing the Customer's Experience

As part of our ongoing commitment to improve service quality, we have recently begun focusing on transforming the customer experience relating to a specific Customer Journey (critical processes our customers experience on a daily basis e.g.: the loan application process). Within each Customer Journey, our aim is to flag those customer processes that have the greatest impact on their experience and then redesign them through the eyes of the customer.

Two main process improvements were made in the year under review to enhance the customers' payment journey, namely;

1. To allow customers to issue a single cheque to be allocated to settle multiple dues (eg: loan, lease payments and savings deposits). Similarly, customers can also issue a single cheque to open multiple FDs.
2. Enable a new corporate fund transfer mechanism that allows SMEs to use the LOLC Real Time online banking portal to make bulk transfers (eg: salary payments) from their corporate savings accounts

Facilitating a multi-channel banking model

While LOLC Finance's branch network has traditionally been the primary customer touch point, we have in the recent past begun adopting a multi-channel strategy to reach out to a broader target audience.

Our efforts in this regard are spearheaded by the LOLC Real Time web banking portal and the LOLC Real Time mobile app, first launched in response to the growing need among customers to have 24/7, 365-day access to manage their finances. The demand for the LOLC Real Time platform has since continued to grow exponentially thanks to its superior features and enhanced versatility.

Not to be complacent with our success we continue to make improvements in order to further enhance the value proposition offered by LOLC Real Time. In the year under review LOLC Real Time was made tri-lingual with the roll out of the Sinhala and Tamil versions in addition to the existing English version. A new utility payment model was also incorporated with a 60+ merchant network to allow customers to pay their utility bills through the LOLC Real Time mobile App.

Personalised Financial Solutions

Developing personalised financial solutions are an important part of managing customer expectations. Over the years we have continued to study the demands of the local market as well as international trends, and have invested in launching several groundbreaking financial solutions to the market.

For instance, the roll out of The 'LOLC Finance Savings Cash Collection' service, which in effect is a doorstep Savings Cash Collection Service offers unparalleled convenience of depositing cash to the customer's savings account without them having to visit the branch. LOLC Finance officers visit the client at his/her doorstep to accept the cash, which is credited instantly to the customer's savings account through a POS (point-of-sale) machine. The accountholder will receive an instant SMS alert confirming the fund transfer and can also check the Real Time fund transfer through the Real Time App.

Aimed at promoting a savings culture, the 'LOLC Finance Savings Cash Collection' service is a convenient option that reduces the risk of carrying and keeping cash as well as not having to go through the hassle of travelling to a branch.

Efficient Complaint Resolution

Through experience we have found that the ability to contact LOLC Finance at any time, and the swift resolution of complaints, goes a long way in building the customers trust regarding the Company.

Based on this belief, we continue to make improvements to our 24-hour call center and in the year under review invested additional resources to expand the training agenda for call center staff.

Serving Our Communities

As a responsible corporate citizen, LOLC Finance contributes to the economic and social development of the communities through initiatives that focus on environmental conservation, paperless branch concept, plant a tree social media campaigns as well as branch level, regional level community development activities. Examples being developing schools in the community and other CSR activities.

At full strength

Governance

Corporate Governance

Good corporate governance benefits all stakeholders and contributes towards the sustainability of the Company. Your Board of Directors therefore support the principles of good corporate governance. LOLC Finance PLC continued to maintain high standards of corporate governance and ethical business conduct across all aspects of its operations and decision-making processes during the year under review.

Structure

The governance structure of LOLC Finance ensures alignment of its business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board Sub-Committees and Management.

Instruments of Governance

The corporate governance framework of LOLC Finance encompassing external and internal instruments of governance, enables the Board to provide assurance to investors that they have discharged their duties responsibly. The Board of Directors of LOLC Finance and staff at all levels consider it their duty and responsibility to act in the best interests of the Company. It is this strong set of values that has facilitated the trust that our stakeholders have continued to place on the core values underlying our corporate activities.

The external instruments of governance at LOLC Finance include the Companies Act, No. 7 of 2007, the Finance Business Act, No. 42 of 2011, the Finance Leasing Act, No. 56 of 2000, the Foreign Exchange Act, No. 12 of 2017, the Payment and Settlement Systems Act, No. 28 of 2005, the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987, and any amendments thereto, including rules and directions issued to finance companies from time to time by the Monetary Board of the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange. The internal instruments of governance include the Articles of Association, the Role of the Board, Board approved policies, procedures, and processes for internal controls and anti- money laundering.

Policies and procedures have been established taking into consideration governance principles that define the structure and responsibility of the Board to ensure legal and regulatory compliance, to protect stakeholder interests, to manage risk and enhance the integrity of financial reporting. A whistle-blowing policy has been introduced and the number of the related 'hotline' has been shared with all employees. This was done to enhance accountability, so that deliberate deviations from controls and/ or processes and procedures could be highlighted by any employee and thus addressed promptly.

Board of Directors

The Board is responsible for the stewardship of the Company and the Directors ensure good governance at Board level and below on the basis of sound principles that provide the framework of how the business is conducted.

The members of the Board consist of persons with multiple industrial/ professional backgrounds in which they have achieved eminence, who contribute effectively to decisions made by the Board to guide LOLC Finance towards achieving its objectives. In accordance with best practices, the offices of Chairman and Chief Executive Officer are separate and the Chairman is a Non-Executive Director. This ensures a balance of power and enhances accountability. To bring in a greater element of independence the Board appointed Mrs Priyanthi Pieris as the Senior Independent Director.

Monitoring and Evaluation by the Board

LOLC Finance has in place a number of mandatory and voluntary Board Sub-Committees to fulfil regulatory requirements and for better governance of its activities. These committees meet periodically to deliberate on matters falling within their respective charters/terms of reference and their recommendations are duly communicated to the main Board.

The following mechanisms are in place for the Board to oversee the accomplishment of the targets in the business plan: review the performance of LOLC Finance at monthly Board meetings; seeking recommendations through Board appointed Sub-Committees on governance, including compliance with internal controls, human resources, risk management, credit and IT; review of statutory and other compliances through a monthly paper on compliance submitted to the Board covering the operations of LOLC Finance.

The corporate governance philosophy of LOLC Finance is within a framework of compliance and conformance, which has been established at all levels through a strong set of corporate values and a written Code of Conduct. All employees are required to embrace this philosophy in the performance of their official duties and in other situations that could affect the Company's image.

Skills and Performance of the Board

The updating of the skills and knowledge of all Directors is achieved by updates on proposed/new regulations, industry best practices, market trends and changes in the macro environment. It is also facilitated by providing them access to external and internal auditors, access to other external professional advisory services and the Company Secretaries, keeping them fully briefed on important developments in the business activities of the Group and by periodic reports on performance, and opportunities to meet Senior Management.

As required by the Finance Companies Corporate Governance Direction, LOLC Finance has established a well-defined self evaluation mechanism undertaken by each director annually to evaluate performance of the Board. These evaluations are subsequently tabled at a Board meeting and the records are maintained by the Company Secretaries.

Engagement with Shareholders

The shareholders of LOLC Finance have multiple ways of engaging with the Board: the Annual general meetings which are the main forum at which the Board maintains effective communication with its shareholders on matters which are relevant and of concern to the general membership such as the performance and their return on investment of LOLC Finance; access to the Board and the Company Secretaries; written correspondence from the Company Secretaries to inform shareholders of relevant matters; the website of LOLC Finance which is accessible by all stakeholders and the general public; and disclosures disseminated through the Colombo Stock Exchange including interim reporting.

Engagement with Employees

LOLC Finance recognises that employee involvement is a critical pre-requisite towards ensuring the effectiveness of the corporate governance system and therefore attaches great importance to employee communications and employee awareness of key events and significant developments. The necessity of sincere and regular communication in gaining employee commitment to organisational goals and values are stressed extensively and intensively through various communiques issued periodically by the Directors' Office. LOLC Finance follows an open-door policy for its employees at all levels. Regular dialogue is also maintained on work related issues as well as on matters pertaining to general interest that affect employees and their families.

In terms of engaging with the employees, the key channels used by the Board include the Executive Director/CEO who is an employee director and the main link between the Board and the rest of the employees; and the Board members and Board sub committees who conduct effective dialogue with the members of the Management on matters of strategic direction.

Avoiding Conflicts of Interest

The Governance structure at LOLC Finance ensures that the Directors take all necessary steps to avoid conflicts of interest in their activities with, and commitments to other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, such matters are disclosed and discussed at Board meetings, where Independent Directors who have no material interest in the transaction are present.

External Audit

M/s Ernst & Young, Chartered Accountants were re-appointed as External Auditors of the Company by the shareholders at the Annual General Meeting held in September 2017. Their services were also engaged to seek: a) an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board; and b) the Company's level of adherence to the internal controls on financial reporting.

The Directors confirm that no significant deviations have been observed by the External Auditors and that the Company has not engaged in any activity that contravenes any applicable law or regulation. To the best of the knowledge of the Directors the Company has been in compliance with all prudential requirements, regulations and laws.

Corporate Governance

The extent of compliance as required by the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and the Listing Rules of the Colombo Stock Exchange and subsequent amendments thereto:

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
2	**The Responsibilities of the Board of Directors**	
2.1	The Board of Directors shall strengthen the safety and soundness of the finance company by:	
a.	approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;	Complied with Board approved vision, mission and corporate values have been established and communicated throughout the company.
b.	approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years;	Complied with Upon concluding the amalgamation with LOLC Micro Credit Limited, the Company has formulated a five year Strategic Plan which has been approved by the Board subsequent to the year under review. This strategy has taken into account the related risks including the volatility of the economic/political/social conditions in which it operates which could cause disruptions in achieving its objectives.
c.	identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	Complied with The Board has delegated this function to its Sub-Committee, the Integrated Risk Management Committee (IRMC). The Board has approved an annual plan submitted by Enterprise Risk Management Division (ERM) which covers risk management. In line with the Risk Policy ERM reports are submitted to the IRMC which then reviews the risk and agrees on appropriate mitigation methods. Furthermore, minutes of the quarterly IRMC meetings are tabled at Board Meetings for review and guidance. Risk Management Reports on Liquidity and Maturity of Deposits are submitted to the Board on a monthly basis.
d.	approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied with A Board approved Stakeholder Communication Policy which covers all stakeholders is in place.
e.	reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	Complied with The key processes that have been established by the Board to review the adequacy and integrity of the Company's Internal Controls and Management Information Systems, include the following:

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
		1. The Board Audit Committee and the Board Integrated Risk Management Committee ensures that the Company's controls and risks are being appropriately managed and actions proposed for mitigation of risks. These two committees facilitate an ongoing process for identifying, evaluating and managing significant risks faced by the Company, including enhancing the system to cater to changes in the business and regulatory environment. 2. The CEO through the Heads of Departments ensure that approved business strategies are implemented and that agreed policies and procedures on risk/internal control are implemented and adhered to. The Heads of Departments are therefore accountable and responsible for their respective areas of operation, including the accuracy of information presented to the Management/Board, and managing risk in their day-to-day activities through established processes and controls. In addition the Internal Audit ensures that staff adheres to such processes and controls. Where there is a breach of authority, such issues are escalated to the Board through the Board Audit Committee. 3. The Internal Audit performs a comprehensive exercise that entails reviewing of all aspects of Management Information Systems including operational and regulatory risks. Product-wise MIS reviews have been periodically carried out by the Internal Audit. The Internal Audit also provides an independent assurance that the Company's risk management, governance and internal control processes are operating effectively and fit for purpose. The Board is of the view that the system of internal controls and management information systems in place are sound and adequate to provide reasonable assurance regarding the reliability of management information and financial reporting. The aforesaid was noted by the Board and recorded in the minutes subsequent to the financial year end.
f.	identifying and designating Key Management Personnel, who are in a position to: (i) influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied with Board members including the CEO and heads of the five core functions have been identified and designated as KMPs by the Board as defined in the Sri Lanka Accounting Standards. This is reviewed by the Board as and when necessary.

Corporate Governance

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
g.	defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel;	Complied with Articles 76-78 of the Company's Articles of Association define the powers and duties of the Board of Directors. Further the responsibilities of the Board have been defined and approved. The areas of authority and responsibilities of the Key Management Personnel defined in individual job descriptions have been approved by the Board.
h.	ensuring that there is appropriate oversight of the affairs of the finance company by Key Management Personnel, that is consistent with the finance company's policy;	Complied with The Company has a policy on oversight of the affairs of the Company by KMPs including a process to review the delegation process approved by the Board. Delegated authority given to KMPs is reviewed periodically by the Board to ensure that they remain relevant to the needs of the company.
i.	periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of Directors and appointment of Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied with The Company has a Board approved procedure for appointment of Directors. Election of Directors is effected in accordance with the requirements of the directions issued by the Central Bank of Sri Lanka and the Companies Act, No. 07 of 2007. Directors are selected and nominated to the Board for skills and experience in order to bring about an objective judgment on issues of strategy, performance and resources. Effectiveness of this process is ascertained by their contribution at board meetings in their respective fields. A Nomination Committee has been appointed to assist the Board in identifying qualified individuals as potential directors. KMPs are selected and recruited in terms of the HR policy of the Company. Articles 79-87 of the Company's Articles of Association address the management of conflicts of interest of directors. A procedure for managing Board conflicts has been further approved by the Board. Conflicts of interest are managed on a monthly basis where Directors disclose their directorships in other companies. KMPs declare their interests annually.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
		Annual self evaluations of Directors were tabled subsequent to the financial year end, to determine any weaknesses of the above process and to implement changes where necessary.
j.	ensuring that the finance company has an appropriate succession plan for key management personnel;	Complied with The Company has a succession plan approved by the Board.
k.	meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	Complied with Key Management Personnel are called in by the members of the Board during Board and Board Committee meetings when the need arises to explain matters relating to their area of functions.
l.	understanding the regulatory environment;	Complied with As a practice, the Company Secretaries includes an agenda item in monthly Board meetings tabling correspondence with regulators which enable the Directors to understand the regulatory environment, concerns and changes and make appropriate decisions. A monthly Compliance Report is also tabled at Board meetings. This report includes details of weekly, monthly, and annual returns duly submitted to the CBSL and the requirements of all the directions issued by the Monetary Board and the Company's current position with regard to each direction. A monthly confirmation is provided by the Head of Finance of statutory payments made such as VAT, VAT on financial services, WHT on FD's and savings interest, EPF, ETF, PAYE, Stamp duty and Economic Service Charge.
m.	exercising due diligence in the hiring and oversight of External Auditors.	Complied with The Board Audit Committee is responsible for the hiring and overseeing of external auditors. Article 122 of the Company's Articles of Association lays down a process for appointing of external auditors at the AGM. The Audit Committee has recommended that the auditors be re-appointed for 2017/18. The Audit Committee is governed by a Board approved Audit Charter/TOR. Reviews are carried out to the Charter as and when necessary to ensure relevance. No reviews were carried out during the year under review.
2.2	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with paragraph 7 of this Direction.	Complied with The Board has appointed the Chairman and CEO. Functions and responsibilities of the Chairman and the CEO have been defined and approved by the Board.
2.3	There shall be a procedure determined by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) to discharge the duties to the finance company.	Complied with A Board-approved detailed procedure has been established to obtain independent professional advice when necessary.

Corporate Governance

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
2.4	A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied with Article 79 of the Company's Articles of Association requires an interested Director to disclose his/her interest at Board meetings. Article 83 requires such a Director to abstain from voting on any Board resolution. He/she will not to be counted in the quorum. In addition, a Board approved procedure is established to manage conflicts of interest of the Board members.
2.5	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	Complied with The Board approved policy on the Role of the Board defines its responsibilities and the matters which are specifically reserved to it for approval. Additionally a Board-approved Terms of Reference have been established for Executive and Non-Executive Directors, including Independent Directors. The Board has put in place systems and controls to facilitate the effective discharge of Board functions. Pre-set agenda of meetings ensure the direction and control of the Company is firmly under Board control and authority. The agenda of the monthly Board meetings includes reports on performance and on compliance with relevant regulations. This enables the Board to ensure that the company performs at an optimal level, while being fully compliant.
2.6	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	Will comply with if the need arises. The Board has implemented a procedure to alert them of any such event - in that, based on an assurance provided by the Head of Finance, the Compliance Officer reports in the monthly compliance statement that the Company could remain a going concern.
2.7	The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied with This report serves the said requirement.
2.8	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	Complied with The Directors carry out a self evaluation annually and records are in the custody of the Company Secretaries.

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3	**Meetings of the Board**	
3.1	The Board shall meet at least 12 times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Complied with The Board met 12 times during the year. Please see page 91 for further details. Approvals obtained through the circulation of resolutions (15) were subsequently tabled at the following board meeting.
3.2	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied with A Board approved Policy on Board's relationship with the Company Secretary is in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
3.3	A notice of at least seven days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	Complied with A schedule of all meetings for the coming year is circulated to all Directors at the end of December or beginning of January. At the beginning of each month, a reminder of all meetings during that month is also sent out. In addition, notices are sent out seven days prior to the meeting. All these enable any Director to seek to include matters in the Agenda. Date of the next meeting is agreed by all the members of the Board as a practice. Reasonable notice has been given for all other Board meetings.
3.4	A Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an alternate director shall, however, be acceptable as attendance.	Complied with All the members have attended two-thirds or more of the meetings during the year. Please refer page 91 for further details.
3.5	The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and Shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with LOLC Corporate Services has been appointed as Company Secretaries to the Company.
3.6	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a board meeting, the Company Secretary shall be responsible for carrying out such function.	Complied with The Board approved policy on Board's relationship with the Company Secretary provides for the Chairman to delegate to the Company Secretary the preparation of the agenda for Board meetings.
3.7	All Directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied with The Board approved policy on board's relationship with the Company Secretary provides that all Directors shall have access to the advice/services of the Company Secretary.
3.8	The Company Secretary shall maintain the minutes of board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied with

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3.9	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Finance Company is exposed and an overview of the Risk Management measures adopted; and (f) the decisions and board resolutions.	Complied with Proceedings of meetings are recorded in minutes covering the given criteria.
4	**Composition of the Board**	
4.1	The number of Directors on the Board shall not be less than five and not more than 13.	Complied with The Board comprised five members as at 31st March 2018.
4.2	The total period of service of a Director other than a director who holds the position of Chief Executive Officer or executive Director shall not exceed nine years. The total period in office of a Non-Executive Director shall be inclusive of the total period of service served by such Director up to the date of this Direction.	Complied with
4.3	Subject to the transitional period an employee of a finance company may be appointed, elected or nominated as a Director of the finance company (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the company.	As a result of the resignation of a Non-Executive Director (Dr. H Cabral) on 02.02.2018, the Board comprised three Executive Directors (including the Director/CEO) and two Independent Non-Executive Directors at the closure of the year under review on 31.03.2018.

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		However, the composition of the Board met the criteria of this direction with the appointment of two LOMC Directors (Mr. B C G de Zylva and Mr. R D Tissera) and the resignation of one LOFIN Executive Director (Mr. I C Nanayakkara) post year under review. Thus as at 14.05.2018 the Board comprised three Executive Directors (including the Director/CEO), and three Non-Executive Directors of whom two were independent.
4.4	Subject to the transitional period the number of independent Non-Executive Directors of the Board shall be at least one-fourth of the total numbers of directors. A Non-Executive Director shall not be considered independent if such Director: a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company; b) has or had during the period of two years immediately preceding his appointment as Director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet; c) has been employed by the finance company during the two year period immediately preceding the appointment as Director; d) has a relative, who is a Director or Chief Executive Officer or a Key Management Personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company. e) represents a shareholder, debtor, or such other similar stakeholder of the finance company; f) is an employee or a Director or has a share holding of 10% or more of the paid up capital in a company or business organisation: (i) which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or (ii) in which any of the other Directors of the finance company is employed or is a Director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the finance company; or	Complied with The Board comprised two Independent Directors as at 31st March 2018. Mrs. D P Pieris, Senior Independent Director (Re-designated on 03.07.2017) Mr. P A Wijeratne, Independent Non-Executive Director (Appointed on 26.05.2017)

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	(iii) in which any of the other Directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the Finance Company.	
4.5	In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.	Will comply when a need arises
4.6	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied with Directors' profiles are provided on pages 16 to 19.
4.7	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one half of the number of Directors that constitute the quorum at such meeting are Non-Executive Directors.	Complied with The Company's Articles of Association (Article 98) provide that a quorum for a meeting is a majority provided that half of such quorum is Non-Executive. The quorum had been maintained at all Board meetings held during the financial year 2017/2018. Details of attendance at meetings are provided on pages 91 to 93.
4.8	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the finance company. The finance company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied with The Directors during the year under review were: 1. Justice R K S Suresh Chandra (R.W.E.F - 03.07.2017) Chairman – Independent Non-Executive Director 2. Mr. I C Nanayakkara Deputy Chairman - Executive Director 3. Mrs. K U Amarasinghe Executive Director 4. Dr. H Cabral, PC (appointed Chairman on 03.07.2017 & R.W.E.F – 02.02.2018) Non-Executive Director 5. Mrs. D P Pieris Independent Non-Executive Director 6. Mr. P A Wijeratne Independent Non-Executive Director 7. Mr. A Nissanka Director /CEO Dr. H Cabral resigned with effect from 02nd February 2018. The Directors' profiles are given on pages 16 to 19.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
4.9	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied with The Board has formed a Nomination Committee for this purpose and there is a Board approved procedure for the Board members to select and appoint new Directors to the Board. The Company's Articles 70-74 address the general procedure for appointment and removal of Directors to the Board. Furthermore the Company adheres to the Finance Companies (Fitness and Propriety of Directors and Officers performing Executive Functions) Direction No. 3 of 2011 when appointing new directors.
4.10	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied with Article 70 of the Company's Articles of Association provides that Directors appointed shall be subject to election by shareholders at the first AGM. Mr. B C G De Zylva and Mr. R D Tissera who were appointed after the financial year end will retire in terms of Article 70 of the Articles of Association of the Company and being eligible offer themselves for re-election.
4.11	If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	Complied with Directors' resignation and the reason for such resignation are duly informed to the Central Bank of Sri Lanka (CBSL) and Colombo Stock Exchange (CSE). The Board announces such situations to the shareholders through its Annual Report. Changes to the directorate during the year (retirement/ resignation of Justice R K S Suresh Chandra and Dr. H Cabral) were announced to the shareholders via CSE disclosure after receiving approval from the Central Bank of Sri Lanka.
5	**Criteria to assess the fitness and propriety of directors**	
5.1	Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a finance company.	Complied with The Board of Directors have been assessed as fit and proper in terms of Section 3 (3) of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011. During the year under review the age of the current Directors were within the period permitted under this direction.
5.2	A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies/societies/bodies corporate, including associate companies and subsidiaries of the finance company.	Complied with No Director holds directorships of more than 20 companies/ entities/institutions inclusive of subsidiaries or associate companies.
6	**Delegation of Functions**	
6.1	The Board shall not delegate any matters to a board committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with Article 77 of the Company's Articles of Association empowers the Board to delegate its powers to a Committee of Directors or to a Director or employee upon such terms and conditions and with such restrictions as the Board may think fit.

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		The Board has established a procedure under which powers have been delegated to the Director/CEO as sanctioned by the Company's Articles of Association.
6.2	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Finance Company.	Complied with The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Company. A process to review the delegation process has been approved by the Board.
7	**The Chairman and the Chief Executive Officer**	
7.1	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the one and the same person.	Complied with Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.
7.2	The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Complied with Subsequent to the retirement of Justice R K S Suresh Chandra on 03rd July 2017, Dr H Cabral, Non-Executive Director was appointed as the Chairman. Mrs D P Pieris was appointed as the Senior Independent Director on 3rd July 2017.
7.3	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied with The Company as a practice discloses relationships in the Annual Corporate Governance Report. There is no financial, business, family or other relationship between the Chairman and the Director/CEO. Mr. I C Nanayakkara and Mrs. K U Amarasinghe share a family relationship. There is no financial, business, family or other material relationship between any other members of the Board. A process has been developed for Directors to disclose any relationships between the Chairman and the CEO and or between any other Board members.
7.4	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.	Complied with

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
7.5	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	Complied with The Chairman has delegated this function to the Company Secretaries. This has been included in the 'Policy on Board's relationship with the Company Secretary' approved by the Board.
7.6	The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied with The Chairman ensures that all Directors are properly briefed on issues arising at Board Meetings by submission of the agenda and Board papers with sufficient time prior to meetings. Further, minutes of previous month's Board meeting are distributed to the Board members and tabled at the next Board meeting for review and approval.
7.7	The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	Complied with
7.8	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	Complied with The Company's self-evaluation process assesses the contribution of Non-Executive Directors.
7.9	Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with The Chairman does not engage in activities involving direct supervision of key management personnel.
7.10	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with A Board approved communication policy covers this aspect. The Annual General Meeting of the Company is the main forum at which the Board maintains effective communication with shareholders. Periodic announcements made to the Colombo Stock Exchange also contribute towards this purpose.
7.11	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.	Complied with
8	**Board appointed Committees**	
8.1	Every finance company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.	Complied with The Company has established an Audit Committee and an Integrated Risk Management Committee. Reports of these committees have been submitted to the main Board for their review. Please refer the reports on pages 102 to 103.

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Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
8.2	Audit Committee	Please refer page 102 for the Committee Report
a.	The Chairman of the committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied with Mr P A Wijeratne, Independent Non-Executive Director, has been appointed as the Chairman of the Audit Committee. He has over 20 years of experience in Accounting, Financial reporting, Investment of internal funds, Foreign loan disbursements and repayments, Auditing and Administration as an ex Officio of the Central Bank of Sri Lanka till his retirement in year 2016. He holds a BA degree in Economics (Special Field – Commerce) from University of Kelaniya and a postgraduate Diploma in Accounting and Financial Economics. He has read for his MSc in Accounting and Financial Economics at the University of Essex, UK.
b.	The Board members appointed to the committee shall be Non-Executive Directors.	Complied with The Committee consists of Independent Non-Executive Directors. The members of the Committee are: 1. Mr P A Wijeratne 2. Mrs. D P Pieris
c.	The committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied with A formal agenda for Audit Committee meetings including items prescribed by the direction is followed for the conduct of Audit Committee meetings. The implementation of CBSL guidelines and relevant accounting standards; and the evaluation of the service period, fees and rotation of External Auditors are carried out by the Audit Committee in consultation with the Head of Finance.
d.	The committee shall review and monitor the External Auditors' independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with The External Auditors are independent as they report direct to the Audit Committee of the Board. Further, the Auditors' Engagement Letter is evidence of the External Auditors' independence, and that the audit is carried out in accordance with SLAuS.

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e.	The committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditors' independence or objectivity. When assessing the External Auditors' independence or objectivity in relation to the provision of non-audit services, the committee shall consider: (i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the External Auditor.	Complied with The Board has approved a specific procedure for the engagement of the External Auditors for providing non-audit services.
f.	The committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the finance company's compliance with directions issued under the act and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements in accordance with relevant accounting principles and reporting obligations; and (iii) the coordination between auditors where more than one auditor is involved.	Complied with
g.	The Committee shall review the financial information of the Finance Company, in order to monitor the integrity of the financial statements of the finance company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's Annual Report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied with The Committee has a process to review financial information of the Company when the quarterly and annual audited Financial Statements and the reports including accounting policies and changes to policies, significant assumptions/judgements prepared for disclosure are presented to the Committee.

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h.	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary	Complied with Of the six meetings held the during the year, the Committee met the external auditors at four meetings and on two of these occasions, the auditors met the Committee in the absence of the executive management.
i.	The Committee shall review the External Auditors' management letter and the management's response thereto.	Complied with
j.	The Committee shall take the following steps with regard to the internal audit function of the finance company:	Complied with
	(i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	The Committee has considered the scope of the internal audit function and noted the adequacy of resources and that necessary authority had been allocated to carry out its work.
	(ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	The Audit Plan for 2017/18 was tabled by the Head of Internal Audit and had been approved by the Board as recommended by the Audit Committee.
	(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	An overall assessment of performance of the senior staff members and the Head of Internal Audit for the year 2017/18 has been carried out by the Committee.
	(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	No such situation has arisen during the year.
	(v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	No such situation has arisen during the year.
	(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	The Committee is satisfied that the internal audit function is performed with independence, impartiality and proficiency. The internal auditor reports direct to the Board Audit Committee.

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k.	The committee shall consider the major findings of internal investigations and management's responses thereto;	Complied with
l.	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the committee shall meet with the External Auditors without the Executive Directors being present.	Complied with The Committee has had two meetings with the External Auditors in the absence of the Executive Directors and the management.
m.	The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with The Board approved Terms of Reference of the Audit Committee ensures that it has the authority for points i to iv as required by the direction.
n.	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with During the year 2017/18 the Committee has held six meetings and conclusions of such meetings have been recorded by the Company Secretary in the Minutes of the relevant meetings.
o.	The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings.	Complied with Please refer report on page 102.
p.	The secretary to the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	Complied with
q.	The Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the External Auditor.	Complied with A whistle-blowing hotline has been publicised to all employees. The related policy is periodically reviewed and strengthened to cover the method of reporting any matters investigated to the Board Audit Committee.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
8.3	Integrated Risk Management Committee	Please refer page 104 for the Committee Report.
a.	The Committee shall consist of at least one Non-Executive Director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	Complied with The Integrated Risk Management Committee comprises: Mrs. D P Pieris - Committee Chairman/Senior Independent Director Mr. P A Wijeratne - Independent Non-Executive Director Mr. A Nissanka - Director/CEO Mrs. S Wickremasekera - Chief Risk Officer Mrs. D Mahawatte - Compliance Officer Mr. Imraz Iqbal - Head of Finance Mr. Indika Ariyawansa - Head of Credit Risk Management Mr. Sanjaya Kalidasa - Head of Treasury Mr. Chandana Jayanath - Head of Recoveries
b.	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	Complied with As delegated by the Committee under the headship of the Chief Risk Officer, the ERM Department assesses risks which have been identified by heads of divisions on a monthly basis and summarised and submitted to the quarterly Committee meetings. ERM has established risk indicators under different risk categories which are monitored by a QPR system under the following categories: Liquidity Risk, Operational Risk, Strategic Risk, Credit Risk, Business Risk, Profitability Risk and Stress Testing.
c.	The Committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with During the year the Committee monitored the activities of the ALCO through direct reports and minutes of ALCO meetings which are tabled at the quarterly IRMC meetings. Matters reported by the ALCO include: Funding Gap analysed through Maturity Gap Analysis Foreign Currency Position Inter company Exposures Cost of funds Investments Borrowings The lending rates are also periodically reviewed by the ALCO in line with regulatory requirements and market trends. Credit facilities are approved based on rates decided by the ALCO within the delegated authority limits.

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		Treasury dealer limits have already been established and approved by the Board. Furthermore a new treasury management system has been implemented which would cover Limit for total Net Open Position (NOP) USD/LKR intraday and overnight limits; Limits for Total Net Open Position of other currencies; Aggregate Gap Limits (AGL); Loss limits for FX operations; Loss Limits on Marking to Market (MtM) and counter party limits. At the financial year end, the Committee reviewed the adequacy and effectiveness of the ALCO against its terms of reference and addressed areas that required improvement. The Committee also reviewed the facilities approved by the Credit Committee and changes that had been made to credit policies and delegated authority limits. The overall evolution of both these Committees were carried out subsequent to the year under review.
d.	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Complied with Decisions taken at Committee Meetings are followed up by the ERM team. All reported risks are constantly monitored and remedial corrective action is taken if an adverse movement of the risk is evident. The Company deployed stress testing methodologies to assess the parameters set for identified key risk indicators and deviations were reported to the Committee quarterly. This process will be subject to continuous improvement and strengthening.
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with Four meetings were held during the financial year 2017/18.
f.	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied with Specific risks and limits are identified by the IRMC and decisions are taken collectively. Moreover a formal documented disciplinary action procedure involving Internal Audit and HR is in place.
g.	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with The CRO submits a summary report to the Members of the Board within seven days after the Committee meeting. This includes the risks discussed at IRMC meeting, mitigation actions proposed by ERM and the responses received from the risk owners. Further, approved Committee minutes are tabled at the subsequent Board meeting seeking the Board's views and specific direction.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
h.	The Committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	Complied with A compliance unit has been established to carry out compliance responsibilities of the entity. A dedicated compliance officer in the capacity of a key management personnel has been appointed to head the compliance function. A monthly compliance sign-off is obtained from all business unit heads on regulatory requirements relating to their respective areas of responsibility. Compliance Officer reports on the status of compliance to the Board and the Integrated Risk Management Committee on a monthly and quarterly basis respectively. Monitoring compliance with internal controls and approved policies on all areas of business operations are carried out by the ERM division under the supervision of the CRO.
9	**Related party transactions**	
9.1	The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.	
9.2	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: a) A subsidiary of the finance company; b) Any associate company of the finance company; c) A Director of the finance company; d) A key management personnel of the finance company; e) A relative of a Director or a key management personnel of the finance company;	Complied with A Board-approved process is in place to ensure that the Company does not engage in related party transactions as stipulated in this direction and to enable Directors to take measures to avoid a conflict of interest. Transactions with related parties are made with the sanction of the Board subject to such transactions being in the normal course of business. Further, Directors are individually requested to declare their transactions with the company at each Board meeting and in the annual declaration.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
	f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company; g) A concern in which a Director of the finance company or a relative of a Director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.	A Board-approved procedure is in place to ensure that the Directors and the CEO make relevant disclosures in a timely manner, in the event they make an acquisition or disposal of shares in the entity, to facilitate making an announcement to the CSE within five market days upon such acquisition or disposal.
9.3	The transactions with a related party that are covered in this Direction shall be the following: a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, c) providing financial or non-financial services to the finance company or obtaining those services from the finance company, d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.	Complied with The Board has appointed a Related Party Transaction Review Committee in compliance with the Code of Best Practice on Related Party Transactions (RPTs) issued by the Securities & Exchange Commission of Sri Lanka. The Committee comprises the following membership: Mrs D P Pieris – Committee Chairman/Independent Non-Executive Director Mr P A Wijeratne – Independent Non-Executive Director Mrs. K U Amarasinghe – Executive Director Mr. A Nissanka – Executive Director/CEO
9.4	The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, "more favourable treatment" shall mean: a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of five years or more. b) Charging of a lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty; c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties; d) Providing or obtaining services to or from a related party without a proper evaluation procedure;	Complied with The Company will further strengthen the favourable treatment monitoring mechanism by implementing an online system.

Governance

Corporate Governance

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
	e) Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.	
10	**Disclosures**	
10.1	The Board shall ensure that: (a) annual audited Financial Statements and periodical Financial Statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with The Financial Statements are prepared in accordance with the new Sri Lanka Accounting Standards (SLFRSs/LKASs) and the formats prescribed by the regulators. Annual Financial Statements are disclosed in the annual report; biannual (unaudited) financial statements are published in newspapers in all three languages and the quarterly statements are posted on CSE website.
10.2	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
a.	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with Please refer the Directors' Report on pages 96 to 100.
b.	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with Please refer the Directors' Statement on Internal Controls Over Financial Reporting on page 101.
c.	The External Auditors' certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31, 2010.	Complied with The Company has obtained a certification from M/s Ernst & Young, Chartered Accountants on the effectiveness of the internal controls over financial reporting. However its publication has not been permitted by the Auditors as there is no clear guideline issued by the CBSL.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
d.	Details of Directors, including names, transactions with the finance company.	Complied with Directors' names and details are given in pages 16 to 19. Transactions with Directors during the year are as follows. Remuneration Paid (Rs') 12,256,000 Accommodations granted (Rs') - Deposits with the Company (Rs') 329,328,014 Interest for the year (Rs') 26,356,233
e.	Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after January 1, 2010.	Complied with Fees/Remuneration paid amounted to Rs. 12,256,000.
f.	Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Complied with Net accommodations granted to each category of related parties as a percentage of capital funds of the Company at the year end is disclosed in pages 183 to 184 (note 32.2.2 & 32.3).
g.	The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied with Remuneration Paid (Rs') 40,085,345 Accommodations granted (Rs') 22,344,501 Deposits with the Company (Rs') 306,525,014 Interest for the year (Rs') 31,576,293
h.	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.	Complied with Status of compliance with prudential requirements, regulations and laws are in the Directors' report set out in pages 96 to 100.
i.	A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	Complied with There were no significant supervisory concerns/lapses in the Company's risk management and compliance with this direction to be directed by the Monetary Board to be disclosed to the public.
j.	The External Auditors' certification of the compliance with the Act and rules and directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011.	Complied with The Company has engaged the services of the External Auditors to assess the Company's level of compliance with the Finance Companies Corporate Governance Direction No. 03 of 2008 issued by the Monetary Board and has obtained a report on factual findings. However its publication has not been permitted by the Auditors as there is no clear guideline issued by the CBSL.

Corporate Governance

Sec No.	Rules of the Colombo Stock Exchange	LOLC Finance's Level of compliance
7.10	**Corporate Governance** Statement confirming that as at the date of the Annual Report that the Company is in compliance with these rules.	The Company is in compliance with the listing rules of the Colombo Stock Exchange, except for the requirements relating to the Minimum Public Float. For further details please refer the Directors' Report on page 98.
7.10.1	**Non-Executive Directors** The Board of Directors of a listed entity shall include at least: two Non-Executive Directors; or such number of Non-Executive Directors equivalent to one-third of the total number of Directors whichever is higher.	Complied with As at 31st March 2018 the Board comprised five directors of whom two were Non-Executive Directors.
7.10.2	**Independent Directors** Where the Constitution of the Board of Directors includes only two Non-Executive Directors in terms of 7.10.1, both such Non-Executive Directors shall be independent. In all other instances two or 1/3rd of the no Executive Directors appointed to the Board, whichever is higher shall be independent.	Complied with As at 31st March 2018 the Board comprised two Independent Directors from whom signed declarations of independence were obtained.
7.10.3-4	**Disclosures Relating to Directors** Annual determination as to the independence or non-independence of each Non-Executive Director.	Complied with The Board has reviewed and satisfied itself as to the independent/non-independent status of the non-executive Directors. Please refer directors' profiles on pages 16 to 19.
7.10.5	**Remuneration Committee** Shall comprise of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, which ever shall be higher.	Complied with As at 31st March 2018 the Committee comprised two Independent Non-Executive Directors. Please refer committee report on page 105.
7.10.6	**Audit Committee** Shall comprise of a minimum of two independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, which ever shall be higher.	Complied with As at 31st March 2018 the Committee comprised two Independent Non-Executive Directors. Please refer committee report on page 102.
9.2.2	**Related Party Transactions Review Committee** The Committee should comprise a combination of Non-Executive Directors and Independent Non-Executive Directors. The composition of the Committee may also include Executive Directors, at the option of the Listed Entity. One Independent Non-Executive Director shall be appointed as Chairman of the Committee.	Complied with As at 31st March 2018, the Committee comprised two Independent Non-Executive Directors, one of whom is the Committee Chairman and 2 Executive directors. Please refer committee report on page 107.

Member Attendance at Meetings

Board Meetings

Name of the Director	IN	NI	EX	NEX	Date of appointment	Meeting dates												TOTAL
						27/04/2017	26/05/2017	28/06/2017	25/07/2017	30/08/2017	07/09/2017	31/10/2017	29/11/2017	20/12/2017	24/01/2018	22/02/2018	23/03/2018	12
Justice R K S Suresh Chandra (Resigned w.e.f 03/07/2017)	√			√	25.07.12	√	√	√*	-	-	-	-	-	-	-	-	-	3
Dr. H Cabral, PC (Appointed Chairman w.e.f 03/07/2017/ resigned w.e.f. 02.02.2018)		√		√	26.01.11	-	√	√	√	√	√	√	√	√	√	-	-	9
I C Nanayakkara			√		26.11.02	√	√	√	√	√	√	√	-	√	-	√	√	10
Mrs. K U Amarasinghe			√		05.03.03	√	√	√*	√	√	√	√	√	-	√	√	√	11
Mrs. D P Pieris	√			√	27.06.12	√	√	√	√	√	√	√	√	√	√	√	√	12
P A Wijeratne	√			√	26.05.17	-	-	√	√	√	√	√	√	√	√	√	√	10
A Nissanka			√		15.10.15	√	√	√	√	√	√	√	√	√	√	√	√	12

IN Independent Director
NI Non-Independent Director
EX Executive Director
NEX Non-Executive Director

Audit Committee Meetings

Name of the Director	Meeting dates						TOTAL
	26/05/2017	25/07/2017	27/09/2017	31/10/2017	24/01/2018	22/02/2018	06
P A Wijeratne (Appointed Chairman w.e.f 28/06/2017)	-	√	√	√	√	√	05
Dr. H Cabral (Resigned with effect from 02/02/2018)	√	√	√	√	-	-	04
Justice R K S Suresh Chandra (Resigned w.e.f 03/07/2017)	√	-	-	-	-	-	01
Mrs. D P Pieris	√	√	√	√	√	√	06
By Invitation							
A Nissanka (CEO)	√	√	√	√	√	√	06
I Iqbal (Head of Finance)	√	√	√	√	√	-	05

Corporate Governance

Integrated Risk Management Committee Meetings

Name of the Director	Meeting Dates				TOTAL
	27/04/2017	30/08/2017	29/11/2017	22/02/2018	04
Mrs. D P Pieris (Appointed as Committee Chairman on 22/02/2018)	-	-	-	√	01
Dr. H Cabral (Resigned with effect from 02/02/2018)	√	√	√	-	03
P A Wijeratne (Appointed on 22/02/2018)	-	-	-	√	01
A Nissanka	√	√	√	√	04
Mrs. D Mahawatta	-	-	-	√	01

Related Party Transactions Review Committee Meetings

Name of the Director	Meeting Dates				TOTAL
	26/05/2017	25/07/2017	31/10/2017	24/01/2018	04
Mrs. D P Pieris (Appointed as Committee Chairman on 25/07/2017)	-	√	√	√	03
Dr. H Cabral, PC (Resigned with effect from 02/02/2018)	√	√	√	-	03
Justice R K S Suresh Chandra (Resigned w.e.f 03/07/2017)	√	-	-	-	01
Mrs. K U Amarasinghe	√	√	√	√	04
A Nissanka	√	√	√	√	04

Remuneration Committee Meetings

Name of the Director	Meeting Dates	TOTAL
	23/03/2018	01
Justice R K S Suresh Chandra (Resigned w.e.f 03/07/2017)	-	0
Mrs D P Pieris (Appointed as Committee Chairman on 25/07/2017)	√	01
P A Wijeratne (Appointed on 25/07/2017)	√	01

Nomination Committee Meetings

Name of the Director	Meeting Dates	TOTAL
	23/03/2018	01
P A Wijeratne (Appointed as Committee Chairman on 25/07/2017)	√	01
Justice R K S Suresh Chandra (Resigned w.e.f 03/07/2017)	-	0
Dr H Cabral, PC (Resigned with effect from 02/02/2018)	-	0
I C Nanayakkara	√	01

Enterprise Risk Management

Risk Management is one of the main pillars of a good governance system and it is a necessity that it is flexible and robust enough to adopt to the dynamic risk landscape we are operating in today. The risk governance structures should be adequately receptive to capture the changes in Financial, Credit, Market operational and event risks in order to ensure that a reasonable assurance can be obtained on the risk mitigation and control mechanisms the organisation adopts to be with in its risk appetite

Risk Management at LOLC is a Group level centralised function. The risk governance structures and mechanisms adopted ensures seamless integration with the Group level policies. The central control at Group level allows for the risk management initiatives to cascade down to entities and ensure standardisation and uniformity across the group.

The Risk governance structures adopted at LOLC Finance reflect the Board level commitment and it's involvement with both the Risk Management functions and Audit functions given total independence and separation from the executive management of the organisation to ensure independent unbiased opinions on risk and controls are expressed and communicated to the Board of Management.

The above unique yet highly effective risk governance structure allows the board of management to have direct oversight over the enterprise risk management division and its sub functions of audit and risk management via the integrated risk management committee and the audit committee. This mechanism ensures that the board is appraised of the

organisational risks and internal controls in an independent and unbiased manner. This boosts the level of confidence the board has on the internal control and risk governance framework implemented and their reliability, consistency and effectiveness.

The risk governance structures implemented at LOLC Finance is a combination of Risk Management, Internal Audit and IS audit functions which forms the Enterprise Risk Management Department (ERM) where the risk management focuses on the potential and perceived risks and mitigation strategies in place while the audit function focuses on the adequacy, effectiveness, consistency and the reliability of the internal controls. The synergy between these two functions have turned out to be highly effective as it ensures efficient deployment of resources based on risk factors. In addition smooth and timely flow of risk related information between risk and audit has resulted in obtaining a reasonable assurance that the controls function as intended and identification of emerging risks at the ground and tactical level.

The Risk Management function identify possible risks which have a reasonable probability to affect the achievement of our strategic and tactical objectives by its independent reviews as well as by analysing and reviewing the periodic reporting by the risk and process owners of business and service units. It appraises the management of the impacts on crystallisation of the identified risks and the mitigation strategies available. The Integrated risk management committee (IRMC) evaluates the possible impacts and in consultation with the risk owners decides on the best possible risk mitigation strategies and the internal controls to be adopted. The Board of Directors are kept informed through regular communications of the activities of the IRMC. Risk reporting to the board is a regular process undertaken monthly with a full review by the IRMC on a quarterly basis. If any significant changes in the risk parameters are observed the relevant stakeholders are kept appraised by way of a risk escalation communication which enables the risk owners and the management to take appropriate action on time.

We firmly believe that the best possible defense and mitigation strategy against risk is having an appropriate risk culture within the organisation and keeping true to our vision in risk management "Building an organisational Culture where Protection, Assurance, Reliability, Accountability, Transparency and Confidentiality are treasured and lasting values", the Enterprise Risk Management department engages in a consultative capacity in new product, service developments and business process formulations and conducts in house training for staff on risk and controls. The dissemination of risk and response related knowledge to all employees is a critical success factor in our risk management strategy.

The Internal Audit constantly reviews the internal control framework and risk mitigation controls following a risk based approach. The audit teams adopt a three pronged strategy which consists of teams that engages in process level /department level audits, branch based audits and region based audits. The data analytic techniques are now comprehensively used for auditing purposes which had enhanced the capacity and the capability as well as completeness of the reviews.

Information Systems Audit function reviews information systems and critical system infrastructure and supports the general audits by assisting them with data analytics. In addition IS audit engages in a consultative capacity in new system developments and major system acquisitions to ensure that due process is followed and as an advisory on risk and control aspects of the system.

A Corporate Whistle-Blower Hotline and a customer feedback line is operational and both these lines are managed by ERM division. The corporate whistle blower line facilitates employee reporting of information on irregularities and suspicious activities while the customer feedback hotline is dedicated for customer complaints. All information received through these lines are treated confidentially and are inquired and followed up until resolution. The information obtained /given through these channels based on the information category and nature are shared only on a need to know basis which elevates the confidence of both the employees and the customers alike.

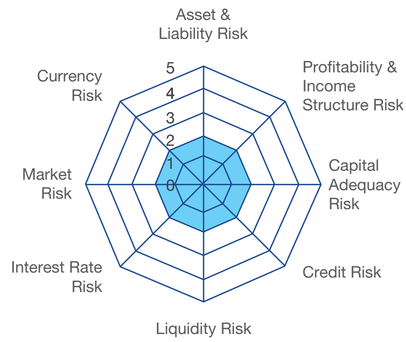
Continuous improvements are a prerequisite in any effective risk management strategy therefore ERM staff is exposed to required knowledge sharing sessions and trainings continuously. Active learning is always encouraged and supported among ERM staff. This is a necessity given the dynamic and volatile nature of the business environment today. The above strategy in combination with the internal quality assurance mechanisms and standardisation allows us to maintain consistency and uniformity of our deliverables across the organisation.

Risk Profile

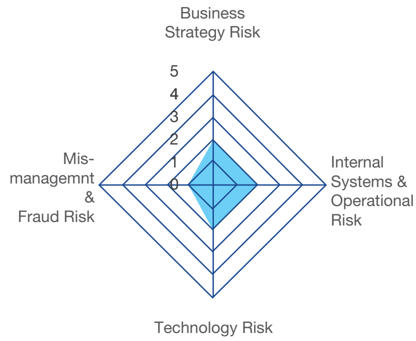
The following is based on the perceived risk and is a high level categorisation of risk used only for the illustration purposes of this report.

Risk Levels	Risk Score
Very High	5
High	4
Medium	3
Low	2
Very Low	1

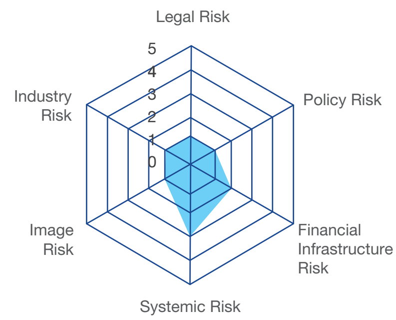
Financial Risks



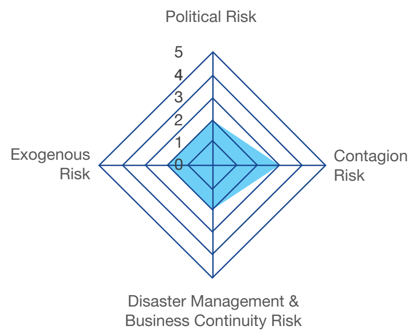
Operational Risks



Business Risks



Event Risks



Report of the Board of Directors

The Directors have pleasure in presenting their Annual Report together with the Audited Financial Statements for the year ended 31st March 2018.

Principal Activities and Nature of Operations

During the year the principal activities of the Company comprised Finance Business, Finance Leasing, Islamic Finance, Foreign Currency Business including Worker Remittances, issue of Payment Cards, Money Changing Business and provision of Advances for Margin Trading in the Colombo Stock Exchange.

Amalgamation with LOLC Micro Credit Limited

As requested by the Central Bank of Sri Lanka, the Company merged with LOLC Micro Credit Limited on 29th March 2018, in accordance with Section 242 (1) of the Companies Act No. 7 of 2007 thereby including Micro Financing to its portfolio of principal activities.

Directorate

The Board of Directors of the merged entity comprise members of the Company and those of LOLC Micro Credit Limited.

1.	Mr B C G De Zylva (LOMC Board Member - appointed with effect from 23rd April 2018)	Chairman, Non-Executive Director
2.	Mr R D Tissera (LOMC Board Member - appointed with effect from 23rd April 2018)	Deputy Chairman, Executive Director
3.	Mrs. K U Amarasinghe	Executive Director
4.	Mrs. D P Pieris	Senior Independent Director
5.	Mr. P A Wijeratne (Appointed with effect from 26th May 2017)	Independent Director
6.	Mr Ashan Nissanka	Executive Director/ CEO
7.	Mr. I C Nanayakkara (Resigned with effect from 14th May 2018)	Deputy Chairman - Executive Director
8.	Dr H Cabral, PC (Resigned with effect from 02nd February 2018)	Chairman, Non Executive Director
9.	Justice R K S Suresh Chandra (Retired with effect from 03rd July 2017)	Independent Director

The Board welcomes Mr. Brindley de Zylva and Mr Ravi Tissera, who have been appointed as Chairman and Deputy Chairman respectively of the Company.

Upon conclusion of the merger, having served for 16 years Mr. I C Nanayakkara resigned from the Board with effect from 14th May 2018 in order to comply with the requirements of the Direction on Corporate Governance of the Central Bank of Sri Lanka.

Having served for 7 years Dr. H Cabral resigned with effect from 02nd February 2018 for personal reasons.

Having served for 5 years, Justice R K S Suresh Chandra retired on 03rd July 2017, upon reaching the age of 70 years in accordance with the Direction on Corporate Governance issued by the Central Bank of Sri Lanka.

The Board wish to place on record its sincere appreciation for the invaluable contribution made by these directors during their tenure towards the development of the Company.

Recommendations for re-election of Directors

Mr. B C G De Zylva and Mr. R D Tissera who were appointed to the Board on 23rd April 2018 retire in terms of Article 70 of the Articles of Association of the Company and being eligible offer themselves for re-election.

In terms of Article 75 of the Articles of Association of the Company Mr. A Nissanka and Mrs. K U Amarasinghe retire by rotation and being eligible seek re-election as directors.

The Board recommends their re-election. The approval of the Central bank of Sri Lanka has been sought for the re-election of these directors.

Directors Interests in Contracts

The Directors have made the declarations required by the Companies Act No. 7 of 2007. These have been noted by the Board, recorded in the Minutes and entered into the Interest Register which is maintained by the Company.

Lists of companies on which these Directors serve are included in page 100.

Directors' remuneration

The Company paid Rs. 12,256,000/- as Directors' remuneration for the financial year ended 31st March 2018.

The Company has a Board approved Remuneration Policy. This policy stipulates that remuneration should be linked to competence and contribution, while serving to incentivise and motivate. This policy has been taken into account when determining remuneration for both staff and directors.

The Report of the Remuneration Committee is on page 105.

Directors Shareholding

	Director's Name	As at 31.03.2018	As At 31.03.2017
1	Mr. B C G De Zylva (A.W.E.F. 23rd April 2018)	Nil	Nil
2.	Mr R D Tissera (A.W.E.F. 23rd April 2018)	Nil	Nil
3.	Mrs. K U Amarasinghe	Nil	Nil
4.	Mrs. D P Pieris	1,000,000	1,000,000
5.	Mr P A Wijeratne (A.W.E.F. – 26th May 2018)	5,000	Nil
6.	Mr. A Nissanka	1,300,800	1,300,800
7.	Mr. I C Nanayakkara (R.W.E.F. 14th May 2018)	Nil	Nil
8.	Dr. H Cabral, PC (R.W.E.F. 02nd February 2018)	Nil	Nil
9.	Justice R K S Suresh Chandra (R.W.E.F. 03rd July 2018)	Nil	Nil

Meetings of the Board of Directors

Twelve scheduled monthly meetings were held during the year. A schedule of Directors' attendance at Board Meetings and Sub Committee Meetings has been included on pages 91 to 93.

Board Sub Committees

In compliance with regulatory guidelines and also with best practices, the Board has formed the following sub committees:

- Audit Committee
- Integrated Risk Management Committee
- Remuneration Committee
- Nomination Committee
- Related Party Transaction Review Committee

These Committees assist the Board with its role of oversight of the Company's performance and conformance. Minutes of the meetings of these Committees are tabled at the next Board meeting, enabling the Board to benefit from the focused review of these Committees on the areas and issues within their purview. These subcommittees have met quarterly or as and when necessary.

The Reports of these Committees can be found on pages 102 to 107.

The Company has also established two management level committees: the Credit Committee and the Asset & Liability Committee, to manage matters relating to credit and liquidity.

Shariah Supervisory Board

As the Company offers Islamic Finance products, the Board has installed a dedicated Shariah Supervisory Board (SSB). The SSB reviews all Islamic products offered, and periodically audits the processes, thereby providing comfort to customers of these products, and further strengthening the Board's control. Two of the three member Shariah Supervisory Board are key members of the All Ceylon Jamiyyathul Ulama (ACJU) and are based in Sri Lanka. The remaining member is an internationally-acclaimed shariah scholar based in South Africa.

Currently Islamic Finance products are offered through the standard LOFC Channel network of over 140 locations which include seven dedicated Al-Falaah centres.

Financial Statements & Auditors' Report and Directors' Responsibility for Financial Reporting

The Financial Statements and the Auditors' Report are given on pages 113 to 122.

The Directors are responsible for the preparation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs.

Report of the Board of Directors

The Directors are of the view that the financials have been prepared in accordance with the requirements of the Sri Lanka Accounting Standards, the Companies Act, No. 7 of 2007, the Finance Business Act, No. 42 of 2011 and all relevant directions of the Central Bank of Sri Lanka.

Significant Accounting Policies

The Accounting Policies adopted in the preparation of the financial statements and any changes thereof where applicable have been included in the Notes to the Financial Statements on pages 123 to 149.

Corporate Governance

LOLC Finance PLC is governed by the requirements of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and the Listing Rules of the Colombo Stock Exchange and subsequent amendments thereto.

The manner in which the Company ensures adherence with the above requirements has been disclosed on pages 66 to 93.

Transactions with Related Parties

Details of related party transactions are disclosed in the Financial Statements under Note 32 on pages 183 to 184.

The Directors confirm that any related party transaction entered into is compliant with the relevant rules. Where necessary, disclosures are made on the Colombo Stock Exchange.

Going Concern

The Directors believe that the Company is in a position to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared on the basis that the Company is a going concern.

Statutory Payments

For the year under review, all known statutory payments have been made and all retirement gratuities have been provided for. Further, all management fees and payments to related parties for the year under review have been reflected in the accounts.

Auditors

M/s Ernst and Young, the Auditors of the Company, retire and offer themselves for re-appointment. The Board recommends their re-appointment for the year 2018/2019 at a fee to be decided by the Board.

The auditors' remuneration for the year ended 31st March 2018 is disclosed under Note 25 on page 174 of the Financial Statements.

As far as the Directors are aware, the Auditors do not have any other relationship with the Company or any of its subsidiaries nor do they have any interest in contracts with the Company or any of its subsidiaries.

Compliance with Laws and Regulations

The Company has not engaged in any activity that contravenes any applicable law or regulation, and to the best of the knowledge of the Directors the Company has been in compliance with all prudential requirements, regulations and laws. The Company is compliant with the Corporate Governance requirements of the Listing Rules of the Colombo Stock Exchange with the exception of the requirements relating to the Public Float.

Disclosure in Terms of Rule 7.13.02 of the Continuous Listing Rules of the Colombo Stock Exchange ('CSE")

In accordance with the requirements of the above rule, we provide below the following details as at 31st May 2018:

- The Company is not compliant with the Minimum Public Holding Requirement stipulated in CSE Rule 7.13.1 (b).
- The public Holding percentage is 6.6%.
- The number of Public Shareholders amounts to 2,697.
- Existing Float Adjusted Market Capitalisation is Rs. 1,022,532,000/.

While in the process of complying with the core capital requirements of the Central Bank of Sri Lanka through a Rights Issue, the minimum public float of the Company which was at 10%, dropped to 6.58% post rights due to lack of subscription, where as a result the holding Company had to take up all the unsubscribed shares. Your Board of Directors is therefore in the process of evaluating option concerning the captioned requirement.

Internal Controls

The Enterprise Risk Management Division regularly reviews all aspects of operations, including controls, and compliance with relevant regulations. These reports are taken up for discussion by the Audit Committee or the Integrated Risk Management Committee as appropriate.

The Board could also seek the support of the external auditors to review and advise on any improvements needed to existing controls.

The Risk Management Report is on pages 94 to 95.

Shareholding

The stated capital of the Company is Rs. 7,880,000,000/- divided into 4,200,000,000 shares.

Events after the Reporting date

No circumstances have arisen since the reporting date that would require disclosure.

Annual General Meeting

The Annual General Meeting of the Company will be held at 11.00 am on 28th September 2018 at the Auditorium of Lanka ORIX Leasing Company PLC at No. 100/1 Sri Jayawardenapura Mawatha, Rajagiriya. Should you be unable to attend, please complete the proxy form in the manner instructed therein and return it to the Company.

For and on behalf of the
Board of Directors of LOLC Finance PLC

Mr. Ashan Nissanka
Executive Director/ CEO

Mr. Brindley de Zylva
Chairman/ Non Executive Director

22nd June 2018
Rajagiriya

Report of the Board of Directors

Directors' Declarations

Mr. B C G De Zylva	**Chairman:**	LOLC Finance PLC LOLC (Cambodia) PLC
	Managing Director:	LOLC Myanmar Micro-Finance Company Limited
	Director:	Navajeevana Rehabilitation Tangalle Browns Machinery (Cambodia) Co. Ltd.
Mr. R D Tissera	**Deputy Chairman:**	LOLC Finance PLC
	Director:	Sundaya Lanka (Pvt) Ltd. LOLC Micro Investments Ltd. BRAC Lanka Finance PLC LOLC Myanmar Micro Finance C.o Ltd. Pak Oman MFB LOLC Cambodia PLC
	Alternate Director:	Seylan Bank PLC
Mrs. K U Amarasinghe	**Director:**	LOLC Finance PLC Lanka ORIX Leasing Co. PLC LOLC Life Assurance Limited Palm Garden Hotels PLC Eden Hotel Lanka PLC Brown & Co. PLC Browns Investments PLC Riverina Resorts (Pvt) Ltd. Browns Capital PLC Browns Holdings Ltd. Green Paradise (Pvt) Ltd. Sun & Fun Resorts Ltd.
Mrs. D P Pieris	**Chairperson:**	PW Corporate Secretarial (Pvt) Ltd.
	Director:	LOLC Finance PLC Asia Asset Finance PLC Sithijaya Fund Ltd. Asian Centre for Lease Education Associated Electrical Corporation Ltd. Abans Electricals PLC MTN Corporate Consultants (Pvt) Ltd.
Mr. P A Wijeratne	**Director:**	LOLC Finance PLC
Mr. A Nissanka	**Director/CEO:**	LOLC Finance PLC

Directors' Statement On Internal Control Over Financial Reporting

Responsibility

In line with the Section 10(2)(b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the Internal Control over Financial Reporting in place at LOLC Finance PLC. ("the Company").

The Board has established an on going process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of Internal Control over Financial Reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board.

The Board is of the view that the system of Internal Control over Financial Reporting in place, is adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company is continuously improving the processes and procedures in line with the industry best practices and regulatory reporting requirements. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of design and effectiveness on an on-going basis. Progressive improvements on the control frame work covering processes relating to investment balances and reconciliations related to asset balances are being made. The matters addressed by the External Auditor's in this respect, will be taken in to consideration and appropriate steps will be taken to incorporate same, where applicable.

Confirmation

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting.

By order of the Board

Mr. Brindley de Zylva
Chairman/Non-Executive Director

Mr. Ashan Nissanka
Director/CEO

22nd June 2018

Governance

Report of the Audit Committee

Composition

The Audit Committee was established for the purpose of assisting the Board in fulfilling their responsibilities relating to financial governance. The Committee comprises two Independent Non-Executive Directors.

Mr. P A Wijeratne (Appointed w.e.f. 26.05.2017)	Committee Chairman/Independent Non-Executive Director Appointed w.e.f. 26.05.2017)
Mrs. D P Pieris	Independent Non-Executive Director
Dr. H Cabral (Resigned with effect from 02.02.2018)	Non-Executive Director
Justice R K S Suresh Chandra (Resigned with effect from 03.07.2017)	Independent Non-Executive Director

Terms of Reference

The Audit Committee is governed by the Audit Charter which defines its terms of reference. The composition and scope of the committee meets the requirements set out in the Finance Companies Corporate Governance Direction No. 3 of 2008 and the Listing Rules of the Colombo Stock Exchange.

The Committee has been mandated to ensure that a sound Financial Reporting System is established by: reviewing the appropriateness of procedures in place for the identification, evaluation and management of business risks; ensuring that internal controls relating to all areas of operations, including Human Resources and IT enhance good governance while not impeding business; seeking assurance that agreed control systems are in place, are operating efficiently and are regularly monitored; ensuring that appropriate controls are put in place prior to the implementation of significant business changes, facilitating monitoring of the changes; reviewing internal and external audit functions; and ensuring compliance with applicable laws, regulations, listing rules and established policies of the Company.

Activities of the Committee

Mr P A Wijeratne was appointed as Chairman of the Audit Committee in May 2017. Mr Wijeratne has over 20 years of experience in Accounting, Financial reporting, Investment of internal funds, Foreign loan disbursements and repayments, Auditing and Administration as an ex Officio of the Central Bank of Sri Lanka till his retirement in year 2016. He holds a BA degree in Economics (Special Field – Commerce) from University of Kelaniya and a postgraduate Diploma in Accounting and Financial Economics. He has read for his MSc in Accounting and Financial Economics at the University of Essex, UK.

During the year under review the Committee reviewed interim and annual Financial Statements prior to publication, checking and recommending changes in accounting policies, significant estimates and judgments made by the management, compliance with relevant accounting standards/regulatory requirements, and issues arising from internal and external audit.

Effectiveness of the Company's internal controls was evaluated through reports provided by the management, and by the Internal and External Auditors. The Committee is satisfied that an effective system of internal control is in place to provide the assurance on safeguarding the assets and the integrity of financial reporting. On behalf of the Audit Committee, the Internal Auditor performs a comprehensive exercise that entails reviewing of all aspects of MIS including operational and regulatory risks.

The Committee addressed the External Auditors' findings reported in the Management Letter relating to the previous financial year's (2016/17) audit.

The Committee reviewed the independence and objectivity of the External Auditors, M/s Ernst & Young, Chartered Accountants and has received a declaration confirming that they do not have any relationship or interest in the Company as required by the Companies Act, No. 7 of 2007.

Meetings

The Committee meets quarterly and additional meetings are held as and when a need arises. Six meetings were held during the year and the members' attendance at Audit Committee meetings is provided on page 91. The CEO and the Head of Finance were present at these meetings. Minutes of such meetings which include details of matters discussed are reported regularly at Board meetings. The audit partner was invited to attend four meetings and on two occasions the auditors were able to meet with the Audit Committee members without the presence of the other directors and members of the management.

Mr. P A Wijeratne
Chairman
Audit Committee

Rajagiriya
22nd June 2018

Report of the Integrated Risk Management Committee

Composition

The Integrated Risk Management Committee (IRMC) was established to assist the Board in performing its oversight function in relation to different types of risk faced by the Company in its business operations and ensures adequacy and effectiveness of the risk management framework of the Company. The Committee comprises the following members:

Mrs. D P Pieris	Committee Chairman/Senior Independent Director Appointed w.e.f. 22.02.18)
Mr. P A Wijeratne	Independent Non-Executive Director
Mr. A Nissanka	Executive Director/CEO
Dr. H Cabral (resigned with effect from 02.02.2018)	Non-Executive Director and Committee Chairman
Mrs. S Wickremasekera	Chief Risk Officer
Mrs. D Mahawatte	Compliance Officer
Mr. Imraz Iqbal	Head of Finance
Mr. Indika Ariyawansa	Head of Credit Risk Management
Mr. Sanjaya Kalidasa	Head of Treasury
Mr. Chandana Jayanath	Head of Recoveries

Terms of Reference

The IRMC has adopted the provisions of Section 8 (3) of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board of the Central Bank of Sri Lanka as its Terms of Reference. The composition and the scope of work of the Committee are in conformity with the provisions of the aforesaid Direction.

Activities of the Committee

Credit, Operational, Market and Liquidity Risks are monitored by divisional heads and reported to the Chief Risk Officer on a monthly basis. These risks are then reviewed and assessed monthly by the Chief Risk Officer and summarised reports are submitted quarterly to the Committee for concurrence and/or specific directions in order to ensure that the risks are managed appropriately.

As delegated by the Committee the Chief Risk Officer submits a risk assessment report to the Board, subsequent to each meeting within a week of each meeting, stating the risk mitigation actions pursued and seeking the Board's views. In addition proceedings of meetings are also tabled at a subsequent meeting of the Board. The Committee works closely with the key management personnel and the Board in fulfilling its duties in risk management.

During the year the Committee: reviewed risk indicators designed to monitor the level of specific risks, with a view to determining the adequacy of such indicators; reviewed actual results computed monthly against each risk indicator and took prompt corrective action to mitigate the effects of the specific risk; reviewed the effectiveness of the compliance function to assess the Company's compliance with laws, regulatory guidelines, internal controls and approved policies in all areas of business operations; and reviewed the adequacy and effectiveness of the Asset Liability Committee and the Credit Committee.

Meetings

During the year the Committee met four times on a quarterly basis. The attendance of members at meetings is stated on page 92.

Mrs. D P Pieris
Chairman
Integrated Risk Management Committee

Rajagiriya
22nd June 2018

Report of the Remuneration Committee

Composition

The Remuneration Committee was established to assist the Board in evaluating and recommending remuneration for Board Members. The Committee comprises two Independent Directors.

Mrs. D P Pieris	Committee Chairman/Senior Independent Director
Mr. P A Wijeratne	Independent Non-Executive Director

Terms of Reference

The Remuneration Committee is governed by a Board approved Remuneration Policy which has vested it with powers to evaluate, assess and recommend to the Board for approval any fee, remuneration and ex gratia to be paid out to its directors including the Chief Executive Officer based on: the need of the Company to be competitive; the need to attract, motivate and retain talent; and the need to encourage and reward high levels of performance and achievement of corporate goals and objectives. The composition and scope of the Committee meets the requirements set out in the Listing Rules of the Colombo Stock Exchange.

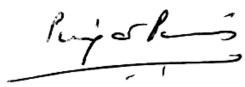
Activities of the Committee

The Committee is responsible for determining the remuneration policy relating to the CEO; periodically evaluating the performance of the CEO against the set targets and goals and determining the basis for revising remuneration, benefits and other payments of performance based incentives; determining the remuneration policy relating to Executive and Non-Executive Directors including alternate Directors and recommending these to the Board for adoption.

All independent directors receive a fee for attending board meetings and committee meetings. They do not receive any performance or incentive payments. Directors' emoluments have been disclosed on page 174.

Meetings

One Remuneration Committee meeting was held during the year under review, and attendance of members is stated on page 93.



Mrs. D P Pieris
Chairman
Remuneration Committee

Rajagiriya
22nd June 2018

Governance

Report of the Nomination Committee

Composition

The Nomination Committee was established to assist the Board in assessing the skills required and recommending director nominees for election to the Board (subject to ratification by the shareholders) and to its sub committees to effectively discharge their duties and responsibilities. The Committee comprises the following membership:

Mr. P A Wijeratne	Committee Chairman/Independent Non-Executive Director
Mrs. K U Amarasinghe	Executive Director
Mr. R D Tissera	Executive Deputy Chairman (appointed w.e.f. 22.06.2018)
Mr. I C Nanayakkara	Executive Director (resigned w.e.f. 14.05.2018)

Terms of Reference

The Board established this Committee voluntarily and its charter defines its purpose including the following duties and responsibilities: assisting the Board in identifying qualified individuals to become Board members and determining the composition of the Board of Directors and its committees; oversight of the evaluation of the Board and its Committees, as well as senior management of the Company, including succession planning; annually review the composition of each sub-committee and present recommendations/nominations for committee memberships to the Board; maintain records and minutes of meetings and activities of the Committee; perform any other activities consistent with this Charter, and the scope of the Nomination Committee or as deemed necessary and appropriate by the Committee and the Board.

Activities of the Committee

During the year the Committee assessed the composition of the Board and its sub committees and was satisfied that the requirements of the relevant regulations of the CBSL and CSE had been fulfilled.

Meetings

One Committee meeting was held during the year under review and proceedings of these meetings were reported to the Board. The attendance of members at meetings is stated on page 93.

Mr. P A Wijeratne
Chairman
Nomination Committee

Rajagiriya
22nd June 2018

Report of the Related Party Transaction Review Committee

Composition

The Related Party Transaction Review Committee was formed by the Board to comply with the related Rules of the Colombo Stock Exchange. The Committee comprises the following members:

Mrs. D P Pieris	Committee Chairman/Senior Independent Director
Mr. P A Wijeratne	Independent Non-Executive Director
Mrs. K U Amarasinghe	Executive Director
Mr. A Nissanka	Executive Director/CEO

Terms of Reference

On behalf of the Board, the Committee ensures that all Related Party Transactions of the Company are consistent with the Code of Best Practice on Related Party Transactions issued by the Securities & Exchange Commission of Sri Lanka.

Activities of the Committee

The committee has reviewed quarterly all recurrent and non-recurrent RPTs of the Company and was satisfied that such transactions had been carried out at market rates; and where applicable, the guidelines of the CSE and the Sri Lanka Accounting Standards had been complied with in relation to approvals/reporting/disclosure.

The Committee in discharging its functions relied on processes that have been established to ensure compliance with the Code; protection of shareholder interests; and maintaining fairness and transparency.

The Group Chief Financial Officer, Group Treasurer, Group Chief Credit Officer including the Compliance Officer/Head of Finance are invited for all Committee meetings, to ensure on behalf of the Board that all related party transactions of the Group and its listed subsidiaries are consistent with the Code.

The activities and views of the Committee have been communicated to the Board of Directors quarterly through verbal briefings, and by tabling the minutes of the Committee's meetings.

Meetings

Four Committee meetings were held during the year. The attendance of members at meetings is stated on page 92.

Mrs. D P Piers
Chairperson
Related Party Transaction Review Committee

Rajagiriya
22nd June 2018

Governance

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka. The requirements of the Companies Act No.7 of 2007, the Finance Business Act No.42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

Accordingly, the company has prepared Financial Statements which comply with SLFRSs/ LKASs and related interpretations applicable for period ended 31 March 2018, together with the comparative period data as at and for the year ended 31 March 2017, as described in the accounting policies.

We accept responsibility for the integrity and accuracy of these Financial Statements. Significant accounting policies have been applied consistently. Application of significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with the Audit Committee and the External Auditors. Estimate and judgment relating to the Financial Statements were made on a prudent and reasonable basis, in order to ensure that the Financial Statements are true and fair. To ensure this, our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed.

We confirm that to the best of our knowledge, the Financial Statements and other financial information included in this annual report, fairly present in all material respects the financial position, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report.

We are responsible for establishing and maintaining internal controls and procedures. We have designed such controls and procedures, or caused such controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us and for safeguarding the company's assets and preventing and detecting fraud and error. We have evaluated the effectiveness of the Company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this Annual Report. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involves management or other employees.

The Financial Statements were audited by Messrs. Ernst & Young, Chartered Accountants, the Independent Auditors. The Audit Committee pre-approves the audit and non-audit services provided by Ernst & Young in order to ensure that the provision of such services does not impair Ernst & Young's independence and objectivity. The Audit Committee also reviews the external audit plan and the management letters and follows up on any issues raised during the statutory audit. The Audit Committee also meets with the External and Internal Auditors to review the effectiveness of the audit.

We confirm that the Company has complied with all applicable laws and regulations and guidelines and that there are no material litigations that are pending against the Company other than those arising in the normal course of conducting business.

Ms. Sunjeevani Kotakadeniya
Chief Financial Officer - LOLC Group

Mr. Ashan Nissanka
Director/Chief Executive Officer

22nd June 2018

Directors' Responsibility For Financial Reporting

The Directors confirm that the Company's Financial Statements for the year ended 31st March 2018, are prepared and presented in conformity with the requirements of the Sri Lanka Accounting Standards, the Regulations and Directions of the Central Bank of Sri Lanka, the Listing Rules of the Colombo Stock Exchange and the Companies Act No. 07 of 2007. They believe that the Financial Statements present a true and fair view of the state of the affairs of the Company as at the end of the financial year. The Financial Statements comprise the Statement of Financial Position as at 31st of March 2018, the Statement of Profit or Loss and other Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the year then ended and Notes thereto.

The Directors also accept responsibility for the integrity and accuracy of the Financial Statements presented and confirm that appropriate accounting policies have been selected and applied and reasonable and prudent judgment has been exercised so as to accurately report transactions. The Directors have taken reasonable steps to safeguard the assets of the Company, to prevent, deter and detect fraud, and to ensure the integrity, accuracy and safeguarding of operational and financial records.

The Directors confirm that to the best of their knowledge, all statutory payments due in respect of the Company as at the reporting date have been paid for, or where relevant, provided for.

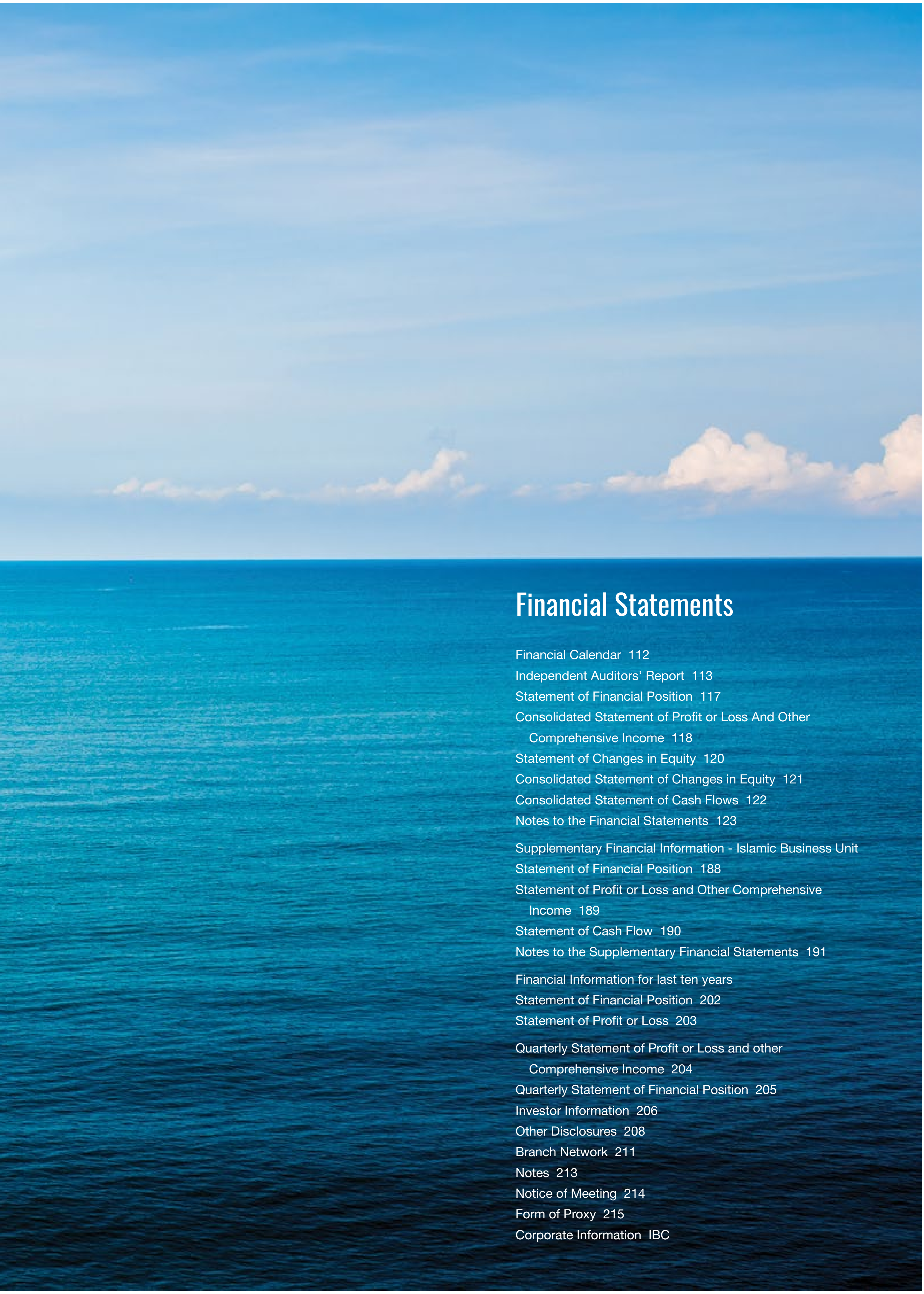
The External Auditors, Messrs Ernst & Young, were provided with the opportunity to make appropriate inspections of financial records, minutes and other documents to enable them to form an opinion of the financial statements. The Report of the Auditors is set out on page 113.

Mr. Ashan Nissanka
Director/Chief Executive Officer

22nd June 2018

Governance


Discovering
limitless
potential



Financial Statements

Financial Calendar

Financial Calendar 2017/18	
1st Quarter Results 2017/18 released on	Tuesday, August 15, 2017
2nd Quarter Results 2017/18 released on	Wednesday, November 15, 2017
3rd Quarter Results 2017/18 released on	Thursday, February 15, 2018
4th Quarter Results 2017/18 released on	Thursday, May 31, 2018
Annual report for 2017/18 released on	Friday, August 31, 2018
17th Annual General Meeting on	Friday, September 28, 2018

Proposed Financial Calendar 2018/19	
1st Quarter Results 2018/19 will be released on	Wednesday, August 15, 2018
2nd Quarter Results 2018/19 will be released on	Thursday, November 15, 2018
3rd Quarter Results 2018/19 will be released on	Friday, February 15, 2019
4th Quarter Results 2018/19 will be released on	Friday, May 31, 2019
18th Annual General Meeting on	Friday, June 28, 2019

Independent Auditors' Report

Ernst & Young
Chartered Accountants
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Sri Lanka

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APAG/BV/RM/TW

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LOLC FINANCE PLC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of LOLC Finance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

(Set out on pages 117 to 187)

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Independent Auditors' Report

Key Audit Matter	How our audit addressed the key audit matter
Impairment of loans and receivables to customers As at 31 March 2018, rentals receivable on leased assets, loans and advances, factoring receivable and margin trading receivables (net of impairment) amounted to Rs.151,316,544,030. These collectively contributed 72% to the total assets. The allowance for impairment (both individual and collective) of these financial assets is estimated by management. The estimation involves a complex calculation. Assumptions used by management in this calculation are inherently judgemental. Note no 2.3.9 to the financial statements more fully describes the assumptions to which this estimate is most sensitive. We considered the estimation of allowance for impairment as a Key Audit Matter due to sensitivity of reported results (on financial performance) to this allowance and the inherent uncertainty involved in its estimation.	To assess the reasonableness of the allowance for impairment, we performed the following procedures, among others: ▪ We understood and evaluated the key internal controls over estimation of the allowance for impairment including those over identifying occurrence of loss events; ▪ We test - checked the underlying calculations and data used in such calculations; ▪ In addition to the above, focused procedures were performed as follows: • **Individual allowance for impairment:** For a sample of loans and receivables, management's forecasts of cash flows were test – checked to historical patterns of customer repayment. Among other procedures, forecast cash flows arising from collateral (or other source(s) of expected recovery) were verified to source documents; • **Collective allowance for impairment:** For loss rates used by management, we assessed the appropriateness of the loss emergence period and the observation period including consistency with historical loss experience; assessed the reasonableness of the assumptions on effects arising from macro – economic factors; ▪ We assessed the adequacy of the related financial statement disclosures as set out in note (s) 2.24.3,5 and 6

Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company and the Group.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely

Independent Auditors' Report

rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1697.

22nd June 2018
Colombo

Statement of Financial Position

As at 31 March,	Note	2018 Rs.	2017 Rs.
ASSETS			
Cash and bank balances	29.1	11,323,366,281	4,924,111,973
Deposits with banks and other financial institutions		26,346,551,552	14,161,567,078
Investment in government securities & others	3	10,871,768,339	7,853,176,493
Derivative assets	4.1	133,540,941	23,840,338
Rentals receivable on leased assets	5	43,605,123,812	18,408,733,121
Loans and advances	6	96,897,095,158	55,484,081,124
Factoring receivable	6.5	10,638,754,943	16,524,638,067
Margin trading receivables	6.6	175,570,117	94,825,018
Other receivables	7	1,122,496,378	1,071,661,415
Investment securities	8	1,965,298,691	324,629,347
Amount due from related companies	9	32,909,393	224,505,824
Inventories		9,077,910	-
Investment properties	10	6,278,187,226	906,300,000
Property plant and equipment	11	1,714,491,470	2,621,022,043
Total assets		211,114,232,211	122,623,091,840
LIABILITIES			
Bank overdraft	29.2	4,243,169,825	2,393,316,396
Interest bearing borrowings	12	70,490,432,360	24,456,313,666
Deposits from customers	13	110,027,420,099	80,607,114,794
Trade payables	14	1,593,495,580	677,878,426
Accruals and other payables	15	2,388,375,887	1,620,967,675
Derivative liabilities	4.2	482,464,342	18,978,063
Amount due to related companies	16	1,496,999,551	434,258,821
Current tax payable	27.1	813,718,266	268,931,782
Deferred tax liability	27.2	2,402,219,247	1,102,057,559
Employee benefits	17.2	70,303,298	17,018,130
Total liabilities		194,008,598,456	111,596,835,312
SHAREHOLDERS' FUNDS			
Stated capital	18	7,880,000,000	2,000,000,000
Statutory reserve	19.1	1,996,724,011	1,556,438,753
Revaluation Reserve	19.2	241,527,671	206,229,960
Cash flow hedge reserve	19.3	(6,333,137)	14,236,742
Available for sale investment reserve	19.4	(7,166,375)	(115,484,939)
Retained earnings	19.5	7,000,881,585	7,364,836,011
Total equity		17,105,633,755	11,026,256,528
Total liabilities and equity		211,114,232,211	122,623,091,840

These financial statements are prepared in compliance with the requirements of the Companies Act No.07 of 2007.

(Mr.) Buddhika Weeratunga
Head of Finance

The Board of Directors is responsible for these Financial Statements.
Signed for and on behalf of the Board by:

(Mr.) Ravi Tissera
Executive Deputy Chairman

(Mr.) A. Nissanka
Director / CEO

The annexed notes to the financial statements on pages 123 through 187 form an integral part of these financial statements.

22nd June 2018
Rajagiriya (Greater Colombo)

Consolidated Statement of Profit or Loss And Other Comprehensive Income

Year ended 31 March,	Note	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Interest income	20	24,848,471,285	21,899,345,941	18,489,740,700
Interest expense	21	(15,016,601,637)	(13,902,136,761)	(11,459,273,390)
Net interest income		9,831,869,649	7,997,209,180	7,030,467,310
Net other operating income	22	3,796,819,301	3,735,456,817	2,348,653,257
Direct expenses excluding interest cost	23	(1,273,314,008)	(1,047,933,016)	(1,311,408,171)
Allowance for impairment & write-offs	24	(4,449,051,661)	(3,709,287,962)	(1,329,042,113)
Personnel expenses	25.1	(1,630,407,100)	(1,370,492,906)	(1,424,495,490)
Depreciation	11	(173,284,039)	(173,816,520)	(148,246,007)
General & administration expenses		(3,558,187,220)	(2,997,554,048)	(2,624,516,677)
Profit from operations	25	2,544,444,921	2,433,581,545	2,541,412,108
Value added tax on financial service		(480,483,883)	(348,841,403)	(364,834,951)
Profit before tax		2,063,961,038	2,084,740,142	2,176,577,157
Income tax (expense) / reversal	27	127,213,104	116,686,147	(589,759,163)
Profit for the year		2,191,174,142	2,201,426,289	1,586,817,994
Other comprehensive income				
Items that will never be reclassified to profit or loss				
Remeasurements of defined benefit liability - gain / (loss)	17.2	(2,609,396)	(2,609,396)	(1,504,720)
Related tax	27.2	730,631	730,631	421,322
		(1,878,765)	(1,878,765)	(1,083,398)
Revaluation surplus		43,114,247	-	216,989,576
Related tax		(7,816,536)	-	(10,759,616)
		35,297,711	-	206,229,960
Total of items that will never be reclassified to profit or loss		33,418,946	(1,878,765)	205,146,562

Year ended 31 March,	Note	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Items that are or may be reclassified to profit or loss				
Available-for-sale financial assets :				
Net change in fair value	3.1.3	128,082,838	128,105,497	44,668,814
Net amount transferred to profit or loss	3.1.3	(16,745,534)	(16,745,534)	-
Related tax		(3,018,739)	(3,018,739)	-
		108,318,565	108,341,224	44,668,814
Gain / (loss) on cash flow hedges	19.3	(28,569,276)	(26,649,199)	(11,820,715)
Related tax	19.3	7,999,397	7,461,776	3,309,800
		(20,569,879)	(19,187,423)	(8,510,915)
Total of items that are or may be reclassified to profit or loss		87,748,686	89,153,801	36,157,899
Total other comprehensive income, net of tax		121,167,632	87,275,036	241,304,461
Total comprehensive income for the year		2,312,341,773	2,288,701,324	1,828,122,454
Profit for the year attributable to;				
Equity holders of the Company		2,191,174,142		
Non-controlling interests		-		
Profit for the period		2,191,174,142		
Total comprehensive income attributable to;				
Equity holders of the Company		2,312,341,773		
Non-controlling interests		-		
Total comprehensive income for the year		2,312,341,773		
Basic earnings per share	28	0.77	0.77	0.57

The annexed notes to the financial statements on pages 123 through 187 form an integral part of these financial statements.

Statement of Changes in Equity

Company	Note	Stated Capital Rs.	Statutory Reserve Rs.	Revaluation Reserve Rs.	Cash flow Hedge Reserve Rs.	Available for Sale Investment Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
Balance as at 1 April 2016		2,000,000,000	1,239,075,154	-	22,747,657	(160,153,753)	6,096,465,015	9,198,134,073
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	1,586,817,994	1,586,817,994
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss)	17.2 / 27.2	-	-	-	-	-	(1,083,398)	(1,083,398)
Net change in fair value of AFS investments	3.3	-	-	-	-	44,668,814	-	44,668,814
Net movement of cashflow hedges	19.3 / 27.2	-	-	-	(8,510,915)	-	-	(8,510,915)
Transfer to Revaluation Reserve		-	-	206,229,960	-	-	-	206,229,960
		-	-	206,229,960	(8,510,915)	44,668,814	(1,083,398)	241,304,461
Total comprehensive income for the year		-	-	206,229,960	(8,510,915)	44,668,814	1,585,734,596	1,828,122,455
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	317,363,599	-	-	-	(317,363,599)	-
Total transactions recorded directly in equity		-	317,363,599	-	-	-	(317,363,599)	-
Balance as at 31 March 2017		2,000,000,000	1,556,438,753	206,229,960	14,236,742	(115,484,939)	7,364,836,012	11,026,256,528
Balance as at 1 April 2017		2,000,000,000	1,556,438,753	206,229,960	14,236,742	(115,484,939)	7,364,836,012	11,026,256,528
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	2,201,426,289	2,201,426,289
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss)	17.2 / 27.2	-	-	-	-	-	(1,878,765)	(1,878,765)
Net change in fair value of AFS investments	3.3	-	-	-	-	108,341,224	-	108,341,224
Net movement of cashflow hedges	19.3 / 27.2	-	-	-	(19,187,423)	-	-	(19,187,423)
		-	-	-	(19,187,423)	108,341,224	(1,878,765)	87,275,036
Total comprehensive income for the year		-	-	-	(19,187,423)	108,341,224	2,199,547,523	2,288,701,324
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	440,285,258	-	-	-	(440,285,258)	-
Shares issued during the year		5,880,000,000	-	-	-	-	-	5,880,000,000
Excess of the investment and other adjustments on merger with subsidiary		-	-	35,297,711	(1,382,456)	(22,659)	(2,123,216,692)	(2,089,324,097)
Total transactions recorded directly in equity		5,880,000,000	440,285,258	35,297,711	(1,382,456)	(22,659)	(2,563,501,950)	3,790,675,903
Balance As at 31 March 2018		7,880,000,000	1,996,724,011	241,527,671	(6,333,137)	(7,166,375)	7,000,881,585	17,105,633,755

The annexed notes to the financial statements on pages 123 through 187 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Group	Note	Stated Capital Rs.	Statutory Reserve Rs.	Revaluation Reserve Rs.	Cash flow Hedge Reserve Rs.	Available for Sale Investment Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
Balance as at 1 April 2017		2,000,000,000	1,556,438,753	206,229,960	14,236,742	(115,484,939)	7,364,836,012	11,026,256,528
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	2,191,174,142	2,191,174,142
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss)	17.2 / 27.2	-	-	-	-	-	(1,878,765)	(1,878,765)
Net change in fair value of AFS investments	3.3	-	-	-	-	108,318,565	-	108,318,565
Net movement of cashflow hedges	19.3 / 27.2	-	-	-	(20,569,879)	-	-	(20,569,879)
Transfer to Revaluation Reserve		-	-	35,297,711	-	-	-	35,297,711
		-	-	35,297,711	(20,569,879)	108,318,565	(1,878,765)	121,167,632
Total comprehensive income for the year		-	-	35,297,711	(20,569,879)	108,318,565	2,189,295,377	2,312,341,773
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	440,285,258	-	-	-	(440,285,258)	-
Shares issued during the year		5,880,000,000	-	-	-	-	-	5,880,000,000
Excess of the investment and other adjustments on merger with subsidiary		-	-	-	-	-	(2,112,964,545)	(2,112,964,545)
Total transactions recorded directly in equity		5,880,000,000	440,285,258	-	-	-	(2,553,249,803)	3,767,035,455
Balance As at 31 March 2018		7,880,000,000	1,996,724,011	241,527,671	(6,333,137)	(7,166,375)	7,000,881,585	17,105,633,755

The annexed notes to the financial statements on pages 123 through 187 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 March,	Note	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Cash flows from operating activities				
Profit before income tax expense		2,063,961,038	2,084,740,142	2,176,577,157
Adjustments for:				
Depreciation	11	173,284,039	173,816,520	148,246,007
(Profit)/ loss on sales of investment property	22	(5,462,500)	(5,462,500)	(11,902,750)
Change in fair value of derivatives - forward contracts	22	36,451,677	36,451,677	28,698,717
Provision for fall / (increase) in value of investments	22	(518,658,941)	(518,658,941)	(31,951,930)
Impairment provision for the period	24	(453,227,551)	(704,593,708)	549,528,640
Provision for payables to clients	22	25,200,000	25,200,000	10,500,000
Change in fair value of investment property	22	(197,274,567)	(78,239,014)	(24,457,848)
Provision for defined benefit plans	17.2.a	5,986,781	5,986,781	5,141,592
Investment income		(2,093,701,667)	(1,935,901,532)	(1,456,265,411)
Finance costs	21	15,016,601,637	13,902,136,761	11,282,234,645
Operating profit before working capital changes		14,053,159,947	12,985,476,187	12,676,348,819
Change in other receivables		935,800,038	619,496,477	(340,001,143)
Change in inventories		(8,545,405)	(8,515,204)	-
Change in trade and other payables		(3,935,133,795)	597,374,890	631,893,469
Change in amounts due to/ due from related parties		(5,545,440,232)	(7,501,572,236)	(783,756,629)
Change in factoring receivables		6,124,105,866	6,020,393,797	(3,330,707,223)
Change in lease receivables		(5,112,998,411)	(7,154,674,237)	(1,201,164,050)
Change in hire purchase, loans and advances		(5,199,830,591)	(5,487,211,635)	(2,295,076,262)
Change in margin trading advances		(80,745,099)	(80,745,099)	(9,227,854)
Change in fixed deposits from customers		23,827,481,998	23,827,481,998	19,085,134,624
Change in savings deposits from customers		5,048,050,238	5,048,050,238	755,576,666
Cash (used in) / generated from operations		30,105,904,554	28,865,555,177	25,189,020,417
Finance cost paid on deposits		(11,444,752,742)	(11,444,752,742)	(7,513,259,549)
Gratuity paid	17.2	(1,932,231)	(1,932,231)	(1,876,753)
Income tax paid	27.1	(624,385,995)	(332,054,772)	(520,426,989)
Net cash from / (used in) operating activities		18,034,833,585	17,086,815,432	17,153,457,127
Cash flows from investing activities				
Acquisition of property, plant & equipment & investment property		(2,925,349,707)	(2,908,921,761)	(749,011,621)
Net proceeds from investments in term deposits		6,869,590,722	6,388,657,701	(5,260,672,779)
Net proceeds from investments in government securities		(2,641,713,650)	(2,041,284,168)	1,894,865,178
Interest received		2,093,701,667	1,935,901,532	1,456,265,411
Proceeds from sale of investment property		42,662,500	42,662,500	74,257,750
Acquisition of subsidiary - net of cash	36.1	(7,276,214,641)	(12,291,200,000)	-
Net proceeds from investments in Unit trust		(968,166,503)	(968,166,503)	790,793,427
Net cash flows used in investing activities		(4,805,489,613)	(9,842,350,699)	(1,793,502,634)
Cash flows from financing activities				
Net proceeds from interest bearing loans & borrowings		(11,158,653,152)	(7,355,500,136)	(10,625,625,192)
Proceeds from issuance of new shares (Right issue)		5,880,000,000	5,880,000,000	-
Lease rentals paid		(520,035,822)	(520,035,822)	(632,792,253)
Finance cost paid on borrowings		(2,881,254,120)	(1,938,990,970)	(3,127,127,380)
Net cash flows from / (used in) financing activities		(8,679,943,094)	(3,934,526,928)	(14,385,544,825)
Net increase / (decrease) in cash and cash equivalents		4,549,400,879	3,309,937,803	974,409,667
Addition on merger with subsidiary		-	1,239,463,076	-
Cash and cash equivalents at the beginning of the period		2,530,795,577	2,530,795,577	1,556,385,910
Cash and cash equivalents at the end of the period (note 29)		7,080,196,456	7,080,196,456	2,530,795,577

The annexed notes to the financial statements on pages 123 through 187 form an integral part of these financial statements.

Notes to the Financial Statements

1. GENERAL

1.1 Reporting Entity

1.1.1 Corporate Information

LOLC Finance PLC ("the Company") is a quoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The registered office of the Company is at No.100/1, Sri Jayewardenepura Mawatha, Rajagiriya.

The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No. 42 of 2011. The Company has obtained registration from the Securities and Exchange Commission, as a Market Intermediary to perform the functions of a Margin Provider under section 19A of the Securities & Exchange Commission Act No.36 of 1987 as amended by Act Nos. 26 of 1991 & 18 of 2003.

1.1.2 Parent entity and Ultimate Parent Company

The Company's immediate and ultimate parent undertaking and controlling entity is Lanka ORIX Leasing Company PLC, which is incorporated in Sri Lanka.

1.1.3 Principal Activities and Nature of Operations

The principal activities of the Company comprised of leasing, loans, hire purchase, margin trading, property development, mobilisation of public deposits and Islamic financial services.

There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

1.1.4 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards.

1.1.5 Number of Employees

The staff strength of the Company as at 31 March 2018 was 2397 (2017– 956).

1.2 Basis of Preparation

1.2.1 Statement of compliance

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLAS) prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Companies Act, No. 7 of 2007, the Regulation of Finance Business Act No.42 of 2011 and amendments there to.

These Financial Statements include the following components:

- a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the year under review;
- a Statement of Financial Position providing the information on the financial position of the Company as at the year-end;
- a Statement of Changes in Equity depicting all changes in shareholders of Changes in Equity and depicting all changes the Company;
- a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilise those cash flows; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

Details of the company's accounting policies are included in Note 2

1.2.2 Date of authorisation of issue

The Financial Statements were authorised for issue by the Board of Directors on 22 June 2018

1.2.3 Basis of measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis	Note No.
Derivative financial instruments	Fair value	4
Non-derivative financial instruments at fair value through profit or loss	Fair value	8.1
Available for sale financial assets	Fair value	3.1.2
Investment property	Fair value	10
Land and buildings	Fair value	11
Net defined benefit assets / (liabilities)	Actuarially valued and recognised at the present value	17.2

Notes to the Financial Statements

No adjustments have been made for inflationary factors affecting the Financial Statements.

The Company presents its statement of financial position in order of liquidity.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

1.2.4 Materiality and aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.2.5 Going concern

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

1.2.6 Comparative information

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous period. Comparative information has not been reclassified or restated.

1.3 Functional and Presentation Currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates (the functional currency).

These financial statements are presented in Sri Lankan Rupees, the Company's functional and presentation currency.

There was no change in the company's presentation and functional currency during the year under review.

All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

1.4 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in conformity with SLFRSs/LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimate and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The respective carrying amounts of assets and liabilities are given in the related Notes to the financial statements.

Information about critical judgments, estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

Critical Accounting estimate / judgment	Disclosure reference
	Note
Fair value measurement of financial instruments / investment properties / land and buildings	1.4.1 / 10.1 / 11.1
Financial assets and liability classification	1.4.2
Impairment losses on loans and advances	1.4.3
Impairment losses on available for sale investments	1.4.4
Impairment losses on other assets	1.4.5
Defined benefit obligation	1.4.6
Provisions for liabilities and contingencies	1.4.7

1.4.1 Fair value measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Group CFO.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant judgements used in valuation and issues that arises are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values and the fair value measurement level is included in the following notes:

Note 10 – Investment property;

Note 11 – Property, plant and equipment; and

Note 2.3 & 2.24 – Financial instruments;

1.4.2 Financial assets and liability classification into categories

The Company's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets or liabilities into categories, the Company has determined that it meets the description of trading assets and liabilities set out in Note 2.3.1.b. In classifying financial assets as held to maturity, the Company has determined that it has both the positive intention and ability to hold the assets unit their maturity date as required by Note 2.3.1.b

1.4.3 Impairment losses on loans and advances

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided for in the Statement of Profit or Loss and Other Comprehensive Income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance made.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgment on the effect of concentrations of risks and economic data.

The policy on impairment loss on loans and advances is disclosed in more detail in Note 2.3.9.

1.4.4 Impairment losses on available for sale investments

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and advances. The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged decline' in fair value below their cost requires judgment. In making this judgment, the Company evaluates, among other factors, historical price movements and duration and extent to which the fair value of an investment is less than its cost.

The impairment loss on available for sale investments is disclosed in Note 2.3.9.

1.4.5 Impairment losses on other assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently,

Notes to the Financial Statements

if events or changes in circumstances necessitate to do so. This requires the estimation of the circumstances that necessitate doing so. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

Specific Accounting Policies on impairment of Non-financial assets are discussed in Note 2.7.

1.4.6 Defined benefit obligation

The cost of the defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Refer Note 2.8.3 for the accounting policy and assumptions used.

1.4.7 Provisions for liabilities and contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

Index	Accounting policy
2.1	Basis of consolidation
2.2	Foreign currency
2.3	Financial assets and financial liabilities
2.4	Leases
2.5	Investment property
2.6	Property plant and equipment
2.7	Impairment - non-financial assets
2.8	Employee benefits
2.9	Provisions
2.10	Equity movements
2.11	Capital commitments and contingencies
2.12	Events occurring after the reporting date
2.13	Interest income and interest expense
2.14	Fees, commission and other income
2.15	Dividends
2.16	Expenditure recognition
2.17	Income tax expense
2.18	Earnings per share
2.19	Cash flow statements
2.20	Related party transactions
2.21	Operating segments
2.22	Fair value measurement
2.23	New accounting standards issued but not effective as the reporting date.

2.1 Basis of consolidation

2.1.1 Business combinations under common control

Business combinations under common control are accounted for using the book value method. The consideration transferred in the acquisition is generally measured at fair value, and the identifiable net assets acquired are measured at their carrying amounts reflected in the acquiree entity. Any excess or deficit that arises is recognised in equity and no goodwill is recognised as control is not transitory.

2.1.2 Subsidiaries

'Subsidiaries' are investees controlled by the Company. The Company 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company reassesses whether it has control if there are changes to one or more of the elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

2.1.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.2 Foreign currency transactions

Sri Lankan rupee is the functional currency of the Company. Transactions in foreign currencies are translated into the functional currency of the Company at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of the available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss) are recognised in other comprehensive income.

SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.3 Financial assets and financial liabilities

2.3.1 Non-derivative financial assets

2.3.1.a Initial recognition of financial assets

Date of recognition

The Company initially recognises loans and receivables and deposits with other financial institutions on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the statement of profit or loss.

'Day 1' profit or loss on employee below market loans

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or loss when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

2.3.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories:

- financial assets at fair value through profit or loss;
- held-to-maturity financial assets;
- loans and receivables; and
- available- for-sale financial assets.

2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in statement of profit or loss as incurred.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of profit or loss.

Financial assets at fair value through profit or loss comprises of quoted equity instruments and unit trusts unless otherwise have been classified as available-for-sale.

Held-to-maturity financial assets

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold it to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortisation is included in interest income in the Statement of Profit or Loss and Other Comprehensive Income. The losses arising from impairment are recognised as impairment cost in the Statement of Profit or Loss and Other Comprehensive Income.

The Company has not classified any instrument as held to maturity.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, investments in Standing Deposit Facilities (REPO's), lease receivables, hire purchase receivables, advances and other loans granted, factoring receivables, amount due from related parties and other receivables.

- **Cash and cash equivalents**

  Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

- **Finance leases and hire purchase**

  When the Company is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised. Amounts receivable under finance leases are included under "Rentals receivable on leased assets". Leasing balances are stated in the statement of financial position after deduction of initial rentals received, unearned lease income and the provision for impairment losses.

- **Advances and other loans to customers**

  Advances and other loans to customers comprised of revolving loans and loans with fixed installment.

  Loans to customers are reflected in the Statement of Financial Position at amounts disbursed less repayments and provision for impairment losses.

- **Financial guarantees**

  Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Company in its normal course of the business issues guarantees on behalf of the depositors, holding the deposit as collateral.

Available-for-sale financial assets

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Company becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the AFS reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

2.3.2 Non-derivative financial liabilities

Classification and subsequent measurement of financial liabilities

The Company initially recognises non-derivative financial liabilities on the date that they are originated.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals & other payables and amounts due to related parties.

Bank overdrafts

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Deposits and bank borrowings - classified as other financial liabilities carried at amortised cost

Deposits and bank borrowings are the Company's sources of debt funding.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition deposits and bank borrowings are measured at their amortised cost using the effective interest method.

2.3.3 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. Derivatives are recognised as assets when their fair value is positive and as liabilities when their fair value is negative.

The Company designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the cash flows of the respective hedge item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

These hedging relationships are discussed below.

i. Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Company does not have any fair value hedges.

ii. Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

iii. Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

The Company does not have any net investment hedges.

2.3.3.a Other non-trading derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of other income.

2.3.4 Reclassification of financial assets and liabilities

The Company reclassifies non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories as permitted by the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

Reclassification is at the election of the Management and is determined on an instrument-by-instrument basis.

The company does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the company does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

No reclassifications of financial instruments were done during the year.

2.3.5 Derecognition of financial assets and financial liabilities

Financial assets

The Company derecognises a financial asset when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either.

(a) The Company has transferred substantially all the risks and rewards of the asset, or

(b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

(i) The consideration received (including any new asset obtained less any new liability assumed) and

(ii) Any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

2.3.6 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the company's trading activity.

2.3.7 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

2.3.8 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Determination of fair value

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models

2.3.9 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an impairment allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying losses accumulated in the AFS reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income, If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

2.4 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.4.1 Finance Leases

Finance leases – Company as a lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Finance leases – Company as a lessor

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in "Rentals receivable on leased assets". The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

2.4.2 Operating Leases

Leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased items to the lessee are operating leases

Operating leases – Company as a lessee

Operating lease payments are recognised as an expense in the statement of profit or loss on a straight line basis over the lease term. Contingent rent payable is recognised as an expense in the period in which they are incurred.

Operating leases – Company as a lessor

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

2.5 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

2.6 Property plant and equipment

2.6.1 Recognition and measurement

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured.

Items of property, plant and equipment are measured at cost/ revaluation less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site at which they are located and capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognised in other income/other expenses in profit or loss.

2.6.1.a Cost model

The Company applies the cost model to all property, plant and equipment except freehold land and buildings; and is recorded at cost of purchase together with any incidental expenses thereon less any accumulated depreciation and accumulated impairment losses.

2.6.1.b Revaluation model

The Company revalues its land and buildings which are measured at its fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

On revaluation of lands and buildings, any increase in the revaluation amount is credited to the revaluation reserve in shareholder's equity unless it off sets a previous decrease in value of the same asset that was recognised in the statement of profit or loss. A decrease in value is recognised in the statement of profit or loss where it exceeds the increase previously recognised in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal.

2.6.2 Subsequent costs

The cost of replacing a component of an item of property, plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

2.6.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current year are as follows:

Motor vehicles	4-8 years
Buildings	40 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

2.7 Impairment - non-financial assets

The carrying amounts of the company's non-financial assets, other than, deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in the statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), if any, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.8 Employee benefits

2.8.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.8.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

2.8.3 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The Company recognises all actuarial gains and losses / remeasurement component arising from defined benefit plans immediately in other comprehensive income. The obligation is not externally funded.

2.9 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

2.10 Equity movements

2.10.1 Ordinary shares

The company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

2.10.2 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's Board of Directors in accordance with the Articles of

Association. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

2.10.3 Share issue costs

Share issue related expenses are charged against the retained earnings in the statement of equity.

2.11 Capital commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless they are remote.

2.12 Events occurring after the reporting date

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

SIGNIFICANT ACCOUNTING POLICIES –RECOGNITION OF INCOME AND EXPENSES

2.13 Interest income and interest expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss includes the interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

2.13.1 Income from leases, hire purchases and term loans

The excess of aggregated contract receivable over the cost of the assets constitutes the total unearned income at the commencement of a contract. The unearned income is recognised as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

2.13.2 Factoring

Revenue is derived from two sources, funding and providing sales ledger related services.

Funding - Discount income relating to factoring transactions is recognised at the end of a given accounting month. In computing this discount, a fixed rate agreed upon at the commencement of the factoring agreement is applied on the daily balance in the client's current account.

Sales Ledger Related Services - A service charge is levied as stipulated in the factoring agreement.

Income is accounted for on an accrual basis and deemed earned on disbursement of advances for invoices factored.

2.14 Fees, commission and other income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees are recognised as the related services are performed.

Collections on contracts written off and interest on overdue rentals are accounted for on cash basis.

2.15 Dividends

Dividend income is recognised when the right to receive income is established.

2.16 Expenditure recognition

Expenses are recognised in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

2.16.1 Value Added Tax (VAT) on financial services

The base for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on the prescribed rate.

The VAT on financial service is recognised as expense in the period it becomes due.

2.16.2 Nation Building Tax on financial services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services.

2.16.3 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2.17 Income tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Note 27 represent the major components of income tax expense to the financial statements.

2.17.1 Current tax expense

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

2.17.2 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The relevant disclosures are given in Note 27.2 to the financial statements.

2.18 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Specific disclosures are included in Note 28.1. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees. The relevant disclosures are given in 28.2 to the financial statements.

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.19 Cash flow statements

The cash flow statement has been prepared using the indirect method and direct method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.20 Related Party Transactions

Transactions with related parties are conducted in the normal course of business. The relevant disclosures are given in Note 32 to the Financial Statements.

2.21 Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Company has three reportable segments, Conventional financial services, Islamic financial services and Factoring, which are the Company's strategic divisions. Those offer different products and services, and are managed separately based on the Company's management and internal reporting structure. For each of the strategic divisions, the Company's Board of Directors reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in Note 34. Performance is measured based on segment profit before tax. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

2.22 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as investment properties.

Fair Value Hierarchy

The company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

Level 1

Inputs that are unadjusted quoted market prices in an active market for identical instruments

When available, the company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;

(a) quoted market in active markets for similar instruments,

(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or

(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparisons with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgment and estimation while reducing uncertainty associated in determining the fair values.

2.23 New accounting standards issued not yet effective as at reporting date

The following new accounting standards/ amendments were issued by the Institute of Chartered Accountants in Sri Lanka, which are not yet effective as at 31 March 2018. Accordingly, these accounting standards have not been applied in the preparation of the financial statements for the year ended 31 March 2018.

Sri Lanka Accounting Standard - SLFRS 9 “Financial Instruments"

Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments" will replace Sri Lanka Accounting Standard - LKAS 39 "Financial Instruments - Recognition and Measurement" for annual periods beginning on or after 1 January 2018 with early adoption permitted. In 2017 the Company set up a multidisciplinary implementation team with members from credit Risk, Finance and recovery to prepare for SLFRS 9 implementation.

Classification and Measurement

From a classification and measurement perspective, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Company’s business model for managing the assets and the instruments’ contractual cash flow characteristics.

(a) Business Model Assessment

Company determines it's business model at the level that best reflects how it manages the financial assets to achieve it's objectives. The Company's business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial asset held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flow collected)
- The expected frequency, value and timing of sales

  The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress Case" scenarios in to account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectation, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

(b) Contractual Cash Flow Characteristic Test

As the second test of the classification process the Company assesses the contractual terms of the financial asset to identify whether those meet "Solely the Payment of Principle and Interest" (SPPI) criteria.

Principle for the purpose of this test is defined as the fair value of the financial asset at initial recognition which may change over the life of the financial asset (for example, if there are repayments of principle or amortisation of the premium/ discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Company applies judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than deminimis exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely the payment of principle and interest on the amount outstanding. In such cases the financial asset is required to be measured at "Fair Value through Profit or Loss".

Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 principally changes the Company's loan loss provision method by replacing the incurred loss approach as per LKAS 39 with a forward looking ECL Approach.

ECL allowance is based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12 month expected credit loss (12mECL).

12mECL is the portion of LTECL that represents the ECL which results from default events of a financial instrument which may arise within 12 months after the reporting date

The Company has established a policy to perform an assessment, at the end of each reporting period to identify whether a financial instrument's credit risk has increased significantly since initial recognition. Based on such process Company groups loans in to stage 1, stage 2, stage 3 as described below:

- **Stage 1 :** When loans are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 loans also include the facilities which are reclassified from Stage 2 since the credit risk has improved. Assessment of Stage 1 is performed collectively.
- **Stage 2 :** When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, which are reclassified from stage 2 since the credit risk has improved. Assessment of stage 2 is performed collectively
- **Stage 3 :** When a loan is considered to be credit impaired/contain objective evidences of incurred loss, the Company records an allowance for the LTECL. Stage 3 assessment will be performed either individually or collectively.

Significant Increase in Credit Risk

The Company continuously monitors all assets subject to ECL, in order to determine whether there has been a significant increase in credit risk since initial recognition and whether the instrument or a portfolio of instruments is subject to 12mECL or LTECL. The Company considers an exposure to have a significant increase in credit risk when either the facility exceeds 30 days past due or at the point of reschedulement.

Individually Significant Impairment Assessment and Loans which are Not Impaired Individually

Company will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Loans with objective evidence of incurred losses are classified as Stage 3. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 1 or Stage 2, based on the above specified criteria to identify whether there have been a significant credit deterioration since origination.

While establishing significant credit deterioration, Company will consider the following criteria:

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet it's obligation
- An actual or expected significant change in the operating results of the borrower in relation to actual/ expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis

As explained above, Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets which belong to stage 3. All assets which belong to stage 1 and 2 will be assessed collectively for Impairment.

Company groups smaller homogeneous exposures based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the Effective Interest Rate (EIR).

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

- Probability of Default (PD): PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- Exposure at Default (EAD): EAD is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise and expected draw downs on committed facilities.

- Loss Given Default (LGD): LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

When estimating ECL, Company considers 3 scenarios (base case, best case and worst case). Each of these scenarios are associated with different loss rates. For all products, Company considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

Company relies on broad range of qualitative/quantitative forward looking information as economic inputs such as the following in its Eco model.

Quantitative inputs

- GDP growth
- Inflation
- Unemployment
- Interest rates
- Exchange rates

Qualitative inputs

- Government policies
- Status of the industry business
- Regulatory impact

Amendments to LKAS 28: Investments in Associates and Joint Ventures

The amendments address the conflict between SLFRS 10 and LKAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

SLFRS 15 Sri Lanka Accounting Standard - "Revenue from Contracts with Customers"

SLFRS 15 is effective for periods beginning on or after 1st January 2018 with early adoption permitted. SLFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of SLFRS 15 and will be regulated by the other applicable standards (e.g., SLFRS 9 and SLFRS 16).

Revenue under SLFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing, as well as any uncertainty of revenue and corresponding cash flows with customers. The Company does not anticipate early adoption of SLFRS 15.

A preliminary evaluation of the existing contracts which falls mainly under fee and commission income of the Company has been performed in relation to the adoption of SLFRS 15. The Company's current assessment has not revealed a significant change to the revenue recognition pattern. However, the Company is currently in the process of evaluating and quantifying the accounting impact and the current systems and processes will be modified where necessary.

SLFRS 16 Sri Lanka Accounting Standard - "Leases"

SLFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value even though lessor's accounting remains similar to current practice. This supersedes: Sri Lanka Accounting Standard LKAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement Contains a Lease", SIC 15 "Operating Leases - Incentives"; and SIC 27 "Evaluating the substance of Transactions Involving the Legal form of a Lease". Earlier application is permitted for entities that apply SLFRS 15 "Revenue from Contracts with Customers".

SLFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The impact on the implementation of the above standard has not been quantified yet by the Group.

Amendments to Sri Lanka Accounting Standard - SLFRS 2 "Classification and Measurement of Share-based Payment Transactions"

The Institute of Chartered Accountants of Sri Lanka issued amendments to SLFRS 2 "Share based Payment" that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The impact on the implementation of the above standard has not been quantified yet by the Group.

IFRIC Interpretation 23: Uncertainty over Income Tax Treatment

This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of Sri Lanka Accounting Standard - LKAS 12 "Income tax" and does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances an entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to existing accounting standards effective from 1st January 2017

Amendments to existing accounting standards effective from 1st January 2017 as published by the Institute of Chartered Accountants of Sri Lanka did not have any material impact on the financial statements of the Group.

2.24 Financial risk management

2.24.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

2.24.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. All the Company level risks are escalated to the parent company IRMC and the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Audit Committee oversees the reports submitted by the Enterprise Risk Management (ERM) and monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced. The Audit Committee is assisted in its oversight role by ERM. ERM undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

2.24.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Company's receivable from customers.

2.24.3.1 Management of credit risk

1) Facilities granted to customers

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit department. Credit department, reporting to the Credit Committee, is responsible for management of the Company's credit risk, including:

1. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Chief Credit Officer, CEO and the Board of Directors as appropriate.
3. Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of

designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

4. Monitoring limiting concentrations of exposure to counterparties, geographies and industries
5. Developing and maintaining a risk grading for significant clients in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the associated risks.
6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, and product types.
7. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

2) Allowances for impairment

The Company establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its lease and loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortised cost, a collective loan loss allowance established for groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

3) Write-off policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status. The company generally writes off balances on its past due status reaching 12 months and if no collateral is available.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2018 (2017: no collateral held).

4) Credit quality by class of financial assets

(In Rs'mn)	Leases		Hire Purchases		Mortgage Loans		Other Loans and Advances		Margin Trading		Factoring Receivables		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Carrying amount	43,605	18,409	-	-	1,536	988	95,361	54,496	176	95	10,639	16,525	151,317	90,512
Assets at amortised cost														
Individually impaired - Gross amount	764	185	-	-	14	14	2,270	922	-	-	481	940	3,529	2,061
Less : Allowance for impairment	(580)	(157)	-	-	-	(14)	(1,471)	(584)	-	-	(306)	(940)	(2,357)	(1,695)
Carrying amount	184	28	-	-	14	-	799	338	-	-	175	-	1,172	366
Portfolio subject to collective impairment - Gross amount	43,594	18,522	-	-	1,545	1,063	95,867	55,050	176	95	10,917	16,884	152,098	91,614
Less : Allowance for impairment	(173)	(141)	-	-	(23)	(75)	(1,305)	(892)	-	-	(453)	(359)	(1,954)	(1,467)
Carrying amount	43,421	18,381	-	-	1,522	988	94,562	54,158	176	95	10,464	16,525	150,144	90,146

An estimate made at the time of borrowing / at the time of impairment evaluation, of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below;

(In Rs'mn)	2018	2017
Against individually impaired customers :		
Property	649	404
Vehicles	463	93

(In Rs'mn)	2018	2017
Against Collectively impaired customers :		
Vehicles	83,113	65,485
Others	97,243	62,800

Details of non-financial assets obtained by the Company by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements during the period and held at the year ended 31 March are shown below;

(In Rs'mn)	2018	2017
Property	-	-
Vehicles	463	93

Income from individually impaired customers recognised in the statement of profit or loss;

(In Rs'mn)	2018	2017
Leases	1	5
Hire purchase	-	-
Mortgage Loan	-	-
Other loans & advances	122	81

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. Properties acquired by foreclosure has been considered as investment properties of the Company.

Age analysis of facilities considered for collective impairment as at 31 March 2018.

Category *Rs' Mn*	Leases	Hire Purchases	Mortgage Loans	Other Loans and Advances	Margin Trading	Factoring Receivables	Total
Not due / current	19,018	-	447	70,705	176	5,407	95,752
Overdue :							
Less than 30 days	11,639	-	434	11,194	-	556	23,823
31 - 60 days	7,013	-	186	5,898	-	1,240	14,337
61 - 90 days	3,303	-	39	2,309	-	717	6,368
91 - 120 days	1,020	-	76	1,256	-	418	2,770
121 - 150 days	540	-	13	1,442	-	959	2,954
151 - 180 days	398	-	54	755	-	368	1,575
above 180 days	663	-	327	2,277	-	1,252	4,519
Total	43,594	-	1,576	95,836	176	10,917	152,098

Age analysis of facilities considered for collective impairment as at 31 March 2017.

Category *Rs' Mn*	Leases	Hire Purchases	Mortgage Loans	Other Loans and Advances	Margin Trading	Factoring Receivables	Total
Not due / current	10,494	-	466	38,228	95	12,310	61,593
Overdue :							
Less than 30 days	4,862	-	206	9,266	-	1,124	15,458
31 - 60 days	1,835	-	161	3,931	-	593	6,520
61 - 90 days	634	-	17	1,280	-	512	2,443
91 - 120 days	235	-	2	347	-	618	1,202
121 - 150 days	158	-	3	399	-	425	985
151 - 180 days	82	-	-	290	-	527	899
above 180 days	222	-	208	1,309	-	775	2,514
Total	18,522	-	1,063	55,050	95	16,884	91,614

Other than the lending portfolio reflected above no other financial assets shown in note 2.24 was subject to impairment.

5) Concentrations of credit risk

The Company monitors concentrations of credit risk by sector to which the lending was made. The analysis is provided in Note 6.6.1 to the financial statements

2.24.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

2.24.4.1 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements and debt covenants agreed with the fund providers. The treasury manages the liquidity position as per the treasury policies and procedures and regulatory requirements.

The treasury receives information from the business regarding the liquidity profile of the financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of business units are discussed at the ALCO meetings (Asset Liability Committee) and are arranged by the Treasury.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Company relies on deposits from customers and bank borrowings as its primary sources of funding. The deposits from customers and banks largely have shorter maturities. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

The maturity analysis of financial liabilities based on undiscounted gross outflow is reflected below:

Rs' Mn	Carrying amounts	Gross nominal outflow / (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
As at 31st March 2018							
Bank overdraft	4,243	4,243	4,243	-	-	-	-
Borrowings	70,490	74,357	51,072	10,446	11,073	1,766	-
Deposits from customers	110,027	122,838	38,996	57,736	15,031	11,076	-
Trade payables	1,593	1,593	1,593	-	-	-	-
Accruals and other payables	2,206	2,206	2,206	-	-	-	-
Derivative liabilities	482	20,285	9,692	10,594	-	-	-
Amount due to related companies	1,497	1,497	1,497	-	-	-	-
Total liabilities	190,540	222,165	107,522	76,231	25,672	12,740	-
As at 31st March 2017							
Bank overdraft	2,393	2,393	2,393	-	-	-	-
Borrowings	24,456	27,284	8,437	4,452	11,559	1,980	857
Deposits from customers	80,607	88,917	31,256	36,528	9,908	11,225	-
Trade payables	678	678	678	-	-	-	-
Accruals and other payables	1,594	1,594	1,594	-	-	-	-
Derivative liabilities	19	4,890	4,121	769	-	-	-
Amount due to related companies	434	434	434	-	-	-	-
Total liabilities	110,182	126,191	48,913	41,749	21,467	13,205	857

The maturity analysis of financial assets based on undiscounted gross inflows / (outflows) is reflected below :

Rs' Mn	Carrying amounts	Gross nominal inflow / (outflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
As at 31st March 2018							
Cash and cash equivalents	11,323	11,323	11,323	-	-	-	-
Deposits with banks and other financial institutions	26,347	26,609	12,773	13,836	-	-	-
Investment in government securities	10,872	12,018	7,736	4,035	24	24	199
Derivative assets	134	6,749	2,416	4,333	-	-	-
Rentals receivable on leased assets	43,605	60,211	8,793	17,966	28,227	5,007	219
Hire purchases, loans and advances	96,897	113,631	17,565	34,238	41,670	19,257	900
Factoring receivable	10,639	10,639	10,639	-	-	-	-
Margin trading receivables	176	176	176	-	-	-	-
Other receivables	417	417	417	-	-	-	-
Investment securities	1,965	1,965	1,745	-	-	-	220
Amount due from related companies	33	33	33	-	-	-	-
Total Assets	202,407	243,771	73,616	74,408	69,921	24,288	1,538
As at 31st March 2017							
Cash and cash equivalents	4,924	4,924	4,924	-	-	-	-
Deposits with banks and other financial institutions	14,162	14,542	12,870	388	1,044	239	-
Investment in government securities	7,853	9,666	6,807	68	337	272	2,182
Derivative assets	24	4,784	2,019	2,766	-	-	-
Rentals receivable on leased assets	18,409	24,497	3,056	6,403	11,932	2,846	259
Hire purchases, loans and advances	55,484	63,021	8,455	13,580	18,484	20,788	1,714
Factoring receivable	16,525	16,525	16,525	-	-	-	-
Margin trading receivables	95	95	95	-	-	-	-
Other receivables	329	329	329	-	-	-	-
Investments securities	325	325	258	-	-	-	66
Amount due from related companies	225	225	225	-	-	-	-
Total Assets	118,353	138,933	55,561	23,206	31,798	24,146	4,222

Contractual Maturities of Commitments & Contingencies

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31st March 2018 *(In Rs'Mn)*

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	767	-	-	-	-	767
Total	767	-	-	-	-	767
Commitments						
Unutilised loan facilities & letter of credit	10,992	-	-	-	-	10,992
Total	10,992	-	-	-	-	10,992

As at 31st March 2017 *(In Rs'Mn)*

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	898	-	-	-	-	898
Total	898	-	-	-	-	898
Commitments						
Unutilised loan facilities & letter of credit	10,499	-	-	-	-	10,499
Total	10,499	-	-	-	-	10,499

2.24.5 Market Risk

The Company is exposed to the market risk due to changes in market, such as Foreign exchange rates, Interest rate, and equity prices.

Company is exposed to foreign currency risk mainly due to the foreign currency borrowings. The Company manages its exposure to the foreign exchange rates by entering in to forward rate contracts with the banks and placing deposit / maintaining financial assets in the same currency. In this way the Company eliminates substantial exposure on foreign currency risk.

The Company ensures the mix of variable and fixed rate borrowings to manage any exposure due to interest rate movement in the market. These are monitored by the treasury division.

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows.

Sensitivity analysis as at 31st March 2018 *(In Rs'Mn)*

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.18
Interest earning assets						
Deposits with banks and other financial institutions	12,700	13,647	-	-	-	26,347
Investment in government securities & others	6,787	3,966	-	-	119	10,872
Rentals receivable on leased assets	6,099	11,876	21,059	4,387	185	43,605
Hire purchases, loans and advances	14,291	27,441	36,071	18,320	774	96,897
Factoring receivable	10,639	-	-	-	-	10,639
Margin trading receivables	176	-	-	-	-	176
Total interest earning assets	50,691	56,930	57,130	22,706	1,079	188,536
Interest bearing liabilities						
Bank overdraft	4,243	-	-	-	-	4,243
Interest bearing borrowings	49,895	9,684	9,284	1,627	-	70,490
Deposits from customers	37,709	51,997	10,763	9,558	-	110,027
Total interest bearing liabilities	91,847	61,681	20,048	11,186	-	184,761
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(41,156)	(4,750)	37,082	11,521	1,709	3,775
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect	(412)	(48)	371	115	11	-
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	412	48	(371)	(115)	(11)	-

Sensitivity analysis as at 31st March 2017 *(In Rs'Mn)*

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.17
Interest earning assets						
Deposits with banks and other financial institutions	12,758	272	925	206	-	14,162
Investment in government securities & others	6,726	-	73	17	1,037	7,853
Rentals receivable on leased assets	2,183	4,251	9,259	2,481	235	18,409
Hire purchases, loans and advances	7,278	11,052	15,574	20,095	1,486	55,484
Factoring receivable	16,525	-	-	-	-	16,525
Margin trading receivables	95	-	-	-	-	95
Total interest earning assets	45,565	15,574	25,831	22,799	2,758	112,527
Interest bearing liabilities						
Bank overdraft	2,392	-	-	-	-	2,393
Interest bearing borrowings	8,247	3,669	9,964	1,757	820	24,456
Deposits from customers	31,599	34,157	8,844	6,006	-	80,607
Total interest bearing liabilities	42,516	37,549	18,808	7,763	820	107,456
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	3,747	(22,673)	7,023	15,036	1,937	5,070
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect	37	(227)	70	150	19	-
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	(37)	227	(70)	(150)	(19)	-

2.24.6 Capital Management

The Company's capital management is performed primarily considering regulatory capital.

The Company's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company.

The Company is required to comply with the provisions of the Finance Companies (Capital Funds) Direction No.01 of 2003, Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.02 of 2006 and Finance Companies (Minimum Core Capital) Direction No.01 of 2011 in respect of regulatory capital.

The Company's regulatory capital consists of tier 1 capital, which includes ordinary share capital, retained earnings and statutory reserves. Other negative reserves are included under prudence basis. Tier II capital includes unsecured subordinated debentures, which is included in the capital base consequent to obtaining the approval of CBSL.

The Company's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Company's regulatory capital under the CBSL guidelines is as follows;

Capital element *In Rs'mn*	As at 31.03.2018	As at 31.03.2017
Ordinary share capital	7,880	2,000
Statutory Reserve	1,997	1,556
Retained earnings	7,001	7,365
Other negative reserves	(13)	(115)
Tier I capital	16,864	10,806
Subordinated debt	1,582	2,372
Tier II capital	1,582	2,372
Total capital	18,446	13,178

2.25 Financial assets and liabilities

2.25.1 Accounting classifications and fair values

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities.

Rs' Mn As at 31st March 2018	Fair value – derivatives	Fair value - held for trading	Fair value through other comprehensive income – available for sale	Amortised cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
Cash and cash equivalents	-	-	-	11,323	11,323	11,323	
Deposits with banks & other financial institutions	-	-	-	26,347	26,347	26,347	
Investment in government securities & others							
- Measured at fair value	-	-	4,381	-	4,381	4,381	Level1
- Measured at amortised cost	-	-		6,491	6,491	6,491	
Derivative assets	134	-	-	-	134	134	Level2
Investment securities	-	1,745	-	220	1,965	1,965	Level1
Rentals receivable on leased assets	-	-	-	43,605	43,605	45,323	Level2
Hire purchases, loans and advances	-	-	-	96,922	96,922	96,003	Level2
Factoring receivable	-	-	-	10,639	10,639	10,639	
Margin trading receivables	-	-	-	176	176	176	
Amount due from related companies	-	-	-	33	33	33	
Other financial assets	-	-	-	507	507	507	
Total financial assets	134	1,745	4,381	196,262	202,521	203,320	
Bank overdraft	-	-	-	4,243	4,243	4,243	
Interest bearing borrowings	-	-	-	70,490	70,490	69,755	Level2
Deposits from customers	-	-	-	110,027	110,027	110,205	Level2
Trade payables	-	-	-	1,593	1,593	1,593	
Accruals and other payables	-	-	-	2,206	2,206	2,206	
Derivative liabilities	482	-	-	-	482	482	Level2
Amount due to related companies	-	-	-	1,497	1,497	1,497	
Total financial liabilities	482	-	-	190,540	190,540	189,982	

Rs' Mn As at 31st March 2017	Fair value – derivatives	Fair value - held for trading	Fair value through other comprehensive income – available for sale	Amortised cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
Cash and cash equivalents	-	-	-	4,924	4,924	4,924	
Deposits with banks & other financial institutions	-	-	-	14,162	14,162	14,162	
Investment in government securities & others							
- Measured at fair value	-	-	1,127	-	1,127	1,127	Level 1
- Measured at amortised cost	-	-		6,726	6,726	6,726	
Derivative assets	24	-	-	-	24	24	Level 2
Investment securities	-	258	-	66	324	324	Level 1
Rentals receivable on leased assets	-	-	-	18,409	18,409	18,280	Level 2
Hire purchases, loans and advances	-	-	-	55,484	55,484	54,310	Level 2
Factoring receivable	-	-	-	16,525	16,525	16,525	
Margin trading receivables	-	-	-	95	95	95	
Amount due from related companies	-	-	-	225	225	225	
Other financial assets	-	-	-	329	329	329	
Total financial assets	24	258	1,127	116,944	118,353	117,050	
Bank overdraft	-	-	-	2,393	2,393	2,393	
Interest bearing borrowings	-	-	-	24,456	24,456	23,976	Level 2
Deposits from customers	-	-	-	80,607	80,607	80,403	Level 2
Trade payables	-	-	-	678	678	678	
Accruals and other payables	-	-	-	1,594	1,594	1,594	
Derivative liabilities	19	-	-	-	19	19	Level 2
Amount due to related companies	-	-	-	434	434	434	
Total financial liabilities	19	-	-	110,163	110,182	109,497	

2.25.2 Valuation technique

Level 2 fair value – market comparison technique

- Derivative assets and liabilities / Forward exchange contracts – fair value is based on broker quotes of similar contracts and the quotes reflect the actual transaction in similar instrument

Level 2 fair value – discounted cash flows

Financial instruments not measured at fair value

For the purpose of disclosing fair value of the financial instruments not measured at fair value (carried at amortised cost) discounted cash flows have been used to derive the fair value.

3. INVESTMENT IN GOVERNMENT SECURITIES & OTHERS

As at 31 March,	2018 Rs.	2017 Rs.
Investment In Government Securities		
Financial instruments classified as loans and receivables (note 3.1.1)	6,490,719,545	5,420,173,981
Financial instruments classified as available for sale - carried at fair value (note 3.1.2)	4,381,048,794	1,127,125,889
	10,871,768,339	6,547,299,870
Other Investments		
Investments in commercial papers - carried at amortised cost (note 3.2)	-	1,305,876,623
	10,871,768,339	7,853,176,493

3.1 Investment in Government Securities

As at 31 March,	2018		2017	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
3.1.1 Financial instruments classified as loans and receivables				
Investment in Government Standing Deposit Facilities	6,490,719,545	6,490,719,545	5,420,173,981	5,420,173,981
3.1.2 Financial instruments classified as available for sale - carried at fair value				
Investment in Treasury Bills	2,256,525,000	2,256,525,000	-	-
Investment in Treasury Bonds	2,124,523,794	2,124,523,794	1,127,125,889	1,127,125,889
	4,381,048,794	4,381,048,794	1,127,125,889	1,127,125,889

3.1.3 Fair value adjustments recognised in other comprehensive income - current period (net of transfers to P&L)

	Group	Company	
As at 31 March,	2018 Rs.	2018 Rs.	2017 Rs.
Investment in Treasury Bills	(22,078,550)	(22,078,550)	-
Investment in Treasury Bonds	150,161,388	150,184,047	44,668,814
Net Change in Fair Value	128,082,838	128,105,497	44,668,814
Amount transferred to P&L on disposal	(16,745,534)	(16,745,534)	-
Total recognised in OCI	111,337,303	111,359,963	44,668,814

3.1.4 Fair value adjustments recognised in other comprehensive income - cumulative

As at 31 March,	2018 Rs.	2017 Rs.
Investment in Treasury Bills	(22,078,550)	-
Investment in Treasury Bonds	17,953,574	(115,484,939)
Adjustment on merger with subsidiary	(22,659)	-
Related Tax	(3,018,739)	-
	(7,166,374)	(115,484,939)

3.2 Investments classified as loans and receivables - carried at amortised cost

As at 31 March,	2018		2017	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
Investment in commercial papers	-	-	1,305,876,623	1,305,876,623

4. DERIVATIVES HELD FOR RISK MANAGEMENT

As at 31 March,	2018 Rs.	2017 Rs.
Net derivative assets / (liabilities)		
Derivative assets (note 4.1)	133,540,941	23,840,338
Derivative liabilities (note 4.2)	482,464,342	18,978,063
Net derivative assets / (liabilities)	(348,923,401)	4,862,275

4.1 Derivative assets

Forward exchange contracts	133,540,941	23,840,338

4.2 Derivative liabilities

Forward exchange contracts	482,464,342	18,978,063

4.3 Change in fair value during the period - gain/ (loss)

Recognised in profit or loss	(36,451,676)	(28,698,717)
Recognised in OCI	(210,492,330)	(46,743,199)
	(246,944,006)	(75,441,916)

5. RENTALS RECEIVABLE ON LEASED ASSETS

As at 31 March,	2018 Rs.	2017 Rs.
Rentals receivable	68,576,766,529	26,258,301,548
Unearned income	(16,959,900,923)	(6,088,081,023)
Net rentals receivable (note 5.1)	51,616,865,606	20,170,220,525
Deposits received from lessees	(7,257,165,110)	(1,463,115,215)
Allowance for impairment (note 5.2)	(754,576,684)	(298,372,189)
	43,605,123,812	18,408,733,121

Notes to the Financial Statements

5. RENTALS RECEIVABLE ON LEASED ASSETS (CONTD.)

5.1 Net Rentals Receivable

As at 31 March,	2018 Rs.	2017 Rs.
Receivable - more than one year		
Rentals receivable	41,767,492,715	16,625,916,413
Unearned income	(7,805,859,151)	(3,062,559,468)
	33,961,633,564	13,563,356,945
Receivable within one year		
Rentals receivable	24,525,835,454	8,920,895,997
Unearned income	(9,154,041,772)	(3,025,521,555)
	15,371,793,682	5,895,374,443
Overdue		
Rentals receivable	2,283,438,360	711,489,137
	2,283,438,360	711,489,137
	51,616,865,606	20,170,220,524

	Group	Company	
As at 31 March,	2018 Rs.	2018 Rs.	2017 Rs.
5.2 Allowance for impairment			
Balance as at 1st of April	298,372,189	298,372,189	261,725,528
Provision / (reversal) for the year	34,290,504	6,419,203	36,646,661
Addition on acquisition of subsidiary	421,913,991	-	-
Addition on merger with subsidiary	-	449,785,292	-
Balance as at 31st March	754,576,684	754,576,684	298,372,189
5.2.1 Individual impairment			
Balance as at 1st of April	156,650,576	156,650,576	209,731,787
Provision for the year	93,152,920	65,598,948	(53,081,211)
Addition on acquisition of subsidiary	331,018,016	-	-
Addition on merger with subsidiary	-	358,571,987	-
Balance as at 31st March	580,821,511	580,821,511	156,650,576
5.2.2 Collective impairment			
Balance as at 1st of April	141,721,613	141,721,613	51,993,741
Provision for the year	(58,862,415)	(59,179,745)	89,727,873
Addition on acquisition of subsidiary	90,895,975	-	-
Addition on merger with subsidiary	-	91,213,305	-
Balance as at 31st March	173,755,173	173,755,173	141,721,613

6. LOANS AND ADVANCES

As at 31 March,	2018 Rs.	2017 Rs.
Hire Purchases (note 6.1)	-	-
Mortgage Loans (note 6.2)	1,535,952,494	988,013,041
Sundry Loans (note 6.3)	93,375,113,806	54,496,068,083
Gold Loan (note 6.4)	1,986,028,858	-
	96,897,095,158	55,484,081,124

6.1 Hire Purchases

	2018 Rs.	2017 Rs.
Rentals receivable	-	-
Unearned income	-	-
Net rentals receivable (note 6.1.1)	-	-
Allowance for impairment (note 6.1.2)	-	-
	-	-

6.1.1 Net rentals receivable - Hire Purchases

	2018 Rs.	2017 Rs.
Receivable - more than one year		
Rentals receivable	-	-
Unearned income	-	-
	-	-
Receivable within one year		
Rentals receivable	-	-
Unearned income	-	-
	-	-
Overdue		
Rentals receivable	-	-
	-	-

Notes to the Financial Statements

6. LOANS AND ADVANCES (CONTD.)

As at 31 March,	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
6.1.2 Allowance for impairment - Hire Purchases			
Balance as at 1st of April	-	-	2,164,071
Provision / (reversal) for the year	-	-	(2,164,071)
Addition on acquisition of subsidiary	-	-	
Addition on merger with subsidiary	-	-	
Balance as at 31st March	-	-	-
6.1.2.a Individual impairment			
Balance as at 1st of April	-	-	-
Provision / (reversal) for the year	-	-	-
Balance as at 31st March	-	-	-
6.1.2.b Collective impairment			
Balance as at 1st of April	-	-	2,164,071
Provision / (reversal) for the year	-	-	(2,164,071)
Addition on acquisition of subsidiary	-	-	
Addition on merger with subsidiary	-	-	-
Balance as at 31st March	-	-	-

As at 31 March,	2018 Rs.	2017 Rs.
6.2 Mortgage Loans		
Rentals receivable	2,156,395,499	1,452,004,641
Unearned income	(597,039,874)	(374,109,327)
Net rentals receivable (note 6.2.1)	1,559,355,625	1,077,895,314
Allowance for impairment (note 6.2.2)	(23,403,131)	(89,882,272)
	1,535,952,494	988,013,041
6.2.1 Net rentals receivable - Mortgage Loans		
Receivable - more than one year		
Installments receivable	1,355,776,854	948,055,361
Unearned income	(368,454,676)	(239,814,740)
	987,322,178	708,240,620
Receivable within one year		
Installments receivable	538,600,063	299,225,836
Unearned income	(228,585,198)	(134,294,587)
	310,014,865	164,931,249
Overdue		
Installments receivable	262,018,582	204,723,444
	1,559,355,625	1,077,895,314

As at 31 March,	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
6.2.2 Allowance for impairment - Mortgage Loans			
Balance as at 1st of April	89,882,272	89,882,272	46,364,379
Provision / (reversal) for the year	(66,479,141)	(66,479,141)	43,517,893
Addition on acquisition of subsidiary	-	-	-
Addition on merger with subsidiary	-	-	-
Balance as at 31st March	23,403,131	23,403,131	89,882,272
6.2.2.a Individual impairment			
Balance as at 1st of April	14,458,744	14,458,744	-
Provision / (reversal) for the year	(14,458,744)	(14,458,744)	14,458,744
Balance as at 31st March	-	-	14,458,744
6.2.2.b Collective impairment			
Balance as at 1st of April	75,423,528	75,423,528	46,364,379
Provision / (reversal) for the year	(52,020,397)	(52,020,397)	29,059,149
Addition on acquisition of subsidiary	-	-	-
Addition on merger with subsidiary	-	-	-
Balance as at 31st March	23,403,131	23,403,131	75,423,528

As at 31 March,	2018 Rs.	2017 Rs.
6.3 Sundry Loans		
Total receivable	111,523,096,117	62,955,949,704
Unearned income	(15,394,224,894)	(6,984,098,591)
Net receivable (note 6.3.1)	96,128,871,223	55,971,851,113
Allowance for impairment (note 6.3.2)	(2,753,757,417)	(1,475,783,030)
	93,375,113,806	54,496,068,083
6.3.1 Net receivable - Sundry Loans		
Receivable -more than one year		
Installments receivable	60,960,466,513	40,500,529,998
Unearned income	(5,921,256,642)	(3,413,072,652)
	55,039,209,871	37,087,457,345
Receivable within one year		
Installments receivable	46,890,586,780	20,547,396,489
Unearned income	(9,472,968,252)	(3,571,025,938)
	37,417,618,529	16,976,370,551
Overdue		
Installments receivable	3,672,042,823	1,908,023,217
	96,128,871,223	55,971,851,113

6. LOANS AND ADVANCES (CONTD.)

As at 31 March,	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
6.3.2 Allowance for impairment - Sundry Loans			
Balance as at 1st of April	1,475,783,030	1,475,783,030	1,371,320,123
Provision for the year	332,016,636	184,491,104	104,462,908
Addition on acquisition of subsidiary	945,957,751	-	-
Addition on merger with subsidiary	-	1,093,483,283	-
Balance as at 31st March	2,753,757,417	2,753,757,417	1,475,783,030
6.3.2.a Individual impairment			
Balance as at 1st of April	583,998,341	583,998,341	546,676,766
Provision / (reversal) for the year	663,453,001	375,267,781	37,321,575
Addition on acquisition of subsidiary	217,895,272	-	-
Addition on merger with subsidiary	-	506,080,492	-
Balance as at 31st March	1,465,346,615	1,465,346,615	583,998,341
6.3.2.b Collective impairment			
Balance as at 1st of April	891,784,689	891,784,689	824,643,357
Provision for the year	(331,436,366)	(190,776,678)	67,141,333
Addition on acquisition of subsidiary	728,062,478	-	-
Addition on merger with subsidiary	-	587,402,790	-
Balance as at 31st March	1,288,410,802	1,288,410,802	891,784,689

As at 31 March,	2018 Rs.	2017 Rs.
6.4 Gold loans		
Gross amount outstanding at year end	2,008,687,323	-
Allowance for impairment(note 6.4.1)	(22,658,465)	-
Balance as at 31st March	1,986,028,858	-

As at 31 March,	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
6.4.1 Allowance for impairment			
Balance as at 1st of April	-	-	-
Provision for the year	(14,030,824)	-	-
Addition on acquisition of subsidiary	36,689,289	-	-
Addition on merger with subsidiary	-	22,658,465	
Balance as at 31st March	22,658,465	22,658,465	-

As at 31 March,	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
6.4.1.a Individual impairment			
Balance as at 1st of April	-	-	-
Provision / (reversal) for the year	30,688	-	-
Addition on acquisition of subsidiary	5,253,414	-	-
Addition on merger with subsidiary	-	5,284,102	
Balance as at 31st March	5,284,102	5,284,102	-
6.4.1.b Collective impairment			
Balance as at 1st of April			
Provision for the year	(14,061,512)	-	-
Addition on acquisition of subsidiary	31,435,875	-	-
Addition on merger with subsidiary	-	17,374,363	
Balance as at 31st March	17,374,363	17,374,363	-

As at 31 March,	2018 Rs.	2017 Rs.
6.5 Factoring Receivables		
Gross receivable	11,397,986,284	17,823,865,341
Allowance for impairment (note 6.5.1)	(759,231,341)	(1,299,227,274)
	10,638,754,943	16,524,638,067

As at 31 March,	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
6.5.1 Allowance for impairment			
Balance as at 1st of April	1,299,227,274	1,299,227,274	894,557,226
Provision for the year	(539,995,933)	(539,995,933)	404,670,048
Addition on acquisition of subsidiary	-	-	-
Addition on merger with subsidiary	-	-	-
Balance as at 31st March	759,231,341	759,231,341	1,299,227,274
6.5.1.a Individual impairment			
Balance as at 1st of April	939,736,329	939,736,329	500,000,000
Provision / (reversal) for the year	(633,668,556)	(633,668,556)	439,736,329
Balance as at 31st March	306,067,774	306,067,774	939,736,329
6.5.1.b Collective impairment			
Balance as at 1st of April	359,490,945	359,490,945	394,557,226
Provision for the year	93,672,622	93,672,622	(35,066,281)
Balance as at 31st March	453,163,567	453,163,567	359,490,945

6. LOANS AND ADVANCES (CONTD.)

As at 31 March,	2018 Rs.	2017 Rs.
6.6 Margin Trading Receivables		
Gross amount outstanding at year end	175,570,117	94,825,018
Allowance for impairment	-	-
Net balance on margin trading	175,570,117	94,825,018

6.7 Portfolio Analysis

6.7.1 Sectorwise exposure of the lending portfolio - before impairment provision

As at 31 March,	2018 Rs.	2017 Rs.
Agriculture	23,462,058,315	6,372,360,281
Manufacturing	10,503,340,695	7,706,594,972
Economics And Social	1,471,492,544	1,409,104,525
Trade	24,330,862,923	19,763,704,338
Factoring	11,397,986,284	17,294,700,931
Margin Trading	175,327,776	94,825,018
Tourism	13,642,442,095	1,422,950,463
Services	24,703,022,721	13,463,339,321
Transportation	11,434,468,001	5,092,978,170
Construction	7,986,587,895	4,493,623,152
Mining and Quarrying	335,123,972	328,425,492
Others	26,187,457,849	16,232,935,432
	155,630,171,068	93,675,542,095

As at 31 March,	2018 Rs.	2017 Rs.
6.7.2 Product wise analysis of portfolio		
Lease receivables	41,224,887,788	15,476,013,040
Loans & Advances	91,772,162,342	49,239,625,594
Factoring receivables	11,397,986,284	17,823,865,341
Margin trading receivables	175,570,117	94,825,018
Islamic business - Ijarah receivables	3,134,812,708	3,231,092,270
Islamic business - Other receivables (Murabaha, Musharakah, Wakala & Musawamah)	7,924,751,829	7,810,120,833
Gross portfolio	155,630,171,068	93,675,542,096
Less : Impairment provision	(4,313,627,038)	(3,163,264,766)
Net portfolio (note 6.7.3)	151,316,544,030	90,512,277,330

As at 31 March,	2018 Rs.	2017 Rs.
6.7.3 Net portfolio		
Rentals receivable on Leased Assets (note 5)	43,605,123,812	18,408,733,121
Hire Purchases, Loans and Advances (note 6)	96,897,095,158	55,484,081,124
Factoring receivable (note 6.5)	10,638,754,943	16,524,638,067
Margin trading receivables (note 6.5)	175,570,117	94,825,018
	151,316,544,030	90,512,277,330

7. OTHER RECEIVABLES

As at 31 March,	2018 Rs.	2017 Rs.
Financial Assets		
Staff loans	303,862,169	250,605,452
Other accommodations	-	590,802,130
Provision for other accommodations	-	(590,802,130)
Other Receivables	92,668,586	78,513,017
Provision on other receivables	(90,000,144)	-
	306,530,611	329,118,469
Non Financial Assets		
VAT receivable	350,973,408	381,448,855
WHT recoverable	22,834,850	-
Prepaid staff cost	113,415,906	102,826,327
Miscellaneous receivables	328,741,604	258,267,764
	815,965,768	742,542,946
Total Other receivables	1,122,496,378	1,071,661,415

8. INVESTMENT SECURITIES

As at 31 March,	2018 Rs.	2017 Rs.
Investments held for trading (note 8.1)	1,744,986,516	258,161,072
Available for sale investments-carried at cost (note 8.2)	220,312,175	66,468,275
	1,965,298,691	324,629,347

8.1 Investments held for trading

Expo Lanka Holdings PLC		
Original cost	18,000,000	18,000,000
Carrying amount as at 1st April	6,600,000	7,000,000
Adjustment for change in fair value - recognised in profits	(1,700,000)	(400,000)
Carrying amount as at 31st March	4,900,000	6,600,000
Investment in Unit Trusts		
Original cost	1,575,000,000	250,000,000
Carrying amount as at 1st April	251,561,072	1,010,002,569
Investments during the year	10,340,000,000	250,000,000
Disposal during the year	(9,371,833,497)	(1,040,793,428)
Adjustment for change in fair value - recognised in profits	520,358,941	32,351,930
Carrying amount as at 31st March	1,740,086,516	251,561,072
Total investments held for trading	1,744,986,516	258,161,072

8.2 Available for sale investments carried at cost

Credit Information Bureau Ltd	537,175	343,275
LOLC Myanmar Micro Finance Company Ltd	66,125,000	66,125,000
LOLC Asia (Pvt) Ltd	153,650,000	-
Total	220,312,175	66,468,275

These investments are unquoted and has no active market from which a reliable fair value could be obtained. The different valuation methods used did not provide a reasonable range of values. As a result these investments are carried at cost since the fair value cannot be determined reliably.

9. AMOUNTS DUE FROM RELATED COMPANIES

As at 31 March,	Relationship	2018 Rs.	2017 Rs.
LOLC Asset Holding Co/ LOLC Life Assurance Co.	Fellow subsidiary	5,254,840	-
LOLC Insurance - General Ltd	Fellow subsidiary	20,897,301	1,909,490
Commercial Leasing and Finance PLC	Fellow subsidiary	762,755	102,340
LOLC Securities Ltd	Fellow subsidiary	3,339	683,964
Dickwella Resorts (pvt) Ltd	Fellow subsidiary	5,005	1,393,853
Browns Investments Co Ltd	Fellow subsidiary	60,459	-
Eden Hotel Lanka PLC	Fellow subsidiary	69,726	9,708,643
Brown & Co. Ltd	Fellow subsidiary	141,237	-
Sports Club AC	Fellow subsidiary	856,440	-
Green Paradise	Fellow subsidiary	13,362	-
Sun & Fun Resorts Ltd.	Fellow subsidiary	21,843	1,034,777
BRAC Lanka Finance PLC	Fellow subsidiary	1,657,095	32,884,957
Excel Restaurants (Pvt) Ltd	Fellow subsidiary	24,931	729,101
LOLC Insurance - Life Ltd	Fellow subsidiary	2,930,986	3,971,487
The Paradise Resort & Spa	Fellow subsidiary	-	1,983,274
LOLC Factors Ltd	Fellow subsidiary	-	163,612,000
Lanka ORIX Information Technology services Ltd	Fellow subsidiary	-	1,729,863
Browns Hotels and Resorts Ltd	Fellow subsidiary	-	1,931,950
Millenium Development (pvt) Ltd	Fellow subsidiary	-	1,330,125
LOLC Micro Investment Ltd	Fellow subsidiary	210,073	-
		32,909,393	224,505,824

10. INVESTMENT PROPERTIES

As at 31 March,	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Balance as at 1st April	906,300,000	906,300,000	930,200,000
Additions to Investment Properties from foreclosure of contracts	752,966,448	752,966,448	-
Additions and improvements			
- Improvements	49,776,809	49,776,809	13,997,152
- Additions	2,765,417,980	2,765,417,980	-
- Transfers from property, plant and equipment	1,643,651,422	1,643,651,422	-
Disposals	(37,200,000)	(37,200,000)	(62,355,000)
Change in fair value	197,274,567	197,274,567	24,457,848
Balance as at 31st March	6,278,187,226	6,278,187,226	906,300,000

- Investment Properties includes bare lands and land and buildings acquired by the company from clients who defaulted on accommodations granted and purchased properties. These properties are held by the Company for capital appreciation and rental purposes.
- The company incurred expenses for the improvements of the investment properties and received rent income amounting to Rs. 27,720,285 during the current financial year. (2016-2017 - Rs. 10,962,000) from these properties.
- During the financial year company has incurred expenses amounting to Rs. 310,685 for maintenance of the investment property. (2016-2017- Rs. 6,579,374)
- Changes in fair values are recognised as gains in profit or loss and included in 'Net other operating income'.

10. INVESTMENT PROPERTIES (CONTD.)

10.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31 March 2018

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio ranges from Rs.700,000 to Rs.5,600,000 in the Colombo area and Rs.140,000 to Rs.1,800,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: • Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for period used.	The estimated fair value would increase (decrease) if: • Depreciation rate was lesser / (higher) • Square feet value was higher / (lesser)

11. PROPERTY, PLANT AND EQUIPMENT

Group	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Total Rs.
Cost/Valuation				
Balance as at 01 April 2017	899,400,000	99,151,245	1,818,236,965	2,816,788,210
Additions	60,719,000	36,685,918	25,500,000	122,904,918
Addition arising from merger of subsidiary	690,856,700	56,083,800	-	746,940,500
Revaluation	14,804,800	27,916,200	-	42,721,000
Transfers to investment properties	(1,524,061,500)	(120,837,162)	-	(1,644,898,662)
Balance as at 31 March 2018	141,719,000	99,000,000	1,843,736,965	2,084,455,965
Accumulated Depreciation				
Balance as at 01 April 2017	-	123,884	195,642,283	195,766,167
Charge for the year	-	220,396	173,063,643	173,284,039
Addition arising from merger of subsidiary	-	2,554,776	-	2,554,776
Revaluation	-	(393,247)	-	(393,247)
Transfers to investment properties	-	(1,247,240)	-	(1,247,240)
Balance as at 31 March 2018	-	1,258,569	368,705,926	369,964,495
Carrying Amount				
As at 31 March 2018	141,719,000	97,741,431	1,475,031,039	1,714,491,470

Company	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Total Rs.
Cost/Valuation				
Balance as at 01 April 2017	899,400,000	99,151,245	1,818,236,965	2,816,788,210
Additions	60,719,000	36,685,918	25,500,000	122,904,918
Addition arising from merger of subsidiary	690,856,700	56,083,800	-	746,940,500
Revaluation	14,804,800	27,916,200	-	42,721,000
Transfers to investment properties	(1,524,061,500)	(120,837,162)	-	(1,644,898,662)
Balance as at 31 March 2018	141,719,000	99,000,000	1,843,736,965	2,084,455,965
Accumulated Depreciation				
Balance as at 01 April 2017	-	123,884	195,642,283	195,766,167
Charge for the year	-	752,877	173,063,643	173,816,520
Addition arising from merger of subsidiary	-	2,022,296	-	2,022,296
Revaluation	-	(393,247)	-	(393,247)
Transfers to investment properties	-	(1,247,240)	-	(1,247,240)
Balance as at 31 March 2018	-	1,258,570	368,705,925	369,964,495
Carrying Amount				
As at 31 March 2018	141,719,000	97,741,430	1,475,031,040	1,714,491,470

Company	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Total Rs.
Cost/Valuation				
Balance as at 01 April 2016	150,850,000	17,174,800	1,091,088,965	1,259,113,765
Additions	571,174,000	43,549,245	727,148,000	1,341,871,245
Revaluation	177,376,000	38,427,200	-	215,803,200
Balance As at 31 March 2017	899,400,000	99,151,245	1,818,236,965	2,816,788,210
Accumulated Depreciation				
Balance as at 01 April 2016	-	243,495	48,463,040	48,706,535
Charge for the year	-	1,066,765	147,179,242	148,246,007
Revaluation	-	(1,186,376)	-	(1,186,376)
Balance As at 31 March 2017	-	123,884	195,642,282	195,766,167
Carrying Amount				
As at 31 March 2017	899,400,000	99,027,360	1,622,594,683	2,621,022,043

Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles amounting to Rs. 1,475,031,040 As at 31 March 2018 (2017 - Rs. 1,622,594,683) are purchased under finance leases and have been pledged as security for the related finance lease liabilities, details of which are disclosed in Note 12.2.

Notes to the Financial Statements

11. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Assets given under operating leases

The motor vehicles of the company represents assets given under operating leases under short term and long term basis.

An analysis of the rentals to be received on such operating leases are as follows.

As at 31 March,	2018 Rs.	2017 Rs.
Receivable within one year	315,536,900	342,854,375
Receivable within 1-5 years	636,972,325	857,161,600
Receivable after 5 years	-	3,093,500
Total	952,509,225	1,203,109,475

Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31st March 2018 and 31st March 2017.

Fully depreciated property, plant and equipment

There were no property, plant and equipment fully depreciated as at 31st March 2018 and 31st March 2017.

11.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of land and buildings was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's land and buildings once in every 3 years and the latest valuation was done on 31 March 2018.

The fair value measurement for all of the land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio ranges from Rs.700,000 to Rs.5,600,000 in the Colombo area and Rs.140,000 to Rs.1,800,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: • Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for period used.	The estimated fair value would increase (decrease) if: • Depreciation rate was lesser / (higher) • Square feet value was higher / (lesser)

11.2 The carrying amount of revalued land and buildings if they were carried at cost less depreciation and impairment, would be as follows;.

As at 31 March,	2018 Rs.	2017 Rs.
Cost	197,998,000	782,748,045
Accumulated depreciation and impairment	(1,651,816)	(1,310,260)
Carrying value	196,346,184	781,437,784

12. INTEREST BEARING BORROWINGS

As at 31 March,	2018 Rs.	2017 Rs.
Short-term loans	19,266,537,000	6,253,000,000
Long-term borrowings (note 12.1)	44,804,489,476	11,841,978,667
Finance leases (note 12.2)	561,196,164	1,068,481,984
Debentures (note 12.3)	4,950,000,000	4,950,000,000
Total borrowings	69,582,222,640	24,113,460,651
Interest payable	908,209,720	342,853,014
Liability recognised in statement of financial position	70,490,432,360	24,456,313,666
12.1 Long-term borrowings		
Balance at the beginning of the year	11,841,978,667	20,453,223,681
Loans obtained during the year	1,549,626,302	2,155,700,000
Loans transferred on merger with Subsidiary	36,059,933,392	-
Repaid during the year	(4,647,048,885)	(10,766,945,014)
Balance at the end of the year	44,804,489,476	11,841,978,667
Long-term borrowings - current	39,132,421,898	4,796,703,943
Long-term borrowings - non-current (note 12.1.a)	5,672,067,578	7,045,274,724
	44,804,489,476	11,841,978,667
12.1.a Analysis of non-current portion of long-term borrowings		
Repayable within 1-3 years	4,068,180,359	4,578,707,696
Repayable after 3 years	1,603,887,219	2,466,567,028
	5,672,067,578	7,045,274,724

The borrowings includes long term and short term loans which carry interest rates which are variable and are reset on a monthly / quarterly / semi-annually / annual basis. Consequent to the merger with the subsidiary certain debt covenants are being renegotiated with the lenders to suit the merged entity. As a result loans amounting to Rs.34,901,470,774 has been classified as current even though the contractual maturity is long term. Of this amount Rs.21,574,760,136 has a contractual maturity within 1-3 years and Rs.4,981,270,920 has a maturity after 3 years.

12. INTEREST BEARING BORROWINGS (CONTD.)

As at 31 March,	2018 Rs.	2017 Rs.
12.2 Finance leases		
Gross lease rentals payable as at 1 April	1,242,509,975	1,281,759,996
Lease obtained during the year	15,403,013	593,542,233
Lease rentals paid during the year	(614,745,905)	(632,792,253)
Gross lease rentals payable as at 31 March	643,167,083	1,242,509,975
Less: Interest in suspense	(81,970,920)	(174,027,991)
Balance at the end of the year / present value of minimum lease payments	561,196,164	1,068,481,984
12.2.1 Analysis of finance leases		
Repayable within one year (note 12.2.1.a)	271,487,490	523,219,878
Repayable within 1-5 years (note 12.2.1.b)	289,708,674	545,262,106
	561,196,164	1,068,481,984
12.2.1.a Repayable within one year		
Gross lease rentals payable	320,152,101	616,914,159
Less: interest in suspense	(48,664,611)	(93,694,281)
	271,487,490	523,219,878
12.2.1.b Repayable within 1-5 years		
Gross lease rentals payable	323,014,983	625,595,816
Less: interest in suspense	(33,306,309)	(80,333,710)
	289,708,674	545,262,106
12.3 Debentures		
Balance at the beginning of the year	4,950,000,000	4,950,000,000
Debenture issued during the year (net of transaction cost)	-	-
Balance at the end of the year	4,950,000,000	4,950,000,000

The company issued fifty million (50,000,000) rated unsecured subordinated redeemable debentures at a value of Rs.100 each, totalling to Rs. 5Bn, with a 5 year maturity during the financial year 2014-2015. These debentures are listed in the Colombo Stock Exchange. A transaction cost of Rs. 50Mn was incurred on the issue of these debentures. The amortisation of the transaction cost is included in the interest payable amount.

13. DEPOSITS FROM CUSTOMERS

As at 31 March,	2018 Rs.	2017 Rs.
Customer deposits	106,556,229,770	77,680,697,534
Interest / profit payable		
Interest payable on deposits	3,299,313,250	2,802,791,088
Profits payable to Islamic Business Unit deposit holders	171,877,079	123,626,172
	3,471,190,329	2,926,417,260
Deposit liability recognised in statement of financial position	110,027,420,099	80,607,114,794

13.1 Analysis of customer deposits based on nature

Fixed deposits - conventional	87,057,854,894	67,236,994,188
Fixed deposits - Mudharabah (Islamic)	3,870,609,137	4,081,857,830
Fixed deposits - Wakala (Islamic)	5,373,530,266	1,991,207,909
Fixed deposits - foreign currency	2,688,605,506	1,651,310,478
Fixed deposit bonds	193,350,400	395,097,800
Savings deposits - conventional	1,867,641,169	1,747,264,748
Savings deposits - Mudharabah (Islamic)	860,562,263	484,831,430
Savings deposits - foreign currency	4,644,076,135	92,133,151
Total deposits	106,556,229,770	77,680,697,534

13.2 Deposits based on maturity

Deposits maturing within one year	86,736,355,447	63,469,514,967
Deposits maturing after one year	19,819,874,323	14,211,182,567
	106,556,229,770	77,680,697,534

14. TRADE PAYABLES

As at 31 March,	2018 Rs.	2017 Rs.
Creditors for lease equipment and approved facilities to be disbursed	1,593,495,581	677,878,426

15. ACCRUALS AND OTHER PAYABLES

As at 31 March,	2018 Rs.	2017 Rs.
Excess payments received from clients	66,737,816	150,977,318
Insurance payable	41,619,532	50,473,780
VAT / other tax payable	105,302,325	2,555,388
Other miscellaneous creditors	1,811,998,961	1,076,401,622
Payable on matured deposits	340,374,030	325,966,263
Stamp duty payable	20,652,737	11,160,475
IBU charity fund	1,690,486	3,432,829
	2,388,375,887	1,620,967,675

16. AMOUNTS DUE TO RELATED COMPANIES

As at 31 March,	Relationship	2018 Rs.	2017 Rs.
Lanka ORIX Leasing Company PLC	Parent	952,626,317	371,173,624
Lanka ORIX Leasing Company PLC-Refinance Loans	Parent	10,494,870	29,548,653
LOLC Micro Credit Ltd	Subsidiary / Fellow subsidiary	-	27,756,038
LOLC Corporate services Ltd	Fellow subsidiary	981,255.35	1,682,156
LOLC Factors Ltd	Fellow subsidiary	507,035,755	-
LOLC Motors Ltd	Fellow subsidiary	5,980,455	4,098,350
LOLC Information Technology Services Limited	Fellow subsidiary	19,880,898	-
		1,496,999,551	434,258,821

17. EMPLOYEE BENEFITS

17.1 Defined contribution plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

As at 31 March,	2018 Rs.	2017 Rs.
Employees' Provident Fund		
Employers' contribution	44,204,734	31,303,816
Employees' contribution	29,469,822	21,069,210
Employees' Trust Fund	11,051,183	7,825,954

	Group	Company	
As at 31 March,	2018 Rs.	2018 Rs.	2017 Rs.
17.2 Defined benefit plan			
Movement in the present value of the defined benefit obligation			
Defined benefit obligation as of 01 April	17,018,130	17,018,130	12,248,571
Transferred on merger with Subsidiary	46,621,222	46,621,222	-
Expense included in Personnel Expenses	5,986,781	5,986,781	5,141,592
Remeasurement Component	2,609,396	2,609,396	1,504,720
	55,217,399	55,217,399	6,646,312
Benefits paid	(1,932,231)	(1,932,231)	(1,876,753)
Defined benefit obligation as at 31st March	70,303,298	70,303,298	17,018,130
17.2.a Expense included in Personnel Expenses			
Current Service Cost	3,944,606	3,944,606	3,474,194
Interest Cost	2,042,175	2,042,175	1,667,398
	5,986,781	5,986,781	5,141,592

As at 31 March,	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
17.2.b Actuarial gains and losses recognised in other comprehensive income			
Cumulative loss as at 1st April	4,445,373	4,445,373	2,940,653
(Gain) / loss recognised during the period	2,609,396	2,609,396	1,504,720
Cumulative loss as at 31st March	7,054,769	7,054,769	4,445,373

Acturial valuation for defined benefit obligation was carried out As at 31 March 2018 by Mr. P.S. Goonatilleke, a Fellow of the Society of Actuaries (USA). The valuation method used by the actuaries to value the obligation is the "Projected Unit Credit Method", a method recommended by the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

	2018 Rs.	2017 Rs.
17.2.c Key assumptions used in the above valuation are as follows:		
Discount Rate	11.00%	12.00%
Salary Increment Rate	9.00%	9.00%
Retirement Age	55	55
Staff Turnover	2.5% - 15%	2.5% - 15%

The Defined Benefit Plan entitles a retired employee to receive a payment equal to half of the last drawn monthly salary multiplied by the number of completed years of service. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 Years of service.

Assumptions regarding future mortality are based on published statistics and mortality tables.
The plan is not externally funded.

17.2.d Sensitivity analysis of the defined benefit obligation

The effect on the defined benefit obligation at the year end, as a result of changes in the actuarial assumptions used, is shown below.

As at 31 March,	2018 Rs.	2017 Rs.
The defined benefit obligation under current assumptions	70,303,298	17,018,130
The defined benefit obligation if the discount rate increased by 100 basis points	63,795,919	15,555,653
The defined benefit obligation if the discount rate reduced by 100 basis points	77,856,221	18,718,105
The defined benefit obligation if the salary increment rate increased by 1%	78,186,716	18,720,579
The defined benefit obligation if the salary increment rate reduced by 1%	63,428,522	15,529,221
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(6,507,379)	(1,462,477)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	7,552,923	1,699,975
The change in the defined benefit obligation if the salary increment rate increased by 1%	7,883,418	1,702,449
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(6,874,776)	(1,488,909)

17. EMPLOYEE BENEFITS (CONTD.)

17.2.e Maturity analysis of the payments

The following payments are expected on employee benefit liabilities in future years.

As at 31 March,	2018 Rs.	2017 Rs.
Within the next 12 months	8,922,809	2,449,327
Between 1 and 2 years	10,555,975	2,854,021
Between 2 and 5 years	50,889,833	14,503,778
Between 5 and 10 years	149,766,472	46,997,830
Total expected payments	220,135,089	66,804,956

18. STATED CAPITAL

As at 31 March,	2018		2017	
	Number of shares	Rs.	Number of shares	Rs.
Balance at the beginning of the year	2,800,000,000	2,000,000,000	2,800,000,000	2,000,000,000
Issue of shares for cash	1,400,000,000	5,880,000,000	-	-
Balance at the end of the year	4,200,000,000	7,880,000,000	2,800,000,000	2,000,000,000

Rights, preference and restrictions of classes of capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to have one vote per individual present at meetings of the shareholders or one vote per share in case of a poll. They are entitled to participate in any surplus assets of the Company in winding up. There are no preferences or restrictions on Ordinary Shares.

19. RESERVES

As at 31 March,	2018 Rs.	2017 Rs.
Statutory reserve (note 19.1)	1,996,724,011	1,556,438,753
Revaluation reserve (note 19.2)	241,527,671	206,229,960
Cash flow hedge reserve (note 19.3)	(6,333,137)	14,236,742
Available for sale investment reserve (note 19.4)	(7,166,375)	(115,484,939)
Retained earnings (note 19.5)	7,000,881,585	7,364,836,012
	9,225,633,756	9,026,256,529

19.1 Statutory reserve

Balance at the beginning of the year	1,556,438,753	1,239,075,154
Transferred during the year	440,285,258	317,363,599
Balance at the end of the year	1,996,724,011	1,556,438,753

The reserve is created according to Direction No.1 of 2003 issued under the Finance Business Act No.42 of 2011. The Company transferred 20% (2016/17 - 20%) of its annual net profit after tax to this reserve in compliance with this direction.

As at 31 March,	2018 Rs.	2017 Rs.
19.2 Revaluation Reserve		
Balance at the beginning of the year	206,229,960	-
Transferred during the year	-	216,989,576
Adjustments on merger	43,114,247	-
Related tax	(7,816,536)	(10,759,616)
Balance at the end of the year	241,527,671	206,229,960

This reserve is created from the excess arising from the revaluation of land and buildings of the company.

As at 31 March,	2018 Rs.	2017 Rs.
19.3 Cash flow hedge reserve		
Balance at the beginning of the year	14,236,742	22,747,657
Gain / (loss) arising from cash flow hedge recognised in OCI	(26,649,199)	(11,820,715)
Related tax - current tax - expense / (reversal) - note 27	(18,101,637)	(9,778,295)
Related tax - deferred tax - expense / (reversal) - note 27	26,101,034	13,088,096
Adjustments on merger	(1,920,077)	-
Balance at the end of the year	(6,333,137)	14,236,742

The cash flow hedge reserve is maintained to recognise the change in the fair value of, the derivative (forward exchange contract) designated under the hedge relationship and the hedge item (portion of a foreign currency borrowing). The objective of the hedge is to mitigate the risk arising on the movement in foreign exchange rates and the resulting cash flows.

The hedging instrument are forward exchange contracts and as at 31st March 2018, there were assets with fair value of Rs. 133,540,941 and liabilities with fair value of Rs. 482,464,342.

The portion of the foreign currency loan that is subject to hedge accounting is to be settled during the financial years 2017/18 - 2022/23 and the derivative will be rolled over until that date.

The hedge is considered to be effective and is in effect at the reporting date and therefore no reclassification to profit or loss was made.

As at 31 March,	2018 Rs.	2017 Rs.
19.4 Available for Sale Investment Reserve		
Balance at the beginning of the year	(115,484,939)	(160,153,753)
Fair value changes during the year - increase / (decrease)	128,082,838	44,668,814
Transfers of (gains) / losses to profits on disposal of investments	(16,745,534)	-
Related Tax	(3,018,739)	-
Balance at the end of the year	(7,166,375)	(115,484,939)

This reserve is maintained to recognise the fair value changes of Available for Sale Financial Assets.

19. RESERVES (CONTD.)

As at 31 March,	2018 Rs.	2017 Rs.
19.5 Retained Earnings		
Balance at the beginning of the year	7,364,836,011	6,096,465,015
Profit for the year	2,201,426,289	1,586,817,994
Remeasurements of defined benefit liability - gain / (loss)	(1,878,765)	(1,083,398)
Transfer to statutory reserve fund	(440,285,258)	(317,363,599)
Excess of investment on merger with subsidiary	(2,123,216,692)	-
Balance at the end of the year	7,000,881,585	7,364,836,011

20. INTEREST INCOME

	Group	Company	
Year ended 31 March,	2018 Rs.	2018 Rs.	2017 Rs.
Interest on leases	5,651,758,197	4,760,680,135	3,256,904,896
Interest on hire purchases	-	-	136,361
Interest on loans	13,217,623,188	11,387,494,159	10,403,319,839
Income from factoring portfolio	3,839,176,110	3,839,176,110	3,386,062,003
Interest on margin trading	34,370,009	34,370,009	15,107,970
Income from operating lease and hire	347,231,202	347,231,202	216,962,699
Interest on overdue rentals and others	1,758,312,579	1,530,394,326	1,211,246,932
	24,848,471,285	21,899,345,941	18,489,740,700

21. INTEREST EXPENSE

	Group	Company	
Year ended 31 March,	2018 Rs.	2018 Rs.	2017 Rs.
Interest on fixed deposits	10,785,836,438	10,785,836,438	7,386,960,410
Interest on savings deposits	103,637,952	103,637,952	67,558,918
Profit distributed to Islamic Business Unit deposit holders	1,014,111,005	1,014,111,005	558,485,895
Interest on foreign currency deposits	85,940,416	85,940,416	69,456,936
Interest on re-red refinancing	2,056,302	2,056,302	2,823,690
Finance lease interest	94,710,085	94,710,085	125,893,047
Interest on loans & bank overdraft	2,930,309,438	1,815,844,563	3,248,094,494
	15,016,601,637	13,902,136,761	11,459,273,390

22. NET OTHER OPERATING INCOME

Year ended 31 March,	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Sundry income	224,775,792	179,253,587	85,236,207
Service charges	198,066,846	198,066,846	354,932,248
Arrangement and documentation fees	232,803,310	204,247,912	193,263,194
Collections from contracts written off	252,499,173	196,892,015	218,548,341
Fair value change in investment properties (Note 10)	197,274,567	78,239,014	24,457,848
Reclassification from AFS reserve on disposals	16,745,534	16,745,534	-
Interest income and capital gain on government securities	1,297,309,848	1,281,546,653	982,164,310
Interest income on term deposits	779,327,763	637,290,823	473,900,598
Change in fair value of derivatives - forward contracts (note 4.3)	(36,451,676)	(36,451,676)	(28,698,717)
Net exchange loss	50,851,754	52,059,498	(56,870,998)
Portfolio handling fee	-	295,520,180	-
Bad debt portfolio handling fee	-	48,430,041	-
Provision for payables to clients	(25,200,000)	(25,200,000)	(10,500,000)
Adjustment for increase / (decrease) in value of investments (note 8.1)	518,658,941	518,658,941	31,951,930
Dividend income	318,522	318,522	200,503
Interest income from staff loan	84,376,427	84,376,427	68,165,042
Disposal gain / (loss) on investment property	5,462,500	5,462,500	11,902,750
	3,796,819,301	3,735,456,817	2,348,653,257

23. DIRECT EXPENSES EXCLUDING INTEREST COST

Year ended 31 March,	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Insurance expenses factored to accommodations	706,225,830	606,280,963	323,419,958
VAT on general expenses	563,868,588	438,457,903	309,002,010
Portfolio handling fee	-	-	669,342,613
Others	3,219,590	3,194,150	9,643,590
	1,273,314,008	1,047,933,016	1,311,408,171

24. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS

	Group	Company	
Year ended 31 March,	2018 Rs.	2018 Rs.	2017 Rs.
Impairment provision / (reversal) for lease rentals receivable (Note 5.2)	34,290,510	6,419,203	36,646,661
Impairment provision / (reversal) for receivables from hire purchases (Note 6.1.2)	-	-	(2,164,071)
Impairment provision / (reversal) for mortgage loan (Note 6.2.2)	(66,479,141)	(66,479,141)	43,517,893
Impairment provision / (reversal) for receivables from sundry loans (Note 6.3.2)	317,985,812	184,491,104	104,462,908
Impairment provision / (reversal) for factoring receivables (Note 6.4.1)	(238,222,742)	(238,222,742)	404,670,048
Impairment provision / (reversal) for other receivables	(590,802,130)	(590,802,130)	(37,604,799)
Impairment provision / (reversal) for insurance receivable	90,000,144	-	-
Written-off during the year	4,902,279,209	4,413,881,669	779,513,473
	4,449,051,661	3,709,287,962	1,329,042,113

25. PROFIT FROM OPERATIONS

Profit from operations is stated after charging all expenses including the following,

		Group	Company	
Year ended 31 March,		2018 Rs.	2018 Rs.	2017 Rs.
Directors' emoluments		27,334,750	12,256,000	7,235,438
Audit fees and expenses	- Audit Services	3,655,000	2,530,000	2,215,150
	- Audit Related Services	1,440,000	960,000	949,300
	- Non Audit Services	Nil	Nil	Nil
Depreciation on property, plant and equipment		173,284,039	173,816,520	148,246,007
25.1 Personnel expenses				
- Salaries, wages & other related cost		1,569,164,402	1,309,250,208	1,380,224,129
- Defined contribution plans - EPF & ETF		55,255,917	55,255,917	39,129,770
- Defined benefit plan cost		5,986,781	5,986,781	5,141,592
		1,630,407,100	1,370,492,906	1,424,495,490

26. MATURITY OF ASSETS AND LIABILITIES

26.1 An analysis of the total assets of the Company as at the year end based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

As at 31 March,	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.18 Rs.	Total as at 31.03.17 Rs.
Cash and cash equivalents	11,323,366,281	-	-	-	-	11,323,366,281	4,924,111,973
Deposits with banks and other financial institutions	12,699,178,080	13,647,373,473	-	-	-	26,346,551,552	14,161,567,078
Investment in government securities	6,786,699,545	3,966,243,311	-	-	118,825,483	10,871,768,339	7,853,176,493
Derivative assets	54,240,915	79,300,026	-	-	-	133,540,941	23,840,338
Rentals receivable on leased assets	6,057,125,803	11,598,106,177	21,836,150,024	4,682,927,211	185,391,280	44,359,700,495	18,707,105,309
Allowance for impairment	-	-	-	-	-	(754,576,684)	(298,372,189)
Hire purchases, loans and advances	15,468,659,514	28,178,301,065	36,635,484,917	18,621,701,657	792,767,018	99,696,914,172	57,049,746,427
Allowance for impairment	-	-	-	-	-	(2,799,819,013)	(1,565,665,303)
Factoring receivable	11,397,986,284	-	-	-	-	11,397,986,284	17,823,865,341
Allowance for impairment	-	-	-	-	-	(759,231,341)	(1,299,227,274)
Margin trading receivables	175,570,117	-	-	-	-	175,570,117	94,825,018
Allowance for impairment	-	-	-	-	-	-	-
Other receivables	600,273,827	214,866,135	133,287,305	119,522,719	54,546,392	1,122,496,378	1,071,661,415
Investments securities	1,744,986,516	-	-	-	220,312,175	1,965,298,691	324,629,347
Amount due from related companies	32,909,393	-	-	-	-	32,909,393	224,505,824
Inventories	-	9,077,910	-	-	-	9,077,910	-
Investment properties	-	-	6,278,187,226	-	-	6,278,187,226	906,300,000
Property plant and equipment	-	-	-	-	1,714,491,470	1,714,491,470	2,621,022,043
Total Assets as at 31st March 2018	66,340,996,274	57,693,268,097	64,883,109,472	23,424,151,587	3,086,333,819	211,114,232,211	
Total Assets as at 31st March 2017	53,691,538,530	16,069,636,219	27,224,704,379	23,209,050,980	5,591,426,499		122,623,091,840

26. MATURITY OF ASSETS AND LIABILITIES (CONTD.)

26.2 An analysis of the total liabilities of the Company as at the year end based on the remaining period at the reporting date to the respective contractual maturity dates is given below :

As at 31 March,	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.18 Rs.	Total as at 31.03.17 Rs.
Bank overdraft	4,243,169,825	-	-	-	-	4,243,169,825	2,393,316,396
Interest bearing borrowings	49,894,862,268	9,683,793,840	9,284,429,724	1,627,346,527	-	70,490,432,360	24,456,313,665
Deposits from customers	37,708,942,912	51,996,757,547	10,763,443,889	9,558,275,752	-	110,027,420,099	80,607,114,794
Trade payables	1,593,495,580	-	-	-	-	1,593,495,580	677,878,426
Accruals and other payables	1,213,135,553	420,596,502	532,984,950	157,225,052	64,433,830	2,388,375,887	1,620,967,675
Derivative liabilities	282,005,249	200,459,093	-	-	-	482,464,342	18,978,063
Amount due to related companies	1,496,999,551	-	-	-	-	1,496,999,551	434,258,821
Current tax payable	-	813,718,266	-	-	-	813,718,266	268,931,782
Deferred tax liability	-	-	2,402,219,247	-	-	2,402,219,247	1,102,057,559
Employee benefits	-	-	-	70,303,298	-	70,303,298	17,018,130
Stated capital	-	-	-	-	7,880,000,000	7,880,000,000	2,000,000,000
Statutory reserve	-	-	-	-	1,996,724,011	1,996,724,011	1,556,438,753
Revaluation Reserve	-	-	-	-	241,527,671	241,527,671	206,229,960
Cash flow hedge reserve	-	-	-	-	(6,333,137)	(6,333,137)	14,236,742
Available for sale investment reserve	-	-	-	-	(7,166,375)	(7,166,375)	(115,484,939)
Retained earnings	-	-	-	-	7,000,881,585	7,000,881,585	7,364,836,012
Total Liabilities & Equity as at 31st March 2018	96,432,610,938	63,115,325,248	22,983,077,810	11,413,150,629	17,170,067,586	211,114,232,211	
Total Liabilities & Equity as at 31st March 2017	43,665,070,381	38,653,965,166	20,291,526,149	8,091,964,689	11,920,565,454		122,623,091,840

27. INCOME TAX EXPENSE

The major components of income tax expense for the year ended 31 March are as follows:

	Group	Company	
As at 31 March,	2018 Rs.	2018 Rs.	2017 Rs.
Current tax - recognised in P&L			
Current tax charge	226,684,684	124,029,652	459,741,544
Under / (over) provision of current taxes in respect of prior years	(81,779,566)	(81,779,566)	9,951,337
	144,905,119	42,250,087	469,692,881
Deferred Tax			
Deferred tax expense / (reversal) (27.2)	(272,118,222)	(158,936,233)	120,066,282
Income tax expense reported in statement of profit or loss	(127,213,104)	(116,686,147)	589,759,163
Current tax - expense / (reversal) - recognised in OCI			
Relating to exchange gain recognised in OCI (in hedge reserve)	18,101,637	18,101,637	9,778,295
Deferred tax charge / (reversal) recognised in OCI			
Defined benefit plans	(730,631)	(730,631)	(421,322)
Available for sale financial assets	3,018,739	1,878,765	-
Fair value change in derivatives recognised in hedge reserve	(26,101,034)	(25,563,412)	(13,088,096)
Property plant and equipment	7,816,536	-	10,759,616
	(15,996,390)	(24,415,278)	(2,749,801)
Total income tax expense / (reversal) recognised in OCI	2,105,247	(6,313,642)	7,028,494

27.1 Current tax payable

Tax payable as at 1st April	268,931,782	268,931,782	309,887,595
Current tax expense for the year - recognised in P&L	144,905,119	42,250,087	469,692,881
Current tax expense for the year - recognised in OCI	18,101,637	18,101,637	9,778,295
Balance on acquisition of subsidiary	1,006,165,725	-	-
Addition on merger with subsidiary	-	816,489,534	-
Tax paid during the year	(624,385,995)	(332,054,773)	(520,426,989)
Tax payable as at 31st March	813,718,266	813,718,266	268,931,782

27. INCOME TAX EXPENSE (CONTD.)

A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

As at 31 March,	Group		Company			
	2018		2018		2017	
	%	Rs.	%	Rs.	%	Rs.
Accounting profit before income tax		2,063,961,038		2,084,740,142		2,176,577,157
Tax effect at the statutory income tax rate of 28%	28%	577,909,091	28%	583,727,240	28%	609,441,604
Tax effect of other allowable credits	-5%	(109,016,800)	-5%	(107,491,038)	-7%	(161,642,578)
Tax effect of non deductible expenses	11%	221,064,910	11%	224,247,956	6%	132,008,800
Tax benefit on acquisition of subsidiary	-36%	(735,390,739)	-35%	(735,390,739)	0%	-
Under / (over) provision in the previous years	-4%	(81,779,566)	-4%	(81,779,566)	0%	9,951,337
Income tax expense	-6%	(127,213,104)	-6%	(116,686,147)	27%	589,759,163

27.2 Deferred Taxation

As at 31 March,	Group	Company	
	2018 Rs.	2018 Rs.	2017 Rs.
Balance as at 1st April	1,102,057,559	1,102,057,559	984,741,078
Deferred tax expense / (reversal) - recognised in P&L	(272,118,222)	(158,936,233)	120,066,282
Deferred tax expense / (reversal) - recognised in OCI	(15,996,390)	(23,275,304)	(2,749,801)
Deferred tax liability / (asset) on acquisition of subsidiary	1,588,276,300	-	-
Deferred tax liability / (asset) on merger with subsidiary	-	1,482,373,226	-
Balance as at 31st March	2,402,219,247	2,402,219,247	1,102,057,559

Recognised deferred tax assets and liabilities are attributable to the following.

Deferred tax is measured using a tax rate of 28% (2016/17 -28%) on temporary differences

Deferred tax expense / (reversal) - Group

	Balance as 1st April 2017 Rs.	Addition on acquisition of subsidiary Rs.	Recognised in P&L - expense / (reversal) Rs.	Recognised in OCI - expense / (reversal) Rs.	Balance as 31st March 2018 Rs.
Deferred tax liability / (asset)					
Recognised in P&L					
Lease receivables	1,118,395,601	1,716,103,451	348,674,897	-	3,183,173,949
Finance lease liability	(26,579,307)	-	186,976,250	-	160,396,942
Property plant and equipment	2,885,288	11,860,690	(7,407,230)	-	7,338,748
Tax losses	-	(65,459,730)	(136,051,393)	-	(201,511,124)
Cost of acquisition of subsidiary (note 27.2.b)	-	-	(651,390,739)	-	(651,390,739)
Defined benefit plans	(3,520,372)	(10,288,932)	(2,713,593)	-	(16,522,896)
Forward exchange contracts (net)	3,040,933	-	(10,206,414)	-	(7,165,481)
Recognised in OCI					
Available for sale financial assets	-	-	-	3,018,739	3,018,739
Property plant and equipment	10,759,616	-	-	7,816,536	18,576,152
Defined benefit plans	(1,244,704)	(1,186,692)	-	(730,631)	(3,162,027)
Forward exchange contracts (net)	(1,679,496)	(62,752,486)	-	(26,101,034)	(90,533,016)
Net deferred tax liability / (asset)	1,102,057,559	1,588,276,300	(272,118,222)	(15,996,390)	2,402,219,247

Deferred tax expense / (reversal) - Company

	Balance as 1st April 2017 Rs.	Recognised in P&L - expense / (reversal) Rs.	Recognised in OCI - expense / (reversal) Rs.	Addition on merger with subsidiary Rs.	Balance as 31st March 2018 Rs.
Deferred tax liability / (asset)					
Recognised in P&L					
Lease receivables	1,118,395,601	527,901,295	-	1,536,877,054	3,183,173,949
Finance lease liability	(26,579,307)	186,976,250	-		160,396,942
Property plant and equipment	2,885,288	(9,570,227)	-	14,023,686	7,338,748
Tax losses	-	(201,511,124)	-		(201,511,124)
Cost of acquisition of subsidiary (note 27.2.b)	-	(651,390,739)	-		(651,390,739)
Defined benefit plans	(3,520,372)	(1,135,274)	-	(11,867,250)	(16,522,896)
Forward exchange contracts (net)	3,040,933	(10,206,414)	-		(7,165,481)
					-
Recognised in OCI					-
Available for sale financial assets	-	-	3,018,739		3,018,739
Property plant and equipment	10,759,616	-	-	7,816,536	18,576,152
Defined benefit plans	(1,244,704)	-	(730,631)	(1,186,692)	(3,162,027)
Forward exchange contracts (net)	(1,679,496)	-	(25,563,412)	(63,290,108)	(90,533,016)
Net deferred tax liability / (asset)	1,102,057,559	(158,936,233)	(23,275,304)	1,482,373,226	2,402,219,247

27. INCOME TAX EXPENSE (CONTD.)

Deferred tax expense / (reversal) - Company

	Balance as 1st April 2017 Rs.	Addition on acquisition of subsidiary Rs.	Recognised in P&L - expense / (reversal) Rs.	Recognised in OCI - expense / (reversal) Rs.	Balance as 31st March 2018 Rs.
Deferred tax liability / (asset)					
Recognised in P&L					
Lease receivables	1,011,144,217	107,251,384	-	-	1,118,395,601
Finance lease liability	(46,219,070)	19,639,763	-	-	(26,579,307)
Property plant and equipment	760,358	2,124,930	-	-	2,885,288
Tax losses	-	-	-	-	-
Cost of acquisition of subsidiary (note 27.2.b)	-	-	-	-	-
Defined benefit plans	(2,606,217)	(914,155)	-	-	(3,520,372)
Forward exchange contracts (net)	11,076,573	(8,035,641)	-	-	3,040,933
					-
Recognised in OCI					-
Available for sale financial assets	-	-	-	-	-
Property plant and equipment	-	-	10,759,616	-	10,759,616
Defined benefit plans	(823,383)	-	(421,321)	-	(1,244,704)
Forward exchange contracts (net)	11,408,600	-	(13,088,096)	-	(1,679,496)
Net deferred tax liability / (asset)	984,741,078	120,066,282	(2,749,801)	-	1,102,057,559

	As 31st March 2018 Rs.	As at 31st March 2017 Rs.
27.2.a Temporary differences		
Temporary differences - taxable / (deductible)		
Recognised in P&L		
Lease receivables	11,368,478,390	3,994,270,004
Finance lease liability	572,846,223	(94,926,097)
Property plant and equipment	26,209,813	10,304,601
Tax losses	(719,682,585)	-
Cost of acquisition of subsidiary (note 27.2.b)	(2,326,395,495)	-
Defined benefit plans	(59,010,344)	(12,572,757)
Forward exchange contracts (net)	(25,591,005)	10,860,474
Recognised in OCI		
Available for sale financial assets	10,781,210	-
Property plant and equipment	66,343,400	38,427,200
Defined benefit plans	(11,292,954)	(4,445,373)
Forward exchange contracts (net)	(323,332,199)	(5,998,199)
Net taxable / (deductible) temporary difference	8,579,354,453	3,935,919,853

27.2.b Cost of acquisition of subsidiary and unrecognised deferred tax assets

During the year the company paid Rs.12,291,200,000 to acquire 100% of LOLC Micro Credit Limited. Refer note 36 for details relating to acquisition.

Since this was inline with the Central Bank of Sri Lanka's consolidation program, the Company is able to claim the purchase consideration as a qualifying payment in calculating the income tax liability.

During the year Rs.300,000,000 was claimed keeping inline with the requirements of the Inland Revenue Act. The Company expects to claim the remaining amount over the future period based on the profitability of the Company.

On a prudent basis the management has decided to evaluate the recoverability of this claim based on the projected taxable profits for the next 2 years and expects to recover Rs.2,326,395,495 over such period and a deferred tax asset of Rs.651,390,739 was recognised during the year.

The management will annually re-evaluate the recoverability of this claim and adjust the deferred tax asset accordingly.

As at 31 March,	2018 Rs.	2017 Rs.
Unrecognised deferred tax asset		
Consideration paid to acquire subsidiary	12,291,200,000	-
Amount claimed during the year	(300,000,000)	-
Remaining amount to be claimed in future years	11,991,200,000	-
Tax rate	28%	-
Deferred tax asset on remaining amount	3,357,536,000	-
Recognised deferred tax asset	(651,390,739)	-
Unrecognised deferred tax asset	2,706,145,261	-

28. EARNINGS PER SHARE

28.1 Basic earnings per share

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the Basic Earnings Per Share computation.

As at 31 March,	2018 Rs.	2017 Rs.
Amounts used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	2,201,426,289	1,586,817,994

28. EARNINGS PER SHARE (CONTD.)

As at 31 March,	2018 No.	2017 No.
Number of ordinary shares used as the denominator:		
Ordinary shares in issue at the beginning of the year	2,800,000,000	2,800,000,000
Effects of new shares issued during the period	61,369,863	-
Weighted average number of ordinary shares in issue applicable to basic earnings per share	2,861,369,863	2,800,000,000
Basic earnings per share (Rs.)	0.77	0.57

28.2 Diluted earnings per share

There were no potential dilution at the year end. Therefore, diluted earnings/ (loss) per share is the same as basic earnings/ (loss) per share shown above.

29. CASH AND CASH EQUIVALENTS

As at 31 March,	2018 Rs.	2017 Rs.
29.1 Favourable cash & cash equivalents balance		
Cash in hand and at bank	11,323,366,281	4,924,111,973
29.2 Unfavourable cash & cash equivalent balances		
Bank overdraft	(4,243,169,825)	(2,393,316,396)
Total cash and cash equivalents for the purpose of cash flow statement	7,080,196,456	2,530,795,577

30. COMPARATIVE FIGURES

Comparative information has not been reclassified or restated

31. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2018 Rs.	Carrying Amount Pledged 2017 Rs.
Lease portfolio	Short term borrowing	2,906,340,000	9,967,186,000

These financial assets are pledged against the borrowings made. The lender has the right over the lease receivables in the event of non payment.

32. RELATED PARTY DISCLOSURES

32.1 Parent and Ultimate Controlling Party

The Company's immediate and ultimate controlling party is Lanka ORIX Leasing Company PLC.

32.2 Transactions with Key Management Personnel (KMPs)

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly the KMP include members of the Board of Directors and identified senior management personnel of the Company and its ultimate Parent Company Lanka ORIX Leasing Co. PLC. Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Company.

As at 31 March,	2018 Rs.	2017 Rs.
32.2.1 Compensation of KMPs		
Short term employment benefits	40,085,345	37,235,629
Total	40,085,345	37,235,629

The short term employment benefits include only the directors fees and emoluments paid to Directors & KMPs.

32.2.2 Transactions, arrangements and agreements involving KMPs, and their close family members (CFMs)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner. The transactions are carried out on an arms length basis. The details of the transactions are as follows :

As at 31 March,	2018 Rs.	2017 Rs.
Deposits held with the Company	1,222,574,976	1,025,178,236
Interest paid / charged	112,847,259	117,702,686
Interest payable	41,053,696	6,015,324
Loans granted (excluding Directors)	22,344,501	19,379,021
Capital outstanding on facilities granted to KMPs (excluding Directors)	52,267,222	29,072,480
Accommodation outstanding as a percentage of the Company's Capital Funds	0.28%	0.22%

No impairment losses have been recorded against balances outstanding with KMP and CFM.

Notes to the Financial Statements

32. RELATED PARTY DISCLOSURES (CONTD.)

32.3 Transactions with related parties

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures, on an arms length basis. Details of related party transactions are reported below. (For information regarding outstanding balances (receivables / payables) at 31 March 2018 and 2017, refer notes no.9 and 16 accordingly).

		Group	Company	
		Transaction value	Transaction value	Transaction value
Relationship	Nature of Transactions	2018 Rs.	2018 Rs.	2017 Rs.
Parent Company	Net funds granted by the Parent during the year (excluding opening balance)	1,751,985,594	581,452,693	505,389,376
	Shared expenses (including vat)	2,733,487,540	2,250,728,657	2,471,743,537
	Asset hire charges	136,767,302	127,501,244	125,816,038
	Interest on re-red refinancing	2,056,302	2,056,302	2,823,690
	Treasury management fee	302,180,525	160,508,868	210,729,737
	Royalty	383,740,297	337,312,420	288,873,157
	Fund transfer interest	185,147,786	33,099,000	191,287,040
	Consideration paid to acquire subsidiary	9,832,960,000	9,832,960,000	-
Subsidiary	Portfolio handling fee	-	295,520,180	-
	Bad debt portfolio handling fee	-	48,430,041	-
Fellow Subsidiaries & Associates	Deposits & other borrowings by the company	298,583,518	298,583,518	2,034,783,749
	Interest paid/charge	47,468,251	47,468,251	35,648,392
	Interest payable	7,986,501	7,986,501	226,745
	Investments held by the company	2,033,340,685	2,033,340,685	855,186,164
	Interest income from investment	123,592,124	102,416,781	20,288,904
	IT service fee	176,309,392	153,648,684	111,589,960
	Yard fee	6,500,000	7,800,000	7,800,000
	Franchise Fee	172,236,149	150,867,289	29,797,257
	Portfolio handling fee	-	-	669,342,613
	Supply of leased vehicles	471,514,753	471,514,753	302,327,128
	Loan/ lease granted	569,506,183	569,506,183	371,012,682
	Rental collections	401,701,670	401,701,670	755,102,377
	Interest income	287,860,407	287,860,407	268,410,873
	Capital outstanding on facilities granted	1,552,192,413	1,552,192,413	1,271,770,205
Other Related Companies/ Affiliates	Supply of leased vehicles	474,764,753	474,764,753	113,600,000
	Interest paid/charge	253,902,325	253,902,325	253,902,325
	Rental collections	70,356,316	70,356,316	-
	Interest income	11,330,881	11,330,881	1,079,263
	Capital outstanding on facilities granted	46,393,734	46,393,734	7,543,036
				-
Other Related Organisations	Deposits held with the company	257,929,563	257,929,563	254,396,722
	Interest paid/charge	33,942,379	33,942,379	9,784,287
	Interest payable	21,906,724	21,906,724	128,411
Accommodation outstanding as a percentage of the Company's Capital Funds		8.66%	8.66%	9.61%

All of the above transactions (including borrowing / lending / investing transactions) with related parties are on arm's length basis and are on terms that are generic to non-related parties.

33. EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustment to or disclosure in the financial statements.

34. OPERATING SEGMENTS

	Operating Segment				
	Conventional Financial Services Rs.	Islamic Financial Services Rs.	Factoring Business Rs.	Others/ Adjustments Rs.	Total Rs.
For the year ended 31st March 2018					
Total revenue - Interest, profit & other income	22,039,998,968	2,573,402,618	4,031,889,000	-	28,645,290,586
External revenue	22,039,998,968	2,573,402,618	4,031,889,000	-	28,645,290,586
Net interest/profit cost	(11,561,536,426)	(1,271,782,960)	(2,183,282,250)	-	(15,016,601,637)
Profit before operating expenses	10,478,462,542	1,301,619,658	1,848,606,750	-	13,628,688,949
Operating expenses	(6,110,658,594)	(524,533,773)	-	-	(6,635,192,367)
Allowance for impairment & write-offs	(2,043,553,514)	(161,112,999)	(2,244,385,149)	-	(4,449,051,661)
Value added tax on financial services	(400,763,834)	(79,720,049)	-	-	(480,483,883)
Results from operating activities	1,923,486,601	536,252,838	(395,778,399)	-	2,063,961,038
For the year ended 31st March 2017					
Total revenue - Interest, profit & other income	14,998,719,120	2,104,660,708	3,735,014,128	-	20,838,393,957
External revenue	14,998,719,120	2,104,660,708	3,735,014,128	-	20,838,393,957
Net interest/profit cost	(8,850,887,610)	(874,067,683)	(1,734,318,097)	-	(11,459,273,390)
Profit before operating expenses	6,147,831,511	1,230,593,025	2,000,696,031	-	9,379,120,567
Operating expenses	(4,301,854,473)	(537,469,259)	(669,342,613)	-	(5,508,666,345)
Allowance for impairment & write-offs	(854,151,921)	(45,476,554)	(429,413,638)	-	(1,329,042,113)
Value added tax on financial services	(68,018,194)	(97,113,745)	(153,329,763)	-	(364,834,951)
Results from operating activities	923,806,923	550,533,467	748,610,017	-	2,176,577,157
Depreciation					
For the year ended 31st March 2018	173,284,039	-	-	-	173,284,039
For the year ended 31st March 2017	148,246,007	-	-	-	148,246,007
Capital expenditure - Property Plant and equipment					
For the year ended 31st March 2018	122,904,918	-	-	-	122,904,918
For the year ended 31st March 2017	1,341,871,245	-	-	-	1,341,871,245
As at 31-03-2018					
Total assets	185,843,967,968	14,631,611,839	10,638,754,943	(102,538)	211,114,232,211
Total liabilities	170,762,196,555	12,607,749,496	10,638,754,943	(102,538)	194,008,598,456
As at 31-03-2017					
Total assets	96,714,161,498	11,435,701,552	16,524,638,068	(2,050,509,279)	122,623,091,840
Total liabilities	87,462,908,873	9,767,356,717	16,524,638,068	(2,050,509,279)	111,596,835,312

35. COMMITMENTS AND CONTINGENCIES

As at 31 March,	2018 Rs.	2017 Rs.
35.1 Contingent liabilities		
Guarantees issued to banks and other institutions - backed by deposits	767,098,046	897,802,735
35.2 Commitments		
Forward exchange contracts - (commitment to purchase)	27,034,126,553	9,674,127,329
Unutilised loan facilities	10,992,926,927	10,498,570,369

On the commitment to purchase the foreign currencies the company will receive USD 113,819,247, EUR 36,750,197, GBP 2,700,000, AUD 5,750,000.

36. ACQUISITION OF LOLC MICRO CREDIT LIMITED AND SUBSEQUENT MERGER WITH LOLC FINANCE PLC (LOFC / "THE COMPANY")

On 29th January 2018 the Company acquired 100% shares of LOLC Micro Credit Ltd (LOMC) at a price of Rs.156.18 per share totalling to Rs.12,291,200,000.

In December 2017, the Company received approval from the Central Bank of Sri Lanka (CBSL) to acquire 100% shares of LOMC and to merge LOMC with LOFC in line with the financial sector consolidation plans. Post merger LOFC is the remaining entity. LOMC was 80% owned by Lanka ORIX Leasing Company PLC (LOLC) and 20% by Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO). LOLC is the controlling shareholder of LOFC.

The merger was completed on 29th March 2018 and post merger, the Directors expect significant growth in assets as the synergies of the combined entity will unlock new market opportunities.

The carrying amounts of the identifiable assets and liabilities of the acquiree as at 31-January-2018 which is the acquisition date and on 29-March-2018 which is the merger date is as follows;

	31-Jan-18 Rs.	29-Mar-18 Rs.
Assets		
Cash and cash equivalents	5,316,836,153	1,371,172,875
Investment securities	19,473,959,989	19,593,456,450
Advances and other loans	57,335,339,353	54,741,204,398
Trade and other receivables	849,632,255	442,127,430
Property, plant and equipment	744,385,723	923,495,951
	83,720,153,473	77,071,457,105

	31-Jan-18 Rs.	29-Mar-18 Rs.
Liabilities		
Bank overdrafts	301,850,794	131,709,799
Interest bearing loans & borrowings	57,744,158,413	54,113,207,124
Provision for taxation	965,766,174	911,093,573
Trade and other payables	12,854,845,565	10,184,576,255
Deferred taxation	1,628,675,851	1,482,373,228
Retirement benefit obligations	46,621,222	46,621,222
	73,541,918,018	66,869,581,201
Carrying amount of identifiable net assets acquired	10,178,235,455	10,201,875,904
Results of the acquisitions of above entity are as follows;		
Fair value of consideration paid / Investment	12,291,200,000	12,291,200,000
Carrying amount of identifiable net assets acquired / merged	(10,178,235,455)	(10,201,875,904)
Resulting excess	2,112,964,545	2,089,324,096

Since this business combination is within entities under the common control of the ultimate parent LOLC, no goodwill is recognised and upon the merger, the excess of Rs.2,112,964,545 and 2,089,324,096 was recognised in equity of the Group and Company respectively.

	31-Jan-18 Rs.
36.1 Net cash paid on acquisition of subsidiary	
Consideration paid	12,291,200,000
Net cash acquired	(5,014,985,359)
Net cash paid	7,276,214,641

36.2 Consolidated financial statements

The consolidated statement of profit or loss and other comprehensive income includes the results of the company for the full year and the results of the subsidiary for 2 months after eliminating inter company expenses and income and other consolidation adjustments.

As at the year end, since the subsidiary is merged with the parent a separate consolidated statement of financial position is not presented as the parent's statement of financial position includes the financial position of the subsidiary as at 31-Mar-2018.

Supplementary Financial Information - Islamic Business Unit

Statement of Financial Position

As at 31 March,	Note	2018 Rs.	2017 Rs.
ASSETS			
Cash and bank balances	3	3,039,427,493	315,833,572
Murabaha / Musawamah / Wakala receivables	4	2,728,465,115	2,832,391,243
Diminishing Musharakah receivables	5	5,196,286,714	4,956,192,913
Ijarah rent receivables	6	3,134,812,708	3,231,092,271
Investment securities	7	399,409,123	6,600,000
Other receivables	8	110,710,687	75,591,553
Investment properties	9	22,500,000	18,000,000
Total assets		14,631,611,839	11,435,701,552
LIABILITIES			
Placement from banks & other Financial institutions	10	1,815,169,821	422,353,191
Mudharabah investments		3,956,680,398	4,184,213,235
Wakala investments		5,459,336,084	2,012,478,675
Mudharabah savings		860,562,263	484,831,430
Income tax payable		128,848,958	197,523,144
Accruals and other payables	11	231,660,201	242,768,438
Due to head office	12	155,491,769	2,223,188,604
Total liabilities		12,607,749,495	9,767,356,717
OWNER'S FUND			
Retained earnings		2,023,862,343	1,668,344,835
Total owners fund		2,023,862,343	1,668,344,835
Total liabilities & owners fund		14,631,611,839	11,435,701,552

The above Statement of Financial Position should be read in conjunction with accounting policies and notes, which form an integral part of these special purpose financial statements.

The basis of preparation and notes are given in pages 191 through 201.

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 March,	Note	2018 Rs.	2017 Rs.
Revenue	13	2,476,273,138	2,068,594,983
Profit paid to Mudharabah/Wakala investors		(1,014,111,005)	(558,485,895)
Profit paid on other funding arrangement		(257,720,738)	(315,581,787)
Other direct expenses		(141,530,756)	(137,924,984)
		1,062,910,639	1,056,602,317
Non distributable other income / (expenses)	14	34,250,326	36,065,725
Total operating income		1,097,160,964	1,092,668,042
Employee benefits	15	(131,406,933)	(142,043,509)
(Provision)/reversal for credit losses		(161,112,998)	(45,476,554)
Other operating expenses		(223,801,786)	(257,500,766)
Profit from operations	16	580,839,247	647,647,213
Value added tax on financial services		(96,472,781)	(97,113,745)
Profit before taxation		484,366,466	550,533,468
Income tax expense	17	(128,848,958)	(197,523,144)
Profit for the year		355,517,509	353,010,324
Other comprehensive income		-	-
Total comprehensive income		355,517,509	353,010,324

The above Statement of Profit or Loss should be read in conjunction with accounting policies and notes, which form an integral part of these special purpose financial statements.

The basis of preparation and notes are given in pages 191 through 201.

Supplementary Financial Information - Islamic Business Unit

Statement of Cash Flow

Year ended 31 March,	2018 Rs.	2017 Rs.
Cash Flows From / (Used in) Operating Activities		
Net Profit before Income Tax Expense	484,366,466	550,533,468
Adjustments for:		
Provision for fall/(Increase) in value of investments	1,700,000	400,000
Allowance for/(reversal of) doubtful debts	107,846,898	5,421,914
Provision for payables to clients	-	(3,000,000)
Change in fair value of investment property	2,166,000	(3,000,000)
Investment income	-	-
Profits attributable to investment made from banks & other Financial institutions	257,720,738	596,189,803
Profits attributable to Mudharabah / Wakala investors	1,014,062,221	277,877,880
Operating profit before working capital changes	1,867,862,323	1,424,423,065
Change in other receivables	(35,119,132)	(23,933,257)
Change in trade and other payables	(11,108,236)	(10,411,201)
Change in amounts due to head office	(161,196,834)	195,911,171
Change in Ijarah rent receivables	88,477,979	60,930,263
Change in Murabaha / Musawamah receivables	71,116,953	(230,803,106)
Change in Diminishing Musharaka receivables	(307,329,940)	(6,159,586)
Change in Mudharabah investments from customers	(211,187,022)	(148,701,403)
Change in Wakala investments from customers	3,382,322,357	422,107,909
Change in Mudharabah savings deposits from customers	375,730,833	18,772,652
Cash used in Operations	5,059,569,280	1,702,136,507
Profits paid to Mudharabah / Wakala investors	(965,872,985)	(248,229,405)
Income tax paid	(197,523,144)	(138,217,880)
Net Cash Used in Operating Activities	3,896,173,152	1,315,689,221
Cash Flows from / (Used in) Investing Activities		
Acquisition of Property, Plant & Equipment	(6,666,000)	-
Investments in Unit trust	(394,509,123)	-
Net Cash Flows from Investing Activities	(401,175,123)	-
Cash Flows from / (Used in) Financing Activities		
Proceeds from issuance of new shares	-	-
Net proceeds from banks & other financial institutions	1,343,762,381	390,911,482
Net Proceeds from qurd hassan	(1,906,500,000)	(946,500,000)
Profit paid - other instruments	(208,666,489)	(564,748,095)
Net Cash Flows from Financing Activities	(771,404,107)	(1,120,336,613)
Net Increase/(decrease) in cash and cash equivalents	2,723,593,921	195,352,607
Cash and cash equivalents at the beginning of the period	315,833,572	120,480,965
Cash and cash equivalents at the end of the period	3,039,427,493	315,833,572
Analysis of cash and cash equivalents at the end of the period	3,039,427,493	315,833,572
Cash and bank balances	3,039,427,493	315,833,572

The basis of preparation and notes are given in pages 191 through 201.

Notes to the Supplementary Financial Statements

1. GENERAL

LOLC Finance PLC (formerly known as Lanka ORIX Finance PLC) (the "Company") is a quoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No 42 of 2011 (formerly Finance Companies Act, No. 78 of 1988.)

LOLC Finance PLC has set up the Islamic Business Unit (LOLC Al-Falaah) which commenced its operations in February 2008, under the principles of Islamic economic jurisprudence. It is housed in the head office premises at No. 100/1 Sri Jayewardenepura Mawatha, Rajagiriya.

1.1 Principal activities and nature of business

The principal activities of the IBU comprised of Mudharabah and Wakala (Profit Sharing investments), Diminishing Musharakah (Partnership Financing), Murabaha/Musawamah (Trade Financing), Ijarah (Leasing).

1.2 Basis of Preparation

1.2.1 Statement of compliance

These supplementary financial statements of the IBU are prepared on based on the accounting policies explained in Note 2.

The results of IBU and the financial position of the IBU form part of the financial statements of LOLC Finance PLC which is prepared in accordance with Sri Lanka Accounting Standards. LOLC Finance PLC's primary set of financial statements was authorised for issue by the Board of Directors in accordance with a resolution of the Directors passed on 22 June 2018. Therefore, the isolated financial statements of the IBU should be read in conjunction with the LOLC Finance PLC's primary set of financial statements.

These Financial Statements include the following components:

- a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the IBU for the year under review;
- a Statement of Financial Position providing the information on the financial position of the IBU as at the year-end;
- a Statement of Cash Flows providing the information to the users, on the ability of the IBU to generate cash and cash equivalents and the needs of the IBU to utilise those cash flows; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

Details of the company's accounting policies are included in Note 2

1.2.2 Basis of Measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis
Non-derivative financial instruments at fair value through profit or loss	Fair value
Investment property	Fair value

No adjustments have been made for inflationary factors affecting the Financial Statements.

The Company presents its statement of financial position broadly in order of liquidity.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

1.2.2 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.2.3 Going Concern

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

1.2.4 Comparative information

The accounting policies have been consistently applied by the IBU and are consistent with those used in the previous period. Comparative information has not been reclassified or restated.

1.3 Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the IBU operates (the functional currency).

These financial statements are presented in Sri Lankan Rupees, the Company's functional and presentation currency.

There was no change in the company's presentation and functional currency during the year under review.

All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

1.4 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with the described accounting policies requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimate and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The respective carrying amounts of assets and liabilities are given in the related Notes to the financial statements.

Critical Accounting estimate / judgment	Disclosure reference
	Note
Fair value measurement of financial instruments and investment properties	1.4.1
Impairment losses on facilities and advances	1.4.2
Provisions for liabilities and contingencies	1.4.3

1.4.1 Fair Value Measurement

A number of the Company's (LOLC Finance PLC including the IBU) accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Group CFO.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant judgements used in valuation and issues that arises are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

1.4.2 Impairment Losses on Facilities and Advances

In addition to the provisions made for possible loan losses based on the parameters and directives for specific provisions on loans and advances by the Central Bank of Sri Lanka, the IBU reviews its loans and advances portfolio at each reporting date to assess whether a further allowance for impairment should be provided in the statement of profit or loss. The judgements by the management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors though actual results may differ, resulting in future changes to the provisions.

1.4.3 Provisions for liabilities and contingencies

The IBU receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.1 Financial assets and financial liabilities

2.1.1 Non-derivative financial assets

2.1.1.a Initial recognition of financial assets

Date of recognition

The IBU initially recognises receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the IBU becomes a party to the contractual provisions of the instrument.

Initial measurement of financial Assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss.

Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the statement of profit or loss.

2.2.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories:

- financial assets at fair value through profit or loss;
- held-to-maturity financial assets;
- loans and receivables; and
- available- for-sale financial assets.

2.2.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in statement of profit or loss as incurred.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of profit or loss.

Financial assets designated at fair value through profit or loss comprises of quoted equity instruments.

Held-to-maturity financial assets

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold it to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held to-maturity financial assets are measured at amortised cost.

The IBU has not classified any instrument as held to maturity.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost.

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, Ijarah receivables, Murabaha, Musawamah and Diminishing Musharaka receivables and other receivables.

- Cash and cash equivalents

  Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the IBU in the management of its short-term commitments.

- Ijarah receivables

  The LOLC Finance PLC's IBU buys and lease out equipment required by its clients for a fee (Rental). The duration of the lease and value of the rental is agreed in advance. Ownership of the asset will remain with the Company till the end of the lease period. Rent receivables on Ijarah advances reflected in the statement of financial position are the total rent receivables after eliminating unearned income and deducting pre-paid rentals, rental collections and provision for impairment losses.

- Murabaha, Musawamah and Diminishing Musharakah receivables

  Murabaha/Musawamah to customers with fixed installments are stated in the statement of financial position net of provision for impairment losses and income, which is not accrued to revenue.

  Diminishing Musharakah to customers is reflected in the statement of financial position at amounts disbursed less repayments and provision for doubtful debts.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for sale equity instruments, are recognised in other comprehensive income and presented within equity in the available for sale reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the statement of profit or loss.

The IBU has not classified any instrument as available for sale.

2.1.2 Non-derivative financial liabilities

Classification and Subsequent Measurement of Financial Liabilities

The IBU initially recognises non-derivative financial liabilities on the date that they are originated.

The IBU classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

Other financial liabilities comprise of Mudharabah deposits, Wakala deposits, trade payables, accruals & other payables and amounts due to head office.

Profit Payable to the Mudharabah Investors

Profits payable are recognised on accrual basis and are credited to Investors' accounts when the profit is distributed on a monthly basis on or before the 10th of the following month.

2.1.3 Derecognition of financial assets and financial liabilities

Financial assets

The IBU derecognises a financial asset when the rights to receive cash flows from the asset have expired or the IBU has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either.

(a) The IBU has transferred substantially all the risks and rewards of the asset, or

(b) The IBU has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

(i) The consideration received (including any new asset obtained less any new liability assumed) and

(ii) Any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The IBU derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

2.1.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.1.5 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, plus the cumulative income, minus principal repayments, minus any reduction for impairment.

2.1.6 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Determination of fair value

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

2.1.7 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the IBU on terms that the IBU would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the IBU, economic conditions that correlate with defaults or the disappearance of an active market for a security.

The IBU computes its impairment on receivables in accordance with Direction No. 03 of 2006 of the Finance Business Act No.42 of 2011 as follows;

- Fifty percent (50%) of Ijarah receivables, Murabaha/Musawamah advances & Diminishing Musharakah advances receivable (net of unearned income) which are in arrears for a period of 06 to 12 months.
- One hundred percent (100%) of Ijarah lease, Murabaha/Musawamah advances & Diminishing Musharakah advances receivable (net of unearned income) which are in arrears for a period of 12 months and more.

Additional specific provisions are made upon management review on the performance of these portfolios.

Balance receivables on any terminated contracts are fully provided.

The values of the following items held as collateral for a particular advance have been deducted in arriving at the above provisions.

- Vehicles that have been repossessed by the Company

  Eighty per cent (80%) of the valuation obtained during the preceding six months from a professional valuer approved by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

- Lands & Buildings

  The value of the property on a declining basis based on the age of the facility, in case of a primary mortgage. Such value shall not exceed the value decided by a qualified professional valuer at the time of providing the accommodation.

2.2 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Determining Fair value

An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the company's investment property portfolio annually.

2.3 Employee benefits

2.3.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.3.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

2.4 Provisions

A provision is recognised if, as a result of a past event, the IBU has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

2.5 Events occurring after the reporting date

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

2.6 Benevolent Loan (Qurd Hassan)

Qurd Hassan is a loan or debt extended which is absolutely free from interest or any charges. The borrower is only required to repay the principal amount borrowed, but it may pay an additional amount at its discretion, as a token of appreciation.

The Company extends Qurd Hassan to the IBU as and when required and the IBU settles those when funds are available.

SIGNIFICANT ACCOUNTING POLICIES –RECOGNITION OF INCOME AND EXPENSES

2.7 Revenue Recognition

2.7.1 Murabaha/Musawamah Income

The profits and losses arising from Murabaha/Musawamah transactions are recognised over the term of the facility, commencing from the month in which the facility is executed.

2.7.2 Ijarah Income

Profits and losses arising from Ijarah assets are recognised over the term of the lease, commencing from the month in which the lease is executed so as to yield a constant periodic rate of return on Ijarah assets.

2.7.3 Diminishing Musharakah Income

Profits and losses arising from Diminishing Musharakah are recognised in the accounting period in which the installments are due.

2.7.4 Profit in Suspense

Profit from advances classified as non-performing is accounted for on cash basis. Income falling due on non-performing advances is credited to profit in suspense account.

2.7.5 Fees and other income

Fees and other income that are integral to the financial asset or liability are included in the measurement of the amortised cost.

Other fees and other income, including account servicing fees are recognised as the related services are performed.

Collections on contracts written off are accounted for on cash basis.

2.7.6 Dividends

Dividend income is recognised when the right to receive income is established.

2.8 Expenditure Recognition

Expenses are recognised in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

Expenses incurred by the IBU for which a fee is charged from the customers, has been presented net of the related income.

2.8.1 Value Added Tax (VAT) on financial services

The base for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on the prescribed rate.

The VAT on financial service is recognised as expense in the period it becomes due.

2.8.2 Nation Building Tax on financial services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services.

2.9 Income Tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Inland Revenue. The rate and tax laws used to compute the amount are those that are enacted or substantially enacted as at the statement of financial position date. Accordingly, provisions for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with provisions of Inland Revenue Act No. 10 of 2006 and amendments thereto.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date and any adjustments to tax payable in respect of previous years.

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.10 Cash flow statements

The cash flow statement has been prepared using the indirect method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.11 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as investment properties.

Supplementary Financial Information - Islamic Business Unit

Notes to the Supplementary Financial Statements

As at 31 March,	2018 Rs.	2017 Rs.
3. CASH AND BANK BALANCES		
Cash & bank balances	3,039,427,493	315,833,572
	3,039,427,493	315,833,572
4. MURABAHA / MUSAWAMAH / WAKALA RECEIVABLES		
Installment receivable	3,140,709,931	3,209,917,602
Unearned income	(367,329,238)	(371,263,043)
Income in suspense	(6,626,097)	(1,422,196)
Provision for credit losses	(38,289,481)	(4,841,120)
	2,728,465,115	2,832,391,243
5. DIMINISHING MUSHARAKA RECEIVABLES		
Installment receivable	5,334,126,060	4,999,695,860
Income in suspense	(42,987,008)	(15,886,748)
Provision for credit losses	(94,852,338)	(27,616,199)
	5,196,286,714	4,956,192,913
6. IJARAH RECEIVABLES		
Rent receivables	4,196,061,457	4,226,927,403
Unearned income	(1,037,946,411)	(985,695,056)
Income in suspense	(6,692,732)	(1,332,053)
Provision for credit losses	(16,609,607)	(8,808,023)
	3,134,812,708	3,231,092,271
7. INVESTMENTS HELD FOR TRADING		
Expo Lanka Holdings PLC		
Cost (1,000,000 shares)	18,000,000	18,000,000
Carrying amount as at 1st April	6,600,000	7,000,000
Adjustment for change in fair value - recognised in profits	(1,700,000)	(400,000)
Carrying amount as at 31st March	4,900,000	6,600,000
Investment in Unit Trusts		
Original cost	335,000,000	-
Carrying amount as at 1st April	-	-
Investments during the year	1,500,000,000	-
Disposal during the year	(1,165,000,000)	-
Adjustment for change in fair value - recognised in profits	59,509,123	-
Carrying amount as at 31st March	394,509,123	-
Total investments held for trading	399,409,123	6,600,000

As at 31 March,	2018 Rs.	2017 Rs.
8. OTHER RECEIVABLES		
Staff car advances	20,940,707	22,900,478
Insurance premium receivable	18,796,517	19,263,197
Accrued profit for Mudarabah deposits	39,041,044	-
WHT receivable	10,952,193	-
Others	20,980,225	33,427,879
	110,710,687	75,591,553
9. INVESTMENT PROPERTIES		
Balance as at 1st April	18,000,000	15,000,000
Additions to Investment Properties from foreclosure of contracts	-	-
Change in fair value	4,500,000	3,000,000
Balance as at 31 March	22,500,000	18,000,000
10. PLACEMENT FROM BANKS & OTHER FINANCIAL INSTITUTIONS		
10.1 Long-term borrowings		
Balance at the beginning of the year	-	-
Facility obtained during the year (ICD)	1,520,000,000	-
Repaid during the year	-	-
Balance at the end of the year	1,520,000,000	-
Profit Payable	30,315,738	
	1,550,315,738	-
10.2 Ijarah Sukuk Bond		
Balance at the beginning of the year	405,027,061	-
Sukuk obtained during the year	-	500,000,000
Repaid during the year	(176,237,619)	(94,972,939)
Balance at the end of the year	228,789,442	405,027,061
Profit Payable	36,064,641	17,326,130
	264,854,083	422,353,191
Liability recognised in statement of financial position	1,815,169,821	422,353,191

Supplementary Financial Information - Islamic Business Unit

Notes to the Supplementary Financial Statements

As at 31 March,	2018 Rs.	2017 Rs.
11. ACCRUALS AND OTHER PAYABLES		
Lease equipment creditors	84,913,336	54,521,631
Refunds payable	54,251,239	104,328,094
Insurance payable	6,784,878	15,613,306
IBU charity fund	1,690,486	3,432,829
Other miscellaneous creditors	59,648,315	-
WHT payable	1,970,349	-
Other payables	22,401,598	64,872,578
	231,660,201	242,768,438
12. DUE TO HEAD OFFICE		
Loan from Head Office	-	-
Qurd hassan	-	1,906,500,000
Current account balance due to head office	155,491,769	316,688,604
	155,491,769	2,223,188,604

Year ended 31 March,	2018 Rs.	2017 Rs.
13. REVENUE		
Income from Ijarah receivables	705,179,750	593,485,358
Income from Diminishing Musharaka receivables	930,980,429	843,847,036
Income from Murabaha/Musawamah receivables	598,503,207	595,254,330
Profit on terminations	58,717,318	35,684,525
Income from Mudarabah deposits	125,083,311	323,734
Profit on Unit trust	57,809,123	-
	2,476,273,138	2,068,594,983
14. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)		
Takaful commission	2,968,502	26,653,279
Franchise Fee	29,531,334	-
Others	1,750,490	9,412,446
	34,250,326	36,065,725
15. EMPLOYEE BENEFITS		
Salaries & other benefits	131,406,933	142,043,509
	131,406,933	142,043,509

Year ended 31 March,	2018 Rs.	2017 Rs.
16. PROFIT FROM OPERATION		
Stated after charging		
Advertising	8,112,490	6,231,428
Business promotion expenses	53,753,578	52,797,630
17. INCOME TAX EXPENSE		
Income tax is provided at 28% of the taxable profits computed in accordance with the inland revenue act No 10 of 2006 (and amendments thereto)	128,848,958	197,523,144
Placement from banks & other !financial institutions	128,848,958	197,523,144

18. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date no circumstances have arisen which would require adjustments to, or disclosure in the financial statements.

Financial Information for last ten years

Statement of Financial Position

As at	31.03.2018 Rs'000	31.03.2017 Rs'000	31.03.2016 Rs'000	31.03.2015 Rs'000	31.03.2014 Rs'000	31.03.2013 Rs'000	31.03.2012 Rs'000	31.03.2011 Rs'000	31.03.2010 Rs'000	31.03.2009 Rs'000
ASSETS										
Cash and bank balances	11,323,366	4,924,112	3,497,994	2,975,305	3,236,380	3,061,190	2,100,865	812,035	1,209,590	340,452
Deposits with banks and other financial institutions	26,346,552	14,161,567	10,206,771	761,095	466,476	414,634	846,457	-	143,295	1,519,769
Investment in government securities	10,871,768	7,853,176	8,397,496	5,900,718	4,936,822	3,378,980	1,442,826	2,136,000	3,149,302	804,718
Derivative assets	133,541	23,840	98,163	2,740	13,572	1,936	211,713	19,560	-	-
Rentals receivable on leased assets	43,605,124	18,408,733	17,243,862	13,150,376	10,836,503	11,452,172	11,018,808	4,332,440	1,249,074	865,496
Hire purchases, loans and advances	96,897,095	55,484,081	53,335,175	36,647,329	28,828,435	25,547,021	21,901,827	16,442,747	7,639,397	2,828,155
Factoring receivable	10,638,755	16,524,638	13,598,601	6,200,202	3,279,931	3,198,685	-	-	-	-
Margin trading receivables	175,570	94,825	85,597	293,712	123,408	-	-	80	8,845	51,070
Other receivables	1,122,496	1,071,661	694,055	639,352	1,418,033	357,943	576,261	322,055	193,431	252,418
Investments in shares	1,965,299	324,629	1,083,471	8,843	9,043	7,143	6,200	18,000	-	-
Amount due from related companies	32,909	224,506	3,271	2,883	5,930	75,649	77,067	150,867	3,042	6,382
Inventories	9,078	-	-	-	12,080	-	13,629	-	-	-
Real estate stock	-	-	-	-	-	2,598	16,449	16,262	22,930	28,996
Investment properties	6,278,187	906,300	930,200	1,142,800	215,173	71,500	71,500	71,500	91,990	91,990
Property plant and equipment	1,714,491	2,621,022	1,210,407	136,545	50,143	-	-	-	5,882	14,668
Total assets	211,114,232	122,623,092	110,385,065	67,861,900	53,431,929	47,569,453	38,283,601	24,321,546	13,716,775	6,804,114
LIABILITIES										
Bank overdraft	4,243,170	2,393,316	1,941,608	2,333,062	1,136,163	2,201,599	989,189	501,515	270,443	89,083
Interest bearing borrowings	70,490,432	24,456,314	35,070,152	11,040,028	823,838	5,981,573	5,042,010	627,024	1,101,812	-
Deposits from customers	110,027,420	80,607,115	60,197,201	41,309,960	42,617,800	32,069,049	25,843,130	17,899,089	10,129,683	5,303,921
Trade payables	1,593,496	677,878	637,850	645,905	328,986	434,517	211,163	685,144	146,223	18,312
Accruals and other payables	2,388,376	1,620,968	1,018,603	822,441	494,314	685,456	166,034	114,229	414,390	211,056
Derivative liabilities	482,464	18,978	17,859	57,515	8,104	40,097	-	7,597	-	-
Amount due to related companies	1,497,000	434,259	996,781	2,453,097	649,310	135,056	806,442	734,560	332,565	191,879
Current tax payable	813,718	268,932	309,888	434,426	282,718	178,418	175,447	72,999	11,176	869
Deferred tax liability	2,402,219	1,102,058	984,741	761,420	548,718	415,508	318,112	115,014	39,864	12,770
Employee benefits	70,303	17,018	12,249	10,450	8,008	4,550	4,729	2,881	2,325	1,667
Total liabilities	194,008,598	111,596,835	101,186,931	59,868,304	46,897,960	42,145,823	33,556,256	20,760,052	12,448,482	5,829,558
SHAREHOLDER'S FUNDS										
Stated capital	7,880,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	1,000,000	800,000
Statutory reserve	1,996,724	1,556,439	1,239,075	953,677	879,497	679,438	542,182	293,024	43,805	24,470
Investment fund reserve	241,528	206,230	-	-	391,850	287,762	157,146	39,539	-	-
Cash flow hedge reserve	(6,333)	14,237	22,748							
Available for sale investment reserve	(7,166)	(115,485)	(160,154)	86,037	109,793	(2,117)	(12,126)	-	-	-
Retained earnings	7,000,882	7,364,836	6,096,465	4,953,882	3,152,829	2,458,547	2,040,144	1,228,931	224,488	150,086
Total equity	17,105,634	11,026,257	9,198,134	7,993,596	6,533,970	5,423,630	4,727,346	3,561,494	1,268,293	974,556
Total liabilities and equity	211,114,232	122,623,092	110,385,065	67,861,900	53,431,929	47,569,453	38,283,601	24,321,546	13,716,775	6,804,114

2011-2018 Statement of Financial Position is prepared based on LKAS/SLFRS. Prior periods are prepared based on SLAS's.

Statement of Profit or Loss

For the year ended	31.03.2018 Rs'000	31.03.2017 Rs'000	31.03.2016 Rs'000	31.03.2015 Rs'000	31.03.2014 Rs'000	31.03.2013 Rs'000	31.03.2012 Rs'000	31.03.2011 Rs'000	31.03.2010 Rs'000	31.03.2009 Rs'000
Interest income	21,899,346	18,489,741	13,137,597	10,871,227	10,515,811	8,457,606	5,971,895	3,113,150	1,661,049	1,111,044
Interest expense	(13,902,137)	(11,459,273)	(6,499,475)	(4,978,312)	(6,125,280)	(4,950,845)	(2,994,344)	(1,760,124)	(1,291,259)	(895,305)
Net interest income	7,997,209	7,030,467	6,638,122	5,892,915	4,390,531	3,506,761	2,977,550	1,353,026	369,790	215,740
Net other operating income	3,735,457	2,348,653	1,245,509	1,269,831	971,589	496,871	336,063	1,504,257	530,738	260,619
Direct expenses excluding interest cost	(1,047,933)	(1,311,408)	(911,717)	(428,892)	(297,539)	(121,899)	(89,569)	(97,481)	(34,447)	(53,590)
Allowance for impairment & write-offs	(3,709,288)	(1,329,042)	(1,568,576)	(1,497,302)	(1,371,346)	(1,237,473)	(72,433)	(155,634)	(208,476)	(79,253)
Personnel expenses	(1,370,493)	(1,424,495)	(1,100,550)	(897,364)	(687,106)	(548,439)	(469,514)	(309,594)	(111,076)	(63,899)
Depreciation	(173,817)	(148,246)	(32,717)	(12,166)	(3,823)	-	-	(2,048)	(2,093)	(5,744)
General & administration expenses	(2,997,554)	(2,624,517)	(1,974,524)	(1,860,447)	(1,390,608)	(970,659)	(811,042)	(666,374)	(296,040)	(149,389)
Profit from operations	2,433,582	2,541,412	2,295,547	2,466,575	1,611,698	1,125,162	1,871,055	1,626,151	248,396	124,484
Value added tax on financial service	(348,841)	(364,835)	(275,891)	(240,226)	(169,274)	(129,822)	(179,921)	(137,285)	(49,581)	(21,312)
Profit before tax	2,084,740	2,176,577	2,019,656	2,226,349	1,442,423	995,340	1,691,134	1,488,866	198,815	103,172
Income tax expense	116,686	(589,759)	(592,663)	(742,767)	(442,124)	(309,060)	(512,125)	(242,773)	(105,078)	(37,138)
Profit for the year	2,201,426	1,586,818	1,426,993	1,483,582	1,000,299	686,280	1,179,009	1,246,093	93,738	66,034

2011-2018 Statement of Financial Position is prepared based on LKAS/SLFRS. Prior periods are prepared based on SLAS's.

Quarterly Statement of Profit or Loss and other Comprehensive Income

For the year ended	2017/18					2016/17				
	Quarter Ended				Year Ended	Quarter Ended				Year Ended
	30-Jun-17 Rs '000	30-Sep-17 Rs '000	31-Dec-17 Rs '000	31-Mar-18 Rs '000	31-Mar-18 Rs '000	30-Jun-16 Rs '000	30-Sep-16 Rs '000	31-Dec-16 Rs '000	31-Mar-17 Rs '000	31-Mar-17 Rs '000
Interest income	5,100,534	5,426,821	5,701,750	5,670,241	21,899,346	3,905,494	4,559,667	4,939,727	5,084,852	18,489,741
Interest expense	(3,375,716)	(3,494,679)	(3,593,201)	(3,438,541)	(13,902,137)	(2,451,739)	(2,795,555)	(3,036,668)	(3,175,312)	(11,459,273)
Net interest income	1,724,818	1,932,141	2,108,549	2,231,700	7,997,209	1,453,756	1,764,112	1,903,060	1,909,540	7,030,467
Net other operating income	808,519	815,251	897,805	1,213,882	3,735,457	520,834	569,273	529,801	728,745	2,348,653
Direct expenses excluding interest cost	(483,335)	(491,625)	(339,055)	266,081	(1,047,933)	(290,872)	(345,012)	(393,166)	(282,359)	(1,311,408)
Allowance for impairment & write-offs	(210,844)	(814,703)	(1,081,778)	(1,601,962)	(3,709,288)	(179,184)	(286,456)	(349,312)	(514,090)	(1,329,042)
Personnel expenses	(371,865)	(382,283)	(394,927)	(221,418)	(1,370,493)	(315,454)	(313,352)	(318,399)	(477,290)	(1,424,495)
Depreciation	(43,747)	(43,511)	(44,232)	(42,327)	(173,817)	(25,372)	(37,772)	(40,744)	(44,358)	(148,246)
General & administration expenses	(758,708)	(590,883)	(790,168)	(857,795)	(2,997,554)	(612,621)	(756,732)	(733,980)	(521,184)	(2,624,517)
Profit from operations	664,838	424,388	356,195	988,161	2,433,582	551,088	594,061	597,260	799,003	2,541,412
Value added tax on financial service	(110,193)	(93,223)	(56,491)	(88,933)	(348,841)	(66,401)	(74,076)	(85,391)	(138,966)	(364,835)
Profit before tax	554,645	331,164	299,703	899,228	2,084,740	484,686	519,986	511,869	660,037	2,176,577
Income tax expense	(155,301)	(109,834)	(16,259)	398,080	116,686	(161,730)	(128,531)	(168,358)	(131,141)	(589,759)
Profit for the year	399,344	221,329	283,444	1,297,307	2,201,426	322,956	391,455	343,511	528,896	1,586,818

Quarterly Statement of Financial Position

As at	2017/18				2016/17			
	As at 30.06.2017 Rs '000	As at 30.09.2017 Rs '000	As at 31.12.2017 Rs '000	As at 31.03.2018 Rs '000	As at 30.06.2016 Rs '000	As at 30.09.2016 Rs '000	As at 31.12.2016 Rs '000	As at 31.03.2017 Rs '000
ASSETS								
Cash and bank balances	9,305,046	8,919,082	9,845,394	11,323,366	2,231,421	2,816,466	3,254,231	4,924,112
Deposits with banks and other financial institutions	4,033,586	11,134,555	12,341,612	26,346,552	11,927,388	9,990,938	10,240,499	14,161,567
Investment in government securities & others	14,972,925	8,318,664	8,032,749	10,871,768	8,470,198	9,251,846	11,771,232	7,853,176
Derivative assets	22,090	3,744	2,206	133,541	46,597	13,190	4,171	23,840
Rentals receivable on leased assets	18,883,375	20,293,715	22,269,647	43,605,124	17,692,284	18,273,407	18,405,469	18,408,733
Hire purchases, loans and advances	55,198,370	57,965,419	58,281,982	96,897,095	56,845,573	60,799,485	58,308,286	55,484,081
Factoring receivable	16,354,825	15,677,433	13,676,925	10,638,755	14,639,355	16,730,096	17,393,713	16,524,638
Margin trading receivables	99,311	215,267	224,272	175,570	90,057	91,213	91,720	94,825
Other receivables	1,147,774	1,180,789	954,121	1,122,496	858,736	886,093	1,350,927	1,071,661
Investment securities	2,184,654	7,613,860	9,356,323	1,965,299	1,002,571	73,168	72,768	324,629
Amount due from related companies	97,247	50,926	230,583	32,909	36,956	7,832	182,686	224,506
Inventories	-	-	-	9,078				
Investment properties	911,184	1,840,817	4,782,779	6,278,187	930,200	937,004	914,032	906,300
Property plant and equipment	2,562,345	1,638,049	1,573,221	1,714,491	1,669,804	2,023,424	2,185,880	2,621,022
Total assets	125,772,732	134,852,320	141,571,815	211,114,232	116,441,140	121,894,162	124,175,614	122,623,092
LIABILITIES								
Bank overdraft	2,752,849	3,190,001	3,631,465	4,243,170	1,654,211	1,682,358	1,428,432	2,393,316
Interest bearing borrowings	18,962,390	16,730,585	16,684,577	70,490,432	34,019,178	33,337,796	33,565,387	24,456,314
Deposits from customers	88,082,336	98,506,818	104,402,484	110,027,420	66,585,880	69,173,908	74,223,766	80,607,115
Trade payables	605,422	1,146,429	947,490	1,593,496	659,155	825,059	843,440	677,878
Accruals and other payables	1,733,035	1,319,986	1,607,592	2,388,376	1,421,100.00	1,421,239	1,569,211	1,620,968
Derivative liabilities	55,897	85,688	98,658	482,464	30,427	69,543	57,085	18,978
Amount due to related companies	546,350	461,350	627,855	1,497,000	1,087,051	3,809,040	590,958	434,259
Current tax payable	414,232	504,067	401,894	813,718	436,617	525,148	610,487	268,932
Deferred tax liability	1,102,058	1,102,058	1,102,058	2,402,219	984,741	984,741	984,741	1,102,058
Employee benefits	17,018	17,018	16,548	70,303	12,810	12,707	12,371	17,018
Total liabilities	114,271,587	123,064,000	129,520,619	194,008,598	106,891,170	111,841,539	113,885,878	111,596,835
SHAREHOLDERS' FUNDS								
Stated capital	2,000,000	2,000,000	2,000,000	7,880,000	2,000,000	2,000,000	2,000,000	2,000,000
Statutory reserve	1,556,439	1,556,439	1,556,439	1,996,724	1,239,075	1,239,075	1,239,075	1,556,439
Revaluation Reserve	206,230	206,230	206,230	241,528	-	-	-	206,230
Cash flow hedge reserve	(4,265)	(19,850)	(3,664)	(6,333)	(2,741)	18,076	5,803	14,237
Available for sale investment reserve	(21,439)	59,991	23,237	(7,166)	(105,785)	(15,404)	(109,529)	(115,485)
Retained earnings	7,764,180	7,985,510	8,268,955	7,000,882	6,419,421	6,810,876	7,154,387	7,364,836
Total equity	11,501,145	11,788,320	12,051,196	17,105,634	9,549,970	10,052,623	10,289,736	11,026,257
Total liabilities and equity	125,772,732	134,852,320	141,571,815	211,114,232	116,441,140	121,894,162	124,175,614	122,623,092

Investor Information

Shareholding as at 31 March

	2018		2017	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Resident	4,193,928,657	99.85	2,796,141,060	99.86
Non Resident	6,071,343	0.15	3,858,940	0.14
Total	4,200,000,000	100.00	2,800,000,000	100.00

Top 20 Shareholders

		2018		2017	
		No. of Shares	% Shares	No. of Shares	% Shares
1	Hatton National Bank PLC/ Lanka ORIX Leasing Company PLC	2,624,448,000	62.49	249,632,000	8.92
	Lanka ORIX Leasing Company PLC	1,160,473,531	27.63	2,180,368,000	77.87
	Lanka ORIX Leasing Company PLC A/C No. 02	135,000,000	3.21	90,000,000	3.21
2	Saakya Capital (Pvt) Ltd	128,045,234	3.05	128,045,234	4.57
3	Satya Capital (Pvt) Ltd	52,000,000	1.24	52,000,000	1.86
4	Capital Alliance Holdings Limited	18,747,044	0.45	28,000,000	1.00
5	Dr. R.R.De Silva	11,371,515	0.27	11,371,515	0.41
6	National Savings Bank	4,550,000	0.11	4,550,000	0.16
7	Mr. D. Kotthoff	4,419,406	0.11	2,200,000	0.08
8	Deutsche Bank AG as Trustee to Astrue Alpha Fund	2,074,000	0.05	Nil	Nil
9	Dr. A. R. Wikramanayake	1,688,500	0.04	1,688,500	0.06
10	Mr. S. V. Somasunderam	1,500,000	0.04	1,500,000	0.05
11	Bansei Securities Capital (Pvt) Ltd/ Mr. A.Nissanka	1,300,800	0.03	1,300,800	0.05
12	Mr. L.A.J.F. Morais	1,181,128	0.03	1,111,449	0.04
13	Hatton National Bank PLC/ S R Nadaraj Kumar	1,165,633	0.03	1,200	0.00
14	Mrs. D.P. Pieris	1,000,000	0.02	1,000,000	0.04
15	Mr. P.M.M. Pieris	1,000,000	0.02	1,000,000	0.04
16	Peoples Leasing & Finance PLC/ Hi Line Trading (Pvt) Ltd	862,164	0.02	452,994	0.02
17	Sezeka Limited	818,900	0.02	Nil	Nil
18	Sampath Bank PLC/ Mr D K L Chandrasena	807,753	0.02	Nil	Nil
19	Colombo Trust Finance PLC/ R Collom	781,905	0.02	Nil	Nil
20	Mr A. W.A.L Dharmaprema	750,012	0.02	800,012	0.03
		4,153,985,525	98.90	2,756,020,504	98.43

Public shareholding

Information pertaining to public shareholding as at 31st March 2018 is as follows:

	31-Mar-18	31-Mar-17
Public holding percentage	6.59%	10.00%
Number of public shareholders	2,810	2,733
Float adjusted market capitalisation	1,079,432,909	728,000,000

The Company is not compliant with the minimum public holding requirement stipulated in the Listing Rule 17.13.1.(b) (Option 1) of the Colombo Stock Exchange. This arose consequent to the rights issue made by the Company in March 2018 and the subscription by the public shareholders was less than their entitlement.

The Board of Directors of the Company is in the process of evaluating options in this regard.

Analysis of Ordinary Shares as at 31 March

Range	2018 No. of Shareholders	2018 No. of Shares	2018 % of Shares	2017 No. of Shareholders	2017 No. of Shares	2017 % of Shares
1 - 1,000	1,343	523,633	0.01	1,302	529,242	0.02
1,001 - 10,000	903	3,759,824	0.09	951	3,944,777	0.14
10,001 - 100,000	384	13,819,900	0.33	387	14,059,172	0.50
100,001 - 1,000,000	114	33,931,852	0.81	92	27,059,222	0.97
Over 1,000,000 Shares	15	4,147,964,791	98.76	15	2,754,407,587	98.37
Total	2759	4,200,000,000	100.00	2747	2,800,000,000	100.00

Highest, Lowest and Closing Share Prices as at 31 March

	2018 Rs.	2017 Rs.
Highest	4.30	3.50
Lowest	2.10	1.90
Closing	3.90	2.20

STATEMENT OF VALUE ADDED

	2017/18 Rs.	2016/17 Rs.
Value added		
Income	21,899,345,941	18,489,740,700
Other Income	3,735,456,817	2,348,653,257
Cost of Borrowing	(13,902,136,761)	(11,459,273,390)
General and administration Expenses	(4,045,487,064)	(3,935,924,848)
Allowance for impairment & write-offs	(3,709,287,962)	(1,329,042,113)
	3,977,890,971	4,114,153,605
Distribution of value added		
To Employees	1,370,492,906	1,424,495,490
Remuneration and other benefits	1,370,492,906	1,424,495,490
To Government	232,155,256	954,594,114
Indirect Taxes	348,841,403	364,834,951
Direct Taxes	(116,686,147)	589,759,163
To Expansion and Growth	2,375,242,809	1,735,064,001
Retained Profits	2,201,426,289	1,586,817,994
Depreciation and amortisation	173,816,520	148,246,007
	3,977,890,971	4,114,153,605

Other Disclosures

1) PROPERTY HELD BY THE COMPANY

	Location	Extent		Valuation	Number of Buildings
1	Keselwatta, Panadura	0A-0R-25P	LKR	22,500,000	-
2	Telwala, Rathmalana	0A-0R-20P	LKR	85,000,000	1
3	Hendala, Wattala	0A-0R-9P	LKR	7,200,000	-
4	Idama, Moratuwa	0A-0R-14.85P	LKR	30,000,000	3
5	Wewala, Piliyandala	0A-0R-20P	LKR	6,000,000	-
6	Gothatuwa	0A-3R-35P	LKR	54,000,000	-
7	Wikremasingepura, Battaramulla	0A-3R-33.83P	LKR	75,000,000	-
8	Colombo 8 - Shady grove	0A-0R-35.75P	LKR	400,000,000	1
9	Kosgoda	9A-0R-00.00P	LKR	200,000,000	-
10	Thalahena	0A-1R-28.52P	LKR	45,220,000	2
11	Panadura	0A-1R-15.05P	LKR	72,881,000	-
12	Horana	0A-3R-06.83P	LKR	76,000,000	-
13	Badulla	0A-1R-19.15P	LKR	98,480,527	1
14	Mannar	0A-0R-23.3P	LKR	14,000,000	-
15	Mathugama	0A-2R-26.50P	LKR	142,000,000	1
16	Beruwala	0A-1R-06.00P	LKR	69,000,000	1
17	Jethawana	0A-2R-18.70P	LKR	505,547,500	1
18	Nawala 2nd lane	0A-0R-08.70P	LKR	89,000,000	-
19	Thumbowila, Piliyandala	0A-0R-30.50P	LKR	64,304,000	-
20	Rathnapura	0A-0R-32.69P	LKR	86,767,500	-
21	Rajagiriya land (Valuation Unit)	0A-1R-12.50P	LKR	537,611,700	-
22	Grandpass, Colombo 14	4A-3R-8.06P	LKR	1,631,138,000	-
23	Bluemendhal, Colombo 13	1A-3R-16.5P	LKR	444,750,000	-
24	Kiribathgoda	0A-0R-30.57P	LKR	86,000,000	1
25	Watinapaha pannala	19A-0R-35.85P	LKR	1,999,000	-
26	Ebert silva, chilaw	0A-0R-40.0P	LKR	61,309,000	-
27	Horana	0A-0R-10.1P	LKR	25,479,000	-
28	Nawala (Factoring Building)	0A-2R-13.96P	LKR	412,000,000	1
29	Kaluwamodara, Beruwala	0A-1R-22.55P	LKR	84,000,000	-
30	Wellampitiya	5A-0R-03.11P	LKR	722,000,000	1
31	Land & building - Cotta road	0A-0R-10P	LKR	129,000,000	1
				6,278,187,226	

2) NON-RECURRENT RELATED PARTY TRANSACTIONS

Name of the related party	Relationship	Nature of the transaction	Aggregate Value of the related party transactions entered into during the financial year (Rs.)	Value of the related party transactions as a % of equity	Value of the related party transactions as a % of total assets	Terms & conditions of the related party transactions
Lanka ORIX Leasing Company PLC	Parent	Acquisition of LOLC Micro Credit Ltd	9,832,960,000	89.18%	8.02%	Arms length transaction to acquire subsidiary under financial sector consolidation plan
			9,832,960,000	89.18%	8.02%	

3) RECURRENT RELATED PARTY TRANSACTIONS

Name of the related party	Relationship	Nature of the transaction	Aggregate Value of the related party transactions entered into during the financial year (Rs.)	Value of the related party transactions as a % of Net Revenue	Terms & conditions of the related party transactions
Lanka ORIX Leasing Company PLC	Parent	Shared Expenses (including VAT)	2,733,487,540	20.1%	Transactions took place under commercial terms in the ordinary course of business
		Other transactions with the Parent			
		Net Funds granted by the parent during the year (excluding opening balance)	1,751,985,594	12.9%	
		Asset hire charges	136,767,302	1.0%	
		Interest on re-red refinancing	2,056,302	0.0%	
		Treasury management fee	302,180,525	2.2%	
		Royalty	383,740,297	2.8%	
		Fund transfer interest	185,147,786	1.4%	
			5,495,365,346	40.3%	

4) DEBENTURE INFORMATION

ICRA Lanka Ltd upgraded the credit rating of the above debentures to [SL]A- with stable outlook from [SL]BBB+ with stable outlook during the financial year 2015/16 and reaffirmed during this financial year as [SL]A-(Stable).

Interest rates of the debentures

Instrument type	Interest frequency (Fixed Rate)	Coupon (% p.a)	Interest yield as at last trade	Yield to maturity of last trade done	Interest rate of comparable Government Security
Type A - 5 Years Tenor	Quarterly	9.00%	9.91%	11.30%	10.06%
Type B - 5 Years Tenor	Semi Annually	9.10%	9.10%	9.10%	10.06%
Type C - 5 Years Tenor	Annually	9.25%	9.25%	9.25%	10.06%

Market prices & issue prices of debentures recorded during the period ended 31st March 2018 are as follows.

Instrument Type	Issue Price	Highest Price	Lowest Price	Last Traded Price	Last Traded Date
Type A - 5 Years Tenor	Rs.100.00	Rs. 90.84	Rs. 90.84	Rs. 90.84	18-Apr-17
Type B - 5 Years Tenor	Rs.100.00	Not Traded	Not Traded	Not Traded	N/A
Type C - 5 Years Tenor	Rs.100.00	Not Traded	Not Traded	Not Traded	N/A

Debt security related ratios.

Instrument Type	As at 31.03.2018	As at 31.03.2017
Debt to equity ratio	10.8 times	9.75 times
Quick asset ratio	0.78 times	0.85 times
Interest cover	1.14 times	1.19 times

Other Disclosures

5) SELECTED PERFORMANCE INDICATORS

Regulatory Capital Adequacy	31.03.2018	31.03.2017
Total Tier I Core Capital (Rs. '000)	16,864,106	10,805,790
Total Capital Base (Rs. '000)	18,445,618	13,178,058
Core capital adequacy ratio (Minimum requirement 5%)	10.15%	10.91%
Total capital adequacy ratio (Minimum requirement 10%)	11.10%	13.31%

Asset Quality Ratios	31.03.2018	31.03.2017
Gross Non-Performing Advances Ratio	3.87%	4.41%
Net Non-Performing Advances Ratio	1.12%	0.44%

Regulatory Liquidity	31.03.2018	31.03.2017
Available Liquid Assets (Rs. '000)	26,016,200	11,996,053
Required Liquid Assets (Rs. '000)	16,947,163	9,558,509
Liquid assets to Deposits ratio	23.65%	14.88%

Branch Network

Branches	LIOC Centres	Al-Falaah IB Centres	Cash Collection Centres	Savings Centres
Ambalangoda	Aluthgama	Akkaraipattu	Akkaraipattu	Polonnaruwa Royal
Ambalanthota	Pilimathalawa	Akurana	Anamaduwa	Fathima College Colombo
Ampara	Thalawakale	Kalmunai	Bandarawela	D.S.Senanayake Model Primary School- Anuradhapura
Anuradhapura		Kattankudi	Bulathsinghala	Pitiyagedara Primary School, Bemmulla
Aralaganvila		Oddamawadi	Chenkaladi	LOMO
Avissawella			Giriulla	LOLC Insurance
Badulla			Godakawela	LOFAC
Balangoda			Beddegana	
Batticaloa			Ingiriya	
Chilaw			Kalmunai	
Chunnakkam			Kinniya	
City Branch			Kalawanchikudi	
Dambulla			Melsiripura	
Dehiattakandiya			Muttur	
Dehiwala			Padiyathalawa	
Digana			Pothuvil	
Divulapitiya			Rikillagaskada	
Elpitiya			Weligama	
Embilipitiya			Welikanda	
Galle			Weliweriya	
Gampaha			Wilgamuwa	
Hatton			Eheliyagoda	
Head Office			Galenbindunuwewa	
Homagama			Galewela	
Horana			Galnewa	
Ja-Ela			Kantale	
Jaffna			Padaviya	
Kaduwela			Ruwanwella	
Kalutara			Akuressa	
Kandy			Baduraliya	
Kegalle			Bibila	
Kekirawa			Dickwella	
Kilinochchi			Galgamuwa	
Kiribathgoda			Gampola	
Kochchikade			Ganemulla	
Kohuwala			Hanwella	

Branch Network

Branches	LIOC Centres	Al-Falaah IB Centres	Cash Collection Centres	Savings Centres
Kollupitiya			Hingurakgoda	
Kuliyapitiya			Horowpathana	
Kurunegala			Kaburipitiya	
Maharagama			Medirigiriya	
Mahiyanganaya			palaviya	
Mannar			Sooriyaweva	
Maradana			Tangalle	
Matale			Valachcheni	
Matara			Walasmulla	
Mathugama			Warakapola	
Medawachchiya			Wellawaya	
Monaragala				
Morawaka				
Mount Lavinia				
Muleitivu				
Nawalapitiya				
Negombo				
Nelliadi				
Neluwa				
Nikawaratiya				
Nittambuwa				
Nuwara Eliya				
Panadura				
Pelmadulla				
Pettah				
Mawanella				
Piliyandala				
Polonnaruwa				
Rathnapura				
Rajagiriya - Cotta				
Thabuttegama				
Trincomalee				
Thissamaharamaya				
Udappuwa				
Vavuniya				
Wellawatte				
Wattala				

Notes

Notice of Meeting

NOTICE IS HEREBY GIVEN THAT THE 17TH ANNUAL GENERAL MEETING of LOLC Finance PLC will be held on 28th September, 2018 at 11.00 a.m. at the LOLC auditorium, 100/1 Sri Jayawardenapura Mawatha, Rajagiriya for the following purposes:

1) To receive and consider the Annual Report and Financial Statements for the year ended 31st March, 2018, with the Report of the Auditors thereon.
2) To re-elect as Director Mr. B C G de Zylva, who retires in terms of Article 70 of the Articles of Association of the Company.
3) To re-elect as Director Mr. R D Tissera, who retires in terms of Article 70 of the Articles of Association of the Company.
4) To re-elect as Director Mr. A Nissanka, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
5) To re-elect as Director Mrs. K U Amarasinghe, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
6) To re-appoint as Auditors M/s Ernst and Young, Chartered Accountants at a remuneration to be fixed by the Directors.
7) To authorise the Directors to make donations.

BY ORDER OF THE BOARD
LOLC Finance PLC

LOLC Corporate Services (Private) Limited
Secretaries

15th August 2018
Rajagiriya (in the greater Colombo)

NOTE:

1) A member entitled to attend and vote at the Meeting is entitled to appoint a Proxy to attend and vote instead of him/her. A Proxy need not be a member of the Company.
2) The completed Form of Proxy should be deposited at the registered office of the Company, 100/1, Sri Jayawardenapura Mawatha Rajagiriya, not later than 11.00 a.m. on 26th September, 2018.
3) A Form of Proxy accompanies this Notice.

Form of Proxy

I/We ....

Of .... being

a member/members of the above named Company hereby appoint ....

....

of .... whom failing

Mr. Brindley Chrishantha Gajanayaka de Zylva	of Colombo or failing him
Mr. Ravindra Dhammika Tissera	of Colombo or failing him
Mrs. Kalsha Upeka Amarasinghe	of Colombo or failing her
Mrs. Dayangani Priyanthi Pieris	of Colombo or failing her
Mr. Panamulla Arachchige Wijeratne	of Colombo or failing him
Mr. Ashan Nissanka	of Colombo

as my/our proxy to represent me/us and vote on my/our behalf at the 17th Annual General Meeting of the Company to be held on 28th September, 2018 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid Meeting.

		For	Against
1)	To re-elect as Director Mr. B C G de Zylva, who retires in terms of Article 70 of the Articles of Association of the Company.		
2)	To re-elect as Director Mr. R D Tissera, who retires in terms of Article 70 of the Articles of Association of the Company.		
3)	To re-elect as Director Mr. A Nissanka, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.		
4)	To re-elect as Director Mrs. K U Amarasinghe, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.		
5)	To re-appoint as Auditors M/s Ernst and Young, Chartered Accountants at a remuneration to be fixed by the Directors.		
6)	To authorise the Directors to make donations.		

dated this .... day of .... Two Thousand eighteen

....

Signature of Shareholder

NOTE:

1) a proxy need not be a member of the company

2) Instruction as to completion appear on the reverse hereof

Form of Proxy

INSTRUCTIONS AS TO COMPLETION

1 Please return the completed Form of Proxy after filling in legibly your full name and address, signing on the space provided and filling in the date of signature.

2 The completed Form of Proxy should be deposited at the registered office of the Company, 100/1 Sri Jayawardenapura Mawatha, Rajagiriya not less than 48 hours before the time appointed for the holding of the Meeting.

Corporate Information

Name of the Company

LOLC Finance PLC

Country of Incorporation

Sri Lanka

Date of Incorporation

13th December 2001

Legal Form

A quoted public company with limited liability

Company Registration No.

PB 244 PQ

Stock Exchange Listing

The ordinary shares of the Company were listed on the Diri Savi Board of the Colombo Stock Exchange on 7th July 2011.

Credit Rating

ICRA Lanka assigned the company an issuer rating of (SL) A (Stable outlook).

Registered Office and Head Office

No. 100/1, Sri Jayawardenepura Mawatha, Rajagiriya
Tel: 011 5880880
Fax: 011 2865606
Website: http://www.lankaorix.com
Swift: LOFCKLC

Directors

Mr. B C G de Zylva - Non Executive Chairman – appointed with effect from 23.04.2018

Mr. R D Tissera – Executive Deputy Chairman – appointed with effect from 23.04.2018

Mrs. K U Amarasinghe – Executive Director

Mrs. D P Pieris –Senior Independent Director

Mr. P A Wijeratne - Independent Director – appointed with effect from 26.05.2017

Mr. A Nissanka – Executive Director/ CEO

Mr. I C Nanayakkara – Deputy Chairman – resigned with effect from 14.05.2018

Dr. H Cabral PC – Chairman/Non Executive Director – resigned with effect from 02.02.2018

Justice R K S Suresh Chandra - Independent Director – retired with effect from 03.07.2017

Secretaries

LOLC Corporate Services (Private) Limited
100/1 Sri Jayawardanapura Mawatha
Rajagiriya
Tel: 011 5880354/7 - 0115 880880 (general)

Auditors

Ernst & Young, Chartered Accountants

Lawyers

Julius & Creasy, Attorneys-at-Law

Nithya Partners

Registrars

PW Corporate Secretarial (Private) Ltd
No. 3/17 Kynsey Road, Colombo 8.
Tel: 011 4897733-5

Principal Activities

During the year the principal activities of the Company comprised Finance Business, Finance leasing, Islamic Finance, Foreign Currency Business including Worker Remittances, issue of Payment Cards, Money Changing Business and provision of Advances for Margin Trading in the Colombo Stock Exchange.

Bankers

Nations Trust Bank PLC
Citi Bank N.A.
Commercial Bank of Ceylon PLC
NDB Bank PLC
Bank of Ceylon
Seylan Bank PLC
MCB Bank
Deutsche Bank
Hatton National Bank PLC
Pan Asia Bank PLC
Hong Kong & Shanghai Banking Corporation
Sampath Bank PLC
DFCC Bank
Peoples Bank
Cargills Bank Limited
Union Bank of Colombo PLC

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