Synergised. Energised.

LOLC FINANCE

LOLC FINANCE PLC | Annual Report 2018/19

Synergised. Energised.

Powerful partnerships for future value

This year, LOLC Finance is pleased to announce that we have successfully completed our acquisition of the LOLC Group's micro credit company, LOLC Micro Credit Ltd. - a strategic move that transformed LOLC Finance into Sri Lanka's largest Non-Bank Financial Institution with a total asset base of over Rs. 200 billion.

We believe that the power and reach of the new company will be virtually limitless, as it now possesses an even more diverse product and service offering and a depth of talent and technology which combines with the vast resources of the LOLC Group and its numerous funding partners to give LOLC Finance a position of unmatched strength and stability in a very competitive industry sector.

Your company has always believed in the importance of strategic alliances and purposeful collaborations and this corporate merger sees us synergised, energised and revitalised, as we forge a multiplicity of new and powerful partnerships designed to deliver growing and sustainable value now and into the future.

ABOUT THIS REPORT

Report Profile

This is the first Integrated Report prepared by LOLC Finance PLC. The Report seeks to demonstrate the commitment made by the Company to be transparent in the disclosure of all its business activities and provide a balanced view of how value is created for shareholders and other stakeholders of LOLC Finance PLC.

Scope and Boundary

The report covers the activities of LOLC Finance PLC for the financial year ended 31st March 2019 and includes balanced and objective disclosures about the Company's financial performance, risks and opportunities and future prospects. The data presented in the report is based on information provided by the Company's senior management and various business units.

Reporting Framework

In the interest of greater transparency, we have also strived to align with the International Integrated Reporting Council (IIRC) reporting framework as much as possible. The progress made in this regard is illustrated in the Capital Management Reports on page 44 through 58 of this report.

Forward-Looking Statements

As part of its narrative, the report refers to plans for the future which reflect the Company's position and beliefs as at the time of writing. However, we recognise that we operate in a changing environment and hence, there are uncertainties or new developments that could cause actual results or actions to differ from those stated in these forward-looking statements. Therefore, forward-looking statements should not be interpreted as a guarantee of results or of the course of action that will be taken.

Assurance

All information, data and statistics contained herein have been thoroughly reviewed by the Management and the Board of Directors LOLC Finance PLC, to confirm the accuracy and completeness of information and verify the adherence to Company policies.

Feedback and Queries

To help us improve our reporting frameworks and ensure transparency, we welcome feedback and questions on this report. Any such feedback and queries should be directed to:

info@lolcfinance.com

Scan the QR Code with your smart device to view this report online
www.lolcfinance.com

Chairman's Review

Deputy Chairman/CEO Review

Financial Capital

Social and Relationship Capital

Human Capital

Intellectual Capital

Natural Capital

Manufactured Capital

Contents

KEY HIGHLIGHTS OF THE YEAR

			2019	2018
Financial Highlights	New Executions	Rs. million	87,172	71,354
	Net Interest Income	Rs. million	21,772	9,916
	Profit Before Tax	Rs. million	7,108	2,085
	Profit After Tax	Rs. million	5,963	2,201
	Net Assets	Rs. million	22,767	17,106
	Total Value Added	Rs. million	11,827	3,978
	Market Capitalisation	Rs. million	13,020	16,380
	Value Added Per Employee	Rs. million	4.55	1.66
	Per Share			
	Market Value	Rs.	3.10	3.90
	Net Assets	Rs.	5.42	5.98
	Earnings	Rs.	1.42	0.77
Social Highlights	Total Staff	Number	2,461	2,165
	Total Training Investment	Rs. million	17	32
	Total Training Hours	Hours	49,125	35,660
	Number of Female Employees	Number	421	347
	New Recruits	Number	615	404

Rs.21.7Bn
Net Interest Income

Rs.7.1Bn
Profit Before Tax

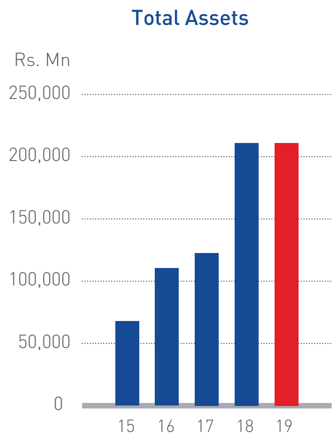
Rs.22.7Bn
Net Assets

Rs.17Mn
Total Training Investment

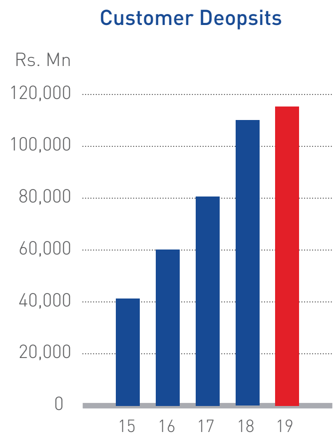
2,461
Total Staff

49,125
Total Training Hours

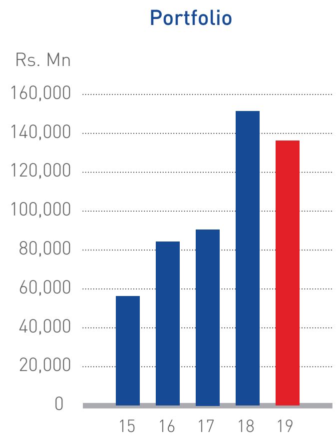
OPERATIONAL HIGHLIGHTS



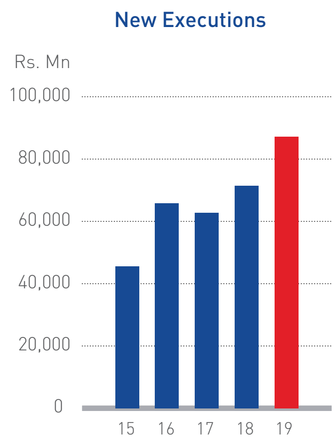
Rs.211Bn



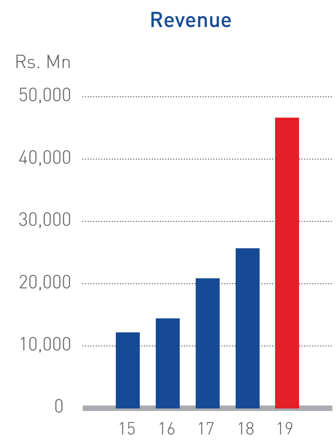
Rs.115Bn



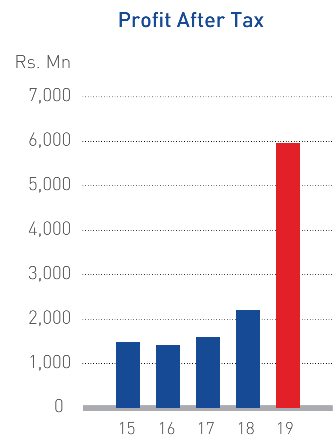
Rs.136Bn



Rs.87.1Bn



Rs.46.6Bn



Rs.5.9Bn

Personalised. Organised.

About Us

OVERVIEW

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.

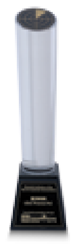
MISSION

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



LankaPay Technnovation Awards

LOLC Finance secured the Award for the Best Financial Institution of the Year for Customer Convenience.

LankaPay Technnovation Awards

LOLC Finance was crowned as the Overall Winner for Excellence in Interbank Payments in the Financial Institutions category.

LankaPay Technnovation Awards

LOLC Finance was awarded the Merit award for the Best Application for Retail Payments.

LankaPay Technnovation Awards

iPay awarded as the Runner-up of the Best Application for Retail Payments.

SLT Zero One Awards

LOLC Finance awarded the Best Website in the Financial Sector category.

SLT Zero One Awards

iPay bestowed with the 1st Runner Up Award in the Financial Industry under the Best Digital Enabled Product / Service Category.

e-Swabhimani Awards

iPay awarded the Juror's Distinction Award in the category of Business & Commerce.

LankaPay Technnovation Awards

iPay awarded as the Winner of the Most Popular Electronic Payment Product.

Mcash digital loans

The International Business Magazine awarded the LOLC Finance Digital Loan via mCash as the Best Digital Finance Partnership Sri Lanka and the Most Innovative Digital Financing Product Sri Lanka for 2018.

IFN Awards

LOLC Al-Falaah awarded the Best Islamic Bank in Sri Lanka and the Best Islamic Leasing Provider at the 14th Annual IFN Best Banks Poll 2018.

SLASSCOM Innovation Summit & Awards

iPay awarded the Best Technology or Framework Innovation.

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.

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.

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.

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.

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.

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.

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.

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 Centre at Fathima Muslim Ladies College, Colombo 12.

MILESTONES

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.

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 in the '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.

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.

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.

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.

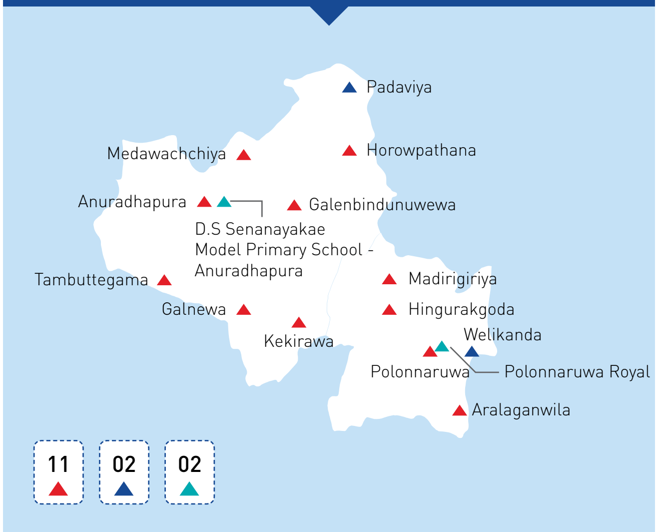
2018/19

- LOLC Finance Eheliyagoda branch relocated to No.93, Main street Eheliyagoda
- LOLC Finance Galgamuwa branch was relocated to No.343, Anuradhapura road, Galgamuwa
- LOLC Finance Grandpass branch relocated to No.339, Grandpass Road, Colombo 14
- LOLC Finance Kalmunai branch relocated to 299, Akkraipattu Road, Kalmunai
- LOLC Finance Mathugama branch relocated to No. 108/1, Kalutara Road, Mathugama
- The LOLC Finance Kilinochchi branch relocated to the VMS Building, Karadipokku, A9 Road, Kilinochchi
- The LOLC Finance Thalawakele branch relocated to No. 136, Nuwara-Eliya Road, Thalawakele
- LOLC Finance Suriyawewa branch relocated to 6737, Main Street, Suriyawewa
- LOLC Finance Credit Cards launched to the public with the launch of the mass media advertising campaign.
- LOLC Finance and Mobitel joined hands to offer 'Digital Loans' for the first time ever in Sri Lanka via Mobitel's mCash platform.
- LOLC Finance won multiple awards at the LankaPay Technnovation Awards 2018. The Company was crowned as the Overall Winner for Excellence in Interbank Payments in the Financial Institutions Category and bagged the Runner-up Award in the same category. LOLC Finance also won the Merit award for the Best Application for Retail Payments.
- LOLC Finance wins key awards at the SLT Zero One awards including Best Website for LOLC Finance under the Financial Services category.
- LOLC Al-Falaah secures top-spots at the IFN Best Banks Global Awards 2018.

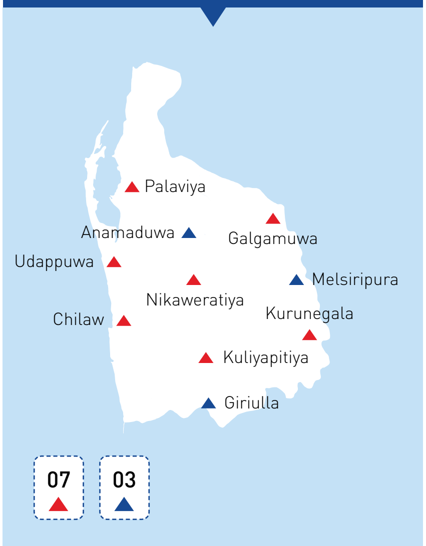
BRANCH NETWORK

Northern Province

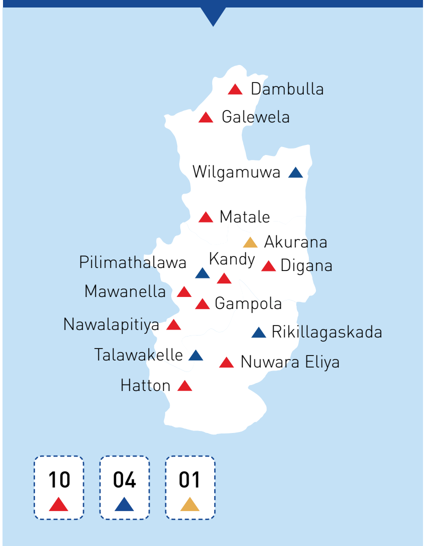
North Central Province



North-Western Province



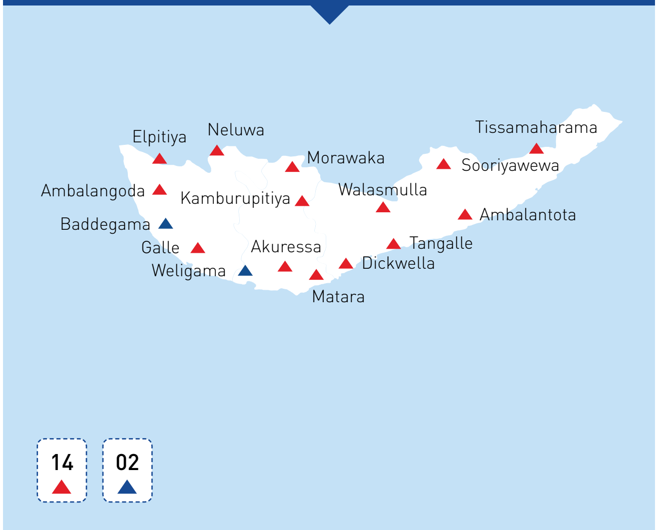
Central Province



Sabaragamuwa Province

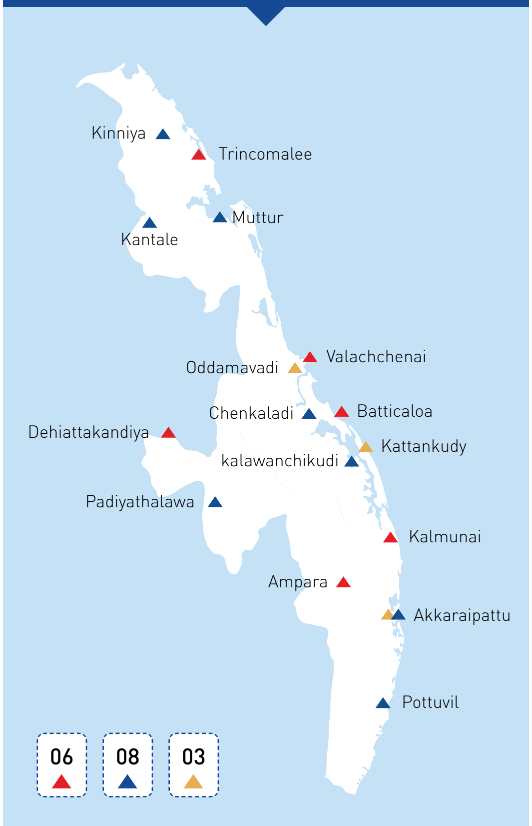
Our presence across the island continues to reinforce and strengthen our commitment to our customers; driving change and transforming Sri Lankans from all walks of life.

Southern Province

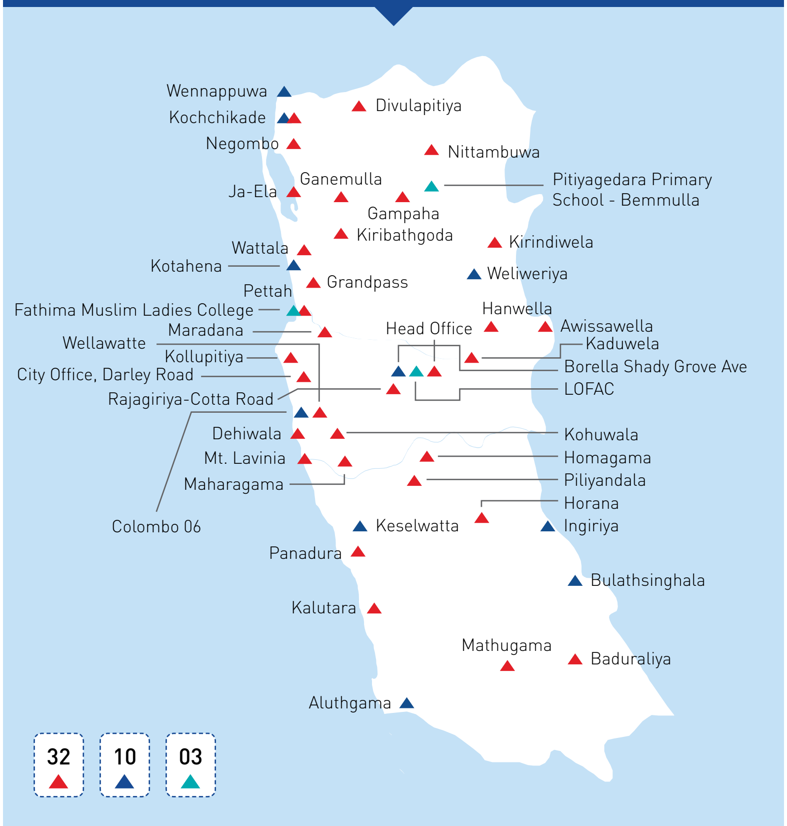


Uva Province

Eastern Province



Western Province



as at 31st March

- LOLC Finance Branches
- LOLC Finance Savings Centres
- LOLC Finance Service Centres
- LOLC Finance, Al-Falaah Branches / LOLC Finance, Al-Falaah Service Centres

BOARD OF DIRECTORS

Mr. B C G de Zylva
Non-Executive Chairman

Mr. R D Tissera
Deputy Chairman/CEO

Mrs. K U Amarasinghe
Executive Director

Mr. A Nissanka
Executive Director

Mr. B C G de Zylva
Non-Executive Chairman

The Chairman of the Boards of LOLC Finance PLC and LOLC (Cambodia) PLC, and the Managing Director of LOLC Myanmar Micro-Finance Company Limited. Prior to joining the LOLC Group, he served the Non-Bank Financial Services Industry (NBFI) in Sri Lanka in both Licensed Finance Companies and Specialised Leasing Companies holding Board and General Management positions. He counts over 35 years of experience in the NBFI sector including the micro finance industry in Sri Lanka, Myanmar and Cambodia.

Mr. R D Tissera
Deputy Chairman/CEO

Mr. Ravi Tissera joined the LOLC Group in 1993 and currently serves as Deputy Chairman/CEO of LOLC Finance PLC (LOFC), the largest Non-Bank Financial Institution in Sri Lanka.

Mr. Tissera, a Development Finance Specialist with a Post Graduate Diploma in Marketing, is a member of the Chartered Institute of Marketing UK. He has followed Strategic Leadership Training in Microfinance at Harvard Business School.

Mr. Tissera introduced microfinance to the LOLC Group and was the founder Director/CEO of LOLC Micro Credit Ltd., Sri Lanka's largest microfinance provider, certified on Client Protection Principles from the SMART Campaign USA. He also has expanded LOLC's microfinance operation outside Sri Lanka in Myanmar, Cambodia and Pakistan.

He is also on the Boards of LOLC Development Finance PLC, Sundaya Lanka (Pvt) Ltd. and LOLC Mauritius Holdings Limited.

Mr. Tissera was appointed to the Board of Seylan Bank PLC as Alternate Director to Mr. W D K Jayawardena in April 2018.

Mrs. D P Pieris
Senior Independent Director

Mr. P A Wijeratne
Independent Director

Mr. K Sundararaj
Independent Director

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 LOLC Holdings PLC.

Other key appointments: Director – LOLC Holdings 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 Green Paradise (Pvt) Ltd., Sun & Fun Resorts Ltd. Browns Holdings Ltd., Danya Capital (Pvt) Ltd. and Ultimate Sports (Pvt)Ltd.

Mr. A Nissanka
Executive Director

Ashan Nissanka is an Executive Director of LOLC Finance PLC and previously functioned as the Director/Chief Executive Officer from 2015-2018. He currently serves on the Board of LOLC Philippines Corporation and spearheads the Group's international operations in Philippines, Africa and South America.

Joined LOLC in 1998 and counts over 26 years of experience in the banking and finance sector with expertise in strategic marketing planning, development and management of the retail channels.

Ashan holds an MBA from Edith Cowan University, Australia, a Graduate Diploma from Chartered Institute of Marketing – UK (CIM) and a Certified Management Accountant from Institute of Certified Management Accountants Australia. He currently serves as a Council member of the Institute of Certified Management Accountants Australia (CMA-Australia), a Board Member of the Leasing Association of Sri Lanka (LASL) and a member of Sri Lanka Institute of Marketing (SLIM).

Mrs. D P Pieris
Senior Independent Director

Mrs. Dayangani Priyanthi Pieris is an Attorney-at-Law of the Supreme Court of Sri Lanka and a Solicitor of England & Wales.

She counts over 38 years experience in the fields of corporate/securities law. She has a wide experience in handling corporate restructuring, privatisations, capital market transactions and take-overs and mergers.

She serves on the Boards of Asia Asset Finance PLC, LOLC Finance PLC, Abans Electricals PLC, Associated Electrical Corporation Ltd., MTN Corporate Consultants (Pvt) Ltd. and the Chairperson / Consultant of

BOARD OF DIRECTORS

P W Corporate Secretarial (Pvt) Ltd., a company providing Secretarial and Registrars Services to a large number of companies listed on the Colombo Stock Exchange.

She 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 Motorway Ltd.

Mrs. Pieris served as the Legal Adviser to the Ministry of Finance from 2002 to 2004 and as Legal Consultant to the Colombo Stock Exchange from 2004 to 2011. She also serves as a member of the Committee set up by the Securities and Exchange Commission of Sri Lanka to recommend amendments to the Company Takeovers and Mergers Code1995 (as amended) and a member of the Committee, recommending amendments to the Rules on 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, public debt management and administration as an ex Officio of the Central Bank of Sri Lanka. He joined CBSL in 1987 and worked in the Finance, Public Debt Management and Internal Audit departments 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 read for his MSc in Accounting and Financial Economics at the University of Essex, UK.

Mr. K Sundararaj
Independent Director

Mr. Kandiah Sundararaj counts over 26 years experience in accounting, auditing and tax consulting. He started his career as a Chartered Accountant in 1998 and is currently serving as the Tax Partner in M/s Amarasekera and Company, Chartered Accountants.

Mr. Sundararaj is a fellow member of the Institute of Chartered Accountants of Sri Lanka and holds a Master of Business Administration in Finance from the University of Colombo.

CORPORATE MANAGEMENT

Pradeep Uluwaduge
Chief Human Resource Officer - LOLC Group

Solomon Jesudason
Chief Officer - Marketing Operations

Buddhika Weeratunga
Head of Finance

Dilum Mahawatta
Compliance Officer

Sanjaya Kalidasa
GM, Treasury

Indika Ariyawansa
AGM, Credit Risk Management

Sanjaya Samarasekera
AGM, Credit Risk Management

Chandana Jayanath
Chief Operating Officer, Recoveries

Montini Warnakula
Chief Operating Officer

CORPORATE MANAGEMENT

Charith Jagoda
DGM, Microfinance

Gayantha Weerakoon
DGM, Enterprise Risk Management

Suresh Amarasekara
Head of IT – Financial Services

Roshani Weerasekera
Head of Liability Management

Hasala Thilakaratne
Head of Consumer & Digital Marketing Business & Credit Cards

OPERATIONAL MANAGEMENT TEAM

Susaan Bandara
Chief Officer, Marketing Communications - LOLC Group

Gayani de Silva
Chief Officer, Customer Relationship Management - LOLC

Gunendra Jayasena
Chief Administration Officer - LOLC Group

Jithendra Gunatilake
Head of Finance Operations - LOLC

Mehra Mendis
DGM, Fleet Management Services - LOLC

Indunil Herath
DGM, North Western & North Central II Regions

Gamini Jayaweera
DGM Northern & North Central Regions

Nalaka Mohotti
DGM, Southern & Sabaragamuwa Regions

Shantha Rodrigo
DGM, Central Region

OPERATIONAL MANAGEMENT TEAM

Shiraz Refai
DGM, Al-Falaah Islamic Business Unit

Yanik Fernando
DGM Eastern & Uva Regions

Sudarshani De Almeida
AGM, Marketing Operations

Amarasi Gunasekara
AGM, Strategic Business Research & Development

Raveendrini Seneviratne
Company Secretary

Thomas Ponniah
Deputy Regional Head - Metro I

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

Johnny Coilpillai
Deputy Regional Head - Metro II

Balachandran Suthaharan
Deputy Regional Manager - North I

Romaine Baptiste
Chief Manager - Human Resources

Dinesh Jayakody
Deputy Regional Head, Western II & North Western Regions

Individualised. Revolutionised.

Executive Reviews

CHAIRMAN'S REVIEW

Dear Shareholder,

It gives me great pleasure to present to you the Annual Report and Financial Statements for the year ended 31st March 2019.

Macro-economic Review

The vulnerability of the Sri Lankan economy to global and domestic disturbances became increasingly visible in 2018, with a modest expansion in real economic activity amidst a low inflation environment during the year. Real GDP growth was recorded at 3.2% in 2018, compared to 3.4% in the previous year. This growth was largely supported by services activities and the recovery in agriculture activities. The growth of the services sector was particularly supported by the expansion in financial services activities during 2018.

In order to address the widening trade deficit, the Central Bank implemented a series of measures to curb non-essential imports which included the tightening loan-to-value ratios on selected types of lending.

Amidst tight liquidity conditions and the tight monetary policy stance that was maintained until April 2018, most market lending and deposit interest rates of commercial banks remained high in both nominal and real terms during 2018. Tight liquidity conditions amidst continued high demand for credit caused lending rates of commercial banks to remain high in 2018.

Financial Sector Developments

The financial sector recorded a moderate expansion in 2018 amidst challenging market conditions, both globally and domestically. The growth of the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector slowed in 2018, with the decline in credit growth and profitability during the year.

The benefits of the merger with LOLC Micro Credit Limited were evident in the increase of the Return on Assets to 2.83% and Return on Equity to 29.91% from 1.59% and 18.10% respectively.

Lending activities of the sector decelerated mainly due to recent fiscal and macro prudential policy measures, which were taken to curtail the imports of motor vehicles and credit facilities for purchasing vehicles. The profitability of the sector declined during the year mainly due to increased funding cost and higher loan loss provisions made against NPLs. The Central Bank continued to strengthen the supervisory and regulatory framework of LFCs and SLCs and took action to revive or close down weak LFCs.

Credit quality of the banking sector and the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector deteriorated considerably during 2018 with increased non-performing loans and advances compared to 2017. The challenging global and domestic market conditions, unfavourable weather conditions in 2017 and slowdown of economic activities in 2018 contributed significantly to the deterioration of quality of credit. Further, overall performance of LFCs and SLCs sector slowed down significantly during 2018 due to low credit growth, declining profitability and increasing nonperforming loans.

Summary of Financial Results

During the year ended 31st March 2019, your Company reported a net profit after tax of Rs. 5.96 billion. This increase in profits from the Rs. 2.2 billion recorded during the previous year is the result of merger with LOLC Micro Credit Limited at the beginning of the year. Total Assets remained at Rs. 211 billion due to prudent loan origination policies. However, it is crucial to note that your Company was not spared the deterioration of credit quality in the Banking and Non-Banking Financial

Prudent loan origination measures with emphasis on recoveries will be the key to maintaining profitability in challenging market conditions.

Rs.5.96Bn
Net Profit after Tax

Rs.211Bn
Total Assets

2.83%
Return on Assets

29.91%
Return on Equity

Services sectors. The slippage of NPAs continued during the year to settle at 6.75%. Your Company is maintaining a heightened focus on recoveries to manage the quality of the portfolio.

The benefits of the merger with LOLC Micro Credit Limited were evident in the increase of the Return on Assets to 2.83% and Return on Equity to 29.91% from 1.59% and 18.10% respectively.

Looking Ahead

We look to the year ahead with cautious optimism, heightened cost management and the use of digital financial services as a key to see through the downturn in the economy. Prudent loan origination measures with emphasis on recoveries will be the key to maintaining profitability in challenging market conditions.

Appreciation

I take this opportunity to thank my colleagues on the Board, for their guidance and leadership, the Executive Deputy Chairman/CEO, Executive Director and the all employees across the LOLC Group who have supported the Company's success with their hard work and commitment.

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

DEPUTY CHAIRMAN/CEO REVIEW

Let me begin my review by touching on what is perhaps one of the most noteworthy milestones in LOLC Finance PLC's 18-year history - the merger between LOLC Finance and LOLC Micro Credit Ltd., which was finalised on 31st March 2018. The move makes LOLC Finance Sri Lanka's biggest Non-Bank Financial Institution with a combined asset base of over Rs. 200 billion as at 01st April 2019. More importantly, the collaboration creates the momentum for LOLC Finance to move forward as a more "synergised and energised" organisation in the years ahead.

Completing the first full year under this new template, LOLC Finance made good progress on every front to further cement its position as the largest financial services institution in Sri Lanka.

Financial Results

I am pleased to announce that despite the turbulent operating environment, your Company tabled exceptional financial results for the FY 2018/19 and also succeeded in maintaining its market leading position within the non-bank financial industry. I attribute these achievements to the resilience of our business model as well as the public trust in the LOLC Finance brand.

I am pleased to announce that despite the turbulent operating environment, your Company tabled exceptional financial results for the FY 2018/19 and also succeeded in maintaining its market leading position within the non-bank financial industry. I attribute these achievements to the resilience of our business model as well as the public trust in the LOLC Finance brand.

Operating Environment

Before I proceed to sum up our operating performance for the FY 2018/19, I believe it is important to provide some clarity regarding the immediate operating environment which influenced our growth strategies for the year.

The year 2018 was an exceptionally challenging one, by far the toughest in recent times. Sri Lanka's economic growth slowed yet again, in turn affecting the growth prospects of several key sectors. The SME segment was particularly badly hit, leading to a widespread increase in NPLs across the financial services sector. The LTV ruling, the restrictions on vehicle imports as well as the depreciation of the Rupee, all contributed to lowering the demand for unregistered vehicles, especially the higher capacity vehicles, in turn bringing pressure on the NBFI (Non-Bank Financial Services) sector's core lending model. To add to this, the high AWLR throughout the year had a bearing on the general demand for credit.

Meanwhile, the Microfinance business too encountered some notable challenges; most significantly the Debt Relief Scheme announcing the governments' decision to write off Microfinance loans granted to customers in 12 drought-hit districts. What was most disturbing about this directive was the lack of clarity that led to an immediate escalation in customer defaults which left the Microfinance industry reeling amidst rising NPL's.

Amidst this backdrop, LOLC Finance adopted a market-based approach towards achieving growth objectives of our key business lines.

Lending

With the demand for most unregistered vehicles on the downward trend, we realigned the strategic thrust of our lending business and redirected our efforts towards promoting lower engine capacity vehicles. Targeting the wider mainstream market, we began offering special leasing packages for smaller capacity vehicles. At the same time, we also began focusing on making inroads

Adopting a prudent approach towards new lending activities the overarching priority was loan quality rather than quantity. Towards this end, we began focusing only on short term asset-backed lending. To support this effort our flagship "Speed Draft" product was revamped with the tenure reduced to 2 years.

Rs.47Bn
Total Revenue

Rs.7.1Bn
Profit Before Tax

Rs.87Bn
New Execution

Rs.115Bn
Customer Deposits

into the unregistered vehicle market, while renewed emphasis was placed on deepening the penetration into the commercial vehicle space, particularly in the Northern and North Central regions of the country where we observed a significant demand.

Meanwhile, with our key customer segment-the SME sector constrained by weak economic conditions, we focused on consolidating our lending book. Adopting a prudent approach towards new lending activities the overarching priority was loan quality rather than quantity. Towards this end, we began focusing only on short term asset-backed lending. To support this effort our flagship "Speed Draft" product was revamped with the tenure reduced to two years, while new collateral and repossession requirements were introduced to safeguard the Company against default risk. Our internal credit evaluation architecture was also further strengthened to take cognisance of the customer's credit risk profile.

In order to further diversify our asset-backed lending approach, we relaunched our Gold Loan proposition through the 140 LOLC Finance branches within the current financial year.

Microfinance

After a solid start to the year, the Microfinance business came under pressure following the announcement of the Debt Relief Scheme in mid-2018. Admittedly the second half of the year was quite a trying time for the Microfinance business as we began to feel the impact of the Debt Relief Scheme. Consequently, our focus shifted towards improving our collections with a series of investments being made to strengthen our collection infrastructure.

We also made several enhancements to our customer support model. We tied up with Mobitel to introduce the M-Cash platform which gives customers the ability to settle their dues using M-Cash payments points located across the

DEPUTY CHAIRMAN/CEO REVIEW

country. In parallel, we increased the number of business support programmes carried out with the aim of supporting distressed customers to improve their business management skills.

While admittedly a good part of the year was spent on collections, we did pursue lending activities, albeit cautiously. With increased emphasis placed on loan quality, we revisited our credit evaluation procedure and introduced several additional layers. This was coupled with efforts to reduce the exposure to the traditional Microfinance-based Group lending model and move towards secured lending to individuals who have built up a strong financial track record.

Recoveries

With collection pressure affecting both the SME segment and the Microfinance business, the key priority for the Recoveries unit was to minimise NPLs across all businesses. Two new call centres were commissioned; each individually focusing SME and Microfinance collections respectively, while new call centre management software was installed at the two new facilities as well as at the existing Microfinance call centre in Nawala. In addition, we also increased the field recovery force and invested significantly in collection-related training activities.

From a governance perspective too we took some important steps. A new Debt Settlement Committee was appointed. As the Chair of the Committee, I have been actively involved in the work done that have led to some very positive results in terms of speeding up the recovery process.

I am indeed pleased to note that these collective efforts helped contain LOLC Finance's NPL ratio to 6.75% as at 31st March 2019, well below the industry of 7.7% as at December 2018.

Over the years, we have focused on strengthening our competitive position vis-a-vis three key pivots; mobile technology Adoption, cloud-based infrastructure and the data first strategy. In the year under review we made great strides in all these areas which no doubt further reinforces LOLC Finance's technological superiority in the NBFI sector.

Deposits

It was a good year for the Deposits unit. Leveraging on the stable and relatively high interest rate throughout the year, we were quite aggressive in our deposit mobilisation activities. Keeping in mind our funding requirements, we focused mainly on attracting shorter-term FD's from both corporate and high net worth investors. We also pursued cross selling as a strategy to increase the volume of mainstream business and thereby grow our island-wide customer base.

Growing our savings base was another key priority. To increase our market, share in this space, we targeted the SME segment. To complement our promotional campaigns, we launched the savings cash collection service where our field collection agents will visit the customer's doorstep to collect their savings. In this way the cash collection service benefits individual savings account-holders as well as business owners as it reduces their risk of carrying or holding excess cash at the end of the day.

Cards

The latest addition to our portfolio, the Cards business, was launched in September 2018, marking LOLC Finance's entry to the consumer lending space. Launched in partnership with MasterCard™, the main aim of the Card proposition was to enhance the value added services offered to existing customers.

I am very pleased with how receptive our customers have been towards this new initiative, which is evidenced by the fact that 12,000+ cards have been issued for the six months ending 31st March 2019.

Focus on Technology

Technology has always been a key competitive lever for LOLC Finance. Over the years, we have focused on strengthening our competitive position vis-a-vis three key pivots; mobile technology adoption, cloud-based infrastructure and the Data-First strategy. In the year under review we made great strides in all these areas which no doubt further reinforces LOLC Finance's technological superiority in the NBFI sector.

Expanding our mobile technology adoption program, we launched PELE (Phone-eken-loan-ekak), the first-ever digital loan platform to be introduced to the Sri Lankan market. PELE is made possible through a partnership between Mobile and LOLC Finance, enabling Mobitel customers who meet the stipulated eligibility criteria to activate an instant low-value loan through their smart phone. The other key accomplishment was the launch of the iPay platform, a payment app that allows customers to use their smart phone to make payments or transfer funds to 3,000+ merchants across the island. Aside from being key milestones in LOLC Finance's digital transformation journey, I believe these efforts also complement Sri Lanka's migration towards becoming a cashless economy in the years ahead.

We increased our investment in cloud-based infrastructure as part of a broader strategy to strengthen the Company's information systems and to improve their agility and resilience. We continued with the measured migration of our non-core operations and our data centre infrastructure to the cloud as it is still not possible to move the live environment to the cloud due to regulatory restrictions.

I am pleased to note that our data first strategy also gathered momentum in the current financial year. We were able to complete the migration of our data centre into an active environment to ensure seamless integration with the disaster recovery process. We also began working on introducing RPA (Robotic Process Automation) to automate certain identified areas of our back office operation, mainly to strengthen credit evaluation procedures.

Future Outlook

Heading into an election year, we are likely to face political uncertainty, unforeseen policy changes as well as economic risks caused by slow growth. Amidst this backdrop it is imperative that LOLC Finance remains hyper vigilant and strictly disciplined in managing its risks and resources. We will need to stay focused and agile to continue to anticipate the trends of tomorrow and continually adapt to new uncertainties. This means building on our strengths and performance drivers: keeping our customers at the centre of our priorities, staying focused on innovation, pursuing efficiency, and strengthening our control mechanisms.

The impact of technology is another critical factor that we will need to consider going forward. Our industry, more so than others, will continue to be impacted by new technologies and changing customer expectations. In such an environment, our future success depends on our ability to be the first harness the digital revolution to develop every aspect of our business. The key will be to create and to sustain a definite competitive advantage that will put us ahead of our peers at all times.

Appreciations

I would like to thank the Chairman and the Board of Directors for their guidance and wise counsel. I take this opportunity to thank our staff for their hard work and dedication.

I also wish to thank our customers, depositors and shareholders for supporting us over the years. I sincerely hope you would continue to be a part of LOLC Finance's success in the coming years.

Mr. R D Tissera
Deputy Chairman/CEO

Galvanised. Customised.

Management Discussion & Analysis

BUSINESS MODEL

Inputs

Financial Capital

- Equity Capital
- Debt Capital
- Deposit Base

Manufactured Capital

- Branch Network
- Vehicle Yards
- Call Centres

Intellectual Capital

- Brand Identity
- Information Technology Systems
- Ethics and Integrity

Human Capital

- Compliance
- Best Practices
- Recruitment and Selection
- Remuneration and Benefits
- Safety, Health and Wellbeing
- Training and Development
- Performance Management
- Employee Relations
- Employee Engagement

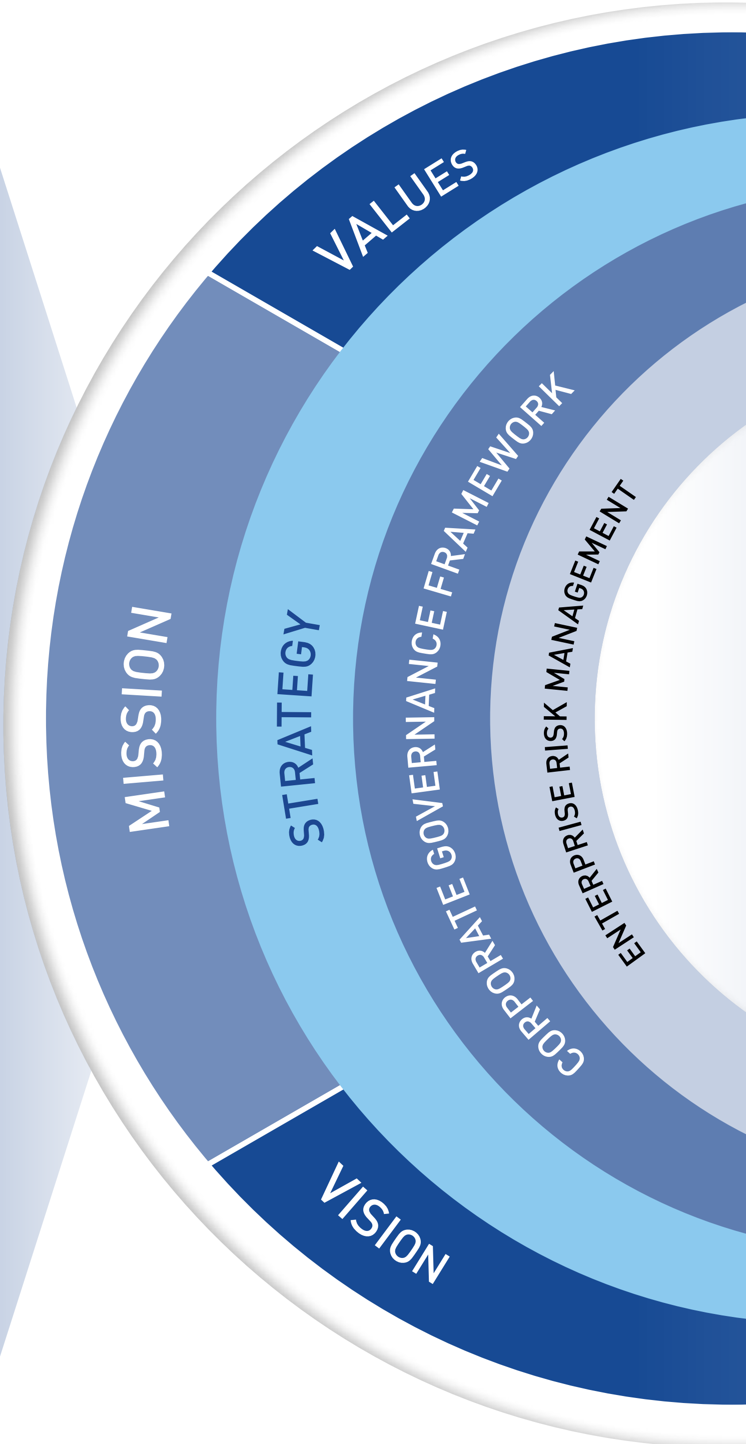
Social and Relationship Capital

- Responsible Financial Products and Services
- Customer Outreach
- Customer Engagement
- Marketing and Labelling
- Customer Privacy
- Ethical Sourcing
- Livelihood Development
- Promoting Financial Inclusion
- Corporate Social Responsibility

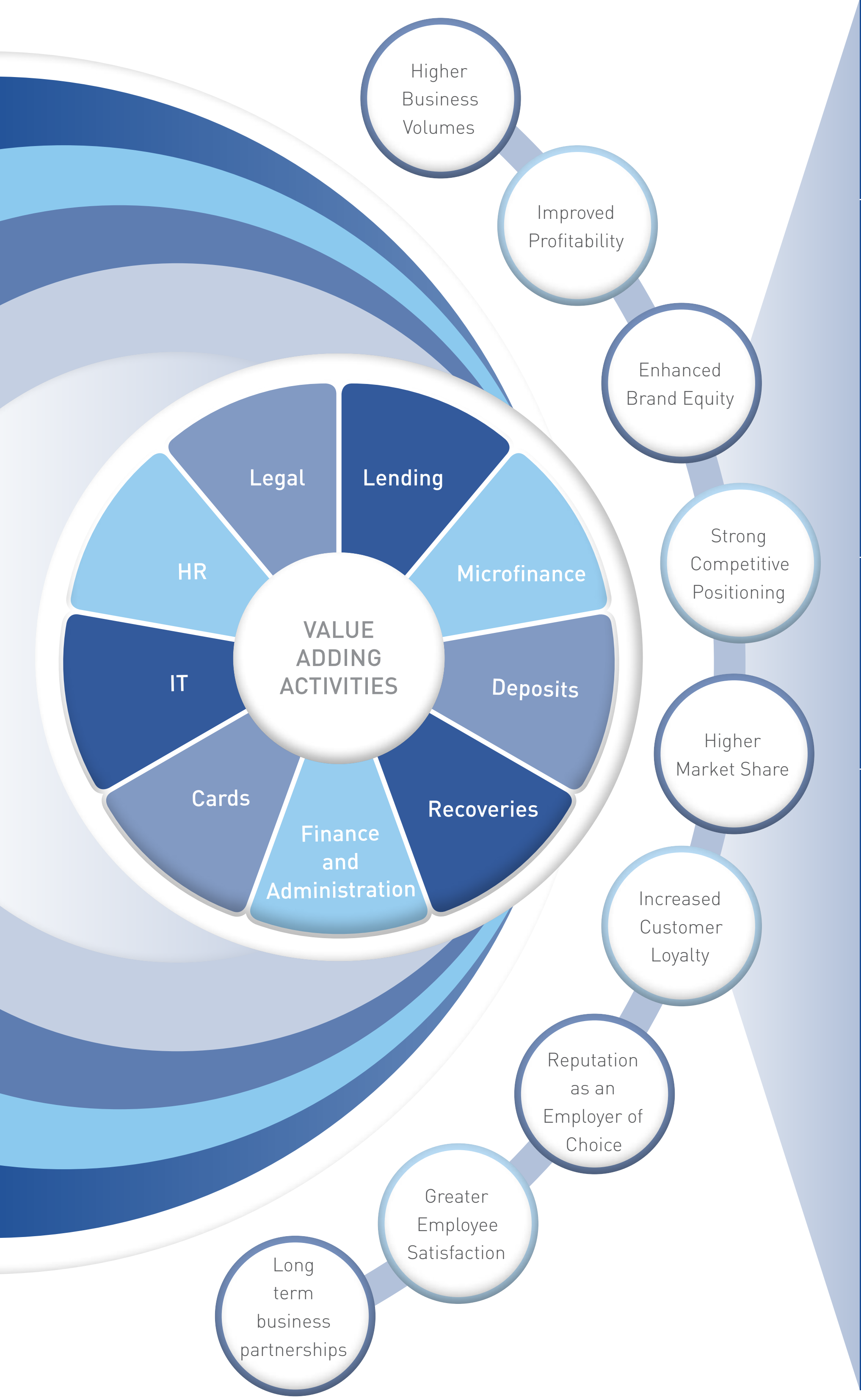
Natural Capital

- Reducing Paper Consumption
- Energy Conservation
- Environmental Projects

External Environment



Expected Outputs for LOLC Finance



Stakeholder Outcomes

Shareholders

- Profit after Tax - 171% growth year on year (38.7% - 2017/18)
- Share Price Rs. 3.10 (Rs. 3.90 2017/18)

Customers

- Launch of new products and services (Credit Cards and PELE: Phone-eken-loan-ekak)
- Access to 16,000 MCash payment points
- Launch of iPay app
- Launch of the doorstep cash collection service
- Commissioned 02 new call centres

Employees

- Increase in personnel expenses in 131% year on year (-4% - 2017/18)
- Average Training Hours - 49,125 - 2018/19

Communities

- SME Lending Rs. 80.7 Bn (Rs. 99.1 Bn - 2017/18)
- Microfinance Lending Rs. 61.4 Bn (Rs. 56.5 - 2017/18)
- Growth in savings customer base 5% (36.5% - 2017/18)

STAKEHOLDER ENGAGEMENT

We consider our stakeholders to be key partners in the future direction of our business. In fact we believe our success as a business depends largely on our ability to understand the needs and expectations of our stakeholders, both internal and external.

Stakeholder engagement therefore forms an integral part of our strategic planning process. At LOLC Finance stakeholder engagement is undertaken with the broader aim of developing collaborative partnerships based on the concept of shared value.

A wide range of channels are in place to engage with stakeholders, gain their feedback and insights on material issues that can add value to our business model.

Shareholders and Investors

Our Goal

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.

Method of Engagement	Frequency
Annual reports	Annually
Annual General Meeting	Annually
Interim Financial Statements	Quarterly
Extraordinary General Meeting	As required
Announcements to Colombo Stock Exchange	As required
Corporate website	Continuous
Investor presentation	As required
One-to-one discussions	As required

Key Concerns Raised

- Superior financial performance and sustainable wealth
- Effective risk management policies and adequate internal controls through governance and transparency
- Ensure regulatory compliances
- Business expansion plans

Customers

Our Goal

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.

Method of Engagement	Frequency
Branches	Regularly
Call centre	Regularly
Corporate website	Continuous
Relationship managers	Continuous
Media advertisements	As required
Sponsorship for community events	As required

Key Concerns Raised

- Customer security and privacy
- Product innovations
- Customer service
- Quality of service
- Dispute resolution

Employees

Our Goal

Attracting talent and to develop their knowledge and skills to establish a leadership pipeline with stability, security and equal opportunity to all our employees.

Method of Engagement	Frequency
Managers meeting	Monthly
Open door policy	As required
Training programs	As required
Internal circulars	As required
Latest updates through emails	As required
Special events such as pirith ceremony, get together and sports day	Annually
Exit interviews upon resignation	As required

Key Concerns Raised

- Remuneration, rewards and recognition policies
- Training and development
- Effective performance appraisal process
- Future plans
- Career progression
- Maintain equal opportunities and conducive labour relations practices

Suppliers and business partners

Our Goal

Focus on long-term partnerships and ethical business practices to balance cost considerations with sustainable procurement practices.

Method of Engagement	Frequency
On-site visits and meetings	As required
Official communications such as calls, letters, etc.	As required
Tender invitations	As required
Suppliers registration	Annually

Key Concerns Raised

- Contractual performance
- Comprehensive and transparent procurement policy
- Future business opportunities

Regulators

Our Goal

Ensure regulatory compliance while maintaining a high ethical standard.

Method of Engagement	Frequency
On-site and off-site surveillance	Regularly
Meetings and consultations	Regularly
Press releases	Continuous
Periodic returns	Continuous

Key Concerns Raised

- Compliance with regulations, codes and directives

Community

Our Goal

To contribute to national priorities, create sustainable communities through action in entrepreneurship and upliftment of rural livelihood.

Method of Engagement	Frequency
Delivery channels	Regularly
Sponsorships for community events	As required
Donations	As required
Social media	Regularly

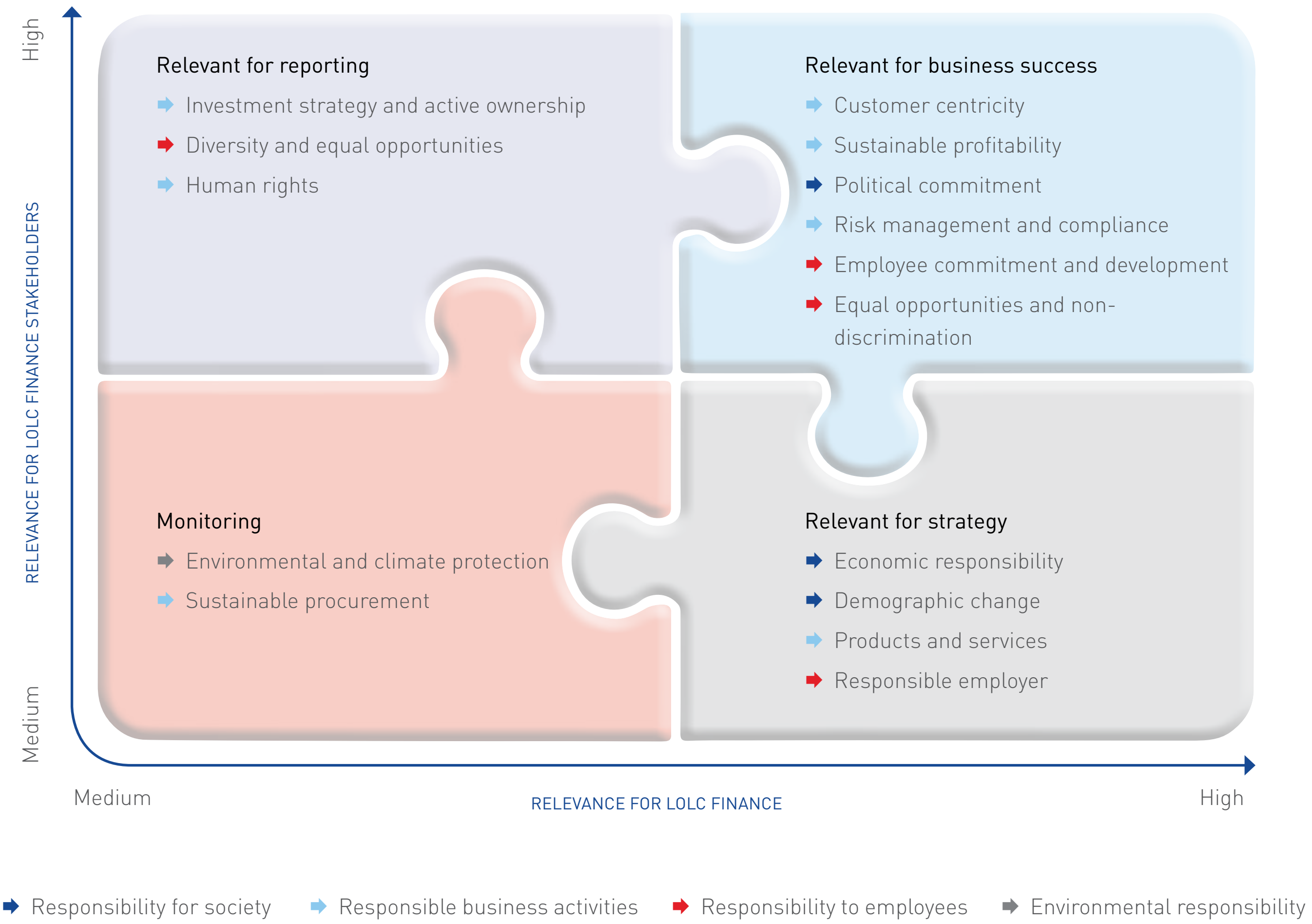
Key Concerns Raised

- Financial awareness and access to funds
- Recruitment
- Ethics and business conducts
- Other contributions and sponsorships

MATERIALITY

Materiality helps to identify what areas should be prioritised in order to ensure our business strategies reflect the interests of both internal and external stakeholders of the Company. The process of identifying Material Aspects is achieved in two ways; through formal and informal discussions with the various business units within the Company and also by obtaining the views of internal and external stakeholders. These findings are then mapped on a Materiality Matrix to prioritise them vis-a-vis their importance to the Company and its stakeholders.

In this manner, the Materiality Matrix provides a reliable framework to clearly identify the areas LOLC Finance needs to focus on vis-a-vis its short, medium and long term strategy.



OPERATING ENVIRONMENT

The overall performance of the Non-bank Financial Institution (NBFI) sector slowed down significantly in 2018 on the back of low credit growth, declining profitability and increasing non-performing loans.

Assets

In 2018, the asset base of the NBFI sector consisted mainly of loans and advances. Finance leases accounted for the largest share of loans and advances, representing 52.8%, while other secured loans accounted for another 38%.

For the twelve months ending 31st December 2018, the expansion of total assets in the NBFI sector slowed down, growing only by of 5.6% year on year, compared to the 11.8% growth reported at the end of 2017. This was as a direct consequence of the slowdown in lending activities across the sector, in response to fiscal and macroprudential policy measures taken to curtail importation of motor vehicles and lending towards vehicles and the slow down in economic activities. In fact sector-wide Credit was only 7.6% in 2018 compared to the growth of 9.8% in 2017.

5.6%
NBFI Sector Total Assets Growth

Rs.108.8Bn
Net Interest Income - 2018

50.1%
Customer Deposits Portion of Total Liabilities

The overall performance of the Non-bank Financial Institution (NBFI) sector slowed down significantly in 2018 on the back of low credit growth, declining profitability and increasing non-performing loans.

Asset Quality

Asset of the NBFI sector deteriorated considerably during 2018 with the gross non-performing advances (NPAs) ratio increased from 5.9% reported in 2017 to 7.7% in 2018, the highest recorded since February 2015.

Challenging global and domestic market conditions, unfavourable weather conditions in 2017 together with the slowdown of economic activities in 2018, were seen as the main reasons for the higher NPL's. The spillover effect of the Debt Relief program that was introduced by the Ministry of Finance and Mass Media in August 2018, was also partly responsible for driving up NPL's.

Liabilities

Customer deposits continued to dominate the major portion of liabilities which accounted for 50.1% of the total liabilities of the sector. The sector appeared to show an increased reliance on bank borrowings over deposits, mainly due to the negative public perception towards NBFI's which made it difficult to mobilise funds through deposits.

Consequently borrowings grew by 17.1% in 2018, a shift from the negative growth recorded in the year 2017, while Deposit growth slowed down to 4.4%, from 29.4% recorded in 2017.

Profitability

Net interest income increased at a slower rate than in 2017, recording a growth of 6% to reach Rs. 108.8 billion by end December 2018. This was mainly due to the increase in interest income by only 4.3%, while interest expenses grew by 2.9%. As a result, the net interest margin (net interest income as a percentage of average assets) of the sector declined marginally to 7.4% in 2018 from 7.7% in 2017.

Liquidity and Capitalisation

The overall statutory liquid assets available in the sector during 2018 indicated a surplus of Rs.25.6 billion as against the stipulated minimum requirement of Rs.88.2 billion. However, the surplus liquid assets declined during 2018 compared to the surplus liquid assets level of Rs. 35.5 billion in 2017. Correspondingly, the liquid assets to total assets ratio also reduced to 7.6% from 8.9% in 2017.

Encouragingly the sector continued to maintain its overall capital level well above the minimum requirement during the year, thus enhancing the resilience to any perceived adverse shocks. The total regulatory capital levels improved by Rs. 15.5 billion in 2018 compared to the figures reported in 2017, mainly due to the enhancement of the minimum capital requirement by the Central Bank to Rs. 1 billion from 01 January 2018. This minimum requirement was further increased to Rs.1.5 billion by 01 January 2019.

Source: CBSL AR 2018

REVIEW OF OPERATIONS

Deposits

Given the fact that deposits are a major source of funding for LOLC Finance, growing the deposit portfolio was deemed a key priority for the year under review. Consequently deposit mobilisation activities were intensified for both Fixed Deposits and savings.

Maintaining the 80% customer retention ratio was another priority, which saw strong emphasis being placed on promoting LOLC Finance's credibility and long-standing reputation in the market.

Several customer acquisitions strategies were adopted by the Company's Liability management team to spearhead growth of the FD portfolio. Driven by LOLC Finance's personal selling approach and supported by a series of focused BTL activities, all efforts were centered on attracting shorter term FDs from both corporate and high net worth investors. Maintaining the 80% customer retention ratio was another priority, which saw strong emphasis being placed on promoting LOLC Finance's credibility and long-standing reputation in the market.

Leveraging on the relatively stable and consistently high interest rate environment, aggressive cross selling activities were also pursued with the aim of generating higher volumes of the smaller-ticket granular business from across the island. The main aim here was to grow the island-wide FD customer base which would in turn further strengthen the overall portfolio.

Meanwhile, with the existing deposit mix highly directed towards FDs, a broad based savings deposit mobilisation strategy was also deployed in order to increase the percentage of savings. The main effort in this regard was driven by small pocket campaigns to tap into SME sector savings customers around the country. This was coupled with a number of additional initiatives to reinforce the savings culture among the existing customer base. Most notably, the launch of the savings cash collections service where appointed field collection agents visit the customers doorstep to collect cash in turn providing the customer with the ultimate convenience of depositing cash to their savings account without having to visit the branch. Another initiative was the decision to encourage all new Lending customers to maintain an active savings account with LOLC Finance.

A number of internal process improvements were also made simultaneously in order to enhance overall efficiency and service delivery for all customers. As part of this effort, several key processes were digitised, enabling transaction notifications to be issued by way of an SMS alert and interest advice slips to be emailed, replacing the previous practice of sending a physical notice by post.

Lending

A challenging year for the lending business, as regulatory changes continued to impact LOLC Finance's core vehicle leasing model. In particular, the ongoing LTV ruling, changes in LC deposit value adversely affecting vehicle imports as well as the depreciation of the Rupee, all contributed to lowering the demand for unregistered vehicles, especially the higher capacity vehicles. Amidst this backdrop, LOLC Finance accelerated its efforts to promote lower engine capacity vehicles targeting the wider mainstream market across the country. In this regard special leasing packages were offered for the KWID and the Hyundai i10, both of which are lower engine capacity vehicles. At the same time, the scope of LOLC Finance's Capital Lease product was further expanded in a bid to tap into the registered vehicle leasing market, while renewed emphasis was placed on deepening the penetration into the commercial vehicle space, particularly in the Northern and North Central regions of the country where a notable demand was evident. Spearheading promotional activities in this regard was the Riya Hariya campaign which was relaunched in all the 11 regions simultaneously with renewed features. This was coupled with a series of service enhancement to speed up service delivery to the customer.

Meanwhile, with many sectors of the economy under pressure due to political uncertainty as well as the general economic slowdown in the country, the demand for other forms of credit too were hampered. The AWLR (Average Weighted Lending Rate), which remained consistently high throughout the year, also had a bearing on demand for credit. Taking cognisance of the current challenges facing many SMEs, the Company adopted a prudent stance towards managing the lending book, with good quality loans being the key underpinning factor driving all new lending activities. As part of the broader strategic thrust, it was decided to focus mainly on short term asset-backed lending activities to provide working capital financing solutions to the SME sector. Towards this end, LOLC Finance's flagship "Speed Draft" product was revamped with the tenure reduced to two years, while new collateral and repossession requirements were introduced to improve the quality of the Speed Draft portfolio along with mitigating credit risk. To further support this strategy, the exiting credit evaluation framework was strengthened with several additional validation protocols being introduced to determine the customer's credit risk profile.

In keeping with the asset-backed lending approach, the Company's Gold Loan proposition was also revived and relaunched in 2018 and thereafter rolled out at 58 LOLC Finance branches within the current financial year. In parallel, the Gold Loan product portfolio was expanded with new variations including a one-month product, a one-year product and a quick turnaround product that comes with a 10-day redeemable option. The relaunch of the Gold Loan proposition was accompanied by a mass media ATL campaign along with localised BTL programs at branch level as well as street campaigns conducted by the propaganda vehicle. The Gold Loan portfolio increase up to Rs. 1 billion was a significant performance highlight of the year.

From a marketing perspective, a new business introducer program was developed and rolled out as part of a broad-based lead regeneration strategy to grow all key lending categories. The introducer programme also marks the first phase to develop a cost effective channel management structure aimed at reducing the Company's cost-to-income ratio over the long term.

Microfinance

The Group's Microfinance operation, which was previously managed by LOLC Micro Credit Ltd. (LOMC) was amalgamated with LOLC Finance following the formal merger between LOMC and LOLC Finance in late March 2018. The merger resulted in a considerable expansion in LOLC Finance's product suite, with the addition of micro leases and micro loans, which has opened up an entirely new market space for LOLC Finance to grow its market share. And with the Company's core leasing business challenged by the LTV restrictions on unregistered vehicles, LOLC Finance quickly shifted focus to tap into the robust demand for second hand vehicles from the Micro segment.

Meanwhile, a series of regulatory directives issued by the Government brought pressure on the Microfinance operation from about mid-2018. The greatest impact was caused by the Government's debt relief scheme announcing the decision to write off Microfinance loans granted to customers in 12 drought-hit districts. Capitalising on the lack off clarity regarding the mechanics of the scheme, customers reacted immediately and began defaulting on their repayments.

Under these circumstances, LOLC Finance focused extensively on improving collections. Underpinned by a broad based collection strategy several new initiatives were put in place to drive collections. On the front end, the M-Cash payment platform was introduced enabling customers to conveniently settle their dues through using over 20,000 M-Cash payments points located across the country. LOLC Finance's business support

REVIEW OF OPERATIONS

programme for customers, was also expanded. The programme which assists customers to improve their business and financial management skills was tailored to address the specific needs of distressed customer groups and carried out island-wide.

At the same time, a number of backend processes were also revamped. A new dedicated call centre was set up specifically for Microfinance collections. Call centre infrastructure was further strengthened with additional investments made to commission a fully-fledged call centre software system giving the call centre agents greater visibility on the customers profile and payment history.

Coupled with the focus on collections, a prudent lending approach was adopted in order to ensure only good quality lending activities were pursued. To further support these efforts, the credit approval process was tightened with the introduction of additional verification protocols to minimise the potential default risk in the future. As part of the same effort, a decision was also made to scale back on Group lending, and instead promote secured lending to individuals who demonstrate a strong financial credibility.

Recoveries

It was a challenging year for the recoveries unit with LOLC Finance's key customer segment-the SME sector under pressure as the agriculture sector continued to under-perform for the second consecutive year. The general economic slowdown for the past few years further dampened the prospects of the SME sector.

In light of these developments, the Recoveries unit redoubled its efforts to improve recoveries with special emphasis on containing NPLs to a minimum in all businesses. Measures taken in this regard saw two new call centres being set up-one focusing on recoveries for the SME segment and the other for the Microfinance business. In parallel,

In keeping with the asset-backed lending approach, the Company's Gold Loan proposition was also revived and relaunched in 2018 and thereafter rolled out at 58 LOLC Finance branches within the current financial year.

manpower resources at the Company's existing Microfinance call centre was increased along with additional investments in new call centre software for all three facilities. To support these efforts, the island-wide field recovery force was increased, while staff training activities were also expanded.

The recovery governance framework was further strengthened with the appointment of a new Debt Settlement Committee to speed up the settlement process. Chaired by the CEO, the Debt settlement committee also consists of four members of the senior management. The Committee meets every two weeks to review the progress of recoveries.

Meanwhile, several internal process improvements were made to streamline the recovery process, including more delegated authority being provided to branches. Several new concepts were also initiated in an effort to expedite the sale of repossessed vehicles.

LOLC Al-Falaah – Alternate Financial Services

In over one decade of operations, LOLC Al-Falaah has raised awareness about Islamic Finance and expanded the market to the point where alternate finance is being embraced by all communities as a viable financing option to traditional modes of finance. The period under review proved extremely challenging due to the economic and political instability that persisted. The Company's main customer segments, namely, SME, MSME and the retail sector, were adversely impacted during the year. Being a key financial services provider to the coconut and tea exporters, both these customer segments suffered hardship during the period under consideration. Furthermore, tax reviews imposed during the year led to thinning margins and a liquidity crunch as small and medium businesses, which keep liquidity high in the market, experienced a slowdown. Many of LOLC Al-Falaah's customers were preoccupied with sustaining their business rather than borrowing for growth and expansion and were seeking solutions to bridge cash flow gaps. As a result of all these unfavourable factors, the entire industry witnessed a sharp rise in Non-Performing Loans (NPLs).

Closely monitoring the situation through the year, the company adopted a cautious approach to lower its lending activity and turned to consolidation of its finances by maintaining the loan portfolio, promoting asset-backed financing and discouraged high risk non collateralised lending to sustain its portfolio.

In terms of performance against the previous year, LOLC Al-Falaah demonstrated lower NPLs ranging between 4-4.4% than the previous year and a much stronger ratio as compared to banks and the rest of the financial services industry. Perhaps because of stressful prevailing external conditions, the company witnessed an inflow of deposits and savings as customers shifted to LOLC Al-Falaah, as it is seen as a stable and dependable entity. While the business unit's deposit portfolio reached Rs. 7.9 Bn, the Asset portfolio closed at Rs. 9.6 Bn in 2018/19.

In an industry-wide trend of business slowdown, LOLC Al-Falaah proved its resilience by recording a strong performance with revenues of Rs. 2.6 Bn, while strengthening the portfolio with a strong focus on security-based lending. LOLC Al-Falaah cut back on extending consumption loans and high-risk businesses whilst liaising with key customers to provide sustenance and business continuity. Working capital products such as Diminishing Musharakah and Wakala Finance performed well and the performance of the tourism sector also helped the business. Therefore, LOLC Al-Falaah managed to close the year with a Profit before tax of Rs. 452 Mn which is a significant achievement as compared to the performance of the previous financial year.

Although the loan book did not grow in the year under review, LOLC Al-Falaah managed to sustain its portfolio without any major impact to the Company. Reflecting its spirit of innovation, the company is chalking out plans to offer a safe custody product along the lines of Gold Loans for Microfinance customers who are ineligible for asset-backed loans.

Going ahead, the Company will entrench its credentials to strongly position itself as offering financial services for every citizen of Sri Lanka regardless of race and religion. This approach has taken the company to the forefront of the Islamic finance industry as one of the top three players. The Company plans to leverage on group synergies to retail off-the-shelf products for all citizens.

LOLC Al-Falaah's depth of expertise is evident in the issue of the industry's first sukuk in 2016 which is maturing in 2019. The Company plans to issue a second sukuk based on its requirement. It is the first Sri Lankan company to be granted funding from IDBs ICD in 2017 which will be up for a successful renewal negotiation in 2020.

The Company received local and international awards during the year under review. LOLC Al-Falaah was adjudged the Best Islamic Leasing Provider in the Global category and the Best Islamic Bank in Sri Lanka at the 14th Annual IFN Best Banks Poll 2018. LOLC Al-Falaah was also nominated in three other categories: Most Innovative Islamic Bank 2018 (Global), Best Islamic Private Bank 2018 (Global) and Best Overall Islamic Bank 2018 (Global). The IFN Best Bank Poll recognises leading industry stalwarts across 38 sectors and countries. In the category of the Best Islamic Leasing Provider, LOLC Al-Falaah moved up from the previous Runner-Up position, whilst in the Best Islamic Bank of Sri Lanka category, the Company successfully retained its position as the winner once again.

Credit Cards

LOLC Finance ventured into Credit Card operations in September 2018, mainly with the intention of enhancing the value added services offered to existing customers. Launched in partnership with MasterCard™, the Card operation marks LOLC Finance's entry to the fast growing domestic consumption space. Having previously focused mainly on providing direct lending solutions, the move will enable LOLC Finance to increase its bandwidth in the non-bank financial sector in the long term.

From a broader operating context, the mainstream Credit Card operation at present remains a highly-competitive space dominated by the banking sector. However, in seeking to provide a differentiated value proposition, the LOLC Finance Credit Card is designed to give the user mainstream access to payment cards accepting merchants, across the country.

As a first step towards promoting the Card proposition, an aggressive ATL campaign was conducted and coupled with localised BTL activities to raise awareness amongst existing customers. These efforts proved successful as evidenced by the strong uptake from LOLC Finance's SME-centred customer base across the country.

CAPITAL MANAGEMENT REPORTS

FINANCIAL CAPITAL

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.

Rs.43Bn
Interest Income

Rs.211Bn
Total Assets

Rs.115Bn
Customer Deposits

Rs.5.96Bn
Net Profit After Tax

30%
ROE

2.8%
ROA

FINANCIAL REVIEW

Overview

As a leader 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 valued customers in the LOLC brand and the superior customer service of the Company.

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 improving the collection ratio and improving credit quality rather than portfolio growth. This resulted in the Company establishing even stronger credit controls with implementation of fintech solutions and focussing on asset backed lending. Further, significant focus was on collections to manage the risk of bad debts. As a result, the overall growth in the portfolio was lower than the expected level.

Strong customer confidence placed in the Company was proven through the continued inflow of deposits. This assisted the Company to change its borrowings mix by reducing bank borrowings and increasing the proportion of retail customer deposits. These strategies assisted the Company to sustain and maintain healthy profitability levels from previous year.

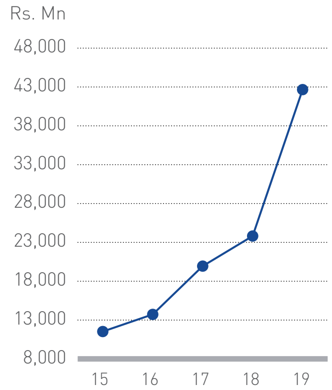
Results for the current period of the Company reflect the figures of the merged entity subsequent to the merger between LOLC Finance PLC and LOLC Micro Credit Limited, which took place on 29th March 2018. The comparative information in the Statement of Profit or Loss reflects the figures of LOLC Finance PLC as a stand-alone entity. Hence, the variances shown in the Income Statement should be read in such context.

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

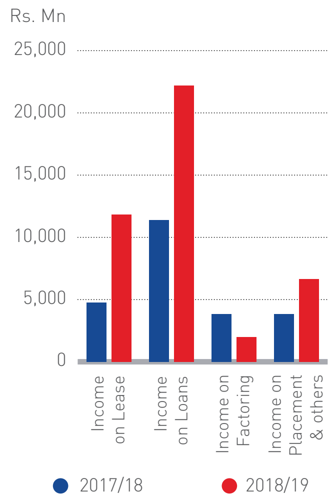
Interest Income

LOLC Finance reported Rs. 43 Bn of interest income during the year a 79% increase compared to the previous year. This was achieved mainly because of inclusion of the high yielding micro portfolio and the Company strengthened the credit risk management. These strategies enabled the Company to show strong growth in interest income over the last five years as reflected in the graph that follows.

Movement of Interest Income in last Consecutive Five Years



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



An evaluation of product wise income shows that interest income from leases constituted 28% (2017/18 - 22%) of total interest income and showed a significant growth of 149% and recorded the Rs. 11.8 Bn and this was reached with the help of the high yielding Micro portfolio. Interest income from loans were the biggest revenue generator (52% form interest income) for the company which is recorded at Rs. 22.2 Bn interest income during the financial year and showing considerable growth (95%) compared to last financial year.

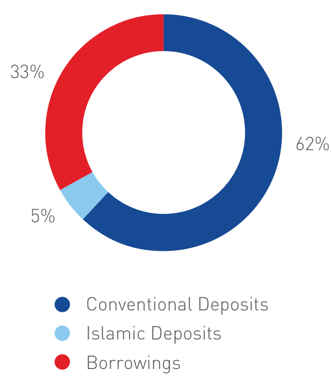
However, Factoring income showed a decrease of 48% than previous year. This was primarily as a result of the curtailing the factoring business due to economic conditions prevailed in the country during the period.

Interest Expenses

Total interest expense grew by 50% during the period. Majority (67%) of the portfolio is funded through customer deposits with 80% of the interest expense being attributed to short-term deposits. The interest on conventional deposits grew by 17% and the profit share cost on Islamic deposits grew by 3% keeping in line with the growth in the deposit base and the increase in the cost of deposits. The interest on borrowings showed an increase of 264% primarily as a result of the merger.

Net Interest Income, Other operating income and Expenses

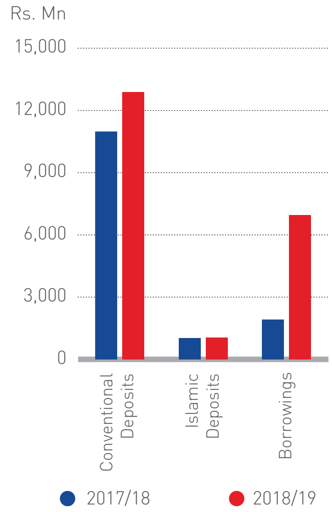
Interest Expenses Composition 2018/19



The growth in interest income together with the borrowing costs resulted an increase in net interest income by 120% and amounted to Rs. 22 Bn for the current year. This was an increase of Rs.12 Bn net interest income (NII) over the comparative period.

Other operating income increased by 121% and amounted to Rs. 4 Bn compared to Rs. 1.8 Bn reported in the previous year.

Interest Expense Comparison (2017/18 & 2018/19)



This was primarily because of the increase in fair value of investment properties and increase in collections received from contracts written off as a result of the efficient collection effort.

As a result of the robust, efficient collection strategies followed by the Company, the non-performing loans (NPL) ratio was curtailed at 6.75% as at 31st March 2019, despite the challenging economic conditions and deteriorating credit quality in the industry. Provision for impairment losses and written offs increased to Rs. 5,701 Mn compared to Rs. 3,709 Mn recorded in the previous year. Further, the provision and write off expenses to the average portfolio was 4% (increased from 2017/18 – 2.5%). The provisions for impairment losses also includes a provision adjustment as a result of adopting SLFRS 9 moving towards the expected loss model.,

The combined entity's total overheads increased by 107%, however this was in line with economic conditions in the country. Considering the high cost of maintaining brick and mortar branch structure providing the financial services, technological innovation and shift in consumer preferences, The Company

CAPITAL MANAGEMENT REPORTS

FINANCIAL CAPITAL

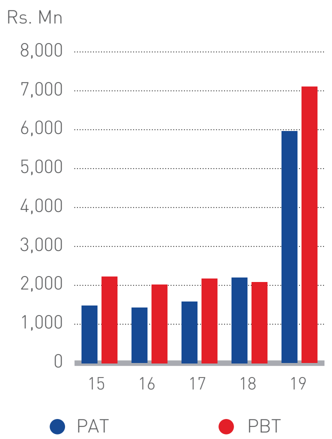
has moved to alternative delivery channels, in order to expand the reach beyond the traditional delivery channels while enhancing the convenience to the customers. The effective strategies implemented by the company resulted in growth in the net interest income and efficient management of resource curtailed the increase in expenses and this resulted in the, cost to income ratio decreasing to 45% from 48%. However, the overhead margin (total overheads/ average lending portfolio) was maintained around at 8%.

Profitability

Despite the challenging environment the profitability of the Company was resilient and was able to maintain its profitability levels. The PAT of the Company grew by 171% and stood at Rs. 5,963 Mn. Then growth in profits was primarily attributed to the ability of the management of the Company to make timely decisions and the agility of the organisation to adopt challenging economic conditions.

The return ratios saw an increase from previous year. The return on equity (ROE) stood at 30% and the return on assets (ROA) stood at 2.8 % when compared to 18% (ROE) and 1.6% (ROA) in the previous year respectively.

Profitability



Asset Base

With challenging economic conditions in the country, company was able to maintain the total assets at a stable level and stood at Rs. 211 Bn at the end of the current financial year. Mainly, the lending portfolio constituted 65% of the total assets and stood at Rs. 136 Bn. Investments in Government securities and deposits with banks and other financial institutions amounted to Rs. 40 Bn and constituted 19% of the total assets. Further, the Company's ability to adopt to agile market sentiments and because of effective collection strategies, Investment properties (IP) grew by 85% and stood at Rs. 11.6 Bn and represent 6% of total assets.

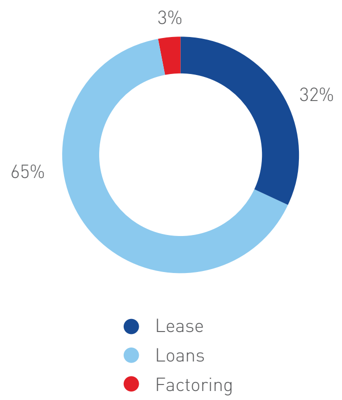
Lending Portfolio

Challenging economic conditions experienced in the industry, management decided to focus on collections strategies rather than new executions for all major products offered by the Company over the period. As a result, lending portfolio decreased by 10% and amounting to Rs. 136 Bn at the year end.

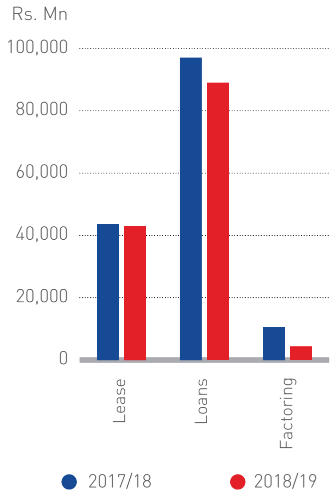
The major part of the portfolio (65%) constituted of loans, which includes revolving, term and mortgage loans. Leases were the second largest product constituting 32% of the portfolio and factoring business showed a decline, contributing 3% to the total lending portfolio. Introduction of the credit card product is one of key innovations the Company has launched during the year of review, amounting to Rs. 369 Mn during the current period.

The gross lending portfolio of the IBU stood at Rs. 9.6 Bn which was 7% of the total lending portfolio and has not shown significant improvement over the last financial year.

Lending Portfolio



Comparison of Main Component in Lending Portfolio (2017/18 & 2018/19)

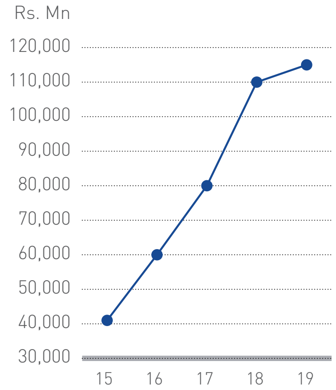


Funding – Deposits and Borrowings

LOLC Finance continued to experience a strong influx of customer deposits, resulting in an increase in the deposit base by over Rs. 5 Bn (5% growth) and reaching to
Rs. 115 Bn at the end of the year. This growth ensured that the Company retained its crown as the largest deposit taking institution in the NBFI sector.

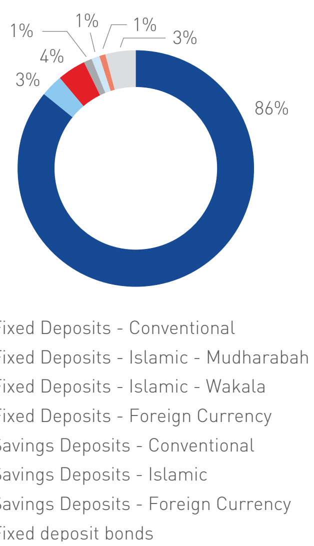
Conventional fixed deposits remain as Company's primary source of funding and showed a growth of 9% while increasing value from Rs. 90 Bn (2017/18) to Rs. 98 Bn. However, deposits from the IBU and Foreign currency show a slight decrease and amounted to Rs. 8 Bn and Rs. 6 Bn respectively at the end of the financial year. The risk of exchange rate fluctuations is effectively managed via forward exchange rate contracts and back-to-back deposits entered into by the Company covering the entire exposure.

Movement of Deposit Base in Consecutive Five Years



During the year, Company effectively managed the operating cashflow and settled its short-term and long-term borrowings accordingly. As a result, the borrowing base reduced by 13% and stood at Rs. 61 Bn at end of the current financial year.

Deposit Composition 2018/19



The funding mix of the Company smoothly changed towards deposits compared to the previous year, where the deposit constituted 65% (up from 2018's 60%) of the total borrowings and the balance 35% (down from 40% last year) was from borrowings.

Regulatory Ratios

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 10.22 % (2017/18 - 10.15%) and the total Capital Adequacy Ratio reached 12.34 % (2017/18 - 11.10%). This was higher than the minimum requirement laid out by the CBSL of 6% and 10% respectively.

Capital Funds to Deposit Ratio

As a result of the increase in the deposit base the capital funds to deposits ratio rose to 21.45 % at the end of the current year compared to 17.29% at the 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. 29,744 Mn which was well above the required minimum amount of Rs. 13,504 Mn. 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)

Last year recorded the highest NPL ratio of the Finance sector since February 2015, The main reasons attributable to this increase are unfavourable weather conditions and slowing down of economic activities in 2018. It is expected that NPA with rise further if extreme weather conditions prevail and due to the spill over effects of the Debt Relief Programme introduced by the Ministry of Finance in August 2018. However, the Company was able to maintain the NPL level which was below the industry average NPL ratio 7.7% Dec 18 and stood at 6.75% during the year (2017/18 - 3.87%).

In conclusion, the Company is optimistic about the future and the strategies implemented to contain deteriorating credit quality. State-of-the-art fin tech solutions will be implemented to enhance the efficiency and the productivity of the business process while delivering superior customer experience. This ultimately helps us to thrive in the volatile market conditions and engender higher profitability in the future.

CAPITAL MANAGEMENT REPORTS

MANUFACTURED CAPITAL

We take a two-pronged approach towards building our Manufactured Capital. Firstly, by strategically expanding our physical infrastructure and secondly through additional investments that would add value to existing assets.

140
Branches

Branches represent
90%
of Manufactured Capital

Launch of pilot project to digitalise
05
Branches

Manufactured Capital Strategy

LOLC Finance's Manufactured Capital strategy focuses on strengthening physical infrastructure that would provide a competitive advantage in the market, in turn supporting the Company's efforts to deliver on its strategy and achieve long term growth objectives.

We take a two-pronged approach towards building our Manufactured Capital. Firstly, by strategically expanding our physical infrastructure and secondly through additional investments that would add value to existing assets.

Branch Network

LOLC Finance's island-wide network of 140 branches represents nearly 90% of our Manufactured Capital. The branch serves as the primary customer touch point serving thousands of customers each year, and as such location remains the predominant focus of our branch investments strategy. Our main goal is to ensure that each LOLC Finance branch maintains the widest possible geographical out-reach in order to serve the needs of the people in the area. Accordingly, we place strong emphasis on locating branches in key towns and cities across Sri Lanka with a high population density and a higher proportion of SMEs. Adequate space and accessibility are a few of the other considerations under-pinning the selection of branch locations. In seeking out the best possible locations in a particular area we have found it more feasible to rent commercial space rather than incur the heavy investment of setting up branches on Company-owned properties. As such 128 LOLC Finance branches are located on rented premises, while only eight are located on company-owned properties. Four savings centres are based in schools.

In the year under review, we initiated the first phase of our branch upgrade agenda, which aims to shift at least 50% of physical network to fully digital branches. We launched a pilot project to fully digitalise five branches (Panadura, Piliyandala, Kohuwala, Kalutara and Horana), where 90% of back-end process flows were automated enabling all physical documentation (except those mandated by law) to be migrated to digital platforms. This has also resulted in close to 80% of the paper usage being cut, enabling each branch to benefit from considerable cost savings.

Call Centers

With our business model evolving rapidly and becoming more broad-based in recent years, we made a strategic decision to invest in setting up dedicated call centers for specific business lines. Accordingly, two new call centres were set up in the current financial year-a dedicated call centre for SME collections located at the LOFAC Building, Nawala Road, Rajagiriya and a second Micro call centre located at No.72, Rajagiriya Road, Rajagiriya, adding to the existing facility in Ranaviru Pabath Cooray Mawatha, Koswatta, Nawala.

INTELLECTUAL CAPITAL

IT systems with a long-term strategy that seeks to enhance the Company's front and back-end systems in a manner that would give LOLC Finance a distinct competitive advantage over peers.

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

Information Technology (IT) Systems

In recent years, LOLC Finance has continued to increase its reliance on IT as a critical enabler of business transformation, especially to identify and enable new opportunities and support LOLC Finance's long term growth strategy. We have also come to rely on IT in order to respond to tighter financial regulations that have become increasingly common in our industry of late. Moreover, we have continued to develop IT systems with a long term strategy that seeks to enhance the Company's front and back-end systems in a manner that would give LOLC Finance a distinct competitive advantage over peers. In this context, our IT transformation strategy prioritises three key areas;

Mobile Technology Adoption

Acknowledging the importance of the mobile channel in today's financial services landscape, we strive to achieve the right balance between the rapidly evolving mobile environment and what is most beneficial to our customers. Guided by our customer first philosophy, our investments in mobile technology aims to create a consistent and efficient digital universe across all platforms. Staying focused on streamlining the customer experience, we have over the years launched numerous mobile-based models to provide the customer with the convenience and functionality to enable them to better manage their finances. In fact, LOLC Finance was one of the first financial institutions in Sri Lanka to break into the mobile technology domain with the launch of the LOLC Real Time online portal and the mobile app in 2014 and 2015 respectively. This first move advantage that gave LOLC Finance a strong competitive advantage in the market, which we have continued to leverage to help us make further inroads into the mobile technology space via groundbreaking new solutions.

In this regard we undertook the following three projects in 2018/19;

Smart Collection Solution

The Smart Collection Solution was launched as part of a broader effort to introduce door-step cash collections that provides the ultimate in customer convenience. The first phase was rolled out for the savings customers, with the field sales force being provided mobile tablet devices to enable them to update the customer's account immediately.

PELE Digital Loan Platform

PELE (Phone-eken-loan-ekak) is a digital loan platform that has redefined the way consumers carry out transactions with the use of a mobile phone. Based on the dial-a-loan concept that has been in existence in more developed economies for some time, PELE is the first digital loan platform to be introduced to the Sri Lankan market. Made possible through a partnership between mobile and LOLC Finance, to allow mobitel customers (Pre-paid and Post-paid) who meet certain pre-determined eligibility criteria to receive

CAPITAL MANAGEMENT REPORTS

INTELLECTUAL CAPITAL

a quick low-value loan. Applicants who meet the eligibility criteria can then apply to LOLC Finance via Mobitel's mCash platform. All applications are reviewed immediately and successful applicants are promptly on-boarded as an LOLC Finance customer.

iPay Platform

The iPay platform is a unique digital payment solution that allows the user to settle bills, make payments or transfer funds to any one of over 3,000+ merchants across the island. Following its launch in 2018, over 122,000 transactions have been performed using the iPay platform, a testament to its superior functionality and user-friendly interface.

Cloud-Based Infrastructure

In recent years, LOLC Finance has increased its investment in cloud-based infrastructure as part of a broader strategy to strengthen the Company's information systems and to increase their agility and resilience, all of which would ultimately lead to improved operational efficiency and cost leadership. While regulatory restrictions prevent us from moving the live environment to the cloud, we have identified certain areas for cloud migration such as our non-core operations and our data centre infrastructure. In the year under review, we made good progress staying on track with our cloud migration agenda.

Data-First Strategy

The purpose of LOLC Finance's Data-First strategy is to harness the power of the available information to develop innovative products that satisfy customer needs, enhance service delivery to the customer and improve our internal operational efficiency, which will collectively contribute towards achieving our long-term growth objectives. Having first embarked on our ambitious Data-First strategy a few years ago, we took several important steps in 2018 to further expedite our journey. The main activities for the year was the migration of our data centre into an active environment, where we made several investments to convert the network layer to active status in order to ensure seamless integration with the disaster recovery process.

Another key development was the investment in data-driven call centre software for all three of our call centres. Based on a dynamic data driven architecture, the software is equipped with advanced features including enhanced visibility to support call centre agents in their recovery efforts.

As part of our Data-first strategy, we also began working on introducing RPA (Robotic Process Automation) to automate certain identified areas of our back office operation, mainly to strengthen credit evaluation procedures.

HUMAN CAPITAL

LOLC Finance's Human Capital Strategy is based on HR as a strategic business partner focusing on attracting, retaining, developing and motivating the right people in order to maintain a dynamic and agile workforce for our current and future business needs.

2,461
Total Staff Cadre

49,125
Total Training Hours

Rs.17Mn
Total Training Investment

615
New Recruits

HR Strategy

LOLC Finance's Human Capital strategy is based on HR as a strategic business partner focusing on attracting, retaining, developing and motivating the right people in order to maintain a dynamic and agile workforce for our current and future business needs. Our approach is guided by the following key principles;

Compliance

LOLC Finance abides by all laws and regulations regarding pay practices and the classification of employment according to job level and status. In this context we are governed by the Shop and Office Act and its subsequent amendments, as well as the CBSL regulations for Non-Bank Financial Institutions.

Best Practices

Human Rights

LOLC Finance respects internationally recognised Human Rights as established in the Universal Declaration on Human Rights and the International Labour Organisation's Core Conventions. As such, we do not promote forced or compulsory labour and do not use child or forced labour in any of our operations. We do not tolerate any form of unacceptable treatment of workers. We fully respect all applicable laws establishing a minimum age for employment, in order to support the effective abolition of child labour worldwide.

We encourage diversity, for we recognise that a diverse mix of backgrounds check, skills and experiences drives new ideas, products, and services and provides us with a sustained competitive advantage. We believe all our employees should be treated with respect regardless of their background and as such remain committed towards the elimination of discrimination based on gender, economic status, ethnic background, sexual orientation, age, political beliefs, marital status or any other protected class.

Equal Opportunity

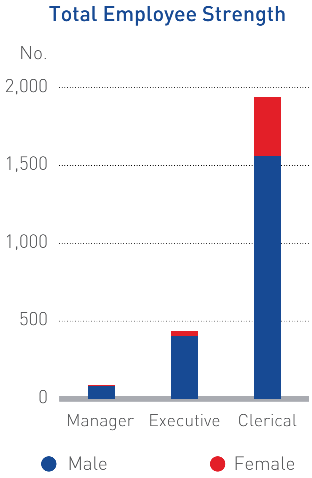
LOLC Finance is an equal opportunity employer; all employees are treated equally in HR processes including hiring, training, promotions, staff benefits, rewards and recognition. Further, each employee is provided benefits without discrimination based on ethnicity, gender, religion, age or disability. Differently-abled employees also form a part of the permanent workforce and are given special training to help them integrate into their work environment. Additionally, we evaluate and address the specific infrastructural and support requirements of our differently-abled personnel to facilitate their integration into our corporate work ethic.

CAPITAL MANAGEMENT REPORTS

HUMAN CAPITAL

Total Employee Strength

Employee Category	Male	Female	Total
Manager	79	9	88
Executive	403	30	433
Clerical	1,558	382	1,940



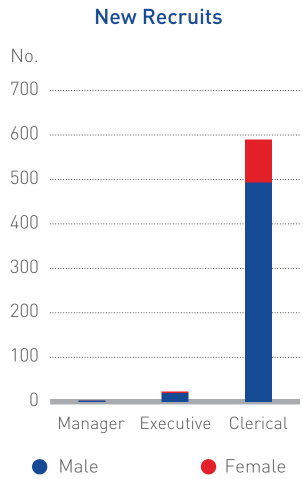
Embedding these principles, LOLC Finance strives to provide a superior EVP (Employee Value Proposition) that offers employees market-competitive compensation, a fulfilling career, work-life balance, and a positive work culture.

Recruitment and Selection

Our recruitment process is based on well-defined job specifications that supports the proper search and selection of candidates. We utilise a variety of channels including Employee Referral Schemes, Job Portals, Walk-in Interviews etc. to meet our entry level recruitment targets. In recent years we have also been prioritising local hiring as a means of meeting the staffing needs of our branch network. In this regard LOLC Finance's employer branding events held at local educational institutions have proven to be a valuable source for our entry level recruitment for our branches.

Our recruitment model is supported by a stringent selection process consisting of multi-layered interviews, competency assessment tests, background verification, etc. to ensure we recruit the right candidates.

Senior management positions on the other hand are head hunted, and often filled through internal placements. Meanwhile to be able to tap into a broader talent pool for management level recruitments, we now also use the LinkedIn platform.



New Recruits

Employee Category	Male	Female
Manager	3	-
Executive	20	3
Clerical	493	96

Training programme conducted at the Head Office

Challenge - Employee Attrition

Operating in a dynamic and fast moving industry such as financial services, employee attrition is one of the key challenges we face. As is the case across the industry, the attrition is higher at the Junior levels. At strategic and leadership levels, attrition is negligible which indicates that employees want to be a part of the LOLC Finance's growth journey.

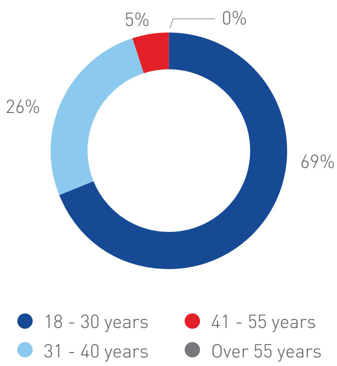
The impact of attrition was mostly felt at Junior and Lower Management Levels, mainly in the frontline sales and branch operations roles. As a market reality, these employee segments tend to switch jobs for higher salaries and enhanced profiles, and due to personal reasons such as marriage, relocation, studies, health, etc.

To address the issue of attrition, LOLC Finance has implemented several career development initiatives and provide employees with an enabling work environment, which includes; mentoring by seniors, learning opportunities, career planning and as well as various employee engagement measures.

Our overall remuneration philosophy seeks to create an environment in which teams are challenged to achieve the required end result. The ultimate goal here is to reward performance that is aligned to the LOLC Finance's business model and strategy.

18 - 30 years	31 - 40 years	41- 55 years	Over 55 years
1,701	631	127	2

AGE Analysis



Remuneration and Benefits

A minimum entry-level compensation policy applies for all new recruits with no prior work experience. A standard remuneration package applies for each employee category, where those with similar roles and responsibilities are paid similar salaries. All employees, regardless of their grade, are entitled to the following benefits in addition to their fixed salary;

Our overall remuneration philosophy seeks to create an environment in which teams are challenged to achieve the required end result. The ultimate goal here is to reward performance that is aligned to the LOLC Finance's business model and strategy. High performers identified through the performance review process are further rewarded with additional increments, bonuses and promotions. Our approach is fundamentally based on rewarding each employee who makes a strong positive contribution to LOLC Finance's overall performance, and does so in line with the required culture and mindset in the Company.

LOLC Finance participates in annual salary surveys, which helps to ensure our remuneration framework remains competitive and in line with industry benchmarks.

Safety, Health and Well-being

The safety and well-being of our employees is of paramount importance. Despite the fact that due to the nature of LOLC Finance's business, our employees are not subject to any significant health risks, we have taken steps to ensure a safe work environment by implementing all safety measures in line with the national safety regulations. To make certain our employees are prepared at all times in case of a fire emergency, routine fire evacuation drills and training programmes are conducted at our head office and at all branches across the network.

We have a multi-generational workforce and believe it is vital that they are provided with the support and opportunities they need to optimise their health and well-being. We maintain a comprehensive calendar of well-being events for our people, which among other things includes; memberships to selected health and fitness clubs and access to the O-doc platform that gives employees access to medical consultations free of charge.

We also support our employees through numerous work-life balance initiatives as well as training sessions that promote both physical and psychological well-being.

Training and Development

Since employees are one of our most valued assets, ensuring that they are equipped with a multi-dimensional skill set is a key priority area of our HR strategy. Our aim is to develop our human capital for business success vis-a-vis functional and behavioural competencies.

At LOLC Finance, training starts with our on-boarding program. Given the specificity of our business lines, on-boarding programs are customised. For example- new recruits of the Microfinance unit are on-boarded through a special orientation programme, while a standard programme is run for all other new marketing recruits. A separate induction programme is conducted for new recruits hired for administrative and back office functions, while new recruits in the Assistant Manager and above grades receive a personalised induction.

The focus on corporate culture is common to all on-boarding programmes. The segment on culture aims to assist new recruits to align with LOLC Finance's core values and emphasises the high standards of behaviour that we expect from our people.

Outbound training programme for staff

CAPITAL MANAGEMENT REPORTS

HUMAN CAPITAL


Outbound training programme for staff


Training on team building

At LOLC Finance, competency training and skills development is a continuous and ongoing activity based on the 70/20/10 developmental training model, where 70% of learning is achieved through on-the-job training, 20% though knowledge sharing sessions and the remaining 10% through formal classroom training sessions.

In the year under review much of the formal training was centred on strengthening our employee's digital capacity in line with LOLC Finance's strategic shift towards becoming a fully digital financial services institution. Special emphasis was also placed on leadership development training to groom the next generation of leaders who would drive LOLC Finance's corporate aspirations. AML training for senior management was another key focus area for the FY 2018/19.

Training Area	No. of Programmes	No. of Participants	Total training hours	Average training hours per employee
Technical	104	2,198	30,234	7.12
Professional	35	1,119	17,278	13.3
Leadership	3	93	1,613	16.6

Performance Management

We believe that identifying potential talent based on performance will pave the way towards creating a pool of leaders with the skills and competencies required to lead the Company's future growth. To facilitate this process LOLC Finance employs an integrated Performance Management System (PMS) which evaluates employees' contribution towards the Company's business objective and determines the employees' alignment with the corporate value culture. In this context, the PMS provides an opportunity for employees to develop and enhance their individual performance while contributing to the achievement of organisational mission, goals, and business objectives. The PMS is implemented through the annual performance review process, where individual performance is assessed against pre-determined targets set at beginning of the year. A fully-fledged HRIS is in place to give employees the ability to review their progress on an ongoing basis. Supervisors too can access the HRIS to review the performance of employees and provide developmental feedback and offer support to underperforming employees to enable them to improve their performance in order to achieve their annual targets.

Meanwhile high performers identified through the annual performance review process and rewarded by way of additional incentives and promotions that provide employees with the opportunity to further advance their careers within the Company or the wider LOLC Group.

Employee Relations

We believe that strong employee relations is the foundation for ensuring employees stay connected to LOLC Finance's strategic purpose. We maintain a range of formal as well as informal communication channels to connect with employees, gather feedback as well as to ideate innovations. These include; HR Branch visits, Regional Meetings, Branch Meetings, Bright Ideas forum and Exit Interviews

No collective bargaining agreements are in place as LOLC Finance's open door policy encourages employees to voice their grievances and raise complaints. In addition, a dedicated HR officer has been appointed to liaise with branch staff and identify any issues they may have. Meanwhile handling of matters regarding violations of the Code of Conduct, indiscipline, sexual harassment, etc. are done through constructive dialogue between the senior management and the respective employees. The process is supported by a fair and unbiased investigation where any disciplinary action, and dismissals or terminations can be challenged by employees.

A Whistle Blower Mechanism is also in place and serves as a secure channel for employees to report fraud or other financial irregularities, without fear of retribution.

As part of our employee relations framework, we also conduct exit interviews with employees resigning from LOLC Finance.

Employee Engagement

Having understood the importance of promoting greater social cohesion among employees, our annual event calendar provides a range of social and sports activities through which to build team spirit and camaraderie between employees at all levels.

SOCIAL AND RELATIONSHIP CAPITAL

At LOLC Finance, we truly believe that every section of society should have access to financial services and as such we offer a comprehensive suite of products and services that cater to all customer segments, with each offering meticulously designed to reflect our focus on "Customer Centricity"

LOLC Finance's Social and Relationship Capital strategy is driven by the need to build quality relationships with the Company's customers, suppliers and the wider community, which we believe is the key to achieving our growth objectives and improving the long term sustainability of our business.

CUSTOMER

Responsible Financial Products and Services

Given the rapid changes taking place in our immediate operating environment, we realise that LOLC Finance can play a leading role by being the first to respond to market needs through financial products and services that will enable customers to create a secure financial future for themselves and thereby contribute towards the Country's economic progress.

At LOLC Finance, we truly believe that every section of society should have access to financial services and as such we offer a comprehensive suite of products and services that cater to all customer segments, with each offering meticulously designed to reflect our focus on "Customer Centricity".

Customer Outreach

LOLC Finance's network of branches is at the heart of our customer outreach strategy. We have 140 branches located across all 25 districts of the country, ensuring that all citizens across Sri Lanka have access to our products and services.

Moreover, we strive to continuously innovate in order to stay relevant to our customers' needs. To wards this end, we have invested heavily in digital technology which has led to the launch of new channels that support our efforts to widen the customer outreach. The LOLC Real Time online portal and the mobile app are a few of the ground-breaking new developments introduced in the recent past.

As part of our ongoing strategy to increase the number of customer touch-points we signed up with the M-Cash payment platform to give LOLC Finance customers access to over 16,000 M-Cash payments points located across the country. The launch of the iPay payment app is another significant milestone in our efforts to reach out to yet untapped customer segments.

Customer Engagement

Customers are at the core of our business, and we firmly believe that effective customer engagement is the key to building a loyal customer base that would provide a solid foundation from which to our business can continue to grow and thrive in the long term. Premised on this, LOLC Finance maintains a highly personalised customer engagement strategy, driven by two key pivots; relationship-building and complaints handling. We use a combination of these activities vis-a-vis our Relationship Managers, front office customer service personnel and our call centre agents, along with a dedicated social media relations officers who handle all concerns raised through social media platforms.

We also conduct regular customer feedback and surveys to connect with our customers and under-stand their behavior. Enhancing customer communication, and addressing their needs and expectations in this manner forms the basis of all frontline and product-oriented decision making, which further reflects our customer-centric philosophy.

LOLC Finance is currently in the process of building a cognitive platform to better understand customers' financial needs using advanced analytical models. We hope to use the results of these findings to increase our relevance as a customer-centric financial institution in the years ahead.

Marketing and Labelling

At LOLC Finance, Marketing and Labelling activities are driven by our customer communication strategy which is

CAPITAL MANAGEMENT REPORTS

SOCIAL AND RELATIONSHIP CAPITAL

underpinned by four guiding principles; transparency, comprehensiveness, relevance and timeliness. From a marketing perspective, we use a mix of both ATL and BTL channels in order to provide the customer with sufficient information on each product or service, so that they may fully understand every value proposition and be able to make an informed decision. Moreover, we encourage customers to select products which are suitable for them and ensure that they are aware of the risks associated with their decision. We train our employees to understand the customer and recommend product customers' personal objectives, while taking into the consideration their financial situation.

At the same time, we remain firmly aligned to the directives issued by the CBSL regarding the disclosure of mandatory product information, including the display of interest rates and daily exchange rates at all our branches to give customers the opportunity to compare with peers before making an in-formed decision.

Customer Privacy

As a financial institution, it is important that we remain sensitive to using and sharing customer information. We recognise and respect our customer's expectation of privacy and accept that safeguarding the customer's information is critical in strengthening the bonds of trust. As a first step we do not gather unnecessary information and only collect and retain information that is useful (and required by law).

Internally, we have put in place several layers of physical, electronic and procedural safeguards to protect customer information. Procedures to protect customer information from unauthorised use, include limiting employee access to personally identifiable information to those with a business reason for knowing such information.

As a leading financial services institution, we believe it is our responsibility to support the wider community by contributing to its social and economic development in a long-lasting and sustainable manner.

Furthermore, we educate our employees so that they understand the importance of confidentiality and customer privacy and take also take necessary disciplinary measures to enforce employee privacy responsibilities.

Moreover, we have placed restrictions on how customer account information can be disclosed and do not reveal specific information about customer accounts or other personally identifiable data to unaffiliated third parties unless mandated by law.

SUPPLIER

Ethical Sourcing

We respect our suppliers and business partners and look to cultivate long-term mutually beneficial relationships based on trust. In this context we promote fair and free competition in accordance with the law. When pursuing new relationships, we remain open to any and all candidates, regardless of scale, and evaluate them based on their overall strengths. We do however strive to maintain an ethical sourcing policy, were we seek to associate only with suppliers willing to abide by standard labour laws & practices while upholding basic human rights including and not restricted to the non-employment of child labour, providing equal opportunity to women employees, ensure health, safety and welfare of employees and adopting safe environmental practices.

The risk of child, forced or compulsory labour is addressed through our supplier on-boarding procedures which include site visits, with suppliers found to be indulging in unethical practices or using unscrupulous means or any collusive practices being immediately blacklisted.

COMMUNITY

Livelihood Development

As a leading financial services institution, we believe it is our responsibility to support the wider community by contributing to its social and economic development in a long-lasting and sustainable manner. This commitment is reflected in LOLC Finance's mission statement and is brought to life on a daily basis through our leasing and Microfinance units, which provide a range of financing solutions to offer support to SMEs and micro entrepreneurs across the country enabling them to improve their livelihoods and thereby contribute towards the socioeconomic development of their local economy.

Our lending activities over the years have supported SMEs and micro entrepreneurs involved in a wide range of industries, including agriculture, construction and tourism, all of which are key drivers of GDP growth.

Promoting Financial Inclusion

Promoting financial inclusion in Sri Lanka is a key part of LOLC Finance's mandate as a financial services institution. In fact, we consider it our duty in service to the nation. To honour our mandate to promote financial inclusion, we have in recent years turned to digital technology as means of developing simple and convenient solutions to make it easier to reach out to the vast unbanked and un-derbanked population in the country.

The Smart collect program rolled out in mid-2018 is one such initiative launched with the aim of promulgating the savings culture among the rural population. Smart collect is a simple solution that is designed to offer the customer a doorstep collection service and the guarantee of immediate credit to their respective savings account.

The LOLC Finance officer visiting the customer at his/her doorstep will accept the cash, which will be credited instantly to the customer's savings account through a POS (point-of-sale) machine. The account holder then receives an instant SMS alert confirming the fund transfer.

Corporate Social Responsibility

We believe investing in the communities is the most effective way in which we can make a positive impact on society. As a responsible corporate citizen we want to share our success to bring lasting socioeconomic change through systematic interventions that will enhance the wellbeing of underserved communities across Sri Lanka. In this context our focus is directed towards acute social needs that are considered national priorities that require urgent action.

CAPITAL MANAGEMENT REPORTS

NATURAL CAPITAL

Playing a lead role in supporting the LOLC Group's main green initiative. LOLC Finance's branch network remains the key driver of this large scale tree planting program, which aims to plant trees at all schools across the island.

As a financial services institution, LOLC Finance's impact on the environment is somewhat limited. Nonetheless, we do remain committed to utilise resources in the most efficient manner in order to reduce even this small impact. Our Natural Capital strategy is based on the adoption of best practices to address the challenges of environmental degradation and climate change. In this context, we focus on three key areas;

LOLC Green Island wide tree planting campaign

Reducing Paper Consumption

Paper is widely used in our day-to-day activities, for statements, forms, written communication, internal communication and other documentation. Over the past five years, our paper consumption has continued to increase in tandem with the expansion of our business.

Amidst this backdrop, we have begun to explore the possibility of technology interventions in order to control the use of paper across our business and ultimately move towards paperless branches. As part of this strategy, several internal processes were digitised in the year under review. Accordingly, customers now receive transaction notifications by way of an SMS alert and interest advice slips by email, replacing the previous practice of sending a physical notice by post. These initiates have led to a significant reduction in the paper used on a daily basis.

Energy Conservation

Electricity and fuel use account for a major portion of the energy consumed by LOLC Finance. Much of our energy consumption is attributed to electricity purchased to meet the power requirements of our head office and branch offices across the country.

In an effort to reduce our daily electricity consumption we have continued to invest in energy saving lighting solutions as well energy efficient equipment such as computers and printers. At the same time, we continue to raise awareness among our employees and encourage them to align with the Company's energy saving efforts.

Environmental Projects

Playing a lead role in supporting the LOLC Group's main green initiative. LOLC Finance's branch network remains the key driver of this large-scale tree planting program, which aims to plant trees at all schools across the island.

LOLC Green Island wide tree planting campaign

MODERNISED. DIGITALISED.

Stewardship

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.

The appointment of Directors is subject to Central Bank approval with subsequent approval taken from the shareholders (for re-election) at an Annual General Meeting (AGM). At these meetings, an opportunity is given to all shareholders (public and nonpublic) to approve or to reject such appointments. Resolutions on new appointments/re-appointment are communicated to the shareholders through the "Notice of the Annual General Meeting", with due prior notice.

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 for review and to address areas that require improvement. Related 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 Deputy Chairman 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 2018.

The External Auditors' certification on the effectiveness of the Internal Control Mechanisms in respect of the audited financial statements released has been published in this Annual Report in compliance with the requirements of the aforesaid Direction. Furthermore, based on a report issued by the External Auditors on Factual Findings on the Level of Compliance of the said Corporate Governance Direction, the Board has determined that the Company has in fact adhered to its requirements.

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** The Company has formulated a five-year Strategic Plan which has been approved by the Board. 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: 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.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
		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. 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.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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 2018/19 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. The last review was carried out in January 2019.
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.

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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
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.
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.	**This Situation has not arised during the year** 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.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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 87 for further details. Approvals obtained through the circulation of resolutions (26) 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.
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 87 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 (Pvt) Ltd 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.

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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
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**
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 six members as at 31st March 2019. The seventh Board member was appointed to the Board subsequent to the year end.
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.	**Complied with** Board comprised three Executive Directors (including the Deputy Chairman/CEO), and three Non-Executive Directors of whom two were independent. A third Independent Non Executive Director was appointed to the Board subsequent to the year end.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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 (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.	**Complied with** The Board comprised two Independent Directors as at 31st March 2019. Mrs. D P Pieris, Senior Independent Director (Re-designated on 03.07.2017) Mr. P A Wijeratne, Independent Non-Executive Director The third Independent Non Executive Director, Mr. K Sundararaj was appointed to the Board subsequent to the year end (Appointed on 23.7.2019).
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

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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
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 18.
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 2018/2019. Details of attendance at meetings are provided on pages 87 to 88.
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. Mr. B C G De Zylva - Non-Executive Chairman (Appointed with effect from 23rd April 2018) 2. Mr. R D Tissera - Deputy Chairman/CEO (Appointed as Deputy Chairman with effect from 23rd April 2018 and Appointed Deputy Chairman/CEO with effect from 07th February 2019) 3. Mrs. K U Amarasinghe - Executive Director 4. Mr. A Nissanka - Executive Director 5. Mrs. D P Pieris - Independent Non-Executive Director 6. Mr. P A Wijeratne - Independent Non-Executive Director 7. Mr. I C Nanayakkara - Deputy Chairman - Executive Director (Resigned with effect from 14th May 2018) Independent Non Executive Director, Mr. K Sundararaj was appointed to the Board subsequent to the year end on 23.7.2019. The Directors' profiles are given on pages 16 to 18.
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.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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. K Sundararaj 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 himself for re-election at the AGM.
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 (resignation of Mr. I C Nanayakkara, and subsequent appointment of Mr. K Sundararaj) 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. 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.

CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
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** Mr. B C G De Zylva, Non-Executive Director has been appointed as the Chairman. Mrs. D P Pieris has been 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 CEO. 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**
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.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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 97 to 98.
8.2	Audit Committee	Please refer page 97 for the Committee Report

CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
a.	The Chairman of the committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	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. To comply with the requirements of the Listing Rules of the Colombo Stock Exchange which require the chairman or a member of the Committee to be a member of a recognised professional accounting body, Mr. K Sundararaj, Chartered Accountant was appointed to the Board and its Audit Committee on 23rd July 2019. Please refer the report on page 97.
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 3. Mr. K Sundararaj (a.w.e.f. 23/7/2019)
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.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC 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.
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**

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Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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.
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 three 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 2018/19 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 2018/19 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.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
	(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. In accordance with good governance initiatives, audit partner rotation is practiced and the need for auditor rotation is considered every 7 years.
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 Audit Charter 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 2018/19 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 97.
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**

CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
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.
8.3	Integrated Risk Management Committee	Please refer page 98 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. R D Tissera – Deputy Chairman/CEO Mr. A Nissanka - Executive Director Mr. G Weerakoon – DGM ERM Mrs. D Mahawatte - Compliance Officer Mr. B Weeratunga- Head of Finance Mr. I Ariyawansa – AGM - Credit Risk Management Mr. S Samarasekera – AGM Credit Risk Management Mr. S Kalidasa - Head of Treasury Mr. C 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 DGM 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.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
		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. 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 evaluation 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 2018/19.

CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
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 DGM ERM 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.
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 DGM ERM.
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.	
	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:	**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.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
	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; 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.	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. 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/Senior Independent Director Mr. P A Wijeratne – Independent Non-Executive Director Mrs. K U Amarasinghe – Executive Director Mr. R D Tissera – Deputy Chairman/CEO Mr. A Nissanka – Executive Director
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;	**Complied with** The Company will further strengthen the favourable treatment monitoring mechanism by implementing an online system.

CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 0f 2008	The Level of Compliance of LOLC Finance
	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; 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 91 to 94.
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 95.
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. Please refer page 96 for the report.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 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 18. Transactions with Directors during the year are as follows. Remuneration paid (Rs') 51,277,290 Accommodations granted (Rs') - Deposits with the company (Rs') 493,923,841 Interest for the year (Rs') 46,620,454
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. 51,277,290/-.
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 page 179 (note 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') 97,497,301 Accommodations granted (Rs') 42,349,079 Deposits with the company (Rs') 831,639,658 Interest for the year (Rs') 92,492,763
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 91 to 94.
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 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; and ➡ appointment of a member of a professional accounting body to the Audit Committee For further details please refer the Directors' Report on pages 91 to 94.
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 2019 the Board comprised six directors of whom three 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 2019 the Board comprised two Independent Directors from whom signed declarations of independence were obtained.
7.10.3-4	**Disclosures Relating to Directors** a. The Board shall make a determination annually as to the independence or non-independence of each director based on such declaration and other information available to the board and shall set out in the annual report the names of directors determined to be 'independent'.	**Complied with** Declarations of Independence from the two directors were assessed by the full Board.
	b. In the event a director does not qualify as 'independent' against any of the criteria set out below but if the board, taking account all the circumstances, is of the opinion that the director is nevertheless 'independent', the board shall specify the criteria not met and the basis of its determination in the annual report.	The Board has reviewed and satisfied itself of the independent status of these non-executive directors whose names are disclosed in the Directors Report on page 91.
	c. In addition to disclosures relating to the independence of a director set out above, the board shall publish in its annual report a brief resume of each director on its board which includes information on the nature of his/her expertise in relevant functional areas.	Please refer directors' profiles on pages 16 to 18.
	d. Upon appointment of a new director to its board, the Entity shall forthwith provide to the Exchange a brief resume of such director for dissemination to the public. Such resume shall include information on the matters itemised in paragraphs (a), (b) and (c) above.	The Company complies with this requirement, in the event a new director is appointed to the Board.

Sec No.	Rules of the Colombo Stock Exchange	LOLC Finance's Level of compliance
7.10.5	**Remuneration Committee**	**Complied with**
a.	**Composition**	
	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.	As at 31st March 2019 the Committee comprised two Independent Non-Executive Directors.
b.	**Functions**	
	The Remuneration Committee shall recommend the remuneration payable to the executive directors and Chief Executive Officer of the Listed Entity and/or equivalent position thereof, to the board of the Listed Entity which will make the final determination upon consideration of such recommendations.	The Committee periodically reviews Board remuneration and makes recommendations to the Board.
c.	**Disclosure in the Annual Report**	
	The annual report should set out the names of directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors.	The Committee comprises Independent Non-Executive Directors, Mrs D P Pieris and Mr P A Wijeratne. The Committee is guided by the Board approved Remuneration Policy. The aggregate remuneration paid to executive and non executive directors is disclosed in the Directors Report on page 91.
7.10.6	**Audit Committee**	**Complied with**
a.	**Composition**	
	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.	As at 31st March 2019 the Committee comprised two Independent Non-Executive Directors.
b.	**Functions**	
	Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a Listed Entity, in accordance with Sri Lanka Accounting Standards. Overseeing of the Entity's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. Overseeing the processes to ensure that the Entity's internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards. Assessment of the independence and performance of the Entity's external auditors. To make recommendations to the board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of external auditors	The Committee is guided by a board approved Audit Committee Charter which includes the functions of those listed here.

CORPORATE GOVERNANCE

Sec No.	Rules of the Colombo Stock Exchange	LOLC Finance's Level of compliance
c.	**Disclosure in the Annual Report** The names of the directors (or persons in the parent company's committee in the case of a group company) comprising the audit committee should be disclosed in the annual report. The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the annual report. The annual report shall contain a report by the audit committee, setting out the manner of compliance by the Entity in relation to the above, during the period to which the annual report relates.	The Committee comprises Independent Non Executive Directors Mr. P A Wijeratne, Mrs. D P Pieris and Mr. K Sundararaj, while Mr. Wijeratne serves as the Committee Chairman. The Committee has made this determination. Please refer the Committee report on page 97.
7.13.1 (b)	**Minimum Public Holding Requirement** Disclosure in terms of rule 7.13.02 of the Listing Rules of the Colombo Stock Exchange ('CSE")	**Not Complied** The Company is not compliant with the Minimum Public Holding Requirement stipulated in CSE Rule 7.13.1 (b). Please refer the Directors Report on pages 91 to 94.
9.2.2-9.2.4	**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 2019, the Committee comprised two Independent Non-Executive Directors, one of whom serves as the Chairman and 3 Executive directors. A separate committee has been established by the Company. Functions of the Committee and details of meetings held are included in the Committee Report on page 100.
9.3.2	**Disclosures in the Annual Report** a) Non-recurrent Related Party Transactions if aggregate value exceeds 10% of the equity or 5% Total assets whichever is lower b) Recurrent Related Party Transactions – If aggregate value exceeds 10 % Gross/income as in the latest audited accounts c) The Annual report shall contain a Report of the Related Party Transactions Review Committee in the prescribed manner. d) A declaration by the Board of Directors as an affirmative statement of the compliance with the rules pertaining to related party transactions:	a & b) During the current period there were no non-recurrent related party transactions which qualify for the requirement. However, the detailed related party transactions are disclosed in note 32. c) Please refer Committee Report on page 100. d) Please refer the Directors Report on pages 91 to 94.

Member Attendance at Meetings

Board Meetings

Name of the Director	IN	NI	EX	NEX	Date of appointment	Meeting Dates												Total
						23/04/2018	23/05/2018	22/06/2018	30/07/2018	27/08/2018	26/09/2018	29/10/2018	28/11/2018	19/12/2018	29/01/2019	25/02/2019	27/03/2019	12
Mr. B C G De Zylva		✓		✓	23.04.2018	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11
Mr. R D Tissera (Appointed CEO with effect from 07th February 2019)		✓	✓		23.04.2018	✓	✓	✓	✓	×	✓	✓	✓	✓	✓	✓	✓	11
Mr. A Nissanka		✓	✓		15.10.2015	✓	✓	✓	×	✓	✓	×	✓	✓	✓	✓	✓	10
Mrs. K U Amarasinghe		✓	✓		05.03.2003	✓	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11
Mrs. D P Pieris	✓			✓	27.06.2012	✓	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11
Mr. P A Wijeratne	✓			✓	26.05.2017	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
Mr. K Sundararaj	✓			✓	23.07.2019													-
Mr. I C Nanayakkara (R.W.E.F. 14.05.2018)		✓	✓		26.11.2002	✓												01

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

Audit Committee Meetings

Name of the Director	Meeting Dates						Total
	23/05/2018	08/08/2018	26/09/2018	23/10/2018	29/01/2019	27/03/2019	06
Mr. P A Wijeratne	✓	✓	✓	✓	✓	✓	06
Mrs. D P Pieris	×	✓	✓	✓	✓	✓	05
Mr. K Sundararaj (Appointed with effect from 23rd July 2019)	-	-	-	-	-	-	-
By Invitation							
Mr. R D Tissera (Deputy Chairman/CEO)	✓	✓	✓	✓	✓	✓	06
Mr. B Weeratunga (Head of Finance)	×	✓	✓	✓	✓	✓	05

CORPORATE GOVERNANCE

Integrated Risk Management Committee Meetings

Name of the Director	Meeting Dates				Total
	23/04/2018	22/08/2018	21/11/2018	15/03/2019	04
Mrs. D P Pieris	✓	×	×	✓	02
Mr. P A Wijeratne	✓	✓	✓	✓	04
Mr. R D Tissera	✓	✓	✓	✓	04
Mr. A Nissanka	✓	-	-	-	01
Mrs. S Wickremasekera/ Mr. G Weerakoon	✓	✓	✓	✓	04
Mr. B Weeratunga	✓	✓	✓	✓	04
Mrs. D Mahawatte	✓	✓	✓	✓	04
Mr. S Kalidasa	×	✓	✓	×	02
Mr. I Ariyawansa	✓	×	✓	✓	03
Mr. S Samarasekera	-	-	-	✓	01
Mr. C Jayanath	✓	✓	✓	✓	04

Related Party Transactions Review Committee Meetings

Name of the Director	Meeting Dates				Total
	23/05/2018	08/08/2018	23/10/2018	29/01/2019	04
Mrs. D P Pieris	×	✓	✓	✓	03
Mr. P A Wijeratne	✓	✓	✓	✓	04
Mr. R D Tissera	✓	✓	✓	✓	04
(Appointed with effect from 29th January 2019)					
Mrs. K U Amarasinghe	-	-	-	✓	01
Mr. A Nissanka	✓	✓	×	✓	03

Remuneration Committee Meetings

Name of the Director	Meeting Dates	Total
	27/03/2019	04
Mrs. D P Pieris	✓	01
Mr. P A Wijeratne	✓	01

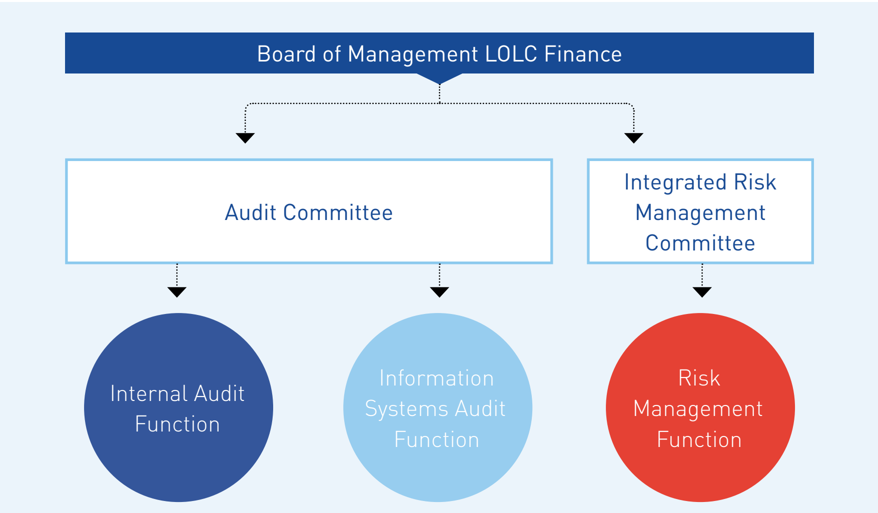
Nomination Committee Meetings

Name of the Director	Meeting Dates	Total
	27/03/2019	04
Mr. P A Wijeratne	✓	01
Mr. R D Tissera	✓	01
Mrs. K U Amarasinghe	✓	01

ENTERPRISE RISK MANAGEMENT

Risk for LOLC Finance PLC. (LOFC) is defined as anything which hinders the achievement for our strategic and tactical objectives. Risk governance at LOLC Group is spearheaded by the Group level centralised risk function with adequate level of independence given to the entity level structures. This allows seamless integration with the Group level policies and allows for the risk management initiatives to cascade down to entities and ensure uniformity across the Group.

LOLC Finance PLC comes under the financial sector of LOLC Group and requires a high degree of regulatory compliance with regard to risk management. Risk management at LOLC Finance is given full independence with the enterprise risk management unit having its reporting line to the Board of Management via the integrated Risk Management Committee and the Audit Committee. This segregation of reporting from the organisation's executive management ensures that all risk and audit related matters are free from any bias and reported to the Board of Management. This initiative shows the commitment of the Board of Management to risk governance with in the organisation.



The integrated Risk Management Committee (IRMC) and the Audit Committee are Board level subcommittees which are headed by Independent Directors. The above risk governance initiative allows the Board of Management to have direct oversight over the enterprise risk management division and its sub functions and ensures that the Board of Management is appraised of the organisational risks and internal controls in an independent and unbiased manner. This elevates the confidence level the Board has on the internal control and risk governance structures and their reliability, consistency and effectiveness.

The IRMC and the Audit Committee approve the annual plans with regard to their respective scope of works and monitors the progress on a quarterly basis. This ensures that both the risk and audit functions are adequately staffed, and resources constraints are managed.

The risk governance structures at LOLC Finance consist of Risk Management, Internal Audit and IS Audit functions which forms the Enterprise Risk Management Department (ERM). Risk management focuses on the probable risks, its impact and mitigation strategies while the internal audit function focuses on the adequacy, effectiveness, consistency and the reliability of the internal control framework in place to manage the risks. The information systems audit functions play a supporting role to both the internal audit and the risk management in evaluating the information and cyber related risks to the organisation. The synergy between the risk and audit functions ensures efficient deployment of resources based on risk factors and that all required risk mitigation structures are working as intended.

The risk management function identify risks with a reasonable probability to affect the realisation of objectives, The risk identification takes place at different levels of the organisation, mainly at risk and process owners level and at focused risk assessments carried out by the risk management function. This is supplemented by the risks identified by the audit function in its reviews. To strengthen the above process compulsory reporting lines are established from each business and service silo to the ERM department to which all units reports on a monthly basis of perceived risks covering a broader entity level risk spectrum. These reports are further analysed by ERM for impact and reported to the board on a monthly basis. Any material risks which are identified with in two reporting periods are immediately informed to the CEO and the respective risk owners by way of risk information escalations, so mitigation action can be taken promptly. In addition to the aforesaid quarterly reporting, the Integrated Risk Management Committee (IRMC) focuses on emerging material risks and identified monitored risks against key risk indicators defined by the Board and other risk indicators monitored by ERM for potential adverse movements. The

ENTERPRISE RISK MANAGEMENT

Integrated Risk Management Committee (IRMC) evaluates the possible impacts and in line with the mitigation action proposed by ERM consults risk owners and decide on the best possible risk mitigation strategies and comfortable levels of expected risk. The Board of Management is kept informed of all activities of the IRMC via a Board communication with in seven days of the quarterly IRMC meeting.

We firmly believe on our vision in risk management, "Building an organisational Culture where Protection, Assurance, Reliability, Accountability, Transparency and Confidentiality are treasured and lasting values", and have identified that creating awareness of risk and response at all levels of staff is the key to a successful risk management programme. In pursuant of this strategy enterprise risk management department engages in a consultative capacity in new product, service developments and business process formulations to ensure that product, process and service risks are adequately addressed. In addition ERM conducts in house training for staff on risk and controls.

The Internal Audit adopts a risk-based approach to its auditing and peruse a three-pronged strategy of Branch Audits, Process Audits and Continuous audits are conducted. We have a team of regional auditors based in the branches who review the branches as well as engage in field reviews of our Microfinance operation. In addition all these audits are supported by IT audits in reviewing corresponding IT controls supplemented by the planned Information system audits conducted by the IS Audit unit which gives a reasonable assurance that IT controls are reliable and adequate. All new major system developments and deployments also are scrutinised by the IS Audit function for application and general controls.

A corporate whistle blower hotline and a customer feedback line (in addition to the operational complaint line) 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 allows a customer to use an alternate channel to complain if their grievances are not handled satisfactorily by the operational staff.

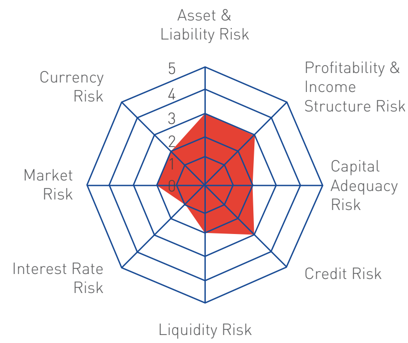
Risk management is an evolving function and adaptation to the global trends and economic environment is essential. We firmly believe that in order to adopt to the volatile business environment updating and maintaining of diverse skills and knowledge covering all aspects of LOLC Finance operations is a pre-requisite. Constant training, both in-house and external are provided to enhance the knowledge and skills of the ERM staff. The elevate confidence levels in our ability to identify emerging risks and formulation of risk mitigation controls.

Risk Profile

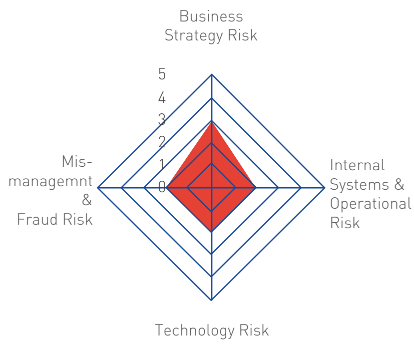
The following is based on the perceived risk and is a high level categorisation used only for the illustration purposes of this report.

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

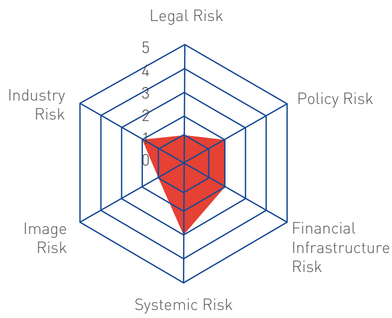
Financial Risks



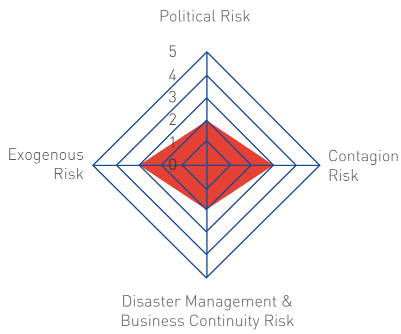
Operational Risks



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 2019.

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, provision of Advances for Margin Trading in the Colombo Stock Exchange and Micro-Finance.

Directorate

The Board of Directors of the Company.

1.	Mr. B C G De Zylva	Chairman, Non-Executive Director
2.	Mr. R D Tissera	Deputy Chairman/CEO
3.	Mrs. K U Amarasinghe	Executive Director
4.	Mr. A Nissanka	Executive Director
5.	Mrs. D P Pieris	Senior Independent Director
6.	Mr. P A Wijeratne	Independent Director
7.	Mr. K Sundararaj	Independent Director (Appointed with effect from 23rd July 2017)

Recommendations for re-election of Directors

In terms of Article 75 of the Articles of Association of the Company Mrs. D P Pieris and Mr. P A Wijeratne will retire by rotation and being eligible seek re-election as Directors.

In Terms of Article 70 of the Articles of Association of the Company Mr. K Sundararaj will retire, and being eligible offer himself for re-election.

The Board recommends their re-election. The approval of the Central Bank of Sri Lanka has been obtained 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 found on page 94.

Directors' Remuneration

The Company paid Rs. 51,277,290/- as Directors' remuneration for the financial year ended 31st March 2019.

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 99.

Directors' Shareholding

	Director's Name	As at 31.03.2019	As at 31.03.2018
1	Mr. B C G De Zylva	Nil	Nil
2	Mr. R D Tissera	Nil	Nil
3	Mrs. K U Amarasinghe	Nil	Nil
4	Mr. A Nissanka	1,300,800	1,300,800
5	Mrs. D P Pieris	Nil	1,000,000
6	Mr. P A Wijeratne	5,000	5,000

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 87 and 88.

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
- Related Party Transaction Review Committee
- Nomination 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 97 to 101.

The Company has also established the following management level Committees: Credit Committee, Asset Liability Committee and Legal Settlement Committee to manage matters relating to credit, liquidity, collections.

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 on the Banking and

REPORT OF THE BOARD OF DIRECTORS

finance sub-committee 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 LOLC Finance Channel network of over 140 locations which include seven dedicated Al-Falaah centres.

Financial Statements and Auditor's Report and Directors' Responsibility for Financial Reporting

The Financial Statements and the Auditor's Report are given on pages 107 to 116.

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. 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 117 to 184.

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 60 to 88.

Transactions with Related Parties

Details of related party transactions are disclosed in the financial statements under Note 32 on pages 178 to 179.

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 2019/2020 at a fee to be decided by the Board.

The Auditors' remuneration for the year ended 31st March 2019 is disclosed in Note 26 to the Financial Statements.

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.

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. Therefore, the Board has determined that the External Auditors are independent as they are not engaged in providing any non audit services and the fees charged for audit assignments are not significant to impair their judgement/independence.

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 except for the following in terms of the Listing Rules of the Colombo Stock Exchange:

Disclosure in Terms of Rule 7.13.2 of the Continuous Listing Rules of the Colombo Stock Exchange:

In accordance with the requirements of the above rule, we provide below the following details as at 31st March 2019:

- The Company is not compliant with the Minimum Public Holding requirement stipulated in the Colombo Stock Exchange rule 7.13.1 (b)
- Public holding percentage 6.63%
- Number of public shareholders 2,701
- Float adjusted market capitalisation Rs. 863Mn

While in the process of complying with the core capital requirements of the Central Bank of Sri Lanka through a rights issue in March 2018 (in connection with the merger with LOLC Micro Credit Limited as approved by the Central Bank pursuant to its Financial Sector Consolidation Plan – 2014) due to lack of subscription by the minority shareholders of their rights, all remaining shares were taken up by the holding Company to meet the Capital Adequacy Ratio, causing a reduction of the minimum public holding requirement which was at 10%. Consequently, upon completion of six months from the conclusion of the rights issue, the Company was transferred to the Watch List on 7th November 2018 with a period of 20 months to comply. Failure on the part of the listed entity to comply with rule 7.13 can result in a trading suspension of its securities and a referral to the Board of Directors of the CSE for a determination in terms of rule 10.3 (a) of their rules.

Having evaluated available options your Board of Directors proposes to list debt securities instead of equity subject to requisite regulatory approvals, to ensure that the Company is not in violation of the Listing Rules of the Colombo Stock Exchange and the requirements of the Central Bank of Sri Lanka.

Disclosure in Terms of Rule 7.10.6.a of the Continuous Listing Rules of the Colombo Stock Exchange:

The Company was not compliant with the Corporate Governance requirements set out in Rule 7.10.6 (a) ii of the Listing Rules to the extent disclosed below as at 31st March 2019:

Details of Non-compliance	Minimum number of Directors as per Listing Rules	Current status (number of Directors)
Chairman or one member of the Audit Committee is a member of a recognised professional accounting body	One	-

However, the Company has complied with the requirements of this rule with the appointment of Independent Director, Mr. K Sundararaj, Chartered Accountant to the Board and its Audit Committee on 23rd July 2019.

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.

Shareholding

As at 31st March 2019, the stated capital of the Company is Rs. 7,880,000,000/- divided into 4,200,000,000 shares.

Events after the reporting date – Rights Issue

Having obtained requisite approvals (including Central Bank of Sri Lanka, Colombo Stock Exchange. Securities & Exchange Commission of Sri Lanka and the shareholders) the Company raised a sum of Rs. 4,882,500,000/- through a Rights Issue of shares by issuing 1,050,000,000 new shares in the proportion of one new share for each four shares held at a price of Rs. 4.65 per share for the purpose complying with the Finance Business Act Direction No. 3 of 2018 (Capital Adequacy Requirements). At the conclusion of the allotment on 1st August 2019, the stated capital of the Company stood at Rs. 12,762,500,000 represented by 5,250,000,000 shares.

Amendments to the Articles of Association

Objects Clause

Pursuant to the application made by the Company to function as a Financial Acquirer of Payment Cards, the Central Bank of Sri Lanka instructed the Company to amend its Articles of Association by including a specific objective clause to enable the Company to act as a Financial Acquirer in terms of the Payment Cards and Mobile Payment Systems Regulations No. 01 of 2013. The Board of Directors seek the approval of the shareholders to pass the Special Resolution to amend the Articles of Association set out in the Notice of Meeting.

Chairman

With the appointment of Mr. Ravi Tissera as Deputy Chairman/CEO, the CBSL has instructed the Company to amend certain clauses in its Articles in line with the provisions of the Finance Company Direction on Corporate Governance. Additionally, reference in the Articles to "Chairperson" is replaced by the word "Chairman". The Board of Directors also seek the approval of the shareholders to pass the Special Resolutions set out in the Notice of Meeting, for such purpose.

REPORT OF THE BOARD OF DIRECTORS

Annual General Meeting

The Annual General Meeting of the Company will be held on 19th September 2019 at 10.45 am at the Auditorium of LOLC Holdings 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 to the Company.

For and on behalf of the Board of Directors of

LOLC Finance PLC

Mr. Ravi Tissera
Deputy Chairman/CEO

Mr. Brindley De Zylva
Chairman

26th June 2019
Rajagiriya

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/CEO: LOLC Finance PLC Director: Sundaya Lanka (Pvt) Ltd. LOLC Development Finance PLC LOLC Mauritius Holdings Limited Alternate Director: Seylan Bank PLC
Mrs. K U Amarasinghe	Director: LOLC Holdings PLC LOLC Finance PLC LOLC Life Assurance Limited Palm Garden Hotels PLC Eden Hotel Lanka PLC Brown & Company PLC Browns Investments PLC Riverina Resorts (Pvt) Ltd. Browns Holdings Ltd. Green Paradise (Pvt) Ltd. Sun & Fun Resorts Ltd. Danya Capital (Pvt) Ltd. Ultimate Sports (Pvt) Ltd.
Mr. A Nissanka	Executive Director: LOLC Finance PLC Director: LOLC Philippine Corporation LOLC Philippines Capital Holdings Corporation LOLC Finance Zambia Limited
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. K Sundararaj	Director: LOLC Finance PLC

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

In line with 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 ongoing 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 ongoing 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 Auditors in this respect, will be taken in to consideration and appropriate steps will be taken to incorporate same, where applicable.

The Company adopts Sri Lanka Accounting Standard comprising LKAS and SLFRS and progressive improvements on processes to comply with requirements of recognition, measurement, classification and discourse are being made whilst further strengthening of process will take in its financial reporting and management information.

The Board has given due consideration for the adoption of SLFRS 9 "Financial Instruments" which was applicable for financial reporting period beginning from 1 April 2018. The Board will continually take steps to strengthen the process and controls around management information systems and information required for validation and compliance in line with SLFRS 9.

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. Ravi Tissera
Deputy Chairman/CEO

26th June 2019

INDEPENDENT ASSURANCE REPORT

Building a better working world

Ernst & Young
Chartered Accountants
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Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

INDEPENDENT ASSURANCE REPORT

TO THE BOARD OF DIRECTORS OF LOLC FINANCE PLC

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of LOLC Finance PLC (the "Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") included in the annual report for the year ended 31 March 2019.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008/ section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction no. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibilities and Compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of Work Performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for Directors; and appropriately reflected the process the Directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of the Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the Annual Report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

26th June 2019
Colombo

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 the following members.

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

*(appointed w.e.f. 23rd July 2019 subsequent to the year under review)

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.

To comply with the requirements of the Listing Rules of the Colombo Stock Exchange which require the chairman or a member of the Committee to be a member recognised professional accounting body, Mr. K Sundararaj, Chartered Accountant was appointed to the Board and its Audit Committee on 23rd July 2019.

During the year under review the Committee reviewed interim and annual Financial Statements prior to publication, checked and recommended 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 Company's level of compliance of the Corporate Governance Direction was assessed by the External Auditors.

The Committee addressed the External Auditors' findings reported in the Management Letter relating to the previous financial year's (2017/18) 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.

The Board / Audit Committee has determined that the External Auditors are in fact independent as:

- they are not engaged in providing any non audit services to the Company; and
- the fees charged for audit assignments are not significant to impair their judgement/independence.

In accordance with good governance initiatives, audit partner rotation is practiced and the need for auditor rotation is considered every 7 years.

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 87. The CEO and the Head of Finance are invited to 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 three 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
26th June 2019

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
Mr. P A Wijeratne	Independent Non-Executive Director
Mr. R D Tissera	Deputy Chairman/CEO
Mr. A Nissanka	Executive Director
Mr. G Weerakoon	DGM Enterprise Risk Management
Mrs. D Mahawatte	Compliance Officer
Mr. B Weeratunga	Head of Finance
Mr. I Ariyawansa	AGM-Credit Risk Management
Mr. S Samarasekara	AGM-Credit Risk Management
Mr. S Kalidasa	Head of Treasury
Mr. C Jayanath	Head of Recoveries

Terms of Reference

The IRMC is governed by its Terms of Reference which includes 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. 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 ERM on a monthly basis. The DGM ERM in turn performs an independent and selective scrutiny of relevant matters and issues 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 DGM ERM 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 and revised 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 management committees such as Assets & 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 88.

Mrs. D P Pieris
Chairman, Integrated Risk Management Committee

Rajagiriya
26th June 2019

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 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 170.

Meetings

One Remuneration Committee meeting was held during the year under review, and attendance of members is stated on page 88.

Mrs. D P Pieris
Chairman, Remuneration Committee

Rajagiriya
26th June 2019

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
Mr. R D Tissera	Deputy Chairman/CEO
Mrs. K U Amarasinghe	Executive Director
Mr. A Nissanka	Executive Director

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 regulation of the CBSL 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 policies and procedures 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 and Head of Finance are invited for 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 88.

Mrs. D P Piers
Chairman, Related Party Transaction Review Committee

Rajagiriya
26th June 2019

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 members:

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

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 with the relevant regulations of the CBSL and CSE. The gaps identified were then fulfilled by the Board subsequent to the year end.

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 88.

Mr. P A Wijeratne
Chairman, Nomination Committee

Rajagiriya
26th June 2019

DEPUTY CHAIRMAN/CHIEF EXECUTIVE OFFICER'S AND HEAD OF FINANCE'S RESPONSIBILITY STATEMENT

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the institute of Chartered accountant 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 2019, together with the comparative period data as at and for the year ended 31 March 2018, 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.

Mr. Buddhika Weeratunga
Head of Finance

Mr. Ravi Tissera
Deputy Chairman/CEO

26th June 2019

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors confirm that the Company's Financial Statements for the year ended 31st March 2019, 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 2019, 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 pages 107 to 110.

Mr. Ravi Tissera
Deputy Chairman/CEO

26th June 2019

SPECIALISED. REVITALISED.

Financial Statements

Supplementary Financial Information - Islamic Business Unit

Financial Information for Last Ten Years

FINANCIAL CALENDAR

Financial Calender 2018/19	
1st Quarter Results 2018/19 released on	Wednesday, August 15, 2018
2nd Quarter Results 2018/19 released on	Thursday, November 15, 2018
3rd Quarter Results 2018/19 released on	Friday, February 15, 2019
4th Quarter Results 2018/19 released on	Friday, May 31, 2019
Annual report for 2018/19 released on	Tuesday, August 27, 2019
18th Annual General Meeting on	Thursday, September 19, 2019

Proposed Financial Calender 2019/20	
1st Quarter Results 2019/20 will be released on	Thursday, August 15, 2019
2nd Quarter Results 2019/20 will be released on	Friday, November 15, 2019
3rd Quarter Results 2019/20 will be released on	Friday, February 14, 2020
4th Quarter Results 2019/20 will be released on	Friday, May 29, 2020
19th Annual General Meeting on	Tuesday, June 30, 2020

INDEPENDENT AUDITOR'S REPORT

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Ernst & Young
Chartered Accountants
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF LOLC FINANCE PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of LOLC Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2019, 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 111 to 184)

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Company as at 31 March 2019, and of its financial performance and its 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 Company 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 the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditors's 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.

Key Audit Matter	How our audit addressed the key audit matter
Impairment allowance for loans & advances, rental receivable on leased assets and factoring receivable from other customers including Company's transition to SLFRS 9: Our audit considered allowances for impairment of loans & advances, rental receivable on leased assets and factoring receivable as a key audit matter due to the materiality of the reported amounts, the subjectivity associated with management's estimation on significant judgements and assumptions, the use of a model that involves complex manual calculation and transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 09).	To assess the reasonableness of the allowance for impairment, we carried out audit procedures (among others) to obtain sufficient and appropriate audit evidences, that included the following: ➨ We evaluated the design effectiveness of internal controls over the estimation of allowances for impairment of loans & advances, rental receivable on leased assets and factoring receivable, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. ➨ We checked the accuracy of the underlying calculations and appropriateness of data used in such calculations on a sample basis.

INDEPENDENT AUDITOR'S REPORT

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working world

Key Audit Matter	How our audit addressed the key audit matter
As at 31 March 2019, loans & advances, rental receivable on leased assets and factoring receivable (net of impairment) amounted to Rs. 136,191,346,373 (note(s) 6, 7 and 7.6) and respectively. These collectively contributed 65 % to the Company's total assets. Note(s) 2.3.9, 6.a, 7.a, 7.6a and 25 to the financials statement provides a fuller description of the allowance for impairment of loans & advances, rental receivable on leased assets and factoring receivable, basis of its calculation including key judgments and assumptions used in its estimation. The impact on transition to SLFRS 9 on the Company's Financial Statements has been quantified and presented in the Note 35 to the Financial Statements.	➡ In addition to the above, focused procedures were performed as follows: ➡ For those individually assessed for impairment: - where impairment indicators existed, we evaluated the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. ➡ For those collectively assessed for impairment: - we tested the accuracy and completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT system. - we also considered reasonableness of macro-economic and other factors used by management in their judgemental overlays, by comparing them with relevant publicly available data and information sources. By using a set of audit procedures similar to those enumerated above, we validated the quantitative impact of the transition. We also assessed the adequacy of the related financial statement disclosures as set out in note(s) 2.23.3.1 (4), 6.a, 7.a and 7.6a. This included testing of the quantitative impact of the transition.
Valuation of Investment Properties The Company applies the fair value model for its investment properties as stated in Note 2.5 and 11 to the financial statements. The Company uses valuations carried out by third party valuers to ascertain fair value of these properties. The valuation of Investment Property was significant to our audit due to the magnificent, multiple locations in which these properties are held and the use of significant assumptions such as perch price and per square foot price as disclosed in note 11.1 to the financial statements. Any variation in the assumptions used for the valuation of the property could have a material impact on the financial statements.	We read the professional valuer's report and understood the key estimates made and the approach taken by the valuer in determining the valuation of each property. We also assessed the qualifications and expertise of the valuers and reviewed the terms of their engagement with the Company to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We involved our internal specialised resources to review the valuation reports for the selected properties and assessed whether the valuation approach and methods used are in accordance with the established standards for valuation of the properties and suitable for use in determining the fair value for the purpose of assessment of fair value gain/loss and disclosure of fair value in the financial statements. Our internal specialised resources also assessed the assumptions used by the third party valuers in the valuation process. We also assessed the adequacy of the disclosures included in the financial statements regarding the key assumptions which have the highest effect in the determination of the fair value of properties as disclosed in note 11.1

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Other information included in the Company's 2019 Annual Report

Other information consists of the information included in the Company's 2019 Annual Report, other than the financial statements and our auditor's report thereon. The Management is responsible for the other information. The Company's 2019 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 will 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 for the financial statements

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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 skepticism 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 Company's internal controls.
- 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 Company'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 Company 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.

INDEPENDENT AUDITOR'S REPORT

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 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 1884.

26th June 2019
Colombo

STATEMENT OF FINANCIAL POSITION

As at 31 March	Notes	2019 Rs.	2018 Rs.
ASSETS			
Cash and bank balances	3	17,535,538,362	11,323,366,281
Deposits with banks and other financial institutions		21,637,175,646	26,346,551,552
Investment in government securities and others	4	18,150,995,929	10,871,768,339
Derivative financial instruments	5.1	568,529,646	133,540,941
Financial assets at amortised cost			
Rentals receivable on leased assets	6	42,941,836,671	43,605,123,812
Loans and advances	7	88,995,841,800	97,072,665,275
Factoring receivable	7.6	4,253,667,902	10,638,754,943
Investment securities	8	2,809,229,143	1,965,298,691
Amount due from related companies	9	5,569,291	32,909,393
Other receivables	10	937,941,234	1,122,496,378
Inventories		4,811,234	9,077,910
Investment properties	11	11,635,211,000	6,278,187,226
Property plant and equipment	12	1,559,024,937	1,714,491,470
Total assets		211,035,372,795	211,114,232,211
LIABILITIES			
Bank overdraft	3	2,242,496,059	4,243,169,825
Interest bearing borrowings	13	61,086,897,072	70,490,432,360
Deposits from customers	14	115,365,141,189	110,027,420,099
Trade payables	15	1,161,094,413	1,593,495,580
Accruals and other payables	16	3,072,453,537	2,388,375,887
Derivative financial instruments	5.2	661,931,132	482,464,342
Amount due to related companies	17	817,644,096	1,496,999,551
Current tax payable	28.1	1,501,292,610	813,718,267
Deferred tax liability	28.2	2,272,773,316	2,402,219,247
Employee benefits	18.2	87,060,988	70,303,298
Total liabilities		188,268,784,412	194,008,598,456
SHAREHOLDERS' FUNDS			
Stated capital	19	7,880,000,000	7,880,000,000
Statutory reserve	20.1	3,189,297,618	1,996,724,011
Revaluation Reserve	20.2	241,527,671	241,527,671
Cash flow hedge reserve	20.3	(39,059,404)	(6,333,137)
Available for sale investment reserve	20.4	-	(7,166,375)
Fair value through OCI reserve		(21,756,426)	-
Retained earnings	20.5	11,516,578,925	7,000,881,585
Total equity		22,766,588,383	17,105,633,755
Total liabilities and equity		211,035,372,795	211,114,232,211
Commitments and Contingencies	35	32,255,970,261	38,794,151,526
Net asset value per share		5.42	5.98

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
Deputy Chairman/CEO

Mr. Ashan Nissanka
Executive Director

The annexed notes to the financial statements on pages 117 through 184 form an integral part of these financial statements.

26th June 2019
Rajagiriya (Greater Colombo)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March	Notes	2019 Rs.	2018 Rs.
Interest income	21	42,663,317,527	23,818,183,417
Interest expense	22	(20,891,754,206)	(13,902,136,761)
Net interest income		21,771,563,321	9,916,046,656
Net other operating income	23	4,012,257,390	1,816,619,341
Direct expenses excluding interest cost	24	(1,522,224,334)	(1,047,933,016)
Allowance for impairment & write-offs	25	(5,700,505,481)	(3,709,287,962)
Personnel expenses	26.1	(3,165,698,139)	(1,370,492,906)
Depreciation	12	(163,498,091)	(173,816,520)
General & administration expenses		(6,734,427,896)	(2,997,554,048)
Profit from operations	26	8,497,466,770	2,433,581,545
Value added tax on financial service		(1,389,654,429)	(348,841,403)
Profit before tax		7,107,812,341	2,084,740,142
Income tax (expense) / reversal	28	(1,144,944,313)	116,686,146
Profit for the year		5,962,868,028	2,201,426,288
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability - gain / (loss)	18.2	(4,097,431)	(2,609,396)
Related tax	28.2	1,147,281	730,631
		(2,950,150)	(1,878,765)
Movement in fair value (Equity investments at FVOCI)		22,480,000	-
Related tax		(2,248,000)	-
		20,232,000	-
Total of items that will never be reclassified to profit or loss		17,281,850	(1,878,765)

Year ended 31 March	Notes	2019 Rs.	2018 Rs.
Items that are or may be reclassified to profit or loss			
Available-for-sale financial assets - net change in fair value	4.1.3	-	128,105,497
Movement in fair value through OCI reserve	4.1.3	(34,822,051)	-
Net amount transferred to profit or loss	4.1.3	-	(16,745,534)
Related tax	4.1.4	-	(3,018,739)
		(34,822,051)	108,341,224
Movement in hedge reserve	20.3	(45,453,148)	(26,649,199)
Related tax	20.3	12,726,882	7,461,776
		(32,726,267)	(19,187,423)
Total of items that are or may be reclassified to profit or loss		(67,548,317)	89,153,801
Total other comprehensive income, net of tax		(50,266,468)	87,275,036
Total comprehensive income for the year		5,912,601,560	2,288,701,323
Basic earnings per share	29	1.42	0.77

The annexed notes to the financial statements on pages 117 through 184 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Notes	Stated Capital	Statutory Reserve	Revaluation Reserve	Cash flow Hedge Reserve	Available for Sale Investment Reserve	Fair Value Through OCI Reserve	Retained Earnings	Total Equity
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	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		-	-	-	-	-	-	2,201,426,289	2,201,426,289
Other comprehensive income, net of income tax									
Remeasurements of defined benefit liability - gain / (loss)		-	-	-	-	-	-	(1,878,765)	(1,878,765)
Net change in fair value of AFS investments		-	-	-	-	108,341,224	-	-	108,341,224
Net movement of cashflow hedges		-	-	-	(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)	(2,089,324,096)
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)	3,790,675,904
Balance As at 31 March 2018		7,880,000,000	1,996,724,011	241,527,671	(6,333,136)	(7,166,375)	-	7,000,881,586	17,105,633,756
Impact of adoption of SLFRS 9									
Recognition of SLFRS 9 ECLs including those measured at FVOCI		-	-	-	-	-	-	(558,266,453)	(558,266,453)
Impact of reclassifying financial investment from AFS to FVTPL		-	-	-	-	-	-	167,005,111	167,005,111
Deferred tax on transitional adjustments		-	-	-	-	-	-	139,614,410	139,614,410
Transfer of AFS reserve to fair value reserve		-	-	-	-	7,166,375	(7,166,375)	-	-
		-	-	-	-	7,166,375	(7,166,375)	(251,646,932)	(251,646,932)
Balance as at 1 April 2018		7,880,000,000	1,996,724,011	241,527,671	(6,333,136)	-	(7,166,375)	6,749,234,654	16,853,986,824

	Notes	Stated Capital	Statutory Reserve	Revaluation Reserve	Cash flow Hedge Reserve	Available for Sale Investment Reserve	Fair Value Through OCI Reserve	Retained Earnings	Total Equity
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	5,962,868,028	5,962,868,028
Other comprehensive income, net of income tax									
Remeasurements of defined benefit liability - gain / (loss)	18.2 / 28.2	-	-	-	-	-	-	(2,950,150)	(2,950,150)
Revaluation gain on fair value through OCI investments		-	-	-	-	-	20,232,000	-	20,232,000
Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income	4.1.3	-	-	-	-	-	(34,822,051)	-	(34,822,051)
Net movement of cashflow hedges	20.3 / 28.2	-	-	-	(32,726,267)	-	-	-	(32,726,267)
		-	-	-	(32,726,267)	-	(14,590,051)	(2,950,150)	(50,266,468)
Total comprehensive income for the year		-	-	-	(32,726,267)	-	(14,590,051)	5,959,917,877	5,912,601,560
Transactions recorded directly in equity									
Transfer to Statutory Reserve Fund		-	1,192,573,607	-	-	-	-	(1,192,573,607)	-
Shares issued during the year		-	-	-	-	-	-	-	-
Total transactions recorded directly in equity		-	1,192,573,607	-	-	-	-	(1,192,573,607)	-
Balance As at 31 March 2019		7,880,000,000	3,189,297,617	241,527,671	(39,059,404)	-	(21,756,426)	11,516,578,925	22,766,588,383

The annexed notes to the financial statements on pages 117 through 184 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 March	Notes	2019 Rs.	2018 Rs.
Cash flows from operating activities			
Profit before income tax expense		7,107,812,341	2,084,740,142
Adjustments for:			
Depreciation	12	163,498,091	173,816,520
(Profit)/ loss on sales of investment property	23	(7,241,139)	(5,462,500)
Change in fair value of derivatives - forward contracts	23	106,833,729	36,451,677
Provision for fall / (increase) in value of investments	23	(106,701,983)	(518,658,941)
Impairment provision for the period	25	1,375,203,724	(704,593,708)
Provision/(Reversal) for payables to clients	23	(37,368,136)	25,200,000
Change in fair value of investment property	23	(2,094,584,353)	(78,239,014)
Provision for defined benefit plans	18.2.a	19,303,613	5,986,781
Investment income		(2,333,529,276)	(1,935,901,532)
Finance costs	22	20,891,754,206	13,902,136,761
Operating profit before working capital changes		25,084,980,817	12,985,476,187
Change in other receivables		(28,590,046)	619,496,477
Change in inventories		4,266,676	(8,515,204)
Change in trade and other payables		294,989,124	597,374,890
Change in amounts due to/ due from related parties		(651,264,303)	(7,501,572,236)
Change in factoring receivables		5,936,217,894	6,020,393,797
Change in lease receivables		107,450,033	(7,154,674,237)
Change in hire purchase, loans and advances		4,769,816,501	(5,487,211,635)
Change in margin trading advances		175,570,117	(80,745,099)
Change in fixed deposits from customers		5,421,966,720	23,827,481,998
Change in savings deposits from customers		132,196,309	5,048,050,238
Cash (used in) / generated from operations		41,247,599,841	28,865,555,177
Finance cost paid on deposits		(14,148,202,102)	(11,444,752,742)
Gratuity paid	18.2	(6,643,354)	(1,932,231)
Income tax paid	28.1	(435,575,329)	(332,054,772)
Net cash from / (used in) operating activities		26,657,179,055	17,086,815,432
Cash flows from investing activities			
Acquisition of property, plant & equipment & investment property		(883,129,982)	(2,908,921,761)
Net proceeds from investments in term deposits		4,709,375,906	6,388,657,701
Net proceeds from investments in government securities		(7,314,049,640)	(2,041,284,168)
Net proceeds from investments in Debenture		(308,151,484)	
Interest received		2,333,529,276	1,935,901,532
Proceeds from sale of investment property/PPE		16,617,500	42,662,500
Acquisition of subsidiary - net of cash		-	(12,291,200,000)
Net proceeds from investments in Unit trust		(239,913,490)	(968,166,503)
Net cash flows used in investing activities		(1,685,721,915)	(9,842,350,699)
Cash flows from financing activities			
Proceeds from interest bearing loans & borrowings		(11,921,054,502)	(7,355,500,136)
Proceeds from issuance of new shares (Right issue)		-	5,880,000,000
Proceeds from issue of debentures	13.3	2,500,000,000	
Lease rentals paid	13.2	(269,944,262)	(520,035,822)
Finance cost paid on borrowings		(7,067,612,478)	(1,938,990,970)
Net cash flows from / (used in) financing activities		(16,758,611,242)	(3,934,526,928)
Net increase / (decrease) in cash and cash equivalents		8,212,845,847	3,309,937,803
Addition on merger with subsidiary		-	1,239,463,076
Cash and cash equivalents at the beginning of the period		7,080,196,456	2,530,795,577
Cash and cash equivalents at the end of the period (note 3)		15,293,042,303	7,080,196,456

The annexed notes to the financial statements on pages 117 through 184 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 LOLC Holding 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, mobilisation of public deposits and Islamic financing.

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 2019 was 2602 (2018– 2397).

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 (SLFRSs and LKASs) 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 26 June 2019.

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 through other comprehensive income	Fair value	4.1.2
Investment property	Fair value	11
Land and buildings	Fair value	12
Net defined benefit assets / (liabilities)	Actuarially valued and recognised at the present value	18.2

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.

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.

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 basis of accounting

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 is re-classified wherever necessary to conform the current year presentation. However, the Company has not been restated comparative information for 2017/18 for financial instruments within the scope of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" (SLFRS 9). Therefore, the comparative information for 2017/18 is reported under Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments: Recognition and Measurement"
(LKAS 39). Differences arising from adoption of SLFRS 9 have been recognised directly in equity as of April 1, 2018 and are disclosed in Note 36.

The Company merged with LOLC Micro Credit Ltd on 29 March 2018 and the comparative information presented in the Statement of Profit or Loss and other comprehensive income and all related notes are pertaining to the company prior to merge.

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 / 11.1 / 12.1
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 11 – Investment property;

Note 12 – 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 determination of expected credit loss allowances is highly subjective and judgemental. With the introduction of SLFRS 9 in 2018, a number of additional judgements and assumptions are introduced and reflected in the financial statements, including the identification of significant increases in credit risk and the application of forward-looking economic scenarios. The measurement of impairment losses under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates driven by a number of factors, changes in which can result in different levels of allowances.

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

NOTES TO THE FINANCIAL STATEMENTS

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, 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

2.1 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 acquire 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 cash flow characteristics and business model for managing the instrument. 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 Financial Reporting Standard – SLFRS 09 on 'Financial Instruments'.

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:

- amortised cost;
- fair value through other comprehensive income (FVOCI); and
- fair value through profit or loss (FVTPL).

2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

With effect from April 1, 2018, the Company makes an assessment of the objective of a business model in which an asset is held because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the management;

NOTES TO THE FINANCIAL STATEMENTS

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity and how cash flows are realised.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test of its classification process. In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Company considers the contractual terms of the instrument.

For the purposes of this assessment,

"principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

Based on above assessments, subsequent measurement of financial assets are classified as follows.

Amortised cost

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 measured at amortised cost using the effective interest method, less any impairment losses.

This includes 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.

Financial assets at fair value through other comprehensive income (FVOCI)

Instruments are measured at FVOCI, if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and interest on principal outstanding. This comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other investments are measured at fair value after initial recognition.

Financial assets at fair value through profit or loss (FVTPL)

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss. 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 at fair value through profit or loss comprises of quoted equity instruments and unit trusts unless otherwise have been classified as amortised cost.

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 FVOCI reserve within equity (from 1/04/2018). 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.

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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

As per SLFRS 9, Financial assets are not reclassified subsequent to their initial recognition, except and only in its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

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

Overview of the expected credit loss (ECL) principles

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).

Stage 2: If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL.

Stage 3: If a financial asset is credit impaired, it is moved to Stage 3 and the Group recognises an allowance for LTECL, with probability of default at 100%. So it is defined as credit impaired and default.

The key judgements and assumption adopted in addressing the requirements of SLFRS 9 are discussed below:

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available. Based on that, management has decided that an exposure to have significantly increased credit risk when contractual payments of a customer are more than 90 days past due and loss to take place after 180 days in accordance with the rebuttable presumption in SLFRS 9.

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
- 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.

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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	Qualitative inputs
GDP growth	Changes in Lending Policies and Procedure
Inflation	Changes in Bankruptcy and lending related Legislations
Unemployment	Credit Growth
Interest rates	Position of the Portfolio within the Business Cycle

Identification and measurement of impairment of financial assets under LKAS 39

The Company assessed whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired as at the reporting date. A financial asset or a group of financial assets is "impaired" when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss was assessed at each reporting date to determine whether there was objective evidence that it is impaired. A financial asset was impaired if objective evidence indicated that a loss event had 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 could be estimated reliably. Objective evidence that financial assets were 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 considered evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables were assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that had been incurred but not yet identified. Loans and receivables that were not individually significant were collectively assessed for impairment by grouping together loans receivables with similar risk characteristics.

In assessing collective impairment the Company used historical trends of the probability of default, forward looking information, 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 were likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost was 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 was reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets were recognised by reclassifying losses accumulated in the AFS reserve in equity, to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was 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 were 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 could be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss was 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

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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, fair value through other comprehensive Income (FVOCI) and fair value through profit or loss (FVTPL) 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.

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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 28 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 28.2 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 29.1. 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 29.2 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 2019. Accordingly, these accounting standards have not been applied in the preparation of the financial statements for the year ended 31 March 2019.

Sri Lanka Accounting Standard - SLFRS 16 "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".

NOTES TO THE FINANCIAL STATEMENTS

SLFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Company is assessing the potential financial impact on its financial statements from Sri Lanka Accounting Standard - SLFRS 16 "Leases".

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 expected 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 2019 (2018: no collateral held).

4) Credit quality by class of financial assets at amortised cost

(Rs'mn)	Leases		Mortgage Loans		Other Loans and Advances		Factoring Receivables		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Carrying amount	42,942	43,605	1,471	1,536	87,646	95,537	4,254	10,639	136,313	151,317
Assets at amortised cost										
Individually impaired - Gross amount	873	764	90	14	2,353	2,270	306	481	3,622	3,529
Less : Allowance for impairment	(278)	(580)	(42)	-	(1,000)	(1,471)	(106)	(306)	(1,426)	(2,357)
Carrying amount	595	184	48	14	1,353	799	200	175	2,196	1,172
Portfolio subject to collective impairment - Gross amount	43,380	43,594	1,444	1,545	88,615	96,043	5,156	10,917	138,595	152,098
Less : Allowance for impairment	(1,033)	(173)	(21)	(23)	(2,322)	(1,305)	(1,102)	(453)	(4,478)	(1,954)
Carrying amount	42,347	43,421	1,423	1,522	86,293	94,738	4,054	10,464	134,117	150,144

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)	2019	2018
Against individually impaired customers :		
Property	891	649
Vehicles	1,105	463

(In Rs'mn)	2019	2018
Against Collectively impaired customers :		
Vehicles	84,826	83,113
Others	83,214	97,243

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)	2019	2018
Against Collectively impaired customers :		
Property	-	-
Vehicles	1,105	463

NOTES TO THE FINANCIAL STATEMENTS

Income from individually impaired customers recognised in the statement of profit or loss;

(In Rs'mn)	2019	2018
Against Collectively impaired customers :		
Leases	5	1
Mortgage Loan	2	-
Other loans & advances	172	122

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 2019.

Category (Rs'mn)	Leases	Mortgage Loans	Other Loans and Advances	Factoring Receivables	Total
Not due / current	18,966	286	57,357	2,671	79,280
Overdue :					
Less than 30 days	10,307	408	11,739	875	23,329
31 - 60 days	6,774	214	6,552	151	13,691
61 - 90 days	3,230	78	3,288	40	6,636
91 - 120 days	1,278	49	1,706	43	3,076
121 - 150 days	877	17	2,173	32	3,099
151 - 180 days	439	34	1,251	43	1,767
Above 180 days	1,509	358	4,549	1,301	7,717
Total	43,380	1,444	88,615	5,156	138,595

Age analysis of facilities considered for collective impairment as at 31 March 2018.

Category (Rs'mn)	Leases	Mortgage Loans	Other Loans and Advances	Factoring Receivables	Total
Not due / current	19,018	447	70,881	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	96,012	10,917	152,098

Sensitivity Analysis of Allowance for Impairment Losses as at 31 March 2019

(Rs'mn)	Changed factor	Sensitivity effect on impairment allowance Increase
Probability of default (PD)	Increase by 1%	17
Loss given default (LGD)	Increase by 10%	356

Analysis of total impairment for expected credit losses as at 31st March 2019

(Rs'mn)	Stage 01	Stage 02	Stage 03	Total
Financial assets at amortised cost				
Rentals receivable on leased assets	304	246	760	1,310
Loans and advances	523	430	2,428	3,381
Factoring receivable	270	36	903	1,208
Other financial assets	0	-	-	0
Commitments and Contingencies	-	4	-	4
Total impairment for expected credit losses	1,097	716	4,091	5,903

Other than the lending portfolio reflected above no other financial assets shown in note 2.25 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 7.a 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2019							
Bank overdraft	2,242	2,242	2,242	-	-	-	-
Borrowings	61,087	66,302	44,231	15,599	1,759	4,714	-
Deposits from customers	115,365	121,559	26,759	66,209	20,863	7,728	-
Trade payables	1,161	1,161	1,161	-	-	-	-
Accruals and other payables	3,069	3,069	3,069	-	-	-	-
Derivative liabilities	662	10,093	5,338	4,755	-	-	-
Amount due to related companies	818	818	818	-	-	-	-
Total liabilities	184,404	205,244	83,618	86,563	22,622	12,441	-
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	-

The maturity analysis of financial assets based on undiscounted gross inflows / (outflows) 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 2019							
Cash and cash equivalents	17,536	17,536	17,536	-	-	-	-
Deposits with banks and other financial institutions	21,637	21,828	9,646	12,182	-	-	-
Investment in government securities	18,151	18,502	15,017	3,466	2	17	-
Derivative assets	569	11,295	8,359	2,937	-	-	-
Financial assets at amortised cost							
Rentals receivable on leased assets	42,942	60,857	9,376	18,127	28,237	5,010	107
Loans and advances	88,992	108,326	19,863	30,184	46,932	10,855	493
Factoring receivable	4,254	4,254	4,254	-	-	-	-
Investment securities	2,810	3,030	2,810	-	-	-	220
Amount due from related companies	6	6	6	-	-	-	-
Other receivables	938	939	939	-	-	-	-
	197,835	246,572	87,803	66,895	75,171	15,882	820
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	-	-	-
Financial assets at amortised cost							
Rentals receivable on leased assets	43,605	60,211	8,793	17,966	28,227	5,007	219
Loans and advances	97,073	113,807	17,741	34,238	41,670	19,257	900
Factoring receivable	10,639	10,639	10,639	-	-	-	-
Investment securities	1,965	1,965	1,745	-	-	-	220
Amount due from related companies	33	33	33	-	-	-	-
Other receivables	417	417	417	-	-	-	-
	202,407	243,771	73,616	74,408	69,921	24,288	1,538

NOTES TO THE FINANCIAL STATEMENTS

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 31-3-2019 (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	270	-	-	-	-	270
Total	270	-	-	-	-	270
Commitments						
Unutilised loan facilities & letter of credit	11,077	-	-	-	-	11,077
(-) Allowance for ECL / impairment	(4)	-	-	-	-	(4)
Total	11,073	-	-	-	-	11,073

As at 31-3-2018 (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

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

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 2019 (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 31.03.19
Interest earning assets						
Deposits with banks and other financial institutions	9,588	12,049	-	-	-	21,637
Investment in government securities & others	14,950	3,188	-	13	-	18,151
Financial assets at amortised cost						
Rentals receivable on leased assets	6,472	11,601	20,741	4,236	97	43,147
Loans and advances	15,782	23,642	39,404	9,294	345	88,468
Factoring receivable	6,670	-	-	-	-	6,670
Total interest earning assets	53,462	50,480	60,145	13,543	442	178,073
Interest bearing liabilities						
Bank overdraft	2,242	-	-	-	-	2,242
Interest bearing borrowings	43,610	14,057	780	2,639	-	61,087
Deposits from customers	32,703	59,276	16,911	6,475	-	115,365
Total interest bearing liabilities	78,556	73,333	17,691	9,114	-	178,695
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(25,094)	(22,853)	42,454	4,429	442	(622)
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect	(251)	(229)	425	44	4	-
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	251	229	(425)	(44)	(4)	-

NOTES TO THE FINANCIAL STATEMENTS

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
Financial assets at amortised cost						
Rentals receivable on leased assets	6,099	11,876	21,059	4,387	185	43,605
Loans and advances	14,467	27,441	36,071	18,320	774	97,073
Factoring receivable	10,639	-	-	-	-	10,639
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	1,079	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)	-

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 (Rs'mn)	31.03.2019 Rs.	31.08.2018 Rs.
Ordinary share capital	7,880	7,880
Statutory Reserve	3,189	1,997
Retained earnings	11,517	7,001
(-) Investment property revaluation	(1,885)	-
Other negative reserves	(61)	(13)
Tier I capital	20,640	16,864
Subordinated debt	4,232	1,582
Tier II capital	4,232	1,582
Total capital	24,872	18,446

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 2019	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement Level
Cash and cash equivalents	-	-	17,536	17,536	17,536	
Deposits with banks & other financial institutions	-	-	21,637	21,637	21,637	
Investment in government securities & others						
- Measured at fair value	-	6,577	-	6,577	6,577	Level 1
- Measured at amortised cost	-		12,574	12,574	12,574	
Derivative assets	569	-	-	569	569	Level 2
Investment securities	2,500	-	308	2,809	2,809	Level 1
Financial assets at amortised cost						
Rentals receivable on leased assets	-	-	42,942	42,942	44,556	Level 2
Loans and advances	-	-	88,996	88,996	90,663	Level 2
Factoring receivable	-	-	4,254	4,254	4,254	
Amount due from related companies	-	-	6	6	6	
Other financial assets	-	-	418	418	418	
Total financial assets	2,663	6,577	188,765	198,006	201,291	
Bank overdraft	-	-	2,242	2,242	2,242	
Interest bearing borrowings	-	-	61,087	61,087	61,250	Level 2
Deposits from customers	-	-	115,365	115,365	115,964	Level 2
Trade payables	-	-	1,161	1,161	1,161	
Accruals and other payables	-	-	2,958	2,958	2,958	
Derivative liabilities	662	-	-	662	662	Level 2
Amount due to related companies	-	-	818	818	818	
Total financial liabilities	482	-	183,631	184,293	185,055	

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(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
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	Level 1
- Measured at amortised cost	-	-		6,491	6,491	6,491	
Derivative assets	134	-	-	-	134	134	Level 2
Investment securities	-	1,745	-	220	1,965	1,965	Level 1
Financial assets at amortised cost							
Rentals receivable on leased assets	-	-	-	43,605	43,605	45,323	Level 2
Hire purchases, loans and advances	-	-	-	97,098	97,098	96,179	Level 2
Factoring receivable	-	-	-	10,639	10,639	10,639	
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	Level 2
Deposits from customers	-	-	-	110,027	110,027	110,205	Level 2
Trade payables	-	-	-	1,593	1,593	1,593	
Accruals and other payables	-	-	-	2,206	2,206	2,206	
Derivative liabilities	482	-	-	-	482	482	Level 2
Amount due to related companies	-	-	-	1,497	1,497	1,497	
Total financial liabilities	482	-	-	190,540	190,540	189,982	

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. CASH AND CASH EQUIVALENTS

As at 31st March	2019 Rs.	2018 Rs.
3.1 Favourable cash & cash equivalents balance		
Cash in hand and at bank	17,535,538,362	11,323,366,281
3.2 Unfavourable cash & cash equivalent balances		
Bank overdraft	(2,242,496,059)	(4,243,169,825)
Total cash and cash equivalents for the purpose of cash flow statement	15,293,042,303	7,080,196,456

4. INVESTMENT IN GOVERNMENT SECURITIES AND OTHERS

As at 31st March	2019 Rs.	2018 Rs.
Investment In Government Securities		
Financial instruments - at amortised cost (note 4.1.1)	8,233,594,359	6,490,719,545
Financial instruments - measured at fair value through OCI (note 4.1.2)	6,576,963,654	4,381,048,794
	14,810,558,013	10,871,768,339
Other Investments		
Investments in commercial papers - at amortised cost (note 4.2)	3,340,437,916	-
	18,150,995,929	10,871,768,339

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

4.1 Investment in government securities

As at 31st March	2019		2018	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
4.1.1 Financial instruments - measured at amortised cost				
Investment in Government Standing Deposit Facilities	8,233,594,359	8,233,594,359	6,490,719,545	6,490,719,545
4.1.2 Financial instruments - measured at fair value through OCI				
Investment in Treasury Bills	6,347,898,131	6,347,898,131	2,256,525,000	2,256,525,000
Investment in Treasury Bonds	229,065,523	229,065,523	2,124,523,794	2,124,523,794
	6,576,963,654	6,576,963,654	4,381,048,794	4,381,048,794

NOTES TO THE FINANCIAL STATEMENTS

4. INVESTMENT IN GOVERNMENT SECURITIES AND OTHERS (CONTD.)

4.1.3 Fair value adjustments recognised in other comprehensive income - current period (net of transfers to P&L)

As at 31st March	2019 Rs.	2018 Rs.
Investment in Treasury Bills	(19,247,666)	(22,078,550)
Investment in Treasury Bonds	(15,574,385)	150,184,047
Net Change in Fair Value	(34,822,051)	128,105,497
Amount transferred to P&L on disposal	-	(16,745,534)
Total recognised in OCI	(34,822,051)	111,359,963

4.1.4 Fair value adjustments recognised in other comprehensive income - cumulative

As at 31st March	2019 Rs.	2018 Rs.
Investment in Treasury Bills	(41,348,875)	(22,078,550)
Investment in Treasury Bonds	(639,550)	17,953,574
Adjustment on merger with subsidiary	-	(22,659)
Related Tax	-	(3,018,739)
	(41,988,425)	(7,166,374)

4.2 Investments classified as loans and receivables - carried at amortised cost

As at 31st March	2019		2018	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
Investment in commercial papers	3,340,437,916	3,340,437,916	-	-

5. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31st March	2019 Rs.	2018 Rs.
Net derivative assets / (liabilities)		
Derivative assets (note 5.1)	568,529,646	133,540,941
Derivative liabilities (note 5.2)	661,931,132	482,464,342
Net derivative assets / (liabilities)	(93,401,486)	(348,923,401)
5.1 Derivative assets		
Forward exchange contracts	568,529,646	133,540,941
5.2 Derivative liabilities		
Forward exchange contracts	661,931,132	482,464,342
5.3 Change in fair value during the period - gain/ (loss)		
Recognised in profit or loss	106,833,729	(36,451,676)
Recognised in OCI	(362,355,644)	(210,492,330)
	(255,521,915)	(246,944,006)

6. RENTALS RECEIVABLE ON LEASED ASSETS

As at 31st March	2019 Rs.	2018 Rs.
Rentals receivable	67,776,807,308	68,576,766,529
Unearned income	(16,607,445,447)	(16,959,900,923)
Net rentals receivable (note 6.1)	51,169,361,861	51,616,865,606
Deposits received from lessees	(6,917,111,397)	(7,257,165,110)
Allowance for ECL / impairment (note 6.2)	(1,310,413,793)	(754,576,684)
	42,941,836,671	43,605,123,812

6.a Analysis of rentals receivable on leased assets on Exposure to Credit Risk

As at 31st March 2019	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Rentals receivable on leased assets	39,365,912,055	2,755,393,886	2,130,944,524	44,252,250,464
Impairment for expected credit losses (note 6.b)	(304,027,878)	(246,151,732)	(760,234,183)	(1,310,413,793)
Net rentals receivable on leased assets	39,061,884,177	2,509,242,154	1,370,710,341	42,941,836,671

6.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

As at 31st March	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 1st April 2018	406,051,576	243,564,855	566,464,148	1,216,080,580
Net charge to profit or loss	(102,023,698)	2,586,877	193,770,035	94,333,213
Balance as at 31st March 2019	304,027,878	246,151,732	760,234,183	1,310,413,793

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

6.1 Net Rentals Receivable

As at 31st March	2019 Rs.	2018 Rs.
Receivable -more than one year		
Rentals receivable	40,274,071,606	41,767,492,715
Unearned income	(7,484,539,400)	(7,805,859,151)
	32,789,532,206	33,961,633,564
Receivable within one year		
Rentals receivable	24,974,692,645	24,525,835,454
Unearned income	(9,122,906,047)	(9,154,041,772)
	15,851,786,598	15,371,793,682
Overdue		
Rentals receivable	2,528,043,057	2,283,438,360
	2,528,043,057	2,283,438,360
	51,169,361,861	51,616,865,606

NOTES TO THE FINANCIAL STATEMENTS

6. RENTALS RECEIVABLE ON LEASED ASSETS (CONTD.)

6.2 Allowance for ECL / impairment

As at 31st March	2019 Rs.	2018 Rs.
Balance as at 1st of April	754,576,684	298,372,189
Impact of adopting SLFRS 9	461,503,900	-
Balance as at 1st of April - Adjusted	1,216,080,585	-
Provision / (reversal) for the year	94,333,208	6,419,203
Addition on acquisition of subsidiary	-	-
Addition on merger with subsidiary	-	449,785,292
Balance as at 31st March	1,310,413,793	754,576,684

6.2.1 Individually significant clients - impairment

Balance as at 1st of April	580,821,511	156,650,576
Impact of adopting SLFRS 9	(246,035,989)	-
Balance as at 1st of April - Adjusted	334,785,522	-
Provision for the year	(56,796,623)	65,598,948
Addition on acquisition of subsidiary	-	-
Addition on merger with subsidiary	-	358,571,987
Balance as at 31st March	277,988,899	580,821,511

6.2.2 Individually non-significant clients - impairment

Balance as at 1st of April	173,755,173	141,721,613
Impact of adopting SLFRS 9	707,539,889	-
Balance as at 1st of April - Adjusted	881,295,063	-
Provision for the year	151,129,831	(59,179,745)
Addition on acquisition of subsidiary	-	-
Addition on merger with subsidiary		91,213,305
Balance as at 31st March	1,032,424,894	173,755,173

7. LOANS AND ADVANCES

As at 31st March	2019 Rs.	2018 Rs.
Mortgage Loans (note 7.1)	1,469,225,854	1,535,952,494
Sundry Loans (note 7.2)	84,062,288,877	93,375,113,806
Gold Loan (note 7.3)	3,095,548,677	1,986,028,858
Credit Cards (note 7.4)	368,778,391	-
Margin Trading (note 7.5)	-	175,570,117
	88,995,841,800	97,072,665,275

7.a Analysis of loans and receivables on Exposure to Credit Risk

As at 31st March 2019	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Loans and advances				
Mortgage Loans	985,064,716	99,877,509	447,321,998	1,532,264,224
Sundry Loans	76,123,362,998	5,511,362,688	5,687,602,192	87,322,327,878
Gold Loan	2,979,517,918	94,342,538	69,818,872	3,143,679,328
Credit Cards	377,132,780	1,378,359	89,214	378,600,353
Gross loans and advances	80,465,078,412	5,706,961,094	6,204,832,276	92,376,871,783
Impairment for expected credit losses (note 7.b)	(522,958,836)	(430,085,508)	(2,427,985,638)	(3,381,029,983)
Net loans and advances	79,942,119,576	5,276,875,586	3,776,846,638	88,995,841,800

7.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

As at 31st March	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 1st April 2018	499,679,783	195,299,091	1,856,004,720	2,550,983,594
Net charge to profit or loss				
Loans and advances				
Mortgage Loans	(1,938,078)	(4,133,270)	(3,632,045)	(9,703,393)
Sundry Loans	9,608,258	222,289,100	570,154,545	802,051,903
Gold Loan	6,171,273	16,332,193	5,369,204	27,872,671
Credit Cards	9,437,600	298,394	89,214	9,825,208
Balance as at 31st March 2019	522,958,836	430,085,508	2,427,985,638	3,381,029,983

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

7.1 Mortgage Loans

As at 31st March	2019 Rs.	2018 Rs.
Rentals receivable	2,072,075,294	2,156,395,499
Unearned income	(539,811,070)	(597,039,874)
Net rentals receivable (note 7.1.1)	1,532,264,224	1,559,355,625
Allowance for ECL / impairment (note 7.1.2)	(63,038,370)	(23,403,131)
	1,469,225,854	1,535,952,494

7.1.1 Net rentals receivable - Mortgage Loans

	2019 Rs.	2018 Rs.
Receivable -more than one year	1,247,147,632	1,355,776,854
Installments receivable	(304,552,902)	(368,454,676)
Unearned income	942,594,730	987,322,178
Receivable within one year	590,363,058	538,600,063
Installments receivable	(235,258,168)	(228,585,198)
Unearned income	355,104,890	310,014,865
Overdue	234,564,603	262,018,582
Installments receivable	1,532,264,224	1,559,355,625

NOTES TO THE FINANCIAL STATEMENTS

7. LOANS AND ADVANCES (CONTD.)

7.1.2 Allowance for ECL / impairment - Mortgage Loans

As at 31st March	2019 Rs.	2018 Rs.
Balance as at 1st of April	23,403,131	89,882,272
Impact of adopting SLFRS 9	49,338,632	-
Balance as at 1st of April - Adjusted	72,741,763	-
Provision / (reversal) for the year	(9,703,393)	(66,479,141)
Balance as at 31st March	63,038,370	23,403,131
7.1.2.a Individually significant clients - impairment		
Balance as at 1st of April	-	14,458,744
Provision / (reversal) for the year	41,905,876	(14,458,744)
Balance as at 31st March	41,905,876	-
7.1.2.b Individually non-significant clients - impairment		
Balance as at 1st of April	23,403,131	75,423,528
Impact of adopting SLFRS 9	49,338,632	-
Balance as at 1st of April - Adjusted	72,741,763	-
Provision / (reversal) for the year	(51,609,270)	(52,020,397)
Balance as at 31st March	21,132,494	23,403,131

7.2 Sundry Loans

As at 31st March	2019 Rs.	2018 Rs.
Total receivable	102,613,321,375	111,523,096,117
Unearned income	(15,290,993,497)	(15,394,224,894)
Net receivable (note 7.2.1)	87,322,327,878	96,128,871,223
Allowance for ECL / impairment (note 7.2.2)	(3,260,039,001)	(2,753,757,417)
	84,062,288,877	93,375,113,806
7.2.1 Net receivable - Sundry Loans		
Receivable -more than one year		
Installments receivable	56,913,990,368	60,960,466,513
Unearned income	(6,784,460,179)	(5,921,256,642)
	50,129,530,189	55,039,209,871
Receivable within one year		
Installments receivable	40,473,600,692	46,890,586,780
Unearned income	(8,506,533,318)	(9,472,968,252)
	31,967,067,374	37,417,618,529
Overdue		
Installments receivable	5,225,730,315	3,672,042,823
	87,322,327,878	96,128,871,223

7.2.2 Allowance for ECL / impairment - Sundry Loans

As at 31st March	2019 Rs.	2018 Rs.
Balance as at 1st of April	2,753,757,417	1,475,783,030
Impact of adopting SLFRS 9	(295,773,568)	-
Balance as at 1st of April - Adjusted	2,457,983,849	-
Provision / (reversal) for the year	802,055,151	184,491,104
Addition on acquisition of subsidiary	-	-
Addition on merger with subsidiary	-	1,093,483,283
Balance as at 31st March	3,260,039,001	2,753,757,417

7.2.2.a Individually significant clients - impairment

As at 31st March	2019 Rs.	2018 Rs.
Balance as at 1st of April	1,465,346,615	583,998,341
Impact of adopting SLFRS 9	(496,232,992)	-
Balance as at 1st of April - Adjusted	969,113,623	-
Provision / (reversal) for the year	25,683,771	375,267,781
Addition on acquisition of subsidiary	-	-
Addition on merger with subsidiary	-	506,080,492
Balance as at 31st March	994,797,394	1,465,346,615

7.2.2.b Individually non-significant clients - impairment

Balance as at 1st of April	1,288,410,802	891,784,689
Impact of adopting SLFRS 9	200,459,424	-
Balance as at 1st of April - Adjusted	1,488,870,226	-
Provision for the year	776,371,380	(190,776,678)
Addition on acquisition of subsidiary	-	-
Addition on merger with subsidiary		587,402,790
Balance as at 31st March	2,265,241,606	1,288,410,802

7.3 Gold loans

As at 31st March	2019 Rs.	2018 Rs.
Gross amount outstanding at year end	3,143,679,328	2,008,687,323
Allowance for ECL / impairment (note 7.3.1)	(48,130,651)	(22,658,465)
Balance as at 31st March	3,095,548,677	1,986,028,858

NOTES TO THE FINANCIAL STATEMENTS

7. LOANS AND ADVANCES (CONTD.)

7.3.1 Allowance for ECL / impairment

As at 31st March	2019 Rs.	2018 Rs.
Balance as at 1st of April	22,658,465	-
Impact of adopting SLFRS 9	(2,400,485)	-
Balance as at 1st of April - Adjusted	20,257,980	-
Provision / (reversal) for the year	27,872,671	-
Addition on acquisition of subsidiary	-	-
Addition on merger with subsidiary	-	22,658,465
Balance as at 31st March	48,130,651	22,658,465

7.3.1.a Individually significant clients - impairment

As at 31st March	2019 Rs.	2018 Rs.
Balance as at 1st of April	5,284,102	-
Provision / (reversal) for the year	-	-
Addition on acquisition of subsidiary	-	-
Addition on merger with subsidiary	-	5,284,102
Balance as at 31st March	5,284,102	5,284,102

7.3.1.b Individually non-significant clients - impairment

Balance as at 1st of April	17,374,363	-
Impact of adopting SLFRS 9	(2,400,485)	-
Balance as at 1st of April - Adjusted	14,973,877	-
Provision for the year	27,872,671	-
Addition on acquisition of subsidiary	-	-
Addition on merger with subsidiary	-	17,374,363
Balance as at 31st March	42,846,549	17,374,363

7.4 Credit Card

As at 31st March	2019 Rs.	2018 Rs.
Gross amount outstanding at year end	378,600,353	-
Allowance for ECL / impairment (note 7.4.1)	(9,821,962)	-
Balance as at 31st March	368,778,391	-

7.4.1 Allowance for ECL / impairment

As at 31st March	2019 Rs.	2018 Rs.
Balance as at 1st of April	-	-
Provision / (reversal) for the year	9,821,962	-
Balance as at 31st March	9,821,962	-
Individually non-significant clients - impairment		
Balance as at 1st of April	-	-
Provision for the year	9,821,962	-
Balance as at 31st March	9,821,962	-

7.5 Margin Trading Receivables

As at 31st March	2019 Rs.	2018 Rs.
Gross amount outstanding at year end		
Allowance for ECL / impairment	-	175,570,117
Net balance on margin trading	-	-
	-	175,570,117

7.6 Factoring Receivables

	2019 Rs.	2018 Rs.
Gross receivable	5,461,768,390	11,397,986,284
Allowance for ECL / impairment (note 7.6.1)	(1,208,100,488)	(759,231,341)
	4,253,667,902	10,638,754,943

7.6.a Analysis of factoring receivable on Exposure to Credit Risk

As at 31st March 2019	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Factoring receivable	3,736,224,832	118,476,630	1,607,066,928	5,461,768,390
Impairment for expected credit losses (note 7.6.b)	(269,789,072)	(35,803,705)	(902,507,710)	(1,208,100,488)
Net factoring receivable	3,466,435,760	82,672,925	704,559,218	4,253,667,902

7.6.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

As at 31st March	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 1st April 2018	159,929,899	280,404,932	402,671,582	843,006,413
Net charge to profit or loss	109,859,173	(244,601,227)	499,836,128	365,094,075
Balance as at 31st March 2019	269,789,072	35,803,705	902,507,710	1,208,100,488

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

NOTES TO THE FINANCIAL STATEMENTS

7. LOANS AND ADVANCES (CONTD.)

7.6.1 Allowance for ECL / impairment

As at 31st March	2019 Rs.	2018 Rs.
Balance as at 1st of April	759,231,341	997,454,083
Impact of adopting SLFRS 9	83,775,072	-
Balance as at 1st of April - Adjusted	843,006,413	-
Provision / (reversal) for the year	365,094,075	(238,222,742)
Balance as at 31st March	1,208,100,488	759,231,341

7.6.1.a Individually significant clients - impairment

Balance as at 1st of April	306,067,774	637,963,138
Provision / (reversal) for the year	(200,408,117)	(331,895,365)
Balance as at 31st March	105,659,657	306,067,774

7.6.1.b Individually non-significant clients - impairment

Balance as at 1st of April	453,163,567	359,490,945
Impact of adopting SLFRS 9	83,775,072	-
Balance as at 1st of April - Adjusted	536,938,639	-
Provision for the year	565,502,192	93,672,622
Balance as at 31st March	1,102,440,831	453,163,567

7.7 Portfolio Analysis

7.7.1 Sector wise exposure of the lending portfolio - before impairment provision

As at 31st March	2019 Rs.	2018 Rs.
Agriculture	21,672,402,941	23,462,058,315
Manufacturing	7,987,920,749	10,503,340,695
Economics And Social	1,517,021,621	1,471,492,544
Trade	24,267,917,881	24,330,862,923
Factoring	5,461,768,390	11,397,986,284
Margin Trading	-	175,327,776
Tourism	1,622,932,704	13,642,442,095
Services	24,556,930,853	24,703,022,721
Transportation	11,232,919,160	11,434,468,001
Construction	7,350,894,574	7,986,587,895
Mining and Quarrying	472,782,577	335,123,972
Others	35,947,399,186	26,187,457,849
	142,090,890,637	155,630,171,068

7.7.2 Product wise analysis of portfolio

As at 31st March	2019 Rs.	2018 Rs.
Lease receivables	40,770,406,810	41,224,887,788
Loans & Advances	86,093,407,586	91,772,162,342
Factoring receivables	5,461,768,390	11,397,986,284
Margin trading receivables	-	175,570,117
Islamic business portfolio - Ijarah receivables	3,481,843,654	3,134,812,708
Islamic business portfolio - Other receivables (Murabaha, Musharakah etc.)	6,283,464,197	7,924,751,829
Gross portfolio	142,090,890,637	155,630,171,068
Less : Allowance for ECL / impairment	(5,899,544,264)	(4,313,627,038)
Net portfolio	136,191,346,373	151,316,544,030

7.7.3 Net portfolio

As at 31st March	2019 Rs.	2018 Rs.
Rentals receivable on Leased Assets (note 6)	42,941,836,671	43,605,123,812
Loans and Advances (note 7)	88,995,841,800	97,072,665,275
Factoring receivable (note 7.6)	4,253,667,902	10,638,754,943
	136,191,346,373	151,316,544,030

8. INVESTMENT SECURITIES

As at 31st March	2019 Rs.	2018 Rs.
Investment securities measured at amortised cost (note 8.2.1)	308,983,277	66,125,000
Investment securities measured at FVTPL – debt / equity investments (note 8.1 / 8.2.2)	2,324,115,866	1,745,523,691
Investment securities measured at FVOCI – equity investments (note 8.2.3)	176,130,000	153,650,000
	2,809,229,143	1,965,298,691

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

NOTES TO THE FINANCIAL STATEMENTS

8. INVESTMENT SECURITIES (CONTD.)

8.1 Investment securities measured at FVTPL – debt / equity investments

Previously these investment securities classified under held for trading and as per SLFRS 09 requirements these are coming under fair value through profit or loss (FVTPL).

As at 31st March	2019 Rs.	2018 Rs.
Expo Lanka Holdings PLC		
Original cost	18,000,000	18,000,000
Carrying amount as at 1st April	4,900,000	6,600,000
Adjustment for change in fair value - recognised in profits	(900,000)	(1,700,000)
Carrying amount as at 31st March	4,000,000	4,900,000
Investment in Unit Trusts		
Original cost	1,980,000,000	1,575,000,000
Carrying amount as at 1st April	1,740,086,516	251,561,072
Investments during the year	1,980,000,000	10,340,000,000
Disposal during the year	(1,763,135,980)	(9,371,833,497)
Adjustment for change in fair value - recognised in profits	133,622,948	520,358,941
Carrying amount as at 31st March	2,090,573,484	1,740,086,516
Total investments held for trading	2,094,573,484	1,744,986,516
8.2.1 Investment securities measured at amortised cost		
Credit Information Bureau Ltd	537,175	537,175
Investment in Debentures	308,767,718	-
Impairment for expected credit losses (Note 8.2.1.a)	(321,616)	-
	308,983,277	537,175

8.2.1.a Analysis of Investment securities measured at amortised cost on Exposure to Credit Risk

As at 31st March 2019	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Investment securities measured at amortised cost	309,304,893	-	-	309,304,893
Impairment for expected credit losses (note 8.2.1.b)	(321,616)	-	-	(321,616)
Net Investment securities measured at amortised cost	308,983,277	-	-	308,983,277

8.2.1.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

As at 31st March	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 1st April 2018	-	-	-	-
Net charge to profit or loss	321,616	-	-	321,616
Balance as at 31st March 2019	321,616	-	-	321,616

8.2.2 Investment securities measured at FVTPL – equity investments

As at 31st March	2019 Rs.	2018 Rs.
LOLC Myanmar Micro Finance Company Ltd		
Carrying amount as at 1st April	66,125,000	66,125,000
Impact of adopting SLFRS 9	167,005,111	-
Carrying amount as at 1st April - Adjusted	233,130,111	-
Adjustment for change in fair value - recognised in profit or loss	(3,587,729)	-
Carrying amount as at 31st March	229,542,382	66,125,000

8.2.3 Investment securities measured at FVOCI – equity investments

LOLC Asia (Pvt) Ltd		
Carrying amount as at 1st April	153,650,000	-
Addition on merger with subsidiary	-	153,650,000
Adjustment for change in fair value - recognised in OCI	22,480,000	-
Carrying amount as at 31st March	176,130,000	153,650,000
Total	406,209,557	220,312,175

9. AMOUNTS DUE FROM RELATED COMPANIES

As at 31st March	Relationship	2019 Rs.	2018 Rs.
LOLC Asset Holding Co/ LOLC Life Assurance Co.	Fellow subsidiary	-	5,254,840
LOLC Insurance - General Ltd	Fellow subsidiary	-	20,897,301
Commercial Leasing and Finance PLC	Fellow subsidiary	2,369,595	762,755
LOLC Securities Ltd	Fellow subsidiary	6,707	3,339
Dickwella Resorts (pvt) Ltd	Fellow subsidiary	-	5,005
Browns Investments Co Ltd	Fellow subsidiary	-	60,459
Eden Hotel Lanka PLC	Fellow subsidiary	158,431	69,726
Brown & Co. Ltd	Fellow subsidiary	-	141,237
Sports Club AC	Fellow subsidiary	-	856,440
I Pay (Pvt) Ltd	Fellow subsidiary	350,168	-
Green Paradise	Fellow subsidiary	23,249	13,362
Sun & Fun Resorts Ltd.	Fellow subsidiary	94,811	21,843
LOLC Development Finance PLC	Fellow subsidiary	197,140	1,657,095
Excel Restaurants (Pvt) Ltd	Fellow subsidiary	1,353,034	24,931
LOLC Insurance - Life Ltd	Fellow subsidiary	-	2,930,986
Millenium Development (pvt) Ltd	Fellow subsidiary	744,476	-
LOLC Micro Investment Ltd	Fellow subsidiary	271,680	210,073
		5,569,291	32,909,393

NOTES TO THE FINANCIAL STATEMENTS

10. OTHER RECEIVABLES

As at 31st March	2019 Rs.	2018 Rs.
Financial Assets		
Staff loans	299,161,642	303,862,169
Other receivables	584,096,086	92,668,586
Provision on other receivable	(508,589,694)	(90,000,144)
	374,668,034	306,530,611
Non Financial Assets		
VAT receivable	193,579,655	350,973,408
WHT recoverable	78,480,935	22,834,850
Prepaid staff cost	247,256,636	113,415,906
Miscellaneous receivables	43,955,973	328,741,604
	563,273,200	815,965,768
Total Other receivables	937,941,234	1,122,496,378

As per the memorandum of understanding agreement entered for Government Debt Relief Scheme on 8th January 2019, Rs.101,829,309.88 had to be received from Ministry of Finance and out of that Rs.16,971,551.65 received on 18th March 2019. Balance part is included in "Other receivables".

11. INVESTMENT PROPERTIES

	2019 Rs.	2018 Rs.
Balance as at 1st April	6,278,187,226	906,300,000
Additions to Investment Properties from foreclosure of contracts	2,425,017,357	752,966,448
Additions and improvements		
Improvements	50,000,796	49,776,809
Additions	803,255,268	2,765,417,980
Transfers from property, plant and equipment	-	1,643,651,422
Addition on merger with subsidiary	-	119,035,553
Disposals	(15,834,000)	(37,200,000)
Change in fair value	2,094,584,353	78,239,014
Balance as at 31st March	11,635,211,000	6,278,187,226

- 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. 92,490,264 during the current financial year. (2017-2018 - 27,720,285) from these properties.
- During the financial year company has incurred expenses amounting to Rs 2,792,055 for maintenance of the investment property. (2017/2018 - Rs.310,685)
- Changes in fair values are recognised as gains in profit or loss and included in 'Net other operating income'.

11.1 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 2019. The fair value has been determine based on valuation perform by Mr. W M Chandrasena, FIV (SL) Marics (UK) Chartered Valuation Surveyor

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.1,200,000 to Rs.10,250,000 in the Colombo area and Rs.1,370,000 to Rs.3,500,000 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)

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Other Equipment Rs.	Total Rs.
Cost/Valuation					
Balance as at 01 April 2018	141,719,000	99,000,000	1,843,736,965	-	2,084,455,965
Additions	-	16,918,640	-	12,955,278	29,873,918
Disposals	-	-	(29,496,429)	-	(29,496,429)
Revaluation	-	-	-	-	-
Balance As at 31 March 2019	141,719,000	115,918,640	1,814,240,536	12,955,278	2,084,833,454
Accumulated Depreciation					
Balance as at 01 April 2018	-	1,258,569	368,705,925	-	369,964,494
Charge for the year	-	2,485,281	161,012,810	-	163,498,091
Depreciation on disposals	-	-	(7,654,068)	-	(7,654,068)
Revaluation	-	-	-	-	-
Balance As at 31 March 2019	-	3,743,850	522,064,667	-	525,808,517
Carrying Amount					
As at 31 March 2019	141,719,000	112,174,791	1,292,175,869	12,955,278	1,559,024,937

	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

Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles amounting to Rs. 1,292,175,869 As at 31 March 2019 (2018 - Rs. 1,475,031,040) 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.

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 31st March	2019 Rs.	2018 Rs.
Receivable within one year	291,922,375	315,536,900
Receivable within 1-5 years	339,829,100	636,972,325
Receivable after 5 years	-	-
Total	631,751,475	952,509,225

Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31st March 2019 and 31st March 2018.

Fully depreciated property, plant and equipment

There were no property, plant and equipment fully depreciated as at 31st March 2019 and 31st March 2018.

12.1 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 2019.

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.

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

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.1,200,000 to Rs.10,250,000 in the Colombo area and Rs.1,370,000 to Rs.3,500,000 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)

12.2 The carrying amount of revalued land and buildings if they were carried at cost less depreciation and impairment, would be as follows;

As at 31st March	2019 Rs.	2018 Rs.
Cost	257,637,640	197,998,000
Accumulated depreciation and impairment	(3,743,850)	(1,651,816)
Carrying value	253,893,791	196,346,184

13. INTEREST BEARING BORROWINGS

As at 31st March	2019 Rs.	2018 Rs.
Short-term loans	17,488,818,258	19,266,537,000
Long-term borrowings (note 13.1)	35,056,235,627	44,804,489,476
Finance leases (note 13.2)	291,251,902	561,196,164
Debentures (note 13.3)	7,450,000,000	4,950,000,000
Total borrowings	60,286,305,787	69,582,222,640
Interest payable	800,591,285	908,209,720
Liability recognised in statement of financial position	61,086,897,072	70,490,432,361
13.1 Long-term borrowings		
Balance at the beginning of the year	44,804,489,476	11,841,978,667
Loans obtained during the year	-	1,549,626,302
Loans transferred on merger with Subsidiary	-	36,059,933,392
Repaid during the year	(9,748,253,849)	(4,647,048,885)
Balance at the end of the year	35,056,235,627	44,804,489,476
Long-term borrowings - current	34,889,835,627	39,132,421,898
Long-term borrowings - non-current (note 13.1.a)	166,400,000	5,672,067,578
	35,056,235,627	44,804,489,476
13.1.a Analysis of non-current portion of long-term borrowings		
Repayable within 1-3 years	166,400,000	4,068,180,359
Repayable after 3 years	-	1,603,887,219
	166,400,000	5,672,067,578

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 LOLC Micro Credit Ltd on 29th March 2018 certain micro business related debt covenants were not met in the merged entity (LOLC Finance PLC). As a result loans amounting to Rs.24,767,115,353 has been classified as current even though the contractual maturity is long term. Of this amount Rs.21,816,556,016 has a contractual maturity within 1-3 years and Rs.2,950,559,338 has a maturity after 3 years.

13.2 Finance leases

As at 31st March	2019 Rs.	2018 Rs.
Gross lease rentals payable as at 1 April	643,167,083	1,242,509,975
Lease obtained during the year	-	15,403,013
Lease rentals paid during the year	(318,608,872)	(614,745,905)
Gross lease rentals payable as at 31 March	324,558,211	643,167,083
Less: Interest in suspense	(33,306,309)	(81,970,920)
Balance at the end of the year / present value of minimum lease payments	291,251,902	561,196,164

NOTES TO THE FINANCIAL STATEMENTS

13. INTEREST BEARING BORROWINGS (CONTD.)

13.2.1 Analysis of finance leases

As at 31st March	2019 Rs.	2018 Rs.
Repayable within one year (note 13.2.1.a)	179,826,441	271,487,490
Repayable within 1-5 years (note 13.2.1.b)	111,425,461	289,708,674
	291,251,902	561,196,164
13.2.1.a Repayable within one year		
Gross lease rentals payable	203,216,407	320,152,101
Less: interest in suspense	(23,389,967)	(48,664,611)
	179,826,441	271,487,490
13.2.1.b Repayable within 1-5 years		
Gross lease rentals payable	121,341,803	323,014,983
Less: interest in suspense	(9,916,342)	(33,306,309)
	111,425,461	289,708,674
13.3 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)	2,500,000,000	-
Balance at the end of the year	7,450,000,000	4,950,000,000

The company issued rated unsecured subordinated redeemable debentures, fifty million (50,000,000) totalling to Rs. 5Bn in 2014-15 and thirty four million (34,110,193) totalling to Rs. 2.5Bn in 2018-19 with a five year maturity duration, incurring transaction costs. These debentures are listed in the Colombo Stock Exchange. The amortisation of the transaction cost is included in the interest payable amount.

14. DEPOSITS FROM CUSTOMERS

As at 31st March	2019 Rs.	2018 Rs.
Customer deposits	112,110,392,799	106,556,229,770
Interest / profit payable		
Interest payable on deposits	3,077,343,549	3,299,313,250
Profits payable to Islamic Business Unit deposit holders	177,404,841	171,877,079
	3,254,748,390	3,471,190,329
Deposit liability recognised in statement of financial position	115,365,141,189	110,027,420,099

14.1 Analysis of customer deposits based on nature

As at 31st March	2019 Rs.	2018 Rs.
Fixed deposits - conventional	96,101,566,232	87,057,854,894
Fixed deposits - Islamic - Mudharabah	2,964,713,514	3,870,609,137
Fixed deposits - Islamic - Wakala	4,013,487,873	5,373,530,266
Fixed deposits - foreign currency	1,400,653,404	2,688,605,506
Fixed deposit bonds	125,495,900	193,350,400
Savings deposits - conventional	1,748,212,890	1,867,641,169
Savings deposits - Islamic	705,719,249	860,562,263
Savings deposits - foreign currency	5,050,543,737	4,644,076,135
Total deposits	112,110,392,799	106,556,229,770

14.2 Deposits based on maturity

Deposits maturing within one year	89,270,928,959	86,736,355,447
Deposits maturing after one year	22,839,463,840	19,819,874,323
	112,110,392,799	106,556,229,770

15. TRADE PAYABLES

As at 31st March	2019 Rs.	2018 Rs.
Creditors for lease equipment and approved facilities to be disbursed	1,161,094,413	1,593,495,580

16. ACCRUALS AND OTHER PAYABLES

As at 31st March	2019 Rs.	2018 Rs.
Excess payments received from clients	239,775,732	147,894,229
Insurance payable	51,725,604	41,619,532
VAT / other tax payable	5,638,110	105,302,325
Other miscellaneous creditors	2,497,673,937	1,732,533,034
Payable on matured deposits	259,423,451	340,374,030
Stamp duty payable	14,612,260	20,652,737
Allowance for impairment (ECL) - Undrawn credit facilities	3,604,443	-
	3,072,453,537	2,388,375,887

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

NOTES TO THE FINANCIAL STATEMENTS

17. AMOUNTS DUE TO RELATED COMPANIES

As at 31st March	Relationship	2019 Rs.	2018 Rs.
Lanka Orix Leasing Company PLC	Parent	698,749,736	952,626,317
Lanka Orix Leasing Company PLC - Refinance Loans	Parent	-	10,494,870
LOLC Corporate services Ltd	Fellow subsidiary	560,719	981,255
LOLC Factors Ltd	Fellow subsidiary	87,084,337	507,035,755
LOLC Motors Ltd	Fellow subsidiary	5,784,600	5,980,455
LOLC Information Technology Services Limited	Fellow subsidiary	17,576,095	19,880,898
LOLC Insurance - General Ltd	Fellow subsidiary	5,099,463	-
LOLC Insurance - Life Ltd	Fellow subsidiary	2,789,146	-
		817,644,096	1,496,999,551

18. EMPLOYEE BENEFITS

18.1 Defined contribution plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

As at 31st March	2019 Rs.	2018 Rs.
Employees' Provident Fund		
Employers' contribution	125,756,190	44,204,734
Employees' contribution	83,837,460	29,469,822
Employees' Trust Fund	31,440,648	11,051,183

18.2 Defined benefit plan

	COMPANY	
As at 31st March	2019 Rs.	2018 Rs.
Movement in the present value of the defined benefit obligation		
Defined benefit obligation as of 01 April	70,303,298	17,018,130
Transferred on merger with Subsidiary	-	46,621,222
Expense included in Personnel Expenses	19,303,613	5,986,781
Remeasurement Component	4,097,431	2,609,396
	23,401,044	55,217,399
Benefits paid	(6,643,354)	(1,932,231)
Defined benefit obligation as at 31st March	87,060,988	70,303,298

18.2.a Expense included in Personnel Expenses

As at 31st March	2019 Rs.	2018 Rs.
Current Service Cost	11,570,251	3,944,606
Interest Cost	7,733,362	2,042,175
	19,303,613	5,986,781

18.2.b Actuarial gains and losses recognised in other comprehensive income

	2019 Rs.	2018 Rs.
Cumulative loss as at 1st April	7,054,769	4,445,373
(Gain) / loss recognised during the period	4,097,431	2,609,396
Cumulative loss as at 31st March	11,152,200	7,054,769

Actuarial valuation for defined benefit obligation was carried out As at 31 March 2019 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".

18.2.c Key assumptions used in the above valuation are as follows:

As at 31st March	2019	2018
Discount Rate	11.00%	11.00%
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.

18.2.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 31st March	2019 Rs.	2018 Rs.
The defined benefit obligation under current assumptions	87,060,988	70,303,298
The defined benefit obligation if the discount rate increased by 100 basis points	76,202,623	63,795,919
The defined benefit obligation if the discount rate reduced by 100 basis points	94,156,926	77,856,221
The defined benefit obligation if the salary increment rate increased by 1%	95,144,966	78,186,716
The defined benefit obligation if the salary increment rate reduced by 1%	75,297,073	63,428,522
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(10,858,365)	(6,507,379)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	7,095,938	7,552,923
The change in the defined benefit obligation if the salary increment rate increased by 1%	8,083,978	7,883,418
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(11,763,915)	(6,874,776)

NOTES TO THE FINANCIAL STATEMENTS

18. EMPLOYEE BENEFITS (CONTD.)

18.2.e Maturity analysis of the payments

The following payments are expected on employee benefit liabilities in future years

As at 31st March	2019 Rs.	2018 Rs.
Within the next 12 months	10,793,304	8,922,809
Between 1 and 2 years	14,402,320	10,555,975
Between 2 and 5 years	59,523,588	50,889,833
Between 5 and 10 years	161,730,019	149,766,472
Total expected payments	246,449,231	220,135,089

19. STATED CAPITAL

As at 31st March	2019		2018	
	Number of shares	Rs.	Number of shares	Rs.
Balance at the beginning of the year	4,200,000,000	7,880,000,000	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	4,200,000,000	7,880,000,000

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.

20. RESERVES

As at 31st March	2019 Rs.	2018 Rs.
Statutory reserve (note 20.1)	3,189,297,618	1,996,724,011
Revaluation reserve (note 20.2)	241,527,671	241,527,671
Cash flow hedge reserve (note 20.3)	(39,059,403)	(6,333,136)
Available for sale investment reserve (note 20.4)	-	(7,166,375)
Retained earnings (note 20.5)	11,516,578,925	7,000,881,586
	14,908,344,810	9,225,633,756

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

20.1 Statutory reserve

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	1,996,724,011	1,556,438,753
Transferred during the year	1,192,573,607	440,285,258
Balance at the end of the year	3,189,297,618	1,996,724,011

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% (2017/18 - 20%) of its annual net profit after tax to this reserve in compliance with this direction.

20.2 Revaluation Reserve

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	241,527,671	206,229,960
Transferred during the year	-	-
Adjustments on merger	-	43,114,247
Related tax	-	(7,816,536)
Balance at the end of the year	241,527,671	241,527,671

This reserve is created from the excess arising from the revaluation of land and buildings of the company.

20.3 Cash flow hedge reserve

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	(6,333,137)	14,236,742
Gain / (loss) arising from cash flow hedge recognised in OCI	(45,453,148)	(26,649,199)
Related tax - current tax - expense / (reversal) - note 28	101,459,580	(18,101,637)
Related tax - deferred tax - expense / (reversal) - note 28	(88,732,699)	26,101,034
Adjustments on merger	-	(1,920,077)
Balance at the end of the year	(39,059,403)	(6,333,137)

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 2019, there were assets with fair value of Rs. 568,529,646 and liabilities with fair value of Rs. 661,931,132.

The portion of the foreign currency loan that is subject to hedge accounting is to be settled during the financial years 2018/19 - 2019/20 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.

20.4 Available for Sale Investment Reserve

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	(7,166,375)	(115,484,939)
Transfer to fair value reserve	7,166,375	
Fair value changes during the year - increase / (decrease)	-	128,082,838
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)

As per the requirement of SLFRS 9, previous available-for-sale financial assets are reclassified under fair value through other comprehensive income (FVOCI) and the subsequent fair value changes are recognised under fair value reserve.

NOTES TO THE FINANCIAL STATEMENTS

20. RESERVES (CONTD.)

20.4.1 Fair Value Reserve

The fair value reserve comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income until such investments are derecognised or impaired.

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	-	-
Transfer from available for sale investment reserve	(7,166,375)	-
Investment in government securities measured at FVOCI	(34,822,051)	-
Investment securities measured at FVOCI – equity investments	20,232,000	-
Related Tax	-	-
Balance at the end of the year	(21,756,425)	-

20.5 Retained Earnings

Balance at the beginning of the year	7,000,881,585	7,364,836,011
Impact of adopting SLFRS 9	(251,646,932)	-
Balance at the beginning of the year - Adjusted	6,749,234,653	-
Profit for the year	5,962,868,028	2,201,426,289
Remeasurements of defined benefit liability - gain / (loss)	(2,950,150)	(1,878,765)
Transfer to statutory reserve fund	(1,192,573,607)	(440,285,258)
Excess of investment on merger with subsidiary	-	(2,123,216,692)
Balance at the end of the year	11,516,578,925	7,000,881,585

21. INTEREST INCOME

Year ended 31 March,	2019 Rs.	2018 Rs.
Interest on leases	11,833,210,544	4,760,680,135
Interest on loans	22,207,594,243	11,387,494,159
Income from factoring portfolio	1,987,154,976	3,839,176,110
Interest from credit cards	35,371,063	-
Interest on margin trading	43,014,961	34,370,009
Income from operating lease and hire	377,553,766	347,231,202
Interest on overdue rentals and others	3,845,888,698	1,530,394,326
Interest income and capital gain on government securities	1,168,220,109	1,281,546,653
Interest income on term deposits	1,165,309,167	637,290,823
	42,663,317,527	23,818,183,417

22. INTEREST EXPENSE

Year ended 31 March,	2019 Rs.	2018 Rs.
Interest on fixed deposits	12,589,774,985	10,785,836,438
Interest on savings deposits	146,319,000	103,637,952
Profit distributed to Islamic Business Unit deposit holders	1,040,064,747	1,014,111,005
Interest on foreign currency deposits	155,601,431	85,940,416
Interest on re-red refinancing	70,468	2,056,302
Finance lease interest	48,664,611	94,710,085
Interest on loans & bank overdraft	6,911,258,964	1,815,844,563
	20,891,754,206	13,902,136,761

23. NET OTHER OPERATING INCOME

Year ended 31 March,	2019 Rs.	2018 Rs.
Sundry income	460,194,746	179,253,587
Service charges	6,366,999	198,066,846
Arrangement and documentation fees	334,888,827	204,247,912
Collections from contracts written off	806,877,283	196,892,015
Fair value change in investment properties (Note 11)	2,094,584,353	78,239,014
Reclassification from AFS reserve on disposals	-	16,745,534
Change in fair value of derivatives - forward contracts (Note 5.3)	106,833,729	(36,451,676)
Net exchange loss	(68,352,960)	52,059,498
Portfolio handling fee	-	295,520,180
Bad debt portfolio handling fee	-	48,430,041
Provision/(Reversal) for payables to clients	37,368,136	(25,200,000)
Adjustment for increase / (decrease) in value of investments (Note 8.1 / 8.2.2)	129,135,220	518,658,941
Dividend income	480,000	318,522
Debenture Interest	616,234	-
Interest income from staff loan	96,023,684	84,376,427
Disposal gain / (loss) on investment property	2,166,000	5,462,500
Disposal gain / (loss) on PPE	5,075,139	
	4,012,257,390	1,816,619,341

24. DIRECT EXPENSES EXCLUDING INTEREST COST

Year ended 31 March,	2019 Rs.	2018 Rs.
Insurance expenses factored to accommodations	1,116,788,501	606,280,963
VAT on general expenses	405,435,833	438,457,903
Portfolio handling fee	-	-
Others	-	3,194,150
	1,522,224,334	1,047,933,016

NOTES TO THE FINANCIAL STATEMENTS

25. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS

Year ended 31 March,	2019 Rs.	2018 Rs.
Impairment provision / (reversal) for lease rentals receivable (Note 6.2)	94,333,208	6,419,203
Impairment provision / (reversal) for mortgage loan (Note 7.1.2)	(9,703,393)	(66,479,141)
Impairment provision / (reversal) for receivables from sundry loans (Note 7.2.2)	802,055,151	184,491,104
Impairment provision / (reversal) for credit card receivables (Note 7.4.1)	9,821,962	-
Impairment provision / (reversal) for receivables from Gold loans (Note 7.3.1)	27,872,671	-
Impairment provision / (reversal) for factoring receivables (Note 7.6.1)	365,094,075	(238,222,742)
Impairment provision / (reversal) for other financial assets	2,068,223	(590,802,130)
Impairment provision / (reversal) for insurance receivable	83,661,826	-
Written-off during the year	4,325,301,757	4,413,881,669
	5,700,505,481	3,709,287,962

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

Comparison between provision for impairment as per SLFRS 09 and Central Bank (CBSL) requirement.

Year ended 31 March,	Impairment charge to profit or loss	Written-off during the year	Charge to profit or loss net of write-offs	Provision impact as per CBSL
Rentals receivable on leased assets	1,401,528,367	1,307,195,159	94,333,208	564,185,215
Loans and advances	3,201,553,192	2,371,506,800	830,046,391	846,219,517
Factoring receivable	1,011,693,873	646,599,798	365,094,075	26,217,440
Other financial assets	2,068,223	-	2,068,223	-
Insurance receivable	83,661,826	-	83,661,826	83,661,826
	5,700,505,481	4,325,301,757	1,375,203,724	1,520,283,999

26. PROFIT FROM OPERATIONS

Year ended 31 March,		2019 Rs.	2018 Rs.
Profit from operations is stated after charging all expenses including the following,			
Directors' emoluments		51,277,290	12,256,000
Audit fees and expenses	- Audit Services	2,800,000	2,530,000
	- Audit Related Services	1,050,000	960,000
	- Non Audit Services	Nil	Nil
Depreciation on property, plant and equipment		163,498,091	173,816,520

26.1 Personnel expenses

	2019 Rs.	2018 Rs.
Salaries, wages & other related cost	2,989,197,688	1,309,250,208
Defined contribution plans - EPF & ETF	157,196,838	55,255,917
Defined benefit plan cost	19,303,613	5,986,781
	3,165,698,139	1,370,492,906

27. MATURITY OF ASSETS AND LIABILITIES

27.1 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 31st 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 31.03.19 Rs.	Total as at 31.03.18 Rs.
Cash and cash equivalents	17,535,538,362	-	-	-	-	17,535,538,362	11,323,366,281
Deposits with banks and other financial institutions	9,588,124,264	12,049,051,382	-	-	-	21,637,175,646	26,346,551,552
Investment in government securities	14,949,561,531	3,187,958,398	-	13,476,000		18,150,995,929	10,871,768,339
Derivative assets	431,959,696	136,569,950	-	-	-	568,529,646	133,540,941
Financial assets at amortised cost							
Rentals receivable on leased assets	6,659,220,633	11,720,609,023	21,345,388,994	4,429,769,490	97,262,325	44,252,250,464	44,359,700,495
(-) Allowance for ECL / impairment	-	-	-	-		(1,310,413,793)	(754,576,684)
Hire purchases, loans and advances	17,028,995,884	24,275,750,980	40,781,820,339	9,900,198,002	390,106,578	92,376,871,783	99,872,484,289
(-) Allowance for ECL / impairment	-	-	-	-		(3,381,029,983)	(2,799,819,013)
Factoring receivable	5,461,768,390	-	-	-	-	5,461,768,390	11,397,986,284
(-) Allowance for ECL / impairment	-	-	-	-	-	(1,208,100,488)	(759,231,341)
Investments securities	2,094,251,868	308,767,718	-	-	406,209,557	2,809,229,143	1,965,298,691
Amount due from related companies	5,569,291	-	-	-	-	5,569,291	32,909,393
Other receivables	354,690,257	168,097,235	21,134,827	117,342,058	276,676,863	937,941,239	1,122,496,378
Inventories	-	4,811,234	-	-	-	4,811,234	9,077,910
Investment properties	-	-	11,635,210,995	-	-	11,635,210,995	6,278,187,226
Property plant and equipment	-	-	-	-	1,559,024,937	1,559,024,937	1,714,491,470
Total Assets as at 31st March 2019	74,109,680,176	51,851,615,919	73,783,555,154	14,460,785,550	2,729,280,259	211,035,372,795	
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	211,114,232,211

NOTES TO THE FINANCIAL STATEMENTS

27. MATURITY OF ASSETS AND LIABILITIES (CONTD.)

27.2 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 31st 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 31.03.19 Rs.	Total as at 31.03.18 Rs.
Bank overdraft	2,242,496,059	-	-	-	-	2,242,496,059	4,243,169,825
Interest bearing borrowings	43,786,869,903	14,339,907,871	320,890,374	2,639,228,924	-	61,086,897,072	70,490,432,360
Deposits from customers	32,703,060,656	59,276,125,039	16,911,082,221	6,474,873,273	-	115,365,141,189	110,027,420,099
Trade payables	1,161,094,413	-	-	-	-	1,161,094,413	1,593,495,580
Accruals and other payables	2,085,042,696	374,117,669	550,235,394	63,057,777	-	3,072,453,537	2,388,375,887
Derivative liabilities	223,528,750	438,402,382	-	-	-	661,931,132	482,464,342
Amount due to related companies	817,644,096	-	-	-	-	817,644,096	1,496,999,551
Current tax payable	-	1,501,292,610	-	-	-	1,501,292,610	813,718,266
Deferred tax liability	-	-	2,272,773,316	-	-	2,272,773,316	2,402,219,247
Employee benefits	-	-	-	87,060,988	-	87,060,988	70,303,298
Stated capital	-	-	-	-	7,880,000,000	7,880,000,000	7,880,000,000
Statutory reserve	-	-	-	-	3,189,297,618	3,189,297,618	1,996,724,011
Revaluation Reserve	-	-	-	-	241,527,671	241,527,671	241,527,671
Cash flow hedge reserve	-	-	-	-	(39,059,404)	(39,059,404)	(6,333,137)
Available for sale investment reserve	-	-	-	-	-	-	(7,166,375)
Fair value reserve	-	-	-	-	(21,756,426)	(21,756,426)	-
Retained earnings	-	-	-	-	11,516,578,925	11,516,578,925	7,000,881,585
Total Liabilities & Equity as at 31st March 2019	83,019,736,574	75,929,845,572	20,054,981,305	9,264,220,962	22,766,588,383	211,035,372,795	
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	211,114,232,211

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

28. INCOME TAX EXPENSE

The major components of income tax expense for the year ended 31 March are as follows:

As at 31st March	2019 Rs.	2018 Rs.
Current tax - recognised in P&L		
Current tax charge	1,224,609,252	124,029,652
Under / (over) provision of current taxes in respect of prior years	-	(81,779,566)
	1,224,609,252	42,250,087
Deferred Tax		
Deferred tax expense / (reversal) (28.2)	(79,664,939)	(158,936,233)
Income tax expense reported in statement of profit or loss	1,144,944,313	(116,686,146)
Current tax - expense / (reversal) - recognised in OCI		
Relating to exchange gain recognised in OCI (in hedge reserve)	(101,459,580)	18,101,637
Deferred tax charge / (reversal) recognised in OCI		
Available for sale financial assets	-	3,018,739
Property plant and equipment	-	-
Defined benefit plans	(1,147,281)	(730,631)
Fair value change in derivatives recognised in hedge reserve	88,732,699	(25,563,412)
Investment in LOLC Asia Pvt Ltd	2,248,000	-
	89,833,418	(23,275,304)
Total income tax expense / (reversal) recognised in OCI	(11,626,162)	(5,173,668)

28.1 Current tax payable

	2019 Rs.	2018 Rs.
Tax payable as at 1st April	813,718,266	268,931,782
Current tax expense for the year - recognised in P&L	1,224,609,252	42,250,087
Current tax expense for the year - recognised in OCI	(101,459,580)	18,101,637
Balance on acquisition of subsidiary	-	-
Addition on merger with subsidiary	-	816,489,534
Tax paid during the year	(435,575,329)	(332,054,773)
Tax payable as at 31st March	1,501,292,610	813,718,266

A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

As at 31st March	2019		2018	
	%	Rs.	%	Rs.
Accounting profit before income tax		7,107,812,341		2,084,740,142
Tax effect at the statutory income tax rate of 28%	28%	1,990,187,455	28%	583,727,240
Tax effect of other allowable credits	-105%	(7,486,185,586)	-5%	(107,491,037)
Tax effect of non deductible expenses	93%	6,619,147,802	11%	224,247,956
Deferred tax adjustment	0%	21,794,642	0%	-
Tax benefit on acquisition of subsidiary	0%	-	-35%	(735,390,739)
Under / (over) provision in the previous years	0%	-	-4%	(81,779,566)
Income tax expense	16%	1,144,944,313	-6%	(116,686,146)

NOTES TO THE FINANCIAL STATEMENTS

28. INCOME TAX EXPENSE (CONTD.)

28.2 Deferred Taxation

As at 31st March	2019 Rs.	2018 Rs.
Balance as at 1st April	2,402,219,247	1,102,057,559
Impact on adoption of SLFRS 9	(139,614,410)	-
Deferred tax expense / (reversal) - recognised in P&L	(79,664,939)	(158,936,233)
Deferred tax expense / (reversal) - recognised in OCI	89,833,418	(23,275,304)
Deferred tax liability / (asset) on acquisition of subsidiary	-	-
Deferred tax liability / (asset) on merger with subsidiary	-	1,482,373,226
Balance as at 31st March	2,272,773,316	2,402,219,247

Recognised deferred tax assets and liabilities are attributable to the following.

Deferred tax is measured using a tax rate of 28% (2017/18 -28%) on temporary differences

Deferred tax expense / (reversal)

Deferred tax liability / (asset)	Balance as 1st April 2018 Rs.	Impact on adoption of SLFRS 9 Rs.	Recognised in P&L - expense / (reversal) Rs.	Recognised in OCI - expense / (reversal) Rs.	Balance as 31st March 2019 Rs.
Recognised in P&L / Equity (retained earnings)					
Lease receivables	3,183,173,949	(156,314,921)	(525,409,739)	-	2,501,449,289
Finance lease liability	160,396,942	-	54,826,517	-	215,223,460
Property plant and equipment	7,338,748	-	(3,393,410)	-	3,945,338
Tax losses	(201,511,124)	-	201,511,124	-	-
Cost of acquisition of subsidiary (note 28.2.b)	(651,390,739)	-	5,579,677	-	(645,811,061)
Defined benefit plans	(16,522,896)	-	(4,692,153)	-	(21,215,050)
Forward exchange contracts (net)	(7,165,481)	-	(17,186,618)	-	(24,352,099)
Investment property	-	-	209,458,435	-	209,458,435
Investment in LOLC Myanmar	-	16,700,511	(358,773)	-	16,341,738
Recognised in OCI					
Available for sale financial assets	3,018,739	-	-	-	3,018,739
Property plant and equipment	18,576,152	-	-	-	18,576,152
Defined benefit plans	(3,162,027)	-	-	(1,147,281)	(4,309,308)
Forward exchange contracts (net)	(90,533,016)	-	-	88,732,699	(1,800,317)
Investment in LOLC Asia Pvt Ltd	-	-	-	2,248,000	2,248,000
Net deferred tax liability / (asset)	2,402,219,247	(139,614,410)	(79,664,939)	89,833,418	2,272,773,316

Deferred tax expense / (reversal)

Deferred tax liability / (asset)	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.
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 28.2.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

Deferred tax expense / (reversal)

Deferred tax liability / (asset)	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.
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 28.2.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

NOTES TO THE FINANCIAL STATEMENTS

28. INCOME TAX EXPENSE (CONTD.)

28.2.a Temporary differences

Temporary differences - taxable / (deductible)	As at 31st March 2019 Rs.	As at 31st March 2018 Rs.
Recognised in P&L / Equity (retained earnings)		
Lease receivables	8,933,747,461	11,368,478,390
Finance lease liability	768,655,213	572,846,223
Property plant and equipment	14,090,491	26,209,813
Tax losses	-	(719,682,585)
Cost of acquisition of subsidiary	(2,306,468,076)	(2,326,395,495)
Defined benefit plans	(75,768,034)	(59,010,344)
Forward exchange contracts (net)	(86,971,782)	(25,591,005)
Investment property	2,094,584,353	-
Investment in LOLC Myanmar	163,417,381	-
Recognised in OCI		
Available for sale financial assets	10,781,210	10,781,210
Property plant and equipment	66,343,400	66,343,400
Defined benefit plans	(15,390,385)	(11,292,954)
Forward exchange contracts (net)	(6,429,704)	(323,332,199)
Investment in LOLC Asia Pvt Ltd	22,480,000	-
Net taxable / (deductible) temporary difference	9,583,071,529	8,579,354,453

28.2.b Cost of acquisition of subsidiary and unrecognised deferred tax assets

During the year 2017/18, the company paid Rs.12,291,200,000 to acquire 100% of LOLC Micro Credit Limited.

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.2,005,624,414 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 year and expects to recover Rs.2,306,468,076 over such period and a deferred tax asset of Rs.645,811,061 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 31st March	2019 Rs.	2018 Rs.
Unrecognised differed tax asset		
Remaining amount to be claimed as at 1st of April	11,991,200,000	-
Consideration paid to acquire subsidiary	-	12,291,200,000
Previous year adjustment	(614,373,871)	
Amount claimed during the year	(2,005,624,414)	(300,000,000)
Remaining amount to be claimed in future years	9,371,201,715	11,991,200,000
Tax rate	28%	28%
Deferred tax asset on remaining amount	2,623,936,480	3,357,536,000
Recognised deferred tax asset	(645,811,061)	(651,390,739)
Unrecognised deferred tax asset	1,978,125,419	2,706,145,261

29. EARNINGS PER SHARE

29.1 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 31st March	2019 Rs.	2018 Rs.
Amounts used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	5,962,868,028	2,201,426,288

As at 31st March	2019 Rs.	2018 Rs.
Number of ordinary shares used as the denominator:		
Ordinary shares in issue at the beginning of the year	4,200,000,000	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	4,200,000,000	2,861,369,863
Basic earnings per share (Rs.)	1.42	0.77

29.2 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.

30. COMPARATIVE FIGURES

The Comparative information is reclassified wherever necessary to conform the current year's presentation and details are given below.

Statement of Financial Position	Note	As disclosed in 2018	Adjustment	Reclassified
Loans and advances	A	96,897,095,158	175,570,117	97,072,665,275
Margin Trading	A	175,570,117	(175,570,117)	-
Statement of Profit or Loss and Other Comprehensive Income				
Interest Income				
Interest Income and capital gain on government securities	B	1,281,546,653	(1,281,546,653)	-
Interest Income on term deposits	B	637,290,823	(637,290,823)	-

A. Margin Trading which were previously reported as a separate line item in Statement of Financial Position have been transferred to Loans and advances.

B. Interest income which were previously reported under net other operating income have been transferred to Interest Income

NOTES TO THE FINANCIAL STATEMENTS

31. ASSETS PLEDGED

The following assets have been pledged as security for liabilities

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2019 RS.	Carrying Amount Pledged 2018 RS.
Lease portfolio	Short term borrowing	25,015,466,845	2,906,340,000

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 LOLC Holdings 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 LOLC Holdings 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.

32.2.1 Compensation of KMPs

As at 31st March	2019 Rs.	2018 Rs.
Short term employment benefits	97,497,301	40,085,345
Total	97,497,301	40,085,345

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 dependants 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 31st March	2019 Rs.	2018 Rs.
Deposits held with the Company	831,639,658	1,222,574,976
Interest paid / charged	92,492,763	112,847,259
Interest payable	43,589,874	41,053,696
Loans granted (excluding Directors)	42,349,079	22,344,501
Capital outstanding on facilities granted to KMPs (excluding Directors)	58,033,025	52,267,222
Accommodation outstanding as a percentage of the Company's Capital Funds	0.23%	0.28%

No impairment losses have been recorded against balances outstanding with KMP and CFM.

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 2019 and 2018, refer notes no.10 and 17 accordingly).

Relationship	Nature of Transactions	Transaction value 2019 RS.	Transaction value 2018 RS.
Parent Company	Net funds granted by the Parent during the year (excluding opening balance)	380,502,399	581,452,693
	Reimbursement of expenses	2,232,590,298	2,250,728,657
	Asset hire charges	201,216,322	127,501,244
	Interest on re-red refinancing	70,468	2,056,302
	Treasury management fee	546,517,294	160,508,868
	Royalty	644,617,458	337,312,420
	Fund transfer interest	40,356,041	33,099,000
	Consideration paid to acquire subsidiary	-	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	149,723,735	298,583,518
	Interest paid/charge	28,645,652	47,468,251
	Interest payable	5,912,087	7,986,501
	Investments held by the company	984,612,151	2,033,340,685
	Interest income from investment	164,669,680	102,416,781
	IT service fee	183,717,087	153,648,684
	Franchise Fee	-	150,867,289
	Yard fee	22,200,000	7,800,000
	Supply of leased vehicles	1,624,913,418	471,514,753
	Loan/ lease granted	974,681,193	569,506,183
	Rental collections	387,457,540	401,701,670
	Interest income	329,594,777	287,860,407
	Capital outstanding on facilities granted	2,278,590,180	1,552,192,413
	Rent Income	71,688,693	-
	Franchise Fee	288,349,644	-
Other Related Companies/Affiliates	Supply of leased vehicles	134,121,450	474,764,753
	Interest paid/charge	253,902,325	253,902,325
	Rental collections	10,227,832	70,356,316
	Interest income	10,198,946	11,330,881
	Capital outstanding on facilities granted	46,344,129	46,393,734
Other Related Organisations	Deposits held with the company	294,892,074	257,929,563
	Interest paid/charge	37,897,296	33,942,379
	Interest payable	26,679,464	21,906,724
Accommodation outstanding as a percentage of the Company's Capital Funds		9.35%	13.64%

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 these Financial Statements other than those disclosed in note 33.1.

NOTES TO THE FINANCIAL STATEMENTS

33. EVENTS OCCURRING AFTER THE REPORTING DATE (CONTD.)

33.1 Rights Issue

In July 2019, the Company is planning to raise capital by a way of rights issue, the details are as follow

The number of shares to be issued	**Voting :** 1,050,000,000
The proportion in which the shares are to be used	**Voting :** One (01) new Ordinary Share for every Four (04) Ordinary Shares
The consideration for which the shares are to be issued (Rs.)	**Voting :** 4.65

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 2019					
Total revenue - Interest income & other income	40,070,283,299	2,573,402,618	4,031,889,000	-	46,675,574,917
External revenue	40,070,283,299	2,573,402,618	4,031,889,000	-	46,675,574,917
Net interest cost	(17,436,688,996)	(1,271,782,960)	(2,183,282,250)	-	(20,891,754,206)
Profit before operating expenses	22,633,594,303	1,301,619,658	1,848,606,750	-	25,783,820,711
Operating expenses	(11,061,314,687)	(524,533,773)	-	-	(11,585,848,460)
Allowance for impairment & write-offs	(3,295,007,333)	(161,112,999)	(2,244,385,149)	-	(5,700,505,481)
Value added tax on financial services	(1,309,934,380)	(79,720,049)	-	-	(1,389,654,429)
Results from operating activities	6,967,337,903	536,252,838	(395,778,399)	-	7,107,812,341
For the year ended 31st March 2018					
Total revenue - Interest income & 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 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	536,252,837	(395,778,399)	-	2,063,961,038
Depreciation					
For the year ended 31st March 2019	163,498,091	-	-	-	163,498,091
For the year ended 31st March 2018	173,284,039	-	-	-	173,284,039
Capital expenditure - Property Plant and equipment					
For the year ended 31st March 2019	122,904,918	-	-	-	122,904,918
For the year ended 31st March 2018	122,904,918	-	-	-	122,904,918
As at 31-03-2019					
Total assets	194,870,557,900	12,318,352,916	4,066,179,586	(219,717,607)	211,035,372,795
Total liabilities	174,486,456,494	9,935,865,939	4,066,179,586	(219,717,607)	188,268,784,412
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

35. COMMITMENTS AND CONTINGENCIES

As at 31st March	2019 Rs.	2018 Rs.
35.1 Contingent liabilities		
Guarantees issued to banks and other institutions - backed by deposits	269,837,501	767,098,046
35.2 Commitments		
Forward exchange contracts- (commitment to purchase)	20,912,968,668	27,034,126,553
Unutilised loan facilities	11,076,768,535	10,992,926,927
Allowance for ECL / impairment	(3,604,443)	-
	32,255,970,261	38,794,151,526

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

On the commitment to purchase the foreign currencies the company will receive USD 74,844,247, EUR 36,350,000, GBP 2,050,000, AUD 1,700,000.

NOTES TO THE FINANCIAL STATEMENTS

36. TRANSITION DISCLOSURES

The following notes set out the impact of adopting Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) at transition date, 01st April 2018 on Statement of Financial Position. This explains the impact on adoption of expected credit loss (ECL) calculations under SLFRS 9 compared to the calculations under Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments - recognition and measurement).

As at 01st April 2018		LKAS 39	
	Note	Category	Amount Rs.
Financial Assets			
Cash and cash equivalents		Loans and receivables	11,323,366,281
Deposits with banks		Loans and receivables	26,346,551,552
Investment in government securities			-
- Measured at fair value		Available for sale	4,381,048,794
- Measured at amortised cost		Loans and receivables	6,490,719,545
Derivative assets		Fair value through PL	133,540,941
Investment securities			
- To: Financial Assets - Measured at fair value	A		-
- To: Financial Assets - Available for sale	A		-
- From: Financial Assets - Held for Trading			1,744,986,516
- From: Financial Assets - Available for sale			66,662,175
- From: Financial Assets - Available for sale			153,650,000
Rentals receivable on leased assets	B	Loans and receivables	43,605,123,812
Loans and advances	B	Loans and receivables	97,072,665,275
Factoring receivable	B	Loans and receivables	10,638,754,943
Amount due from related companies		Loans and receivables	32,909,393
Other financial assets		Loans and receivables	306,530,611
			202,296,509,837
Non-financial Assets			
Inventories		N/A	9,077,910
Investment properties		N/A	6,278,187,226
Property plant and equipment		N/A	1,714,491,470
Other non-financial assets		N/A	815,965,768
			8,817,722,374
Total assets			211,114,232,211
Financial Liabilities			
Bank overdraft		Amortised cost	4,243,169,825
Interest bearing borrowings		Amortised cost	70,490,432,360
Deposits from customers		Amortised cost	110,027,420,099
Trade payables		Amortised cost	1,593,495,580
Accruals and other payables	C	Amortised cost	2,206,129,231
Derivative liabilities		Fair value through PL	482,464,342
Amount due to related companies		Amortised cost	1,496,999,551
			190,540,110,988
Non-financial assets liabilities			
Current tax payable		N/A	813,718,267
Deferred tax liability	D	N/A	2,402,219,247
Defined benefit obligations		N/A	70,303,298
Other non-financial liabilities		N/A	182,246,656
			3,468,487,468
Total liabilities			194,008,598,456
Equity			
Stated capital		N/A	7,880,000,000
Statutory reserve		N/A	1,996,724,011
Revaluation reserve		N/A	241,527,671
Cash flow hedge reserve		N/A	(6,333,137)
Available for sale reserve		N/A	(7,166,375)
Fair Value Reserve		N/A	-
Retained earnings	E	N/A	7,000,881,585
Total equity			17,105,633,755
Total liabilities and equity			211,114,232,211

Reclassification :

These reflect the movement of balances between the categories on the Statement of Financial Position. No any impact to the shareholders' equity and no differences in caring values due to the reclassification.

Re-measurement :

These adjustments reflect the changes in caring values on the statement of Financial Position due to the impact of expected credit loss (ECL). These are recognised to the shareholders' equity net of tax.

Reclassification	Re-measurement		SLFRS 09	
	ECL	Other	Amount	Category
Rs.	Rs.	Rs.	Rs.	
-	-	-	11,323,366,281	Amortised cost
-	-	-	26,346,551,552	Amortised cost
-	-	-	-	
-	-	-	4,381,048,794	Fair value through OCI
-	-	-	6,490,719,545	Amortised cost
-	-	-	133,540,941	Fair value through PL
			-	
1,811,648,691	-	167,005,111	1,978,653,802	Fair value through PL
153,650,000	-	-	153,650,000	Fair value through OCI
(1,744,986,516)	-	-	-	
(66,662,175)	-	-	-	
(153,650,000)	-	-	-	
-	(472,696,467)	-	43,132,427,345	Amortised cost
-	61,209,957	-	97,133,875,233	Amortised cost
-	(144,922,108)	-	10,493,832,835	Amortised cost
-	-	-	32,909,393	Amortised cost
-	-	-	306,530,611	Amortised cost
-	(556,408,617)	167,005,111	201,907,106,331	
-	-	-	9,077,910	N/A
-	-	-	6,278,187,226	N/A
-	-	-	1,714,491,470	N/A
-	-	-	815,965,768	N/A
-	-	-	8,817,722,374	
-	(556,408,617)	167,005,111	210,724,828,705	
-	-	-	4,243,169,825	Amortised cost
-	-	-	70,490,432,360	Amortised cost
-	-	-	110,027,420,099	Amortised cost
-	-	-	1,593,495,580	Amortised cost
-	1,857,836	-	2,207,987,067	Amortised cost
-	-	-	482,464,342	Fair value through PL
-	-	-	1,496,999,551	Amortised cost
-	1,857,836	-	190,541,968,824	
-	-	-	813,718,267	N/A
-	(156,314,921)	16,700,511	2,262,604,837	N/A
-	-	-	70,303,298	N/A
-	-	-	182,246,656	N/A
-	(156,314,921)	16,700,511	3,328,873,058	
-	(154,457,085)	16,700,511	193,870,841,882	
-	-	-	7,880,000,000	N/A
-	-	-	1,996,724,011	N/A
-	-	-	241,527,671	N/A
-	-	-	(6,333,137)	N/A
7,166,375	-	-	-	N/A
(7,166,375)	-	-	(7,166,375)	N/A
-	(401,951,532)	150,304,600	6,749,234,653	N/A
-	(401,951,532)	150,304,600	16,853,986,823	
-	(556,408,617)	167,005,111	210,724,828,705	

NOTES TO THE FINANCIAL STATEMENTS

36. TRANSITION DISCLOSURES (CONTD.)

A. As at 1 April 2018, the Company elected to classify its previous held for trading and available for sale portfolios as debt & other instruments measured at fair value through profit or loss and fair value through other comprehensive income since these assets met the "Solely Payments of Principal and Interest" (SPPI) criterion.

B. As at 1st April 2018, Financial assets previously classified as loans and receivables have been reclassifies at amortised cost. These assets fulfill the Solely Payments of Principle and Interest (SPPI) criterion. They were not actively traded and held with the intention to collect cash and not for sale.

C. The carrying value of other financial liabilities changed under SLFRS 09 due to recognition of ECL provisions for undrawn loan commitments.

D. The impact of SLFRS 9 remeasurements on deferred tax is set out below under note E.

E. The Impact on Retained Earnings by Transition to SLFRS 9 is as follows,

	Rs.
Closing balance under LKAS 39 as at 31st March 2018	7,000,881,585
Re-measurement adjustments on adoption of SLFRS 9	-
Recognition of SLFRS 9 ECLs for loans and advances	(558,266,453)
Impact of reclassifying financial investment from AFS to FVTPL	167,005,111
Deferred tax on transitional adjustments	139,614,410
Total change in equity due to adoption of SLFRS 9	(251,646,932)
Adjusted Opening balance under SLFRS 9 as at 1st April 2018	6,749,234,653

The following table reconciles the aggregate opening credit loss provision under LKAS 39 to the impairment on ECL under SLFRS 9.

As at 31st March	Note	Allowance for impairment under LKAS 39 as at 31st March 2018 Rs.	Re-measurement	ECL Impairment under SLFRS 9 as at 1st April 2018 Rs.
Financial assets at amortised cost				
Rentals receivable on leased assets	6	754,576,684	472,696,467	1,227,273,151
Loans and advances	7	2,799,819,013	(61,209,957)	2,738,609,056
Factoring receivable	7.5	759,231,341	144,922,108	904,153,449
Credit related commitments & contingencies		-	1,857,836	1,857,836
		4,313,627,038	558,266,453	4,871,893,491

Supplementary Financial Information - Islamic Business Unit

STATEMENT OF FINANCIAL POSITION

As at 31 March	Notes	2019 Rs.	2018 Rs.
ASSETS			
Cash and bank balances	3	545,261,206	527,929,082
Deposits with banks and other financial institutions		2,557,074,022	2,550,539,455
Murabaha / Musawamah /Wakala receivables	4	1,207,014,756	2,728,465,115
Diminishing Musharaka receivables	5	4,997,402,551	5,196,286,714
Ijarah rent receivables	6	3,444,479,946	3,134,812,708
Investment securities	7	4,000,000	399,409,123
Other receivables	8	69,431,454	71,669,642
Investment properties	9	-	22,500,000
Total assets		12,824,663,935	14,631,611,838
LIABILITIES			
Placement from banks & other Financial institutions	10	1,650,749,817	1,815,169,821
Mudharabah investments		3,042,311,354	3,956,680,398
Wakala investments		4,202,554,493	5,459,336,084
Mudharabah savings		705,719,249	860,562,263
Income tax payable		90,250,955	128,848,958
Accruals and other payables	11	170,223,181	231,660,201
Due to head office	12	543,928,976	155,491,769
Total liabilities		10,405,738,026	12,607,749,495
OWNER'S FUND			
Retained earnings		2,418,925,909	2,023,862,343
Total owners fund		2,418,925,909	2,023,862,343
Total liabilities & owners fund		12,824,663,935	14,631,611,838

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 188 through 198.

Supplementary Financial Information - Islamic Business Unit

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March	Notes	2019 Rs.	2018 Rs.
Revenue	13	2,659,273,184	2,476,273,138
Profit paid to Mudharabah/Wakala investors		(1,039,785,457)	(1,014,111,005)
Profit paid on other funding arrangement		(237,207,937)	(257,720,738)
Other direct expenses		(107,254,965)	(141,530,756)
		1,275,024,825	1,062,910,639
Non distributable other income / (expenses)	14	39,966,642	34,250,326
Total operating income		1,314,991,467	1,097,160,964
Employee benefits	15	(196,326,951)	(131,406,933)
(Provision)/reversal for credit losses		(342,838,258)	(161,112,998)
Other operating expenses		(191,388,949)	(223,801,786)
Profit from operations	16	584,437,310	580,839,246
Value added tax on financial services		(132,005,514)	(96,472,781)
Profit before taxation		452,431,796	484,366,466
Income tax expense	17	(90,250,955)	(128,848,958)
Profit for the year		362,180,841	355,517,508
Other comprehensive income		-	-
Total comprehensive income		362,180,841	355,517,508

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 188 through 198.

CASH FLOW STATEMENT

Year ended 31 March	2019 Rs.	2018 Rs.
Cash Flows From / (Used in) Operating Activities		
Net Profit before Income Tax Expense	452,431,796	484,366,466
Adjustments for:		
Provision for fall/(Increase) in value of investments	(6,723,337)	1,700,000
Allowance for/(reversal of) doubtful debts	(53,147,386)	107,846,898
Provision for payables to clients	-	-
Change in fair value of investment property	-	2,166,000
Investment income	(277,236,905)	(125,083,313)
Profits attributable to investment made from banks & other Financial institutions	237,207,936	257,720,738
Profits attributable to Mudharabah / Wakala investors	1,039,785,457	1,014,062,221
Operating profit before working capital changes	1,392,317,561	1,742,779,010
Change in other receivables	2,700,752	3,921,912
Change in trade and other payables	(46,065,584)	(11,108,236)
Change in amounts due to head office	395,103,207	(161,196,834)
Change in Ijarah rent receivables	(323,728,607)	88,477,979
Change in Murabaha / Musawamah receivables	1,577,959,566	71,116,953
Change in Diminishing Musharaka receivables	242,466,436	(307,329,940)
Change in Mudharabah investments from customers	(905,896,202)	(211,187,022)
Change in Wakala investments from customers	(1,270,503,484)	3,382,322,357
Change in Mudharabah savings deposits from customers	(154,843,014)	375,730,833
Cash used in Operations	909,510,629	4,973,527,011
Profits paid to Mudharabah / Wakala investors	(1,034,536,405)	(965,872,985)
Income tax paid	(128,848,957)	(197,523,144)
Net Cash Used in Operating Activities	(253,874,733)	3,810,130,883
Cash Flows from / (Used in) Investing Activities		
Acquisition of Property, Plant & Equipment	-	(6,666,000)
Investments in Unit trust	402,132,460	(394,509,123)
Net proceeds from Investments in Mudaranah Deposits	(6,534,567)	(2,550,539,455)
Profit Received	277,236,905	125,083,313
Net Cash Flows from Investing Activities	672,834,799	(2,826,631,265)
Cash Flows from / (Used in) Financing Activities		
Proceeds from issuance of new shares	-	-
Net proceeds from banks & other financial institutions	(176,502,263)	1,343,762,381
Net Proceeds from qurd hassan	-	(1,906,500,000)
Profit paid -other instruments	(225,125,676)	(208,666,489)
Net Cash Flows from Financing Activities	(401,627,939)	(771,404,107)
Net Increase/(decrease) in cash and cash equivalents	17,332,124	212,095,510
Cash and cash equivalents at the beginning of the period	527,929,082	315,833,572
Cash and cash equivalents at the end of the period	545,261,206	527,929,082
Analysis of cash and cash equivalents at the end of the period		
Cash and bank balances	545,261,206	527,929,082
	545,261,206	527,929,082

The basis of preparation and notes are given in pages 188 through 198.

Supplementary Financial Information - Islamic Business Unit

NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

1. GENERAL

LOLC 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 ("IBU") which commenced its operations in February 2008, under Islamic Shari'ah Law. 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 26 June 2019. 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.

1.2.3 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.

1.2.4 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.

1.2.5 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 other than mentioned under note 18

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 loans 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.

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

1.4.2 Impairment Losses on Loans 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 Provision 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.

Supplementary Financial Information - Islamic Business Unit

NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

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 cash flow characteristics and business model for managing the instrument. 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 Financial Reporting Standard – SLFRS 09 on 'Financial Instruments'.

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: (effective after 1 April 2018)

- amortised cost;
- fair value through other comprehensive income (FVOCI); and
- fair value through profit or loss (FVTPL).

2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

With effect from April 1, 2018, the Company makes an assessment of the objective of a business model in which an asset is held because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- whether management's strategy focuses on earning contractual interest revenue, maintaining a particular profit ratio/rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity and how cash flows are realised.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test of its classification process. In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Company considers the contractual terms of the instrument.

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Profit" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

Based on above assessments, subsequent measurement of financial assets are classified as follows.

Amortised cost

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 measured at amortised cost using the effective interest method, less any impairment losses.

This includes 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 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 Musharaka 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.

- **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.

Financial assets at fair value through other comprehensive income (FVOCI)

Instruments are measured at FVOCI, if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and interest on principal outstanding. This comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other investments are measured at fair value after initial recognition.

Financial assets at fair value through profit or loss (FVTPL)

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss. 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 at fair value through profit or loss comprises of quoted equity instruments and unit trusts unless otherwise have been classified as amortised cost.

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

Amortised cost- 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.

Supplementary Financial Information - Islamic Business Unit

NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

➡ **Murabaha, Musawamah and Diminishing Musharaka 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.

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 expire.

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 it's 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.

Supplementary Financial Information - Islamic Business Unit

NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

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 FINANCE INFORMATION

As at 31 March	2019 Rs.	2018 Rs.
3. CASH AND BANK BALANCES		
Cash & bank balances	545,261,206	527,929,082
	545,261,206	527,929,082
4. MURABAHA / MUSAWAMAH / WAKALA RECEIVABLES		
Instalment receivable	1,414,268,184	3,140,709,931
Unearned income	(190,516,162)	(367,329,238)
Income in suspense	(4,524,682)	(6,626,097)
Provision for credit losses	(12,212,584)	(38,289,481)
	1,207,014,756	2,728,465,115
5. DIMINISHING MUSHARAKA RECEIVABLES		
Instalment receivable	5,091,659,624	5,334,126,060
Income in suspense	(52,653,570)	(42,987,008)
Provision for credit losses	(41,603,503)	(94,852,338)
	4,997,402,551	5,196,286,714
6. IJARAH RECEIVABLES		
Rent receivables	4,738,325,532	4,196,061,457
Unearned income	(1,251,930,048)	(1,037,946,411)
Income in suspense	(10,351,073)	(6,692,732)
Provision for credit losses	(31,564,465)	(16,609,607)
	3,444,479,946	3,134,812,708
7. INVESTMENT SECURITIES-FVTPL/ HELD FOR TRADING		
Expo Lanka Holdings PLC		
Cost (1,000,000 shares)	18,000,000	18,000,000
Carrying amount as at 1st April	4,900,000	6,600,000
Adjustment for change in fair value - recognised in profits	(900,000)	(1,700,000)
Carrying amount as at 31st March	4,000,000	4,900,000
Investment in Unit Trusts		
Original cost	335,000,000	335,000,000
Carrying amount as at 1st April	394,509,123	-
Investments during the year	-	1,500,000,000
Disposal during the year	(402,132,460)	(1,165,000,000)
Adjustment for change in fair value - recognised in profits	7,623,337	59,509,123
Carrying amount as at 31st March	-	394,509,123
Total investments held for trading	4,000,000	399,409,123

Year ended 31 March	2019 Rs.	2018 Rs.
8. OTHER RECEIVABLES		
Staff car advances	2,637,364	20,940,707
Insurance premium receivable	22,692,334	18,796,517
WHT receivable	18,481,862	10,952,193
Others	25,157,330	20,980,224
IBU charity fund	462,564	-
	69,431,454	71,669,642
9. INVESTMENT PROPERTIES		
Balance as at 1st April	22,500,000	18,000,000
Additions to Investment Properties from foreclosure of contracts	-	-
Change in fair value	-	4,500,000
Disposal during the year	(22,500,000)	
Balance as at 31 March	-	22,500,000
10. PLACEMENT FROM BANKS & OTHER FINANCIAL INSTITUTIONS		
10.1 Long-term borrowings		
Balance at the beginning of the year	1,520,000,000	-
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	1,520,000,000
Profit Payable	40,074,868	30,315,738
	1,560,074,868	1,550,315,738
10.2 Ijarah Sukuk Bond		
Balance at the beginning of the year	228,789,442	405,027,061
Sukuk obtained during the year	-	-
Repaid during the year	(158,458,273)	(176,237,619)
Balance at the end of the year	70,331,170	228,789,442
Profit Payable	20,343,779	36,064,641
	90,674,949	264,854,083
Liability recognised in statement of financial position	1,650,749,817	1,815,169,821
11. ACCRUALS AND OTHER PAYABLES		
Lease equipment creditors	47,320,959	84,913,336
Refunds payable	45,352,220	54,251,239
Insurance payable	2,248,450	6,784,878
IBU charity fund	-	1,690,486
Other miscellaneous creditors	56,427,842	59,648,315
WHT payable	2,553,933	1,970,349
Other payables	16,319,777	22,401,598
	170,223,181	231,660,201
12. DUE TO HEAD OFFICE		
Current account balance due to head office	543,928,976	155,491,769
	543,928,976	155,491,769

Supplementary Financial Information - Islamic Business Unit

NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

Year ended 31 March	2019 Rs.	2018 Rs.
13. REVENUE		
Income from Ijarah receivables	832,883,542	705,179,750
Income from Diminishing Musharaka receivables	1,092,693,258	930,980,429
Income from Murabaha/Musawamah receivables	376,373,071	598,503,207
Profit on terminations	73,363,072	58,717,318
Income from Mudarabah deposits	277,236,905	125,083,311
Profit on Unit trust	6,723,337	57,809,123
	2,659,273,184	2,476,273,138
14. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)		
Takaful commission	1,206,977	2,968,502
Franchise Fee	34,035,515	29,531,334
Others	4,724,149	1,750,490
	39,966,642	34,250,326
15. EMPLOYEE BENEFITS		
Salaries & other benefits	196,326,951	131,406,933
	196,326,951	131,406,933
16. PROFIT FROM OPERATION		
Stated after charging		
Advertising	3,496,923	8,112,490
Business promotion expenses	56,216,264	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)	90,250,955	128,848,958
	90,250,955	128,848,958

18. COMPARATIVE FIGURES

The Comparative information is reclassified wherever necessary to conform the current year's presentation and details are given below.

	Note	As disclosed in 2018 Rs.	Adjustment Rs.	Reclassified Rs.
Statement of Financial Position				
Deposits with banks and other financial institutions	A	-	2,550,539,455	2,550,539,455
Cash and bank balances	A	3,039,427,493	(2,511,498,411)	527,929,082
Other receivables	B	110,710,686	(39,041,044)	71,669,642

A Deposits with Banks and other financial institutions were previously reported under Cash and Bank balances in the Statement of Financial Position have been transferred to Deposits with Banks and other financial institutions.

B Accrued profit for Mudarabah deposits which were previously reported under other receivables in Statement of Financial Position have been transferred to Deposits with banks and other financial institutions.

19. 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	31.03.2019 Rs'000	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
ASSETS										
Cash and bank balances	17,535,538	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
Deposits with banks and other financial institutions	21,637,176	26,346,552	14,161,567	10,206,771	761,095	466,476	414,634	846,457	-	143,295
Investment in government securities	18,150,996	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
Derivative assets held for risk management	568,530	133,541	23,840	98,163	2,740	13,572	1,936	211,713	19,560	-
Financial assets at amortised cost										
Rentals receivable on leased assets	42,941,837	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
Loans and advances	88,995,842	97,072,665	55,578,906	53,420,772	36,941,041	28,951,843	25,547,021	21,901,827	16,442,827	7,648,241
Factoring receivable	4,253,668	10,638,755	16,524,638	13,598,601	6,200,202	3,279,931	3,198,685	-	-	-
Investment securities	2,809,229	1,965,299	324,629	1,083,471	8,843	9,043	7,143	6,200	18,000	-
Amount due from related companies	5,569	32,909	224,506	3,271	2,883	5,930	75,649	77,067	150,867	3,042
Other receivables	937,941	1,122,496	1,071,661	694,055	639,352	1,418,033	357,943	576,261	322,055	193,431
Inventories	4,811	9,078	-	-	-	12,080	-	13,629	-	-
Real estate stock	-	-	-	-	-	-	2,598	16,449	16,262	22,930
Investment properties	11,635,211	6,278,187	906,300	930,200	1,142,800	215,173	71,500	71,500	71,500	91,990
Property plant and equipment	1,559,025	1,714,491	2,621,022	1,210,407	136,545	50,143	-	-	-	5,882
Total assets	211,035,373	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
LIABILITIES										
Bank overdraft	2,242,496	4,243,170	2,393,316	1,941,608	2,333,062	1,136,163	2,201,599	989,189	501,515	270,443
Interest bearing borrowings	61,086,897	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	115,365,141	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
Trade payables	1,161,094	1,593,496	677,878	637,850	645,905	328,986	434,517	211,163	685,144	146,223
Accruals and other payables	3,072,454	2,388,376	1,620,968	1,018,603	822,441	494,314	685,456	166,034	114,229	414,390
Derivative liabilities	661,931	482,464	18,978	17,859	57,515	8,104	40,097	-	7,597	-
Amount due to related companies	817,644	1,497,000	434,259	996,781	2,453,097	649,310	135,056	806,442	734,560	332,565
Current tax payable	1,501,293	813,718	268,932	309,888	434,426	282,718	178,418	175,447	72,999	11,176
Deferred tax liability	2,272,773	2,402,219	1,102,058	984,741	761,420	548,718	415,508	318,112	115,014	39,864
Employee benefits	87,061	70,303	17,018	12,249	10,450	8,008	4,550	4,729	2,881	2,325
Total liabilities	188,268,784	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
SHAREHOLDER'S FUNDS										
Stated capital	7,880,000	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
Statutory reserve	3,189,298	1,996,724	1,556,439	1,239,075	953,677	879,497	679,438	542,182	293,024	43,805
Revaluation Reserve	241,528	241,528	206,230	-	-	391,850	287,762	157,146	39,539	-
Cash flow hedge reserve	(39,059)	(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)	-	-
Fair value reserve	(21,756)	-	-	-	-	-	-	-	-	-
Retained earnings	11,516,579	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
Total equity	22,766,588	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
Total liabilities and equity	211,035,373	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

2011-2019 Statement of Financial Position is prepared based on LKAS/SLFRS. Prior periods are prepared based on SLAS's.

Financial Information for Last Ten Years

STATEMENT OF PROFIT OR LOSS

As at	31.03.2019 Rs '000	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
Interest income	42,663,318	23,818,183	18,489,741	13,137,597	10,871,227	10,515,811	8,457,606	5,971,895	3,113,150	1,661,049
Interest expense	(20,891,754)	(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)
Net interest income	21,771,563	9,916,047	7,030,467	6,638,122	5,892,915	4,390,531	3,506,761	2,977,550	1,353,026	369,790
Net other operating income	4,012,257	1,816,619	2,348,653	1,245,509	1,269,831	971,589	496,871	336,063	1,504,257	530,738
Direct expenses excluding interest cost	(1,522,224)	(1,047,933)	(1,311,408)	(911,717)	(428,892)	(297,539)	(121,899)	(89,569)	(97,481)	(34,447)
Allowance for impairment & write-offs	(5,700,505)	(3,709,288)	(1,329,042)	(1,568,576)	(1,497,302)	(1,371,346)	(1,237,473)	(72,433)	(155,634)	(208,476)
Personnel expenses	(3,165,698)	(1,370,493)	(1,424,495)	(1,100,550)	(897,364)	(687,106)	(548,439)	(469,514)	(309,594)	(111,076)
Depreciation	(163,498)	(173,817)	(148,246)	(32,717)	(12,166)	(3,823)	-	-	(2,048)	(2,093)
General & administration expenses	(6,734,428)	(2,997,554)	(2,624,517)	(1,974,524)	(1,860,447)	(1,390,608)	(970,659)	(811,042)	(666,374)	(296,040)
Profit from operations	8,497,467	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
Value added tax on financial service	(1,389,654)	(348,841)	(364,835)	(275,891)	(240,226)	(169,274)	(129,822)	(179,921)	(137,285)	(49,581)
Profit before tax	7,107,812	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
Income tax (expense) / reversal	(1,144,944)	116,686	(589,759)	(592,663)	(742,767)	(442,124)	(309,060)	(512,125)	(242,773)	(105,078)
Profit for the year	5,962,868	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

2012-2019 Profits are determined based on LKAS/SLFRS. Profits prior to that are determined in line with SLAS's.

QUARTERLY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2018/19					2017/18				
	Quarter ended				Year ended	Quarter ended				Year ended
For the year ended	30-Jun-18 Rs '000	30-Sep-18 Rs '000	31-Dec-19 Rs '000	31-Mar-19 Rs '000	31-Mar-18 Rs '000	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
Interest income	10,136,913	10,185,436	10,070,014	12,270,954	42,663,318	5,100,534	5,426,821	5,701,750	5,670,241	21,899,346
Interest expense	(5,098,632)	(5,283,594)	(5,296,208)	(5,213,319)	(20,891,754)	(3,375,716)	(3,494,679)	(3,593,201)	(3,438,541)	(13,902,137)
Net interest income	5,038,281	4,901,842	4,773,806	7,057,635	21,771,563	1,724,818	1,932,141	2,108,549	2,231,700	7,997,209
Net other operating income	1,000,344	1,055,647	1,085,292	870,974	4,012,257	808,519	815,251	897,805	1,213,882	3,735,457
Direct expenses excluding interest cost	(497,792)	(527,906)	(290,322)	(206,205)	(1,522,224)	(483,335)	(491,625)	(339,055)	266,081	(1,047,933)
Allowance for impairment & write-offs	(1,298,831)	(1,579,603)	(2,062,078)	(759,993)	(5,700,505)	(210,844)	(814,703)	(1,081,778)	(1,601,962)	(3,709,288)
Personnel expenses	(851,753)	(843,011)	(877,076)	(593,858)	(3,165,698)	(371,865)	(382,283)	(394,927)	(221,418)	(1,370,493)
Depreciation	(41,008)	(38,342)	(41,135)	(43,012)	(163,498)	(43,747)	(43,511)	(44,232)	(42,327)	(173,817)
General & administration expenses	(1,522,190)	(1,596,838)	(1,756,753)	(1,858,646)	(6,734,428)	(758,708)	(590,883)	(790,168)	(857,795)	(2,997,554)
Profit from operations	1,827,050	1,371,788	831,734	4,466,895	8,497,467	664,838	424,388	356,195	988,161	2,433,582
Value added tax on financial service	(202,594)	(217,400)	(291,802)	(677,859)	(1,389,654)	(110,193)	(93,223)	(56,491)	(88,933)	(348,841)
Profit before tax	1,624,456	1,154,388	539,933	3,789,036	7,107,812	554,645	331,164	299,703	899,228	2,084,740
Income tax (expense) / reversal	(357,380)	(337,338)	(143,199)	(307,027)	(1,144,944)	(155,301)	(109,834)	(16,259)	398,080	116,686
Profit for the year	1,267,075	817,050	396,733	3,482,009	5,962,868	399,344	221,329	283,444	1,297,307	2,201,426

Financial Information for Last Ten Years

QUARTERLY STATEMENT OF FINANCIAL POSITION

For the year ended	2018/19				2017/18			
	30-Jun-18 Rs '000	30-Sep-18 Rs '000	31-Dec-19 Rs '000	31-Mar-19 Rs '000	30-Jun-17 Rs '000	30-Sep-17 Rs '000	31-Dec-17 Rs '000	31-Mar-18 Rs '000
ASSETS								
Cash and bank balances	13,969,383	19,239,248	18,543,375	17,535,538	9,305,046	8,919,082	9,845,394	11,323,366
Deposits with banks and other financial institutions	24,947,697	21,513,859	21,319,605	21,637,176	4,033,586	11,134,555	12,341,612	26,346,552
Investment in government securities & others	11,193,706	14,272,693	12,331,566	18,150,996	14,972,925	8,318,664	8,032,749	10,871,768
Derivative assets held for risk management	1,117	918,005	1,923,252	568,530	22,090	3,744	2,206	133,541
Financial assets at amortised cost								
Rentals receivable on leased assets	44,323,658	45,695,055	45,670,852	42,941,837	18,883,375	20,293,715	22,269,647	43,605,124
Loans and advances	99,062,768	98,390,209	94,506,282	88,995,842	55,297,681	58,180,686	58,506,254	97,072,665
Factoring receivable	8,952,959	8,032,509	7,288,633	4,253,668	16,354,825	15,677,433	13,676,925	10,638,755
Investment securities	384,907	1,869,009	1,915,619	2,809,229	2,184,654	7,613,860	9,356,323	1,965,299
Amount due from related companies	51,858	58,899	105,079	5,569	97,247	50,926	230,583	32,909
Other receivables	1,197,391	1,235,203	1,152,054	937,941	1,147,774	1,180,789	954,121	1,122,496
Inventories	9,078	8,223	6,445	4,811	-	-	-	9,078
Investment properties	6,369,961	6,447,836	6,604,701	11,635,211	911,184	1,840,817	4,782,779	6,278,187
Property plant and equipment	1,680,777	1,628,902	1,589,056	1,559,025	2,562,345	1,638,049	1,573,221	1,714,491
Total assets	212,145,262	219,309,649	212,956,520	211,035,373	125,772,732	134,852,320	141,571,815	211,114,232
LIABILITIES								
Bank overdraft	6,662,009	3,251,444	1,725,911	2,242,496	2,752,849	3,190,001	3,631,465	4,243,170
Interest bearing borrowings	61,924,228	66,220,152	66,071,812	61,086,897	18,962,390	16,730,585	16,684,577	70,490,432
Deposits from customers	114,394,620	120,886,873	116,289,533	115,365,141	88,082,336	98,506,818	104,402,484	110,027,420
Trade payables	2,831,818	2,066,933	2,080,959	1,161,094	605,422	1,146,429	947,490	1,593,496
Accruals and other payables	3,060,571	3,064,200	2,791,157	3,072,454	1,733,035	1,319,986	1,607,592	2,388,376
Derivative liabilities held for risk management	562,978	30,741	3,511	661,931	55,897	85,688	98,658	482,464
Amount due to related companies	787,057	641,659	546,445	817,644	546,350	461,350	627,855	1,497,000
Current tax payable	1,141,099	1,478,436	1,437,228	1,501,293	414,232	504,067	401,894	813,718
Deferred tax liability	2,402,219	2,402,219	2,402,219	2,272,773	1,102,058	1,102,058	1,102,058	2,402,219
Employee benefits	69,377	67,310	64,606	87,061	17,018	17,018	16,548	70,303
Total liabilities	193,835,976	200,109,968	193,413,381	188,268,784	114,271,587	123,064,000	129,520,619	194,008,598
SHAREHOLDERS' FUNDS								
Stated capital	7,880,000	7,880,000	7,880,000	7,880,000	2,000,000	2,000,000	2,000,000	7,880,000
Statutory reserve	1,996,724	1,996,724	1,996,724	3,189,298	1,556,439	1,556,439	1,556,439	1,996,724
Revaluation Reserve	241,528	241,528	241,528	241,528	206,230	206,230	206,230	241,528
Cash flow hedge reserve	(53,518)	18,534	6,416	(39,059)	(4,265)	(19,850)	(3,664)	(6,333)
Available for sale investment reserve	(23,404)	(22,112)	(63,270)	-	(21,439)	59,991	23,237	(7,166)
Fair value reserve	-			(21,756)	-	-	-	-
Retained earnings	8,267,957	9,085,007	9,481,741	11,516,579	7,764,180	7,985,510	8,268,955	7,000,882
Total equity	18,309,286	19,199,681	19,543,139	22,766,588	11,501,145	11,788,320	12,051,196	17,105,634
Total liabilities and equity	212,145,262	219,309,649	212,956,520	211,035,373	125,772,732	134,852,320	141,571,815	211,114,232

INVESTOR INFORMATION

1. Market Price per Share as at 31 March

	2019 Rs.	2018 Rs.
Highest during the year	4.20	4.30
Lowest during the year	3.00	2.10
Last traded as at the end of the year	3.10	3.90

2. Composition of Shareholders as at 31St March

	2019		2018	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Institutions				
Resident	4,146,895,292	98.74	4,137,449,091	98.51
Non Resident	1,455,000	0.03	1,488,900	0.04
Individuals				
Resident	49,156,792	1.17	56,479,566	1.34
Non Resident	2,492,916	0.06	4,582,443	0.11
Total	4,200,000,000	100.00	4,200,000,000	100.00

3. Distribution of Shareholders as at 31 March

Range		2019			2018		
		No. of Shareholders	No. of Shares	% of Shares	No. of Shareholders	No. of Shares	% of Shares
1	1,000	1,383	521,559	0.01	1,343	523,633	0.01
1,001	10,000	861	3,551,453	0.08	903	3,759,824	0.09
10,001	100,000	356	13,118,372	0.31	384	13,819,900	0.33
100,001	1,000,000	93	26,474,838	0.64	114	33,931,852	0.81
Over 1,000,000 Shares		18	4,156,333,778	98.96	15	4,147,964,791	98.76
Total		2,711	4,200,000,000	100.00	2,759	4,200,000,000	100.00

INVESTOR INFORMATION

4. Top 20 Shareholders

		2019		2018	
		No. of Shares	%	No. of Shares	%
1.	Hatton National Bank PLC/LOLC Holdings PLC	2,624,448,000	62.49	2,624,448,000	62.49
	LOLC Holdings PLC	1,160,473,531	27.63	1,160,473,531	27.63
	LOLC Holdings PLC A/C No. 02	135,000,000	3.21	135,000,000	3.21
2	Saakya Capital (Pvt) Ltd	137,455,320	3.27	128,045,234	3.05
3	Satya Capital (Pvt) Ltd	52,000,000	1.24	52,000,000	1.24
4	Capital Alliance Holdings Limited	11,412,000	0.27	18,747,044	0.45
5	Dr. R. R. De Silva	11,371,515	0.27	11,371,515	0.27
6	Capital Trust Holdings Ltd	4,660,441	0.11	320,000	0.01
7	National Savings Bank	4,540,195	0.11	4,550,000	0.11
8	Hatton National Bank PLC- Astrue Alpha Fund	3,463,945	0.08	NIL	NIL
9	Mr. D. Kotthoff	2,320,401	0.06	4,419,406	0.11
10	Dr. A. R. Wikramanayake	1,688,500	0.04	1,688,500	0.04
11	Commercial Bank of Ceylon PLC/Mr. S. V. Somasunderam	1,500,000	0.04	1,500,000	0.04
12	Hatton National Bank PLC/Capital Trust Holdings Ltd	1,307,300	0.03	NIL	NIL
13	Bansei Securities Capital (Pvt) Ltd/Mr. A. Nissanka	1,300,800	0.03	1,300,800	0.03
14	Mr. L. A. J. F. Morais	1,236,128	0.03	1,181,128	0.03
15	Mr. R. E. Rambukwella	1,127,443	0.03	690,443	0.02
16	People's Leasing & Finance PLC/Mr. M. I. Samsudeen	1,028,259	0.02	126,857	0.00
17	Hatton National Bank PLC/S. R. Nadaraj Kumar	977,776	0.02	1,165,633	0.03
18	Mr. R. C. Wijesena	975,000	0.02	975,000	0.02
19	Dialog Finance PLC/R Collom	843,303	0.02	843,303	0.02
20	Sezeka Limited	785,000	0.02	818,900	0.02
		4,159,914,857	99.05	4,149,665,294	98.80

5. Public Shareholding

	31st March 2019 %	31st March 2018 %
Public Holding percentage	6.63	6.59
Number of public shareholders	2,701	2,810
Float adjusted market capitalisation	862,908,309	1,079,432,909

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 where subscription by the public shareholders was less than their entitlement.

The Board of Directors is pursuing requisite regulatory approvals, to list debt securities and remove all equity securities, to ensure compliance with both the Listing Rules of the Colombo Stock Exchange and the directions of the Central Bank of Sri Lanka.

6. Statement of Value Added

	2018/19 Rs.	2017/18 Rs.
Value added		
Income	42,663,317,527	23,818,183,417
Other Income	4,012,257,390	1,816,619,341
Cost of Borrowing	(20,891,754,206)	(13,902,136,761)
General and administration Expenses	(8,256,652,230)	(4,045,487,064)
Allowance for impairment & write-offs	(5,700,505,481)	(3,709,287,962)
	11,826,663,000	3,977,890,971
Distribution of value added		
To Employees	3,165,698,139	1,370,492,906
Remuneration and other benefits	3,165,698,139	1,370,492,906
To Government	2,534,598,743	232,155,256
Indirect Taxes	1,389,654,429	348,841,403
Direct Taxes	1,144,944,314	(116,686,147)
To Expansion and Growth	6,126,366,118	2,375,242,809
Retained Profits	5,962,868,027	2,201,426,289
Depreciation and amortisation	163,498,091	173,816,520
	11,826,663,000	3,977,890,971

OTHER DISCLOSURES

1) PROPERTY HELD BY THE COMPANY

	Location	District	Province	Extent	Valuation Rs.	Number of Buildings
1	Telwala, Rathmalana	Colombo	Western Province	0A-0R-20P	92,000,000	1
2	Hendala, Wattala	Colombo	Western Province	0A-0R-9P	8,000,000	-
3	Idama,Moratuwa	Colombo	Western Province	0A-0R-14.85P	36,000,000	3
4	Wewala ,Piliyandala	Colombo	Western Province	0A-0R-20P	7,500,000	-
5	Gothatuwa	Colombo	Western Province	0A-3R-35P	66,000,000	-
6	Wikremasingepura, Battaramulla	Colombo	Western Province	0A-3R-33.83P	163,800,000	-
7	Colombo 8	Colombo	Western Province	0A-0R-35.75P	468,335,000	1
8	Kosgoda	Galle	Southern Province	9A-0R-0P	200,000,000	-
9	Thalahena	Colombo	Western Province	0A-1R-38.62P	58,000,000	2
10	Panadura	Kaluthara	Western Province	0A-1R-15.05P	140,000,000	-
11	Horana	Kaluthara	Western Province	0A-3R-06.83P	126,830,000	-
12	Badulla	badulla	Uva Province	0A-1R-19.15P	118,000,000	1
13	Mannar	Mannar	Northern Province	0A-0R-23.3P	16,300,000	-
14	Mathugama	Kaluthara	Western Province	0A-2R-26.50P	181,050,000	1
15	Beruwala	Kaluthara	Western Province	0A-1R-06.00P	71,000,000	1
16	Jethawana	Colombo	Western Province	0A-2R-18.70P	608,650,000	1
17	Nawala 2nd Lane	Colombo	Western Province	0A-0R-08.70P	116,000,000	-
18	Thumbowila, Piliyandala	Colombo	Western Province	0A-0R-30.50P	67,000,000	-
19	Rathnapura	Rathnapura	Sabaragamuwa Province	0A-0R-32.69P	139,415,000	-
20	Rajagiriya Land	Colombo	Western Province	0A-1R-12.50P	538,000,000	-
21	Grandpass, Colombo 14	Colombo	Western Province	4A-3R-08.06P	1,921,500,000	-
22	Bluemendhal, Colombo 13	Colombo	Western Province	1A-3R-16.50P	593,000,000	3
23	Kiribathgoda	Colombo	Western Province	0A-0R-30.57P	97,560,000	1
24	Watinapaha Pannala	Kurunegala	North Western Province	19A-0R-35.85P	57,000,000	-
25	Chilaw	Chilaw	North Western Province	0A-0R-40.0P	100,000,000	-
26	Horana	Kaluthara	Western Province	0A-0R-10.10P	10,000,000	-
27	Nawala	Colombo	Western Province	0A-2R-13.96P	532,000,000	1
28	Kaluwamodara, Beruwala	Kaluthara	Western Province	0A-1R-22.55P	84,000,000	-
29	Wellampitiya	Colombo	Western Province	5A-0R-3.11P	883,000,000	-
30	Cotta Road	Colombo	Western Province	0A-0R-10P	137,500,000	1
31	Wattala	Gampaha	Western Province	0A-0R-16.61P	89,421,000	1
32	Dampe - Kesbewa	Colombo	Western Province	0A-0R-40P	20,000,000	-
33	Malabe	Colombo	Western Province	0A-0R-12P	27,000,000	1
34	Battaramulla Land	Colombo	Western Province	OA-OR-38.71P	81,000,000	-
35	Gamunu Mw, Rajagiriya	Colombo	Western Province	A0-R0-P30.25	46,000,000	-
36	Biyagama	Gampaha	Western Province	A0-R0-P23.70	28,000,000	1
37	Gnanendra Mawatha Nawala	Colombo	Western Province	A0-R01-P04	198,000,000	3
38	Yakkala	Colombo	Western Province	A7-R02-P9.20	120,000,000	-
39	Dambulla	Mathale	Central Province	A0-R0-P35.96	72,000,000	-
40	Waskaduwa	Galle	Southern Province	A0-R02-P39.5	59,000,000	-

	Location	District	Province	Extent	Valuation Rs.	Number of Buildings
41	Kadawatha	Gampaha	Western Province	0A – 1R – 00.30P	223,000,000	-
42	Baththaramulla	Colombo	Western Province	A0-R0-P16.1	45,000,000	-
43	Rathnapura - Kataliyanpala	Rathnapura	Sabaragamuwa Province	A0-R0-P15	2,000,000	-
44	Panadura - No.224	Kaluthara	Western Province	A0-R0-P39.63	83,000,000	3
45	Panadura - No.222	Kaluthara	Western Province	A0-R0-P20	32,000,000	1
46	Panadura - No.12/4	Kaluthara	Western Province	A0-R01-P07	30,000,000	-
47	Moratuwa - No,24	Colombo	Western Province	P19.85	25,000,000	1
48	Horana	Kaluthara	Western Province	A0-R01-P25.73	139,000,000	2
49	Matara	Matara	Southern Province	A0-R2-P11.299	137,000,000	-
50	Matara	Matara	Southern Province	A0-R2-P26.30	159,000,000	-
51	Excellent Property	Mathale	Central Province	A1-R1-P2	15,000,000	-
52	Kahatagahawatta	Colombo	Western Province	A0-0R-4.2P	31,500,000	5
53	Delgahawatta Pannipitiya	Colombo	Western Province	A0-0R-32.62P	98,000,000	-
54	Grandpass	Colombo	Western Province	A2-R3-14.5P	909,000,000	4
55	Pahadamulla	Kaluthara	Western Province	A0-R0-20P	25,000,000	1
56	Welabodawila	Colombo	Western Province	A0-R0-9P	53,000,000	1
57	Mahara	Colombo	Western Province	A0-R0-59P	31,000,000	1
58	Malwana	Gampaha	Western Province	A0-R0-P 30	30,000,000	-
59	Malwana	Gampaha	Western Province	5A-0R- 32.67P	83,000,000	-
60	Kiribathgoda	Colombo	Western Province	A0-R0- P23.30	35,500,000	1
61	Merigam Kanda	Gampaha	Western Province	A0-R03 -4.50P	12,500,000	-
62	Damugahawatta	Colombo	Western Province	A0-R0- 40P	70,000,000	1
63	Ranmuthugala	Gampaha	Western Province	A0-R0 -37 P	42,000,000	1
64	Eriyagaha Kumbura	Colombo	Western Province	A0-R0 -20 P	30,000,000	1
65	Madangahawatta	Colombo	Western Province	A0-R0 -10.77 P	18,500,000	1
66	Thalagahawattha Kolonnawa	Colombo	Western Province	P10.62	19,000,000	-
67	Abagahawattha Maharagama	Colombo	Western Province	P 12.50	16,000,000	-
68	Horana	Kaluthara	Western Province	A0-R0-P29.50	18,000,000	1
69	Nuwaraeliya	Nuwara Eliya	Central Province	10.80P	15,000,000	1
70	Walgama	Colombo	Western Province	0A-2R- 34P	45,000,000	2
71	Kurunegala	Kurunegala	North Western Province	A0-R3-P20.50	491,750,000	-
72	Kurunegala	Kurunegala	North Western Province	A0-R0-P10.90	23,000,000	-
73	Malawatta Estate	Gampaha	Western Province	A0-2R-5.6P	34,000,000	-
74	Waragoda	Gampaha	Western Province	95.00P	57,000,000	-
75	Millagahawatta	Colombo	Western Province	A0-0R-15.6P	160,000,000	1
76	Potuwilkumbura	Gampaha	Western Province	A0-R1-P9.25	19,600,000	-
77	Dambulla	Matale	Central Province	0A-0R-33P	96,719,000	2
78	Rajagiriy	Colombo	Western Province	0A-0R-08.00P	72,984,003	1
79	Trincomalee	Trincomale	Eastern Province	0A-0R-23.5P	71,000,000	1
					11,875,914,003	

OTHER DISCLOSURES

2) DEBENTURE INFORMATION

The debt capital of the company comprises of fifty million (50,000,000) rated unsecured subordinated redeemable debentures issued in January, 2015. These debentures are listed in the Colombo Stock Exchange. 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).

In addition, the company issued thirty four million (34,110,193) rated unsecured subordinated redeemable debentures in July 2018. These debentures are also listed in the Colombo Stock Exchange. ICRA Lanka Ltd rated these debentures 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%	11.56%
Type B - 5 Years Tenor	Semi Annually	9.10%	9.10%	9.10%	11.56%
Type C - 5 Years Tenor	Annually	9.25%	9.25%	9.25%	11.56%
Type A - 5 Years Tenor	Semi-annually	14.75%	14.75%	14.75%	11.56%
Type B - 5 Years Tenor	At maturity	20.13%	20.13%	20.13%	11.56%

Market prices & issue prices of debentures recorded during the period ended 31st March 2019 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	Not Traded	Not Traded	Not Traded	N/A
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
Type A - 5 Years Tenor	Rs.100.00	Not Traded	Not Traded	Not Traded	N/A
Type B - 5 Years Tenor	Rs. 49.83	Not Traded	Not Traded	Not Traded	N/A

Debt security related ratios.

Instrument Type	As at 31.03.2019	As at 31.03.2018
Debt to equity ratio	7.85 times	10.8 times
Quick asset ratio	0.79 times	0.78 times
Interest cover	1.34 times	1.14 times

3) NON-RECURRENT RELATED PARTY TRANSACTIONS

During the current period there were no non-recurrent related party transactions which exceeds 10% of the equity or 5% of the total assets, whichever is lower, in the company. However detailed related party transactions were disclosed in the note no.32.

4) RECURRENT RELATED PARTY TRANSACTIONS

During the current period there were no recurrent related party transactions exceeds 10% of the gross revenue/income (or equivalent term in the income statement and in the case of group entity consolidated revenue). However detailed related party transactions were disclosed in the note no.32.

5) SELECTED PERFORMANCE INDICATORS

Regulatory Capital Adequacy

		31.03.2019	31.03.2018
Total Tier I Core Capital	Rs. '000	20,337,020	16,864,106
Total Capital Base	Rs. '000	24,568,596	18,445,618
Core capital adequacy ratio		10.22%	10.15%
(Minimum requirement 6%)			
Total capital adequacy ratio		12.34%	11.10%
(Minimum requirement 10%)			

Asset Quality Ratios

	31.03.2019	31.03.2018
Gross Non-Performing Advances Ratio	6.38%	3.87%
Net Non-Performing Advances Ratio	2.66%	1.12%

Regulatory Liquidity

		31.03.2019	31.03.2018
Available Liquid Assets	Rs. '000	29,743,825	26,016,200
Required Liquid Assets	Rs. '000	13,504,784	16,947,163
Liquid assets to Deposits ratio		25.78%	23.65%

BRANCH NETWORK

Branches	Service centres	Service Station Savings Centre	Savings centres
Akkaraipattu	Akkaraipattu	Aluthgama	D.S.Senanayake Model Primary School - Anuradhapura
Akurana	Anamaduwa	Pilimathalawa	Fathima Girls School - Colombo 12
Akuressa	Bandarawela		LOFAC Nawala
Ambalangoda	Baddegama		Pitiyagedara Primary School - Bemmulla
Ambalantota	Borella		Polonnaruwa Royal College - Polonnaruwa
Ampara	Bulathsinghala		
Anuradhapura	Chenkalady		
Aralaganwila	Colombo 06		
Avissawella	Giriulla		
Badulla	Godakawela		
Baduraliya	Ingiriya		
Balangoda	Kaluwanchikudy		
Batticaloa	Kantale		
Bibila	Keselwatta		
Chilaw	Kinniya		
Chunnakam	Kochchikade		
City Branch	Kotahena		
Colombo 03 (Kollupitiya)	Melsiripura		
Dambulla	Muttur		
Dehiattekandiya	Oddamavadi - IBU		
Dehiwela	Padaviya		
Dickwella	Padiyathalawa		
Digana	Pothuvil		
Divulapitiya	Rikillagaskada		
Eheliyagoda	Thalawakelle		
Elpitiya	Weligama		
Embilipitiya	Welikanda		
Galenbindunuwewa	Weliweriya		
Galewela	Wennappuwa		
Galgamuwa	Wilgamuwa		
Galle			
Galnewa			
Gampaha			
Gampola			
Ganemulla			
Grandpass			
Hanwella			
Hatton			
Hingurakgoda			
Homagama			
Horana			
Horowpathana			
Ja-ela			
Jaffna			
Kaduwela			
Kalmunai			
Kalutara			
Kamburupitiya			
Kandy			
Kattankudy			
Kegalle			

Branches	Service centres	Service Station Savings Centre	Savings centres
Kekirawa			
Kilinochchi			
Kiribathgoda			
Kirindiwela			
Kochchikade			
Kohuwala			
Kuliyapitiya			
Kurunegala			
Maharagama			
Mahiyanganaya			
Mannar			
Maradana			
Matale			
Matara			
Matugama			
Mawanella			
Medawachchiya			
Medirigiriya			
Moneragala			
Morawaka			
Mount Lavinia			
Mullaitivu			
Nawalapitiya			
Negombo			
Nelliyadi			
Neluwa			
Nikeweratiya			
Nittambuwa			
Nuwara Eliya			
Palaviya			
Panadura			
Pelmadulla			
Pettah			
Piliyandala			
Polonnaruwa			
Rajagiriya - Head Office			
Rajagiriya [Cotta Road]			
Ratnapura			
Ruwanwella			
Suriyawewa			
Tangalle			
Thambuththegama			
Tissamaharama			
Trincomalee			
Udappuwa			
Valachchenai			
Vavuniya			
Walasmulla			
Warakapola			
Wattala			
Wellawatte			
Wellawaya			

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT THE 18TH ANNUAL GENERAL MEETING of LOLC Finance PLC will be held on 19th September, 2019 at 10.45 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, 2019, with the Report of the Auditors thereon.
2. To note the Non-compliance of the Minimum Public Holding required by the Listing Rules of the Colombo Stock Exchange.
3. To re-elect as Director Mr. K Sundararaj, who retires in terms of Article 70 of the Articles of Association of the Company.
4. To re-elect as Director Mrs. D P Pieris, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
5. To re-elect as Director Mr. P A Wijeratne, 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 approve in terms of the Companies (Donations) Act No.26 of 1951, the making of donations by the Directors as determined by them for the current Financial Year and until the next Annual General Meeting of the Company.
8. To approve by Special Resolution the amendments to the Articles of Association;

   a) by re-numbering the existing Articles 3. and 4. as Articles 3. a) and 3. b),

   b) by adding the following new Object immediately after the amended Article 3. b), as Article 4.

   "To carry on business of a financial acquirer in terms of the law applicable for the time being.",

   c) by deleting the existing Article 74 and to substitute therefore the following new Article 74

   "The Board may appoint from its members a Chairman and Deputy Chairman as may be required from time to time. The Chairman shall be a Non-executive Director. The Board shall also have power of removal of such office holders.

   However, in the absence of the Chairman, the members of the Board shall appoint a Non-Executive Director to preside at meetings of the Board. ",

   d) by deleting the existing Article 91 and substituting therefore the following new Article 91

   "If no Chairman is elected or if at a meeting of the Board the Chairman is not present within five minutes after the time appointed for the commencement of the meeting, the directors present may choose one of their number to be Chairman of the meeting subject to Article 74 of this Articles of Association."

   e) by replacing the word "Chairperson" wherever appearing in the Articles of Association by the substitution therefore the word "Chairman".

BY ORDER OF THE BOARD
LOLC Finance PLC

LOLC Corporate Services (Private) Limited
Secretaries

01st August 2019
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 10.45 a.m. on 17th September, 2019.
3. A Form of Proxy accompanies this Notice.

NOTES

NOTES

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
Mr. Ashan Nissanka	of Colombo or failing him
Mrs. Dayangani Priyanthi Pieris	of Colombo or failing her
Mr. Panamulla Arachchige Wijeratne	of Colombo or failing him
Mr. Kandiah Sundararaj	of Colombo

as my/our proxy to represent me/us and vote on my/our behalf at the 18th Annual General Meeting of the Company to be held on 19th September, 2019 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. K Sundararaj, who retires in terms of Article 70 of the Articles of Association of the Company.		
2.	To re-elect as Director Mrs. D P Pieris, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.		
3.	To re-elect as Director Mr. P A Wijeratne, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.		
4.	To re-appoint as Auditors M/s Ernst and Young, Chartered Accountants at a remuneration to be fixed by the Directors.		
5.	To authorise the Directors to make donations		
6.	To approve by Special Resolution the amendments to the Company's Articles of Association, as set out in the Notice of Meeting.		

dated this .... day of .... Two Thousand Nineteen.

....

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 Jayewardenepura Mawatha, Rajagiriya

Tel: 011 5880880

Fax: 011 2865606

Website: http://www.lolcfinance.com

Swift: LOFCKLC

Directors

Mr B C G de Zylva - Non Executive Chairman

Mr R D Tissera – Deputy Chairman/ CEO

Mrs K U Amarasinghe – Executive Director

Mr A Nissanka – Executive Director

Mrs D P Pieris –Senior Independent Director

Mr P A Wijeratne - Independent Director

Mr K Sundararaj – Independent Director -appointed with effect from 23rd July 2019

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, Micro 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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www.lolcfinance.com