LANKA RATING MAINTAINS

ENTITY RATING OF

LOLC FINANCE PLC

01-Sep-26

01 ***Applicable Criteria***

Methodology | Non-Banking Financial Institution Rating | Jul-24

02 ***Related Research***

Sector Study | Leasing & Finance Companies | Apr-26

03 ***Analyst***

Ruwanthi Sylva | ruwanthi@lra.com.lk
+94 114 500099 | www.lra.com.lk

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Rating Type	Entity	
	Current (01-Sep-26)	**Previous (02-Sep-25)**
Action	Maintain	Upgrade
Rating	A+	A+
Outlook	Stable	Stable
Rating Watch	-	-

LOLC Finance PLC ("LOFC" or "the Company") is a publicly listed entity incorporated in 2001 and got listed on Colombo Stock Exchange (CSE) in 2011. The principal activities of LOFC encompass leasing, granting loans, margin trading, mobilization of public deposits, factoring, digital financial products (including Digital FDs and Savings), renting of properties and alternative financing solutions. The Company maintains its position as the largest Licensed Finance Company (LFC) in Sri Lanka by asset base, although its share of sector assets narrowed to ~18.3% in FY26 (FY25: ~20.6%) as industry-wide growth outpaced the Company's expansion.

The rating reflects the Company's sustained performance, dominant position in the LFC sector and strong financial and business profile. The Company has announced a share buyback that is expected to reduce its Capital Adequacy Ratio (CAR), although it is expected to remain adequate. Backed by a strong sponsor group (LOLC Group) with presence in Sri Lanka and other countries, LOFC maintained its market position as its asset base expanded by ~30.0% to LKR~558.6bn in FY26 (FY25: LKR~429.7bn), underpinned by a ~39.7% increase in the lending portfolio. Consequently, Net Interest Income (NII) rose by ~18.6% to LKR~49.9bn (FY25: LKR~42.1bn), supported by higher advances in the gold loan and personal loan segments and an improvement in the core spread to ~7.9% (FY25: ~7.1%). Despite the stronger core spread in FY26, the Company's Net Interest Margin (NIM) moderated to ~11.2% (FY25: ~12.0%) as average lending yields declined to ~20.7% (FY25: ~22.8%). Profit After Tax (PAT) grew by ~9.3% to LKR~27.4bn in FY26 (FY25: LKR~25.1bn), although ROA and ROE declined to ~5.5% and 18.0%, respectively in comparison to FY25.

Asset quality improved, with the gross Non-Performing Loan (NPL) ratio declining to ~5.0% in FY26 from ~7.3% in FY25 (the adjusted NPL ratio is ~9.2% for FY25 after reclassifying certain high risk loans to stage 3) and net NPL improving to ~3.2% (FY25: ~4.8%), aided by a reduction in Stage 3 loans driven by improved recoveries. However, the NPL ratio remained slightly above the industry average of 4.4%. Despite an increase in the borrowings to LKR~103.9bn (FY25: LKR~24.2bn) in FY26, the funding base remains deposit driven. Liquidity remains adequate with Liquid Assets/Funding ratio of ~17.0% (FY25: ~16.9%) in FY26.

The Company's Tier 1 and Total Capital Adequacy Ratio (CAR) moderated to ~23.5% (FY25: ~26.2%) and ~23.3% in FY26 (FY25: ~25.9%), though both remain comfortably above the ~17% regulatory minimum applicable to LOFC given its asset base. However, as per the public disclosures and management of LOFC, the total CAR is expected to drop to ~19.0% by the end of August 2026 as the Company is in the process to repurchase ~2.3bn shares in LKR~16.1bn buyback.

Going forward, the assigned rating will remain contingent on LOFC's position as the biggest LFC in Sri Lanka while maintaining its profitability, asset quality, and capitalization metrics. Significant improvement in the business and financial performance will have positive rating implications. Meanwhile, slowdown in growth, substantial increase in NPLs and weaken of capitalization would impact the rating negatively.

About the Entity

LOFC is a Finance Company registered under Act No. 42 of 2011 and SEC registered margin provider. Listed on the CSE since 2011, it now trades on the Second Board due to non-compliance in the Minimum Public Holding (MPH). (Public holding –3.69% as of 31st March 2026 vs. the required 10%) LOLC Ceylon Holdings (Pvt) Ltd is the largest shareholder (~96.29% as of 31st March 2026). Seven member Board includes six non-executive directors (four Independent) as of June 2026 and the Chief Executive Officer (CEO) Mr. D M D K Thilakaratne brings over 25 years of industry experience.

Lanka Rating Agency Limited

No. 145,
Kynsey Road, Colombo 00800, Sri Lanka

Tel: +94 11 450 0099

Web: http://lra.com.lk **E-mail:** info@lra.com.lk