

TRANSFORM CONNECT GROW

REAL-WORLD FINANCIAL SOLUTIONS TO A DIVERSE CUSTOMER BASE

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These are the three powerful words that have driven our equally powerful evolution for over twenty-three years. Today, LOLC Finance PLC is one of Sri Lanka's largest non-banking financial institutions, delivering real-world financial solutions to a diverse customer base ranging from grassroots SME ventures to high-value individual and corporate clients.

While we want to create value for our many stakeholders each year, it is our vision to serve all Sri Lankans equally and well, contributing to the nation's growth and prosperity even as we advance our own.

The year under review in this report was an excellent one, where your company recorded remarkable balance sheet growth, together with several significant technological and operational achievements that are described in detail in the pages that follow.

We are proud of the year that is past and we look to the future with confidence; seeking new horizons to conquer and boundaries to push even further, as we continue to transform, connect and grow.

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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 we take responsibility for our actions. We recognize 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.

THE ORIX CONNECTION

Our connection with the ORIX Corporation in Japan, is one of shared values that embodies the deep rooted historical ties between Japan and Sri Lanka.

Established as Orient Leasing Company in Osaka, Japan in 1964, the ORIX brand is known to be the vanguard in Japan's leasing industry. What followed was three decades of steady growth, which saw the company expand its presence both in Japan as well as internationally. The company was then re-registered as ORIX Corporation in 1989 to signify the expansion of the business scope beyond leasing and into other aspects of the financial services business. Since then, meticulous strategic planning, willingness to innovate and the commitment to expand the geographical footprint have been the key growth drivers that have set the company apart from its peers.

Over the years, the company has expanded its portfolio and widened the number of revenue channels but has nevertheless stayed within the boundaries of the financial services realm in order to leverage on core competencies. In addition to the core leasing business, the ORIX brand is now linked to insurance, corporate rehabilitation, loan servicing, real estate, specialized financial services, investment and retail banking and value added services.

Now a global conglomerate listed on the Tokyo and New York Stock Exchanges, the ORIX Corporation consists of 766 consolidated subsidiaries and 115 affiliates, with a total of 1,358 offices in Japan and a further 554 locations across the globe including, the United States, Asia, Oceania, Europe, the Middle East and Africa.

Following the ORIX Corporation's decision to expand their footprint in the Asia and Oceania region, the connection with Sri Lanka was established in 1980 and The Lanka ORIX Leasing Company (LOLC) was registered on March 14th, 1980. Since then, LOLC has grown in strength and stature, benefitting from the shared knowledge, expertise and insights into the ORIX Corporation value culture. However, it is the ORIX brand value that has been the cornerstone of LOLC's success story. Since inception, ORIX Corporation too has continued its active engagement in this success story with a 30% shareholding, making them the main investment partner, with two senior executives of ORIX Japan present on the LOLC Board.

With growth came diversification, and LOLC's core leasing business was brought

under LOLC Finance PLC, now the Group's flagship operation and a leading finance company in Sri Lanka. This provided the opportunity for the LOLC Group to expand its interests into insurance, SME Finance and Islamic Finance, all of which have grown to be immensely successful businesses in their own right.

In recognition of the commitment to enacting the ORIX Corporation vision, LOLC has been bestowed with a series of accolades including "Outstanding Performance Amongst ORIX Companies" and "Excellent Performance in Overseas Operations", among others.

Moving forward, the LOLC Group remains fully committed to refine its alignment with ORIX strategies and will continuously strive to fulfill the high standard of business excellence set by ORIX Corporation.



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 & Anuradhapura.

2004



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

2005



- Entered into a Refinance Agreement with the Central Bank of Sri Lanka as a Participatory Financial Institution for loans granted to recommence or rehabilitate micro, small and medium enterprises affected by the Tsunami.
- Opened six branches in Kurunegala, Rajagiriya, Gampaha, Ratnapura, Kochchikade & 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 Mobilization Unit.

2007



- Opened 13 branches in Kalutara, Nuwara Eliya, Matara, Embilipitiya, Polonnaruwa, Badulla, Galle, Wattala, Colombo 02, Kegalla, Mahiyanganaya, Mount Lavinia & 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 & Debit Cards and the usage of the Commercial Bank ATM network.

2008



- Conducted a lottery with a 'house' as the prize.
- Launched an Islamic Business Unit.
- 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.

MILESTONES

2009



- Relocated branch at Colombo 07 to Wellawatte.
- Opened 6 branches in Dambulla, Ampara, Kattankudy, Jaffna, Vavunia & Batticaloa.
- Joined SWIFT and assigned Banker Identification Code LOFCLKLC.
- Fitch Ratings Lanka affirms Rating of A-(lka) with outlook stable.

2010



- Entered into a Worker Remittance Agreement with Xpress Money.
- Opened 9 branches in Trincomalee, Elpitiya, Avissawella, Mathugama, Monaragala, Divulapitiya, Nawalapitiya, Kalmunai & 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 & 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 Isurudiriya Centers 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, Nelliadi, Chawakachcheri, Medawachchiya, Dehiattakandiya, Mannar & Mullaitivu.
- Fitch affirms National Long Term Rating of A-(lka) with Negative Outlook.
- Opened a Student Savings Center at Fathima Muslim Ladies College, Colombo 12.

2013



- Entered into Worker Remittance Agreement with Speed Remit Worldwide Limited, United Kingdom and Remit Easy Pvt Limited Australia.
- Opened a Branch in Matale.
- Ranked as one of the 15 Great Places to Work in Sri Lanka.
- Launched the Ladies section at the Al-Falaah Islamic Banking Unit
- Entered the LMD 100 – Sri Lanka's listed Companies – Financial Year 2011/12 ranked 64.

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 Banking 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 6 Branches in Hingurakgoda, Thambuttegama, Maharagama, Maradana, Kollupitiya and Piliyandala.
- Joined Sri Lanka Interbank Payment System as secondary participant.
- Al-Falaah clinched Gold Awards for 'Islamic Finance Entity of the Year 2014' and for 'Social Upliftment Award (CSR)' category. A further recognition with a Silver Award in the category for the 'Rising Islamic Personality of the Year 2014' was also awarded to Ihsan Awfer, a member of the Al-Falaah team.

2015



- Launch of a new value added service - ORIX RealTime (internet banking).
- Changed name to LOLC Finance PLC.
- ICRA Lanka affirmed issuer rating Revised to [SL]A and resulted stable outlook.
- Al-Falaah – the Islamic Business Unit (IBU) of LOLC Finance secured Runners-Up award for Best Islamic Leasing Provider Category (Overall) 2015 at the IFN Best Bank Polls 2015.
- Opened 11 new Branches in Horowpathana, Kaduwela, Baduraliya, Galenbindunuwewa, Homagama, Galnewa, Hanwella, Eheliyagoda, Ruwanwella, Galewela, 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 & Kandy.
- Joined the Common Electronic Fund Transfer switch with Lanka Pay.
- Al-Falaah won three accolades at the 1st IFFSA Awards, organised by UTO EduConsult and adjudicated by KPMG Sri Lanka. Al-Falaah bagged the Silver Award for the Islamic Finance Entity of the Year, Sri Lanka, Gold in the Social Upliftment Award, Sri Lanka and Gold for the Rising Islamic Finance Personality of the Year.

DRIVING A POWERFUL EVOLUTION

BOARD OF DIRECTORS



1 Mr. W D K Jayawardena

Mr. Kapila Jayawardena counts over thirty three years' experience in Banking, Financial Management and Corporate Management. He was appointed as the Group Managing Director/CEO of Lanka ORIX Leasing Co., PLC in 2007. He was the former CEO/ Country Head of Citibank Sri Lanka & Maldives.

He has played a pivotal role in the banking sector contributing to the financial market reforms, development and regularly advising regulators on prudential requirements and has widespread experience in introducing innovative financial service products to the market.

LOLC Group is one of the largest conglomerates in Sri Lanka with presence in diversified industries such as Financial Services, Trading, Manufacturing, Construction, Leisure and Renewable Energy.

As an individual with extensive international and domestic financial experience, he was a key member of the following committees.

- Chairman Sri Lanka Bank's Association (SLBA) 2003/2004
- Member of the Financial Services Reforms Committee (FSRC) 2003/2004
- Director of Lanka Clear and was instrumental in completing the automated clearing project for the Sri Lankan banking industry 2004
- President of the American Chamber of Commerce Sri Lanka 2006/2007
- Member of the inaugural Sovereign Ratings team for Sri Lanka

- Member of the National Council of Economic Development (NCED)
- Board Member of the United States - Sri Lanka Fulbright Commission

Presently, he holds Chairmanship/ Directorship in the following companies:

- Lanka ORIX Leasing Company PLC – Managing Director/Group CEO
- LOLC Finance PLC - Chairman
- LOLC Securities Limited - Chairman
- Eden Hotels Lanka PLC - Chairman
- Palm Garden Hotels PLC - Chairman
- LOLC General Insurance Ltd - Chairman
- LOLC Micro Credit Ltd - Director
- Commercial Leasing & Finance PLC - Director
- Brown & Company PLC - Director
- Browns Investments PLC - Director
- Seylan Bank PLC - Director
- BRAC Lanka Finance PLC - Director
- Riverina Resorts (Pvt) Ltd - Director
- Browns Capital PLC - Director
- Pussellawa Plantations Limited - Director
- Browns Hydro Power PLC - Director
- FLMC Plantations (Pvt) Ltd - Director
- LOLC International (Pvt) Ltd - Director

Qualifications : Master of Business Administration, American University of Asia
Fellow of the Institute of Bankers, Sri Lanka
Associate of the Institute of Cost and Executive Accountants, London.

2 Mr. I C Nanayakkara

Mr. Ishara Nanayakkara is a prominent entrepreneur serving on the Boards of many corporates and conglomerates in the region. He initially ventured into the arena of financial services with a strategic investment in Lanka ORIX Leasing Company PLC and was appointed to the Board in 2002. Today, he is the Deputy Chairman of LOLC and the Executive Deputy Chairman of LOLC Finance PLC (previously known as Lanka ORIX Finance Company PLC), holding directorships in many of its subsidiaries and associate companies.

Backed by over a decade of professional experience in the industry, Mr. Nanayakkara holds the role of Chairman of Commercial Leasing & Finance PLC, one of Sri Lanka's leading financial service providers for over 27 years, as well as LOLC Life Assurance Limited. He is also the Deputy Chairman of Seylan Bank PLC, a premier commercial bank in the country. His vision to cater to the entire value chain of the finance sector manifested in the development of Micro Finance, Islamic Finance, factoring through LOLC Factors, LOLC Life & General Insurance Companies and stock broking through LOLC Securities Ltd.

Leveraging LOLC Group's expertise in the SME sector, the expansion into the Micro Sector was spearheaded by Mr. Nanayakkara, who is the Chairman of their Micro Credit Companies: LOLC Micro Credit Company Ltd, the only private sector microfinance institution in the country with foreign equity, PRASAC, the largest microfinance Company in Cambodia and BRAC Lanka Finance PLC. Mr. Nanayakkara's interest in microfinance lead to the inauguration of LOLC Myanmar Micro Finance Company Ltd, a greenfield investment in Myanmar in which he was

DRIVING A POWERFUL EVOLUTION

BOARD OF DIRECTORS

the founding Chairman, and currently serves as a Director. His proficiency in micro-finance in the region is further demonstrated by his involvement at strategic level in LOLC Cambodia Ltd (Previously known as Thaneakea Phum Ltd); the 5th largest micro-finance company in Cambodia. He was also recently appointed as a Director in LOLC International Private Limited.

Mr. Nanayakkara's motivation to expand into various growth peripheries is further illustrated through his role as the Executive Chairman of Brown & Company PLC and Browns Investments PLC. Browns Group is a renowned conglomerate with leading market position in trade, leisure, power generation, healthcare, manufacturing, consumer appliances and agriculture equipment. Through strategic investments, he is committed to catalyzing development in the growth sectors of the Sri Lankan economy such as construction. Mr Nanayakkara's involvement in the Boards of Agstar Fertilizers PLC, Associated Battery Manufacturers (Cey) Ltd, Sierra Constructions Ltd and Sagasolar Power (Private) Limited reflects this business philosophy.

His passion for sustainable investment is reflected through his involvement in renewable energy, forestry and plantations. As such, Mr. Nanayakkara was also appointed as the Chairman of Browns Capital PLC (previously known as FLC Holdings PLC), Browns Hydro Power PLC (previously known as F L C Hydro Power PLC), and a Director at Pussellawa Plantations Ltd and FLMC Plantations (Pvt) Ltd, subsequent to a recent acquisition.

Endorsing his entrepreneurial spirit, Mr. Ishara Nanayakkara received the prestigious 'Young Entrepreneur of the Year' Award at the Asia Pacific Entrepreneurship Awards (APEA) in 2012. He holds a Diploma in Business Accounting from Australia.

3 Mrs. K U Amarasinghe

Mrs. Kalsha Amarasinghe was appointed to the Board in March 2003. She holds an Honours Degree in Economics.

She serves on the Boards of Lanka ORIX Leasing Company PLC, LOLC Finance PLC, LOLC Micro Credit Ltd, LOLC Life Assurance Ltd, Palm Garden Hotels PLC and Eden Hotel Lanka PLC. She also serves as a Director on the Boards of Commercial Leasing & Finance PLC, Brown & Company PLC, Browns Investments PLC, Riverina Resorts (Pvt) Ltd, Browns Hydro Power PLC, Browns Capital PLC, Pussellawa Plantations Ltd, Melfort Green Teas (Private) Ltd and FLMC Plantations (Pvt) Ltd.

4 Dr. H Cabral, PC

Dr. Harsha Cabral was appointed to the Board as an Independent Director in January 2011. He was re-designated as a Non-Executive Director in August 2015 subsequent to his appointment to other Group companies.

He holds a PhD in Corporate Law from the University of Canberra, Australia and is a Senior Counsel with 28 years experience specializing in the fields of Company Law, Intellectual Property Law, Commercial Arbitration, Commercial Law and International Trade Law. He has been a President's Counsel for 10 years.

He serves in the following capacities:
Member ICC International Court

of Arbitration, Paris; Member, Law Commission of Sri Lanka; Member, Ministerial Committee appointed to reform Commercial Arbitration in SL; Member, Cabinet Committee on Economic Management; Member, UGC Committee on revisiting Laws on the University System on SL; Council Member, University of Colombo; UGC Nominee, PGIM (Postgraduate Institute of Medicine); Member, Board of Studies (Council of Legal Education); Member, Corporate Governance Committee (CA-SEC); Member, Board of Studies, School of Accounting & Business (CA Sri Lanka); Member, Board of Management, NSBM; Senior Lecturer & Examiner (University of Colombo); Council Member/Faculty Member/Course Director (ICLP).

He is also the Chairman of Tokyo Cement Group of Companies (largest cement company in Sri Lanka) and serves on the Boards of Diesel & Motor Engineering PLC (DIMO), Richard Pieris & Co. Distributors Ltd, Tokyo Cement Company (Lanka) PLC, Tokyo Super Cement Co (Private) Ltd, Tokyo Cement Power (Lanka) Ltd, Tokyo Eastern Cement Company Ltd, Tokyo Super Aggregate (Pvt) Ltd, Hayleys PLC, Browns Investments PLC, Alumex PLC and LOLC Life Assurance Ltd.

He is the Author of several books on Company Law & Intellectual Property Law.

He was a key member of the Advisory Commission on Company Law in Sri Lanka which drafted the Companies Act No. 07 of 2007.

He has presented papers in several fora, local and international on Company Law, Intellectual Property Law and Commercial Arbitration.

5 Mrs. D P Pieris

Mrs. Priyanthi Pieris was appointed to the Board as an Independent Non-Executive Director in June 2012.

She is an Attorney-at-Law of the Supreme Court of Sri Lanka and has over 35 years of experience in Corporate and Financial Law. She is also a Solicitor of England & Wales.

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 Motorways Ltd.

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

She 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 is also a member of the Committees set up by the SEC to recommend amendments to the Takeovers & Mergers Code 1995 (as amended) and the Rule for Corporate Governance.

6 Justice R K S Suresh Chandra

Justice Suresh Chandra was appointed to the Board as a Non-Executive Independent Director in July 2012 and was nominated as the Senior Independent Director in August 2015.

He was admitted to the Bar as an Advocate in 1972 after having obtained a Bachelor of Laws (LL.B.) Degree from the University of Colombo. He obtained his Master of Law (LL.M.) Degree from the University of Colombo.

He was a practitioner at the Private Bar from 1972 to 2008 and was a Consultant to several leading banks, private and public institutions. He served as a Member of the Panel of Arbitrators of the National Arbitration Centre.

He was also a Visiting Lecturer, Course Director and Examiner of the Faculty of Graduate Studies of the Colombo University, at the Open University of Sri Lanka, Moratuwa University and the Sri Lanka Law College. He was the Senior Consulting Editor of the Colombo Appellate Law Reports.

He was a Consultant to the World Bank on the Land Titling Project in Sri Lanka, a Consultant to USAID projects and was instrumental in structuring the Coir Council, the Ceramics Council and the Spice Council. He also served as a Legal Consultant to the Tea Sourcing Partnership of London.

He was the Senior Legal Consultant to the Southern Development Authority and the Board of Investments on Industrial Relations. He was a member of the National Labour Advisory Council of Sri Lanka and a member of the Labour Law Reforms Committee.

He served as the Deputy Permanent Representative of Sri Lanka to United Nations in New York in 2009.

He was appointed as a Judge of the Supreme Court of Sri Lanka in June 2010 and retired from that position in July 2012.

He is serving as a Judge of the Supreme Court in Fiji since his appointment in Fiji in 2011 and as the Resident Judge of Appeals since 2012.

He has been a Resource Person for the International Labour Organization, the International Organization for Migration, the Judges Training Institute of Sri Lanka and the Bar Association of Sri Lanka.

7 Mr. A Nissanka

Mr. Ashan Nissanka was appointed to the Board as its Director and Chief Executive Officer in October 2015.

Mr. Nissanka counts over 22 years of experience in the Banking and Finance sector having commenced his career in 1993 with Seylan Bank PLC prior to joining LOLC Group in 1998 and having held the responsibilities of Strategic Marketing Planning, Development and Management of the Retail Channels for LOLC Finance PLC, LOLC Micro Credit Ltd, and LOLC Insurance Ltd.

He possesses an MBA from Edith Cowan University, Australia, a Graduate Diploma from Chartered Institute of Marketing – UK (CIM) as well as a member of Sri Lanka Institute of Marketing (SLIM). He currently serves as a Member of the Council of Management of the Finance Houses Association of Sri Lanka, and as a Deputy Chairman of The Financial Ombudsman Sri Lanka (Guarantee) Limited.

SERVING ALL SRI LANKANS EQUALLY AND WELL

CORPORATE MANAGEMENT





SERVING ALL SRI LANKANS EQUALLY AND WELL

CORPORATE MANAGEMENT

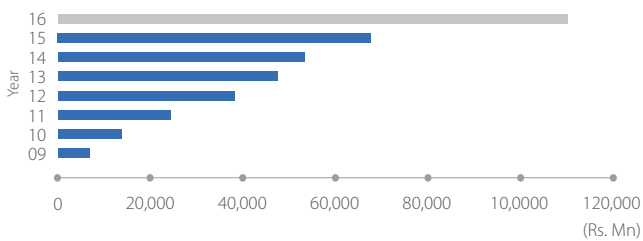


- 1 **Rohan Perera**
General Manager/Group Treasurer,
LOLC Group
- 2 **Sharmini Wickremasekera**
Chief Risk Officer, LOLC Group
- 3 **Sunjeevani Kotakadeniya**
Chief Financial Officer, LOLC Group
- 4 **Susaan Bandara**
Chief Officer, Marcom, LOLC Group
- 5 **Chandana Jayanath**
COO Recoveries, LOLC
- 6 **Isaac Devshanker**
CEO, LOLC Factoring/DGM - Metro
Region
- 7 **Jithendra Gunatilake**
Head of Finance Operations,
LOLC Group
- 8 **Mehra Mendis**
DGM Fleet Management Services,
LOLC
- 9 **Montini Warnakula**
Head of SME, LOLC/DGM - Western II
& North Western Regions
- 10 **Roshani Weerasekera**
Head of Liability Management,
LOLC Finance PLC
- 11 **Sanjaya Kalidasa**
DGM Treasury, LOLC Group
- 12 **Bahirathan Shanmugalingam**
AGM Finance, LOLC
- 13 **Dilum Mahawatta**
Compliance Officer, LOLC Finance PLC
- 14 **Dineth Chinthaka**
Head of Business Solutions, Banking
- 15 **Enoka Jayampathy**
Head of Tax Management &
Compliance, LOLC Group
- 16 **Gamini Jayaweera**
AGM Northern & North Central
Regions, LOLC
- 17 **Hasala Thilakaratne**
AGM Southern II & Western II Regions,
LOLC
- 18 **Imraz Iqbal**
Head of Finance, LOLC Finance PLC
- 19 **Indika Ariyawansa**
AGM Credit Risk Management, LOLC
- 20 **Indunil Herath**
AGM Sabaragamuwa & Central II, LOLC
- 21 **Jayantha Dharmapriya**
AGM Legal, LOLC Group
- 22 **Mallika Abeykoon**
AGM Finance Operations, LOLC
- 23 **Mithila Saranapala**
Manager HR, LOLC Finance PLC
- 24 **Nalaka Mohotti**
AGM Southern Region, LOLC
- 25 **Shantha Rodrigo**
AGM Central Region, LOLC
- 26 **Shiraz Refai**
AGM Islamic Business Unit,
LOLC Finance PLC
- 27 **Sudath Premaratne**
AGM Recoveries, LOLC
- 28 **Yanik Fernando**
AGM Eastern & Uva Regions, LOLC

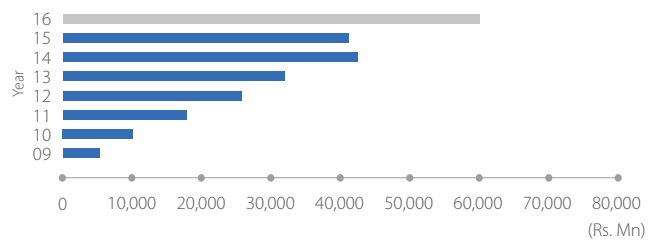
FINANCIAL & OPERATIONAL HIGHLIGHTS

	Change in 2016 - %	2016	Change in 2015 - %	2015
Results for the year (Rs'000)				
Interest income	21	13,137,597	3	10,871,227
Profit before VAT on financial services and income tax	(7)	2,295,547	53	2,466,575
Profit before income tax (PBT)	(9)	2,019,656	54	2,226,349
Income tax expense	(20)	592,663	68	742,767
Profit after tax (PAT)	(4)	1,426,993	48	1,483,582
At the year end (Rs'000)				
Shareholders' funds (capital and reserves)	15	9,198,134	22	7,993,596
Total deposits	46	60,197,201	(3)	41,309,960
Total loans and advances (total portfolio)	50	84,263,235	31	56,292,618
Total assets	63	110,385,065	27	67,861,900
Information per ordinary share (Rs.)				
Earnings (basic)		0.51		0.53
Net assets value per share		3.29		2.85
Market value at the year end- ordinary voting shares		3.10		3.70
Ratios				
Return on average shareholders' funds (%)		16.60%		20.42%
Return on average assets (%)		1.60%		2.45%
Price earnings (times) - ordinary voting shares		6.08		6.98
Price to book value (times)		0.94		1.30
Statutory Ratios				
Liquid assets to deposits (%)		13.37%		13.66%
Capital Adequacy Ratio				
Tier 1 (%) - minimum requirement - 5%		10.07%		13.11%
Total capital ratio (%) - minimum requirement - 10%		13.47%		18.12%

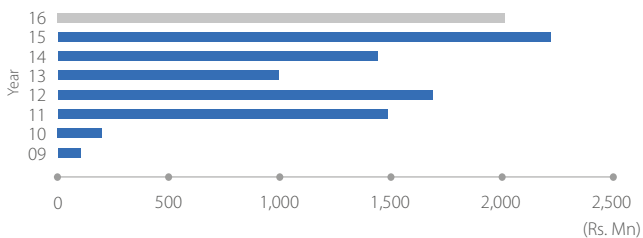
Total Assets



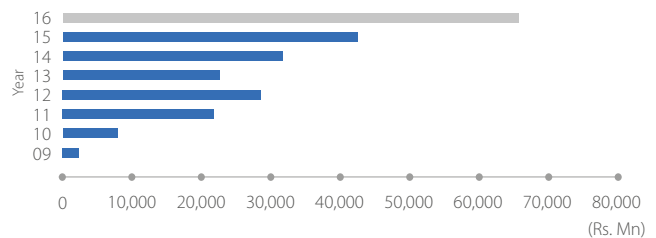
Customer Deposits



Profit Before Tax



New Executions



Over 14.3 billion
Total Income

Over 18.8 billion
Growth in Deposit

50% growth
Growth in Portfolio

CONTRIBUTING TO THE NATION'S GROWTH AND PROSPERITY

CHAIRMAN'S MESSAGE

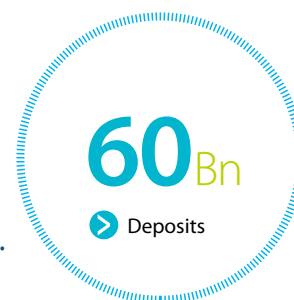


“

A record increase in the deposit book, saw the company become the single-largest deposit taker among the Non-Bank Financial Institutions in Sri Lanka.”

Dear Shareholder

These achievements are a testament to the solid business fundamentals and consistent financial management policies practiced across the entire Group.



As I recap the results for the year ended 31st March 2016, I am happy to note that it was yet another good year for LOLC Finance, where the company made steady all round progress. Financially, LOLC Finance registered a year-on-year growth of 21% in the topline, while a record increase in the deposit book, saw the company become the single-largest deposit taker among the Non-Bank Financial institutions in Sri Lanka as at 31st March 2016.

Meanwhile, the specialized Islamic Banking unit, Al Falaah, operating under LOLC Finance also produced good results for the year.

I must admit these achievements are a testament to the solid business fundamentals and consistent financial management policies practiced across the entire Group.

However, having understood that financial performance and

non-financial performance are indeed two sides of the same coin, we are now keen to address key non-financial aspects relevant to our business. This is something that we embarked on a few years ago in order to ensure that the company produces sustainable value for all stakeholders in the

business, in order to illustrate how LOLC Finance is making good on the value creation promise to all stakeholders.

Macroeconomic Overview

With the main focus for 2015 being the two successive elections, the general economic climate wavered slightly in the first half of 2015, amidst mixed signals emerging from the investor market. However, the post-election hype led to heightened consumer spending in the second half of the year, which helped the economy regain its balance and register a 4.8% expansion in the GDP for 2015, only marginally less than the 4.9% recorded in 2014.

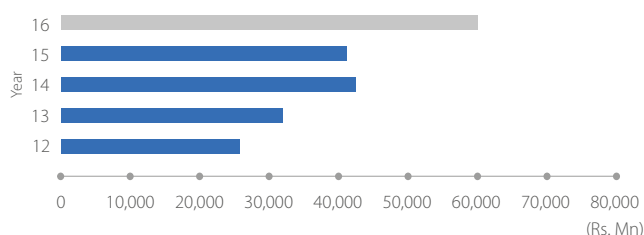
Meanwhile, driven by wage hikes in the public sector and salary increases in the private sector, Per Capita GDP denominated in US Dollar terms increased to US Dollars 3,924 in 2015, from US Dollars 3,853 in 2014, which appears to indicate that the country is on track to achieve its goal of becoming a middle-income economy by 2020.

long term. Having been on this cohesive growth path for a few years now, we feel we are ready to show the progress we have made in this regard. Therefore in this, our first integrated report we have introduced certain key sustainability themes relevant to our

Over 130 Customer Contact Points

Over 200,000 SME Stakeholders

Deposit



CONTRIBUTING TO THE NATION'S GROWTH AND PROSPERITY

CHAIRMAN'S MESSAGE



The new regulations implemented by the CBSL helped to further tighten liquidity risk parameters and boost the credit risk management framework, leading to the overall stability of the country's financial system.

All of these factors augured well for the country's financial services sector, which demonstrated good growth during the year. Meanwhile, the new regulations implemented by the CBSL helped to further tighten liquidity risk parameters and boost the credit risk management framework, leading to the overall stability of the country's financial system. Amidst this environment, the performance of the LFC/SLC (Licensed Finance Companies and Specialized Leasing Companies) sector, recorded robust growth, driven by significantly higher volumes across all asset classes. Meanwhile, the sector-wide outreach too grew once more, signaling the commitment by all key players to promote greater financial inclusion in Sri Lanka, yet another fact that points to the growth in volumes. Consequently, the sector experienced higher profitability, which increased from Rs. 17 Billion in 2014/15 to Rs. 21.3 Billion in 2015/16.

Our Sustainability Strategy

To benefit from this environment, our main strategy for the year was to strengthen our business model to be able to meet long term stakeholder deliverables. In doing so, we focused on a series of core enablers, which stem from our strategic focus on customers, products and services, systems and capabilities.

Our first priority, in this regard was new product development, through which we aim to broaden the choices available to the customer. This also forms part of our goal to align ourselves with major national priorities, where we use our product diversity to tap into new market segments and promote greater financial inclusion, especially in the middle-income earner and SME segment.

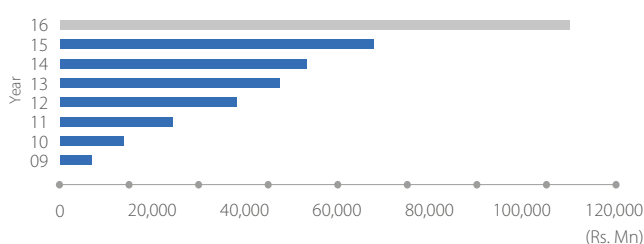
Investing in innovative, technology-driven service platforms was another one of our key focus areas. This will ensure we remain competitive in a changing environment. As part of this agenda, we have already begun to digitalize our channels, making it easier for our clients to connect to LOLC Finance at any time, from anywhere. Our ultimate goal is to ensure that clients can reach us through their mobile devices, eliminating the need to visit the branch.

The next step in this strategy was to consolidate our risk and governance mechanism and secure our internal operational framework.

Finally, we continued with efforts to develop our people, offering them opportunities for progress within the company, so that they may eventually become custodians of corporate ambitions in the coming years.



Total Assets



Future Outlook

With our fundamentals in place, I believe we can move forward with confidence. Moreover, with LOLC Finance's prospects strongly anchored to Sri Lanka's growth trajectory for the next 3 to 5 years, I think the future holds considerable promise for the company, given the current growth path.

With the country on the fast track towards becoming a middle-income economy, the increase in economic activity and higher capital inflows would likely be the key pivots that will drive the LFC/SLC sector in the coming years.

And as a top player in the LFC/SLC sector, I believe we are well positioned to benefit from these opportunities. However, achieving the ambitious growth targets we have set for ourselves for the next few years, will depend on how well we can adapt to change, which I believe calls for a continuous effort to improve the alignment of the company's strategic enablers and create a scalable platform for medium term growth.

Appreciations

As I conclude my review, I wish to express my appreciation to the Governor of the Central Bank of Sri Lanka and the officials at the Department of Supervision of Non-Bank Financial Institutions, for their support at all times. I would also like to thank my colleagues on the Board for their guidance and wise counsel extended to me at all times. A special word of thanks to the Chief Executive Officer, the Management and Employees at all levels for their dedication and commitment in driving the company forward. Finally, I wish to thank the shareholders

and all other stakeholders of LOLC Finance PLC, for the trust and confidence placed in the company and seek your continued support in the years ahead as well.

Mr. Kapila Jayawardena
Chairman

27th May 2016

LOOKING TO THE FUTURE WITH CONFIDENCE

CHIEF EXECUTIVE OFFICER'S REVIEW

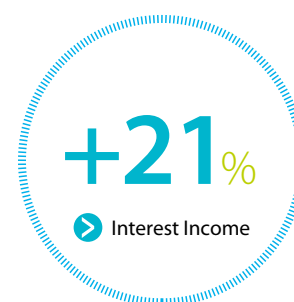


“

LOLC Finance leveraged on this growth-conducive operating environment to increase business volumes by deepening the focus on the company's key SME market segment.

”

Innovation has always been a high priority area for LOLC Finance and investments made in the past to develop the digital platform came into fruition during the year.



Sri Lanka's economy grew by 4.8% in 2015 and was largely fuelled by increased consumer spending. This credit momentum was further bolstered by the consistently low interest rates, which was at its lowest levels in five years. In a nutshell, 2015 was quite an active year for the financial services sector, signaling an improved year-on-year performance, with most all sub-sectors also recording better results in 2015.

Among these, the Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) sub-sector tabled robust growth, with all sector-wide KPI's showing strong positive growth for the year. Throughout 2015, the sector experienced a strong

credit growth, particularly given the heightened demand for vehicle leasing and other secured loans, which led to a 50% growth in portfolio. Interestingly though, despite higher lending volumes, asset quality appeared strong, and the sector-wide NPL's witnessed a year-on-year decline.

Meanwhile, with the demand for credit on the rise, higher borrowings were needed, resulting in a 46% increase in the deposit book.

Review of Business Activities

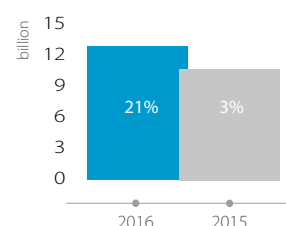
LOLC Finance leveraged on this growth-conducive operating environment to increase business volumes by deepening the focus on the company's key SME market segment. The main thrust in

this regard was threefold; to expand the market bandwidth, broaden the sector mix and finally innovations that will drive volumes across all customer segments.

To expand the market bandwidth within the SME segment, the company looked at new products that are geared to support new start-ups. A range of value enhancements were also introduced for existing products, aimed at mid-level SME's who wish to take their business to the next level.

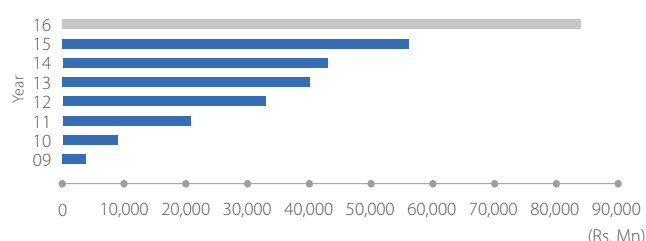
At the same time, a series of market penetration strategies were initiated to broaden the sector mix within the SME segment. Spearheaded by the branch network, these efforts were successful and led to a noteworthy increase in the exposure to agriculture, garments, plantations, construction, transport and tourism sectors.

Interest Income Growth 2015/16



Innovation has always been a high priority area for LOLC Finance and investments made in the past to develop the digital platform came into fruition during the year, with the full-scale launch of ORIX RealTime, the versatile new internet banking module of LOLC Finance that seeks to tap into the growing number of tech-savvy customers who seek instant accessibility. Since the launch of ORIX RealTime in April 2015, LOLC Finance has become the only company in the non-bank financial services sector in Sri Lanka to offer an internet banking platform.

Total Portfolio



LOOKING TO THE FUTURE WITH CONFIDENCE

CHIEF EXECUTIVE OFFICER'S REVIEW



Having already established a strong islandwide footprint of 136 branches, the emphasis for the year was to consolidate the network.”

Branch Network

The branch network of LOLC Finance continued to be the main distribution channel. Having already established a strong islandwide footprint of 136 branches, the emphasis for the year was to consolidate the network. Meanwhile, to enhance the performance of the existing branch model, training was intensified to sharpen staff competencies and maintain service

leadership. These were timely measures taken to support the higher business volumes for 2015/16.

Funding

The key funding strategy for the current financial year was to mobilize deposits, and a number of steps were taken during the year to create visibility and promote LOLC Finance as a licensed deposit-taking institution. A

combination of activities were then carried out including localized promotional initiatives at branch level and an aggressive above-the-line advertising campaign that ran throughout the year, all aimed at growing the volume of deposits. The company was successful in meeting the desired objectives, denoted by a 46% increase in the deposit book as at 31st March 2016, with a 77:23 distribution between short term and long term deposits.

Meanwhile, the company also continued to use existing credit lines obtained from both local and international financial institutions, to further support additional funding requirements during the year.

Lending

The low interest rates that remained for most of the year provided a very conducive environment for lending, leading to a healthy growth in all lending products. However, the vehicle-leasing portfolio experienced some notable ebbs and flows during the year, on account of a number of regulatory changes. Firstly, the duty concessions on the import of hybrid vehicles with effect from May 2015 triggered a

surge in vehicle leases with the momentum continuing until September 2015, after which a significant drop in volumes was observed. This was mainly due to two factors; the introduction of the Loan-to-Value ratio, a demand management strategy initiated by the CBSL, which permits the customer to obtain leasing facilities only upto a maximum of 70% of the market value of the vehicle. The other major factor to affect the demand for vehicle leases was the upward revision in the duty structure aimed at curtailing the volume of vehicle imports.

In light of these developments, the company began rationalizing the lending portfolio in order to derive an optimum lending mix that will safeguard the bottom line. Having set a 30% growth target for the loan book, each lending product was scrutinized to assess its viability vis-à-vis its current position in the product lifecycle. Suitable strategies were then deployed, where needed, to refresh each value proposition, as a pre-emptive response to customer needs. The expansion of the scope of LOLC Finance's Speed draft was, among others, one of the major changes brought in during the year.



Although the lending portfolio has grown drastically, asset quality was successfully maintained.

These strategies proved to be a success, as indicated by the year-on-year growth of 50% in the loan book as at 31st March 2016.

Asset Quality

Although the lending portfolio has grown drastically, asset quality was successfully maintained, which resulted in an improvement in the company's NPL ratio from 4.78% in the previous year to 4.15% in the current financial year.

Key Financial Highlights

Future Outlook

In the forthcoming year, the company will continue to focus on the SME market to sustain the steady growth momentum across all business KPI's. In this regard, mobilizing a higher volume of long term deposits would be crucial to securing the fund base of LOLC Finance for the immediate future. In terms

of lending, the priority would be to tap into new markets by widening the mainstream-lending portfolio, together with specialized products geared for niche market segments. These developments would increasingly be technology-driven models that will strengthen the product portfolio of LOLC Finance and improve the versatility of the distribution channels in the coming years.

Acknowledgements

I wish to extend my sincere appreciation to the Chairman, Deputy Chairman and the Board of Directors for their guidance and support throughout the year. I take this opportunity to thank the management and staff of LOLC Finance for their commitment to the company. My grateful thanks also go out to the customers, shareholders,

business associates, and other stakeholders of LOLC Finance for the trust and confidence placed in the company over the years, and look forward to fulfilling their expectations in the coming years as well.

Mr. Ashan Nissanka
Chief Executive Officer

27th May 2016



TRANSFORM

“Transforming Sri Lankan plans, hopes and dreams”

For the past 15 years, we have been inspiring the silent movement for change, helping thousands of Sri Lankans to transform their hopes and dreams into action, giving them the opportunity for greater financial independence and the confidence to reach for new horizons.



CHANGING PEOPLE'S LIVES

ADVANCING SUSTAINABILITY

Doing our part for the Environment

We have to admit that as a financial services organization, the direct impact to the environment arising from our business is limited.

Nevertheless, we remain committed to minimize our carbon footprint as much as possible and as a first step, have started practicing 3R concepts to reduce, reuse and recycle in areas where we feel

we can make a clear difference. Further, we have also begun re-aligning our processes and making investments that will lead to precise changes in the long term. Further, our Group is actively pursuing renewable

energy options. We believe that such measures would help us develop a more responsible environmental stewardship model for the future.



STRENGTHENING OUR PEOPLE

At LOLC Finance, the Human Resources (HR) function is a shared service, which is managed centrally by the holding company. The centralized HR function ensures compliance with all applicable labour standards and laws in the country. It also helps to strengthen the alignment with Group HR policies, where the emphasis is on lifelong learning, continuous personal development, fostering of diversity and employee commitment.

To improve the effectiveness of the centralized HR model, a designated HR partner has been assigned to oversee LOLC Finance's specific HR requirements and create a dynamic work environment in which all employees can grow and thrive. The HR partner is also the key driver of the company's strategic goal of becoming an "Employer of Choice" in Sri Lanka's financial service industry.

It is hoped that this unique employee management framework will pave the way for a greater sustainability of human resources in the long term.

Creating a fully-fledged work environment

The company is committed to ensure that all employees are well aligned to LOLC Finance's core organizational values of Honesty, Integrity, Service Excellence and Success. The goal here is to provide a workplace where;

- The health, safety and well-being of the team is paramount
- All employees value and respect each others human rights
- All employees understand that meeting commitments to customers and other stakeholders is an absolute priority

The HR partner is the key driver of the company's strategic goal of becoming an "Employer of Choice" in Sri Lanka's financial service industry.

Diversity and Equality in the Workplace

The company strives at all times to promote equal opportunity and greater diversity across every aspect of the employment lifecycle, including recruitment, promotions, and training. As an equal opportunity employer, the company will ensure that all qualified applicants will receive fair consideration regardless of race, colour, religion, gender, expression, sexual orientation, marital status or disability or any other status protected by law.

LOLC Finance also believes that all employees should be provided with a working environment, which enables each of them to be productive and to work to the best of their ability. While freedom of association is considered the right of every employee, the company does not tolerate an atmosphere of intimidation,

humiliation or any form of harassment and expects all employees to strictly comply with this policy.

In addition, the current framework aims to promote diversity by matching the workforce demographics with the diversity and needs of specific customer segments. This has ensured that over 90% of LOLC Finance's branch staff, are local hires.

Entry-Level Recruitment

Recruitments are done mainly for entry-level positions. The strategy here is to groom employees to absorb LOLC Finance's corporate culture and encourage them to grow together with the organization.

To fulfill LOLC Finance's recruitment needs, the company has developed a distinctive branding strategy to tap into school leavers and university graduates from



CHANGING PEOPLE'S LIVES ADVANCING SUSTAINABILITY

around the country. More recently, efforts to widen the diversity in the recruitment pool prompted the company to approach technical training schools, local youth groups and community-based vocational programmes, especially at a provincial and rural level.

Under the Group recruitment guidelines child labour, and forced or compulsory labour is strictly prohibited.

Premium Benefits

LOLC Finance's remuneration philosophy reflects the company's core values and is based on a fair and equitable structure that has always been well above industry standards. All employees, including new recruits are offered a comprehensive package depending on their job scope. General emoluments include;

- Salary
- Ex-gratia payments
- Medical benefits
- Higher education assistance

In 2015, the company rolled out a new benefit plan aimed at encouraging more females to take on marketing jobs. The plan, which offers female marketers an extra allowance, was made available for existing employees as well as new recruits encouraging them to join the marketing team during the financial year.

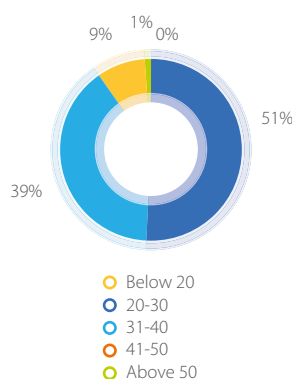
Managing Talent

The company strives to keep employees motivated by recognizing and rewarding them for their performance and providing them with opportunities for personal growth and career advancement. As part of the talent management model, performance evaluations are carried out bi-annually and employees are graded on two main criteria; job competency and behavioural competencies. For junior grade employees, equal weightage is allocated for each segment, while for Managerial grades, the emphasis is on the job competencies. The results of this evaluation mechanism are then used to identify training needs, determine promotions and increment or other ex gratia payments and establish a stable talent pipeline for the future.

Training and Development

Training needs that are derived through the employee evaluation process go into the formulation of the company's training and development agenda, which aims to map training requirements of employees in tandem with their career aspirations and the competencies of their job. The goal here is to provide people with training, learning and development throughout their career lifecycle, covering

Employee Age Group Distribution - 2015/2016



induction, orientation, skills and leadership development, occupational health and safety training, and compliance.

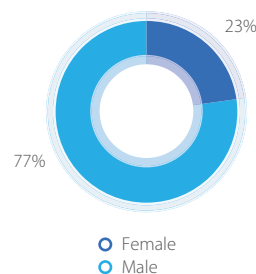
Handling of Grievances

All grievances are handled through the central grievance mechanism, a formal channel that ensures strict confidentiality. The whistle blowing policy is also practiced to address grievances. Once a grievance is filed, an ERM team is deployed to carry out a thorough investigation into the matter. Throughout the inquiry process, employees are kept informed regarding the status of their grievance.

Employee Well-being

Employee well-being is an important aspect of LOLC Finance's employee management framework. Understanding what motivates employees and developing new ways to support

Employee Gender Wise Distribution - 2015/2016



employees and improve their work-life balance remains a key priority for the company. A specialised group by the name of "Spirit" has been formed to carry out employee related engagement activities at Group level.

The following activities were carried out under "Spirit" during the year under review:

- Annual Sporting Event
- Annual Dinner Dance
- Annual Pirith
- Annual Kiddies Party
- Annual Trip

Events organised by HR:

- Religious Celebrations
Deepavali, Vesak, Christmas carols, Ifthar
- CSR Activities
- Avurudu Ulela

Various engagement activities are also organised at branch level.

As a responsible corporate citizen, we believe it is our duty to actively contribute to the social and economic development of the communities in which we operate. Accordingly, LOLC Finance is fully committed towards the socioeconomic upliftment of underserved communities in the country. In doing so, it has always been our policy to support the Group-level CSR activities, as we believe the cohesive efforts of the LOLC Group would likely have a greater impact in addressing the most critical issues facing low-income communities across Sri Lanka.

WORKING FOR THE COMMUNITY



Donation of School items, sports equipment and musical instruments to Karihattikulama Kanishta Vidyalaya, Nikaweratiya.



Sponsorship for budding Athlete D.M. Yamani Dulanjali of Hatton.




Donation of School items, sports equipment and musical instruments to Karihattikulama Kanishta Vidyalaya, Nikaweratiya.



Donation to the Chilaw General Hospital.





We recognize that our relationship with our customers is the most important element in keeping them highly satisfied. It is why we strive to differentiate ourselves by creating a high-value-added experience for our customers. For this, we rely on our relationship-based model, which brings together a personalized service culture and the latest know-how, to provide each and every customer with efficient and innovative solutions to suit their individual needs. Our goal is essentially, to make it simpler for our customers to reach their aspirations, whatever those may be.

Mr. J.M.D. Jayasuriya

Managing Director, Redlion Associates Lanka (Pvt) Ltd, Kandy

"When I decided to diversify my traditional garment business and open a bakery specializing in cake manufacturing, I realized I needed the most flexible financial solutions in the market. That's when I went to LOLC Finance. Working with LOLC Finance for the past four years, I really appreciate the range of innovative solutions they have given me to support my business needs. It has really helped me to take my business to the next level."

SERVING PEOPLE FROM ALL REGIONS OF THE ISLAND

HOW WE'RE CHANGING LIVES ACROSS SRI LANKA



➤ **Mr. J.N. Chaminda Jeewandara**
Deputy General Manager, Gampaha Development Company Limited

"When we obtained approval for the construction of a Metro Housing and Apartment complex in Kadawatha, we first approached LOLC Finance, Dehiwela Branch to see if they could support our project. They were able to understand our concept and see our vision and thanks to the Dehiwela branch and Head Office in Rajagiriya, we received the funds to begin our project as planned. LOLC Finance was there to guide us through each stage of the loan process and currently our project is on track and is due to be completed by December 2016."

➤ **Mrs. W.A. Renuka**
Proprietor, Lakira Distributors, Piliyandala

"Before I moved to LOLC Finance three years ago, I spent a lot of time contacting different institutions for different financial solutions. But now LOLC Finance takes care of everything, from the tailor-made working capital facility for my business needs to the lease of my personal vehicle. Also, I find the service to be very professional and staff always ready to answer any queries promptly. I am really happy that I decided to make the move to LOLC Finance."





➤ **Mr. Veeriah Ravichandran**
Proprietor, Welcome Motors, Batticaloa

"For the past 15 years, LOLC Finance has been there to support my car sale business. I am thankful for all their help that has made it possible for me to make use of the new opportunities in the market. I now consider LOLC Finance as an important part of my success and hope to build on this relationship in the long term as well."

➤ **Mr. T.B.G.S. Tikiribandara**
Proprietor, Senarath Rice Mills, Anuradhapura

"When my Rice Mill needed financing, LOLC listened to and met all of these needs. Thanks to their expertise and commitment in taking care of the financial aspects of my business, I now have the peace of mind to concentrate on expanding the business further."



CREATING VALUE FOR OUR STAKEHOLDERS

STAKEHOLDER ENGAGEMENT

Stakeholder engagement plays a pivotal role in helping the company to understand and interpret how to address challenges and harness opportunities, vis-à-vis the best interest of the company and its stakeholders. LOLC Finance's comprehensive stakeholder engagement process demonstrates the company's commitment to produce sustainable change for all stakeholders of the business.

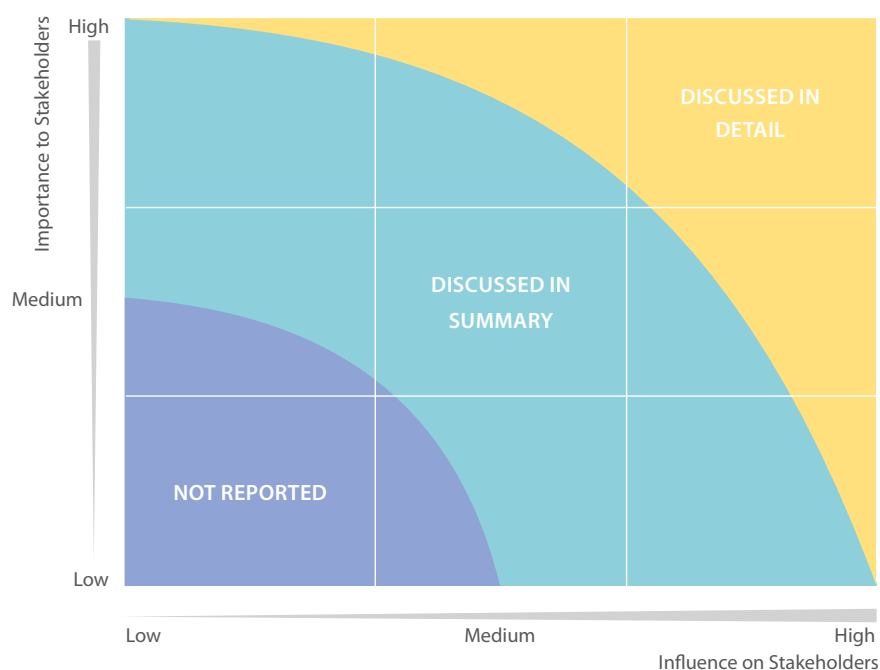
Stakeholders	Goals	Our Responses	Method of Engagement	Frequency
Shareholders and Investors	To inspire investor confidence by creating wealth, sustainable growth and enhance shareholder value by reinvesting earnings and strengthening governance to establish strong internal processes and policies	Superior financial performance and sustainable wealth Effective risk management policies and adequate internal controls through governance and transparency Ensure regulatory compliances Business expansion plans	<ul style="list-style-type: none"> Annual reports Annual General Meeting Interim financial statements Extraordinary General Meeting Announcements to Colombo Stock Exchange Corporate website Investor presentation One - to - one discussions 	Annually Annually Quarterly As required As required Continuous As required As required
Customers	Product innovation and flexibility with quality of service and safeguard their interest and be a responsible financial institution and comply with all regulatory and statutory obligations	Customer security and privacy Product innovations Customer service Quality of service Dispute resolution	<ul style="list-style-type: none"> Branches Call center Corporate website Relationship managers Media advertisements Sponsorship for community events 	Regularly Regularly Continuous Continuous As required As required
Employees	Attracting talent and to develop their knowledge and skills to establish a leadership pipeline with stability, security and equal opportunity to all our employees	Remuneration, rewards and recognition policies Training and development Effective performance appraisal process Future plans Career progression Maintain equal opportunities and conducive labour relations practices	<ul style="list-style-type: none"> Managers meeting Open door policy Training programs Internal circulars Latest updates through emails Special events such as pirith ceremony, get together and sports day Exit interviews upon resignation 	Monthly As required As required As required As required Annually As required
Suppliers and business partners	Focus on long-term partnerships and ethical business practices to balance cost considerations with sustainable procurement practices	Contractual performance Comprehensive and transparent procurement policy Future business opportunities	<ul style="list-style-type: none"> Onsite visits and meetings Official communications such as calls, letters etc Tender invitations Suppliers registration 	As required As required As required Annually
Regulators	Ensure regulatory compliance while maintaining a high ethical standard	Compliance with regulations, codes and directives	<ul style="list-style-type: none"> On-site and off-site surveillance Meetings and consultations Press releases Periodic returns 	Annually / periodically As required As required As specified
Community	To contribute to national priorities, create sustainable communities through action in entrepreneurship and upliftment of rural livelihood	Financial awareness and access to funds Recruitment Ethics and business conducts Other contributions and sponsorships	<ul style="list-style-type: none"> Delivery channels Sponsorships for community events Donations Social media 	Regularly As required As required Regularly

A PROMISE DELIVERED

MATERIALITY

LOLC Finance's materiality assessment framework aims to classify relevant topics identified through the stakeholder engagement process, according to how important they are to the external and internal stakeholders as well as their significance to the company. This materiality assessment mechanism is also the basis for LOLC Finance's strategy development and planning process.

Issues are prioritized and included in this report based on materiality as shown below:



We have mapped the material issues to the aspects of GRI G4 guidelines. Issues that are not included as material issues in GRI G4 Guidelines have also been included in this report. Hence, our materiality assessment process is consistent with GRI G4 guidelines and reflective of best practices in defining report content.

The following table depicts the level of significance of each aspect on the Stakeholders.

GRI Indicators	Stakeholders Impacted	Material Aspects	GRI Indicators	Stakeholders Impacted	Material Aspects
EC 1	Shareholder and investor	Economic performance	FS9, PR7, PR 8	Customer	Customer security and safety
EC5		Market presence	PR 3		Transparency in products and services
EC 1		Earnings growth	HR10	Business partners (Suppliers, Regulator)	Supplier human right assessment
FSI 5		Responsible investment	SO9		Supplier assessment on impact on society
FSI5, FS 8		Responsible lending	EN3	Community	Energy
PR 5	Customer	Customer satisfaction	FS8, EN6, EN23		Environmental Impact
LA9-11	Employee	Training and development	EN 22		Waste management
LA1-3, LA12-13,		Employees productivity	SO1	Community	Local community
HR3, HR5-6, LA8		Employees health & safety			



CONNECT

“Connecting people and business with user-friendly technology”

Our high-impact technology is geared to provide next-generation connectivity and secure remote access, 24 hours of the day, 7 days of the week and 365 days of the year.



CONNECTING PEOPLE AND SERVICES WITH RELIABLE, USER FRIENDLY TECHNOLOGIES

SHAPING OUR WORLD WITH TECHNOLOGY

With the high speed digital connectivity offered by ORIX RealTime, you can now experience the convenience of making direct transfers, paying utility bills, settling loan installments etc.

ORIX RealTime is our revolutionary new internet banking facility that seeks to empower all Sri Lankans with greater access to the latest financial products and services. Using cutting-edge digital technology to support an intuitive user interface, ORIX RealTime offers a secure and convenient way to manage and track your money with just a few clicks!



Here's what else is unique about ORIX RealTime;

- **Secure Login process**
Facilitates quick access and safeguards personal information.
- **Tri-lingual platform**
Allows customers to browse their accounts in the language of their choice.
- **24/7 Quick balance**
Seamless integration with the core banking system enables customers to instantly view account balances and obtain a transaction history for multiple accounts simultaneously.
- **Branch / ATM Locator**
Provides customers with quick and easy guide to reach the branch or ATM nearest to them.
- **Financial Calculator**
Tools that enable individuals and businesses to plan their financial commitments.



Over 2,600

subscribers since February 2015

Over 315 million

worth of online transactions
as at April 2016



ORIX RealTime

- Direct transfers
- Utility bills
- Loan installments

Opening a Fixed Deposit, Savings Account or Foreign Currency Savings Account is a simple five-minute process with ORIX RealTime.

ORIX RealTime can be accessed through our website on <https://www.lankaorix.lk/orixrealtime> or simply by downloading the ORIX RealTime app on to your iOS or Android device.

With the high speed digital connectivity offered by ORIX RealTime, you can now experience the convenience of making direct transfers,

paying utility bills, settling loan installments etc. on the go, from anywhere, at any time. What's more, with ORIX RealTime, opening a Fixed Deposit, Savings Account or Foreign Currency savings account is a simple five-minute process, which can be done from the comfort of your home, office or even while at the beach.



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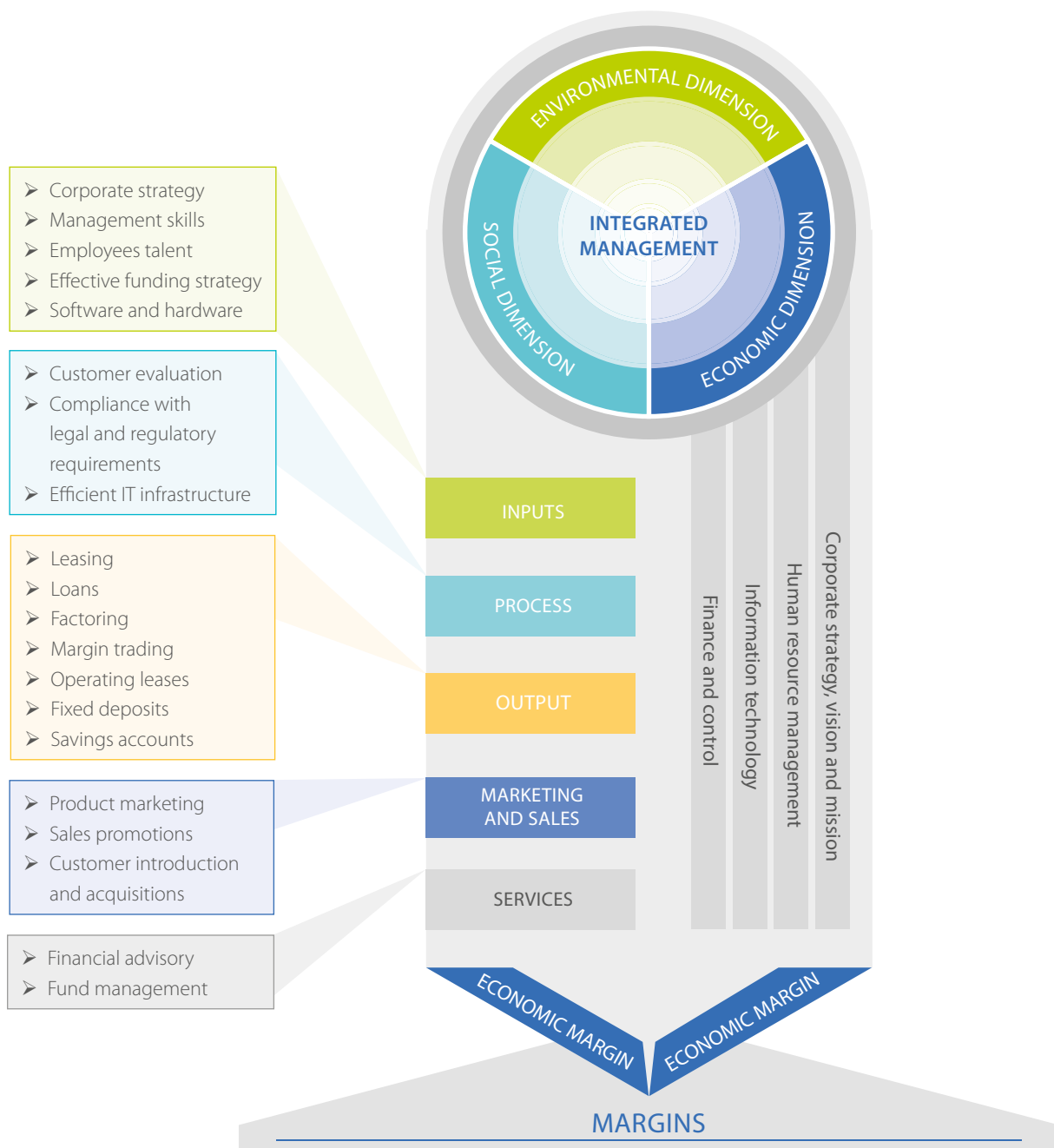
GROW

“Growing in value to serve our shareholders better.”

Our responsible growth strategies have produced consistent results year after year, helping to create long term value for our shareholders.

INTEGRITY, RESPONSIBILITY AND CARE

OUR BUSINESS MODEL



REAL-WORLD FINANCIAL SOLUTIONS

OUR PRODUCTS

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

LOLC Finance Fixed Deposits Un-Fixed Deposits

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

Key features:

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

Fixed Deposit Bond

A flexible long term financial tool pioneered by LOLC Finance.

Key features:

- Available for corporates and individuals for 3 to 5 years.
- Original value can be gifted or transferred at any time.

LOLC Finance Savings General Savings Account

Simple and easy financial planning for everyone.

Key features:

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

Super Savings Account

Better rates for high savers.

Key Features:

- Available to locally registered companies, citizens and non-citizens with Sri Lankan resident visa holders.
- Initial Deposit of Rs. 2,000.
- No registration fee or monthly fee.
- Interest is calculated daily and credited monthly.
- Free unlimited withdrawals and deposits.
- Accommodates Standing Orders.
- Free visa-enabled Debit card.
- Maestro international debit card issued free of charge.

SME Finance

Speed Draft

The fastest solution for all your short term financial needs.

Key features:

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

Flex Loan

An innovative and flexible financial tool.

Key features:

- Customized rental.
- Personalized repayment plan.

ORIX Champ

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

Key Features:

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

Foreign Currency Solutions

RFC Fixed / Savings Accounts

Ideal for local citizens who wish to earn interest on their foreign currencies.

Key features:

- Minimum Deposit of only USD 100.
- Option to choose between designated currencies (US Dollars, Australian Dollars, Sterling Pounds and Euro) for interest earnings.
- Tax exemptions for interest earnings.
- Free International VISA ATM & debit card.

NRFC Fixed / Savings Accounts

Designed for locals working abroad, the NRFC Fixed / Savings Accounts enable the customer to save and earn interest in a foreign currency. Through LOLC Finance's extensive partner network, which includes, Xpress Money, Valutrans and Money Exchange Spain, customers are assured of quick transfers, with minimum delays.



REAL-WORLD FINANCIAL SOLUTIONS

OUR PRODUCTS

Special Foreign Investment Deposit Account (SFIDA)

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

Value Enhancements VISA Debit Card

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

ORIX RealTime

LOLC Finance's internet banking module, ORIX RealTime is made available to all account holders through a simple online registration process. ORIX RealTime e-dashboard allows the customer to manage personal finances, make utility bill payments etc.



Specialist Services ORIX Wealth

An exclusive, personalized Wealth Management service catering to the clients' financial priorities. The service is made available by a specialized team of LOLC Finance professionals who remain committed to assisting our clientele in managing their finances.

Islamic Banking – Al Falaah

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

Margin Trading Solutions

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

Currency Exchange

As an authorized money changer, LOLC Finance is probably the only financial institution in the country

to offer currency exchange services at all 136 LOLC Finance branches islandwide.

Remittance Services

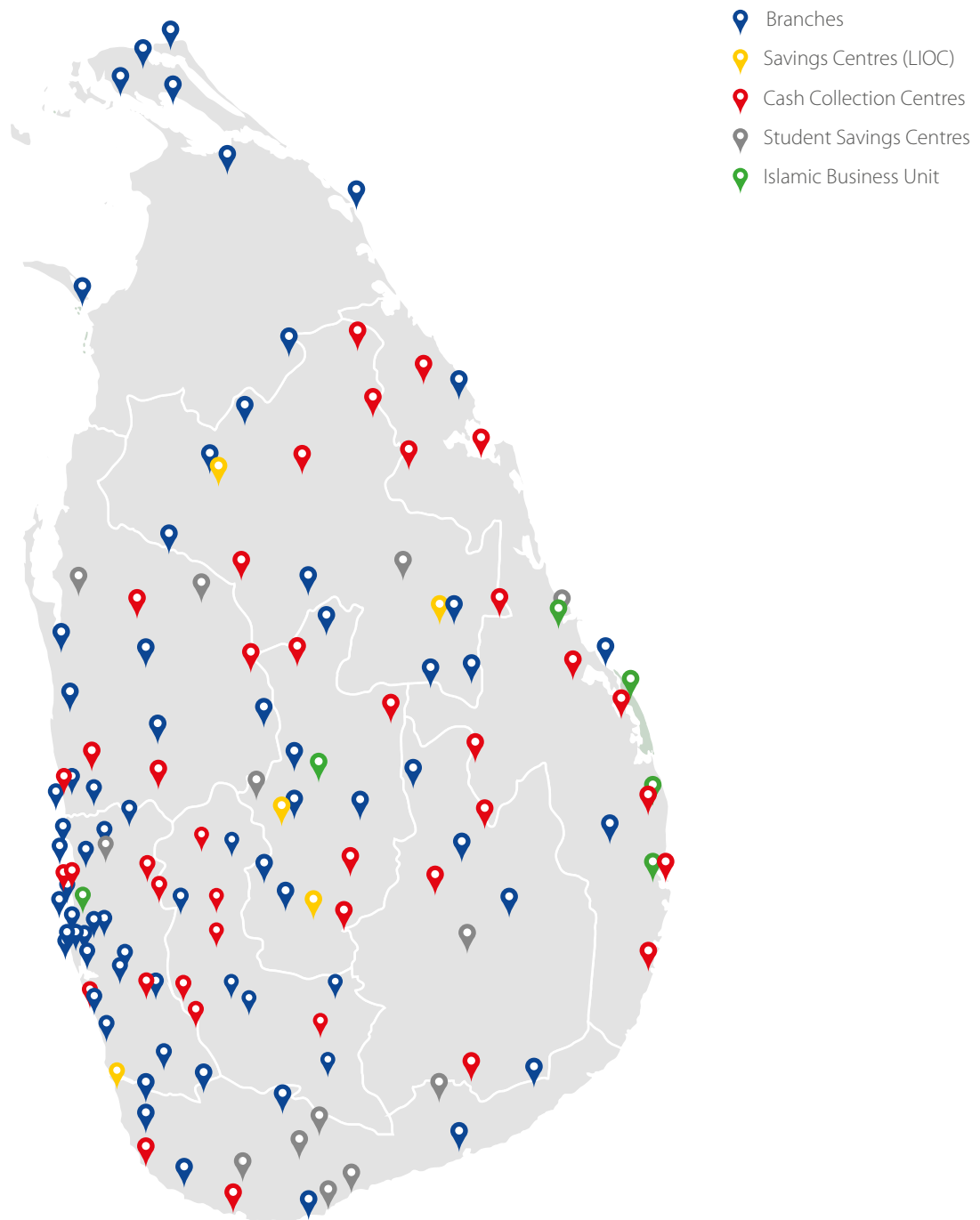
LOLC Finance offers a secure and efficient channel for transferring foreign currency to Sri Lanka. As the only Non-Banking Financial Institution operating in this line of services, LOLC Finance's services are on par with the quality standards offered by banking institutions.

Moreover, through LOLC Finance's extensive partner network, which includes Xpress Money, Valutrans and Money Exchange Spain, provides a safe passageway for all remittances. Customers also have the option of remitting their money to an account of your choice at no extra charge.



A DIVERSE CUSTOMER BASE

OUR PRESENCE



ACHIEVING OUR GOALS

CONSISTENT RESULTS

All deposit products demonstrated strong results during the year under review, underpinned by a healthy growth in the client base. The goal for the year was to widen both the personal savings line as well as grow the fixed deposit portfolio, which consists of corporate investors and high net worth individuals.

SRI LANKA'S ECONOMIC PERFORMANCE

Industry Overview

The performance of the Licensed Finance Companies (LFC) and Specialized Leasing Companies (SLC) sector, which comprised of 46 LFCs and 7 SLCs by end 2015, remained robust with a notable expansion in both business volume and outreach.

Key Industry Highlights for 2015:

Outreach

In terms of outreach, the sector expanded further in 2015 with 84 new branches being opened during the year mainly in areas outside the Western Province. The ratio stood at approximately 1:2, reflecting greater outreach outside the Western Province.

Assets

Total assets of the LFC/SLC sector expanded at a higher pace in 2015/16, growing at 26% compared to 19% growth in 2014/15. The strong growth can be attributed to a higher demand for credit, especially for vehicle leases and other secured loans. Consequently, sector-wide credit growth also accelerated, leading to a robust 30% growth in the sector's loans and advances portfolio.

Liabilities

The total sector-wide borrowings recorded a notable increase of 55% to reach Rs. 375.5 Billion by end 2015/16 compared to 30% in 2014/15. Consequently, the share of borrowings also increased compared to the previous year. The high growth in borrowings was largely due to funds obtained from the banking system and a higher number of debenture issues initiated by many LFC's and SLC's.

An increase in these sources meant the share of deposits in the total funding base decreased in 2015/16. The relatively high deposit rates offered by LFCs compared to those of banks did continue to attract a steady volume of deposits and the growth in total deposits was 17%, higher than 13% growth in 2014/15. Of the deposits mobilized, 95% were time deposits, with only a slight increase noted in the savings deposit base.

Asset Quality and NPL's

Assets quality of the LFC/SLC sector improved in 2015/16 compared to 2014/15 as evidenced by improved NPLs and provision coverage ratios. The sector-wide NPL ratio decreased to 5.1 % in 2015/16 from the 6.3% recorded in 2014/15, mainly due to higher growth of loan portfolio.

Rs. 60.2 billion

Total Deposit Book

46% growth

In Total Deposit Book



The scope of the "Speed Draft" was extended

The flexi-loan parameters were re-assigned

The auto finance unit recorded healthy growth during the first 6 months of 2015

OPERATIONS OF LOLC FINANCE

Deposits

All deposit products demonstrated strong results during the year under review, underpinned by a healthy growth in the client base. The goal for the year was to widen both the personal savings line as well as grow the fixed deposit portfolio, which consists of corporate investors and high net worth individuals. Accordingly a two-fold strategy was adopted to grow the deposit book.

Stemming from this decision, an aggressive ATL campaign was launched to appeal to a wider geographical populace and mobilize grassroot level micro savings. To add further value to the micro savings proposition, the LOLC Finance debit card was also extended to

certain products in this market segment. The campaign was well received as evidenced by the YoY growth observed in the small saver segment. Meanwhile, a highly focused BTL drive helped boost the corporate client portfolio as at 31st March 2016.

While these strategic imperatives ensured an even flow of deposits throughout the year, the interest rate hike in January 2016 also helped bolster volumes in the last quarter and the total deposit book grew to Rs. 60 billion as at 31st March 2016, up 46%

from the Rs. 41 billion recorded as at the end of the previous financial year.

Lending

The lending mix of LOLC Finance for the year comprised of individuals, SME's and the smaller corporates. Encouragingly, all segments showed strong growth, leading to a YoY increase of 50% in the total loan book as at 31st March 2016.

All core products showed promising growth during the year; bolstered by aggressive localized campaigns to

promote each product at branch level.

In addition, certain key lending products were revamped in response to the demands of the market. Notable among them was the expansion of the "Speed Draft", which is the flagship product of LOLC Finance. Previously meant to facilitate only the working capital requirements of SME's, the scope of the "Speed Draft" was extended to accommodate a host of other individual needs, including educational loans and business start-up loans among others.

▶ The lending mix of LOLC Finance for the year comprised of individuals, SME's and the smaller corporates.

Encouragingly, all segments showed strong growth, leading to a YoY increase of

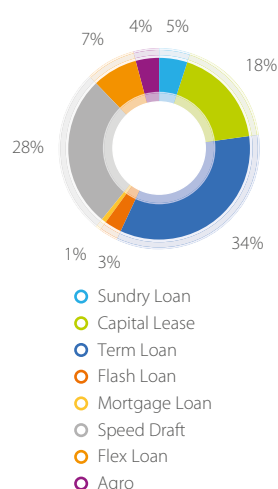
50% in the total loan book
for the year ended 31st March 2016.

ACHIEVING OUR GOALS

CONSISTENT RESULTS

The portfolio distribution of the SME BU is given below as at end of the current Financial year.

Distribution of SME Portfolio for FY 2015/16



The flexi-loan parameters were also re-assigned during the year, allowing applicants to choose from a range of flexible settlement plans extending up to 10 years.

Meanwhile, the "Flash Loan" was introduced in August 2015, a new short/medium term loan product that targets the needs of top-tier SME's.

The auto finance product experienced some ebbs and flows during the year, largely due to the changes in the immediate operating environment. The demand, which had been slow at the

start of the financial year, picked up rapidly towards end May 2015, following the reduction in import tariffs on electric and hybrid vehicles. Consequently, the auto finance unit of LOLC Finance registered healthy growth till about September 2015. At this point, the removal of the currency peg pushed up the price of vehicles, while the introduction of the 70% Loan-to-Value (LTV) ratio threw a further damper on the demand for vehicles. The temporary lifting of the LTV did offer a brief reprieve in October 2015 but its re-introduction a month later together with the import duty hike in November 2015 prompted the company to re-strategize the key thrust for the auto finance division. A focused marketing campaign was then initiated to drive new business volumes in identified market segments. The move proved to be a success with the auto finance portfolio of LOLC Finance registering a YoY growth of 41% as at 31st March 2016.

Recoveries

The company was able to improve the quality of the portfolio with a significant reduction in the NPL ratio for the year, a commendable achievement given the increase in the loan book by 31st March 2016. This testifies to

the success of the recoveries model of LOLC Finance, which strives to avoid litigation by promoting continuous customer engagement that allows for negotiation as much as possible.

Branch Network

Having already established a strong islandwide presence, further expansion of the LOLC Finance footprint was done selectively and only two new branches were commissioned in Kaduwela and Baduraliya during the year under review, bringing the total number of customer contact points on the network to 136 as at 31st March 2016. Meanwhile, in order to achieve greater standardization across the channel and to strengthen the LOLC Finance brand identity and reinforce the connection to the parent company, it was decided that LOLC Finance branches in hub towns and cities should as much as possible, be located at premises owned by the Group.

Internet Banking

LOLC Finance's digital banking model, ORIX RealTime was launched in February 2015. Accessible on the company's website as well as through the ORIX RealTime Mobile Banking App, the concept was an instant success, with over 2,600 customers now using the

facility to manage their finances and conduct a range of transactions including payment of utility bills, transfers to third parties, etc.

Debit Cards

12,500 new Visa debit cards were issued to all new savings depositors allowing them to access their savings accounts via the global network of Visa enabled ATM's. The SMS alert facility was also introduced to enable customers to keep a regular tab of their account. Meanwhile to improve the versatility of the debit card, and encourage its use as an everyday payment tool the company tied-up with a number of local merchants to provide customers with a range of attractive discount offers.

Migrant Services

In tandem with the growth in inflow of migrant worker remittances to the country, the company's migrant workers services model also delivered good results for the review period. Activities to strengthen the international partner network also continued throughout the year.

Islamic Banking Unit – Al Falaah

The rapid growth of the Islamic Banking unit in the recent past paved the way to relocate

the front-line operations of this SBU to Darley Road under a flagship stand-alone Corporate Office, together with a Corporate Branch linked to the City Office located at 481, T.B. Jayah Mawatha Colombo 10. A timely move that will allow Al-Falaah to forge its own identity as an emerging force in Sri Lanka's specialty banking space. In addition to this flagship corporate branch, a second corporate center was launched in Kandy, affiliated to the main LOLC branch. This brings Al-Falaah's islandwide stand-alone network to 7, inclusive of the centers located in Akkaraipattu, Kalmunai, Kattankudi, Oddamavadi & Akurana together with AL-Falaah services offered through the standard LOLC channel network of over 120 locations.

From a business perspective, the Unit did well to register a profit before tax of Rs. 515 million for the year under review, up 52% from the Rs. 339 million recorded for the previous financial year. The Unit's Asset portfolio crossed the Rs. 10 billion mark to reach Rs. 10.8 billion at the close of

the year, while liabilities stood at Rs. 6.3 billion as at 31st March 2016.

Meanwhile, the lending portfolio grew by Rs. 3.7 billion during the year under review, with all individual lending products demonstrating strong growth for the same period. The Unit launched a new concept under "Wakala", a new lending product to support the working capital requirements of the SME sector. Since its launch, the product has proved to be immensely popular among the target market, exceeding budgets set for the year under review.

In recognition of the progress made in promoting Islamic Finance in Sri Lanka, Al-Falaah was adjudged the runner-up at the IFN Best Bank Polls 2015: Best Islamic Leasing Provider Category (Overall) 2015, Islamic Finance Forum South Asia (IFFSA) Awards 2016: Social Upliftment Gold Award and Islamic Finance Entity of the year Silver Award for the financial year ended 2015, adding to the numerous awards received over the years.

FINANCIAL REVIEW

Overview

LOLC Finance PLC concluded yet another successful financial year consolidating its position in the Non-Banking Financial Institution (NBFI) market. The efforts of the company in the previous years to expand its reach to the customers bore fruits in the current year and saw its lending portfolio and deposit base grow significantly, making it the largest company in terms of customer deposits in the NBFI sector. This was achieved by the strong brand recognition and trust the customers have placed in the Company's financial strength.

The financial year under review experienced a challenging economic environment, where the interest rates were at its lowest, increasing pressure on the interest margins. The management of the Company foresaw this and implemented timely strategies, identifying that, to sustain the profitability, a significant growth in the lending base was required. These strategies assisted the Company to sustain the profitability at levels similar to the previous year. To complement and fund the projected growth in the lending base the Company

initiated an aggressive deposit mobilization which resulted in the company having the largest deposit base in the NBFI sector. Further, through its international partnerships the company was able to secure a long term funding line from Asian Development Bank (ADB) to support its growth strategies.

Propelled forward with the momentum from past achievements, LOLC Finance set ambitious targets at the beginning of the financial year via the Corporate Plan & Budget leveraging on the Company's extensive resources and focusing all efforts on achieving budgeted targets through organic growth. A detailed analysis of the financial performance follows in this section of the Annual Report.

Interest Income

The company continued to maintain its growth momentum in interest income, reaching Rs.13 billion during the year. This was a growth of 21% compared from the previous year top line and is a considerable achievement given the low interest regime that prevailed during the year. The growth was mainly as a result of the Company taking active steps to increase its

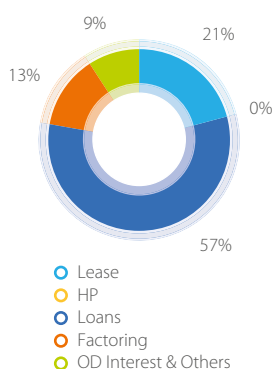
ACHIEVING OUR GOALS CONSISTENT RESULTS

lending portfolio to counteract the reduction in the interest rates. The main contributory factors to the growth in interest income are interest on factoring, loans, and leases.

The interest income from factoring constituted 13% of the total interest income which surpassed Rs. 1.5 billion. This is an increase of 109% from the last financial year. Loans and Leases continued to contribute positive share to the interest income whilst maintaining the momentum of growth. The income from leases grew by 19% and the interest on loans grew by 16% YoY which was as a result of the growth in the portfolio. However, the income from hire purchases experienced a reduction primarily as a result of the company opting to phase out of the hire purchase business and currently contributes an insignificant amount to the total income.

Comparing the growth rates of each product with the last financial year, Company was able to maintain positive growth in all main products within the portfolio, thus achieving considerable growth in the top line.

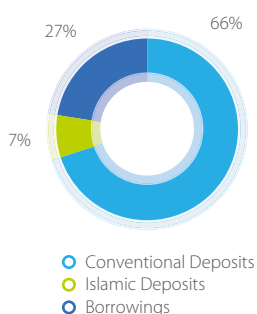
Interest Income Composition 2015/16



Interest Expenses

The interest expense of the Company showed an increase during the year, from Rs. 4.9 billion in 2014/15 to Rs. 6.5 billion in 2015/16 representing a 31% increase. This was mainly due to the additional borrowing made via mobilizing deposits and bank borrowings to support the portfolio growth.

Interest Expenses Composition 2015/16



The interest on customer deposits (conventional FD and Savings and IBU deposits) constituted 73% (down from 90% in 2014/15) of the total interest expense and is reflective of the funding strategy followed by the company where the customer deposits still is the primary funding source. The cost of deposits showed an increase of 5% YoY much lesser than the 46% growth in the deposit base as a result of the low interest environment that prevailed throughout the major part of the year. The profit paid on the Islamic deposits constituted 7.4% showing a growth of 2.3% YoY.

Other borrowings made up the remaining 27% (up from 10% in 2014/15) of the interest cost and reflected an increase of 264% YoY. The prominence of the other borrowings increased primarily as a result of the funding line obtained from Asian Development Bank (ADB) of USD 69 million amounting to Rs. 10 billion.

Net Interest Income, Credit cost and Overheads

The growth in the top line together with the increment in the borrowing cost resulted in the company reporting a net interest income of Rs. 6.6 billion which is a 13% growth over the comparative period's net interest income (NII) of Rs. 5.9 billion.

Even though the economic scenario was not very conducive, the company was able to curtail its Non-Performing Loans (NPL) ratio to 4.15% as at 31st March 2016 (2015: 4.78%) as a result of robust, efficient collection strategies implemented by the company. The continuous follow up on NPLs and monitoring mechanism enabled the Company to curtail the provision for impairment losses at Rs. 1,569 million for the current year compared to Rs. 1,497 million in the previous year, maintaining the credit cost at the same level. This is a significant achievement considering the 51% growth in the lending portfolio. Further, the provision and write off expenses compared to the average portfolio was 2.23% (2014/15: 3.01%) which is a commendable level.

The total other direct expenses and overheads grew by 26% and amounted to Rs. 4 billion in line with the expansion and growth in the Company's operations.

Profitability

In terms of profitability, though the operating environment showed a low interest regime and as a result low interest margins, by effective strategies being implemented to grow the portfolio and curtail the credit losses the company was

able to sustain the profitability at the previous year level and reported a PAT of Rs. 1,427 million (2014/15 Rs. 1,484 million).

Even though the absolute profit amount remained at the same level, the return ratios showed a reduction as the company took steps to grow the asset book to sustain the profits. The return on equity (ROE) was 16.60% and the return on assets (ROA) was 1.60% for the year compared to 20.42% and 2.45% in the previous year.

Asset Base

The total assets of the Company stood at Rs.110 billion compared to Rs. 68 billion at the end of last financial year showing a very healthy growth of 63% compared to last year's growth of 27%. The growth in the asset base was driven predominantly by the lending portfolio which grew by 50% year on year and amounted to Rs. 84 billion and was 76% of the total assets. The deposits with banks also showed a significant increase and stood at Rs. 10 billion compared to Rs.761 million

in the previous year. Further, investments in government securities stood at Rs. 8.4 billion resulting in a growth of 42% from the previous year and were as a result of the increase in the deposit base requiring the Company to maintain liquid assets to satisfy the regulatory liquid assets requirement.

The PPE of the Company also showed an increase of above Rs. 1 billion.

This was primarily due to the increase in the assets given out on operating leases as a result of the Company acquiring new clients for this line of business.

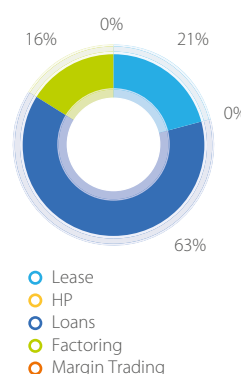
Lending Portfolio

The 50% (Rs. 28 billion) growth in the lending portfolio was complimented by all the major products offered by the Company. The Factoring portfolio showed significant growth (119%) and stood at Rs.13.6 billion .The loan portfolio expanded from Rs. 36.6 billion in 2015 to Rs. 53.3 billion at end of 2016 growing by 46%, while the leasing portfolio which is a

more mature portfolio showed modest but commendable growth of 31%.

The major part of the portfolio (63%) constituted of loans, which includes revolving, term, and mortgage loans. Leases was the second largest product constituting 20% of the portfolio and factoring business continues to gain prominence and amounted to 16% of the lending book.

Lending Portfolio



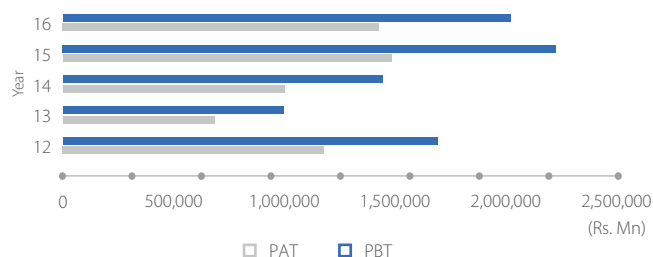
The gross lending portfolio of the IBU stood at Rs.10.8 billion which was 13% of the lending portfolio of the Company, and is continuously gaining prominence within the business of LOLC Finance. The

IBU portfolio has performed exceptionally well in the current financial year and achieved a growth 52% over the previous year's Rs 7.1 billion. The Ijarah portfolio grew by 70% YoY followed by Diminishing Musharaka and Murabaha receivables which grew by 54% and 34% YoY respectively.

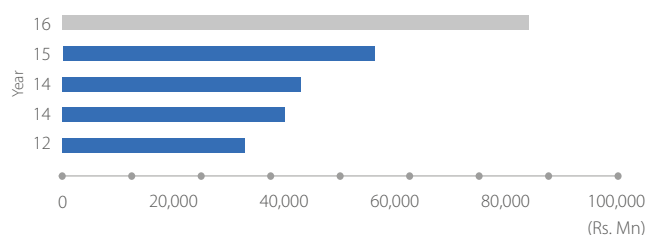
Funding – Deposits and Borrowings

LOLC Finance experienced a significant influx of customer deposits during the year, which resulted in the deposit base of the Company growing by over Rs. 19 billion (46% growth) over the previous year and stood at Rs. 60.2 billion at the end of the financial year. The growth was primarily propelled by the inflow of conventional fixed deposits which grew by Rs. 17 billion. The Islamic Business Unit's Mudharabah and Wakala deposits showed a growth of Rs. 1 billion and foreign currency deposits and savings deposits contributed to the remaining growth positively, recording Rs. 370 million growth compared to last financial year.

Profitability



Total Lending Portfolio



ACHIEVING OUR GOALS CONSISTENT RESULTS

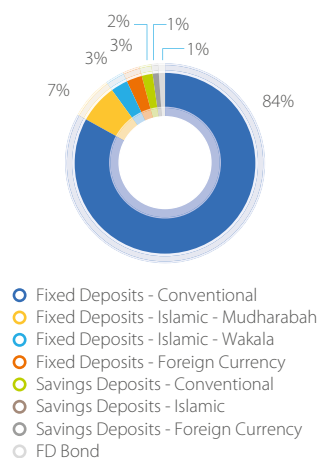
Conventional fixed deposits remains the Company's primary source of funding and stood at Rs. 48 billion at the year end compared to Rs. 32 billion in the previous year. Deposits from the IBU grew by 33% from Rs. 5.2 billion in 2015 to Rs. 5.9 billion in 2016. The foreign currency base of the Company was in the range of Rs. 1.6 billion to 2 Rs. billion over the two years.

The risk of fluctuations in the foreign currency rates arising from the large foreign currency deposit base is effectively managed via forward exchange contracts entered into by the Company covering the entire exposure.

During the current period, in addition to mobilizing customer deposits, the company also focussed on bank and other borrowings to support its portfolio growth. As a result the borrowing base increased to Rs. 35 billion from Rs. 11 billion in 2015. This includes a USD 69 million long term loan from ADB which was obtained in the latter part of the financial year in a landmark syndication loan to the entire LOLC Group. The exchange risk arising from this foreign currency borrowing is managed effectively by way of forward exchange contracts and foreign currency deposits.

As a result, the funding mix of the company saw a change from the previous year where the deposit constituted 61.93% (down from 2015's 76%) of the total borrowings and the bank borrowings gaining more prominence and stood at 38% (up from 2015's 24%). This was as a result of the conscious decision by the treasury of the company seeking to capitalize on the opportunity of low interest rates on bank borrowings.

Deposit Composition 2015/16

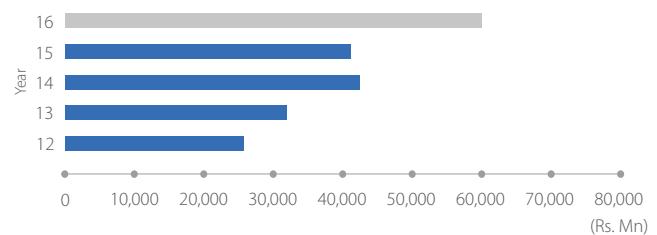


Regulatory ratios

Capital Adequacy Ratio (CAR)

The profits made during the period enhanced the core capital of the company. Consequently the Tier I / Core Capital Adequacy Ratio of the company was 10.07% (2015 - 13.11%) and the total Capital Adequacy Ratio was

Deposit



13.47% (2015 - 18.12%). This was much higher than the minimum requirement laid out by the CBSL of 5% and 10% respectively.

Capital Funds to Deposit Ratio

The capital funds to deposits ratio stood 21% (2015 - 25.98%) and was significantly higher than the required minimum ratio of 10%

Liquid Assets

The liquid assets of the Company stood at Rs. 8,045 million which was above the required minimum amount of Rs. 7,727 million.

Non-Performing Loans and advances (NPL)

The NPL ratio of the Company dropped to 4.15% from 4.78% in the previous year and the total NPL value amounted to Rs. 3,645 million compared to Rs. 2,780 million as at 31st March 2015.

REPORT ON 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

For LOLC Finance corporate governance is about ensuring an effective, transparent and accountable management of affairs by the Board of Directors, the highest governing body, with the ultimate objective of protecting the interests of all stakeholders. 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 Exchange Control Act, No. 24 of 1953, 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 Justice R K S Suresh Chandra as the Senior Independent Director.

Monitoring and Evaluation by the Board

LOLC Finance has in place a number of mandatory and voluntary Board Sub-Committees to fulfill 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.

REPORT ON CORPORATE GOVERNANCE

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

Skills and Performance of the Board

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

As required by the Finance Companies Corporate Governance Direction, LOLC Finance has established a well defined self evaluation mechanism undertaken by each director annually to evaluate performance of the

Board. These evaluations are subsequently tabled at a Board meeting and the records are maintained by the Company Secretaries.

Engagement with Shareholders

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

Engagement with Employees

LOLC Finance recognises that employee involvement is a critical pre-requisite towards ensuring the effectiveness of the corporate governance system and therefore attaches great importance to employee communications and employee awareness of key events and significant developments. The necessity of sincere and regular communication in gaining

employee commitment to organisational goals and values are stressed extensively and intensively through various communiques issued periodically by the Directors Office. LOLC Finance follows an open-door policy for its employees at all levels. Regular dialogue is also maintained on work related issues as well as on matters pertaining to general interest that affect employees and their families.

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

Avoiding Conflicts of Interest

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

External Audit

M/s Ernst & Young, Chartered Accountants were re-appointed as External Auditors of the Company by the shareholders at the Annual General Meeting held in August 2015. Their services were also engaged to seek: a) an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board; and b) the Company's level of adherence to the internal controls on financial reporting.

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

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 Of 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;	<p>Complied with.</p> <p>Board approved vision, mission & corporate values have been established.</p> <p>A comprehensive strategic plan has been approved by the Board for 2015/16 taking into consideration the corporate values and objectives. The said strategic plan was communicated throughout the company.</p>
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;	<p>Complied with.</p> <p>Financial Budgets for three years (2016 - 2018) have been revised and approved by the Board.</p> <p>All identified risks have been taken into account in preparation of the business plan and incorporated in the strategy to achieve these measurable goals.</p> <p>Further, a Risk Management Policy document has been approved by the Board which includes risk management procedures and mechanisms.</p>
c.	identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	<p>Complied with</p> <p>The Board has delegated this function to its Sub-Committee, the Integrated Risk Management Committee (IRMC).</p> <p>Approved minutes of the quarterly IRMC meetings are tabled at Board Meetings for review and guidance.</p> <p>Risk Management Reports on Liquidity and Maturity of Deposits are submitted to the Board on a monthly basis.</p>
d.	approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	<p>Complied with</p> <p>A Board approved Stakeholder Communication Policy which covers all stakeholders is in place.</p>

REPORT ON CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
e.	reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	<p>Complied with</p> <p>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.</p> <p>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:</p> <ol style="list-style-type: none"> 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. <p>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.</p> <ol style="list-style-type: none"> 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. <p>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.</p> <p>Where there is a breach of authority, such issues are escalated to the Board through the Board Audit Committee.</p> <ol style="list-style-type: none"> 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. <p>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.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
f.	identifying and designating key management personnel, who are in a position to: <ul style="list-style-type: none"> (i) influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management; 	<p>Complied with</p> <p>Board members including the CEO and members of Operational Management have been identified and designated as KMPs by the Board as defined in the Sri Lanka Accounting Standards. This is annually reviewed by the Board.</p>
g.	defining the areas of authority and key responsibilities for the Board and for the key management personnel;	<p>Articles 76-78 of the Company's Articles of Association defines the powers and duties of the Board Directors.</p> <p>Further the responsibilities of the Board have been defined and approved.</p> <p>The areas of authority and responsibilities of the key management personnel defined in individual job descriptions will be submitted for Board approval in due course.</p>
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;	<p>Complied with</p> <p>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.</p> <p>Delegated authority given to KMPs is reviewed periodically by the Board to ensure that they remain relevant to the needs of the company.</p>
i.	periodically assessing the effectiveness of its governance practices, including: <ul style="list-style-type: none"> (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; 	<p>Complied with</p> <p>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.</p> <p>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.</p> <p>A Nomination Committee has been appointed to assist the Board in identifying qualified individuals as potential directors.</p> <p>KMPs are selected and recruited in terms of the HR policy of the Company.</p>

REPORT ON CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
		<p>Articles 79-87 of the Company's Articles of Association addresses 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.</p> <p>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.</p>
j.	ensuring that the finance company has an appropriate succession plan for key management personnel;	A revised succession plan will be formulated to address changes in the organization structure.
k.	meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	<p>Complied with</p> <p>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.</p>
l.	understanding the regulatory environment;	<p>Complied with</p> <p>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.</p> <p>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.</p> <p>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.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
m.	exercising due diligence in the hiring and oversight of External Auditors.	<p>Complied with</p> <p>The Board Audit Committee is responsible for the hiring and overseeing of external auditors</p> <p>Article 122 of the Company's Articles of Association lays down a process for appointing of external auditors at the AGM.</p> <p>The Audit Committee has recommended that the auditors be re-appointed for 2015/16.</p> <p>The Audit Committee is governed by a Board approved Audit Charter/TOR. Reviews are carried out to the Charter as and when necessary to ensure relevance. No reviews were carried out during the year under review.</p>
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.	<p>Complied with</p> <p>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.</p>
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.	<p>Complied with</p> <p>A Board approved detailed procedure has been established to obtain independent professional advice when necessary.</p>
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.	<p>Complied with</p> <p>Article 79 of the Company's Articles of Association requires an interested Director to disclose his/her interest at Board meetings.</p> <p>Article 83 requires such a Director to abstain from voting on any Board resolution. He/she will not to be counted in the quorum.</p> <p>In addition, a Board approved procedure is established to manage conflicts of interest of the Board members.</p>

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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
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.	<p>Complied with</p> <p>The Board approved policy on the Role of the Board defines its responsibilities and the matters which are specifically reserved to it for approval.</p> <p>Additionally a Board approved Terms of Reference have been established for executive and non executive directors, including independent directors.</p> <p>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.</p> <p>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.</p>
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.	<p>Will comply with if the need arises.</p> <p>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.</p>
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.	<p>Complied with</p> <p>This report serves the said requirement.</p>
2.8	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	<p>Complied with</p> <p>The Directors carry out a self evaluation annually and records are in the custody of the Company Secretaries.</p>
3	Meetings of the Board	
3.1	The Board shall meet at least twelve 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.	<p>Complied with</p> <p>The Board met 12 times during the year. Please see page 87 for further details.</p> <p>Approvals obtained through the circulation of resolutions (25) were subsequently tabled at the following board meeting.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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 7 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 7 days prior to the meeting. All these enable any Director to seek to include matters in the Agenda. Date of the next meeting is agreed by all the members of the Board as a practice. Reasonable notice has been given for all other Board meetings.
3.4	A Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an alternate director shall, however, be acceptable as attendance.	Complied with All the members have attended two-thirds or more of the meetings during the year. Mrs. K U Amarasinghe has been appointed as Alternate Director to Mr. I C Nanayakkara Mr. I C Nanayakkara has been appointed as Alternate Director to Mrs. K U Amarasinghe. Justice R K S Suresh Chandra has been appointed as Alternate Director to Mrs. D P Pieris. Mrs. D P Pieris has been appointed as Alternate Director to Justice R K S Suresh Chandra.
3.5	The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and Shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with LOLC Corporate Services has been appointed as Company Secretaries to the Company.
3.6	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a board meeting, the Company Secretary shall be responsible for carrying out such function.	Complied with The Board approved policy on Board's relationship with the Company Secretary provides for the Chairman to delegate to the Company Secretary the preparation of the agenda for Board meetings.

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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
3.7	All Directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied with The Board approved policy on board's relationship with the Company Secretary provides that all Directors shall have access to the advice/services of the Company Secretary.
3.8	The Company Secretary shall maintain the minutes of board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied with
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 Detailed minutes are kept covering the given criteria.
4	Composition of the Board	
4.1	The number of Directors on the Board shall not be less than 5 and not more than 13.	Complied with The Board comprises 7 members.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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.	<p>Complied with</p> <p>No director completed 9 years of service during the year under review.</p> <p>Mr. W D K Jayawardena will be completing 9 years on 29th June 2016.</p>
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.	<p>Complied with</p> <p>The Board comprises 3 Executive Directors (including the Director/CEO) and 4 Non-Executive Directors during the year under review.</p>
4.4	<p>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:</p> <ul style="list-style-type: none"> 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. 	<p>Complied with</p> <p>The Board comprises 02 Independent Directors.</p> <p>Justice R K S Suresh Chandra, Senior Independent Director</p> <p>Mrs. D P Pieris, Independent Non-Executive Director</p>

REPORT ON CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
	<ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> (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. 	
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.	<p>Complied with</p> <p>Justice R K S Suresh Chandra has been appointed as Alternate Director to Mrs. D P Pieris.</p> <p>Mrs. D P Pieris has been appointed as Alternate Director to Justice R K S Suresh Chandra.</p> <p>These appointments fulfill the independent criteria specified by this direction.</p>
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.	<p>Complied with</p> <p>Directors profiles are provided on pages 10 to 13.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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.	<p>Complied with</p> <p>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.</p> <p>The quorum had been maintained at all board meetings held during the financial year 2015/2016.</p> <p>Details of attendance at meetings are provided on pages 87 to 88.</p>
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.	<p>Complied with</p> <p>The Directors for the year under review are:</p> <ol style="list-style-type: none"> 1. Mr. W D K Jayawardena Chairman - Non-Executive Director 2. Mr. I C Nanayakkara Deputy Chairman - Executive Director 3. Mrs. K U Amarasinghe Executive Director 4. Dr. H Cabral, PC Non Executive Director 5. Mrs. D P Pieris Non Executive Independent Director 6. Justice R K S Suresh Chandra Senior Independent Director 7. Mr. B C G de Zylva Managing Director (Resigned with effect from 30th September 2015) 7. Mr. A Nissanka Director /CEO (Appointed with effect from 15th October 2015) <p>The directors profiles are given on pages 10 to 13.</p>
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.	<p>Complied with</p> <p>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.</p> <p>The Company's Articles 70-74 address the general procedure for appointment and removal of Directors to the Board.</p>

REPORT ON CORPORATE GOVERNANCE

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.	<p>Complied with</p> <p>Article 70 of the Company's Articles of Association provides that Directors appointed shall be subject to election by shareholders at the first AGM.</p> <p>Mr. A Nissanka who was appointed during the year, retire in terms of Article 70 of the Articles of Association of the Company and being eligible offer himself for re-election.</p>
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.	<p>Complied with</p> <p>Directors' resignation and the reason for such resignation are duly informed to the Central Bank of Sri Lanka (CBSL) and Colombo Stock Exchange (CSE).</p> <p>The Board announces such situations to the shareholders through its Annual Report.</p> <p>Changes to the directorate during the year (resignation of Mr. B de Zylva and the appointment of Mr. A Nissanka) have been approved by the Central Bank of Sri Lanka.</p>
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.	<p>Complied with</p> <p>The Board of Directors have been assessed as fit and proper in terms of section 3 (3) and (4) of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011.</p> <p>During the year under review the age of the current Directors were within the period permitted under this direction.</p>
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.	<p>Complied with</p> <p>No Director holds directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies.</p>
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.	<p>Complied with</p> <p>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.</p> <p>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.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 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.	<p>Complied with</p> <p>The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Company.</p> <p>A process to review the delegation process has been approved by the Board.</p>
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.	<p>Complied with</p> <p>Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.</p>
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.	<p>Complied with</p> <p>The Chairman who is also the Managing Director of Lanka ORIX Leasing PLC (LOLC) is designated as a Non-Executive Director as he is not involved in direct supervision of the key management personnel of the Company.</p> <p>To bring in a greater element of independence, the Board has appointed Justice R K S Suresh Chandra as the Senior Independent Director with suitably documented terms of reference.</p>
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.	<p>Complied with</p> <p>The Company as a practice discloses relationships in the Annual Corporate Governance Report.</p> <p>There is no financial, business, family or other relationship between the Chairman and the CEO.</p> <p>Mr. I C Nanayakkara and Mrs. K U Amarasinghe share a family relationship.</p> <p>There is no financial, business, family or other material relationship between any other members of the Board .</p> <p>A process has been developed for Directors to disclose any relationships between the Chairman and the CEO and or between any other Board members.</p>

REPORT ON CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
7.4	<p>The Chairman shall:</p> <ul style="list-style-type: none"> (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	<p>The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting.</p> <p>The Chairman may delegate the function of preparing the agenda to the Company Secretary.</p>	<p>Complied with</p> <p>The Chairman has delegated this function to the Company Secretaries.</p> <p>This has been included in the 'Policy on Board's relationship with the Company Secretary' approved by the Board.</p>
7.6	<p>The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.</p>	<p>Complied with</p> <p>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.</p> <p>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.</p>
7.7	<p>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.</p>	Complied with
7.8	<p>The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.</p>	<p>Complied with</p> <p>The Company's self-evaluation process assesses the contribution of Non-Executive Directors.</p>
7.9	<p>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.</p>	<p>Complied with</p> <p>The Chairman does not engage in activities involving direct supervision of key management personnel.</p> <p>In terms of the shared services provided by LOLC to the Company, an agreement has been established in April 2013. Stemming from this agreement fees are charged based on services rendered and such charges/allocations are annually reviewed and approved by the Board.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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.	<p>Complied with</p> <p>A Board approved communication policy covers this aspect.</p> <p>The Annual General Meeting of the Company is the main forum at which the Board maintains effective communication with shareholders.</p> <p>Periodic announcements made to the Colombo Stock Exchange also contribute towards this purpose.</p>
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.	<p>Complied with</p> <p>The Company has established an Audit Committee and an Integrated Risk Management Committee.</p> <p>Reports of these committees have been submitted to the main Board for their review.</p> <p>Please refer the reports on pages 97 to 101.</p>
8.2	Audit Committee	Please refer page 97 for the Committee Report
a.	The Chairman of the committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	<p>Complied with</p> <p>Mr. W D K Jayawardena has been appointed as the Chairman of the Audit Committee by the Board.</p> <p>His qualifications are as follows:</p> <p>MBA in Financial Management</p> <p>Fellow Member of the Institute of Bankers</p> <p>Over 30 years of Banking (of which 9 years was as CEO of Citibank Sri Lanka)</p> <p>Associate of the Institute of Cost and Executive Accountants.</p> <p>As Mr. Jayawardena is also the Managing Director of LOLC, in order to give clarity to his non-executive status at LOLC Finance, staff of the LOLC Group performing functions of the Company are seconded to it as an on-going process.</p>

REPORT ON CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
b.	The Board members appointed to the committee shall be Non-Executive Directors.	Complied with The remaining members of the Committee consists of two independent non-executive directors and an Advisor: <ol style="list-style-type: none"> Justice R K S Suresh Chandra, Senior Independent Director Mrs. D P Pieris, Independent Non-Executive Director Mr. M D D Pieris, Advisor
c.	The committee shall make recommendations on matters in connection with: <ol style="list-style-type: none"> the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; the implementation of the Central Bank guidelines issued to auditors from time to time; the application of the relevant accounting standards; and 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 Chief Financial Officer.
d.	The committee shall review and monitor the external auditor's 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 Auditor's Engagement Letter is evidence of the external auditor's independence, and that the audit is carried out in accordance with SLAuS.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
e.	<p>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 auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider:</p> <ul style="list-style-type: none"> (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. 	<p>Complied with</p> <p>The Board has approved a specific procedure for the engagement of the external auditors for providing non-audit services.</p>
f.	<p>The committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including:</p> <ul style="list-style-type: none"> (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 co-ordination between auditors where more than one auditor is involved. 	<p>Complied with</p>

REPORT ON CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
g.	<p>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:</p> <ul style="list-style-type: none"> (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. 	<p>Complied with</p> <p>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.</p>
h.	<p>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</p>	<p>Complied with</p> <p>Of the 7 meetings held the during the year, the Committee met the external auditors at 5 meetings.</p> <p>On 2 occasions, the auditors met the Committee in the absence of the executive management.</p>
i.	<p>The Committee shall review the external auditor's management letter and the management's response thereto.</p>	<p>Complied with</p>
j.	<p>The Committee shall take the following steps with regard to the internal audit function of the finance company:</p> <ul style="list-style-type: none"> (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; 	<p>Complied with</p> <p>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.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
	<p>(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;</p> <p>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>(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;</p> <p>(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;</p>	<p>The Audit Plan for 2015/16 was tabled by the Head of Internal Audit and had been approved by the Board as recommended by the Audit Committee.</p> <p>An overall assessment of performance of the senior staff members and the Head of Internal Audit for the year 2015/16 has been carried out by the Committee.</p> <p>No such situation has arisen during the year.</p> <p>No such situation has arisen during the year.</p> <p>The Committee is satisfied that the internal audit function is performed with independence, impartiality and proficiency.</p> <p>The internal auditor reports direct to the Board Audit Committee.</p>
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 2 meetings with the external auditors in the absence of the Executive Directors and the management.

REPORT ON CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
m.	<p>The Committee shall have:</p> <ul style="list-style-type: none"> (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. 	<p>Complied with</p> <p>The Board approved Terms of Reference of the Audit Committee ensures that it has the authority for points i to iv as required by the direction.</p>
n.	<p>The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.</p>	<p>Complied with</p> <p>During the year 2015/16 the Committee has held 7 meetings and conclusions of such meetings have been recorded by the Company Secretary in the Minutes of the relevant meetings.</p>
o.	<p>The Board shall, in the Annual Report, disclose in an informative way,</p> <ul style="list-style-type: none"> (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. 	<p>Complied with</p> <p>Please refer report on page 97.</p>
p.	<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.</p>	<p>Complied with</p>
q.	<p>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.</p>	<p>Complied with</p> <p>A whistleblowing hotline has been publicised to all employees.</p> <p>The related policy is periodically reviewed and strengthened to cover the method of reporting any matters investigated to the Board Audit Committee.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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.	<p>Complied with</p> <p>The Integrated Risk Management Committee comprises: Dr. H Cabral, PC - Committee Chairman (Non-Executive Director), Mr. M D D Pieris - Advisor, Mr. A Nissanka - Executive Director/CEO, Mrs. S Wickremasekera - Chief Risk Officer, Mrs. S Kotakadeniya - Chief Financial Officer, Mr. J Kelegama - Chief Credit Risk Officer, Mr. R Perera - Group Treasurer, and Mr. C Dias - Chief Information Officer.</p>
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	<p>Complied with</p> <p>As delegated by the Committee under the headship of the Chief Risk Officer, the ERM Department assesses risks which have been identified by heads of divisions on a monthly basis and summarised and submitted to the quarterly Committee meetings.</p> <p>ERM has set up number of risk indicators and stress testing under different risk categories as follows.</p> <p>Liquidity Risk Operational Risk Strategic Risk Credit Risk Business Risk Profitability Risk</p> <p>The Company has no subsidiaries or associate companies at present.</p>

REPORT ON CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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	<p>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.</p> <p>Matters reported by the ALCO include :</p> <ul style="list-style-type: none"> Funding Gap analysed through Maturity Gap Analysis Foreign Currency Position Inter company Exposures Cost of funds Investments Borrowings <p>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.</p> <p>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.</p> <p>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.</p> <p>Going forward the Committee will also review the adequacy and effectiveness of the Credit Committee against its TOR/ Policies through periodic reports.</p> <p>The Company is in the process of strengthening this area.</p>
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.	<p>Complied with</p> <p>Decisions taken at Committee Meetings are followed up by the ERM team.</p> <p>All reported risks are constantly monitored and remedial corrective action is taken if an adverse movement of the risk is evident.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	<p>Complied with</p> <p>4 meetings were held during the financial year 2015/16.</p>
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.	<p>Complied with</p> <p>Specific risks and limits are identified by the IRMC and decisions are taken collectively.</p> <p>Moreover a formal documented disciplinary action procedure involving Internal Audit & HR is in place.</p>
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.	<p>The CRO submits a summary report to the Members of the Board 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. This function will be strengthened to meet the 7 days deadline.</p> <p>Further, approved Committee minutes are tabled at the subsequent Board meeting seeking the board's views and specific direction.</p>
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.	<p>Complied with</p> <p>A compliance unit has been established to carry out compliance responsibilities of the entity.</p> <p>A dedicated compliance officer in the capacity of a key management personnel has been appointed to head the compliance function.</p> <p>A monthly compliance sign-off is obtained from all business unit heads on regulatory requirements relating to their respective areas of responsibility.</p> <p>Compliance Officer reports on the status of compliance to the Board & the Integrated Risk Management Committee on a monthly & quarterly basis respectively.</p> <p>Monitoring compliance with internal controls and approved policies on all areas of business operations are carried out by the ERM division under the supervision of the CRO.</p>

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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
9	Related party transactions	
9.1	The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.	
9.2	<p>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:</p> <ul style="list-style-type: none"> 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. 	<p>9.2 to 9.4 Complied with</p> <p>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.</p> <p>Transactions with related parties are made with the sanction of the Board subject to such transactions being in the normal course of business.</p> <p>Further, Directors are individually requested to declare their transactions with the company at each Board meeting and in the annual declaration.</p> <p>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.</p>
9.3	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> 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. 	

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
9.4	<p>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:</p> <ul style="list-style-type: none"> 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 5 years or more. b) Charging of a lower rate of interest than the finance company’s best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty; c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extends beyond the terms granted in the normal course of business with unrelated parties; d) Providing or obtaining services to or from a related-party without a proper evaluation procedure; 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. 	<p>The Board has appointed a Related Party Transaction Review Committee comprising the following membership:</p> <p>Justice R K S Suresh Chandra – Senior Independent Director / Committee Chairman Dr. H Cabral – Non Executive Director Mr. W D K Jayawardena – Non Executive Director Mrs. K U Amarasinghe – Executive Director Mr. A Nissanka – Executive Director /CEO</p> <p>The Committee was formed in order to adhere to the Code of Best Practice on Related Party Transactions (RPTs) issued by the Securities & Exchange Commission of Sri Lanka under sections 13 (c) of the SEC Act No. 36 of 1987 (as amended). Under the said direction all public listed companies were required to adopt the code with effect from 1st January 2014 on a voluntary basis for an initial period of two years from the effective date.</p> <p>During the financial year, the Committee has held 4 meetings.</p> <p>The Company will further strengthen the favourable treatment monitoring mechanism by implementing an on-line system.</p>

REPORT ON CORPORATE GOVERNANCE

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance								
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.	<p>Complied with</p> <p>The financial statements are prepared in accordance with the new Sri Lanka Accounting Standards (SLFRSs/LKASs) and the formats prescribed by the regulators.</p> <p>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.</p>								
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.	<p>Complied with</p> <p>Please refer the Directors Report on pages 92 to 95.</p>								
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.	<p>Complied with</p> <p>Please refer the Directors Statement on Internal Controls Over Financial Reporting on page 96.</p>								
c.	The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31, 2010.	<p>Complied with</p> <p>The Company has obtained a certification from M/s Ernst & Young, Chartered Accountants on the effectiveness of the internal controls over financial reporting.</p>								
d.	Details of directors, including names, transactions with the finance company.	<p>Complied with</p> <p>Directors names and details are given in pages 10 to 13. Transactions with directors during the year are as follows.</p> <table><tr><td>Remuneration paid (Rs')</td><td>57,103,370</td></tr><tr><td>Accommodations granted (Rs')</td><td>-</td></tr><tr><td>Deposits with the Company (Rs')</td><td>138,425,124</td></tr><tr><td>Interest for the year (Rs')</td><td>1,660,911</td></tr></table>	Remuneration paid (Rs')	57,103,370	Accommodations granted (Rs')	-	Deposits with the Company (Rs')	138,425,124	Interest for the year (Rs')	1,660,911
Remuneration paid (Rs')	57,103,370									
Accommodations granted (Rs')	-									
Deposits with the Company (Rs')	138,425,124									
Interest for the year (Rs')	1,660,911									
e.	Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.	<p>Complied with</p> <p>Remuneration paid amounted to Rs. 57,103,370/-.</p>								

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance								
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 164 & 165 (note 32.2.2 & 32.3).								
g.	The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied with <table><tr><td>Remuneration paid (Rs')</td><td>68,341,180</td></tr><tr><td>Accommodations granted (Rs')</td><td>14,659,498</td></tr><tr><td>Deposits with the Company (Rs')</td><td>270,679,668</td></tr><tr><td>Interest for the year (Rs')</td><td>3,943,740</td></tr></table>	Remuneration paid (Rs')	68,341,180	Accommodations granted (Rs')	14,659,498	Deposits with the Company (Rs')	270,679,668	Interest for the year (Rs')	3,943,740
Remuneration paid (Rs')	68,341,180									
Accommodations granted (Rs')	14,659,498									
Deposits with the Company (Rs')	270,679,668									
Interest for the year (Rs')	3,943,740									
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 92 to 95.								
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 auditor's certification of the compliance with the Act and rules and directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011.	Complied with The Company has engaged the services of the external auditors to assess the company's level of compliance with the Finance Companies Corporate Governance Direction No. 03 of 2008 issued by the Monetary Board.								

REPORT ON 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, as explained below.
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 2016 the Board comprised 7 directors of whom 4 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 2016 the Board comprised 2 independent directors from whom signed declarations of independence were obtained.
7.10.3-4	Disclosures Relating to Directors Annual determination as to the independence or non independence of each non executive director.	Complied with The Board has reviewed and satisfied itself as to the independent/ non independent status of the non executive directors. Please refer directors profiles on pages 10 to 13.
7.10.5	Remuneration Committee Shall comprise of a minimum of two independent non executive directors or of non executive directors a majority of whom shall be independent, which ever shall be higher.	Complied with As at 31st March 2016 the Committee comprised 3 non executive directors, of whom 2 were independent. Please refer committee report on page 99.
7.10.6	Audit Committee Shall comprise of a minimum of two independent non executive directors or of non executive directors a majority of whom shall be independent, which ever shall be higher.	Complied with As at 31st March 2016 the Committee comprised 3 non executive directors, of whom 2 were independent. Please refer committee report on page 97.
9.2.2	Related Party Transactions Review Committee (voluntary compliance with effect from 1st January 2014) and mandatory compliance with effect from 1st January 2016.	Complied with On 26th February 2014 the Board appointed a Related Party Transaction Review Committee. As at 31st March 2016, the Committee comprised 1 Senior Independent Director who is the Committee Chairman, 2 non executive directors, and 2 executive directors. Please refer committee report on page 101.

MEMBER ATTENDANCE AT MEETINGS

Board Meetings

Name of the Director	IN	NI	EX	NEX	Date of appointment	Meeting Dates												Total 12
						29/04/2015	22/05/2015	24/06/2015	29/07/2015	12/08/2015	23/09/2015	28/10/2015	26/11/2015	16/12/2015	27/01/2016	26/02/2016	23/03/2016	
Mr. W D K Jayawardena		√		√	29.06.07	√	√	√	√	√	√	√	√	√	√	√	√	12
Mr. I C Nanayakkara			√		26.11.02	√*	√*	√*	√*	√*	√	√*	√	√	√*	-	-	10
Mrs. K U Amarasinghe			√		05.03.03	√	√	√	√	√	√*	√	√	√	√	-	-	10
Dr. H Cabral, PC		√		√	26.01.11	√	√	√	√	√	-	√	-	√	√	√	√	10
Mrs. D P Pieris	√			√	27.06.12	√*	√	√	√*	√*	√	√*	√	√	√	√	√	12
Justice R K S Suresh Chandra	√			√	25.07.12	√*	√*	√*	√*	√*	√	√	√	√	√*	√*	√	12
Mr. B C G de Zylva (resigned w.e.f. 30/09/2015)			√		05.03.03	√	√	√	√	√	√							06
Mr. A Nissanka			√		15.10.15							√	√	√	√	√	-	06

Audit Meetings

Name of the Director	Meeting Dates							Total 07
	22/05/2015	12/08/2015	23/09/2015	28/10/2015	26/11/2015	27/01/2016	26/02/2016	
Mr. W D K Jayawardena	√	√	√	√	√	√	√	07
Dr H Cabral, PC (stepped down from the AC w.e.f. 23/09/15)	√	√						02
Mrs. D P Pieris	√	√*	√	√*	√	√	-	06
Justice R K S Suresh Chandra (appointed to the AC w.e.f. 23/09/15)			√	√	√	√*	-	04
Mr. B C G de Zylva (resigned w.e.f. 30/09/2015)	√	√	√					03
Mr. A Nissanka (appointed w.e.f. 15/10/2015)				√	√	√	√	04
Mr. I Iqbal (Head of Finance)	√	√	√	√	√	√	√	07
Mr. M D D Pieris (Advisor)	√	√	√	√	√	√	√	07

REPORT ON CORPORATE GOVERNANCE

Integrated Risk Management Committee Meetings

Name of the Director	Meeting Dates				Total 04
	29/04/2015	29/07/2015	28/10/2015	26/02/2016	
Dr. H Cabral, PC	√	√	√	√	04
Mr. M D D Pieris (Advisor)	√	√	√	√	04
Mr. B C G de Zylva (resigned w.e.f. 30/09/2015)	√	√			02
Mr. A Nissanka (appointed w.e.f. 15/10/2015)			√	√	02

Related Party Transactions Review Committee Meetings

Name of the Director	Meeting Dates				Total 04
	22/05/2015	12/08/2015	26/11/2015	27/01/2016	
Justice R K S Suresh Chandra (appointed to the RPTRC w.e.f. 23/09/15)			√	√*	02
Dr. H Cabral, PC	√	√	-	√	03
Mr. W D K Jayawardena	√	√	√	√	04
Mrs. K U Amarasinghe	√	√	√	√	04
Mr. B C G de Zylva (resigned w.e.f. 30/09/2015)	√	√			02
Mr. A Nissanka (appointed w.e.f. 15/10/2015)			√	√	02

Nomination Committee Meetings

Name of the Director	Meeting Dates		Total 02
	23/09/2015	23/03/2016	
Justice R K S Suresh Chandra (appointed to the NC w.e.f. 23/09/15)	√	√	02
Dr H Cabral, PC	-	√	01
Mr. I C Nanayakkara	√	-	01
Mr. M D D Pieris (Advisor)	√	√	02

*Present by Alternate

ENTERPRISE RISK MANAGEMENT

Transforming capacities in to synergies

Risk Management at LOLC is a group level centralized function. The risk governance structures adopted for each entity is structured in such a way so as to retain uniformity among entities thus enabling us to replicate all risk management processes across any entity in a seamless manner. This strategy allows us to transfer our skills, knowledge and capabilities within least possible lead time. This as a result, optimizes our resource utilization.

Risk Management is an organization wide effort and the board of management drives the risk governance effort via the Integrated Risk Management Committee and the Audit Committee. The functions of the Enterprise Risk Management department are centralized at the holding company level with risk officers

appointed for each of the main companies in the group to coordinate risk management processes and efforts.

Risk Governance structures implemented at LOLC Finance is a combination of Risk Management, Internal Audit and IS audit functions which forms the Enterprise Risk Management department while the Compliance department is segregated. The Audit function and the Risk Management function work in cohesion to derive the best possible synergies which are on offer. The Risk Management function identifies possible risks which could impede the achievement of our organizational level and operational level objectives to advise the management of possible risk mitigation strategies. The effectiveness of the internal controls implemented by the management to ensure

that risks are managed within tolerable levels are reviewed by the internal audit to provide management with a reasonable assurance that the internal control frame work functions consistently as intended. Both functions draw heavily from the expertise of each other and exchange risk and internal audit related information in an effort to optimize Risk Mitigation strategies. Enterprise Risk Management department retains its total independence via the reporting line established to the Chairman of the Board, thus allowing them to express their opinion without any bias or influence. This is vital for good decision making and critical evaluation of its strategies to identify potential risks and conduct rectification of the same on time.

to the operational level employees. With our vision in risk management "Building an organizational Culture where Protection, Assurance, Reliability, Accountability, Transparency and Confidentiality are treasured and lasting values, we always believe in empowering employees to evaluate every action and decision taken within their scope of duty with a conscious assessment of risk. Enterprise Risk Management department believes that more the employees are aware and knowledgeable on risks the higher their ability would be to make the correct response. So with a view of enriching and enhancing the employees' perspective on risk, the Enterprise Risk Management department has



Enterprise Risk Management at LOLC Finance is an organizational level process, where responsibility which cascades down from the board of management

plans to conduct structured training in co-ordination with the human resource function targeting staff engaged in critical operational activities in the organization.

ENTERPRISE RISK MANAGEMENT

The complexities and the ground realities have necessitated transforming from the traditional approaches to risk management and auditing in to more dynamic and innovative methodologies. Therefore the audit strategy of centralized annual audits were transformed in to a hybrid system between the traditional annual audits and continuous field based audits. (Audit strategy takes a more aggressive approach with obtaining an all clear sign off from the auditee on rectifications and implemented controls and random follow up audits scheduled to be executed with in the next financial year). The data analytics techniques were introduced for auditing purposes which had transformed the reach of the auditors from a sample based to the review of the entire audit universe where ever appropriate. We expect the full potential of this capability to be realized within the next financial year.

Connectivity to inclusiveness

The information network whether system based or more a traditional flow of information is vital to both auditing function and risk management function. We are constantly enhancing our technical capabilities as well as the network of information sources. With the expansion of operations it has necessitated

that the presence of audit is felt more at the tactical level. The field based auditors are located in six regions and this move has increased our reach tremendously and put most of the branches within the reach of the audit team as and when required. The field based reviews are done in addition to the annual branch audits carried out. The data analytics give us more in depth knowledge on the information reviewed and allow us to identify and detect anomalies in a much faster and accurate manner.

The ERM team plays a consultative role in major process design initiatives and product formulation initiatives thus ensuring that the internal, control aspects are given due recognition. The same approach is adopted for ICT developments where the IS audit team does knowledge sharing on control aspects. The introduction of data analytics capabilities was successful and constant use of this capability is envisaged in the next financial year.

Correct information at the right time is vital to both risk management and audit functions. In addition to improving on the data capture mechanisms from the existing business information systems we have established other lines of communications

with various stakeholders. The whistle blower hotline is available for employees to report any irregularity while the customer feedback line is made available for customers to bring to our notice any matter which needs the attention of the management. Both these communication lines are operated by ERM. Any information provided via these methods are treated confidentially and are followed up until resolution. All risk owners and sources have a compulsory reporting line to ERM where all identifiable risks need to be communicated to Enterprise Risk Management department on a monthly basis.

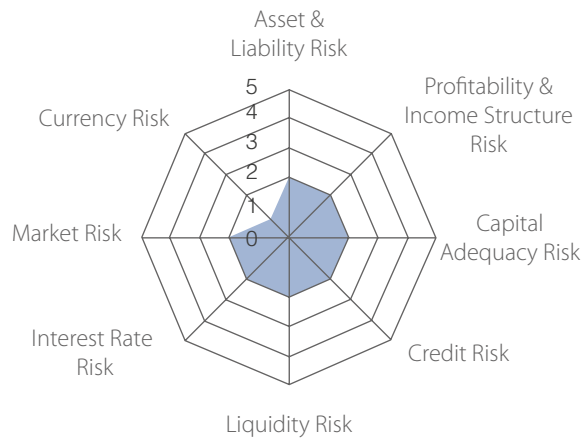
The risk management function draws information from sources, both internal and external. They appraise the management of the potential risks arising and recommend actions for the mitigation, avoidance or capitalizing on the opportunities that arise. The risks identified and addressed are constantly monitored and any adverse movement of such risk indicators are highlighted for appropriate action at risk reports submitted monthly to the board as well as in quarterly to integrated Risk Management Committee meetings. The identified risk parameters need to be monitored constantly and consistently. Therefore we improve our risk information system capabilities continuously.

Consolidation to Growth

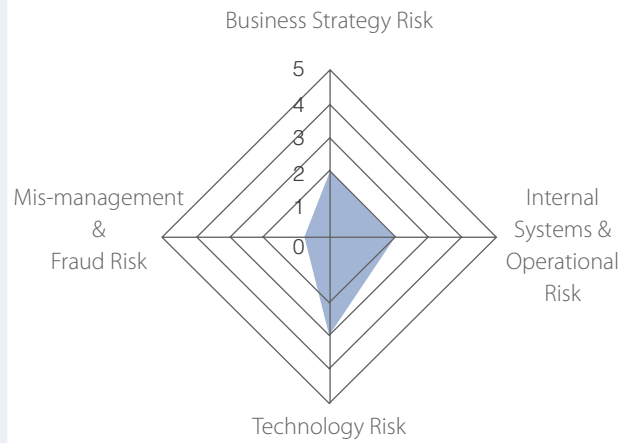
Continuous quality improvement is key to the success of any initiative and we are well aware of the need to fine tune the knowledge, skills and capabilities of our risk management and audit team. Both internal and external training facilities are used for this purpose and the value it adds to the process is immense. An Internal quality management system and mechanism is now well established and this ensures that all reporting done by the Enterprise Risk Management team undergo a stringent quality assurance process to ensure uniformity and consistency of its reporting.

A shift in the audits towards continues reviews are expected within the next financial year and enhanced interactions with the customers too are planned as this enables us to obtain first hand information on the effectiveness of the internal control structure of our delivery channels. The automation of risk monitoring allows our risk management team to focus more on analysis forecasting and prediction of risk indicators' behaviour and we expect enhanced technical aspects in risk reporting in the next financial year. The consolidation of the initiatives we have so far undertaken is essential for us to elevate our capabilities and the potential to the next level as the risk management process matures.

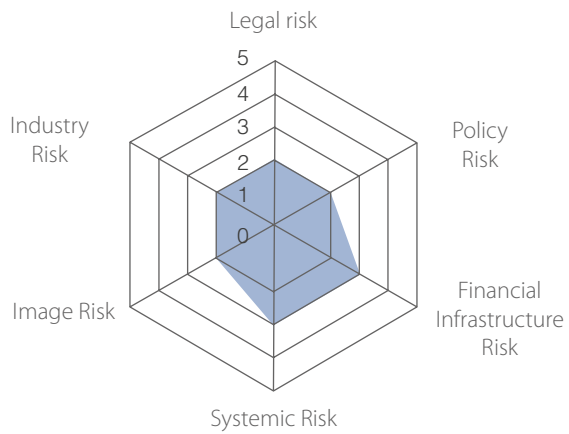
Financial Risks



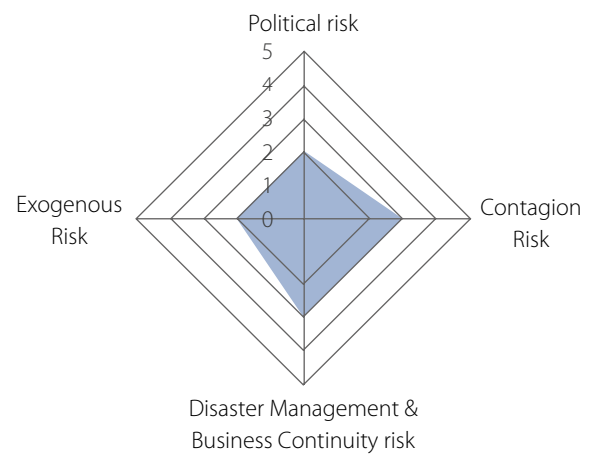
Operational Risks



Business Risks



Event Risk



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 2016.

Principal Activities and Nature of Operations

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

Directorate

The Directors during the year under review were as follows:

1. Mr. W D K Jayawardena	Chairman - Non Executive Director
2. Mr. I C Nanayakkara	Deputy Chairman - Executive Director (alternate to Mrs. K U Amarasinghe)
3. Mrs. K U Amarasinghe	Executive Director (alternate to Mr. I C Nanayakkara)
4. Dr. H Cabral, PC	Non Executive Director
5. Mrs. D P Pieris	Non Executive Independent Director (alternate to Justice R K S Suresh Chandra)
6. Justice R K S Suresh Chandra	Senior Independent Director (alternate to Mrs. D P Pieris)
7. Mr. B C G de Zylva (Resigned with effect from 30th September 2015)	Managing Director
8. Mr. A Nissanka (Appointed with effect from 15th October 2015)	Executive Director /CEO

Mr. Brindley de Zylva relinquished his duties as Managing Director/CEO with effect from 30th September 2015 as he had been nominated by Lanka ORIX Leasing Co PLC to take up overseas assignments in LOLC Cambodia PLC and LOLC Myanmar Microfinance Company Limited. The Board wishes to thank Mr de Zylva for his contribution to the growth and progress of the Company.

The Board welcomes Mr. Ashan Nissanka, who was appointed as Executive Director/CEO with effect from 15th October 2015.

In accordance with the Direction on Corporate Governance issued by the Central Bank of Sri Lanka, on completing 9 years of service Mr Kapila Jayawardena will relinquish duties as Chairman on 29th June 2016.

Recommendations for Re-Election of Directors

Mr. A Nissanka who was appointed during the year, retires in terms of Article 70 of the Articles of Association of the Company and being eligible offer himself for re-election. The Board recommends his re-election.

In terms of Article 75 of the Articles of Association of the Company Justice R K S Suresh Chandra retire by rotation and being eligible seek re-election as director. The Board recommends his 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 included on page 95.

Directors' remuneration

The Company paid Rs. 57,103,370 as Directors' remuneration for the financial year ended 31st March 2016.

Directors' Shareholding

Directors Name	As at 31.03.2016	As At 31.03.2015
1. Mr. W D K Jayawardena	Nil	Nil
2. Mr. I C Nanayakkara	Nil	Nil
3. Mrs. K U Amarasinghe	Nil	Nil
4. Dr. H Cabral, PC	Nil	Nil
5. Mrs. D P Pieris	1,000,000	1,000,000
6. Justice R K S Suresh Chandra	Nil	Nil
7. Mr. A Nissanka	1,300,800	1,300,800

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 to 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
Nomination Committee
Related Party Transaction Review Committee

The reports of these Committees can be found on pages 97 to 101.

Shari'ah Supervisory Board

As the Company offers Islamic Financial Services, the Board is conscious of the periodic Shari'ah Audit reports submitted by the installed dedicated Shari'ah Supervisory Board (SSB). This provides comfort to customers of the Al-Falaah Islamic Business Unit and further strengthening the Board's control. Two of the three member Shari'ah Supervisory Board are key office bearing members of All Ceylon Jamiyyathul Ulama (ACJU) and are based in Sri Lanka. The remaining member is an internationally acclaimed shari'ah scholar based in South Africa.

The rapid growth of the Islamic Banking unit in the recent past paved way to relocate the front-line operations of this SBU to Darley Road under a flag-ship stand-alone Corporate Office, together with a Corporate Branch linked to the City Office, located at 481, T.B Jayah Mawatha Colombo 10. A timely move that will allow the Al-Falaah to forge its own identity as an emerging force in Sri Lanka's specialty banking space. In addition to this flagship corporate branch, a second corporate center was launched in Kandy, affiliated to the main LOLC branch. This brings Al-Falaah's island-wide stand-alone network to 7, inclusive of the centers located in Akkaraipattu, Kalmunai, Kattankudi, Oddamavadi & Akurana together with Al-Falaah services offered through the standard LOLC channel network of over 120 locations..

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

The financial statements and the auditors report are given on pages 105 to 167.

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 115 to 127.

Corporate Governance

LOLC Finance 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 LOLC Finance ensures adherence with the above requirements has been disclosed on pages 57 to 88.

Transactions with related parties

Details of related party transactions are disclosed in the Financial Statements on pages 164 to 165.

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 2016/2017 at a fee to be decided by the Board.

The auditors remuneration for the year ended 31st March 2016 is disclosed under note 25 to the financial statements on page 157.

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.

REPORT OF THE BOARD OF DIRECTORS

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.

Shareholding

The stated capital of the Company is Rs. 2,000,000,000/- divided into 2,800,000,000 shares.

Events after the reporting date

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

Change of Company Name

With the consent of the Central Bank of Sri Lanka and the shareholders, the Company's name was changed from 'Lanka ORIX Finance PLC' to 'LOLC Finance PLC' with effect from 31st August 2015.

Annual General Meeting

The Annual General Meeting of the Company will be held on 06th September 2016 at 10.30 am at the LOLC Auditorium, 100/1, Sri Jayewardanepura Mawatha, Rajagiriya. Should you be unable to attend, please complete the proxy form in the manner instructed therein and return it to the Company.

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



A Nissanka
Director/ CEO



W D K Jayawardena
Chairman

Rajagiriya
27th May 2016

Directorships held by the Directors

Mr. W D K Jayawardena	Chairman: LOLC Securities Ltd LOLC Finance PLC Eden Hotel Lanka PLC LOLC General Insurance Limited Palm Garden Hotels PLC Managing Director/ Group CEO: Lanka ORIX Leasing Company PLC Director: LOLC Micro Credit Limited Commercial Leasing & Finance PLC Brown & Company PLC Browns Investments PLC Riverina Resorts (Pvt) Ltd BRAC Lanka Finance PLC Seylan Bank PLC Pussellawa Plantation Limited Browns Capital PLC Browns Hydro Power PLC F L M C Plantations (Pvt) Ltd LOLC International (Pvt) Ltd	Mrs. K U Amarasinghe	Director: Commercial Leasing & Finance PLC LOLC Finance PLC Lanka ORIX Leasing Company PLC LOLC Life Assurance Limited LOLC Micro Credit Limited Eden Hotel Lanka PLC Palm Garden Hotels PLC Brown & Company PLC Browns Investments PLC Riverina Resorts (Pvt) Ltd Browns Hydro Power PLC Browns Capital PLC Pussellawa Plantations Ltd Melfort Green Teas (Private) Ltd FLMC Plantations (Pvt) Ltd
Mr. I C Nanayakkara	Chairman: Commercial Leasing & Finance PLC Brown & Company PLC LOLC Micro Credit Limited Browns Investments PLC BRAC Lanka Finance PLC Browns Capital PLC Browns Hydro Power PLC LOLC Life Assurance Limited Deputy Chairman: Lanka ORIX Leasing Company PLC LOLC Finance PLC Seylan Bank PLC Director: PRASAC Micro Finance Institute Sierra Constructions Limited Agstar Fertilizers PLC LOLC Myanmar Microfinance Co. Ltd Associated Battery Manufacturers (Ceylon) Ltd F L M C Plantations (Pvt) Ltd Pussellawa Plantations Ltd LOLC International (Pvt) Ltd Sagasolar Power (Pvt) Ltd	Dr. Harsha Cabral, PC	Chairman: Tokyo Cement Company (Lanka) PLC Tokyo Super Cement Co (Pvt) Ltd Tokyo Cement Power Co. Ltd Tokyo Eastern Cement Company Ltd Tokyo Super Aggregate (Pvt) Ltd Director: Diesel & Motor Engineering PLC (DIMO) Richard Pieris & Co. Distributors Ltd Hayleys PLC LOLC Finance PLC Alumex PLC Browns Investments PLC LOLC Life Assurance Limited
		Mrs. D P Pieris	Chairman: 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
		Justice R K S Suresh Chandra	Director: LOLC Finance PLC
		Mr. A Nissanka	Director/ CEO: LOLC Finance PLC

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

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

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

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting. The process is regularly reviewed by the Board.

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

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company is continuously improving the processes and procedures in line with the industry best practices and regulatory reporting requirements. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of design and effectiveness on an on-going basis.

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. The matters addressed by the External Auditor's in this respect, will be taken in to consideration & appropriate steps will be taken to incorporate same, where applicable.

By order of the Board



W D K Jayawardena
Chairman



Ashan Nissanka
Director / CEO

27th May 2016

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 three Non-Executive Directors, two of whom are independent, and one advisor.

Mr. W D K Jayawardena	Committee Chairman (Non Executive Director)
Justice R K S Suresh Chandra	Senior Independent Director
Mrs. D P Pieris	Independent Non Executive Director
Mr. M D D Pieris	Adviser

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 Charter was last reviewed and revised by the Board in February 2014. The Audit Committee Chairman counts over thirty three years' experience in Banking, Financial Management and Corporate Management and holds a Master's degree in Business Administration, from the American University of Asia. He is a Fellow member of the Institute of Bankers and an Associate of the Institute of Cost and Executive Accountants, London.

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

During the year under review the Committee reviewed interim and annual financial statements prior to publication, checking and recommending changes in accounting policies, significant

estimates and judgments made by the management, compliance with relevant accounting standards/regulatory requirements, and issues arising from internal and external audit.

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

The Committee addressed the external auditors findings reported in the Management Letter relating to the previous financial year's (2014/15) audit.

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

Meetings

The Committee meets quarterly and additional meetings are held as and when a need arises. 07 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 were present at these meetings. Minutes of such meetings which include details of matters discussed are reported regularly at Board meetings. The audit partner was invited to attend 05 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.



W D K Jayawardena

Chairman

Audit Committee

Rajagiriya

27th May 2016

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:

Dr. H Cabral, PC	Committee Chairman (Non Executive Director)
Mr. M D D Pieris	Senior Adviser
Mr. A Nissanka	Executive Director/CEO
Mrs. S Wickremasekera	Chief Risk Officer
Mrs. S Kotakadeniya	Chief Financial Officer
Mr. J Kelegama	Chief Credit Officer
Mr. R Perera	Group Treasurer
Mr. C Dias	Chief Information Officer

Terms of Reference

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

Activities of the Committee

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

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

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

Meetings

During the year the Committee met 4 times on a quarterly basis. The attendance of members at meetings is stated on page 88.



Dr. H Cabral, PC

Chairman

Integrated Risk Management Committee

Rajagiriya

27th May 2016

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 three Non-Executive Directors, of whom two are independent.

Mr. W D K Jayawardena	Committee Chairman/Non Executive Director
Justice R K S Suresh Chandra	Senior Independent Director
Mrs. D P Pieris	Independent Non Executive Director

Terms of Reference

The Remuneration Committee is governed by its 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 of the Committee meets the requirements set out in the Listing Rules of the Colombo Stock Exchange.

Activities of the Committee

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

All independent directors receive a fee for attending board meetings and committee meetings. They do not receive any performance or incentive payments. Directors' emoluments have been disclosed on page 92.

Meetings

There were no Remuneration Committee meetings held during the year under review.



W D K Jayawardena

Chairman

Remuneration Committee

Rajagiriya

27th May 2016

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 nominate members to its sub committees to effectively discharge their duties and responsibilities. The Committee comprises the following membership:

Justice R K S Suresh Chandra	Committee Chairman/ Senior Independent Director
Dr. H Cabral, PC	Non Executive Director
Mr. I C Nanayakkara	Executive Director
Mr. M D D Pieris	Adviser

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 & minutes of meetings and activities of the Committee; perform any other activities consistent with this Charter, and the scope of the Nomination Committee or as deemed necessary and appropriate by the Committee and the Board.

Activities of the Committee

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

Meetings

02 Committee meetings were 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.



Justice R K S Suresh Chandra

Chairman

Nomination Committee

Rajagiriya

27th May 2016

REPORT OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE

Composition

On 26th February 2014 the Board appointed a Related Party Transaction Review Committee in order to adhere to the Code of Best Practice on Related Party Transactions (RPTs) issued by the Securities & Exchange Commission of Sri Lanka under sections 13 (c) of the SEC Act No. 36 of 1987 (as amended). Under the said direction all public listed companies were required to adopt the code with effect from 1st January 2014 on a voluntary basis for an initial period of two years from the effective date. The Committee comprises the following membership:

Justice R K S Suresh Chandra	Committee Chairman/ Senior Independent Director
Dr. H Cabral, PC	Non Executive Director
Mr. W D K Jayawardena	Non Executive Director
Mrs. K U Amarasinghe	Executive Director
Mr. A Nissanka	Executive Director/CEO

Terms of Reference

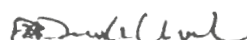
On behalf of the Board, the Committee ensures that all Related Party Transactions of the Company are consistent with the Code of Best Practice on Related Party Transactions issued by the SEC.

Activities of the Committee

During the year under review, the Committee reviewed the transactions entered into between related parties and was satisfied that such transactions had been carried out at arm's length in the normal course of business.

Meetings

04 Committee meetings were held during the year. The attendance of members at meetings is stated on page 88.



Justice R K S Suresh Chandra

Chairman

Related Party Transaction Review Committee

Rajagiriya

27th May 2016

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The financial statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the institute of Chartered 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 2016, together with the comparative period data as at and for the year ended 31 March 2015, as described in the accounting policies.

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

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

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

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

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



Ms. Sunjeevani Kotakadeniya
Chief Financial Officer - LOLC Group



Ashan Nissanka
Director/Chief Executive Officer

27th May 2016

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors confirm that the Company's financial statements for the year ended 31st March 2016, 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 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended and notes thereto.

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

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

The External Auditors, Messrs Ernst & Young, were provided with the opportunity to make appropriate inspections of financial records, minutes and other documents to enable them to form an opinion of the financial statements. The Report of the Auditors is set out on page 105.



Ashan Nissanka

Director/Chief Executive Officer

27th May 2016

FINANCIAL CALENDAR

Financial Calendar 2015/16

1st Quarter Results 2015/16 released on	13 August 2015
2nd Quarter Results 2015/16 released on	02 November 2015
3rd Quarter Results 2015/16 released on	02 February 2016
4th Quarter Results 2015/16 released on	30 May 2016
Annual Report for 2015/16 released on	10 June 2016
15th Annual General Meeting on	29 June 2016

Proposed Financial Calendar 2016/17

1st Quarter Results 2016/17 will be released on	15 August 2016
2nd Quarter Results 2016/17 will be released on	15 November 2016
3rd Quarter Results 2016/17 will be released on	15 February 2017
4th Quarter Results 2016/17 released on	30 May 2017
16th Annual General Meeting in	29 June 2017

INDEPENDENT AUDITORS' REPORT



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

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

APAG/DLH/

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LOLC FINANCE PLC Report on the Financial Statements

We have audited the accompanying financial statements of LOLC Finance PLC (Formerly known as Lanka ORIX Finance PLC) ("the Company"), which comprise the statement of financial position as at 31 March 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. (set out on pages 106 to 167).

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion, scope and limitations of the audit are as stated above.
- b) In our opinion:
 - 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, and
 - the financial statements of the Company comply with the requirements of section 151 of the Companies Act No. 07 of 2007.

27 May 2016
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

A member firm of Ernst & Young Global Limited

STATEMENT OF FINANCIAL POSITION

As at 31 March 2016

	Note	2016 Rs.	2015 Rs.
ASSETS			
Cash and bank balances	29.1	3,497,994,396	2,975,305,230
Deposits with banks and other financial institutions		10,206,770,924	761,095,291
Investment in government securities	3	8,397,496,235	5,900,717,853
Derivative assets	4.1	98,163,191	2,740,000
Rentals receivable on leased assets	5	17,243,862,077	13,150,375,843
Hire purchases, loans and advances	6	53,335,175,248	36,647,328,869
Factoring receivable	6.4	13,598,600,891	6,200,201,741
Margin trading receivables	6.5	85,597,164	293,711,960
Other receivables	7	694,055,473	639,352,319
Investment securities	8	1,083,470,844	8,843,275
Amount due from related companies	9	3,271,183	2,882,510
Investment properties	10	930,200,000	1,142,800,000
Property plant and equipment	11	1,210,407,229	136,544,681
Total assets		110,385,064,854	67,861,899,570
LIABILITIES			
Bank overdraft	29.2	1,941,608,486	2,333,062,400
Interest bearing borrowings	12	35,070,151,714	11,040,027,979
Deposits from customers	13	60,197,200,894	41,309,960,471
Trade payables	14	637,849,803	645,905,072
Accruals and other payables	15	1,018,602,831	822,440,615
Derivative liabilities	4.2	17,859,000	57,514,900
Amount due to related companies	16	996,780,809	2,453,097,016
Current tax payable	27.1	309,887,595	434,425,679
Deferred tax liability	27.2	984,741,078	761,419,624
Employee benefits	17.2	12,248,571	10,450,090
Total liabilities		101,186,930,781	59,868,303,846

As at 31 March 2016

	Note	2016 Rs.	2015 Rs.
SHAREHOLDER'S FUNDS			
Stated capital	18	2,000,000,000	2,000,000,000
Statutory reserve	19.1	1,239,075,154	953,676,506
Investment fund reserve	19.2	-	-
Cash flow hedge reserve	19.3	22,747,657	-
Available for sale investment reserve	19.4	(160,153,753)	86,036,783
Retained earnings	19.5	6,096,465,015	4,953,882,436
Total equity		9,198,134,073	7,993,595,724
Total liabilities and equity		110,385,064,854	67,861,899,570

I certify that these financial statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

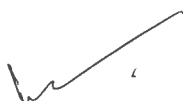


Mrs. S.S. Kotakadeniya

Chief Financial Officer-LOLC Group

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board by:



W.D.K. Jayawardena

Chairman



A. Nissanka

Director / CEO

The annexed notes to the financial statements on pages 112 through 167 form an integral part of these financial statements.

27th May 2016

Rajagiriya (Greater Colombo)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2016

		2016	2015
	Note	Rs.	Rs.
Interest income	20	13,137,597,016	10,871,226,902
Interest expense	21	(6,499,474,559)	(4,978,311,703)
Net interest income		6,638,122,457	5,892,915,199
Net other operating income	22	1,245,508,882	1,269,830,788
Direct expenses excluding interest cost	23	(911,716,942)	(428,891,690)
Allowance for impairment & write-offs	24	(1,568,576,077)	(1,497,302,317)
Personnel expenses	25.1	(1,100,549,812)	(897,363,959)
Depreciation		(32,717,251)	(12,166,033)
General & administration expenses		(1,974,524,385)	(1,860,446,851)
Profit from operations	25	2,295,546,872	2,466,575,137
Value added tax on financial services		(275,890,844)	(240,226,291)
Profit before tax		2,019,656,028	2,226,348,846
Income tax expense	27	(592,662,785)	(742,766,624)
Profit for the year		1,426,993,242	1,483,582,221
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability - gain / (loss)	17.2	1,372,202	(278,131)
Related tax	27.2	(384,217)	77,877
		987,985	(200,254)
Items that are or may be reclassified to profit or loss			
Available-for-sale financial assets :			
Net change in fair value	3.3	(246,190,536)	(23,755,959)
Gain / (loss) on cash flow hedges	19.3	34,156,257	-
Related tax	27.2	(11,408,600)	-
		(223,442,879)	(23,755,959)
Total other comprehensive income, net of tax		(222,454,894)	(23,956,213)
Total comprehensive income for the year		1,204,538,349	1,459,626,008
Basic earnings per share	28.1	0.51	0.53

The annexed notes to the financial statements on pages 112 through 167 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2016

		Stated Capital	Statutory Reserve	Investment Fund Reserve	Cash flow Hedge Reserve	Available for Sale Investment Reserve	Retained Earnings	Total Equity
	Note	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1 April 2014		2,000,000,000	879,497,395	391,850,336	-	109,792,742	3,152,829,244	6,533,969,716
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	1,483,582,221	1,483,582,221
Other comprehensive income, net of income tax								
Net change in fair value	3.3	-	-	-	-	(23,755,959)	-	(23,755,959)
Remeasurement of defined benefit liability - gain / (loss)	17.2/27.2	-	-	-	-	-	(200,254)	(200,254)
		-	-	-	-	(23,755,959)	(200,254)	(23,956,213)
Total comprehensive income for the year		-	-	-	-	(23,755,959)	1,483,381,967	1,459,626,008
Transactions recorded directly in equity								
Transfer to Investment Fund Reserve		-	-	32,935,748	-	-	(32,935,748)	-
Transferred to retained earnings during the year		-	-	(424,786,084)	-	-	424,786,084	-
Transfer to Statutory Reserve Fund		-	74,179,111	-	-	-	(74,179,111)	-
Total transactions recorded directly in equity		-	74,179,111	(391,850,336)	-	-	317,671,225	-
Balance as at 31 March 2015		2,000,000,000	953,676,506	-	-	86,036,783	4,953,882,436	7,993,595,724
Balance as at 1 April 2015		2,000,000,000	953,676,506	-	-	86,036,783	4,953,882,436	7,993,595,724
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	1,426,993,242	1,426,993,242
Other comprehensive income, net of income tax								
Net change in fair value	3.3	-	-	-	-	(246,190,536)	-	(246,190,536)
Remeasurement of defined benefit liability - gain / (loss)	17.2/27.2	-	-	-	-	-	987,985	987,985
Net movement of cashflow hedges	19.3	-	-	-	22,747,657	-	-	22,747,657
		-	-	-	22,747,657	(246,190,536)	987,985	(22,454,894)
Total comprehensive income for the year		-	-	-	22,747,657	(246,190,536)	1,427,981,228	1,204,538,349
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	285,398,648	-	-	-	(285,398,648)	-
Total transactions recorded directly in equity		-	285,398,648	-	-	-	(285,398,648)	-
Balance as at 31 March 2016		2,000,000,000	1,239,075,154	-	22,747,657	(160,153,753)	6,096,465,015	9,198,134,073

The annexed notes to the financial statements on pages 112 through 167 form an integral part of these financial statements.

CASH FLOW STATEMENT

Year ended 31 March 2016

		2016	2015
	Note	Rs.	Rs.
Cash flows from / (used in) operating activities			
Profit before income tax expense		2,019,656,028	2,226,348,846
Adjustments for:			
Depreciation	11	32,717,251	12,166,033
(Profit)/Loss on Sales of Investment property		32,315,560	-
Change in fair value of derivatives - forward contracts	4.3	(94,334,091)	60,242,400
Provision for fall / (increase) in value of investments	8.1	(8,502,569)	200,000
Impairment provision for the period	24	907,112,179	631,168,807
Provision for payables to clients	22	9,539,899	16,017,150
Change in fair value of investment property	10	(29,070,709)	(139,964,690)
Provision for defined benefit plans	17.2.a	3,651,323	3,126,017
Investment income		(593,897,130)	(611,873,253)
Finance costs	21	6,499,474,559	4,978,311,703
Operating profit before working capital changes		8,778,662,300	7,175,743,013
Change in other receivables		(37,911,218)	92,623,598
Change in inventories		-	12,080,000
Change in trade and other payables		178,567,046	629,027,885
Change in amounts due to/ due from related parties		(1,456,704,880)	1,806,834,413
Change in factoring receivables		(8,134,078,179)	(2,955,425,790)
Change in lease receivables		(4,038,795,335)	(1,905,624,582)
Change in hire purchase, loans and advances		(16,930,762,363)	(8,699,282,677)
Change in margin trading advances		208,114,796	(32,688,227)
Change in fixed deposits from customers		17,776,408,584	(1,592,806,882)
Change in savings deposits from customers		307,446,704	61,342,947
Cash used in operations		(3,349,052,545)	(5,408,176,302)
Finance cost paid on deposits		(3,936,071,366)	(4,269,028,902)
Gratuity paid	17.2	(480,640)	(962,473)
Income tax paid	27.1	(505,672,232)	(378,278,815)
Net cash used in operating activities		(7,791,276,783)	(10,056,446,492)

Year ended 31 March 2016

	Note	2016 Rs.	2015 Rs.
Cash flows from / (used in) investing activities			
Acquisition of Property, Plant & Equipment & Investment property		(428,734,621)	-
Net proceeds from investments in term deposits		(9,445,675,633)	(294,618,937)
Net proceeds from investments in government securities		(2,742,968,918)	(987,651,691)
Interest received		593,897,130	611,873,253
Proceeds from sale of investment property		209,715,250	-
Investments in companies		(66,125,000)	-
Investments in Unit trust		(1,000,000,000)	-
Net cash flows used in investing activities		(12,879,891,792)	(670,397,375)
Cash flows from / (used in) financing activities			
Net proceeds from interest bearing loans & borrowings		23,292,962,000	4,756,448,137
Proceeds from issue of debentures		-	5,000,000,000
Lease rentals paid		(111,557,233)	(54,189,936)
Finance cost paid on borrowings		(1,596,093,112)	(433,388,020)
Net cash flows from financing activities		21,585,311,655	9,268,870,181
Net increase / (decrease) in cash and cash equivalents		914,143,080	(1,457,973,690)
Cash and cash equivalents at the beginning of the period		642,242,830	2,100,216,520
Cash and cash equivalents at the end of the period (note 29)		1,556,385,910	642,242,830

The annexed notes to the financial statements on pages 112 through 167 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 (formerly known as Lanka ORIX Finance PLC) ("the Company") is a quoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The registered office of the Company is at No.100/1, Sri Jayewardenepura Mawatha, Rajagiriya.

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

1.1.2 Parent entity and Ultimate Parent Company

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

1.1.3 Principal Activities and Nature of Operations

The principal activities of the Company comprised of leasing, hire purchase, margin trading, loans, property development, mobilization 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 2016 was 771 (2015– 642).

1.2 Basis of Preparation

1.2.1 Statement of compliance

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLAS) prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri

Lanka (ICASL) and comply with the requirements of the Companies Act, No. 7 of 2007, the Regulation of Finance Business Act No.42 of 2011 and the listing rules of the Colombo Stock Exchange.

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 utilize 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 authorization for issue

The Financial Statements were authorized for issue by the Board of Directors on 27th May 2016.

1.2.3 Basis of measurement

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

Items	Measurement basis	Note No.
Derivative financial instruments	Fair value	4
Non-derivative financial instruments at fair value through profit or loss	Fair value	8.1
Available for sale financial assets	Fair value	3.2
Investment property	Fair value	10
Net defined benefit assets / (liabilities)	Actuarially valued and recognized at the present value	17.2

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

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

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

1.2.4 Materiality and aggregation

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

1.2.5 Going concern

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

1.2.6 Comparative information

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

1.3 Functional and Presentation Currency

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

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

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

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

1.4 Significant Accounting Judgments, Estimates and Assumptions

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

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

Estimate and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 recognized in the Financial Statements are included in the following notes:

Critical Accounting estimate / judgment	Disclosure reference Note
Fair value measurement of financial instruments and investment properties	1.4.1 / 10.1
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

NOTES TO THE FINANCIAL STATEMENTS

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, are 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 categorized 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 categorized 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 recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

Note 10 – Investment property; and

Note 2.2 & 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 2.2.1.c. 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 until their maturity date as required by Note 2.2.1.c.

1.4.3 Impairment losses on loans and advances

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

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, by categorizing 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 2.2.9.

1.4.4 Impairment losses on available for sale investments

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether

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

The impairment loss on available for sale investments is disclosed in Note 2.2.9.

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 2.6.

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 2.7.3 and 17.2.c 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	Foreign currency
2.2	Financial assets and financial liabilities
2.3	Leases
2.4	Investment property
2.5	Property plant and equipment
2.6	Impairment - non-financial assets
2.7	Employee benefits
2.8	Provisions
2.9	Equity movements
2.10	Capital commitments and contingencies
2.11	Events occurring after the reporting date
2.12	Interest income and interest expense
2.13	Fees, commission and other income
2.14	Dividends
2.15	Expenditure recognition
2.16	Income tax expense
2.17	Earnings per share
2.18	Cash flow statements
2.19	Related party transactions
2.20	Operating segments
2.21	Fair value measurement
2.22	New accounting standards issued but not effective as the reporting date.

2.1 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 amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized 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

NOTES TO THE FINANCIAL STATEMENTS

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 recognized 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 recognized in other comprehensive income are reclassified to profit or loss) are recognized in other comprehensive income.

SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.2 Financial Assets and Financial Liabilities

2.2.1 Non-derivative financial assets

2.2.1.a Initial recognition of financial assets

Date of recognition

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

Initial measurement of financial assets

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

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

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

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.

2.2.1.b Classification of financial assets

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

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

2.2.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit or loss

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

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

Held-to-maturity financial assets

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold it to maturity. Held-to-maturity financial assets are recognized initially at fair value

plus any directly attributable transaction costs. Subsequent to initial recognition held to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

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

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

Loans and receivables

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

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

- *Cash and cash equivalents*

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

- *Finance leases and hire purchase*

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

- *Advances and other loans to customers*

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

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

- *Financial guarantees*

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

Available-for-sale financial assets

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

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

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

2.2.2 Non-derivative financial liabilities

Classification and subsequent measurement of financial liabilities

The Company initially recognizes 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 recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

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 amortized 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 amortized cost using the effective interest method.

2.2.3 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 recognized as assets when their fair value is positive and as liabilities when their fair value is negative.

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

These hedging relationships are discussed below.

i. Fair value hedges

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

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

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

The Company does not have any fair value hedges.

ii. Cash flow hedges

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

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

iii. Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any

ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

The Company does not have any net investment hedges.

2.2.3.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.

2.2.4 Reclassification of financial assets and liabilities

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

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

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

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

No reclassifications of financial instruments were done during the year.

2.2.5 Derecognition of financial assets and financial liabilities

Financial assets

The Company derecognizes 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 recognized in other comprehensive income is recognized in profit or loss.

Financial liabilities

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

2.2.6 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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.

2.2.7 Amortized cost measurement

The amortized 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

2.2.8 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

2.2.9 Impairment

Non-derivative financial assets

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

Loans and receivables

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

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

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

Available-for-sale financial assets

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

2.3 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.

2.3.1 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 capitalized 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 recognized 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.

2.3.2 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 recognized as an expense in the statement of profit or loss on a straight line basis over the lease term. Contingent rent payable is recognized 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.

2.4 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 recognized 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.

2.5 Property plant and equipment

2.5.1 Recognition and measurement

Property, plant and equipment are recognized 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 labor, 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 capitalized borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalized 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 recognized in other income/other expenses in profit or loss.

2.5.1.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.

NOTES TO THE FINANCIAL STATEMENTS

2.5.1.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 recognized in the statement of profit or loss. A decrease in value is recognized in the statement of profit or loss where it exceeds the increase previously recognized 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.

2.5.2 Subsequent costs

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

2.5.3 Depreciation

Depreciation is recognized 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.

2.6 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 recognized 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 recognized in the statement of profit or loss. Impairment losses recognized 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 amortization, if no impairment loss had been recognized.

2.7 Employee Benefits

2.7.1 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 recognized 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.

2.7.2 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 recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized 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.

2.7.3 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 recognizes all actuarial gains and losses / remeasurement component arising from defined benefit plans immediately in other comprehensive income.

The obligation is not externally funded.

2.8 Provisions

A provision is recognized 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 recognized 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.

2.9 Equity Movements

2.9.1 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.

2.9.2 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.

2.9.3 Share issue costs

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

2.10 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.

2.11 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

2.12 Interest Income And Interest Expense

Interest income and expense are recognized 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 amortized cost calculated on an effective interest basis.

NOTES TO THE FINANCIAL STATEMENTS

2.12.1 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 recognized 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.

2.12.2 Factoring

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

Funding - Discount income relating to factoring transactions is recognized 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.

2.13 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 recognized as the related services are performed.

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

2.14 Dividends

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

2.15 Expenditure Recognition

Expenses are recognized 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.

2.15.1 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 recognized as expense in the period it becomes due.

2.15.2 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.

2.15.3 Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized 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.

2.16 Income Tax Expense

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

2.16.1 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. Management has used its judgment on the application of tax laws in determining the current tax liability including transfer pricing regulations involving identification of associated undertakings, estimation of the respective arm's length prices and selection of appropriate pricing mechanism.

2.16.2 Deferred tax

Deferred tax is recognized 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 recognized 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 recognized 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 utilized.

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 realized.

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

2.17 Earnings Per Share

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

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.18 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

2.19 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.

2.20 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.

2.21 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

2.22 Impending Accounting Standards / Standards Issued Not Yet Effective

Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31 March 2016 reporting periods. None of those have been early adopted by the Company.

SLFRS 9 Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 14 Regulatory Deferral Accounts

SLFRS 14 is an interim standard which provides relief for first time -adopters of SLFRS in relation to the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). The standard permits these entities to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts.

SLFRS 14 is effective for annual periods beginning on or after 1 January 2016.

SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Management believes that the SLFRS 14 would not be applicable for the Company, as it is an existing SLFRS preparer/does not involve in rate regulatory activities. Pending the completion of the detailed impact analysis, possible Impact from SLFRS 9 and SLFRS 15 is not reasonably estimable as of the reporting date.

The following amendments and improvements are not expected to have a significant impact on the Company's financial statements.

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LKAS 16 and LKAS 38).
- Equity Method in Separate Financial Statements (Amendments to LKAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28).
- Annual Improvements to SLFRSs.
- Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28).
- Disclosure Initiative (Amendments to LKAS 1).

2.23 Financial Risk Management

2.23.1 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.

2.23.2 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 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 Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

2.23.3 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.

NOTES TO THE FINANCIAL STATEMENTS

2.23.3.1 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 authorization structure for the approval and renewal of credit facilities. Authorization 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 amortized cost that represents its estimate of incurred losses in its lease and loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortized 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 standardized 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.

Credit quality by class of financial assets

	Leases		Hire Purchases		Mortgage Loans		Other Loans and Advances		Margin Trading		Factoring Receivables		Total	
(In Rs'mn)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Carrying amount	17,243	13,150	17	88	799	618	52,520	35,941	86	294	13,599	6,200	84,263	56,291
Assets at amortized cost														
Individually impaired - Gross amount	224	289	-	2	14	141	1,048	959	-	-	728	-	2,014	1,391
Less : Allowance for impairment	(210)	(249)	-	(1)	-	-	(547)	(414)	-	-	(500)	-	(1,257)	(664)
Carrying amount	14	40	-	1	14	141	501	545	-	-	228	-	757	727
Portfolio subject to collective impairment - Gross amount	17,281	13,177	19	88	831	558	52,844	36,075	86	294	13,766	6,359	84,826	56,552
Less : Allowance for impairment	(52)	(67)	(2)	(1)	(46)	(82)	(824)	(679)	-	-	(395)	(159)	(1,320)	(988)
Carrying amount	17,229	13,110	17	87	785	477	52,019	35,396	86	294	13,371	6,200	83,507	55,564

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 2016 (2015: no collateral held).

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)	2016	2015
Against individually impaired customers :		
Property	617	1,548
Vehicles	123	167

(In Rs'mn)	2016	2015
Against Collectively impaired customers :		
Vehicles	62,174	49,535
Others	75,530	73,950

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)	2016	2015
Property	-	788
Vehicles	123	167

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

(In Rs'mn)	2016	2015
Leases	12	28
Hire purchase	-	-
Mortgage Loan	-	15
Other loans & advances	92	103

NOTES TO THE FINANCIAL STATEMENTS

The Company's policy is to pursue timely realization of the collateral in an orderly manner. The properties has been considered as Investment Properties of the Company.

Age analysis of facilities considered for collective impairment as at 31st March 2016.

(In Rs'mn)	Leases	Hire Purchases	Mortgage Loans	Other Loans and Advances	Margin Trading	Factoring Receivables	Total
Category							
Not due / current	11,001	13	266	38,111	86	11,859	61,335
Overdue :							
Less than 30 days	4,325	2	316	6,496	-	792	11,931
31 - 60 days	1,118	1	19	5,838	-	277	7,253
61 - 90 days	359	-	-	628	-	299	1,286
91 - 120 days	184	-	1	253	-	108	546
121 - 150 days	68	1	1	152	-	107	329
151 - 180 days	56	-	-	58	-	72	186
above 180 days	170	2	228	1,308	-	252	1,960
Total	17,281	19	831	52,844	86	13,766	84,826

Age analysis of facilities considered for collective impairment as at 31st March 2015.

(In Rs'mn)	Leases	Hire Purchases	Mortgage Loans	Other Loans and Advances	Margin Trading	Factoring Receivables	Total
Category							
Not due / current	8,376	45	216	25,155	294	5,583	39,667
Overdue :							
Less than 30 days	2,963	27	87	6,657	-	422	10,156
31 - 60 days	938	4	2	2,080	-	78	3,103
61 - 90 days	405	4	31	750	-	71	1,261
91 - 120 days	229	1	7	209	-	18	465
121 - 150 days	61	2	3	176	-	12	255
151 - 180 days	53	1	-	45	-	12	111
Above 180 days	152	4	211	1,003	-	163	1,534
Total	13,177	88	558	36,075	294	6,359	56,552

Other than the lending portfolio reflected above no other financial assets shown in note 2.24 was subject to impairment

5) Concentrations of credit risk

The Company monitors concentrations of credit risk by sector to which the lending was made. The analysis is provided in Note 6.6.1 to the financial statements

2.3.4 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.

2.23.4.1 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements and debt covenants agreed with the fund providers. The treasury manages the liquidity position as per the treasury policies and procedures and regulatory requirements.

The treasury receives information from the business regarding the liquidity profile of the financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of business units are discussed at the ALCO meetings (Asset Liability Committee) and are arranged by the Treasury.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both

normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Company relies on deposits from customers and bank borrowings as its primary sources of funding. The deposits from customers and banks largely have shorter maturities. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

The maturity analysis of financial liabilities based on undiscounted gross outflow is reflected below;

(In 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 2016							
Bank overdraft	1,942	1,942	1,942	-	-	-	-
Borrowings	35,070	40,150	7,852	13,588	9,001	7,649	2,060
Deposits from customers	60,197	65,428	26,310	21,188	12,678	5,252	-
Trade payables	638	638	-	-	-	-	-
Accruals and other payables	660	660	660	-	-	-	-
Derivative liabilities	18	374	374	-	-	-	-
Amount due to related companies	997	997	997	-	-	-	-
Total liabilities	99,522	110,188	38,135	34,776	21,679	12,901	2,060
As at 31st March 2015							
Bank overdraft	2,333	2,333	2,333	-	-	-	-
Borrowings	11,040	13,008	4,533	1,024	1,303	6,148	-
Deposits from customers	41,310	47,427	11,452	15,092	10,360	10,523	-
Trade payables	646	646	646	-	-	-	-
Accruals and other payables	649	649	617	32	-	-	-
Derivative liabilities	58	1,211	590	621	-	-	-
Amount due to related companies	2,453	2,453	2,453	-	-	-	-
Total liabilities	58,489	67,727	22,624	16,769	11,663	16,671	-

NOTES TO THE FINANCIAL STATEMENTS

The maturity analysis of financial assets based on undiscounted gross inflows / (outflows) is reflected below;

<i>(In Rs'mn)</i>	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
<i>As at 31st March 2016</i>							
Cash and cash equivalents	3,498	3,498	3,498	-	-	-	-
Deposits with banks and other financial institutions	10,207	10,465	1,914	8,551	-	-	-
Investment in government securities	8,397	10,739	6,290	151	1,382	368	2,549
Derivative assets	98	3,017	228	2,789	-	-	-
Rentals receivable on leased assets	17,244	22,975	2,069	5,454	10,872	4,199	381
Hire purchases, loans and advances	53,335	62,506	8,489	13,383	17,547	21,620	1,468
Factoring receivable	13,598	13,598	13,598	-	-	-	-
Margin trading receivables	86	86	86	-	-	-	-
Other receivables	252	373	43	47	122	107	54
Investment securities	1,083	1083	-	1,017	66	-	0
Amount due from related companies	3	4	4	-	-	-	-
	107,802	128,344	36,219	31,391	29,989	26,294	4,452
<i>As at 31st March 2015</i>							
Cash and cash equivalents	2,975	2,975	2,975	-	-	-	-
Deposits with banks and other financial institutions	761	766	497	269	-	-	-
Investment in government securities	5,901	6,403	4,400	338	206	1,139	319
Derivative assets	3	(382)	-	(382)	-	-	-
Rentals receivable on leased assets	13,150	17,868	1,731	4,519	7,954	3,096	568
Hire purchases, loans and advances	36,647	43,720	4,192	9,485	15,072	14,197	774
Factoring receivable	6,200	6,200	6,200	-	-	-	-
Margin trading receivables	294	294	294	-	-	-	-
Other receivables	187	287	13	40	104	88	42
Investments in shares	9	9	-	9	-	-	0
Amount due from related companies	3	3	3	-	-	-	-
	66,130	78,143	20,306	14,278	23,337	18,519	1,703

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.

(In Rs'mn)

As at 31st March 2016	On demand	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Item						
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the Company	671	-	-	-	-	671
Total	671	-	-	-	-	671
Commitments						
Unutilized loan facilities & letters of credit	9,088	134	-	-	-	9,221
Total	9,088	134	-	-	-	9,221

(In Rs'Mn)

As at 31st March 2015	On demand	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Item						
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the Company	636	-	-	-	-	636
Total	636	-	-	-	-	636
Commitments						
Unutilized loan facilities & letters of credit	5,824	31	-	-	-	5,855
Total	5,824	31	-	-	-	5,855

NOTES TO THE FINANCIAL STATEMENTS

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 2016.

(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 31.03.16
Interest earning assets						
Deposits with banks and other financial institutions	1,910	8,297	-	-	-	10,207
Investment in government securities	6,210	-	892	71	1,224	8,397
Rentals receivable on leased assets	1,879	3,640	8,098	3,592	326	17,506
Hire purchases, loans and advances	7,404	11,028	14,199	20,898	1,226	54,755
Factoring receivable	14,493	-	-	-	-	14,493
Margin trading receivables	86	-	-	-	-	86
Total interest earning assets	31,982	22,965	23,190	24,561	2,776	105,444
Interest bearing liabilities						
Bank overdraft	1,942	-	-	-	-	1,942
Interest bearing borrowings	7,768	12,204	6,672	6,863	1,563	35,070
Deposits from customers	25,969	19,475	10,685	4,068	-	60,197
Total interest bearing liabilities	35,679	31,679	17,356	10,931	1,563	97,209
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(3,727)	(8,714)	5,833	13,630	1,212	8,235
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualized effect	(37)	(87)	58	136	12	-
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualized effect	37	87	(58)	(136)	(12)	-

Sensitivity analysis as at 31st March 2015.

(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 31.03.16
Interest earning assets						
Deposits with banks and other financial institutions	494	267	-	-	-	761
Investment in government securities	4,358	240	-	1,026	277	5,901
Rentals receivable on leased assets	1,565	3,038	5,912	2,516	435	13,467
Hire purchases, loans and advances	4,669	7,476	12,033	13,036	610	37,824
Factoring receivable	6,359	-	-	-	-	6,359
Margin trading receivables	294	-	-	-	-	294
Total interest earning assets	17,739	11,021	17,945	16,578	1,322	64,606
Interest bearing liabilities	2,333	-	-	-	-	2,333
Bank overdraft	4,523	615	276	5,626	-	11,040
Interest bearing borrowings	-	-	-	-	-	-
Deposits from customers	11,300	14,285	8,242	7,483	-	41,310
Total interest bearing liabilities	18,156	14,900	8,518	13,109	-	54,683
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(417)	(3,879)	9,427	3,470	1,322	9,923
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualized effect	(4)	(39)	94	35	13	-
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualized effect	4	39	(94)	(35)	(13)	-

NOTES TO THE FINANCIAL STATEMENTS

2.23.6 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 recognized and the Company recognizes 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;

<i>(In Rs'Mn)</i>	As at 31st	As at 31st
Capital element	March 2016	March 2015
Ordinary share capital	2,000	2,000
Statutory Reserve	1,239	954
Retained earnings	6,096	4,954
Other negative reserves	(160)	-
Tier I capital	9,175	7,908
Unsecured subordinated		
Debentures	3,163	3,016
Tier II capital	3,163	3,016
Total capital	12,338	10,924

2.24 Financial Assets and Liabilities

2.24.1 Accounting classifications and fair values

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities.

(In Rs'Mn)

	Fair value – derivatives	Fair value - held for trading	Fair value through other comprehensive income /carried at cost-available for sale	Amortized cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement
<i>As at 31st March 2016</i>							
Cash and cash equivalents	-	-	-	3,498	3,498	3,498	
Deposits with banks	-	-	-	10,207	10,207	10,207	
Investment in government securities							
- Measured at fair value	-	-	2,188		2,190	2,190	Level 1
- Measured at amortized cost	-	-		6,209	6,209	6,209	
Derivative assets	98	-	-	-	98	98	Level 2
Investment securities	-	1,017	66	-	1,083	1,083	Level 1
Rentals receivable on leased assets	-	-	-	17,244	17,244	17,325	Level 2
Hire purchases, loans and advances	-	-	-	53,335	53,335	53,271	Level 2
Factoring receivable	-	-	-	13,599	13,599	13,599	
Margin trading receivables	-	-	-	86	86	86	
Amount due from related companies	-	-	-	3	3	3	
Other financial assets	-	-	-	252	252	252	
Total financial assets	98	1,017	2,254	104,432	107,802	107,819	
Bank overdraft	-	-	-	1,942	1,942	1,942	
Interest bearing borrowings	-	-	-	35,070	35,070	34,938	Level 2
Deposits from customers	-	-	-	60,197	60,197	59,832	Level 2
Trade payables	-	-	-	638	638	638	
Accruals and other payables	-	-	-	660	660	660	
Derivative liabilities	18	-	-	-	18	18	Level 2
Amount due to related companies	-	-	-	997	997	997	
Total financial liabilities	18	-	-	99,503	99,521	99,024	

NOTES TO THE FINANCIAL STATEMENTS

(In Rs'Mn)

	Fair value – derivatives	Fair value - held for trading	Fair value through other comprehensive income – available for sale	Amortized cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement
As at 31st March 2015							
Cash and cash equivalents	-	-	-	2,975	2,975	2,975	
Deposits with banks	-	-	-	761	761	761	
Investment in government securities	-	-	-	-	-	-	
- Measured at fair value	-	-	2,285	-	2,285	2,285	Level 1
- Measured at amortized cost	-	-	-	3,616	3,616	3,616	
Derivative assets	3	-	-	-	3	3	Level 2
Investment in shares	-	9	-	-	9	9	Level 1
Rentals receivable on leased assets	-	-	-	13,150	13,150	13,765	Level 2
Hire purchases, loans and advances	-	-	-	36,647	36,647	37,325	Level 2
Factoring receivable	-	-	-	6,200	6,200	6,200	
Margin trading receivables	-	-	-	294	294	294	
Amount due from related companies	-	-	-	3	3	3	
Other financial assets	-	-	-	204	204	204	
Total financial assets	3	9	2,285	63,851	66,147	67,440	
Bank overdraft	-	-	-	2,333	2,333	2,333	
Interest bearing borrowings	-	-	-	11,040	11,040	10,122	Level 2
Deposits from customers	-	-	-	41,310	41,310	40,698	Level 2
Trade payables	-	-	-	646	646	646	
Accruals and other payables	-	-	-	649	649	649	
Derivative liabilities	58	-	-	-	58	58	
Amount due to related companies	-	-	-	2,453	2,453	2,453	
Total financial liabilities	58	-	-	58,431	58,489	56,959	

2.24.2 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 amortized cost) discounted cash flows have been used to derive the fair value.

As at 31 March 2016

As at 31 March 2016		2016	2015	
		Rs.	Rs.	
3. INVESTMENT IN GOVERNMENT SECURITIES				
Financial instruments classified as loans and receivables (note 3.1)		6,209,704,562	3,616,000,000	
Financial instruments classified as available for sale - carried at fair value (note 3.2)		2,187,791,673	2,284,717,853	
		8,397,496,235	5,900,717,853	
	2016	2015		
	Carrying value	Fair value	Carrying value	Fair value
	Rs.	Rs.	Rs.	Rs.
3.1 Financial instruments classified as loans and receivables				
Investment in Government Standing Deposit Facilities (REPO's)				
	6,209,704,562	6,209,704,562	3,616,000,000	3,616,000,000
3.2 Financial instruments classified as available for sale - carried at fair value				
Investment in Treasury Bills				
	-	-	981,724,999	981,724,999
Investment in Treasury Bonds				
	2,187,791,673	2,187,791,673	1,302,992,854	1,302,992,854
	2,187,791,673	2,187,791,673	2,284,717,853	2,284,717,853
		2016	2015	
		Rs.	Rs.	
3.3 Fair value adjustments recognized in other comprehensive income - current period (net of transfers to P&L)				
Investment in Treasury Bills		1,389,895	(33,329,374)	
Investment in Treasury Bonds		(247,580,431)	9,573,415	
		(246,190,536)	(23,755,959)	
3.4 Fair value adjustments recognized in other comprehensive income - cumulative				
Investment in Treasury Bills		-	(1,389,895)	
Investment in Treasury Bonds		(160,153,753)	87,426,678	
		(160,153,753)	86,036,783	

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

	2016 Rs.	2015 Rs.
4. DERIVATIVES HELD FOR RISK MANAGEMENT		
Net derivative assets / (liabilities)		
Derivative assets (note 4.1)	98,163,191	2,740,000
Derivative liabilities (note 4.2)	17,859,000	57,514,900
Net derivative assets / (liabilities)	80,304,191	(54,774,900)
4.1 Derivative assets		
Forward contracts	98,163,191	2,740,000
4.2 Derivative liabilities		
Forward contracts	17,859,000	57,514,900
4.3 Change in fair value during the period		
Recognized in profit or loss	94,334,091	(60,242,400)
Recognized in OCI (note 19.3)	40,745,000	-
	135,079,091	(60,242,400)
5. RENTALS RECEIVABLE ON LEASED ASSETS		
Rentals receivable	24,778,917,217	19,066,313,886
Unearned income	(6,177,140,405)	(4,897,416,672)
Net rentals receivable (note 5.1)	18,601,776,812	14,168,897,214
Deposits received from lessees	(1,096,189,207)	(702,104,944)
Allowance for impairment (note 5.2)	(261,725,528)	(316,416,427)
	17,243,862,077	13,150,375,843
5.1 Net Rentals Receivable		
Receivable from one to five years		
Rentals receivable	16,792,953,235	12,380,272,055
Unearned income	(3,680,615,120)	(2,815,295,106)
	13,112,338,116	9,564,976,948
Receivable within one year		
Rentals receivable	7,470,916,461	6,236,705,658
Unearned income	(2,496,525,285)	(2,082,121,566)
	4,974,391,176	4,154,584,093
Overdue		
Rentals receivable	515,047,520	449,336,173
	515,047,520	449,336,173
	18,601,776,812	14,168,897,214

As at 31 March 2016

	2016 Rs.	2015 Rs.
5.2 Allowance for impairment		
Balance as at 1st of April	316,416,427	361,570,335
Provision / (reversal) for the year	(54,690,899)	(45,153,908)
Balance as at 31st March	261,725,528	316,416,427
5.2.1 Individually significant impairment		
Balance as at 1st of April	249,181,536	145,886,358
Provision for the year	(39,449,749)	103,295,178
Balance as at 31st March	209,731,787	249,181,536
5.2.2 Individually non-significant impairment (collective impairment)		
Balance as at 1st of April	67,234,891	215,683,977
Provision for the year	(15,241,150)	(148,449,086)
Balance as at 31st March	51,993,741	67,234,891
6. HIRE PURCHASES, LOANS AND ADVANCES		
Hire Purchases (note 6.1)	16,479,699	88,409,064
Mortgage Loans (note 6.2)	798,692,789	617,640,169
Sundry Loans (note 6.3)	52,520,002,760	35,941,279,635
	53,335,175,248	36,647,328,869
6.1 Hire Purchases		
Rentals receivable	18,766,649	98,183,447
Unearned income	(122,879)	(7,349,396)
Net rentals receivable (note 6.1.1)	18,643,770	90,834,051
Allowance for impairment (note 6.1.2)	(2,164,071)	(2,424,986)
	16,479,699	88,409,064

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

	2016 Rs.	2015 Rs.
6.1.1 Net rentals receivable - Hire Purchases		
Receivable from one to five years		
Rentals receivable	7,692,179	14,846,275
Unearned income	124,554	(1,178,700)
	7,816,733	13,667,575
Receivable within one year		
Rentals receivable	3,992,929	71,609,693
Unearned income	(247,433)	(6,170,696)
	3,745,495	65,438,996
Overdue		
Rentals receivable	7,081,541	11,727,479
	18,643,770	90,834,051
6.1.2 Allowance for impairment - Hire Purchases		
Balance as at 1st of April	2,424,986	17,059,134
Provision / (reversal) for the year	(260,916)	(14,634,147)
Balance as at 31st March	2,164,071	2,424,986
6.1.2.a Individually significant impairment		
Balance as at 1st of April	1,357,028	1,069,639
Provision / (reversal) for the year	(1,357,028)	287,389
Balance as at 31st March	-	1,357,028
6.1.2.b Individually non-significant impairment (collective impairment)		
Balance as at 1st of April	1,067,958	15,989,495
Provision / (reversal) for the year	1,096,113	(14,921,537)
Balance as at 31st March	2,164,071	1,067,958
6.2 Mortgage Loans		
Rentals receivable	1,100,573,875	880,061,288
Unearned income	(255,516,707)	(180,849,498)
Net rentals receivable (note 6.2.1)	845,057,168	699,211,790
Allowance for impairment (note 6.2.2)	(46,364,379)	(81,571,621)
	798,692,789	617,640,169

As at 31 March 2016

	2016 Rs.	2015 Rs.
6.2.1 Net rentals receivable - Mortgage Loans		
Receivable from one to five years		
Installments receivable	683,362,878	488,744,139
Unearned income	(171,909,530)	(102,998,513)
	511,453,348	385,745,627
Receivable within one year		
Installments receivable	214,740,160	210,193,268
Unearned income	(83,607,177)	(77,850,985)
	131,132,983	132,342,282
Overdue		
Installments receivable	202,470,837	181,123,881
	845,057,168	699,211,790
6.2.2 Allowance for impairment - Mortgage Loans		
Balance as at 1st of April	81,571,621	34,706,089
Provision / (reversal) for the year	(35,207,241)	46,865,531
Balance as at 31st March	46,364,379	81,571,621
6.2.2.a Individually significant impairment		
Balance as at 1st of April	-	2,557,913
Reversal for the year	-	(2,557,913)
Balance as at 31st March	-	-
6.2.2.b Individually non-significant impairment (collective impairment)		
Balance as at 1st of April	81,571,621	32,148,177
Provision / (reversal) for the year	(35,207,241)	49,423,444
Balance as at 31st March	46,364,379	81,571,621
6.3 Sundry Loans		
Total receivable	61,203,640,749	43,083,043,311
Unearned income	(7,312,317,867)	(6,048,827,694)
Net receivable (note 6.3.1)	53,891,322,882	37,034,215,617
Allowance for impairment (note 6.3.2)	(1,371,320,123)	(1,092,935,982)
	52,520,002,760	35,941,279,635

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

	2016 Rs.	2015 Rs.
6.3.1 Net receivable - Sundry Loans		
Receivable from one to five years		
Installments receivable	39,711,490,383	28,587,956,109
Unearned income	(3,907,935,042)	(3,279,289,996)
	35,803,555,340	25,308,666,113
Receivable within one year		
Installments receivable	20,256,697,557	13,508,052,092
Unearned income	(3,404,382,825)	(2,769,537,698)
	16,852,314,732	10,738,514,395
Overdue		
Installments receivable	1,235,452,810	987,035,110
	53,891,322,882	37,034,215,617
6.3.2 Allowance for impairment - Sundry Loans		
Balance as at 1st of April	1,092,935,982	1,032,440,834
Provision for the year	278,384,140	60,495,148
Balance as at 31st March	1,371,320,123	1,092,935,982
6.3.2.a Individually significant impairment		
Balance as at 1st of April	414,363,854	563,398,934
Provision / (reversal) for the year	132,312,912	(149,035,080)
Balance as at 31st March	546,676,766	414,363,854
6.3.2.b Individually non-significant impairment (collective impairment)		
Balance as at 1st of April	678,572,128	469,041,900
Provision for the year	146,071,228	209,530,228
Balance as at 31st March	824,643,357	678,572,128

As at 31 March 2016

	2016 Rs.	2015 Rs.
6.4 Factoring Receivables		
Gross receivable	14,493,158,118	6,359,079,938
Allowance for impairment (note 6.4.1)	(894,557,226)	(158,878,197)
	13,598,600,891	6,200,201,741
6.4.1 Allowance for impairment		
Balance as at 1st of April	158,878,197	123,723,527
Provision for the year	735,679,029	35,154,670
Balance as at 31st March	894,557,226	158,878,197
6.4.1.a Individually significant impairment		
Balance as at 1st of April	-	-
Provision / (reversal) for the year	500,000,000	-
Balance as at 31st March	500,000,000	-
6.4.1.b Individually non-significant impairment (collective impairment)		
Balance as at 1st of April	158,878,197	123,723,527
Provision for the year	235,679,029	35,154,670
Balance as at 31st March	394,557,226	158,878,197
6.5 Margin Trading Receivables		
Gross amount outstanding at year end	85,597,164	293,711,960
Allowance for impairment (note 6.5.1)	-	-
Net balance on margin trading	85,597,164	293,711,960
6.5.1 Allowance for impairment		
Balance as at 1st of April	-	137,615,343
Provision / (reversal) for the year	-	(137,615,343)
Balance as at 31st March	-	-
6.5.1.a Individually significant impairment		
Balance as at 1st of April	-	137,615,343
Provision / (reversal) for the year	-	(137,615,343)
Balance as at 31st March	-	-

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

	2016 Rs.	2015 Rs.
6.6 Portfolio Analysis		
6.6.1 Sectorwise exposure of the lending portfolio - before provision		
Agriculture	6,279,146,181	4,401,047,025
Manufacturing	7,904,558,795	6,254,708,088
Economics And Social	1,410,104,727	1,034,271,827
Trade	21,588,238,172	16,435,846,064
Factoring	14,493,158,119	6,359,079,938
Margin Trading	85,597,164	293,711,960
Tourism	1,382,648,751	958,279,700
Services	13,615,749,820	10,044,760,265
Transportation	4,653,101,968	4,459,685,609
Construction	4,217,704,574	2,851,866,731
Mining and Quarrying	348,480,756	404,836,371
Others	10,860,877,680	4,445,752,048
	86,839,366,707	57,943,845,626
6.6.2 Product wise analysis of portfolio		
Lease receivables	14,202,393,777	11,500,023,910
Hire Purchase receivables	18,643,770	90,834,051
Loans & Advances	47,138,267,302	32,516,279,192
Factoring receivables	14,493,158,118	6,359,079,938
Margin trading receivables	85,597,164	293,711,960
Islamic business portfolio - Ijarah receivables	3,303,193,828	1,966,768,361
Islamic business portfolio - Other receivables (Murabaha, Musharakah etc.)	7,598,112,748	5,217,148,215
Gross portfolio	86,839,366,707	57,943,845,626
Less : Impairment provision	(2,576,131,327)	(1,652,227,214)
Net portfolio (note 6.6.3)	84,263,235,380	56,291,618,412
6.6.3 Net portfolio		
Rentals receivable on Leased Assets (note 5)	17,243,862,077	13,150,375,843
Hire Purchases, Loans and Advances (note 6)	53,335,175,248	36,647,328,869
Factoring receivable (note 6.4)	13,598,600,891	6,200,201,741
Margin trading receivables (note 6.5)	85,597,164	293,711,960
	84,263,235,380	56,291,618,412

As at 31 March 2016

	2016 Rs.	2015 Rs.
7. OTHER RECEIVABLES		
Financial Assets		
Staff loans	224,602,047	187,184,897
Other accommodations	628,406,930	686,056,855
Provision for other accommodations	(628,406,930)	(686,056,855)
Letter of credit charges	4,307,575	7,736,815
Insurance premium receivables	22,597,474	8,829,213
	251,507,096	203,750,925
Non Financial Assets		
VAT receivable	158,765,387	195,505,346
Prepaid staff cost	71,147,704	75,443,991
Miscellaneous receivables	212,635,286	164,652,057
	442,548,377	435,601,394
Total Other receivables	694,055,473	639,352,319
8. INVESTMENT SECURITIES		
8.1 Investments held for trading		
Expo Lanka Holdings PLC		
Original cost	18,000,000	18,000,000
Carrying amount as at 1st April	8,500,000	8,700,000
Adjustment for change in fair value - recognized in profits	(1,500,000)	(200,000)
Carrying amount as at 31st March	7,000,000	8,500,000
Investment in Unit Trusts		
Original cost	1,000,000,000	-
Carrying amount as at 1st April	-	-
Investments during the year	1,000,000,000	-
Adjustment for change in fair value - recognized in profits	10,002,569	-
Carrying amount as at 31st March	1,010,002,569	-

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

	2016 Rs.	2015 Rs.
8.2 Available for sale investments carried at cost		
Credit Information Bureau Ltd		
Cost / Carrying amount	343,275	343,275
LOLC Myanmar Micro Finance Company Ltd		
Cost / Carrying amount	66,125,000	-
Total investments	1,083,470,844	8,843,275

These investments are unquoted and has no active market from which a reliable fair value could be obtained. The different valuation methods used did not provide a reasonable range of values. As a result these investments are carried at cost since the fair value cannot be determined reliably.

As at 31 March 2016

	2016 Rs.	2015 Rs.
9. AMOUNTS DUE FROM RELATED COMPANIES		
EDEN Resorts Ltd	932,830	141,994
Commercial Leasing and Finance PLC	-	2,653,108
LOLC General Insurance Ltd	419,339	-
LOLC Life Assurance Ltd	1,449,190	-
LOLC Securities Ltd	90,041	39,429
BG Air services Ltd	3,468	-
BRAC Lanka finance PLC	3,468	-
Dickwella Resorts Ltd	6,806	3,645
LOLC Technologies Ltd	366,041	44,334
	3,271,183	2,882,510

These are unsecured balances and are settled on a continuous basis.

10. INVESTMENT PROPERTIES

Balance as at 1st April	1,142,800,000	215,173,229
Additions to Investment Properties from foreclosure of contracts	-	787,662,081
Additions and improvements	360,101	-
Disposals	(242,030,810)	-
Change in fair value	29,070,709	139,964,690
Balance as at 31st March	930,200,000	1,142,800,000

- Investment Properties includes bare lands and land and buildings acquired by the Company from clients who defaulted on accommodations granted. These properties are held by the Company for capital appreciation.
- The Company incurred expenses for the improvements of the investment properties and received rent income amounting to Rs.1,748,564 during the current financial year. (2014-2015 :Nil).
- During the financial year the Company has incurred expenses amounting to Rs.1,713,781 for maintenance of the investment property (2014-2015- Rs. 200,000).
- Changes in fair values are recognised as gains in profit or loss and included in 'Net other operating income'.

10.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31st March 2016.

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.600,000 to Rs.4,500,000 in the Colombo area and Rs.138,889 to Rs.1,400,000 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)

	Land	Building	Leasehold Motor Vehicles	Total
11. PROPERTY, PLANT AND EQUIPMENT				
Cost/Valuation				
Balance as at 01 April 2015	-	-	152,533,965	152,533,965
Additions	275,850,000	17,174,800	938,555,000	1,231,579,800
Disposals	(125,000,000)			(125,000,000)
Balance as at 31 March 2016	150,850,000	17,174,800	1,091,088,965	1,259,113,765
Accumulated Depreciation				
Balance as at 01 April 2015	-	-	15,989,284	15,989,284
Charge for the year	-	243,495	32,473,756	32,717,251
Balance as at 31 March 2016	-	243,495	48,463,040	48,706,536
Carrying Amount				
As at 31 March 2016	150,850,000	16,931,305	1,042,625,925	1,210,407,229

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

	Land	Building	Leasehold Motor Vehicles	Total
11.A PROPERTY, PLANT AND EQUIPMENT (CONTD.)				
Cost/Valuation				
Balance as at 01 April 2014	-	-	53,966,073	53,966,073
Additions	-	-	98,567,892	98,567,892
Balance as at 31 March 2015	-	-	152,533,965	152,533,965
Accumulated Depreciation				
Balance as at 01 April 2014	-	-	3,823,251	3,823,251
Charge for the year	-	-	12,166,033	12,166,033
Balance as at 31 March 2015	-	-	15,989,284	15,989,284
Carrying Amount				
As at 31 March 2015	-	-	136,544,681	136,544,681

Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles amounting to Rs. 1,042,625,925 as at 31 March 2016 (2015 - Rs. 136,544,681) 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

Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31st March 2016 and 31st March 2015.

Fully depreciated property, plant and equipment

There were no property, plant and equipment fully depreciated as at 31st March 2016 and 31st March 2015.

As at 31 March 2016

	2016 Rs.	2015 Rs.
12. INTEREST BEARING BORROWINGS		
Short-term loans	8,302,302,662	4,691,000,000
Long-term borrowings (note 12.1)	20,453,223,681	764,975,600
Finance leases (note 12.2)	1,094,417,463	527,769,416
Debentures (note 12.3)	4,950,000,000	4,950,000,000
Total borrowings	34,799,943,806	10,933,745,016
Interest payable	270,207,908	106,282,962
Liability recognized in statement of financial position	35,070,151,714	11,040,027,979

As at 31 March 2016

	2016 Rs.	2015 Rs.
12.1 Long-term borrowings		
Balance at the beginning of the year	764,975,600	649,527,463
Loans obtained during the year	20,421,823,681	500,000,000
Repaid during the year	(733,575,600)	(384,551,863)
Balance at the end of the year	20,453,223,681	764,975,600
Long-term borrowings - current	11,052,982,201	216,875,600
Long-term borrowings - non-current (note 12.1.a)	9,400,241,481	548,100,000
	20,453,223,681	764,975,600
12.1.a Analysis of non-current portion of long-term borrowings		
Repayable within 1-3 years	6,148,697,091	48,100,000
Repayable after 3 years	3,251,544,390	500,000,000
	9,400,241,481	548,100,000
12.2 Finance leases		
Gross lease rentals payable as at 1 April	665,812,229	163,773,482
Lease obtained during the year	727,505,000	590,297,840
Lease rentals paid during the year	(111,557,233)	(88,259,093)
Gross lease rentals payable as at 31 March	1,281,759,996	665,812,229
Less: Interest in suspense	(187,342,533)	(138,042,813)
Balance at the end of the year / present value of minimum lease payments	1,094,417,463	527,769,416
12.2.1 Analysis of finance leases		
Repayable within one year (note 12.2.1.a)	346,631,427	107,459,448
Repayable within 1-5 years (note 12.2.1.b)	747,786,036	420,309,968
	1,094,417,463	527,769,416
12.2.1.a Repayable within one year		
Gross lease rentals payable	439,381,431	162,809,173
Less: interest in suspense	(92,750,004)	(55,349,725)
	346,631,427	107,459,448
12.2.1.b Repayable within 1-5 years		
Gross lease rentals payable	842,378,565	503,003,056
Less: interest in suspense	(94,592,529)	(82,693,088)
	747,786,036	420,309,968
12.3 Debentures		
Balance at the beginning of the year	4,950,000,000	-
Debenture issued during the year (net of transaction cost)	-	4,950,000,000
Balance at the end of the year	4,950,000,000	4,950,000,000

The Company issued fifty million (50,000,000) rated unsecured subordinated redeemable debentures at a value of Rs.100 each, totalling to Rs. 5Bn, with a 5 year maturity during the financial year 2014-2015. These debentures are listed in the Colombo Stock Exchange. A transaction cost of Rs. 50Mn was incurred on the issue of these debentures. The amortization of the transaction cost is included in the interest payable amount. Further information on these debentures are given in page 186.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

	2016 Rs.	2015 Rs.
13. DEPOSITS FROM CUSTOMERS		
Customer deposits	57,839,986,244	39,756,130,956
Interest / profit payable		
Interest payable on deposits	2,263,236,953	1,485,523,342
Profits payable to IBU deposit holders	93,977,697	68,306,173
	2,357,214,650	1,553,829,515
Deposit liability recognized in statement of financial position	60,197,200,894	41,309,960,471
13.1 Analysis of customer deposits based on nature		
Fixed deposits - conventional	48,494,192,006	31,744,365,457
Fixed deposits - Islamic - Mudharabah	4,230,559,233	4,034,438,048
Fixed deposits - Islamic - Wakala	1,569,100,000	780,000,000
Fixed deposits - foreign currency	1,561,953,342	1,499,733,592
Fixed deposit bonds	415,529,000	436,387,900
Savings deposits - conventional	1,000,844,109	749,347,623
Savings deposits - Islamic	466,058,778	384,263,173
Savings deposits - foreign currency	101,749,776	127,595,163
Total deposits	57,839,986,244	39,756,130,956
13.2 Deposits based on maturity		
Deposits maturing within one year	44,386,778,927	24,476,945,707
Deposits maturing after one year	13,453,207,317	15,279,185,249
	57,839,986,244	39,756,130,956
14. TRADE PAYABLES		
Creditors for lease equipment	637,849,803	645,905,072
15. ACCRUALS AND OTHER PAYABLES		
Excess payments received from clients	109,355,895	90,097,189
Insurance payable	48,382,723	36,932,014
VAT / other tax payable	8,971,300	132,298,954
Other miscellaneous creditors	620,162,118	248,190,355
Payable on matured deposits	212,002,623	266,022,493
Stamp duty payable	12,523,615	16,567,230
IBU charity fund	7,204,557	32,332,380
	1,018,602,831	822,440,615

As at 31 March 2016

	2016 Rs.	2015 Rs.
16. AMOUNTS DUE TO RELATED COMPANIES		
Lanka ORIX Leasing Company PLC	203,769,488	1,882,124,255
Lanka ORIX Leasing Company PLC-Refinance Loans	48,602,436	67,656,218
LOLC Insurance Ltd	-	82,332
LOLC Micro Credit Ltd	136,016,886	65,381,543
LOLC Factors Ltd	605,271,399	411,632,609
LOLC Motors Ltd	3,120,600	26,220,059
	996,780,809	2,453,097,016

These are unsecured balances and are settled on a continuous basis.

17. EMPLOYEE BENEFITS

17.1 Defined contribution plans

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

	2016 Rs.	2015 Rs.
Employees' Provident Fund		
Employers' contribution	21,844,675	16,757,650
Employees' contribution	14,563,117	11,171,767
Employees' Trust Fund	5,461,169	4,189,413

	2016 Rs.	2015 Rs.
17.2 Defined benefit plan		
Movement in the present value of the defined benefit obligation		
Defined benefit obligation as of 01 April	10,450,090	8,008,415
Expense included in Personnel Expenses	3,651,323	3,126,017
Remeasurement Component	(1,372,202)	278,131
	2,279,121	3,404,148
Benefits paid	(480,640)	(962,473)
Defined benefit obligation as at 31st March	12,248,571	10,450,090

17.2.a Expense included in Personnel Expenses

Current Service Cost	2,658,565	2,325,176
Interest Cost	992,758	800,841
	3,651,323	3,126,017

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

	2016	2015
	Rs.	Rs.
17.2.b Actuarial gains and losses recognised in other comprehensive income		
Cumulative loss as at 1st April	4,312,855	4,034,724
(Gain) / loss recognised during the period	(1,372,202)	278,131
Cumulative loss as at 31st March	2,940,653	4,312,855

Actuarial valuation for defined benefit obligation was carried out as at 31 March 2016 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".

As at 31 March 2016

	2016	2015
	Rs.	Rs.
17.2.c Key assumptions used in the above valuation are as follows:		
Discount Rate	11.00%	9.50%
Salary Increment Rate	8.50%	8.50%
Retirement Age	55	55
Staff Turnover	2.5% - 15%	2.5% - 15%

The Defined Benefit Plan entitles a retired employee to receive a payment equal to half of the last drawn monthly salary multiplied by the number of completed years of service. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 Years of service.

Assumptions regarding future mortality are based on published statistics and mortality tables.

The plan is not externally funded.

17.2.d Sensitivity analysis of the defined benefit obligation

The effect on the defined benefit obligation at the year end, as a result of changes in the actuarial assumptions used, is shown below.

As at 31 March 2016

	2016	2015
	Rs.	Rs.
The defined benefit obligation under current assumptions	12,248,571	10,450,090
The defined benefit obligation if the discount rate increased by 100 basis points	11,167,201	9,436,882
The defined benefit obligation if the discount rate reduced by 100 basis points	13,503,799	11,637,369
The defined benefit obligation if the salary increment rate increased by 1%	13,669,609	11,688,134
The defined benefit obligation if the salary increment rate reduced by 1%	11,015,220	9,378,762
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(1,081,370)	(1,013,208)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	1,255,228	1,187,279
The change in the defined benefit obligation if the salary increment rate increased by 1%	1,421,038	1,238,044
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(1,233,351)	(1,071,328)

As at 31 March 2016

	2016	2016	2015	2015
	No. of Shares	Rs.	No. of Shares	Rs.
18. STATED CAPITAL				
Balance at the beginning of the year	2,800,000,000	2,000,000,000	2,800,000,000	2,000,000,000
Balance at the end of the year	2,800,000,000	2,000,000,000	2,800,000,000	2,000,000,000

Rights, preference and restrictions of classes of capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to have one vote per individual present at meetings of the shareholders or one vote per share in case of a poll. They are entitled to participate in any surplus assets of the Company in winding up. There are no preferences or restrictions on Ordinary Shares.

As at 31 March 2016

	2016	2015
	Rs.	Rs.
19. RESERVES		
Statutory reserve (note 19.1)	1,239,075,154	953,676,506
Investment fund reserve (note 19.2)	-	-
Cash flow hedge reserve (note 19.3)	22,747,657	-
Available for sale investment reserve (note 19.4)	(160,153,753)	86,036,783
Retained earnings (note 19.5)	6,096,465,015	4,953,882,436
	7,198,134,073	5,993,595,725
19.1 Statutory reserve		
Balance at the beginning of the year	953,676,506	879,497,395
Transferred during the year	285,398,648	74,179,111
Balance at the end of the year	1,239,075,154	953,676,506

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% (2014/15 - 5%) of its annual net profit after tax to this reserve in compliance with this direction.

As at 31 March 2016

	2016	2015
	Rs.	Rs.
19.2 Investment fund reserve		
Balance at the beginning of the year	-	391,850,336
Transferred during the year	-	32,935,748
Transferred to retained earnings during the year	-	(424,786,084)
Balance at the end of the year	-	-

The reserve was created in accordance with the Central Bank of Sri Lanka (CBSL) guidelines issued to create an Investment fund reserve. 8% of the profits liable for VAT on Financial Services and 5% of the profits liable for self assessment income tax payable was transferred to this reserve when the payment of such taxes became due. The period for which such a reserve was to be built up lapsed during the previous financial year and in line with the directive issued by CBSL the balance was transferred to retained earnings.

As at 31 March 2016

	2016	2015
	Rs.	Rs.
19.3 Cash flow hedge reserve		
Balance at the beginning of the year	-	-
Gain / (loss) arising from cash flow hedge recognized in OCI	34,156,257	-
Related tax	(11,408,600)	-
Balance at the end of the year	22,747,657	-

NOTES TO THE FINANCIAL STATEMENTS

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 is a forward exchange contract and as at 31-3-2016 had a fair value of Rs. 40,745,000.

The portion of the foreign currency loan that is subject to hedge accounting is to be settled during the financial years 2016/17 - 2022/23 and the derivative will be rolled over until that date.

The hedge is considered to be effective and is in effect at the reporting date and therefore no reclassification to profit or loss was made.

As at 31 March 2016

	2016	2015
	Rs.	Rs.
19.4 Available for Sale Investment Reserve		
Balance at the beginning of the year	86,036,783	109,792,742
Fair value changes during the year - increase / (decrease)	(246,190,536)	(23,755,959)
Balance at the end of the year	(160,153,753)	86,036,783

This reserve is maintained to recognize the fair value changes of Available for Sale Financial Assets.

19.5 Retained Earnings

Balance at the beginning of the year	4,953,882,436	3,152,829,244
Profit for the year	1,426,993,242	1,483,582,221
Remeasurements of defined benefit liability - gain / (loss)	987,985	(200,254)
Transferred to Investment fund reserve	-	(32,935,748)
Transferred from Investment fund reserve	-	424,786,084
Transfer to Statutory reserve fund	(285,398,648)	(74,179,111)
Balance at the end of the year	6,096,465,015	4,953,882,436

For the Year ended 31 March 2016

	2016	2015
	Rs.	Rs.
20. INTEREST INCOME		
Interest on leases	2,827,065,239	2,385,531,572
Interest on hire purchases	7,320,164	39,378,078
Interest on loans	7,496,881,646	6,437,056,647
Factoring income	1,649,596,359	790,918,262
Interest on margin trading	33,284,619	31,354,285
Income from operating lease and hire	50,836,841	22,396,462
Interest on overdue rentals and others	1,072,612,148	1,164,591,596
	13,137,597,016	10,871,226,902

21. INTEREST EXPENSE

Interest on fixed deposits	4,148,247,834	3,896,412,257
Interest on savings deposits	45,818,046	34,027,508
Profit distributed to IBU deposit holders	480,400,473	469,765,238
Interest on foreign currency deposits	64,990,148	92,448,609
Interest on re-red refinancing	3,773,910	6,747,174
Finance lease interest	71,259,352	34,069,157
Interest on short term loan & bank overdraft	1,684,984,796	444,841,760
	6,499,474,559	4,978,311,703

For the Year ended 31 March 2016

	2016 Rs.	2015 Rs.
22. NET OTHER OPERATING INCOME		
Sundry income	37,957,849	45,879,238
Service charges	241,789,835	151,613,219
Arrangement and documentation fees	207,007,494	143,953,894
Collections from contracts written off	159,584,229	179,814,249
Fair value change in investment properties	29,070,709	139,964,690
Interest income and capital gain on government securities	527,505,599	611,873,253
Interest income on term deposits	66,226,107	42,593,333
Change in fair value of derivatives - forward contracts (note 4.3)	94,334,091	(60,242,400)
Net exchange loss	(138,188,264)	(32,222,568)
Provision for payables to clients	(9,539,899)	(16,017,150)
Adjustment for increase / (decrease) in value of investments (note 8.1)	8,502,569	(200,000)
Dividend income	165,424	36,000
Interest income from staff loan	53,408,699	62,785,030
Disposal gain / (loss) on investment property	(32,315,560)	-
	1,245,508,882	1,269,830,788
23. DIRECT EXPENSES EXCLUDING INTEREST COST		
Factored insurance	251,794,016	83,643,256
VAT on general expenses	194,393,911	83,402,364
Portfolio handling fee	465,529,015	255,788,870
Others	-	6,057,200
	911,716,942	428,891,690
24. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS		
Impairment provision / (reversal) for lease rentals receivable (Note 5.2)	(54,690,899)	(45,153,908)
Impairment provision / (reversal) for receivables from hire purchases (Note 6.1.2)	(260,916)	(14,634,147)
Impairment provision / (reversal) for mortgage loan (Note 6.2.2)	(35,207,241)	46,865,531
Impairment provision / (reversal) for receivables from sundry loans (Note 6.3.2)	278,384,140	60,495,148
Impairment provision / (reversal) for factoring receivables (Note 6.4.1)	735,679,029	35,154,670
Impairment provision / (reversal) for margin trading receivables (Note 6.5.1)	-	(137,615,343)
Impairment provision / (reversal) for other receivables	(57,649,925)	686,056,855
Impairment provision / (reversal) for insurance receivable	40,857,990	-
Written-off during the year	661,463,899	866,133,510
	1,568,576,077	1,497,302,317
25. PROFIT FROM OPERATIONS		
Profit from operations is stated after charging all expenses including the following,		
Directors' emoluments	57,103,370	37,831,375
Audit fees and expenses - Audit Services	2,013,000	1,830,000
- Audit Related Services	904,050	861,000
- Non Audit Services	Nil	Nil
Depreciation on property, plant and equipment	32,717,251	12,166,033
25.1 Personnel expenses		
- Salaries, wages & other related cost	1,069,592,645	873,290,880
- Defined contribution plans - EPF & ETF	27,305,844	20,947,063
- Defined benefit plan cost	3,651,323	3,126,017
	1,100,549,812	897,363,959

NOTES TO THE FINANCIAL STATEMENTS

26. MATURITY OF ASSETS AND LIABILITIES

26.1 An analysis of the total assets of the Company as at the year end based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	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 31.03.16 Rs.	Total as at 31.03.15 Rs.
Cash and cash equivalents	3,497,994,396	-	-	-	-	3,497,994,396	2,975,305,230
Deposits with banks and other financial institutions	1,909,923,509	8,296,847,415	-	-	-	10,206,770,924	761,095,291
Investment in government securities	6,209,704,563	-	892,469,819	71,127,074	1,224,194,779	8,397,496,235	5,900,717,853
Derivative assets	11,762,900	86,400,291	-	-	-	98,163,191	2,740,000
Rentals receivable on leased assets	1,849,026,805	3,640,411,892	8,098,404,680	3,591,731,798	326,012,431	17,505,587,605	13,466,792,270
Allowance for impairment	-	-	-	-	-	(261,725,528)	(316,416,427)
Hire purchases, loans and advances	7,404,192,680	11,028,005,718	14,198,822,117	20,898,334,014	1,225,669,291	54,755,023,819	37,824,261,458
Allowance for impairment	-	-	-	-	-	(1,419,848,573)	(1,176,932,589)
Factoring receivable	14,493,158,118	-	-	-	-	14,493,158,118	6,359,079,938
Allowance for impairment	-	-	-	-	-	(894,557,226)	(158,878,197)
Margin trading receivables	85,597,164	-	-	-	-	85,597,164	293,711,960
Allowance for impairment	-	-	-	-	-	-	-
Other receivables	410,849,540	35,434,418	100,317,654	95,390,459	52,063,401	694,055,473	639,352,319
Investments securities	1,017,002,569	-	-	-	66,468,275	1,083,470,844	8,843,275
Amount due from related companies	3,271,183	-	-	-	-	3,271,183	2,882,510
Investment properties	-	-	930,200,000	-	-	930,200,000	1,142,800,000
Property plant and equipment	-	-	-	-	1,210,407,229	1,210,407,229	136,544,681
Total Assets as at 31.03.2016	36,892,483,426	23,087,099,734	24,220,214,270	24,656,583,345	4,104,815,407	110,385,064,854	
Total Assets as at 31.03.2015	21,122,942,840	11,062,679,750	19,172,212,507	16,656,827,704	1,499,463,984	67,861,899,570	67,861,899,570

26.2 An analysis of the total liabilities of the Company as at the year end based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.16	Total as at 31.03.15
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank overdraft	1,941,608,486	-	-	-	-	1,941,608,486	2,333,062,400
Interest bearing borrowings	7,767,820,252	12,204,303,946	6,671,545,160	6,862,995,219	1,563,487,137	35,070,151,714	11,040,027,979
Deposits from customers	25,969,142,871	19,475,036,675	10,684,729,909	4,068,291,440	-	60,197,200,894	41,309,960,471
Trade payables	637,849,803	-	-	-	-	637,849,803	645,905,072
Accruals and other payables	856,036,636	22,925,700	102,838,645	36,801,849	-	1,018,602,831	822,440,615
Derivative liabilities	17,859,000	-	-	-	-	17,859,000	57,514,900
Amount due to related companies	996,780,809	-	-	-	-	996,780,809	2,453,097,016
Current tax payable	-	309,887,595	-	-	-	309,887,595	434,425,679
Deferred tax liability	-	-	984,741,078	-	-	984,741,078	761,419,624
Employee benefits	-	-	-	12,248,571	-	12,248,571	10,450,090
Stated capital	-	-	-	-	2,000,000,000	2,000,000,000	2,000,000,000
Statutory reserve	-	-	-	-	1,239,075,154	1,239,075,154	953,676,506
Cash flow hedge reserve	-	-	-	-	22,747,657	22,747,657	-
Available for sale investment reserve	-	-	-	-	(160,153,753)	(160,153,753)	86,036,783
Retained earnings	-	-	-	-	6,096,465,015	6,096,465,015	4,953,882,436
Total Liabilities & Equity as at 31.03.2016	38,187,097,856	32,012,153,916	18,443,854,793	10,980,337,079	10,761,621,210	110,385,064,854	
Total Liabilities & Equity as at 31.03.2015	22,150,417,200	15,386,324,957	9,279,344,292	13,134,218,645	7,911,594,476	67,861,899,570	67,861,899,570

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 March 2016

	2016 Rs.	2015 Rs.
27. INCOME TAX EXPENSE		
The major components of income tax expense for the year ended 31 March are as follows:		
Current tax		
Current tax charge	379,870,141	526,979,445
Under provision of current taxes in respect of prior years	1,264,007	3,007,361
	381,134,148	529,986,806
Deferred Tax		
Deferred tax charge (27.2)	211,528,638	212,779,819
Income tax expense reported in statement of profit or loss	592,662,785	742,766,624
Deferred tax charge / (reversal) recognized in OCI	11,792,817	(77,877)
27.1 Current tax payable		
Tax payable as at 1st April	434,425,679	282,717,688
Current tax expense for the year	381,134,148	529,986,806
Tax paid during the year	(505,672,232)	(378,278,815)
Tax payable as at 31st March	309,887,595	434,425,679

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

	2016		2015	
	%	Rs.	%	Rs.
Accounting profit before income tax		2,019,656,028		2,226,348,846
Tax effect at the statutory income tax rate of 28%	28%	565,503,688	28%	623,377,677
Tax effect of other allowable credits	(7%)	(138,683,364)	(7%)	(158,453,355)
Tax effect of non deductible expenses	8%	164,578,455	12%	274,834,942
Under / (over) provision in the previous years	0%	1,264,007	0%	3,007,361
Income tax expense	29%	592,662,785	33%	742,766,624

27.2 Deferred Taxation

Recognized deferred tax assets and liabilities are attributable to the following:

As at 31 March 2016

	Statement of Financial Position		Statement of Profit or loss and Other Comprehensive Income	
	2016	2015	2016	2015
	Rs.	Rs.	Rs.	Rs.
Deferred tax liability - recognized in profit or loss - expense / (reversal)				
Lease receivables	1,011,144,217	843,296,720	167,847,496	275,109,972
Net forward exchange contracts	11,076,573	-	11,076,573	(1,530,900)
Property, Plant and Equipment	760,358	-	760,358	-
	1,022,981,148	843,296,720	179,684,428	273,579,072
Deferred tax assets - recognized in profit or loss - expense / (reversal)				
Defined benefit plans	2,606,217	1,718,426	(887,791)	(605,792)
Net forward exchange contracts	-	15,336,972	15,336,972	(15,336,972)
Finance lease liability	46,219,070	63,614,099	17,395,029	(44,856,489)
	48,825,287	80,669,497	31,844,210	(60,799,253)
Deferred tax assets - recognized in OCI - expense / (reversal)				
Defined benefit plans	823,383	1,207,599	384,217	(77,877)
	823,383	1,207,599	384,217	(77,877)
Deferred tax liability - recognized in OCI - expense / (reversal)				
Fair value change in derivatives recognized in hedge reserve	11,408,600	-	11,408,600	-
	11,408,600	-	11,408,600	-
Deferred tax expense / (reversal) for the current year - recognized in profit or loss			211,528,638	212,779,819
Deferred tax expense / (reversal) for the current year - recognized in OCI			11,792,817	(77,877)
Net deferred tax liability	984,741,078	761,419,624		

NOTES TO THE FINANCIAL STATEMENTS

27.2.a Movement in temporary differences

As at 31 March 2016

	2016 Rs.	2015 Rs.
Taxable temporary differences		
Lease receivables	3,611,229,345	3,011,774,001
Forward exchange contracts (net) - recognized in profit or loss	39,559,191	-
Forward exchange contracts - recognized in OCI	40,745,000	-
Property, Plant and Equipment	2,715,565	-
	3,694,249,101	3,011,774,001
Deductible temporary differences		
Defined benefit plans - recognized in profit or loss	9,307,918	6,137,235
Defined benefit plans - recognized in OCI	2,940,653	4,312,855
Forward exchange contracts (net)	-	54,774,900
Finance lease liability	165,068,107	227,193,210
	177,316,678	292,418,200
Net taxable temporary differences	3,516,932,423	2,719,355,800

28. EARNINGS PER SHARE

28.1 Basic earnings per share

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the Basic Earnings Per Share computations.

For the Year ended 31 March 2016

	2016 Rs.	2015 Rs.
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Amounts used as the numerator:

Profit attributable to ordinary shareholders for basic earnings per share	1,426,993,242	1,483,582,221
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For the Year ended 31 March 2016

	2016 No.	2015 No.
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Number of ordinary shares used as the denominator:

Ordinary shares in issue at the beginning of the year	2,800,000,000	2,800,000,000
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Weighted average number of ordinary shares in issue applicable to basic earnings per share	2,800,000,000	2,800,000,000
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Basic earnings per share (Rs.)	0.51	0.53
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28.2 Diluted earnings per share

There were no potential dilution at the year end. Therefore, diluted earnings/ (loss) per share is the same as basic earnings/ (loss) per share shown above.

As at 31 March 2016

	2016 Rs.	2015 Rs.
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29. CASH AND CASH EQUIVALENTS

29.1 Favourable cash & cash equivalents balance

Cash in hand and at bank	3,497,994,396	2,975,305,230
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29.2 Unfavourable cash & cash equivalent balances

Bank overdraft	(1,941,608,486)	(2,333,062,400)
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Total cash and cash equivalents for the purpose of cash flow statement	1,556,385,910	642,242,830
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30. COMPARATIVE FIGURES

Comparative information has not been reclassified or restated

31. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged	
		2016 Rs.	2015 Rs.
Leased assets	Short term borrowing	6,934,283,508	1,572,508,215

NOTES TO THE FINANCIAL STATEMENTS

32. RELATED PARTY DISCLOSURES

32.1 Parent and Ultimate Controlling Party

The Company's immediate and ultimate controlling party is Lanka ORIX Leasing Company PLC.

32.2 Transactions with Key Management Personnel (KMPs)

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly the KMP include members of the Board of Directors and General Managers and Deputy General Managers of the Company and its ultimate Parent Company Lanka ORIX Leasing Co. PLC . Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Company.

For the year ended 31 March 2016

	2016 Rs.	2015 Rs.
32.2.1 Compensation of KMPs		
Short term employment benefits	68,341,180	53,142,480
Post employment benefits	-	-
Total	68,341,180	53,142,480

The short term employment benefits include only the directors fees and emoluments paid to Directors & KMPs.

32.2.2 Transactions, arrangements and agreements involving KMPs, and their close family members (CFMs)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner. The transactions are carried out on an arms length basis. The details of the transactions are as follows :

As at 31 March 2016

	2016 Rs.	2015 Rs.
Deposits held with the Company	793,236,470	724,402,049
Interest paid / charge	101,490,974	134,974,177
Interest payable	34,918,747	11,648,649
Loans granted (excluding Directors)	14,659,498	14,516,954
Capital outstanding on facilities granted to KMP (excluding Directors)	22,293,019	21,940,078
Accommodation outstanding as a percentage of the Company's Capital Funds	0.18%	0.20%

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 2016 and 2015, refer notes no.9 and 16 accordingly).

Relationship	Nature of Transactions	Transaction Value	
		2016 Rs.	2015 Rs.
Parent Company	Net funds granted by the Parent during the year (excluding opening balance)	118,841,696	763,267,839
	Shared expenses (including vat)	1,461,164,236	1,251,656,237
	Asset hire charges	121,534,520	121,534,520
	Interest on re-red refinancing	3,773,910	6,747,174
	Treasury management fee	481,000,000	283,000,000
	Fund transfer interest	172,801,102	40,663,758
	Charges for service provided	-	120,000,000
Fellow Subsidiaries & Associates	Deposits & other borrowings by the company	2,388,847,172	219,877,919
	Interest paid/charge	46,747,799	5,760,057
	Interest payable	5,808,869	3,338,378
	IT service fee	120,000,000	120,000,000
	Portfolio handling fee	465,529,015	375,788,870
	Supply of leased vehicles	697,047,184	281,650,671
	Yard fee	12,679,192	13,418,572
	Loan/ lease granted	228,986,025	253,030,258
	Rental collections	314,057,143	276,867,747
	Interest income	181,424,350	183,265,876
	Capital outstanding on facilities granted	1,071,267,248	949,236,810
Other Related Companies/ Affiliates	Supply of leased vehicles	169,763,578	72,932,141
	Debentures issued	-	2,745,000,000
	Interest paid/charge	235,825,582	-
	Rental collections	130,993,610	107,915,781
	Interest income	8,274,211	17,760,491
	Capital outstanding on facilities granted	6,548,235	50,380,100
Other Related Organizations	Deposits held with the company	233,545,815	43,843,776
	Interest paid/charge	1,803,564	2,121,703
	Interest payable	6,267,987	392,326
Accommodation outstanding as a percentage of the Company's Capital Funds		8.78%	9.15%

All of the above transactions (including borrowing and lending transactions) with related parties are on arms length basis and are on terms that are generic to non related parties.

33. EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustment to or disclosure in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2016

	Operating Segment				Total
	Conventional Financial Services Rs.	Islamic Financial Services Rs.	Factoring Business Rs.	Others/ Adjustments Rs.	
34. OPERATING SEGMENTS					
For the year ended 31st March 2016					
Total revenue - Interest income & other income	10,869,523,435	1,636,308,151	1,877,274,311	-	14,383,105,898
External revenue	10,869,523,435	1,636,308,151	1,877,274,311	-	14,383,105,898
Net interest cost	(4,885,942,079)	(612,957,203)	(1,000,575,276)	-	(6,499,474,559)
Profit before operating expenses	5,983,581,356	1,023,350,948	876,699,035	-	7,883,631,339
Operating expenses	(3,934,236,139)	(452,640,283)	(1,201,208,044)	-	(5,588,084,467)
Value added tax on financial services	(220,325,401)	(55,565,443)	-	-	(275,890,844)
Results from operating activities	1,829,019,815	515,145,222	(324,509,010)	-	2,019,656,027
For the year ended 31st March 2015					
Total revenue - Interest income & other income	9,942,829,178	1,270,726,997	927,501,515	-	12,141,057,690
External revenue	9,942,829,178	1,270,726,997	927,501,515	-	12,141,057,690
Net interest cost	(3,933,757,372)	(529,019,768)	(515,534,563)	-	(4,978,311,703)
Profit before operating expenses	6,009,071,806	741,707,229	411,966,952	-	7,162,745,987
Operating expenses	(4,006,143,142)	(371,027,481)	(319,000,227)	-	(4,696,170,850)
Value added tax on financial services	(198,321,185)	(31,221,289)	(10,683,817)	-	(240,226,291)
Results from operating activities	1,804,607,480	339,458,458	82,282,908	-	2,226,348,846
For the year ended 31st March 2016					
Provision for / (reversal of provision for) doubtful debts and bad debts written off	757,041,446	75,855,602	735,679,029	-	1,568,576,077
Depreciation	32,717,251	-	-	-	32,717,251
For the year ended 31st March 2015					
Provision for / (reversal of provision for) doubtful debts and bad debts written off	1,377,131,365	85,016,282	35,154,670	-	1,497,302,317
Depreciation	12,166,033	-	-	-	12,166,033
Capital expenditure - Property Plant and equipment					
For the year ended 31st March 2016	1,231,579,800	-	-	-	1,231,579,800
For the year ended 31st March 2015	98,567,892	-	-	-	98,567,892
As at 31-03-2016					
Total assets	88,717,036,225	11,043,205,173	13,598,600,891	(2,973,777,435)	110,385,064,854
Total liabilities	80,834,236,663	9,727,870,662	13,598,600,891	(2,973,777,435)	101,186,930,781
As at 31-03-2015					
Total assets	55,120,942,251	7,774,857,506	6,200,201,741	(1,234,101,928)	67,861,899,570
Total liabilities	48,065,753,695	6,836,450,338	6,200,201,741	(1,234,101,928)	59,868,303,846

As at 31 March 2016

	2016	2015
	Rs.	Rs.

35. COMMITMENTS AND CONTINGENCIES

35.1 Contingent liabilities

Guarantees issued to banks and other institutions	671,001,727	636,345,074
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There were no material litigations or claims to be disclosed as at the reporting date.

As at 31 March 2016

	2016	2015
	Rs.	Rs.

35.2 Commitments

Forward exchange contracts- (commitment to purchase)	3,390,826,026	1,593,024,850
Unutilised loan facilities	9,087,623,362	5,824,041,685
Letters of credit	133,501,296	31,148,950

On the commitment to purchase the foreign currencies the company will receive USD 15,350,000 , EUR 1,500,000 , GBP 1,700,000, AUD 4,274,001.

The Company had no operating lease commitments as at 31st March 2016 (31st March 2015 - no commitments).

SUPPLEMENTARY FINANCIAL INFORMATION -ISLAMIC BUSINESS UNIT

STATEMENT OF FINANCIAL POSITION

As at 31 March 2016

	Note	2016 Rs.	2015 Rs.
ASSETS			
Cash and bank balances	3	120,480,965	594,644,793
Murabaha / Musawamah receivables	4	2,863,475,398	2,141,021,835
Diminishing Musharaka receivables	5	4,692,273,871	3,038,759,952
Ijarah rent receivables	6	3,293,316,642	1,942,105,632
Investment in quoted shares	7	7,000,000	8,500,000
Other receivables	8	51,658,296	37,325,294
Investment properties	9	15,000,000	12,500,000
Total assets		11,043,205,173	7,774,857,506
LIABILITIES			
Mudharabah investments		4,230,559,233	4,034,438,048
Mudharabah savings		466,058,778	384,263,173
Profit payable on Mudharabah investments		86,885,203	65,927,515
Wakala investments		1,569,100,000	780,000,000
Profit payable on Wakala investments		7,092,495	2,378,658
Income tax payable		138,217,880	97,619,204
Accruals and other payables	10	256,179,639	237,721,812
Due to head office	11	2,973,777,435	1,234,101,928
Total liabilities		9,727,870,662	6,836,450,338
OWNER'S FUND			
Retained earnings		1,315,334,511	938,407,168
Total owners fund		1,315,334,511	938,407,168
Total liabilities & owners fund		11,043,205,173	7,774,857,506

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 170 through 178.

STATEMENT OF PROFIT OR LOSS

Year ended 31 March 2016

	Note	2016 Rs.	2015 Rs.
Revenue	12	1,605,795,031	1,253,806,835
Profit paid to Mudharabah/Wakala investors		(480,400,473)	(469,765,238)
Other direct expenses - insurance		(132,556,730)	(59,254,530)
		992,837,828	724,787,067
Non distributable other income / (expenses)	13	30,513,120	16,920,162
Total operating income		1,023,350,948	741,707,229
Employee benefits	14	(124,866,148)	(87,764,897)
(Provision)/reversal for credit losses		(75,855,602)	(85,016,282)
Other operating expenses		(251,918,534)	(198,246,303)
Profit from operations	15	570,710,665	370,679,747
Value added tax on financial services		(55,565,443)	(31,221,289)
Profit before taxation		515,145,222	339,458,458
Income tax expense	16	(138,217,880)	(97,619,204)
Profit for the year		376,927,342	241,839,254

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 170 through 178.

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS

1. GENERAL

LOLC Finance PLC 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 authorized for issue by the Board of Directors in accordance with a resolution of the Directors passed on 27th May 2016. 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 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; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

Details of the IBU'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 IBU presents its statement of financial position in order of liquidity.

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

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 recognized 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 categorized 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 categorized 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 recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

1.4.2 Impairment Losses on 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

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS

to assess whether a further allowance for impairment should be provided in the statement of profit or loss. The judgements by the management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors though actual results may differ, resulting in future changes to the provisions.

1.4.3 Provisions for liabilities and contingencies

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

2. SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.1 Financial assets and financial liabilities

2.1.1 Non-derivative financial assets

2.1.1.a Initial recognition of financial assets

Date of recognition

The IBU initially recognizes receivables on the date that they are originated. All other financial assets are recognized initially on the trade date at which the IBU becomes a party to the contractual provisions of the instrument.

Initial measurement of financial Assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss.

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

2.2.1.b Classification of financial assets

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

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

2.2.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit or loss

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

Financial assets designated at fair value through profit or loss comprises of quoted equity instruments.

Held-to-maturity financial assets

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold it to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held to-maturity financial assets are measured at amortized cost.

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

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost.

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, Ijarah receivables, Murabaha, Musawamah and Diminishing Musharaka receivables and other receivables.

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of

changes in their fair value, and are used by the IBU in the management of its short-term commitments.

- *Ijarah receivables*

The LOLC Finance PLC's IBU buys and lease out equipment required by its clients for a fee (Rental). The duration of the lease and value of the rental is agreed in advance. Ownership of the asset will remain with the Company till the end of the lease period. Rent receivables on Ijarah advances reflected in the statement of financial position are the total rent receivables after eliminating unearned income and deducting pre paid rentals, rental collections and provision for impairment losses.

- *Murabaha, Musawamah and Diminishing 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.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for sale equity instruments, are recognized in other comprehensive income and presented within equity in the available for sale reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the statement of profit or loss.

The IBU has not classified any instrument as available for sale.

2.1.2 Non-derivative financial liabilities

Classification and Subsequent Measurement of Financial Liabilities

The IBU initially recognizes 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 recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized 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 recognized 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 derecognizes 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 recognized in other comprehensive income is recognized in profit or loss.

Financial liabilities

The IBU derecognizes 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS

2.1.5 Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, plus the cumulative income, minus principal repayments, minus any reduction for impairment.

2.1.6 Fair value measurement

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

Determination of fair value

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

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

2.1.7 Impairment

Non-derivative financial assets

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

The IBU computes its impairment on receivables in accordance with Direction No. 03 of 2006 of the Finance Business Act No.42 of 2011 as follows,

- Fifty percent (50%) of Ijarah receivables, Murabaha/ Musawamah advances & Diminishing Musharakah advances

receivable (net of unearned income) which are in arrears for a period of 06 to 12 months.

- One hundred percent (100%) of Ijarah lease, Murabaha/ Musawamah advances & Diminishing Musharakah advances receivable (net of unearned income) which are in arrears for a period of 12 months and more

Additional specific provisions are made upon management review on the performance of these portfolios.

Balance receivables on any terminated contracts are fully provided.

The values of the following items held as collateral for a particular advance have been deducted in arriving at the above provisions.

- ***Vehicles that have been repossessed by the Company***

Eighty per cent (80%) of the valuation obtained during the preceding six months from a professional valuer approved by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

- ***Lands & Buildings***

The value of the property on a declining basis based on the age of the facility, in case of a primary mortgage. Such value shall not exceed the value decided by a qualified professional valuer at the time of providing the accommodation.

2.2 Investment property

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

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized 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 recognized 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 recognized 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 recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized 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 recognized if, as a result of a past event, the IBU has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

2.5 Events occurring after the reporting date

Events after the reporting period are those events, favourable and

unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

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

SIGNIFICANT ACCOUNTING POLICIES-RECOGNITION OF INCOME AND EXPENSES

2.6 Revenue Recognition

2.6.1 Murabaha/Musawamah Income

The profits and losses arising from Murabaha/Musawamah transactions are recognized over the term of the facility, commencing from the month in which the facility is executed.

2.6.2 Ijarah Income

Profits and losses arising from Ijarah assets are recognized 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.

2.6.3 Diminishing Musharakah Income

Profits and losses arising from Diminishing Musharakah are recognized in the accounting period in which the installments are due.

2.6.4 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.

2.6.5 Fees and other income

Fees and other income that are integral to the financial asset or liability are included in the measurement of the amortized cost.

Other fees and other income, including account servicing fees are recognized as the related services are performed.

Collections on contracts written off are accounted for on cash basis

2.6.6 Dividends

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

2.7 Expenditure Recognition

Expenses are recognized in the statement of profit or loss on the basis of a direct association between the cost incurred and the

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS

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.

2.7.1 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 recognized as expense in the period it becomes due.

2.7.2 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.

2.8 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

2.9 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

2.10 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.

As at 31 March 2016

	2016 Rs.	2015 Rs.
3. CASH AND BANK BALANCES		
Cash & bank balances	120,480,965	594,644,793
	120,480,965	594,644,793
4. MURABAHA / MUSAWAMAH RECEIVABLES		
Installment receivable	3,216,664,817	2,545,480,380
Unearned income	(345,004,594)	(395,228,211)
Income in suspense	(1,311,924)	(2,096,648)
Provision for credit losses	(6,872,901)	(7,133,686)
	2,863,475,398	2,141,021,835
5. DIMINISHING MUSHARAKA RECEIVABLES		
Installment receivable	4,726,452,526	3,066,896,047
Income in suspense	(12,065,797)	(8,535,396)
Provision for credit losses	(22,112,858)	(19,600,699)
	4,692,273,871	3,038,759,952
6. IJARAH RECEIVABLES		
Rent receivables	4,305,844,643	2,656,862,208
Unearned income	(1,002,650,815)	(690,093,847)
Income in suspense	(2,363,271)	(4,549,919)
Provision for credit losses	(7,513,915)	(20,112,810)
	3,293,316,642	1,942,105,632
7. INVESTMENT IN QUOTED SHARES		
Expo Lanka Holdings PLC		
Cost (1,000,000 shares)	18,000,000	18,000,000
Adjustment for fall in value of investments	(11,000,000)	(9,500,000)
	7,000,000	8,500,000
8. OTHER RECEIVABLES		
Staff car advances	23,900,153	7,795,629
Insurance premium receivable	4,973,556	2,440,209
Others	22,784,587	27,089,456
	51,658,296	37,325,294
9. INVESTMENT PROPERTIES		
Balance as at 1st April	12,500,000	11,000,000
Change in fair value	2,500,000	1,500,000
Balance as at 31st March	15,000,000	12,500,000

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS

As at 31 March 2016

	2016 Rs.	2015 Rs.
10. ACCRUALS AND OTHER PAYABLES		
Lease equipment creditors	112,527,705	110,964,942
Refunds payable	74,567,524	23,451,829
Insurance payable	30,915,207	34,913,277
IBU charity fund	7,199,735	32,327,558
Other payables	30,969,468	36,064,206
	256,179,639	237,721,812
11. DUE TO HEAD OFFICE		
Qurd hassan	2,853,000,000	455,000,000
Current account balance due to head office	120,777,435	779,101,928
	2,973,777,435	1,234,101,928

For the year ended 31 March 2016

	2016 Rs.	2015 Rs.
12. REVENUE		
Income from Ijarah receivables	503,816,050	330,001,496
Income from Diminishing Musharaka receivables	665,254,234	520,073,977
Income from Murabaha/Musawamah receivables	391,462,948	363,566,123
Profit on terminations	44,873,120	30,737,137
Income from Mudarabah deposits	388,680	9,428,102
	1,605,795,031	1,253,806,835
13. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)		
Takaful commission	30,528,896	16,229,200
Others	(15,776)	690,962
	30,513,120	16,920,162
14. EMPLOYEE BENEFITS		
Salaries & other benefits	124,866,148	87,764,897
	124,866,148	87,764,897
15. PROFIT FROM OPERATION		
Stated after charging ;		
Advertising	12,674,674	17,782,185
Business promotion expenses	36,018,342	22,986,434
16. 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)	138,217,880	97,619,204
	138,217,880	97,619,204

17. 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	31.03.2016	31.03.2015	31.03.2014	31.03.2013	31.03.2012	31.03.2011	31.03.2010	31.03.2009	31.03.2008	31.03.2007
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
ASSETS										
Cash and bank balances	3,497,994	2,975,305	3,236,380	3,061,190	2,100,865	812,035	1,209,590	340,452	348,916	64,137
Deposits with banks and other financial institutions	10,206,771	761,095	466,476	414,634	846,457	-	143,295	1,519,769	35,894	20,030
Investment in government securities	8,397,496	5,900,718	4,936,822	3,378,980	1,442,826	2,136,000	3,149,302	804,718	713,391	296,649
Derivative assets	98,163	2,740	13,572	1,936	211,713	19,560	-	-	-	-
Rentals receivable on leased assets	17,243,862	13,150,376	10,836,503	11,452,172	11,018,808	4,332,440	1,249,074	865,496	981,678	1,074,594
Hire purchases, loans and advances	53,335,175	36,647,329	28,828,435	25,547,021	21,901,827	16,442,747	7,639,397	2,828,155	2,456,830	1,221,735
Factoring receivable	13,598,601	6,200,202	3,279,931	3,198,685	-	-	-	-	-	-
Margin trading receivables	85,597	293,712	123,408	-	-	80	8845	51,070	79,880	95,195
Other receivables	694,055	639,352	1,418,033	357,943	576,261	322,055	193,431	252,418	172,503	127,583
Investments in shares	1,083,471	8,843	9,043	7,143	6,200	18,000	-	-	-	-
Amount due from related companies	3,271	2,883	5,930	75,649	77,067	150,867	3,042	6,382	6,115	6,443
Inventories	-	-	12,080	-	13,629	-	-	-	-	-
Real estate stock	-	-	-	2,598	16,449	16,262	22,930	28,996	121,467	103,219
Investment properties	930,200	1,142,800	215,173	71,500	71,500	71,500	91,990	91,990	-	-
Property plant and equipment	1,210,407	136,545	50,143	-	-	-	5,882	14,668	12,979	14,007
Total assets	110,385,065	67,861,900	53,431,929	47,569,453	38,283,601	24,321,546	13,716,775	6,804,114	4,929,655	3,023,592
LIABILITIES										
Bank overdraft	1,941,608	2,333,062	1,136,163	2,201,599	989,189	501,515	270,443	89,083	203,942	31,270
Interest bearing borrowings	35,070,152	11,040,028	823,838	5,981,573	5,042,010	627,024	1,101,812	-	-	50,000
Deposits from customers	60,197,201	41,309,960	42,617,800	32,069,049	25,843,130	17,899,089	10,129,683	5,303,921	3,339,665	1,746,165
Trade payables	637,850	645,905	328,986	434,517	211,163	685,144	146,223	18,312	35,484	20,907
Accruals and other payables	1,018,603	822,441	494,314	685,456	166,034	114,229	414,390	211,056	161,370	80,008
Derivative liabilities	17,859	57,515	8,104	40,097	-	7,597	-	-	-	-
Amount due to related companies	996,781	2,453,097	649,310	135,056	806,442	734,560	332,565	191,879	247,759	220,341
Current tax payable	309,888	434,426	282,718	178,418	175,447	72,999	11,176	869	-	-
Deferred tax liability	984,741	761,420	548,718	415,508	318,112	115,014	39,864	12,770	15,786	-
Employee benefits	12,249	10,450	8,008	4,550	4,729	2,881	2,325	1,667	1,872	1,097
Total liabilities	101,186,931	59,868,304	46,897,960	42,145,823	33,556,256	20,760,052	12,448,482	5,829,558	4,005,878	2,149,788
SHAREHOLDER'S FUNDS										
Stated capital	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	1,000,000	800,000	800,000	800,000
Statutory reserve	1,239,075	953,677	879,497	679,438	542,182	293,024	43,805	24,470	11,263	8,032
Investment fund reserve	-	-	391,850	287,762	157,146	39,539	-	-	-	-
Cash flow hedge reserve	22,748	-	-	-	-	-	-	-	-	-
Available for sale investment reserve	(160,154)	86,037	109,793	(2,117)	(12,126)	-	-	-	-	-
Retained earnings	6,096,465	4,953,882	3,152,829	2,458,547	2,040,144	1,228,931	224,488	150,086	112,513	65,773
Total equity	9,198,134	7,993,596	6,533,970	5,423,630	4,727,346	3,561,494	1,268,293	974,556	923,776	873,805
Total liabilities and equity	110,385,065	67,861,900	53,431,929	47,569,453	38,283,601	24,321,546	13,716,775	6,804,114	4,929,655	3,023,592

2011-2016 Statement of Financial Position is prepared based on LKAS/SLFRS. Prior periods are prepared based on SLAS's.

STATEMENT OF PROFIT OR LOSS

<i>For the year ended</i>	31.03.2016	31.03.2015	31.03.2014	31.03.2013	31.03.2012	31.03.2011	31.03.2010	31.03.2009	31.03.2008	31.03.2007
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Interest income	13,137,597	10,871,227	10,515,811	8,457,606	5,971,895	3,113,150	1,661,049	1,111,044	725,106	337,972
Interest expense	(6,499,475)	(4,978,312)	(6,125,280)	(4,950,845)	(2,994,344)	(1,760,124)	(1,291,259)	(895,305)	(471,531)	(208,757)
Net interest income	6,638,122	5,892,915	4,390,531	3,506,761	2,977,550	1,353,026	369,790	215,740	253,575	129,215
Net other operating income	1,245,509	1,269,831	971,589	496,871	336,063	1,504,257	530,738	260,619	104,741	28,283
Direct expenses excluding interest cost	(911,717)	(428,892)	(297,539)	(121,899)	(89,569)	(97,481)	(34,447)	(53,590)	(23,271)	(24,195)
Allowance for impairment & write-offs	(1,568,576)	(1,497,302)	(1,371,346)	(1,237,473)	(72,433)	(155,634)	(208,476)	(79,253)	(51,448)	(25,607)
Personnel expenses	(1,100,550)	(897,364)	(687,106)	(548,439)	(469,514)	(309,594)	(111,076)	(63,899)	(48,750)	(29,549)
Depreciation	(32,717)	(12,166)	(3,823)	-	-	(2,048)	(2,093)	(5,744)	(6,201)	(5,324)
General & administration expenses	(1,974,524)	(1,860,447)	(1,390,608)	(970,659)	(811,042)	(666,374)	(296,040)	(149,389)	(98,204)	(41,491)
Profit from operations	2,295,547	2,466,575	1,611,698	1,125,162	1,871,055	1,626,151	248,396	124,484	130,442	31,331
Value added tax on financial services	(275,891)	(240,226)	(169,274)	(129,822)	(179,921)	(137,285)	(49,581)	(21,312)	(30,868)	(6,707)
Profit before tax	2,019,656	2,226,349	1,442,423	995,340	1,691,134	1,488,866	198,815	103,172	99,574	24,624
Income tax expense	(592,663)	(742,767)	(442,124)	(309,060)	(512,125)	(242,773)	(105,078)	(37,138)	(49,603)	(163)
Profit for the year	1,426,993	1,483,582	1,000,299	686,280	1,179,009	1,246,093	93,738	66,034	49,972	24,461

2012-2015 Profits are determined based on LKAS/SLFRS. Profits prior to that are determined in line with SLAS's.

QUARTERLY FINANCIAL INFORMATION

STATEMENT OF FINANCIAL POSITION

As at	2016						2015					
	2016			2015			2015			2015		
	30.06.2015	30.09.2015	31.12.2015	31.03.2016	30.06.2014	30.09.2014	31.12.2014	31.03.2015	30.06.2014	30.09.2014	31.12.2014	31.03.2015
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
ASSETS												
Cash and bank balances	3,341,442	2,056,857	1,946,004	3,497,994	2,790,223	2,834,980	2,837,347	2,975,305				
Deposits with banks and other financial institutions	267,400	284,652	314,042	10,206,771	975,939	481,860	489,519	761,095				
Investment in government securities	6,678,947	7,088,480	7,446,568	8,397,496	6,350,344	6,377,662	6,213,989	5,900,718				
Derivative assets	900	26,964	42,982	98,163	11,625	-	498	2,740				
Rentals receivable on leased assets	14,658,192	16,261,788	17,214,389	17,243,862	10,775,798	11,242,421	12,491,991	13,150,376				
Hire purchases, loans and advances	39,450,542	44,452,256	49,338,706	53,335,175	29,706,210	32,260,284	34,984,348	36,647,329				
Factoring receivable	6,959,085	9,265,631	11,660,608	13,598,601	3,215,678	4,149,662	4,839,152	6,200,202				
Margin trading receivables	211,892	176,204	229,999	85,597	184,237	129,725	241,490	293,712				
Other receivables	652,488	702,897	780,808	694,055	1,298,047	1,302,409	1,471,688	639,352				
Investment securities	74,568	74,668	74,568	1,083,471	10,343	10,143	8,943	8,843				
Inventories					12,080	12,080	-	-				
Amount due from related companies	25,642	16,023	92,263	3,271	13,659	2,609	2,727	2,883				
Investment properties	1,059,877	1,060,237	1,060,160	930,200	215,173	216,862	404,131	1,142,800				
Property plant and equipment	133,005	324,748	385,238	1,210,407	48,461	130,777	126,305	136,545				
Total assets	73,513,979	81,791,405	90,586,335	110,385,065	55,607,817	59,151,473	64,112,127	67,861,900				
LIABILITIES												
Bank overdraft	3,606,943	1,878,126	2,837,814	1,941,608	1,437,271	769,323	1,714,296	2,333,062				
Interest bearing borrowings	12,741,131	15,033,070	17,568,169	35,070,152	707,897	4,498,393	7,515,304	11,040,028				
Deposits from customers	44,388,048	51,520,337	55,609,108	60,197,201	44,660,697	43,249,893	42,723,153	41,309,960				
Trade payables	749,383	575,692	583,077	637,850	250,561	360,951	549,200	645,905				
Accruals and other payables	1,071,123	1,076,791	928,194	1,018,603	721,659	1,417,522	1,585,141	822,441				
Derivative liabilities	24,256	23,932	6,140	17,859	30,695	101,807	131,203	57,515				
Amount due to related companies	1,231,535	1,645,038	2,636,930	996,781	314,341	530,116	1,058,136	2,453,097				
Current tax payable	543,611	513,102	549,316	309,888	152,711	316,816	500,002	434,426				
Deferred tax liability	761,420	761,420	761,420	984,741	548,718	548,718	548,718	761,420				
Employee benefits	10,365	10,365	9,969	12,249	7,793	7,535	7,535	10,450				
Total liabilities	65,127,815	73,037,874	81,490,138	101,186,931	48,832,345	51,801,075	56,332,687	59,868,304				
EQUITY												
Stated capital	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000				
Statutory reserve	953,677	953,677	953,677	1,239,075	879,497	879,497	879,497	953,677				
Investment fund reserve	-	-	-	-	400,779	424,786	424,786	-				
Cash flow hedge reserve	-	-	-	22,748	-	-	-	-				
Available for sale investment reserve	114,129	72,409	47,526	(160,154)	120,240	196,077	166,957	86,037				
Retained earnings	5,318,359	5,727,446	6,094,995	6,096,465	3,374,955	3,850,038	4,308,199	4,953,882				
Total equity	8,386,164	8,753,531	9,096,197	9,198,134	6,775,472	7,350,398	7,779,440	7,993,596				
Total liabilities and equity	73,513,979	81,791,405	90,586,335	110,385,065	55,607,817	59,151,473	64,112,127	67,861,900				

	2016				2015					
	Quarter ended		Year ended		Quarter ended		Year ended			
	30-Jun-15	30-Sep-15	31-Dec-15	31-Mar-16	31.03.2016	30-Jun-14	30-Sep-14	31-Dec-14	31-Mar-15	31.03.2015
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Interest income	2,799,904	3,123,239	3,425,491	3,788,963	13,137,597	2,450,953	2,715,624	2,840,075	2,864,574	10,871,227
Interest expenses	(1,281,385)	(1,491,001)	(1,706,669)	(2,020,420)	(6,499,475)	(1,331,830)	(1,269,888)	(1,242,552)	(1,134,041)	(4,978,312)
Net interest income	1,518,519	1,632,238	1,718,822	1,768,543	6,638,122	1,119,123	1,445,736	1,597,523	1,730,533	5,892,915
Net other operating income	212,412	306,246	294,256	432,595	1,245,509	201,223	341,321	204,650	522,636	1,269,831
Direct expenses excluding interest cost	(73,939)	(107,481)	(98,768)	(631,529)	(911,717)	(11,395)	(40,073)	(47,056)	(309,534)	(428,892)
Provision for doubtful debts & write-offs	(282,221)	(258,605)	(461,176)	(566,574)	(1,568,576)	(374,294)	(314,885)	(333,160)	(474,963)	(1,497,302)
Personnel expenses	(268,592)	(246,232)	(222,751)	(362,975)	(1,100,550)	(193,173)	(194,758)	(213,055)	(296,378)	(897,364)
Depreciation	(3,539)	(4,798)	(9,176)	(15,205)	(32,717)	(1,682)	(2,036)	(4,472)	(3,976)	(12,166)
General & administration expenses	(509,674)	(612,860)	(618,732)	(233,258)	(1,974,524)	(360,551)	(477,650)	(407,126)	(635,951)	(1,860,447)
Profit from operations	592,967	708,508	602,474	391,598	2,295,547	379,251	757,655	797,304	532,366	2,466,575
Value added tax on financial service	(59,306)	(88,585)	(77,668)	(50,332)	(275,891)	(54,095)	(68,721)	(65,228)	(52,183)	(240,226)
Profit before income tax expense	533,661	619,923	524,806	341,266	2,019,656	325,156	688,934	732,076	480,184	2,226,349
Income tax expense	(169,185)	(210,835)	(157,257)	(55,385)	(592,663)	(94,102)	(189,843)	(273,915)	(184,907)	(742,767)
Profit for the period	364,476	409,087	367,549	285,881	1,426,993	231,055	499,090	458,161	295,277	1,483,582

INVESTOR INFORMATION

SHAREHOLDING AS AT 31 MARCH

	2016		2015	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Resident	2,795,939,100	99.85	2,795,452,500	99.84
Non Resident	4,060,900	0.15	4,547,500	0.16
Total	2,800,000,000	100.00	2,800,000,000	100.00

TOP 20 SHAREHOLDERS

	2016		2015	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Lanka ORIX Leasing Company PLC	2,520,000,000	90.00	2,520,000,000	90.00
Saakya Capital (Pvt) Ltd	128,045,234	4.57	128,045,234	4.57
Satya Capital (Pvt) Ltd	52,000,000	1.86	52,000,000	1.86
Capital Alliance Holdings Limited	28,000,000	1.00	-	0.00
Dr. R R De Silva	11,371,515	0.41	10,990,594	0.39
National Savings Bank	4,550,000	0.16	4,550,000	0.16
DPMC Assetline Holdings (Pvt) Ltd. Account No 2	3,443,923	0.12	3,443,923	0.12
Mr. D Kotthoff	3,100,000	0.11	2,799,900	0.10
Dr. A R Wikramanayake	1,688,500	0.06	1,688,500	0.06
Mr. S V Somasunderam	1,500,000	0.05	1,500,000	0.05
Bansei Securities Capital (Pvt) Ltd/ Mr. A.Nissanka	1,300,800	0.05	-	0.00
Mr. G C S Ramanayake & Mrs. K M Ramanayake	1,008,423	0.04	-	0.00
Assetline Leasing Company Ltd/M J T Waas	1,000,000	0.04	1,000,000	0.04
Mrs. D P Pieris	1,000,000	0.04	1,000,000	0.04
Mr. P M M Pieris	1,000,000	0.04	1,000,000	0.04
Mr. L A J F Morais	966,449	0.03	352,750	0.01
Mr. W A S P De Seram	906,389	0.03	951,845	0.03
Mr. A W A L Dharmaprema	900,012	0.03	700,000	0.03
Pan Asia Banking Corporation PLC. Sisira Sirimevan Weerabahu	800,460	0.03	-	0.00
Mrs. B C R Wickramaratne	765,000	0.03	0	0.00
	2,763,346,705	98.69	2,731,147,746	97.54

The Public Shareholding as at 31st March 2016 was 9.882%

INVESTOR INFORMATION

Analysis of Ordinary Shares as at 31 March

Range		2016			2015		
		No. of Shareholders	No. of Shares	% of Shares	No. of Shareholders	No. of Shares	% of Shares
1	- 1,000	1,250	523,686	0.02	1,204	520,515	0.02
1,001	- 10,000	942	3,834,985	0.14	982	4,082,006	0.14
10,001	- 100,000	361	12,872,580	0.46	375	13,035,478	0.47
100,001	- 1,000,000	81	26,760,354	0.95	72	23,218,850	0.83
Over 1,000,000 Shares		14	2,756,008,395	98.43	13	2,759,143,151	98.54
Total		2648	2,800,000,000	100.00	2646	2,800,000,000	100.00

Highest, lowest and closing share prices for the year ended 31st March

	2016 Rs.	2015 Rs.
Highest	4.80	4.50
Lowest	2.50	3.20
Closing	2.80	3.70

STATEMENT OF VALUE ADDED

	2015/16 (Rs.)	(%)	2014/15 (Rs.)	(%)
Value added				
Income	13,137,597,016		10,871,226,902	
Other income	1,245,508,882		1,269,830,788	
Cost of borrowings	(6,499,474,559)		(4,978,311,703)	
General & administration expenses	(2,886,241,327)		(2,289,338,540)	
Allowance for impairment & write-offs	(1,568,576,077)		(1,497,302,317)	
	3,428,813,935		3,376,105,130	
Distribution of Value added				
To Employees	1,100,549,812	32	897,363,959	27
Remuneration and other benefits	1,100,549,812		897,363,959	
To Government	868,553,629	25	982,992,915	29
Indirect taxes	275,890,844		240,226,291	
Direct taxes	592,662,785		742,766,624	
To Expansion and Growth	1,459,710,493	43	1,495,748,255	44
Retained profits	1,426,993,242		1,483,582,221	
Depreciation and amortisation	32,717,251		12,166,034	
	3,428,813,935	100	3,376,105,130	100

OTHER DISCLOSURES

Other disclosures required by the Rules of the Colombo Stock Exchange

1.) Properties held by the company

Location	Extent	Valuation	Number of buildings
1. Keselwatta, Panadura	0A-0R-25P	LKR 15,000,000	-
2. Telwala, Rathmalana	0A-0R-20P	LKR 65,000,000	1
3. Hendala, Wattala	0A-0R-9P	LKR 5,400,000	-
4. Idama, Moratuwa	0A-0R-14.85P	LKR 24,500,000	3
5. Wewala, Piliyandala	0A-0R-20P	LKR 6,000,000	-
6. Gothatuwa	0A-3R-35P	LKR 46,000,000	-
7. Wickremasinghepura, Battaramulla	0A- 3R- 33.83P	LKR 65,000,000	-
8. Colombo 8	0A- 0R- 35.75P	LKR 365,000,000	1
9. Kosgoda	9A- 0R- 00.00P	LKR 200,000,000	-
10. Thaladena	1A- 3R- 13.47P	LKR 138,300,000	4

2.) Non recurrent Related Party Transactions

No non recurrent transactions exceeding the threshold took place during the financial year.

3.) Recurrent Related Party Transactions

Name of the related party	Relationship	Nature of the transactions	Aggregate value of the related party transactions entered into during the financial year (Rs)	Value of the related party transactions as a % of Net Revenue	Terms & conditions of the related party transactions
Lanka ORIX Leasing Company PLC	Parent	Shared expenses (including vat)	1,461,164,236	10.2%	Transactions took place under commercial terms in the ordinary course of business
		Other transactions with the Parent			
		Net funds granted by the Parent during the year (excluding opening balance)	118,841,696	0.8%	
		Asset hire charges	121,534,520	0.8%	
		Interest on re-red refinancing	3,773,910	0.0%	
		Treasury management fee	481,000,000	3.3%	
		Fund transfer interest	172,801,102	1.2%	
			2,359,115,465	16.4%	

OTHER DISCLOSURES

4.) Debenture information

The Debentures 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 current financial year.

- 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%	9.30%	9.43%	11.57%
Type B- 5 Years Tenor	Semi Annually	9.10%	9.10%	9.10%	11.57%
Type C- 5 Years Tenor	Annually	9.25%	9.25%	9.25%	11.57%

- Market prices & issue prices of debentures recorded during the year ended 31st March 2016 are as follows.

Instrument Type	Issue Price	Highest Price	Lowest Price	Last Traded Price	Last Traded Date
Type A- 5 Years Tenor	Rs.100.00	Rs. 97.20	Rs. 96.53	Rs. 96.80	1-Mar-16
Type B- 5 Years Tenor	Rs.100.00	Not Traded	Not Traded	Not Traded	N/A
Type C- 5 Years Tenor	Rs.100.00	Not Traded	Not Traded	Not Traded	N/A

- Debt security related ratios.

Instrument Type	As at 31-03-2016	As at 31-03-2015
- Debt to equity ratio	10.57 times	6.84 times
- Quick asset ratio	0.02 times	0.86 times
- Interest cover	1.31 times	1.44 times

BRANCH NETWORK

Branches	LIOC Centres	Al-Falaah IB Centres	Cash Collection Centres	Savings Centres
Ambalangoda	Aluthgama	Akkaraipattu	Akkaraipattu	Polonnaruwa Royal
Ambalanthota	Pilimathalawa	Akurana	Anamaduwa	Fathima College Colombo
Ampara	Thalawakale	Kalmunai	Bandarawela	D.S.Senanayake Model Primary School-Anuradhapura
Anuradhapura		Kattankudi	Bulathsinghala	Pitiyagedara Primary School, Bemmulla
Aralaganvila		Oddamawadi	Chenkaladi	LOMO
Avissawella			Giriulla	LOLC Insurance
Badulla			Godakawela	LOFAC
Balangoda			Hikkaduwa	
Batticaloa			Ingiriya	
Chilaw			Kalmunai	
Chunnakkam			Keppetipola	
City Branch			Kinniya	
Dambulla			Kokkadicholai	
Dehiattakandiya			Melsiripura	
Dehiwala			Muttur	
Digana			Padiyathalawa	
Divulapitiya			Pothuvil	
Elpitiya			Rikillagaskada	
Embilipitiya			Thanamalwila	
Galle			Weligama	
Gampaha			Welikanda	
Hatton			Weliweriya	
Head Office			Wilgamuwa	
Homagama			Eheliyagoda	
Horana			Galenbindunuwewa	
Ja-Ela			Galewela	
Jaffna			Galnewa	
Kaduwela			Kantale	
Kalutara			Padaviya	
Kandy			Ruwanwella	

BRANCH NETWORK

Branches	LIOC Centres	Al-Falaah IB Centres	Cash Collection Centres	Savings Centres
Kegalle				
Kekirawa				
Kilinochchi				
Kiribathgoda				
Kochchikade				
Kohuwala				
Kollupitiya				
Kuliyapitiya				
Kurunegala				
Maharagama				
Mahiyanganaya				
Mannar				
Maradana				
Matale				
Matara				
Mathugama				
Medawachchiya				
Monaragala				
Morawaka				
Mount Lavinia				
Muleitivu				
Nawalapitiya				
Negombo				
Nelliadi				
Neluwa				
Nikawaratiya				
Nittambuwa				
Nuwara Eliya				
Panadura				
Pelmadulla				
Pettah				

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT THE 15TH ANNUAL GENERAL MEETING of LOLC Finance PLC will be held on **06th September 2016 at 10.30 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, 2016, with the Report of the Auditors thereon.
2. To re-elect as Director Mr A Nissanka, who retires by rotation in terms of Article 70 of the Articles of Association of the Company.
3. To re-elect as Director Justice R K S Suresh Chandra, 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.

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 **10.30 a.m. on 04th September, 2016.**
- 3) A Form of Proxy accompanies this Notice.

BY ORDER OF THE BOARD

LOLC Finance PLC



R Seneviratne

LOLC Corporate Services (Private) Limited
Secretaries

15th August, 2016
Rajagiriya (in the greater Colombo)

NOTES

NOTES

FORM OF PROXY

I/We
 of
 being a member/members of LOLC Finance PLC hereby appoint
 of whom failing

Mr. Ishara Chinthaka Nanayakkara	of Colombo or failing him
Mrs. Kalsha Upeka Amarasinghe	of Colombo or failing her
Dr. Harsha Cabral, PC	of Colombo or failing him
Mrs. Dayangani Priyanthi Pieris	of Colombo or failing her
Justice Rajaratnam Kulatunga Shyamsunder Suresh Chandra	of Colombo or failing him
Mr. Ashan Nissanka	of Colombo

as my/our proxy to represent me/us and vote on my/our behalf at the 15th Annual General Meeting of the Company to be held on 06th September, 2016 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. A Nissanka, who retires by rotation in terms of Article 70 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
2 To re-elect as Director Justice R K S Suresh Chandra, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-appoint as Auditors M/s Ernst and Young, Chartered Accountants at a remuneration to be fixed by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>

dated this day of Two Thousand Sixteen

.....
 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.lankaorix.com>

Swift: LOFCLKLC

Directors

Mr. W D K Jayawardena – Non-Executive Chairman

(relinquished duties as Chairman on 29.06.2016)

Mr. I C Nanayakkara – Executive Deputy Chairman

(alternate to Mrs K U Amarasinghe)

Mrs. K U Amarasinghe – Executive Director

(Alternate to Mr. I C Nanayakkara)

Dr. H Cabral PC – Non Executive Director

Justice R K S Suresh Chandra – Senior Independent Director

(alternate to Mrs. D P Pieris)

Mrs. D P Pieris – Independent Director

(alternate to Justice R K S Suresh Chandra)

Mr. A Nissanka – Executive Director/ CEO

Secretaries

LOLC Corporate Services (Private) Limited

100/1 Sri Jayewardenepura Mawatha Rajagiriya

Tel: 011 5880354/7 0115880880 (general)

Auditors

Ernst & Young, Chartered Accountants

Lawyers

Julius & Creasy, Attorneys-at-Law

Nithya Partners

Registrars

PW Corporate Secretarial (Private) Ltd

No. 3/17 Kynsey Road, Colombo 8.

Tel: 011 4897733-5

Principal Activities

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

Bankers

Nations Trust Bank PLC

Citi Bank N.A.

Commercial Bank of Ceylon PLC

NDB Bank

Bank of Ceylon

Seylan Bank PLC

MCB Bank

Deutsche Bank

Hatton National Bank PLC

Pan Asia Bank

Hong Kong & Shanghai Banking Corporation

Sampath Bank PLC

National Savings Bank

Peoples Bank

Cargills Bank

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