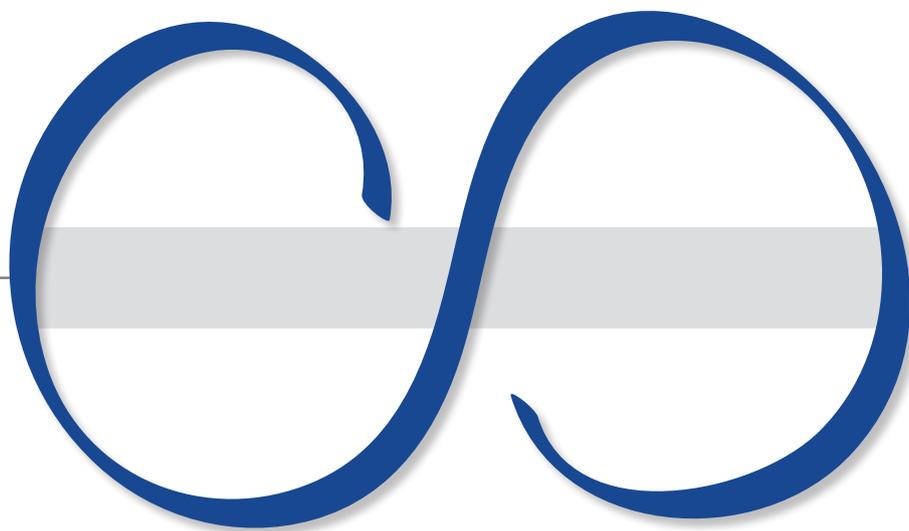


Limitless

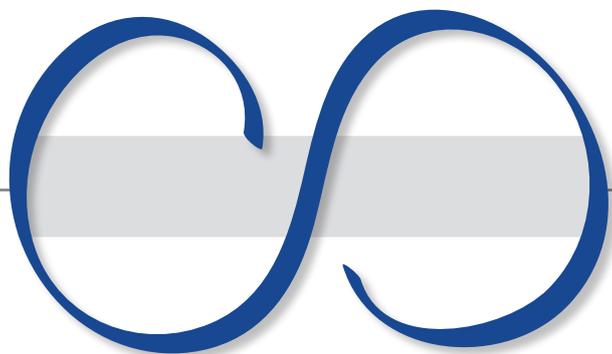


LOLC FINANCE PLC
Annual Report 2016/17

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Limitless



Savings & Deposits • Auto and SME Finance • Real Time fund transactions • Working Capital • Foreign Currency Business

No boundaries. No borders. When all you see are the possibilities that lie ahead of you and the opportunities all around you, your choices become limitless.

LOLC Finance has been a pioneer in the local non-banking financial sector since 2001, constantly improving our business model and expanding our presence, even as we evolve our portfolio for business dominance and corporate stability. We maintain the highest standards of industry excellence, from a very responsive service ethic to cutting-edge financial technology and the constant digital innovation that saw your company launch the new LOLC Real Time app this year; a fully integrated mobile payment platform designed to deliver added value in customer convenience, speed and security.

A philosophy of inclusiveness drives our vision and our diverse portfolio serves a broad range of clients, from corporates and high net-worth individuals to small SME customers from some of the most underserved regions of the island.

We continue to maintain industry leadership as the NBF1 with the biggest deposit base and this report describes a continuing story of progress and evolution as your company continues to grow.

We're bringing together what's here and now with what lies in the future. Our reliability, strength and advanced technological capabilities combine with our Group synergies, making us a force to be reckoned with and our potential for value creation simply...limitless.

About this Report

REPORT PROFILE

This report demonstrates how LOLC Finance is working to create value for stakeholders through our sustainable business strategies, governance and risk mechanisms to improve both financial and non-financial performance.

The report covers topics of interest for both mainstream shareholders as well as other stakeholders of our business, which highlights how sustainability is becoming a key part of our business strategy.

SCOPE AND BOUNDARY OF THE REPORT

The information contained herein covers the period 01st April 2016 to 31st March 2017. The content of the report has been defined according to our materiality process, which includes an assessment of stakeholder interests. While information has been obtained from various sources within the Company, all content disclosed herein, has been first verified for completeness, balance, comparability, accuracy, reliability, timeliness and clarity, in accordance with the company's disclosure policies.

Where applicable, the report references the Global Reporting Initiatives (GRI) Guidelines for sustainability reporting. In this regard, the value scorecard section from page 51 through 54 of this report provides insights into the work we have done to create value for our employees, customers, communities and the environment.

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report are forward-looking. These relate to the plans, objectives, goals, strategies, future operations and performance of the Company. Such forward-looking statements represent in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Therefore, LOLC Finance makes no representation or warranty, express or implied, that the operating, financial or other results anticipated by such forward-looking statements will be achieved. As such, LOLC Finance does not undertake at any future date, to update historical information or forward-looking statements stated in the report.

Key Highlights of the Year

Rs. **1,587**
Million

NET PROFIT AFTER TAX

Rs. **18.5**
Billion

INTEREST INCOME

Rs. **122.6**
Billion

TOTAL ASSETS

Over
Rs. **20**
Billion

TOTAL INCOME

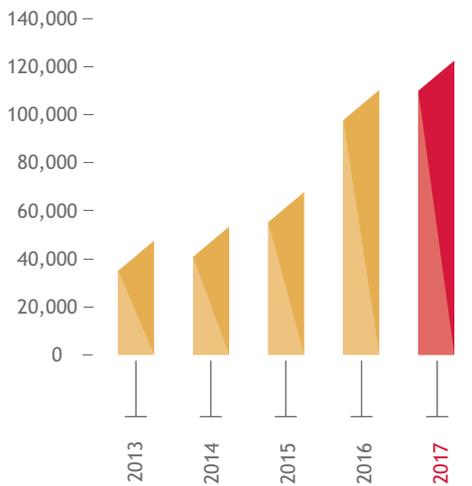
Over
34%
Growth

GROWTH IN DEPOSIT

Over
7%
Growth

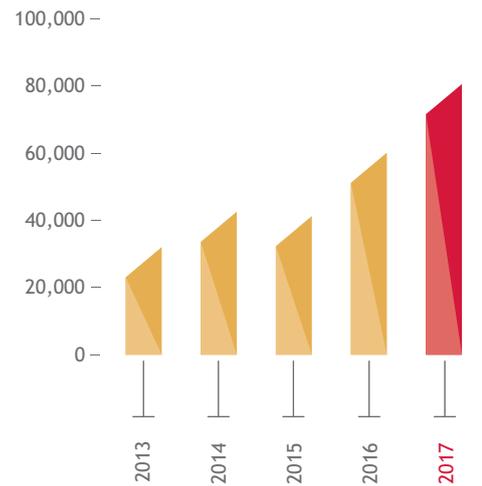
GROWTH IN PORTFOLIO

Operational Highlights



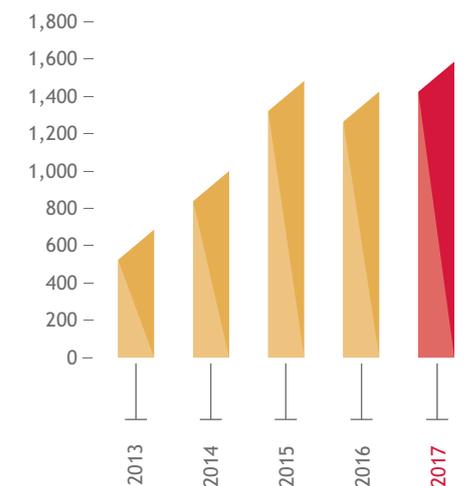
Total Assets

Rupees million



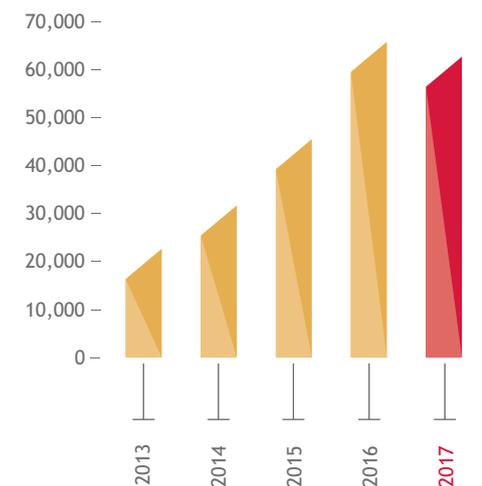
Customer Deposits

Rupees million



Profit After Tax

Rupees million



New Executions

Rupees million

Awards

2016 - Islamic Finance News (IFN) Global Awards



IFN Deal of the Year for Sukuk-Ijarah, Sri Lanka (First landmark issuance in the history of Sri Lanka) - Al-Falaah



Best Islamic Bank Sri Lanka - Runner Up - Al-Falaah



Best Islamic Leasing Provider - Runner Up - Al-Falaah

2016 - Sri Lanka Islamic Banking & Finance Industry (SLIBFI) Awards



Islamic Finance Entity of the year 2016 - Winner/Gold - Al-Falaah



Deal of the Year 2016 - Winner/Gold - Al-Falaah



Social Upliftment Award - Silver/Runner Up - Al-Falaah

2016 - Global Banking & Finance Review (GBFR) Awards

Best Islamic SME Leasing and Finance Company

Most Innovative Islamic Investment Product (Wakala) in Sri Lanka

The Company



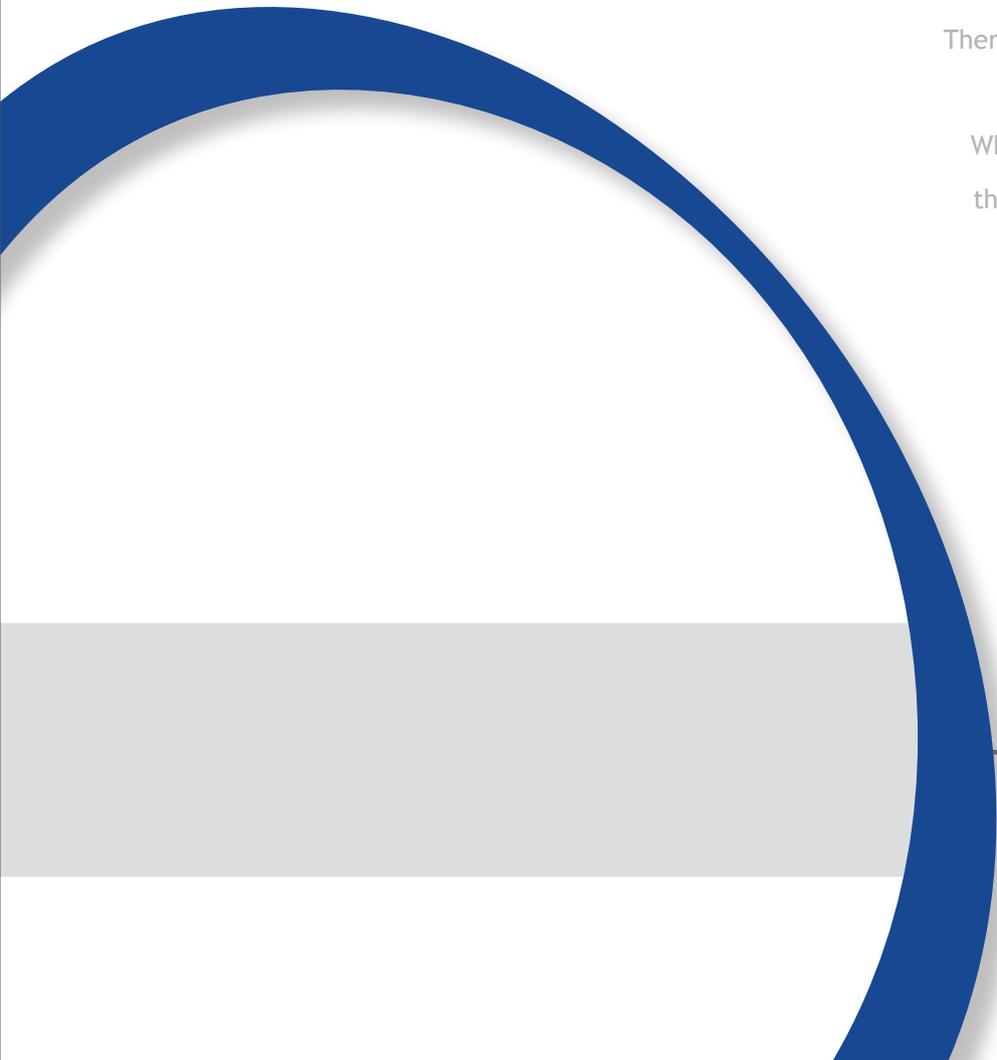
Do not
limit your
challenges;
**challenge
your limits**

>>

There exist limitless opportunities
in every industry.

Where there is an open mind,
there will never be a frontier

>>



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 recognise that our success as an enterprise depends on the talents, skills and expertise of our staff and our ability to function as a closely integrated team. We appreciate our diversity and believe that respect - for our employees, customers, partners, regulators and all those with whom we interact - is an essential element of all positive and productive business relationships. We understand the importance of our mission and the trust our customers place in us. With this in mind, we strive to excel in every aspect of our business and approach, every challenge with a determination to succeed.

ORIX Connection



Established in 1964 as Orient Leasing Company in Osaka, Japan, the ORIX brand has since then grown rapidly to become one of the top financial brands in Asia. The company was 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.

Credited with pioneering new, ground-breaking financial solutions that have transformed the boundaries of the conventional financial service model, the ORIX portfolio in addition to the core leasing business, now consists of insurance, corporate rehabilitation, loan servicing, real estate, specialised financial services, investment and retail banking and value added services.

A global conglomerate listed on the Tokyo and New York Stock Exchanges, the

ORIX Corporation presently 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.

The birth of Lanka ORIX Leasing Company (LOLC) in 1980 is a direct result of the ORIX Corporation's expanding footprint in Asia. Our connection with the ORIX Corporation in Japan is an enduring one that represents shared values that are symbolic of deep-rooted historical ties between Japan and Sri Lanka.

This connection has helped put LOLC on an accelerated growth path, which has made the Group what it is today - one of the largest, if not the largest conglomerate in Sri Lanka. The 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.

As LOLC continued its meteoric rise to the top, the Group's flagship leasing business was formally brought under LOLC Finance PLC in 2004, which brings more focus for the Group's financial services business and facilitating the expansion into insurance, SME Finance and more recently Islamic Finance.

Moving forward, the LOLC Group remains fully supportive of the ORIX Corporation's growth strategies that will no doubt herald a new era of progress for LOLC Finance in the years ahead.

Milestones

2016/17

2001

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

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.

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.

2002

Licensed as a Registered Finance Company.

2004

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

2006

Obtained approval to operate a Mobile Deposit Mobilisation Unit.

Because we believe we are limitless, we will be.

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.

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.

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.

2009

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

Milestones

2012

- Opened 15 branches in Kekirawa, Ja-ela, Nikaweratiya, Tissamaharama, Akkaraipattu, Balangoda, Akurana, Aralaganwila, Chunnakam, Nellyadi, 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

- New Product Launch of Speed Draft.
- Al-Falaah was judged Runner-up for Best Islamic Leasing Provider (By Asia/MENA/GCC region) and Runner-up for Best Islamic Bank (Country Winner - Sri Lanka) by the Islamic Finance News (IFN) Global Polls Awards held in Kuala Lumpur, Malaysia, February 2014.
- Opened 4 Branches in Ambalantota, Digana, Kuliypitiya and Nittambuwa.
- Al-Falaah Islamic Banking Unit of Lanka Orix Finance took the Silver Award for Islamic Finance (IF) Entity of the Year 2013 at the Sri Lanka Islamic Banking and Finance Industry (SLIBFI) Award, a Merit Award for the Social Upliftment category and Al-Falaah Ladies Business Unit / EMPRESS Discount Card clinched the Silver Award for Islamic Finance Product/Deal of The Year.
- Opened a Student Savings Centres at D S Senanayake Model Primary School - Anuradhapura.
- Entered the LMD 100 - Sri Lanka's Leading Listed Companies for Financial Year 2012/13.
- Al-Falaah Business Unit launched a loyalty "Empress" Discount Card for its Al-Falaah Ladies Account holders.
- Launched our latest product - Lanka Orix Finance Fixed Deposit Bond.
- Launched Visa ATM and Debit 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.

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 Ilsam Awfer, a member of the Al-Falaah team.

2015

- Launch of a new value added service - ORIX Real Time (internet banking).
- Changed name to LOLC Finance PLC.
- ICRA Lanka affirmed issuer rating of Revised to [SL]A and resulted stable outlook.
- 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 - 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.

2016

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

Executive Reviews



All limits are **self-imposed**

>>

When we follow our vision,
there are no limits
to what we can achieve.

>>

A large, thick blue arc curves from the left side of the page towards the bottom right. A horizontal grey bar is positioned behind the arc, extending from the left edge of the page to the right edge.

We're
going beyond
our limits...



Justice R K S Suresh
Chandra

Chairman

Profit before tax was up by 8%, to reach Rs. 2.2 billion as at 31st March 2017, a direct consequence of the heightened focus on technology-led investments aimed at optimising business efficiencies.

Rs. 2.2
billion

Profit before Tax

Chairman's Message

I am happy to announce that your Company, LOLC Finance PLC, has once again delivered a robust performance for the year under review.

Dear Shareholder

It gives me great pleasure to be the bearer of good news. Presenting to you the annual report and financial statements for the year ended 31st March 2017, I am happy to announce that your Company, LOLC Finance PLC, has once again delivered a robust performance for the year under review, regardless of the difficulties in the immediate operating environment and broader challenges arising as a result of sluggish economic growth.

MACRO-ECONOMIC REVIEW

Plagued by unfavourable weather, weak demand for the country's exports and ever-increasing appetite for imports, Sri Lanka recorded GDP growth of only 4.4% in 2016, compared to 4.8% in the previous year. The apparent stagnation in the economy reconfirmed the need to address deep-rooted structural issues, in order to pave the way for the country to progress towards a higher growth trajectory.

I find that the recent efforts by the Government, together with multilateral agencies including the IMF, to formulate policy frameworks required to address these issues, as well as emerging challenges, are indeed commendable. However, it is imperative that these changes are implemented swiftly, if they are to put the country back on track to achieve the desired high-growth trajectory in the coming years.

Turning to the financial services sector, a number of macro-prudential measures initiated by the regulatory agencies including the Central Bank, brought stress on the financial sector, in particular the non-bank financial sector, which constitutes LOLC Finance's immediate operating environment.

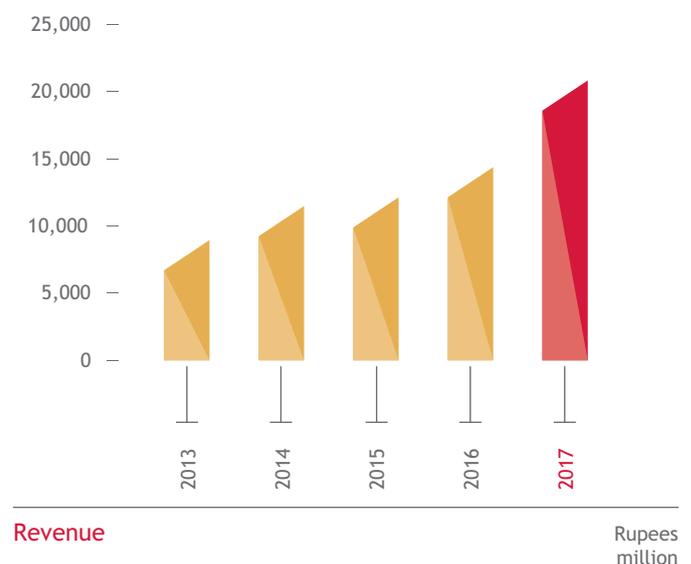
SUMMARY OF FINANCIAL RESULTS

In spite of distinctly lacklustre economic conditions and a challenging operating environment, LOLC Finance yet again proved its mettle by

delivering strong results for the 2016/17 financial year.

Revenue grew by a robust 45%, from Rs. 14.4 billion in the previous year to Rs. 20.8 billion in the year under review, while profit before tax was up by 8%, to reach Rs. 2.2 billion as at 31st March 2017, a direct consequence of the heightened focus on technology-led investments aimed at optimising business efficiencies.

I am also pleased to note that our Islamic banking unit, Al-Falaah continued to grow steadily in this year as well, buttressed by year-on-year improvements in both Revenue and Profitability. Nonetheless, the main highlight for Al-Falaah in the current financial year, was the launch of the corporate Sukuk (investment certificates) in July 2016, which will no doubt be a key growth catalyst for the Company in the future.



Chairman's Message

Our clear ambition remains to provide the best customer experience by making their day-to-day financial decisions as easy as possible. The migration towards greater digitalisation also underpins the Company's emphasis on creating a leading customer experience.

STAYING IN THE LEAD

We have come to understand that in order to stay competitive, we must adapt to the changes in the market, and leverage on all available opportunities to strengthen our relationships with our customers and secure our position in the market.

Our clear ambition remains to provide the best customer experience by making their day-to-day financial decisions as easy as possible. The migration towards greater digitalisation also underpins the Company's emphasis on creating a leading customer experience. We seek to fulfil this ambition through ongoing automation to increase efficiency across the business and improve overall service levels. We also responded to the evolving needs of our customers by improving existing customer offerings and launching new products and services.

And with more and more people embracing the concept of branchless banking and displaying a growing appetite for anywhere, anytime banking on the move, we embraced the concept of digital banking as a key business driver for present as well as the future.

Following an extensive study to determine how we can provide our customers with financial solutions that enable them to make the most out of their mobile device, we launched the LOLC Real Time smart-phone app, an interactive, new-generation tool that greatly enhances the overall customer experience. I am indeed proud to note that LOLC Finance is one of the few non-bank financial institutions in Sri Lanka to have taken the leap towards app-based digital banking.

INFORMATION SECURITY GOVERNANCE

As a leading financial institution with thousands of customers, LOLC Finance takes information security very seriously, particularly as cyber crime becomes increasingly more sophisticated.

We continue to work tirelessly to review the security of our internal operations. In doing so, we have found that cyber security is best viewed, not solely as a technology challenge, but alongside our corporate governance framework, which has prompted us to take proactive action to systematically integrate information security into the Company's corporate governance mechanism. Taking action on these findings have led to ongoing investments in software that will incorporate stricter process controls into our core

Rs. 20.8 billion

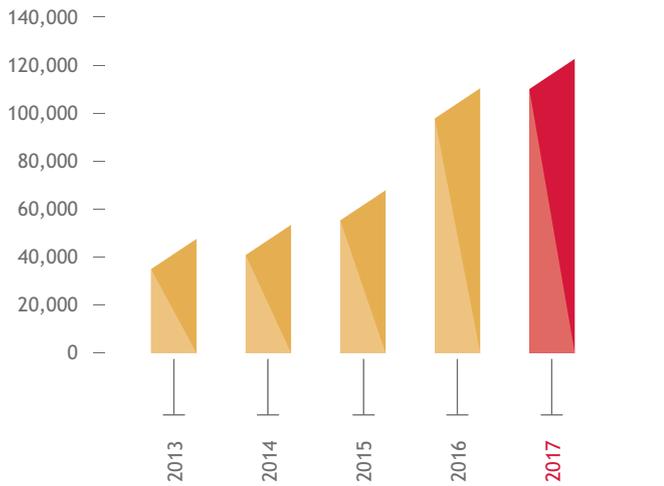
Revenue for the year ended 31st March 2017

banking platform, enabling us to better govern critical information systems and safeguard the interests of LOLC Finance's stakeholders now and in the future

LOOKING AHEAD

We look to the year ahead with great optimism and are planning bold initiatives in the pursuit of our strategic objectives, where our primary focus for the immediate future will be pivoted on two interconnected objectives; driving growth through enhanced customer access to our products and services.

In this regard, we are committed to profiling



Total Assets

Rupees million

strategic locations and to expanding the touch-points to reach out to people in different geographical regions across the country.

From a product development perspective, our aim is to continue integrating technological advances in the quest to make financial solutions easier, totally efficient and a more rewarding experience for our customers.

Meanwhile, in continuing to embrace technology, as a priority we will invest to enhance our digital channels in an effort to improve the overall customer experience, which we believe will be the key to sustaining LOLC Finance's growth trajectory and maintaining the Company's leading market position in the years ahead.

APPRECIATION

I take this opportunity to thank my colleagues on the Board for their leadership and strategic insights that have been instrumental in LOLC Finance's ability to deliver consistent growth and exceptional financial results, regardless of tough economic conditions. I also wish to applaud the efforts of the CEO, senior management and all employees across our network for their hard work and outstanding commitment to LOLC Finance's success.

I also 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.

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

Justice R K S Suresh Chandra
Chairman

23rd June 2017

Meanwhile, in continuing to embrace technology, as a priority we will invest to enhance our digital channels in an effort to improve the overall customer experience, which we believe will be the key to sustaining LOLC Finance's growth trajectory and maintaining the Company's leading market position in the years ahead.

Rs. 122.6 billion

Total Assets

The only limits
that exist are
our own...



Ashan Nissanka

Chief Executive Officer

Throughout the year we continued to look at every challenge as a springboard to opportunity. No stone was left unturned in our search for excellence.

Rs. 80.6
billion

Deposit Book

Chief Executive Officer's Review

While the LTV did have a bearing on the demand for our vehicle leasing facilities, the impact was not so severely felt thanks to LOLC Finance's diverse portfolio, which helped cushion the impact to a large extent. We nevertheless took a proactive approach to reorient the business model and look for alternative lending opportunities. Our key pivot was the SME segment.

LOLC Finance's results for the year show the outcome of continuous efforts to transform our business and deliver our growth objectives. It also demonstrates our relentless focus on innovation, as we strive to position ourselves as a more customer-centric organisation.

Throughout the year we continued to look at every challenge as a springboard to opportunity. No stone was left unturned in our search for excellence. I believe it is this attitude that has helped us to succeed at every level of our business.

But before I go into the highlights of our performance, it is important to understand the operating context for the year.

OPERATING ENVIRONMENT

The immediate operating environment was a challenging one. The demand for credit stayed low as the CBSL's decision to raise key policy interest rates, first by

50 basis points in February 2016 and then by another 50 basis points in July 2016, led to an upward adjustment in short term interest rates and prompted commercial banks to increase both lending and deposit rates. The NBFi (Non-bank financial institutions) sector too was then compelled to raise interest rates, despite the downside pressure on the demand for credit.

However, the most severe impact came in the latter part of 2016, following the CBSL's decision to further restrict the loan-to-value (LTV) ratio for unregistered three wheelers, motorcars and vans. The move curtailed the demand for vehicle financing facilities; the core business for most in the NBFi sector.

OPERATIONAL HIGHLIGHTS

Lending

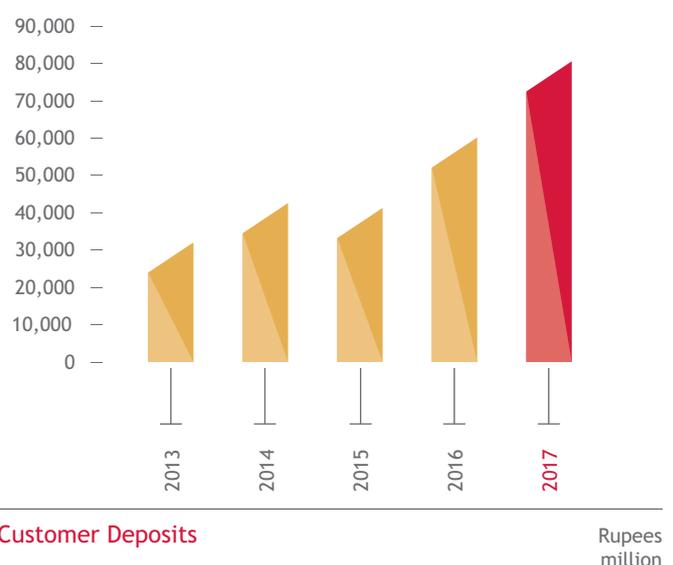
While the LTV did have a bearing on the demand for our vehicle leasing facilities, the impact was not so severely felt thanks to LOLC

Finance's diverse portfolio, which helped cushion the impact to a large extent. We nevertheless took a proactive approach to reorient the business model and look for alternative lending opportunities. Our key pivot was the SME segment, where we sharpened our product profiles in line with current market demands and ran aggressive campaigns to drive volumes.

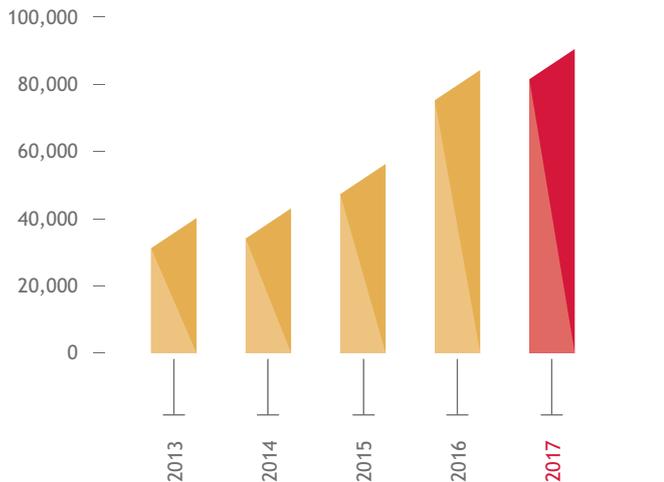
Culminating in these efforts, LOLC Finance's loan book grew by 7%, from Rs. 84.3 billion in the previous year to Rs. 90.5 billion as at 31st March 2017.

Deposits

Our main thrust for the year was to drive inorganic growth and expand the Fixed Deposit base, by tapping into new regional markets. Leveraging on the high interest rates,



Chief Executive Officer's Review



Portfolio

Rupees million

aggressive island-wide deposit mobilisation campaigns were conducted throughout the year combining both ATL and BTL channels to create awareness regarding LOLC Finance's Deposit proposition.

The strong uptake resulting from these deposit mobilisation strategies, enabled LOLC Finance's Deposit book to cross the Rs. 80 billion mark to reach Rs. 80.6 billion as at 31st March 2017, up by 34% from the Rs. 60 billion reported a year ago.

Asset Quality

Stringent recovery efforts enabled LOLC Finance to maintain asset quality, with NPL's holding steady at 4.4% by End-March 2017, well below the industry average of 4.9%.

FINANCIAL RESULTS

Looking at how we have performed over the year, I am pleased to report that true

to our track record, 2016/17 was another successful year for LOLC Finance. This is mirrored in our financial performance, which once again demonstrates the Company's ability to deliver continuous shareholder returns despite challenges in the operating environment.

BECOMING A MORE CUSTOMER-CENTRIC COMPANY

Our longer-term vision is to become a truly customer centric organisation where we place the customer at the core of what we do. It is why, through our sustained focus on innovation, we continue to lead the market with new services and channels. During the year under review we introduced a number of new products aimed at improving customer convenience and reducing the need for customers to use branches. These include our revolutionary Cash Deposit machines, which allow

customers to deposit cash at any time with the assurance of immediate crediting of their account.

But perhaps the most significant development for the year was the launch of the LOLC Real Time smart-phone app. Safe and secure, the app has proved to be immensely popular as it gives customers direct and easy access to their LOLC Finance accounts, at anytime from anywhere.

BECOMING AN EMPLOYER OF CHOICE

Our brand positioning is a natural extension of our vision and values. Therefore, ensuring that we have the right people for our business is critical. Of equal importance is also making sure that our employees regard us as their preferred employer in the market for the right reasons. It is for these reasons that we place great importance selecting the right employees who are both a culture-fit

Our longer-term vision is to become a truly customer centric organisation where we place the customer at the core of what we do. It is why, through our sustained focus on innovation, we continue to lead the market with new services and channels.

Rs. 90.5 billion

Loan Book

Limitations live only in our minds. If we use our imagination, the possibilities become limitless.

to the Company and who have the potential and, more importantly, the desire to succeed at the next level of business. In the year under review we continued to refine our benefit structures aimed at improving the diversity of our workforce. Further we invested Rs.16 million on training and development to give our employees the opportunity to sharpen their skills and allow them to align their personal growth agenda with the Company's future growth trajectory.

FUTURE OUTLOOK

Mindful as we are of the many challenges that lie ahead, I believe LOLC Finance's clear strategic vision and the success achieved over the years have placed us in a position to pursue the next phase of growth.

Our strategic agenda for the future is very clearly based on one overarching fact; continuous technological innovation to improve customer convenience. In doing so, we will strive to better understand our individual customers, and thereby ensure that our products and service solutions evolve in tandem with the needs of tomorrow's customers.

ACKNOWLEDGEMENTS

I take this opportunity to thank the Chairman and the Board of Directors for the unstinted support extended to me at all times. To each and every one of our 956 employees, I thank you, for all your hard work in delivering exceptional results year after year.

A special word of thanks to our customers, shareholders, business partners, and other stakeholders for the trust and confidence placed in LOLC Finance over the years. I seek your continued patronage as the Company embarks on a future of limitless possibilities.



Ashan Nissanka
Chief Executive Officer

23rd June 2017

Board of Directors



01

Justice R K S Suresh Chandra

01 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.

02

Mr. I C Nanayakkara

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 Organisation, the International Organisation for Migration, the Judges Training Institute of Sri Lanka and the Bar Association of Sri Lanka.



03

Mrs. K U Amarasinghe

04

Dr. H Cabral, PC

02 Mr. I C Nanayakkara

Mr. Ishara Nanayakkara is 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, 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 28 years, as well as LOLC Life Assurance Limited. He is also 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, and BRAC Lanka Finance PLC. He also holds a directorship at PRASAC, the largest microfinance Company in Cambodia. Mr. Nanayakkara's interest in microfinance lead to the inauguration of LOLC Myanmar Micro Finance Company Ltd, a green field investment in Myanmar in which he was 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 microfinance company in Cambodia. He was also recently appointed as a director in LOLC International Private Limited & LOLC Private Limited.

Mr. Nanayakkara's motivation to expand into various growth peripheries is further illustrated through his role as the Executive Chairman of Browns Investments PLC. Through various strategic investments, he is committed to catalysing development in the growth sectors of the Sri Lankan economy. Mr Nanayakkara's involvement in the Boards of Brown and Company PLC, Agstar Fertilizers PLC, Associated Battery Manufacturers (Cey) Ltd and Sierra Constructions Ltd, reflects this business philosophy.

Board of Directors



05

Mrs. D P Pieris

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.

03 Mrs. K U Amarasinghe

Kalsha Amarasinghe holds an Honours Degree in Economics. She serves on the Boards of Lanka ORIX Leasing Company PLC, Brown & Co. PLC, LOLC Micro Credit Ltd, LOLC Life Assurance Limited, Palm Garden Hotels PLC, Riverina Resorts (Pvt) Ltd and Eden Hotel Lanka PLC. She also serves as a Director on the Boards of Commercial Leasing & Finance PLC, Browns Investments PLC and Browns Capital PLC.



06

Mr. A Nissanka

04 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 (University of Canberra) Australia and is a Senior Counsel with 29 years experience specialising 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 12 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



07

Mr. P A Wijeratne

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 (Post Graduate 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), Tokyo Cement Company (Lanka) PLC, Tokyo Super Cement Co (Private) Ltd., Tokyo Cement Power (Lanka) Ltd, Tokyo Eastern Cement Company 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.

05 Mrs. D P Pieris

Mrs. Priyanthi Pieris an Attorney-at-Law of the Supreme Court of Sri Lanka and has over 37 years of experience in Corporate and Financial Law. Mrs. Pieris is also a Solicitor of England & Wales. She is currently in Private Practice.

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

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

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

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

06 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 23 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) and member of the Institute of Certified Management Accountants Australia (CMA).

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

07 Mr. P A Wijeratne

Mr. Wijeratne has over twenty years of experience in Accounting, Financial reporting, Investment of internal funds, Foreign loan disbursements and repayments, Auditing and Administration as an ex Officio of the Central Bank of Sri Lanka. He has joined CBSL in 1987 and has worked in the Finance, Public Debt Management and Internal Audit departments till his retirement in year 2016.

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

Corporate Management



01

Rohan Perera

General Manager/Group Treasurer - LOLC Group



02

Sharmini Wickremasekera

Chief Risk Officer - LOLC Group



03

Sunjeevani Kotakadeniya

Chief Financial Officer - LOLC Group



04

Susaan Bandara

Chief Officer - Marketing Communications - LOLC Group



05

Isaac Devshanker

Chief Executive Officer-LOLC Factors Limited / General Manager, Metro Region - LOLC



06

Pradeep Uluwaduge

Chief Human Resources Officer - LOLC Group



07

Solomon Jesudason

Chief Officer - Marketing Operations - LOLC



08

Gayani de Silva

Chief Officer - Customer Relationship Management, LOLC



09

Kithsiri Gunawardena

Chief Operating Officer - LOLC Chief Legal Officer - LOLC Group



10

Jayantha Kelegama

Chief Credit Officer - LOLC Group



11

Anura L. Dharmaprema

Corporate Executive Officer -
Recoveries, LOLC



12

Conrad Dias

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



13

Gunendra Jayasena

Chief Administration Officer - LOLC
Group

Operational Management



01

Jithendra Gunatileka

Head of Finance Operations - LOLC



02

Mehra Mendis

DGM, Fleet Management Services - LOLC



03

Montini Warnakula

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



04

Chandana Jayanath

Chief Operating Officer, Recoveries -
LOLC



05

Roshani Weerasekera

Head of Liability Management - LOLC
Finance PLC



06

Sanjaya Kalidasa

DGM, Treasury - LOLC



07

Bahirathan Shanmugalingam

AGM, Finance - LOLC



08

Mallika Abeykoon

AGM, Finance - LOLC



09

Dilum Mahawatta

Compliance Officer, LOLC Finance PLC



10

Chinthaka Jayasinghe

Head of Business Solutions, Banking
LOLC Technologies Ltd.



11

Enoka Jayampathy

Head of Tax Management and
Compliance - LOLC



12

Indika Ariyawansa

AGM, Credit Risk Management - LOLC



13

Indunil Herath

DGM, Sabaragamuwa & Central II - LOLC



14

Jayantha Dharmapriya

AGM, Legal - LOLC



15

Shashika Dias

AGM, Legal - LOLC



16

Gamini Jayaweera

DGM Northern & North Central Regions,
LOLC



17

Hasala Thilakaratne

DGM Southern II & Western II Regions,
LOLC



18

Imraz Iqbal

Head of Finance - LOLC Finance PLC

Operational Management



19
Nalaka Mohotti
DGM, Southern Region - LOLC



20
Shantha Rodrigo
DGM, Central Region - LOLC



21
Shiraz Refai
DGM, Al-Falaah Islamic
Business Unit



22
Sudath Premaratne
AGM Recoveries, LOLC



23
Yanik Fernando
DGM Eastern & Uva Regions,
LOLC



24
Sudarshini de Almeida
AGM, Marketing Operations -
LOLC



25
Raveendrini
Seneviratne
Company Secretary



26
Rashmi Hettige
Manager HR, LOLC



27
Gyantha Weerakoon
DGM, Enterprise Risk
Management - LOLC



28
Thomas Ponniah
Assistant General Manager/
Branch Head - Head Office
Branch - LOLC Finance PLC

The Business

Product Portfolio



Our portfolio of innovative products continue to serve our customers, empowering them to achieve their full potential.

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.

The Business

Product Portfolio

SME FINANCE

Speed Draft

The fastest solution for all your financial needs.

Key features:

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

Flex Loan

An innovative and flexible financial tool.

Key features:

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

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 partner network with Lanka Money Transfer, customers are assured of quick transfers, with minimum delays and they are able to send money from any bank.

Special Foreign Investment Deposit Account (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. SFIDA customers have the option to either maintain a

foreign currency account or convert funds into Sri Lankan Rupees, and benefit from the prevailing market interest rates, at any given time.

VALUE ENHANCEMENTS

VISA Debit Card

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

LOLC Real Time

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

SPECIALIST SERVICES

ORIX Wealth

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

Islamic Banking - Al Falaah

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

Margin Trading Solutions

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

Currency Exchange

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

Remittance Services

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

Value Proposition



Customers
Investing in solutions to improve the customer experience

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

Customers
LOLC Real Time APP

7,000+
(Downloads for a 12 month period) - Page 46 to 48



Shareholders
Meeting shareholder expectations by delivering sustainable returns year after year

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

Shareholders
NPAT

Rs. 1,587 million



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

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

ROE

15.7%



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

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

Employees
Total Training cost

Rs. 16 million

Page 52



Environment
Offset the negative environmental impact caused by the business

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

Training Hours per employee

25 hours

Page 52

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

Communities
Three Wheeler Lease (2nd hand) for entrepreneurs between 18 - 60 years
Scooter Lease to encourage more women entrepreneurs between the ages of 18 - 35

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The Business

Channels

NORTHERN PROVINCE



07

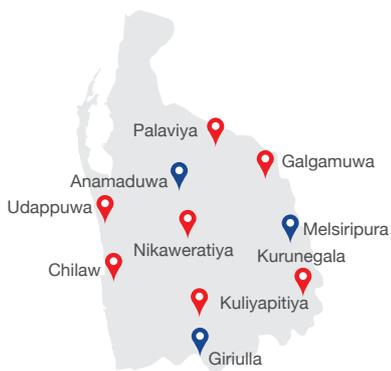
NORTH-CENTRAL PROVINCE



10

04

NORTH-WESTERN PROVINCE



07

03

CENTRAL PROVINCE



09

04

01

SABARAGAMUWA PROVINCE



08

01

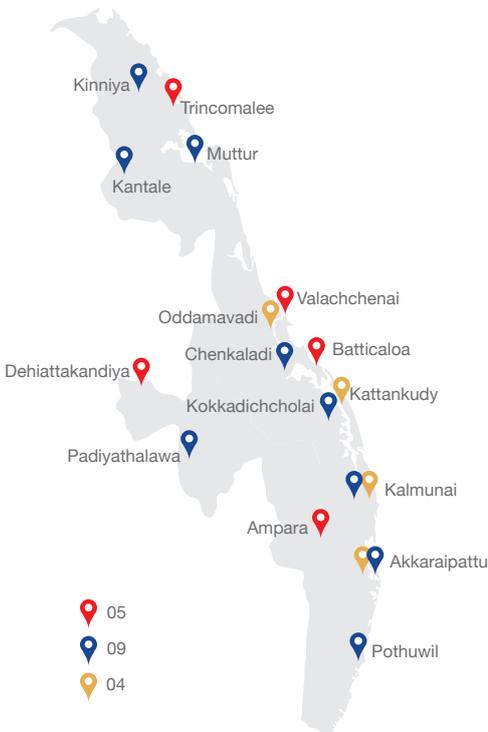
SOUTHERN PROVINCE



UVA PROVINCE



EASTERN PROVINCE



WESTERN PROVINCE



as at 31st March

- 📍 LOLC Finance Branches
- 📍 LOLC Finance Service Centres

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

Review of Operations

Operating Environment

The key challenge for the year came in the form of macro-prudential measures implemented by the CBSL with respect to the lending on motor vehicles mainly in the form of a loan to value ratio.

OVERVIEW

The Licensed Finance Companies and Specialised Leasing Companies (LFC/SLC) sector recorded a strong performance across all fronts, notwithstanding a challenging business environment. The key challenge for the year came in the form of macro-prudential measures implemented by the CBSL with respect to the lending on motor vehicles mainly in the form of a loan to value ratio (LTV), which saw a moderation of the credit growth across the sector during the first few months of 2016. However, by moving out from the core business of vehicle financing and tapping into other lending opportunities, the sector made a strong comeback from about July 2016.

Branch Network

The LFC/SLC sector further expanded its outreach adding 101 new branches during the year. As at end-December 2016, the sector's branch network stood at 1,331 branches, of which 886 were located outside the Western Province.

Assets

The sectors' asset base reached a significant milestone in 2016, crossing the one trillion-rupee mark. The total asset base of the sector increased to Rs. 215.8 billion by end-2016, up by 21.7% from the Rs. 181.6 billion in 2015. Asset growth was led by lending activities, which were funded mainly through borrowings and to a lesser extent by deposits, equity capital and other liabilities.

Asset Quality

Despite strong business growth, the sector successfully maintained the quality of its loans portfolio thanks largely to aggressive credit recovery policies adopted by all players. Consequently, the sector-wide NPL ratio declined from 5.7% in 2015 to 5.3% in 2016.

Liabilities

In line with the trend seen in the previous year, the sector's reliance on retail deposits continued to shift towards bank borrowings. This has changed the overall funding

structure of the sector by increasing the share of borrowings to 36.2% in 2016 from 31.6% in 2015, while the share of deposits reduced to 43.8% in 2016 from 48.3% in 2015.

Performance

Thanks mainly to the higher business volumes generated through new areas of lending, the sector doubled its performance for the year, reporting profit after tax of Rs. 31.5 billion compared to that of Rs. 15.2 billion in 2015. Improved operational efficiencies were also partly responsible for increased profits.

Correspondingly, the profitability indicators of the sector, ROA and ROE, increased to 4.0% and 23.1%, respectively, in 2016 compared to 3.0% and 12.4%, respectively, in 2015.

Liquidity and Capitalisation

The total regulatory capital of the sector improved by 25.1% to Rs. 116.2 billion mainly due to higher retained profits.

Rs. 1
Trillion

LFC/SLC Sector Assets Base

The regulatory capital was composed of Tier I and Tier II capital of which, the Tier I capital contributed to 97.2%. The core capital and total risk weighted capital ratios of the sector increased to 11.4% and 11.7%, respectively, as at end 2016 from 10.5% and 11.2%, respectively, as at end of 2015.

Operating Results



DEPOSITS

Improved market sentiments and the steady increase in the Average Weighted Deposit Rate (AWDR) throughout 2016, coupled with LOLC Finance’s aggressive Deposit mobilisation campaign, helped the Company’s deposit portfolio to register a strong performance, with year-end results indicating a 34% growth in the overall deposit book compared to the previous year. The performance exceeded all expected KPI’s 2016/17 and was also well above the

The Company registered a strong performance during the year under review, and continued to invest in expanding its reach.

industry average of 13.9% as at 31st March 2017.

And thanks to the value enhancements offered through the LOLC Real Time platform and the Company’s unwavering commitment to service excellence, customer retention rate also remained strong at 80%.

The results for the year can be mainly attributed to the stringent focus on growing volumes. Aggressive island-wide deposit mobilisation campaigns were conducted throughout the year combining both ATL and BTL channels to create awareness regarding LOLC Finance’s Deposit proposition. Parallel

to this, a number of internal campaigns were also run in an effort to motivate the branch sales force towards driving volumes. The main goal here was to drive inorganic growth and expand the Fixed Deposit base, by tapping into new regional markets.

Stemming from these efforts, a notable trend seen in the current financial year was that the growth in Deposits was not centred on the Western Province alone as was the case in the past, but was driven largely by LOLC Finance’s island-wide branch network, signalling the growing visibility of the brand across the country.

Of the Deposit product offered by LOLC Finance, the Senior Citizens product recorded the highest growth, with a 93% year-on-year growth in the portfolio together with a 17% increase in the Customer base.

LENDING

Challenged by the CBSL’s decision to raise policy interest rates, LOLC Finance too was compelled to raise lending rates in quick succession on three separate occasions between April - October 2016, bringing pressure on the ability to canvass new business volumes, particularly the high-value loan categories



Review of Operations

Operating Results

Having invested heavily in the past to grow the number of island-wide touchpoints, LOLC Finance's footprint is now well represented across all provinces and districts in Sri Lanka.

Rs. 90.5 billion

Portfolio

including; Capital Lease and Term Loan products.

The Capital Lease, a product geared for the lease of high value vehicles, came under further stress following the depreciation of the Rupee and also tightening of the Loan-to-value (LTV) ratio in the latter part of 2016. Under the new rules, the LTV for Motor Cars and Vans were restricted to 50%, which proved to be a severe deterrent for this target market, resulting in a sharp drop in the demand for the Capital Lease in the second half of the year.

In light of the developments the focus for the lending business shifted towards the SME segment, with a series of aggressive promotional campaigns being rolled out to tap into the market for registered Three Wheelers and similar small ticket items. To further complement these efforts, two new high-yielding products were also launched during the year; Three wheeler Lease (2nd hand), Motor bike lease and

the Scooter lease, specifically profiled for the SME customer. Each product was also coupled with a range of value added offerings to appeal to the target customers.

The move to increase the exposure to the SME segment proved successful, with the total portfolio growing by 7% to Rs. 90.5 billion as at 31st March 2017, from Rs. 84.3 billion a year ago.

RECOVERIES

As always the key focus for the recoveries unit was to be more proactive in the recovery process. For the Recovery Team, this meant improving the monitoring mechanism to detect potential defaulters.

The sale force was also deployed to actively engage in the recovery effort. In this context, the CRM model was used to strengthen relationships with customers, mainly to detect those who may be reaching LOLC Finance's default threshold. The focus of this relationship-based approach was to understand the possible reasons for default and restructure a suitable repayment plan in line with the clients' repayment capacity and cash flow management strategies.

A culmination of these efforts enabled LOLC Finance to continue to maintain its traditionally low NPL ratio and even register a slight improvement from 4.4% in the previous year to 4.1% as at 31st March 2017. Notably LOLC Finance's NPL ratio was much healthier than the

industry average of 4.9% as at 31st December 2016.

BRANCH NETWORK

Having invested heavily in the past to grow the number of island-wide touch-points, LOLC Finance's footprint is now well represented across all provinces and districts in Sri Lanka, with a total branch count of 135 as at 31st March 2017. All branches are linked to the Commercial Bank of Ceylon Ltd (ComBank) ATM network. This allows LOLC Finance's deposit customers to use their Visa enabled debit card to access their funds through any ComBank ATM across the island.

The main thrust for the year was to consolidate the network and develop core branch competencies and strengthen the existing branch infrastructure in order to penetrate untapped market segments across Sri Lanka.

In line with this strategy, no new branches were opened during the year, but five branches were relocated, in an effort to maintain greater consistency across the island-wide branch profile. The Hatton Branch was relocated to a more strategic location in order to create more visibility, while the Ganemulla, Palaviya and Nellyandi branches were moved to more spacious offices to be able to better serve customers in these towns and its surrounding areas.

Meanwhile, the Anuradhapura branch was shifted to the Company's own building. Being a key hub town, Anuradhapura serves a

broader geographical range and setting up in the Company's own premises offers LOLC Finance the flexibility for further expansion as and when needed.

Meanwhile, a number of process upgrades and procedural controls were rolled out throughout the year as part of the ongoing effort to further improve the efficiency of the branch model.

CARDS

LOLC Finance's Debit Card proposition is a value added offering that complements the Company's Deposits products. The VISA-enabled Debit Card, gives LOLC Finance's savings deposit holders easy access to their funds via the island-wide network of 668 Commercial Bank ATM's.

The number of Debit Cards issued during the year increased by 76% in direct correlation with the exponential growth in deposit products.

Meanwhile, to further widen the Debit Card customer base, an aggressive island-wide campaign was conducted in the latter part of the year to create awareness, a move that led to marked increase in the number of cards issued in the third and fourth quarters of the current financial year.

Efforts were also made to increase the merchant partner network, to encourage use of the Debit Card as an everyday payment tool.



Having primarily focused only on the SME segment, up to now, Al-Falaah once again reinforced its position as a trailblazer in the industry, with the pioneering launch of the country’s first-ever Ijarah-Sukuk.

ISLAMIC BUSINESS UNIT

Al-Falaah, The Islamic Business Unit tabled a strong performance for the year under review, marked by a healthy improvement year-on-year across all KPI’s. Revenue for the year under review was Rs. 2 billion, while Profit-before-tax stood at Rs. 550 million, showing growth of 29% and 7% respectively over the Rs. 1.6 billion and Rs. 515 million recorded in 2015/16. Led by strong growth in all core-lending products, Al-Falaah’s lending portfolio rose from Rs. 10.8 billion in the previous financial year to Rs. 11 billion for 2016/17. In recognition of its consistent

performance Al-Falaah was bestowed with the title ‘Islamic Finance Entity of the Year for 2016’, at the Sri Lanka Islamic Banking and Finance Industry Awards, an honour received for the second time.

Having primarily focused only on the SME segment, up to now, Al-Falaah once again reinforced its position as a trailblazer in the industry, with the pioneering launch of the country’s first-ever Ijarah-Sukuk (alternate option for securitisation) in July 2016. Since its launch, the product has become the new market benchmark for the most

effective method of raising funds within the banking and finance industry. This feat gained global recognition when it was awarded the “Deal of the year” at the Islamic Finance News (IFN) Global Award held in Dubai U.A.E.

With recognition at both local and global level, Al-Falaah maintains its position as the leading Islamic Banking and Finance institution in Sri Lanka, with more awards to add to its long list already received in recognition of the progress made in promoting Islamic Finance in Sri Lanka.

Rs. 2 billion

Islamic Banking Unit Revenue

Review of Operations

Financial Review

OVERVIEW

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

The financial year under review experienced a challenging economic environment, with steady rise in the interest rates. This resulted in significant pressure on the interest margins. To arrest the situation, the management took steps to grow the portfolio with high interest products during the first 6 months. However, during the second half of the financial year the industry and the Company experienced a deterioration of credit quality and as a result more focus was made on collections instead of portfolio growth. Thus, a conscious decision was made to curtail portfolio growth during the second half of the financial year. Further, strong customer confidence placed in the Company saw a significant inflow of deposits. This assisted the Company to change its borrowings mix by reducing the proportion

Strong customer confidence placed in the Company saw a significant inflow of deposits. This assisted the Company to change its borrowings mix.

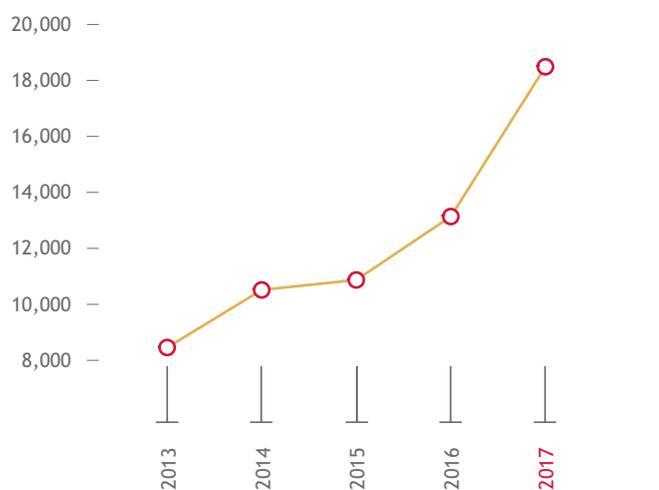
of bank borrowings and increasing the proportion of retail customer deposits. These strategies assisted the Company to sustain and improve profitability from previous year levels.

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

INTEREST INCOME

LOLC Finance PLC reported Rs. 18.5 billion of interest income during the current financial year which was a 41% increase compared to the previous year. This was achieved despite the portfolio growing marginally by 7% and is primarily attributable to the effective portfolio re-organisation strategies followed by the Company to address the rising interest rates. Such timely strategies followed by the Company has enabled it to show a continuous growth in interest income over the last five years as reflected in the graph below.

An evaluation of product-wise income shows that the interest income from leases grew by 15% and stood at Rs.3.3 billion. Leases constituted 18% (2015/16



Movement of Interest Income in last Consecutive Five Years

Rupees million

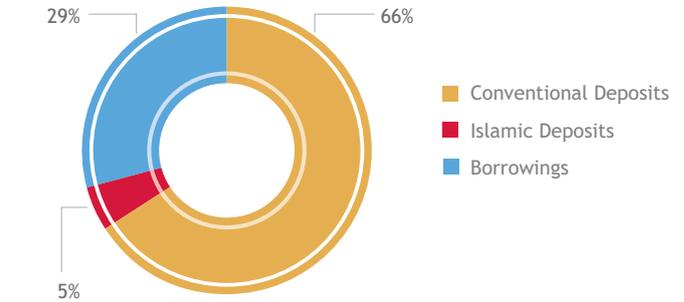
- 22%) of total interest income. The factoring portfolio continued to grow its prominence and now is one of the key revenue generators of the Company. The interest income from factoring contributed Rs. 3.4 billion, an 18% of the total interest income similar to leases. However, the growth in income from factoring increased by a significant 105% and was one of the key reasons for the growth in the total interest income. This was achieved by the high yield generated by the factoring portfolio together with the growth in the factoring portfolio. Interest income on loans showed significant growth as well and grew by

39% year on year surpassing Rs. 10 billion during the financial period. Loans were the biggest revenue generator and contributed 56% to the total income. Interest income on overdue rentals and other category showed positive growth and increased gradually by 13% than last year. 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.

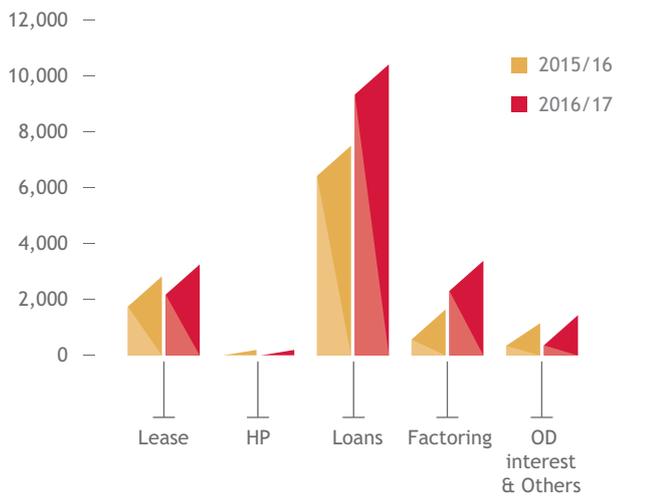
INTEREST EXPENSES

The total interest expense of the Company grew by 76% primarily as result of the rising interest rates. The Company's primary funding source is customer deposits, a significant portion (above 80%) as short term deposits. Given the increasing interest rate economy the country is experiencing, the re-pricing of these deposits caused the significant increase in the interest expenses. 71% of the total interest expenses were

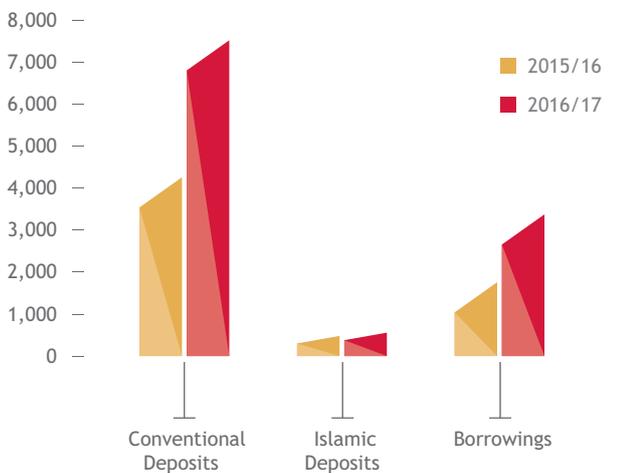
on customer deposits and the balance on borrowings. The interest on conventional deposits grew by 77% and the cost on Islamic Deposit grew by 16% keeping in line with the growth in the deposit base and the increase in the interest rates. The interest on borrowings showed an increase of 92% primarily due to increase in interest rates and cost of foreign borrowings made close to the end of the previous year.



Interest Expenses Composition 2016/17



Interest Income Comparison (2015/16 & 2016/17) Rupees million



Interest Expense Comparison (2015/16 & 2016/17) Rupees million

NET INTEREST INCOME, OTHER OPERATING INCOME AND EXPENSES

The growth in the top line together with the increase in the borrowing cost resulted in a net interest income of Rs. 7 billion which is a 6% growth over the comparative period's net interest income (NII) of Rs. 6.6 billion.

Other operating income increased by 89% and amounted to Rs.2.3 billion compared to Rs. 1.2 billion reported in the previous year. This was primarily as a result of increase in the investment portfolio, consisting of government securities which are maintained for statutory reserving requirements and term deposits which are maintained as part of hedging strategy and liquid assets requirements.

As a result of the robust, efficient collection strategies followed by the Company, the non- performing loans (NPL) ratio was maintained at 4.41 % as at 31st March 2017 (2016: 4.15%), despite the challenging economic conditions and deteriorating credit quality in the market.

The continuous follow up and monitoring mechanism on NPLs enabled the Company to reduce the provision for impairment losses and Written off to Rs. 1,329 million for the current year compared to Rs. 1,569 million in the previous year. Further, the provision and write off expenses compared to the average portfolio was 1.52% (Decreased from 2015/16 - 2.23 %).

The total overheads increased by 37% in line with market conditions and operations of the Company. The stress on the net interest margins by the increase in the market interest rates saw the cost to income ratio of the Company rise to 59% from 51% last year and the overhead margin (total overheads / average lending portfolio) increased to 6.3% from 5.7% in the previous year.

PROFITABILITY

Despite the challenging environment the profitability of the Company was resilient and was able to sustain its profitability. The PAT of the Company grew by 11% and stood at Rs.1,587 million. The

Review of Operations

Financial Review

ability to retain and grow the profits made in the previous period can be primarily attributed to the ability of the management of the Company to make timely decisions and the agility of the organisation to adopt to challenging economic conditions.

The return ratios saw a slight dip from previous year levels. The return on equity (ROE) stood at 15.7% and the return on assets (ROA) stood at 1.36% for the year compared to 16.60% (ROE) and 1.60% (ROA) in the previous year respectively.

ASSET BASE

The total assets of the Company stood at Rs.122.6 billion showing a growth of 11% over the previous year. The growth in the asset base was driven predominantly by the lending portfolio which increased by Rs. 6.2 billion (7%) from the previous year. The lending portfolio constituted 74% of the total assets and amounted to Rs. 90.5 billion. Investments in government securities, deposits with banks and other

The growth in the asset base was driven predominantly by the lending portfolio which increased by Rs. 6.2 billion (7%) from the previous year.

financial institutions stood at Rs. 22 billion constituting 18% of total assets. The property, plant and equipment (PPE) of the Company also showed a significant increase of 117% and amounted to Rs. 2.6 billion (2% of total assets). The majority of the additions to PPE was 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 growth in the lending portfolio was complimented by all the major products offered by the Company. The Factoring portfolio experienced a significant growth of 22% and stood at Rs.16.5 billion. The loan portfolio expanded from

Rs. 53.3 billion in 2016 to Rs. 55.4 billion at end of 2017 growing by 4%, while the leasing portfolio showed commendable growth of 7%.

The major part of the portfolio (61%) 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 18% of the lending book.

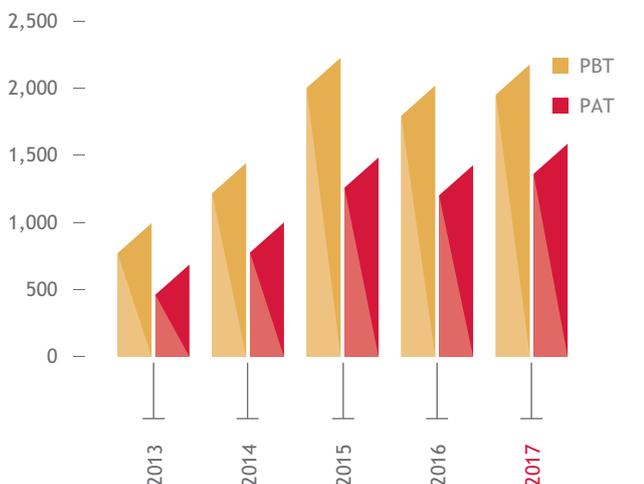
The gross lending portfolio of the IBU stood at Rs.11 billion which was 12% of the total lending portfolio of the Company, and is continuously gaining prominence within the business of LOLC Finance.

Rs. 55.4 billion

Loan Portfolio

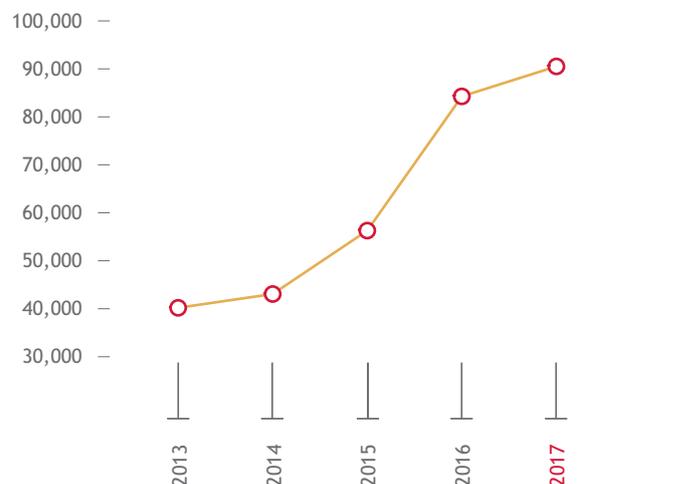
FUNDING - DEPOSITS AND BORROWINGS

LOLC Finance continued to experience a significant influx of customer deposits during the year, resulting in the deposit base of the Company growing by over Rs. 20 billion (34% growth) to stand at Rs. 80 billion at end of the year. This phenomenal growth ensured that the Company retained its crown as the largest deposit taking institution in the NBF1 sector.



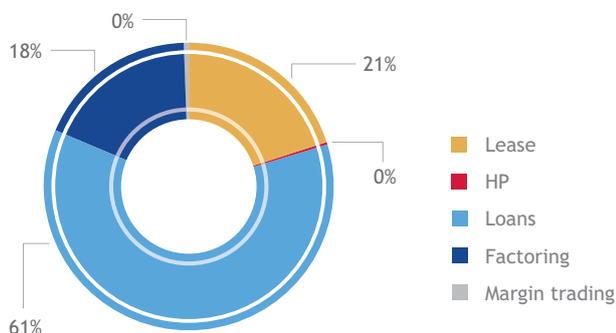
Profitability

Rupees million



Movement of Lending Portfolio in Consecutive Five Years

Rupees million



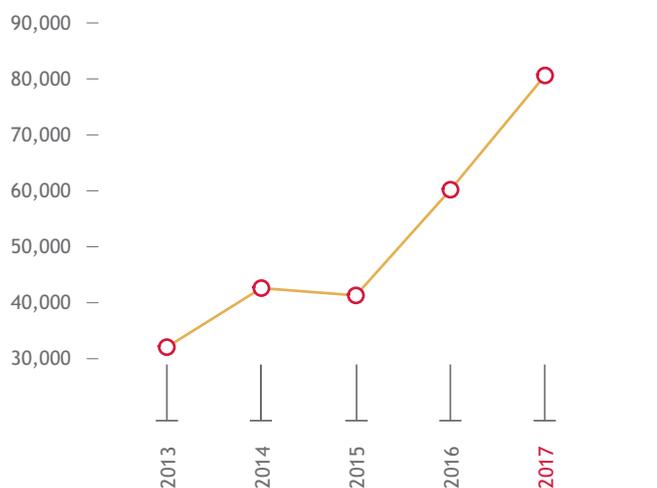
Lending Portfolio

Conventional fixed deposits remain as the Company's primary source of funding and it showed a growth of 39% while increasing the value from Rs.49.4 billion (2015/16) to Rs.69 billion. Deposits from the IBU increased slightly by 5% from Rs. 6.3 billion in 2015/16 to Rs. 6.6 billion in 2016/17. The foreign currency base of the company has increased by 5% and amounted to Rs. 1.7 billion at end of the financial year. The risk of fluctuations in the foreign currency exchange rates arising from the foreign currency deposit base is effectively managed

via forward exchange rate contracts entered by the Company covering the entire exposure.

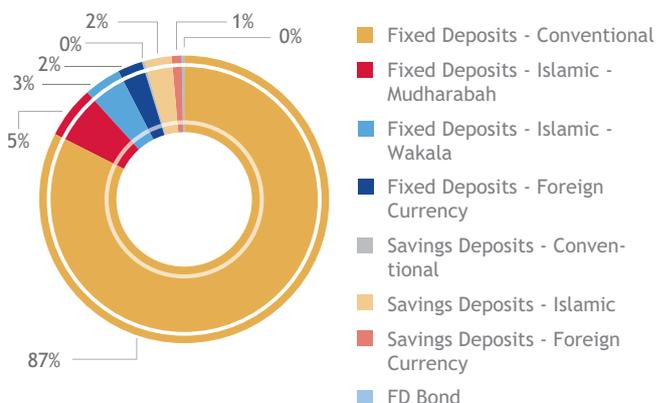
During the current period, with the significant inflow of deposits and consciously restricted portfolio growth, the company opted to settle its bank borrowings. As a result, the borrowing base reduced by 30% and stood at Rs. 24.4 billion at end of the current financial year.

Consequently, the funding mix of the Company changed significantly compared to the previous year, where the



Movement of Deposits Base in Consecutive Five Years

Rupees million



Deposit Composition 2016/17

deposit constituted 75% (Up from 2016's 62%) of the total borrowings and the balance 25% (down from 38% last year) was from borrowings.

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 10.91% (2015/16 - 10.07%) and the total Capital Adequacy Ratio was 13.31% (2015/16- 13.47%). This was much higher than the minimum requirement laid out by the CBSL of 5% and 10% respectively.

Capital Funds to Deposit Ratio

As a result of the significant increase in the deposit base the capital funds to deposits ratio reduced to 17.30% at the end of the current year compared to 21% at end of the previous year. However, the ratio was significantly higher than the required minimum ratio of 10%.

Liquid assets

The liquid assets of the Company stood at Rs. 11,996 million which was above the required minimum amount of Rs. 9,558 million. The liquid assets are maintained in government securities and deposits with banks and other financial institutions optimising returns to the Company.

Non-performing loans and advances (NPL)

The NPL ratio of the company showed a slight increase to 4.41% from 4.15% in the previous year and the total NPL value has moved to Rs. 4,170 million from Rs. 3,645 million.

In conclusion, the Company is optimistic on the future and the strategies implemented by the Company during the year to counteract the rising interest rate economy is expected to have a positive effect and is expected to result in higher profitability in the future periods.

Technology

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

CHECK
Your account balance while you wait for the train

VIEW
Account history during the movie break!

TRANSFER
Funds to an account with LOLC Finance PLC or any other commercial bank

PAY
Bills including leasing and gold loan payments

MANAGE
Funds; create a FD account

FIND
The nearest LOLC branch or contact ATM, using location services

Online Payment
PAY NOW

93.99
15.973
100 5.707.60
8.967.51
94.28
95.03

Jan Feb March April May June July Aug

93.99
15.973
100 5.707.60
8.967.51
94.28
95.03

Jan Feb March April May June July Aug



The focus on digitisation, as a business enabler continues to underpin LOLC Finance’s IT Strategy. The main goal here is to implement cutting-edge solutions that will give LOLC Finance an advantage over peers. Doing so however means ensuring that LOLC Finance’s IT strategy remains well aligned and fully integrated into the day-to-day business functions and long-term business strategy across all Company operations.

In light of the current market trends, the Company’s IT strategy focuses on the following four key pivots;

1. Expanding digital delivery channels to drive business growth and customer convenience

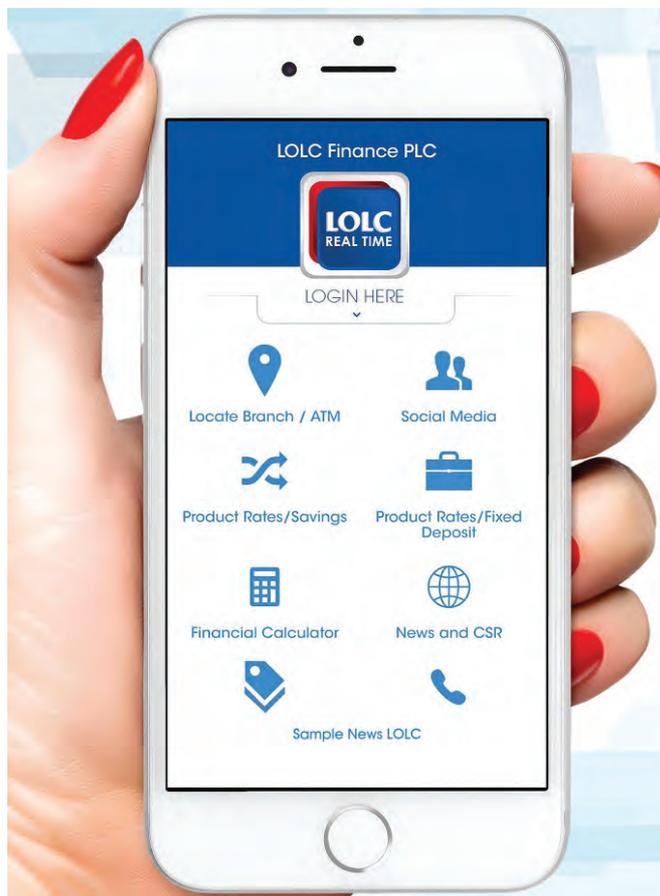
Digital delivery channels have become a significant part of the Company’s operating model in recent years and expanding such digital channels are deemed critical for LOLC Finance to remain competitive and sustain consumer interest in the Company’s products and services. Leveraging on the growing popularity for online-

real time mobile applications the Company made significant investments to develop and design the LOLC Real Time Mobile App, making LOLC Finance the first financial institution in Sri Lanka to have ventured into this space. The

move also complements LOLC Real Time, the Company’s Internet Banking solution launched in March 2015.

Both the LOLC Real Time Mobile App and the LOLC Real Time Internet Banking solution

offer seamless connectivity with the Company’s core banking system, giving the customer 24/7, 365 day access through the customers’ hand-held smart devices / PC or laptop with an internet connection.



2. Process improvements to enhance the customer experience

The key project for the year was the installation of Cash Deposit Kiosks at branches, which kicked off in October 2016. As part of the first phase, Cash Deposit Kiosks were installed at 10 branches, with the remaining network to be covered in the forthcoming financial year. Using these self-service Cash Deposit Kiosks customers now have the ability to deposit cash directly into their savings accounts or settle their lease rentals in real time 24/7, 365.

Another significant effort for the year was the system integration to support the new ATM/VISA debit card solution, launched in partnership with Hatton National Bank. LOLC Finance’s Savings customers can now use the VISA Debit

Technology

Card to access their funds through any of the HNB ATMs located island-wide or any VISA ATM/POS network locally and internationally.

The Company also initiated a technology migration project using Java middle-ware architecture to improve the versatility of existing systems and automate certain key processes to deliver a better customer experience. The digital integration of the credit approval process, enabling vendor payments to be made via CEFT, decentralising of the Speed draft disbursement process, the roll out of new e-statement mechanism to replace the conventional passbook model and the introduction of electronic FD renewal reminders, WHT certificates were among the new developments for the year.

Further investments were also made in new call centre management software to equip the newly revamped centralised call centre facility.

3. Process re-engineering to reduce costs, increase efficiency and profitability

The Company deployed a range of new functions to upgrade existing electronic document management systems, focusing mainly on; streamlining branch processes to improve efficiency and productivity, enhancing overall profitability through stricter cost control and improving compliance.

To address branch operational efficiencies, the ROD (Release of documents - CR books) was fully automated, replacing the manual approval process. All required approvals are now obtained electronically, with E-mail notifications generated for each approval user. Another development aimed at streamlining branch operations; was the introduction of a Seasonal Moratorium for structured contracts, where Zonal Leaders / Branch Heads being given the flexibility to either approve or reject a moratorium request, if within the limit (allowed deferment).

The development of merchant Internet banking module to support bulk fund transfers internally, the ability to facilitate Flexi rates for structured contracts and systems to identify dealer point profitability were all aimed at improving overall profitability of the business.

Meanwhile, to improve the quality of management information and maintain appropriate mixture of assets, a new re-classification of securities was introduced, while upgrading of the re-scheduling process was mainly to improve quality of data capturing at source and meet the reporting requirements of the CBSL. A new Shariah approval process was also introduced at Al-Falaah's for credit appraisal for IBU Products, in line with Shariah Compliance requirements.

4. Data Security and Business Continuity

The complexities and sophistication of threats are constantly changing at a global level and this places great emphasis on cyber security strategies to protect

the interests and information of all stakeholders, making it imperative to reinforce awareness, develop measures and counter-measures and regularly enhance the bank's cyber-security programmes as an ongoing process.

To ensure sustainability of critical business operations under potential disaster scenarios, LOLC Finance continued to invest in suitable high availability solutions, which will safeguard the Company against reputational risks associated with service downtime.

These efforts were coupled with a Company-wide information security awareness campaign with the topic of cyber crime risk being featured prominently.

FIND US ON:

 **facebook**
www.facebook.com/LOLCFinanceplc/

 **twitter**
twitter.com/LankaORIX

Sustainability Agenda

Stakeholder Relationships and Materiality Assessment

Our process of developing strategy is underpinned by stakeholder engagement so that we, as a business, are able to create value and deliver on stakeholder expectations. We engage with stakeholders to varying degrees, based on the level of their interest in us as an organisation and the ability of stakeholders to be affected by our actions.

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	• Annual reports	Annually
		Effective risk management policies and adequate internal controls through governance and transparency	• Annual General Meeting	Annually
		Ensure regulatory compliances	• Interim financial statements	Quarterly
		Business expansion plans	• Extraordinary General Meeting	As required
			• Announcements to Colombo Stock Exchange	As required
			• Corporate website	Continuous
			• Investor presentation	As required
		• One-to-one discussions	As required	
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	• Branches	Regularly
		Product innovations	• Call center	Regularly
		Customer service	• Corporate website	Continuous
		Quality of service	• Relationship managers	Continuous
		Dispute resolution	• Media advertisements	As required
			• Sponsorship for community events	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	• Managers meeting	Monthly
		Training and development	• Open door policy	As required
		Effective performance appraisal process	• Training programs	As required
		Future plans	• Internal circulars	As required
		Career progression	• Latest updates through emails	As required
		Maintain equal opportunities and conducive labour relations practices	• Special events such as pirth ceremony, get together and sports day	Annually
			• Exit interviews upon resignation	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	• Onsite visits and meetings	As required
		Comprehensive and transparent procurement policy	• Official communications such as calls, letters etc	As required
		Future business opportunities	• Tender invitations	As required
			• Suppliers registration	Annually
Regulators	Ensure regulatory compliance while maintaining a high ethical standard	Compliance with regulations, codes and directives	• On-site and off-site surveillance	Annually / periodically
			• Meetings and consultations	As required
			• Press releases	As required
			• Periodic returns	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	• Delivery channels	Regularly
		Recruitment	• Sponsorships for community events	As required
		Ethics and business conducts	• Donations	As required
		Other contributions and sponsorships	• Social media	Regularly

Sustainability Agenda

Stakeholder Relationships and Materiality Assessment

We define a material development or issue as one that affects our ability to deliver on our strategy, remain commercially viable and socially relevant to the communities in which we operate.

Our process of determining material issues includes an analysis of our business environment and strategy, our material stakeholders' expectations, as well as issues emanating from our risk management mechanism.



- * Responsibility for society
- * Responsible business activities
- * Responsibility to employees
- * Environmental responsibility

Value Scorecard

We remain committed towards the ongoing development of the young, ambitious and talented individuals within our business operations. Hence our talent management policy is aligned with our strategic goals and objectives.

EMPLOYEES

As the Company moves to tackle new growth frontiers, the LOLC Finance brand is now increasingly recognised as the employer of choice by high-calibre talent within the industry. This gives the Company a competitive edge in the market.

However, in recent times it has become increasingly challenging to balance the growth of the Company, while maintaining and improving employee satisfaction levels amongst our highly ambitious and qualified personnel.

Although LOLC Finance is fast becoming recognised as the employer of choice, the challenge lies in retaining top talent. In so doing, we appreciate that the key human resources pillars - Talent Management, Succession Planning, Performance Management and Training and Development - must remain inextricably linked so as to maintain a healthy and sustainable workforce.

The need for an integrated talent management strategy has therefore, become critical and requires effective alignment of the human resources function with

the Company so as to meet the LOLC Finance's overall strategic business objectives.

Sourcing Talent

We place great importance selecting the right employees who are both a culture-fit to the Company and who have the potential and, more importantly, the desire to succeed at the next level of business.

We apply a 'no compromise' approach to our stringent selection methodologies, to ensure that we acquire high-calibre people who are committed to a superior work ethic that corresponds with LOLC Finance's core values of integrity, high ethical standards, and a customer-centric approach to service delivery.

Our entry-level recruitment initiatives including tie-ups with universities and other professional bodies have proven to be an excellent incubator for the acquisition of new talent. To further increase the outreach the Company recently appointed a dedicated outreach officer who is responsible for strengthening engagement with universities, schools and online job portals.

RECRUITMENT - GENDER ANALYSIS

Gender	Active
Female	64
Male	217
Grand Total	281

RECRUITMENTS - AGE GROUP ANALYSIS

Age Group	Active
21-30	176
31-40	39
41-50	4
Below 21	62
Grand Total	281

RECRUITMENTS - PROVINCE ANALYSIS

Province	Active
Central	32
Eastern	20
North Central	24
North Western	17
Northern	23
Sabaragamuwa	19
Southern	24
Uva	9
Western	113
Grand Total	281

Managing Talent

We remain committed towards the ongoing development of the young, ambitious and talented individuals within our business operations. Hence our talent management policy is aligned with our strategic goals and objectives. Its purpose is to maintain optimal talent with the capacity carry out the day-to-day operations of our business as well ensure we have the right people to drive the Company's growth objectives by overcoming the challenges arising in our immediate operating environment. Towards this end, LOLC Finance remains committed to continuously improve talent management methodologies by following the latest trends in this sphere, and customising them in line with our corporate values.

In the current financial year, the Company encountered several challenges; key among them being talent retention. Given the stiff competition and fast-paced business dynamics of Sri Lanka's financial services sector, retaining talent has become a major challenge, particularly in fast-developing regions of the North and East. In response to these issues a strategic decision was made to recruit more females to carry out liability marketing in these regions. Certain revisions were then made to introduce specific incentives to attract more female employee to the sales force. The existing benefit structure also came under scrutiny during the current financial year and following an extensive study

Sustainability Agenda

Value Scorecard

of market trends, groundwork commenced to revamp the benefit structure, with the new changes due to take effect in the 2017/18 financial year. As part of this effort the Company also participated in a salary survey conducted by E & Y, in order to understand LOLC Finance's positioning vis-à-vis the industry. The results of the study were also taken into account during the benefit restructuring process.

Succession Planning

LOLC Finance's growth trajectory in the past few years has reinforced the importance of succession planning in order to ensure seamless business continuity and prevent the attrition of scarce and critical leadership skills.

Our internal promotion initiatives aim to encourage the movement of many professionally qualified staff into leadership positions, preparing them for the next level in the Company's hierarchy.

Alongside efforts to develop strong leadership pipeline at senior management levels, we also focus on high-flyers within the organisation at all levels who display potential for future development.

Developing a result-oriented culture

At LOLC Finance, we firmly believe that the alignment of high-performance behaviours will actively translate into a high performance culture environment, where all members of staff consistently strive to deliver results and customer service par excellence.

LOLC Finance's results-oriented culture is underpinned by a robust performance appraisal mechanism, where all permanent employees are receive a midyear and end-year appraisal, while the performance of contract and probationary employees are reviewed at the end of their stipulated contract / probationary timeline.

To further enhance the performance evaluation mechanism the Company began the roll out a new HRIS, to replace the paper-based evaluation methodology adopted in the past. A highly-effective strategic decision making tool, the proposed HRIS is a total integrated

solution that would be linked to LOLC Finance's Enterprise Resource Planning module, making HR a strategic business partner in the Company's growth agenda. The HRIS also functions as a feedback tool for the employee that facilitates real time monitoring of performance in order to identify performance gaps based on peer evaluation, supervisor evaluation etc.

With trial runs more or less complete the new HRIS is expected to go live by mid-2017.

Training and Development

The effective and appropriate training and development of employees is considered to be the key to LOLC Finance's future growth trajectory. A strategically important component of the human resources function, training and development is fundamental to meeting our growth objectives and enabling the business to cope effectively with customer service, sales and regulatory development requirements.

We provide our employees with a multitude of learning and development opportunities platforms and technologies in order to more efficiently promote learning and development in the workplace.

Area	Active	LOLC Finance	
Total Employees		953	
Training Programmes	Internal	66	
	External Customised	13	
	External Public	17	
	Induction	4	
	Overseas	7	
	Total Training Programmes		107
	Manager Grade		78
	Executive Grade		239
	Clerical Grade		505
	Total Employees Trained		822
Total Training Hours		20,541.7	
Training Hours per employee		25	
Total Training Cost (Rs.)		15,978,993.95	
Training Cost per employee (Rs.)		19,439.17	
Other Information	Absent % against trained employees	0%	

Employee Engagement

Ensuring that our staff are motivated and remain satisfied is a key strategic objective, as we believe this will inevitably translate into the attainment of customer satisfaction.

As such we have put in place a wide range of initiatives, both formal and informal to address people-related issues, and promote a culture of engagement across the Company.

LOLC Finance's multi-level engagement mechanism includes branch-level, regional-level and group-level engagement initiatives, all aimed at fostering greater understanding between employees and the management.

From an operational perspective, the Company set up a task force to carry out regular branch visits and conduct one-on-one meetings with each member staff member. These interactions not only provide a framework for management decision-making, they also help us to reinforce our ethos and approach to our employees. Introduced in 2016 as a pilot project for branches in the North and East regions of the country, the initiative would be extended to all regions in the forthcoming years.

The introduction of the long-service awards was a new initiative introduced in the current financial year, with the intention of improving employee motivation.

Meanwhile, LOLC Finance's employees have the opportunity to participate in all LOLC group activities through the SPIRIT initiative, which seeks to foster greater understanding, and build team spirit among all Group employees.

CUSTOMER

Being a financial services institution, everything we do is to improve the customer-centricity of our business. Leveraging on our network of branches and state-of-the-art direct financial solutions, we continually explore new and convenient ways to support our customers in meeting their financial needs. And although LOLC Finance's broad range of channels are geared to offer customers optimal levels of convenience and flexibility, the Company remains committed to continually improve all areas that affect our customers' experience.

Key initiatives for 2016/17;

Launch of LOLC Real Time Smartphone App

There is no denying the advent of the smart-phone has contributed to a previously unknown degree of convenience. With smart-phone Apps, our lives suddenly became even simpler, from being able to engage brands via Twitter to sharing holiday pictures with friends via Facebook. At LOLC Finance, we found ourselves asking why banking on the go couldn't benefit from this degree of digital ingenuity too.

As a financial institution that prides on leading the charge through innovations and "firsts," we embraced the premise of convenient, easy to use banking through one's smart-phone to develop the LOLC Real Time Smartphone App, which gives LOLC Finance's customer a simple, efficient, and convenient platform to conduct day to day banking transactions on the go. Launched in March 2016, the LOLC Real Time Smartphone App is available on both iOS and Android platforms and can be easily downloaded from either App Store or the GooglePlay Store.

Just picture yourself getting ready for a great weekend away, and making sure you've got everything you need ahead of your road trip with friends. You've logged into the App to check your balance and realise you're funds are a bit low, and yet you're the one in charge of paying for fuel. Just use the App to locate your closest LOLC Finance ATM to withdraw cash.

While waiting for your fuel tank to fill up, use the LOLC Real Time App to pay your utility bills, insurance premiums, and leasing payments or even make a quick fund transfer to any bank account in Sri Lanka.

You can also use the App to get in touch with your relationship manager at the bank to let them know you'll be out of town, so all your bases are covered.

With the LOLC Real Time App, you have the flexibility to control of your finances all in the palm of your hand.

3,498 Total downloads of the LOLC Real Time App (12-month period from March 2016 - March 2017)

Expanding customer touch-points

Having already partnered with Commercial Bank, LOLC Finance's savings customers could access to their funds by using the debit card issued to them by the Company at any of the 668 Commercial Bank ATM's located island-wide. Further efforts to broaden the ATM access across the country, saw LOLC Finance tie up with Hatton National Bank PLC in the year under review, to give the Company's customers access to HNB's network of 417 island-wide ATMs as well.

9,617 new debit cards issued to LOLC Finance customers for 2016/17 (7,108 for 2015/16)

Self-service facilities at branches

As part of the first phase of the project, Cash Deposit machines were commissioned at 10 branches giving customers the ability to settle dues 24/7, 365, thus avoiding long queues and eliminating the need to comply with regular banking hours.

5,124 - average number of transactions recorded per Cash Deposit machine in 2016/17

Sustainability Agenda

Value Scorecard

Internal Process improvements to enhance customer experience

Call Centre Revamp

The existing Call Centre was revamped and a fully-fledged trilingual customer response unit was set up. Further, the use of multiple contact numbers was replaced with one single hotline number to facilitate ease of connectivity.

Automation of Credit Approval process.

COMMUNITIES

As a financial service Company, we believe the most meaningful way for us to contribute towards social development is through the promotion of financial inclusion.

Our focus is mainly on the SME segment, where we seek to foster entrepreneurship as a solution to address the problems of unemployment and social inequalities that have become national burden issues, amidst rapid population growth in the recent past.

Many of the products featured on our portfolio are geared to support the SME sector. In fact the Speed Draft, Flex Loan products, all of which serve a specific purpose for the SME segment, continue to be market leaders in their respective space, testifying to LOLC Finance's commitment to promote financial inclusion among a broader geographical populace.

Launched in the current financial year; Three Wheeler Lease (2nd hand) targets potential entrepreneurs between 18-60 years, while the Scooter Lease is specifically designed to encourage more women entrepreneurs between the ages of 18-35

LOLC Finance's island-wide branch network and the widespread ATM access facilitated in partnership with Commercial Bank and HNB, provides financial access to customers even in the far-reaches of the country. Leveraging on these touch-points, the Company has



begun reaching out to the rural unbanked communities to encourage them to migrate to formal financial channels and benefit from sustained socio-economic development in the long term.

In the current financial year, LOLC Finance recruited and is in the process of training a dedicated field sales force, specifically to promote financial inclusion among rural communities across the country.

ENVIRONMENT

LOLC Finance's environmental initiatives are linked to the Group, where the Company actively participates in projects undertaken by the LOLC Group. In the current financial year, LOLC Finance participated in the "Ratak Surakinna, Gasak Sitawanna - Plant a tree and Preserve the Country", campaign, which kicked off in January 2017.



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. 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, Independent Non Executive Director as the Chairman.

MONITORING AND EVALUATION BY THE BOARD

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

The following mechanisms are in place for the Board to oversee the accomplishment of the targets in the business plan: review the performance of LOLC Finance at monthly Board meetings; seeking recommendations through Board appointed Sub- Committees on governance,

The governance structure of LOLC Finance ensures alignment of its business strategy and direction through effective engagement and communication.

Corporate Governance

including compliance with internal controls, human resources, risk management, credit and IT; review of statutory and other compliances through a monthly paper on compliance submitted to the Board covering the operations of LOLC Finance.

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

SKILLS AND PERFORMANCE OF THE BOARD

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

As required by the Finance Companies Corporate Governance Direction, LOLC

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

ENGAGEMENT WITH SHAREHOLDERS

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

ENGAGEMENT WITH EMPLOYEES

LOLC Finance recognises that employee involvement is a critical pre-requisite towards ensuring the effectiveness of the corporate governance system and therefore attaches great importance to employee communications and employee awareness of key events and significant

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

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

AVOIDING CONFLICTS OF INTEREST

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

EXTERNAL AUDIT

M/s Ernst & Young, Chartered Accountants were re-appointed as External Auditors of the Company by the shareholders at the Annual General Meeting held in August 2016. 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. Board approved vision, mission & corporate values have been established and 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;	The Company is in the process of re-setting its strategy. All identified risks will be taken into account and incorporated into this strategy.
c.	identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	<p>Complied with 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 A Board approved Stakeholder Communication Policy which covers all stakeholders is in place.</p>
e.	reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	<p>Complied with The key processes that have been established by the Board to review the adequacy and integrity of the Company's Internal Controls and Management Information Systems, include the following:</p> <ol style="list-style-type: none"> <li data-bbox="863 1637 1453 1760">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>

Corporate Governance

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
		<p>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> <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> <p>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> <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> <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 aforesaid was noted by the Board and recorded in the minutes subsequent to the financial year end.</p>
f.	<p>identifying and designating key management personnel, who are in a position to:</p> <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 heads of the five core functions have been identified and designated as KMPs by the Board as defined in the Sri Lanka Accounting Standards. This is annually reviewed by the Board.</p>
g.	<p>defining the areas of authority and key responsibilities for the Board and for the key management personnel;</p>	<p>Complied with</p> <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 have been 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
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.	<p>periodically assessing the effectiveness of its governance practices, including:</p> <p>(i) the selection, nomination and election of directors and appointment of key management personnel;</p> <p>(ii) the management of conflicts of interests; and</p> <p>(iii) the determination of weaknesses and implementation of changes where necessary;</p>	<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> <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 organisation 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>

Corporate Governance

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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>
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 2016/17.</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>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
2.4	A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	<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>
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>

Corporate Governance

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
3	Meetings of the Board	
3.1	The Board shall meet at least 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 80 for further details.</p> <p>Approvals obtained through the circulation of resolutions (15) were subsequently tabled at the following board meeting.</p>
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.	<p>Complied with</p> <p>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.</p>
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.	<p>Complied with</p> <p>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.</p> <p>Date of the next meeting is agreed by all the members of the Board as a practice.</p> <p>Reasonable notice has been given for all other Board meetings.</p>
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.	<p>Complied with</p> <p>All the members have attended two-thirds or more of the meetings during the year.</p> <p>Mrs. K U Amarasinghe has been appointed as Alternate Director to Mr. I C Nanayakkara.</p> <p>Mr. I C Nanayakkara has been appointed as Alternate Director to Mrs. K U Amarasinghe.</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>
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.	<p>Complied with</p> <p>LOLC Corporate Services has been appointed as Company Secretaries to the Company.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
3.6	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a board meeting, the Company Secretary shall be responsible for carrying out such function.	Complied with The Board approved policy on Board's relationship with the Company Secretary provides for the Chairman to delegate to the Company Secretary the preparation of the agenda for Board meetings.
3.7	All Directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied with The Board approved policy on board's relationship with the Company Secretary provides that all Directors shall have access to the advice/services of the Company Secretary.
3.8	The Company Secretary shall maintain the minutes of board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied with
3.9	<p>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:</p> <ul style="list-style-type: none"> (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Finance Company is exposed and an overview of the Risk Management measures adopted; and (f) the decisions and board resolutions. 	Complied with Proceedings of meetings are recorded in minutes covering the given criteria.
4	Composition of the Board	
4.1	The number of Directors on the Board shall not be less than 5 and not more than 13.	Complied with The Board comprised 6 members as at 31st March 2017.
4.2	The total period of service of a Director other than a director who holds the position of Chief Executive Officer or executive Director shall not exceed nine years. The total period in office of a Non-Executive Director shall be inclusive of the total period of service served by such Director up to the date of this Direction.	Complied with Having completed 9 years Mr. W D K Jayawardena stepped down with effect from 5th August 2016.

Corporate Governance

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
4.3	<p>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>	<p>Complied with The Board comprises 3 Executive Directors (including the Director/CEO) and 3 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. 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 	<p>Complied with The Board comprised 02 Independent Directors as at 31st March 2017.</p> <p>Justice R K S Suresh Chandra, Senior Independent Director (appointed as Chairman on 5th August 2016)</p> <p>Mrs. D P Pieris, Independent Non-Executive Director</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
	(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 fulfil 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 24 to 27.</p>
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 2016/2017.</p> <p>Details of attendance at meetings are provided on pages 80 to 81.</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. Justice R K S Suresh Chandra Chairman - Independent Non Executive Director 2. Mr. I C Nanayakkara Deputy Chairman - Executive Director 3. Mrs. K U Amarasinghe Executive Director 4. Dr. H Cabral, PC Non Executive Director 5. Mrs. D P Pieris Independent Non Executive Director 6. Mr. A Nissanka Director /CEO <p>Mr W D K Jayawardena stepped down with effect from 5th August 2016.</p> <p>Mr P A Wijeratne, Independent Non Executive Director was appointed to the Board on 26th May 2017</p> <p>The directors profiles are given on pages 24 to 27.</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
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> <p>Furthermore the Company adheres to the Finance Companies (Fitness and Propriety of Directors and Officers performing Executive Functions) Direction No. 3 of 2011 when appointing new directors.</p>
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. P A Wijeratne who was appointed after the financial year end will retire in terms of Article 70 of the Articles of Association of the Company and being eligible offer himself for re-election.</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 (stepping down of Mr W D K Jayawardena) 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) 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> <p>Justice R K S Suresh Chandra is a Director of the Company from 25th July 2012. In accordance with the Direction on Corporate Governance issued by the Central Bank of Sri Lanka, he will retire in July 2017 as he would reach the age of 70 years.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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>
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 Board has appointed Justice R K S Suresh Chandra as its Chairman, who was formerly designated as the Board Senior Independent Director.</p> <p>Upon his retirement on 3rd July 2017, Mrs D P Pieris will take over as the Senior Independent Director.</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
7.3	<p>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>	<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 Director/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>
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. 	<p>Complied with</p>
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>	<p>Complied with</p>
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>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
7.9	Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with The Chairman does not engage in activities involving direct supervision of key management personnel.
7.10	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with A Board approved communication policy covers this aspect. The Annual General Meeting of the Company is the main forum at which the Board maintains effective communication with shareholders. Periodic announcements made to the Colombo Stock Exchange also contribute towards this purpose.
7.11	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Finance Company's operations and business.	Complied with
8	Board appointed Committees	
8.1	Every Finance Company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.	Complied with The Company has established an Audit Committee and an Integrated Risk Management Committee. Reports of these committees have been submitted to the main Board for their review. Please refer the reports on pages 89 to 90.
8.2	Audit Committee	Please refer page 89 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.	Upon the resignation of Mr. W D K Jayawardena, the Board appointed Dr H Cabral as Chairman of the Audit Committee as a temporary measure. Subsequent to the financial year end, Mr P A Wijeratne, Independent Non Executive Director, was appointed as the Chairman of the Audit Committee. He has over twenty years of experience in Accounting, Financial reporting, Investment of internal funds, Foreign loan disbursements and repayments, Auditing and Administration as an ex Officio of the Central Bank of Sri Lanka till his retirement in year 2016. He holds a BA degree in Economics (Special Field - Commerce) from University of Kelaniya and a postgraduate Diploma in Accounting and Financial Economics. He has read for his MSc in Accounting and Financial Economics at the University of Essex, UK.

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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
b.	The Board members appointed to the committee shall be Non-Executive Directors.	<p>Complied with</p> <p>The Committee consists of Non Executive Directors. The remaining members of the Committee are:</p> <ol style="list-style-type: none"> 1. Justice R K S Suresh Chandra 2. Mrs. D P Pieris
c.	<p>The committee shall make recommendations on matters in connection with:</p> <ol style="list-style-type: none"> (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. 	<p>Complied with</p> <p>A formal agenda for Audit Committee meetings including items prescribed by the direction is followed for the conduct of Audit Committee meetings.</p> <p>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.</p>
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.	<p>Complied with</p> <p>The external Auditors are independent as they report direct to the Audit Committee of the Board.</p> <p>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.</p>
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> <ol 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 	<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>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
	(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.	
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. 	Complied with
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 5 meetings held during the year, the Committee met the external auditors at 2 meetings.</p> <p>On these 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>	Complied with

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Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
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; (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; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (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; (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>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> <p>The Audit Plan for 2016/17 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 2016/17 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.	<p>The committee shall consider the major findings of internal investigations and management's responses thereto;</p>	<p>Complied with</p>
l.	<p>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.</p>	<p>Complied with</p> <p>The Committee has had 2 meetings with the external auditors in the absence of the Executive Directors and the management.</p>

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 2016/17 the Committee has held 5 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 89.</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 whistle-blowing 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>
8.3	<p>Integrated Risk Management Committee</p>	<p>Please refer page 90 for the Committee Report.</p>
a.	<p>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>	<p>Complied with</p> <p>The Integrated Risk Management Committee comprises: Dr. H Cabral, PC - Committee Chairman (Non-Executive Director), 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>

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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
b.	<p>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>	<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 established risk indicators under different risk categories which are monitored by a QPR system under the following categories: Liquidity Risk, Operational Risk, Strategic Risk, Credit Risk, Business Risk, Profitability Risk and Stress Testing.</p>
c.	<p>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>	<p>Complied with</p> <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>The Committee also reviewed the facilities approved by the Credit Committee and changes that had been made to credit policies and delegated authority limits.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance
d.	The Committee shall 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>Decisions taken at Committee Meetings are followed up by the ERM team. All reported risks are constantly monitored and remedial corrective action is taken if an adverse movement of the risk is evident.</p> <p>During the year key risk indicators proposed by the CRO were recommended by the Committee and was approved by the Board. This process will be further strengthened to establish risk appetite limits for credit, market, liquidity and operations and to monitor the risk indicators through the Committee which have gone beyond the set limits.</p>
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 2016/17.</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>Complied with</p> <p>The CRO submits a summary report to the Members of the Board within 7 days after the Committee meeting. This includes the risks discussed at IRMC meeting, mitigation actions proposed by ERM and the responses received from the risk owners.</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>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. 	<p>Complied with</p> <p>The Board has appointed a Related Party Transaction Review Committee in compliance with the Code of Best Practice on Related Party Transactions (RPTs) issued by the Securities & Exchange Commission of Sri Lanka.</p> <p>The Committee comprises the following membership:</p> <p>Justice R K S Suresh Chandra - Committee Chairman / Independent Non Executive Director 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>

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>Complied with</p> <p>The Company will further strengthen the favourable treatment monitoring mechanism by implementing an on-line system.</p>
10	Disclosures	
10.1	<p>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>	<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>

Corporate Governance

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 03 Of 2008	The Level of Compliance of LOLC Finance								
10.2	The Board shall ensure that at least the following disclosures are made in the Annual Report:									
a.	A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with Please refer the Directors Report on pages 84 to 87.								
b.	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with Please refer the Directors Statement on Internal Controls Over Financial Reporting on page 88.								
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.	Complied with The Company has obtained a certification from M/s Ernst & Young, Chartered Accountants on the effectiveness of the internal controls over financial reporting.								
d.	Details of directors, including names, transactions with the finance company.	Complied with Directors names and details are given in pages 24 to 27. Transactions with directors during the year are as follows.								
		<table border="1"> <tbody> <tr> <td>Fees/Remuneration Paid (Rs')</td> <td>7,235,438</td> </tr> <tr> <td>Accommodations granted (Rs')</td> <td>-</td> </tr> <tr> <td>Deposits with the Company (Rs')</td> <td>233,710,070</td> </tr> <tr> <td>Interest for the year (Rs')</td> <td>7,389,753</td> </tr> </tbody> </table>	Fees/Remuneration Paid (Rs')	7,235,438	Accommodations granted (Rs')	-	Deposits with the Company (Rs')	233,710,070	Interest for the year (Rs')	7,389,753
Fees/Remuneration Paid (Rs')	7,235,438									
Accommodations granted (Rs')	-									
Deposits with the Company (Rs')	233,710,070									
Interest for the year (Rs')	7,389,753									
e.	Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.	Complied with Fees/Remuneration paid amounted to Rs. 7,235,438.								
f.	Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Complied with Net accommodations granted to each category of related parties as a percentage of capital funds of the Company at the year end is disclosed in pages 152 to 154 (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 border="1"> <tbody> <tr> <td>Fees/Remuneration Paid (Rs')</td> <td>37,235,629</td> </tr> <tr> <td>Accommodations granted (Rs')</td> <td>19,379,021</td> </tr> <tr> <td>Deposits with the Company (Rs')</td> <td>480,809,225</td> </tr> <tr> <td>Interest for the year (Rs')</td> <td>20,765,985</td> </tr> </tbody> </table>	Fees/Remuneration Paid (Rs')	37,235,629	Accommodations granted (Rs')	19,379,021	Deposits with the Company (Rs')	480,809,225	Interest for the year (Rs')	20,765,985
Fees/Remuneration Paid (Rs')	37,235,629									
Accommodations granted (Rs')	19,379,021									
Deposits with the Company (Rs')	480,809,225									
Interest for the year (Rs')	20,765,985									
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 84 to 87.								

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

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 2017 the Board comprised 6 directors of whom 3 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 2017 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 24 to 27.
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 2017 the Committee comprised 2 independent non executive directors. Please refer committee report on page 91.

Corporate Governance

Sec No.	Rules of the Colombo Stock Exchange	LOLC Finance's Level of compliance
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 2017 the Committee comprised 3 non executive directors, of whom 2 were independent. Please refer committee report on page 89.
9.2.2	Related Party Transactions Review Committee The Committee should comprise a combination of non-executive directors and independent non-executive directors. The composition of the Committee may also include executive directors, at the option of the Listed Entity. One Independent Non-Executive director shall be appointed as Chairman of the Committee.	Complied with As at 31st March 2017, the Committee comprised 1 Independent Non-Executive Director who is the Committee Chairman, 1 Non-Executive Director and 2 Executive directors. Please refer committee report on page 93.

MEMBER ATTENDANCE AT MEETINGS

Board Meetings

Name of the Director	IN	NI	EX	NEX	Date of appointment	Meeting dates											Total	
						27/04/2016	10/05/2016	29/06/2016	27/07/2016	24/08/2016	28/09/2016	28/10/2016	25/11/2016	21/12/2016	17/01/2017	22/02/2017		29/03/2017
W D K Jayawardena (resigned w.e.f 05/08/2016)		✓		✓	29.06.07	✓	✓	✓	-	-	-	-	-	-	-	-	03	
Justice R K S Suresh Chandra (Appointed Chairman w.e.f 05/08/2016)	✓			✓	25.07.12	✓	✓	✓	✓	✓	✓	✓	✓*	✓	✓	✓*	✓	12
I C Nanayakkara			✓		26.11.02	✓	✓	✓	✓	✓	✓	-	✓*	✓	✓*	✓*	✓	11
Mrs. K U Amarasinghe			✓		05.03.03	✓	✓	✓	✓	✓*	✓	✓	✓	✓	✓	✓	✓	12
Dr. H Cabral, PC		✓		✓	26.01.11	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
Mrs. D P Pieris	✓			✓	27.06.12	✓*	✓*	✓	✓	✓	✓	✓*	✓	✓	✓*	✓	✓*	12
A Nissanka			✓		15.10.15	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12

Audit Committee Meetings

Name of the Director	Meeting Dates					Total
	10/05/2016	27/07/2016	28/09/2016	28/10/2016	17/01/2017	
W D K Jayawardena (resigned w.e.f 05/08/2016)	✓					01
Dr. H Cabral (A W E F 27.07.2016)	✓	✓	✓	✓	✓	05
Justice R K S Suresh Chandra	✓	✓*	✓*	✓*	✓	05
Mrs. D P Pieris	✓*	✓	✓	✓*	✓*	05
A Nissanka (CEO)	✓	✓	✓	✓	✓	05
I Iqbal (Head of Finance)	-	✓	✓	✓	✓	04

Integrated Risk Management Committee Meetings

Name of the Director	Meeting Dates				Total
	10/05/2016	24/08/2015	25/11/2016	22/02/2017	
Dr. H Cabral, PC		✓	✓	✓	04
A Nissanka		✓	✓	✓	04

Related Party Transactions Review Committee Meetings

Name of the Director	Meeting Dates				Total
	10/05/2016	27/07/2016	28/10/2016	17/01/2017	
Justice R K S Suresh Chandra	✓	✓*	✓	✓	04
Dr. H Cabral, PC	✓	✓	✓	✓	04
Mrs. K U Amarasinghe	✓	✓	✓	✓	03
A Nissanka	✓	✓	✓	✓	04

Remuneration Committee Meetings

Name of the Director	Meeting Dates	Total
	29/06/2016	
W D K Jayawardena (resigned w.e.f 05/08/2016)	✓	01
Justice R K S Suresh Chandra	✓	01
Mrs. D P Piers	✓	01

Nomination Committee Meetings

Name of the Director	Meeting Dates	Total
	29/03/2017	
Justice R K S Suresh Chandra	✓	01
Dr. H Cabral, PC	✓	01
I C Nanayakkara	✓	01

*Present by Alternate

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

Enterprise Risk Management

Risk Management is a dynamic and evolving process that needs to adapt to the changing business landscape. Therefore, we believe that the Risk Governance structures should be geared to respond to organisation dynamics in an efficient and effective manner.

Risk Management at LOLC is a group level centralised function, with risk governance structures in place driven by group level policies. Stemming from this, risk management initiatives cascade down to entities in the group with minimum delay, ensuring structural changes and process level changes can be replicated at any entity in the group. This strategy enables the Group to maximise resource utilisation.

The board of management drives the risk governance effort via the Integrated Risk Management Committee and the Audit Committee. The Risk governance structures adopted at LOLC Finance reflect the commitment to Group Risk management initiatives, with both the Risk Management function and Audit function being given total independence via their operational and reporting lines.

This allows the board of management to be appraised of the organisational risks in an unbiased manner and

also boosts the confidence the board has on the internal control structures implemented and their effectiveness.



Risk Governance structures implemented at LOLC Finance is a combination of Risk Management, Internal Audit and Information Systems (IS) audit functions which collectively forms the Enterprise Risk Management Department (ERM) while the compliance department functions separately. The Audit function and the Risk Management function work in cohesion to derive the best possible synergies

The role of the Risk Management function is to identify possible risks and impacts, which have a reasonable probability to hinder the realisation of LOLC Finance’s strategic and tactical objectives. The Integrated risk management committee (IRMC) evaluates the possible impacts and in consultation with the risk owners decides on the best possible risk mitigation strategies and the internal controls to be adopted. The board of directors are kept informed through regular communications of the activities of the IRMC.

Enterprise risk management is a collaborative effort between all stakeholders and the views and the perception of risk of process owners are taken in to account by compulsory reporting requirements established, which requires them to submit risk related information to ERM on a monthly basis for further analysis and onward submission to the board of Directors while the IRMC is conveyed every quarter for a more detailed analysis of the risk landscape of the company.

Enterprise Risk Management at LOLC Finance is an organisation wide process where every employee has a responsibility to manage risks with in their scope of functions. Our vision in risk management “Building an organisational Culture where Protection, Assurance, Reliability, Accountability, Transparency and Confidentiality are treasured and lasting values “, require us to inculcate within all stake holders the appropriate risk culture. Enterprise risk management department firmly believes proper risk awareness facilitates the appropriate risk response. Therefore, dissemination of risk & response related knowledge to all employees is a critical success factor. The Enterprise risk management department continues to engage in structured training in co-ordination with the human resource department and other business units to enhance the knowledge and skills of staff engaged in critical operational activities in the organisation.

We strongly believe in that there are no limits to improvements and risk management process is also no exception and in order to add value to the business we incorporated risk department participation in an advisory capacity for major product or process formulations. We have contributed 119 consultative

hours during the year under review on efforts to formulate appropriate risk control and internal control structures within the organisation.

Internal Audit is entrusted with providing the management a reasonable assurance of the reliability, consistency and effectiveness of the internal control framework. The audit teams adopts a three pronged strategy consisting of process level /department level audits, branch based audits and region based audits. This strategy has allowed us to maintain a more frequent presence in different level of operations at any given

time. In addition data analytic techniques are used for auditing purposes which facilitate the analysis of the entire audit universe rather than sampling.

The Information Systems Audit function reviews information systems and critical system infrastructure and plays a supporting role to general audits in reviewing the relevant processes and controls, which are supported by computer systems.

A Corporate whistle blower hotline is available for employees to report any irregularity or suspicious activities and a customer

feedback line is also operational for customers to escalate any dissatisfaction or any fact which needs the attention of the management. These lines are operated by ERM and any information provided is treated confidentially. All complains are followed up until resolution.

Continuous quality, knowledge and skill improvements are a prerequisite of an effective risk management strategy and the ERM staff are continuously trained and opportunities/ facilities provided for enhancement of their skills and knowledge inventory. An internal quality assurance

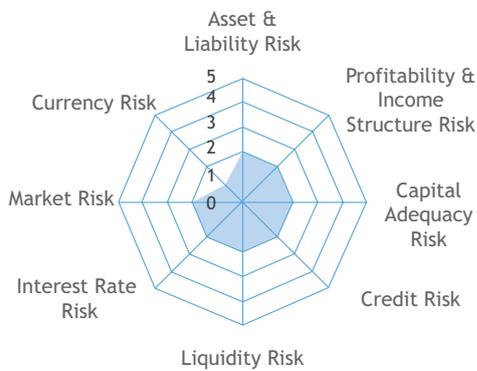
system is operational within the department, which enables us to maintain consistent and uniformity in our processes reporting.

RISK PROFILE

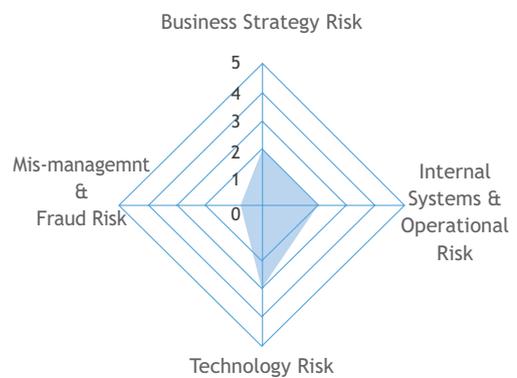
The following is based on the perceived risk and is a high level categorisation of risk used only for the illustration purposes of this report.

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

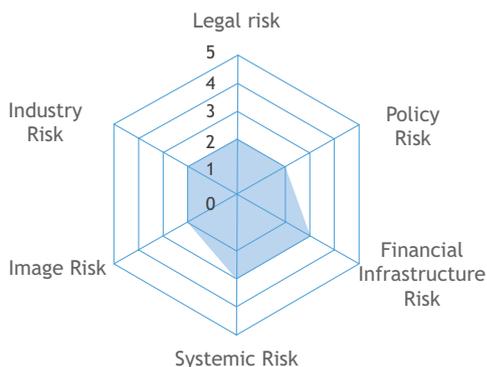
Financial Risks



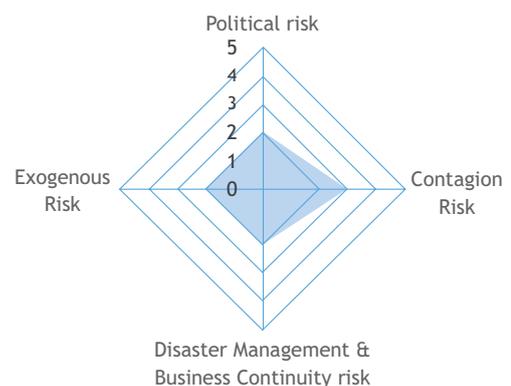
Operational Risks



Business Risks



Event 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 2017.

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. Justice R K S Suresh Chandra (Appointed Chairman with effect from 5th August 2016)	Chairman, Independent Director (alternate to & Mrs. D P Pieris)
2. Mr. W D K Jayawardena (Resigned with effect from 05th August 2016)	Former Chairman, Non Executive Director
3. Mr. I C Nanayakkara	Deputy Chairman - Executive Director (alternate to Mrs. K U Amarasinghe)
4. Mrs. K U Amarasinghe	Executive Director (alternate to Mr. I C Nanayakkara)
5. Dr. H Cabral, PC	Non Executive Director
6. Mrs. D P Pieris	Independent Director (alternate to Justice R K S Suresh Chandra)
7. Mr. P A Wijeratne (Appointed with effect from 26th May 2017)	Independent Director
8. Mr Ashan Nissanka	Director/ CEO

In accordance with the Direction on Corporate Governance issued by the Central Bank of Sri Lanka on completing 9 years of service Mr W D K Jayawardena stepped down from the

position of Chairman with effect from 5th August 2016. The Board wishes to thank Mr Jayawardena for his contribution to the growth and progress of the Company.

The Board welcomes Mr P A Wijeratne, who was appointed as Independent Non-Executive Director with effect from 26th May 2017.

Justice R K S Suresh Chandra joined the Board of Directors of the Company in July 2012. In accordance with the Direction on Corporate Governance issued by the Central Bank of Sri Lanka, he will retire in July 2017 as he would reach the age of 70 years.

RECOMMENDATIONS FOR RE-ELECTION OF DIRECTORS

Mr P A Wijeratne who was appointed to the Board on 26th May 2017 retires in terms of Article 70 of the Articles of Association of the Company and being eligible offer himself for re-election.

In terms of Article 75 of the Articles of Association of the Company Dr H Cabral and Mrs D P Pieris retire by rotation and being eligible seek re-election as directors.

The Board recommends their re-election. The approval of the Central bank of Sri Lanka has been 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 in Annexure 1.

DIRECTORS' REMUNERATION

The Company paid Rs. 7,235,438/- as Directors' remuneration for the financial year ended 31st March 2017.

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

The Report of the Remuneration Committee is on page 91.

Directors Name	As at 31.03.2017	As At 31.03.2016
1 Mr. W D K Jayawardena	Nil	Nil
2 Justice R K S Suresh Chandra	Nil	Nil
3 Mr. I C Nanayakkara	Nil	Nil
4 Mrs. K U Amarasinghe	Nil	Nil
5 Dr. H Cabral, PC	Nil	Nil
6 Mrs. D P Pieris	1,000,000	1,000,000
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 80 to 81.

BOARD SUB COMMITTEES

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

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

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

The Reports of these Committees can be found on pages 89 to 93.

SHARIAH SUPERVISORY BOARD

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

Currently Islamic Finance products are offered through the standard LOFC Channel network of over 135 locations which include 5 dedicated Al-Falaah centres.

FINANCIAL STATEMENTS & AUDITOR'S REPORT AND DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and the auditors report are as attached.

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.

CORPORATE GOVERNANCE

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

TRANSACTIONS WITH RELATED PARTIES

Details of related party transactions are disclosed in the financial statements under Note 32.

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

GOING CONCERN

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

STATUTORY PAYMENTS

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

AUDITORS

M/s Ernst and Young, the Auditors of the company retire and offer themselves for re-appointment. The Board recommends their re-appointment for the year 2016/2017 at a fee to be decided by the Board.

The auditors remuneration for the year ended 31st March 2017 is disclosed under Note 25 to the financial statements.

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

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.

INTERNAL CONTROLS

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

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

The Risk Management Report is on pages 82 to 83.

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.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at 10.30 am on 20th September 2017 at the Auditorium of Lanka ORIX Leasing Company PLC at No. 100/1 Sri Jayawardenapura Mawatha, Rajagiriya. Should you be unable to attend, please complete the proxy form in the manner instructed therein and return it to the Company.

For and on behalf of the

Board of Directors of LOLC Finance PLC



Ashan Nissanka
Executive Director/ CEO



Justice R K S Suresh Chandra
Chairman/Independent Non Executive Director

23rd June 2017
Rajagiriya

Directors Declarations

Justice R K S Suresh Chandra	Chairman LOLC Finance PLC	Mrs. D P Pieris	Chairperson: PW Corporate Secretarial (Pvt) Ltd
Mr. I C Nanayakkara	Chairman: LOLC Micro Credit Limited Brown & Company PLC Browns Investments PLC BRAC Lanka Finance 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 LOLC International (Pvt) Ltd B Commodities ME FZE LOLC Private Limited		Director: LOLC Finance PLC Asia Asset Finance PLC Sithijaya Fund Ltd Asian Centre for Lease Education Associated Electrical Corporation Ltd Abans Electricals PLC MTN Corporate Consultants (Pvt) Ltd
		Mr. P A Wijeratne	Director: LOLC Finance PLC
		Mr. A Nissanka	Director/ CEO: LOLC Finance PLC
Mrs. K U Amarasinghe	Director: 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 Capital PLC		
Dr. Harsha Cabral, PC	Chairman: Tokyo Cement Company (Lanka) PLC Tokyo Super Cement Co (Private) Ltd Tokyo Cement Power Co. Ltd Tokyo Eastern Cement company Ltd Tokyo Super Aggregate (Pvt) Ltd Director: Diesel & Motor Engineering PLC (DIMO) Hayleys PLC LOLC Finance PLC Alumex PLC Browns Investments PLC LOLC Life Assurance Ltd		

Directors' Statement On Internal Control Over Financial Reporting

RESPONSIBILITY

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

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

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

The Board is of the view that the system of Internal Control over Financial Reporting in place, is adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that

the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

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

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

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

By order of the Board



I C Nanayakkara
Chairman



Ashan Nissanka
Director / CEO

23rd June 2017

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.

Dr. H Cabral	Committee Chairman (Non Executive Director)
Justice R K S Suresh Chandra	Independent Non Executive Director
Mrs. D P Pieris	Independent Non Executive Director
Mr. P A Wijeratne <i>appointed with effect from 26th May 2017</i>	Independent Non Executive Director

TERMS OF REFERENCE

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

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

ACTIVITIES OF THE COMMITTEE

Upon the resignation of Mr. W D K Jayawardena, the Board appointed Dr H Cabral as Chairman of the Audit Committee as a temporary measure. Subsequent to the period under review the Board appointed Mr P A Wijeratne as Chairman of the Audit Committee. Mr Wijeratne has over twenty years of experience in Accounting, Financial reporting, Investment of internal funds,

Foreign loan disbursements and repayments, Auditing and Administration as an ex Officio of the Central Bank of Sri Lanka till his retirement in year 2016. He holds a BA degree in Economics (Special Field - Commerce) from University of Kelaniya and a postgraduate Diploma in Accounting and Financial Economics. He has read for his MSc in Accounting and Financial Economics at the University of Essex, UK.

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

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

The Committee addressed the external auditors' findings reported in the Management Letter relating to the previous financial year's (2015/16) 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. 05 meetings were held during the year and the members' attendance at Audit Committee meetings is provided on page 81. 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 02 meetings and on these 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.



Dr. H Cabral
Chairman
Audit Committee

Rajagiriya
23rd June 2017

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 (<i>Non Executive Director</i>)
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 81.



Dr. H Cabral, PC
Chairman
Integrated Risk Management
Committee

Rajagiriya
23rd June 2017

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.

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

ACTIVITIES OF THE COMMITTEE

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

All independent directors receive a fee for attending board meetings and committee meetings. They do not receive any performance or incentive payments. Directors' emoluments have been disclosed on page 84.

MEETINGS

One Remuneration Committee meeting was held during the year under review, and attendance of members is stated on page 81.



Justice R K S Suresh Chandra
Chairman
Remuneration Committee

Rajagiriya
23rd June 2017

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

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

One Committee meeting was held during the year under review and proceedings of these meetings were reported to the Board. The attendance of members at meetings is stated on page 81.



Justice R K S Suresh Chandra
Chairman
Nomination Committee

Rajagiriya
23rd June 2017

Report of the Related Party Transaction Review Committee

COMPOSITION

The Related Party Transaction Review Committee comprises the following membership:

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

TERMS OF REFERENCE

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

ACTIVITIES OF THE COMMITTEE

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

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

The Group Chief Financial Officer, Group Treasurer, Group Chief Credit Officer including the Compliance Officer / Head of Finance are invited for all Committee meetings, to ensure on

behalf of the Board that all related party transactions of the group and its listed subsidiaries are consistent with the Code.

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

MEETINGS

04 Committee meetings were held during the year. The attendance of members at meetings is stated on page 81.



Justice R K S Suresh Chandra
Chairman
Related Party Transaction
Review Committee

Rajagiriya
23rd June 2017

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 2017, together with the comparative period data as at and for the year ended 31 March 2016, 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

23rd June 2017

Directors' Responsibility For Financial Reporting

The Directors confirm that the Company's financial statements for the year ended 31st March 2017, 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 2017, 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 99.



Ashan Nissanka
Director/Chief Executive Officer

23rd June 2017

Financial Information



Go beyond
your limits
**set your
own rules**

>>

Drop the boundaries
of what you think you cannot do
and realise the endless world
of what you can do

>>



Financial Calender

Financial Calender 2016/17

1st Quarter Results 2016/17 released on	Thursday, August 4, 2016
2nd Quarter Results 2016/17 released on	Tuesday, November 15, 2016
3rd Quarter Results 2016/17 released on	Friday, February 3, 2017
4th Quarter Results 2016/17 released on	Wednesday, May 31, 2017
Annual report for 2016/17 released on	Thursday, August 24, 2017
16th Annual General Meeting on	Wednesday, September 20, 2017

Proposed Financial Calender 2017/18

1st Quarter Results 2017/18 will be released on	Tuesday, August 15, 2017
2nd Quarter Results 2017/18 will be released on	Wednesday, November 15, 2017
3rd Quarter Results 2017/18 will be released on	Thursday, February 15, 2018
4th Quarter Results 2017/18 will be released on	Wednesday, May 30, 2018
17th Annual General Meeting on	Friday, June 29, 2018

Independent Auditors' Report



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

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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 ("the Company"), which comprise the statement of financial position as at 31 March 2017, 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 100 to 156)

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 2017, 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:

- The basis of opinion, scope and limitations of the audit are as stated above.
- 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.

23 June 2017

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. K R M Fernando FCA ACMA 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
Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Statement of Financial Position

As at 31 March 2017

	Note	2017 Rs.	2016 Rs.
ASSETS			
Cash and bank balances	29.1	4,924,111,973	3,497,994,396
Deposits with banks and other financial institutions		14,161,567,078	10,206,770,924
Investment in government securities & others	3	7,853,176,493	8,397,496,235
Derivative assets	4.1	23,840,338	98,163,191
Rentals receivable on leased assets	5	18,408,733,120	17,243,862,077
Hire purchases, loans and advances	6	55,484,081,124	53,335,175,248
Factoring receivable	6.4	16,524,638,067	13,598,600,891
Margin trading receivables	6.5	94,825,018	85,597,164
Other receivables	7	1,071,661,415	694,055,473
Investment securities	8	324,629,347	1,083,470,844
Amount due from related companies	9	224,505,824	3,271,183
Investment properties	10	906,300,000	930,200,000
Property plant and equipment	11	2,621,022,043	1,210,407,229
Total assets		122,623,091,840	110,385,064,855
LIABILITIES			
Bank overdraft	29.2	2,393,316,396	1,941,608,486
Interest bearing borrowings	12	24,456,313,665	35,070,151,714
Deposits from customers	13	80,607,114,794	60,197,200,894
Trade payables	14	677,878,426	637,849,803
Accruals and other payables	15	1,620,967,675	1,018,602,831
Derivative liabilities	4.2	18,978,063	17,859,000
Amount due to related companies	16	434,258,821	996,780,809
Current tax payable	27.1	268,931,782	309,887,595
Deferred tax liability	27.2	1,102,057,559	984,741,078
Employee benefits	17.2	17,018,130	12,248,571
Total liabilities		111,596,835,311	101,186,930,781
SHAREHOLDERS' FUNDS			
Stated capital	18	2,000,000,000	2,000,000,000
Statutory reserve	19.1	1,556,438,753	1,239,075,154
Revaluation Reserve	19.2	206,229,960	-
Cash flow hedge reserve	19.3	14,236,742	22,747,657
Available for sale investment reserve	19.4	(115,484,939)	(160,153,753)
Retained earnings	19.5	7,364,836,012	6,096,465,015
Total equity		11,026,256,529	9,198,134,074
Total liabilities and equity		122,623,091,840	110,385,064,855

These financial statements are prepared 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:



I.C. Nanayakkara
Deputy Chairman



A. Nissanka
Director / CEO

The annexed notes to the financial statements on pages 104 through 156 form an integral part of these financial statements.

23rd June 2017
Rajagiriya (Greater Colombo)

Statement of Profit or Loss and Other Comprehensive Income

As at 31 March 2017

	Note	2017 Rs.	2016 Rs.
Interest income	20	18,489,740,700	13,137,597,016
Interest expense	21	(11,459,273,390)	(6,499,474,559)
Net interest income		7,030,467,310	6,638,122,457
Net other operating income	22	2,348,653,257	1,245,508,882
Direct expenses excluding interest cost	23	(1,311,408,171)	(911,716,942)
Allowance for impairment & write-offs	24	(1,329,042,113)	(1,568,576,077)
Personnel expenses	25.1	(1,424,495,490)	(1,100,549,812)
Depreciation	11	(148,246,007)	(32,717,251)
General & administration expenses		(2,624,516,677)	(1,974,524,385)
Profit from operations	25	2,541,412,108	2,295,546,872
Value added tax on financial service		(364,834,951)	(275,890,844)
Profit before tax		2,176,577,157	2,019,656,028
Income tax expense	27	(589,759,163)	(592,662,785)
Profit for the year		1,586,817,994	1,426,993,242
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability - gain / (loss)	17.2	(1,504,720)	1,372,202
Related tax	27.2	421,322	(384,217)
		(1,083,398)	987,985
Items that are or may be reclassified to profit or loss			
Available-for-sale financial assets :			
Net change in fair value	3.3	40,577,864	(246,190,536)
Gain / (loss) on cash flow hedges	19.3	(11,820,715)	34,156,257
Related tax	19.3	3,309,800	(11,408,600)
		(8,510,915)	22,747,657
Revaluation surplus		216,989,576	-
Related tax		(10,759,616)	-
		206,229,960	-
Total other comprehensive income, net of tax		241,304,461	(222,454,893)
Total comprehensive income for the year		1,828,122,455	1,204,538,349
Basic earnings per share	28	0.57	0.51

The annexed notes to the financial statements on pages 104 through 156 form an integral part of these financial statements.

Statement of Changes in Equity

Year ended 31 March 2017		Stated Capital	Statutory Reserve	Revaluation 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 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								
Remeasurements of defined benefit liability - gain / (loss)	17.2 / 27.2	-	-	-	-	-	987,985	987,985
Net change in fair value of AFS investments	3.3	-	-	-	-	(246,190,536)	-	(246,190,536)
Net movement of cashflow hedges	19.3 / 27.2	-	-	-	22,747,657	-	-	22,747,657
		-	-	-	22,747,657	(246,190,536)	987,985	(22,454,893)
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	9,198,134,074
Balance as at 1 April 2016		2,000,000,000	1,239,075,154	-	22,747,657	(160,153,753)	6,096,465,015	9,198,134,074
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	1,586,817,994	1,586,817,994
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss)	17.2 / 27.2	-	-	-	-	-	(1,083,398)	(1,083,398)
Net change in fair value of AFS investments	3.3	-	-	-	-	44,668,814	-	44,668,814
Net movement of cashflow hedges	19.3 / 27.2	-	-	-	(8,510,915)	-	-	(8,510,915)
Transfer to Revaluation Reserve		-	-	206,229,960	-	-	-	206,229,960
		-	-	206,229,960	(8,510,915)	44,668,814	(1,083,398)	241,304,461
Total comprehensive income for the year		-	-	206,229,960	(8,510,915)	44,668,814	1,585,734,596	1,828,122,455
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	317,363,599	-	-	-	(317,363,599)	-
Total transactions recorded directly in equity		-	317,363,599	-	-	-	(317,363,599)	-
Balance as at 31 March 2017		2,000,000,000	1,556,438,753	206,229,960	14,236,742	(155,484,939)	7,364,836,012	11,026,256,529

The annexed notes to the financial statements on pages 104 through 156 form an integral part of these financial statements.

Statement of Cash Flows

As at 31 March 2017

	Note	2017 March Rs.	2016 March Rs.
Cash flows from operating activities			
Profit before income tax expense		2,176,577,157	2,019,656,028
Adjustments for:			
Depreciation	11	148,246,007	32,717,251
(Profit)/ loss on sales of investment property	22	(11,902,750)	32,315,560
Change in fair value of derivatives - forward contracts	22	28,698,717	(94,334,091)
Provision for fall / (increase) in value of investments	22	(31,951,930)	(8,502,569)
Impairment provision for the period	24	549,528,640	907,112,179
Provision for payables to clients	22	10,500,000	9,539,899
Change in fair value of investment property	22	(24,457,848)	(29,070,709)
Provision for defined benefit plans	17.2.a	5,141,592	3,651,323
Investment income		(1,456,265,411)	(593,897,130)
Finance costs	21	11,282,234,645	6,499,474,559
Operating profit before working capital changes		12,676,348,819	8,778,662,300
Change in other receivables		(340,001,143)	(37,911,218)
Change in trade and other payables		631,893,469	178,567,046
Change in amounts due to/ due from related parties		(783,756,629)	(1,456,704,880)
Change in factoring receivables		(3,330,707,223)	(8,134,078,179)
Change in lease receivables		(1,201,164,050)	(4,038,795,335)
Change in hire purchase, loans and advances		(2,295,076,262)	(16,930,762,363)
Change in margin trading advances		(9,227,854)	208,114,796
Change in fixed deposits from customers		19,085,134,624	17,776,408,584
Change in savings deposits from customers		755,576,666	307,446,704
Cash (used in) / generated from operations		25,189,020,417	(3,349,052,545)
Finance cost paid on deposits		(7,513,259,549)	(3,936,071,366)
Gratuity paid	17.2	(1,876,753)	(480,640)
Income tax paid	27.1	(520,426,989)	(505,672,232)
Net cash from / (used in) operating activities		17,153,457,127	(7,791,276,782)
Cash flows from investing activities			
Acquisition of property, plant & equipment & investment property		(749,011,621)	(427,834,621)
Net proceeds from investments in term deposits		(5,260,672,779)	(9,445,675,633)
Net proceeds from investments in government securities		1,894,865,178	(2,742,968,918)
Interest received		1,456,265,411	593,897,130
Proceeds from sale of investment property		74,257,750	209,715,250
Investments in companies		-	(66,125,000)
Net proceeds from investments in Unit trust		790,793,427	(1,000,000,000)
Net cash flows used in investing activities		(1,793,502,634)	(12,879,891,792)
Cash flows from financing activities			
Net proceeds from interest bearing loans & borrowings		(10,625,625,192)	23,292,962,000
Lease rentals paid		(632,792,253)	(111,557,233)
Finance cost paid on borrowings		(3,127,127,380)	(1,596,093,112)
Net cash flows from / (used in) financing activities		(14,385,544,825)	21,585,311,655
Net increase / (decrease) in cash and cash equivalents		974,409,667	914,143,080
Cash and cash equivalents at the beginning of the period		1,556,385,910	642,242,830
Cash and cash equivalents at the end of the period (note 29)		2,530,795,577	1,556,385,910

The annexed notes to the financial statements on pages 104 through 156 form an integral part of these financial statements.

Notes to the Financial Statements

1. GENERAL

1.1 Reporting Entity

1.1.1 Corporate Information

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

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

1.1.2 Parent entity and Ultimate Parent Company

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

1.1.3 Principal Activities and Nature of Operations

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

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

1.1.4 Directors' Responsibility Statement

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

1.1.5 Number of Employees

The staff strength of the Company as at 31 March 2017 was 956 (2016- 771).

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 utilise those cash flows; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

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

1.2.2 Date of authorisation of issue

The Financial Statements were authorised for issue by the Board of Directors on 23 June 2017

1.2.3 Basis of measurement

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

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

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

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

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

1.2.4 Materiality and aggregation

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

1.2.5 Going concern

The Directors have made an assessment of the company’s ability to continue as a going concern and is satisfied that it

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

1.2.6 Comparative information

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

1.3 Functional and Presentation Currency

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

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

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

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

1.4 Significant Accounting Judgments, Estimates and Assumptions

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

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results which form the

basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

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

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

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

1.4.1 Fair value measurement

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

The Company has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility

for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Group CFO.

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

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

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

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

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

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

Notes to the Financial Statements

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

Note 10 - Investment property;

Note 11 - Property, plant and equipment; and

Note 2.2 & 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 categorising them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of

which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgment on the effect of concentrations of risks and economic data.

The policy on impairment loss on loans and advances is disclosed in more detail in Note 2.2.9.

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

Index	Accounting policy
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 amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

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

a foreign currency are translated using the spot exchange rate at the date of the transaction.

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

SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

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

Initial measurement of financial assets

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

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

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

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

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

2.2.1.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

Notes to the Financial Statements

value in accordance with the company's investment strategy. Attributable transaction costs are recognised in statement of profit or loss as incurred.

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

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

Held-to-maturity financial assets

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

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

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

Loans and receivables

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

recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

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

- *Cash and cash equivalents*

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

- *Finance leases and hire purchase*

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

- *Advances and other loans to customers*

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

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

- *Financial guarantees*

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

Available-for-sale financial assets

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

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

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

2.2.2 Non-derivative financial liabilities Classification and subsequent measurement of financial liabilities

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

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

measured at amortised cost using the effective interest method.

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

Bank overdrafts

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

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

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

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

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

The Company designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that

will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the cash flows of the respective hedge item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%.

These hedging relationships are discussed below.

i. Fair value hedges

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

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

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

The Company does not have any fair value hedges

ii. Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset

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

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

iii. Net investment hedges

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

The Company does not have any net investment hedges.

2.2.3.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.

Notes to the Financial Statements

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

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

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

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

- (i) The consideration received (including any new asset obtained less any new liability assumed) and
- (ii) Any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

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

2.2.6 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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

2.2.7 Amortised cost measurement

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

2.2.8 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.

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

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying losses accumulated in the AFS reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent

period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

2.3 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 capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the statement of profit or loss.

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

Finance leases - Company as a lessor

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

of return on the net investment in the leases.

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

Operating leases - Company as a lessor

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

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

2.4 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 recognised in profit or loss.

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

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item)

Notes to the Financial Statements

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

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

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

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

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

2.5.1.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.

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 offsets a previous decrease in value of the same asset that was recognised in the statement of profit or loss. A decrease in value is recognised in the statement of profit or loss where it exceeds the increase previously recognised in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal.

2.5.2 Subsequent costs

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

2.5.3 Depreciation

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

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

Motor vehicles	4-8 years
Buildings	40 years

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

2.6 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 recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

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

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

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

2.7 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 recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.7.2 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 recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

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

The obligation is not externally funded.

2.8 Provisions

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

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

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

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

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

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 recognised as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

2.12.2 Factoring

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

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

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

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

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

2.15 Expenditure recognition

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

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

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

2.16 Income tax expense

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

2.16.1 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.

2.16.2 Deferred tax

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

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

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

Deferred tax assets are reviewed at each reporting date and are reduced to the

extent that it is no longer probable that the related tax benefit will be realised.

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

2.17 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

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;

Notes to the Financial Statements

- (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 New accounting standards issued not yet effective as at reporting date

Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31 March 2017 reporting periods. None of those have been early adopted by the Company.

SLFRS 9 Financial Instruments

Summary of the Requirements

SLFRS 9, replaces the existing guidance in LKAS 39 - Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets - i.e. measured at amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of Held-to-maturity, Loans and receivables and Available-for-sale are removed.

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new model applies to financial assets that are not measured at FVTPL.

The model uses a dual measurement approach, under which the loss allowance is measured as either:

- 12 month expected credit loss; or
- Lifetime expected credit losses.

The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.

A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carries guidance on new general hedge accounting requirements.

SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements. Effective date of SLFRS 9 is for period beginning on or after January 01, 2018.

Possible Impact on Financial Statements

The company has completed the initial high level assessment of the potential impact on its Financial Statements resulting from the application of SLFRS 9.

As the next step the company will establish a business model test and cash flow characteristics test to identify the categories of financial assets.

For the purpose of determining impairment the company needs to build a model with appropriate methodologies and controls to ensure that proper judgment is exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk. Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.

Given the nature of the company's operations, this standard is expected to have a pervasive impact on the company's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances.

SLFRS 15 Revenue from Contracts with Customers

Summary of the Requirements

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.

Possible Impact on Financial Statements

The Company does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15

SLFRS 16 - 'Leases'

Summary of the Requirements

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet

finance leases and off-balance sheet operating leases. Instead there will be a single on-balance sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019.

Possible Impact on Financial Statements

The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

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

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

2.23.3 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

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 authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Chief Credit Officer, CEO and the Board of Directors as appropriate.
3. Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals

and reviews of facilities are subject to the same review process.

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

2) Allowances for impairment

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

3) Write-off policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller

Notes to the Financial Statements

balance standardised loans, write-off decisions generally are based on a product-specific past due status. The company generally writes off balances on its past due status reaching 12 months and if no collateral is available.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral

assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2017 (2016: no collateral held).

4) Credit quality by class of financial assets

(In Rs' mn)	Leases		Hire Purchases		Mortgage Loans		Other Loans and Advances		Margin Trading		Factoring Receivables		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Carrying amount	18,409	17,243	-	17	988	799	54,496	52,520	95	86	16,525	13,599	90,512	84,263
Assets at amortised cost														
Individually impaired - Gross amount	185	224	-	-	14	14	922	1,048	-	-	940	728	2,061	2,014
Less : Allowance for impairment	(157)	(210)	-	-	(14)	-	(584)	(547)	-	-	(940)	(500)	(1,695)	(1,257)
Carrying amount	28	14	-	-	-	14	338	501	-	-	-	228	366	757
Portfolio subject to collective impairment - Gross amount	18,522	17,281	-	19	1,063	831	55,050	52,844	95	86	16,884	13,766	91,614	84,826
Less : Allowance for impairment	(141)	(52)	-	(2)	(75)	(46)	(892)	(824)	-	-	(359)	(395)	(1,467)	(1,320)
Carrying amount	18,381	17,229	-	17	988	785	54,158	52,019	95	86	16,525	13,371	90,146	83,507

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)	2017	2016
Against individually impaired customers:		
Property	404	617
Vehicles	93	123

(In Rs' mn)	2017	2016
Against Collectively impaired customers:		
Property	65,485	62,174
Vehicles	62,800	75,530

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)	2017	2016
Property	-	-
Vehicles	93	123

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

(In Rs' mn)	2017	2016
Leases	5	12
Hire purchase	-	-
Mortgage Loan	-	-
Other loans & advances	81	92

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. Properties acquired by foreclosure has been considered as investment properties of the Company

Age analysis of facilities considered for collective impairment as at 31st March 2017

(In Rs' mn)	Leases	Hire Purchases	Mortgage Loans	Other Loans and Advances	Margin Trading	Factoring Receivables	Total
Category							
Not due / current	10,494	-	466	38,228	95	12,310	61,593
Overdue :							
Less than 30 days	4,862	-	206	9,266	-	1,124	15,458
31 - 60 days	1,835	-	161	3,931	-	593	6,520
61 - 90 days	634	-	17	1,280	-	512	2,443
91 - 120 days	235	-	2	347	-	618	1,202
121 - 150 days	158	-	3	399	-	425	985
151 - 180 days	82	-	-	290	-	527	899
above 180 days	222	-	208	1,309	-	775	2,514
Total	18,522	-	1,063	55,050	95	16,884	91,614

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

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

2.23.4 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.

Notes to the Financial Statements

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 2017							
Bank overdraft	2,393	2,393	2,393	-	-	-	-
Borrowings	24,456	27,284	8,437	4,452	11,559	1,980	857
Deposits from customers	80,607	88,917	31,256	36,528	9,908	11,225	-
Trade payables	678	678	678	-	-	-	-
Accruals and other payables	1,594	1,594	1,594	-	-	-	-
Derivative liabilities	19	4,890	4,121	769	-	-	-
Amount due to related companies	434	434	434	-	-	-	-
Total liabilities	110,182	126,191	48,913	41,749	21,467	13,205	857
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

The maturity analysis of financial assets based on undiscounted gross inflows / (outflows) 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 2017							
Cash and cash equivalents	4,924	4,924	4,924	-	-	-	-
Deposits with banks and other financial institutions	14,162	14,542	12,870	388	1,044	239	-
Investment in government securities	7,853	9,666	6,807	68	337	272	2,182
Derivative assets	24	4,784	2,019	2,766	-	-	-
Rentals receivable on leased assets	18,409	24,497	3,056	6,403	11,932	2,846	259
Hire purchases, loans and advances	55,484	63,021	8,455	13,580	18,484	20,788	1,714
Factoring receivable	16,525	16,525	16,525	-	-	-	-
Margin trading receivables	95	95	95	-	-	-	-
Other receivables	329	329	329	-	-	-	-
Investment securities	325	325	258	-	-	-	66
Amount due from related companies	225	225	225	-	-	-	-
	118,353	138,933	55,561	23,206	31,798	24,146	4,222
As at 31st March 2016							
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
Investments in shares	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

Notes to the Financial Statements

Contractual Maturities of Commitments & Contingencies

The table below shows the contractual expiry by maturity of the Company's

contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For

issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

(In Rs' mn)

As at 31-3-2017

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
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Contingent liabilities

Guarantees issued to banks and other institutions - backed by deposits held with the company

	898	-	-	-	-	898
Total	898	-	-	-	-	898

Commitments

Unutilised loan facilities & letter of credit

	10,499	-	-	-	-	10,499
Total	10,499	-	-	-	-	10,499

(In Rs' mn)

As at 31-3-2016

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
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Contingent liabilities

Guarantees issued to banks and other institutions - backed by deposits held with the company

	671	-	-	-	-	671
Total	671	-	-	-	-	671

Commitments

Unutilised loan facilities & letter of credit

	9,088	134	-	-	-	9,221
Total	9,088	134	-	-	-	9,221

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.

(In Rs' mn)

Sensitivity analysis as at 31st March 2017 Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.17
Interest earning assets						
Deposits with banks and other financial institutions	12,758	272	925	206	-	14,162
Investment in government securities & others	6,726	-	73	17	1,037	7,853
Rentals receivable on leased assets	2,183	4,251	9,259	2,481	235	18,409
Hire purchases, loans and advances	7,278	11,052	15,574	20,095	1,486	55,484
Factoring receivable	16,525	-	-	-	-	16,525
Margin trading receivables	95	-	-	-	-	95
Total interest earning assets	45,565	15,574	25,831	22,799	2,758	112,527
Interest bearing liabilities						
Bank overdraft	2,392	-	-	-	-	2,393
Interest bearing borrowings	8,247	3,669	9,964	1,757	820	24,456
Deposits from customers	31,599	34,157	8,844	6,006	-	80,607
Total interest bearing liabilities	42,516	37,549	18,808	7,763	820	107,456
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	3,747	(22,673)	7,023	15,036	1,937	5,070
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect	37	(227)	70	150	19	-
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	(37)	227	(70)	(150)	(19)	-

Notes to the Financial Statements

(In Rs' mn)

Sensitivity analysis as at 31st March 2016 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 - annualised effect	(37)	(87)	58	136	12	-
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	37	87	(58)	(136)	(12)	-

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 recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Company's regulatory capital under the CBSL guidelines is as follows;

(In Rs' mn) Capital element	As at 31.03.2017	As at 31.03.2016
Ordinary share capital	2,000	2,000
Statutory Reserve	1,556	1,239
Retained earnings	7,365	6,096
Other negative reserves	(155)	(160)
Tier I capital	10,806	9,175
Unsecured subordinated debentures	2,372	3,163
Tier II capital	2,372	3,163
Total capital	13,178	12,338

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 - available for sale	Amortised cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
As at 31st March 2017							
Cash and cash equivalents	-	-	-	4,924	4,924	4,924	
Deposits with banks & other financial institutions	-	-	-	14,162	14,162	14,162	
Investment in government securities & others							
- Measured at fair value	-	-	1,127	-	1,127	1,127	Level 1
- Measured at amortised cost	-	-	-	6,726	6,726	6,726	
Derivative assets	24	-	-	-	24	24	Level 2
Investment securities	-	258	-	66	324	324	Level 1
Rentals receivable on leased assets	-	-	-	18,409	18,409	18,280	Level 2
Hire purchases, loans and advances	-	-	-	55,484	55,484	54,310	Level 2
Factoring receivable	-	-	-	16,525	16,525	16,525	
Margin trading receivables	-	-	-	95	95	95	
Amount due from related companies	-	-	-	225	225	225	
Other financial assets	-	-	-	329	329	329	
Total financial assets	24	258	1,127	116,944	118,353	117,050	
Bank overdraft	-	-	-	2,393	2,393	2,393	
Interest bearing borrowings	-	-	-	24,456	24,456	23,976	Level 2
Deposits from customers	-	-	-	80,607	80,607	80,403	Level 2
Trade payables	-	-	-	678	678	678	
Accruals and other payables	-	-	-	1,594	1,594	1,594	
Derivative liabilities	19	-	-	-	19	19	Level 2
Amount due to related companies	-	-	-	434	434	434	
Total financial liabilities	19	-	-	110,163	110,182	109,497	

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	Amortised cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
As at 31st March 2016							
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 amortised cost	-	-	-	6,209	6,207	6,207	
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	2,188	104,498	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	

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

As at 31 March 2017

	2017 Rs.	2016 Rs.
3. INVESTMENT IN GOVERNMENT SECURITIES & OTHERS		
Investment In Government Securities		
Financial instruments classified as loans and receivables (note 3.1.1)	5,420,173,981	6,209,704,562
Financial instruments classified as available for sale - carried at fair value (note 3.1.2)	1,127,125,889	2,187,791,673
	6,547,299,870	8,397,496,235
Other Investments		
Investments in commercial papers - carried at amortised cost (note 3.2)	1,305,876,623	-
	7,853,176,493	8,397,496,235

	2017		2016	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
3.1 Investment in government securities				
3.1.1 Financial instruments classified as loans and receivables				
Investment in Government Standing Deposit Facilities (REPO's)	5,420,173,981	5,420,173,981	6,209,704,562	6,209,704,562
3.1.2 Financial instruments classified as available for sale - carried at fair value				
Investment in Treasury Bonds	1,127,125,889	1,127,125,889	2,187,791,673	2,187,791,673

	2017 Rs.	2016 Rs.
3.1.3 Fair value adjustments recognised in other comprehensive income - current period (net of transfers to P&L)		
Investment in Treasury Bills	-	1,389,895
Investment in Treasury Bonds	44,668,814	(247,580,431)
	44,668,814	(246,190,536)
3.1.4 Fair value adjustments recognised in other comprehensive income - cumulative		
Investment in Treasury Bills	-	-
Investment in Treasury Bonds	(115,484,939)	(160,153,753)
	(115,484,939)	(160,153,753)

	2017		2016	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
3.2 Investments classified as loans and receivables - carried at amortised cost				
Investment in commercial papers	1,305,876,623	1,305,876,623	-	-

Notes to the Financial Statements

As at 31 March 2017

	2017 Rs.	2016 Rs.
4. DERIVATIVES HELD FOR RISK MANAGEMENT		
Net derivative assets / (liabilities)		
Derivative assets (note 4.1)	23,840,338	98,163,191
Derivative liabilities (note 4.2)	18,978,063	17,859,000
Net derivative assets / (liabilities)	4,862,275	80,304,191
4.1 Derivative assets		
Forward exchange contracts	23,840,338	98,163,191
4.2 Derivative liabilities		
Forward exchange contracts	18,978,063	17,859,000
4.3 Change in fair value during the period - gain/ (loss)		
Recognised in profit or loss	(28,698,717)	94,334,091
Recognised in OCI (note 19.3)	(46,743,199)	40,745,000
	(75,441,916)	135,079,091

As at 31 March 2017

	2017 Rs.	2016 Rs.
5. RENTALS RECEIVABLE ON LEASED ASSETS		
Rentals receivable	26,258,301,547	24,778,917,217
Unearned income	(6,088,081,023)	(6,177,140,405)
Net rentals receivable (note 5.1)	20,170,220,524	18,601,776,812
Deposits received from lessees	(1,463,115,215)	(1,096,189,207)
Allowance for impairment (note 5.2)	(298,372,189)	(261,725,528)
	18,408,733,120	17,243,862,077
5.1 Net Rentals Receivable		
Receivable -more than one year		
Rentals receivable	16,625,916,413	16,792,953,235
Unearned income	(3,062,559,468)	(3,680,615,120)
	13,563,356,945	13,112,338,116
Receivable within one year		
Rentals receivable	8,920,895,997	7,470,916,461
Unearned income	(3,025,521,555)	(2,496,525,285)
	5,895,374,443	4,974,391,176
Overdue		
Rentals receivable	711,489,137	515,047,520
	711,489,137	515,047,520
	20,170,220,524	18,601,776,812

As at 31 March 2017	2017 Rs.	2016 Rs.
5.2 Allowance for impairment		
Balance as at 1st of April	261,725,528	316,416,427
Provision / (reversal) for the year	36,646,661	(54,690,899)
Balance as at 31st March	298,372,189	261,725,528
5.2.1 Individual impairment		
Balance as at 1st of April	209,731,787	249,181,536
Provision for the year	(53,081,211)	(39,449,749)
Balance as at 31st March	156,650,576	209,731,787
5.2.2 Collective impairment		
Balance as at 1st of April	51,993,741	67,234,891
Provision for the year	89,727,873	(15,241,150)
Balance as at 31st March	141,721,613	51,993,741

As at 31 March 2017	2017 Rs.	2016 Rs.
6. HIRE PURCHASES, LOANS AND ADVANCES		
Hire Purchases (note 6.1)	-	16,479,699
Mortgage Loans (note 6.2)	988,013,041	798,692,789
Sundry Loans (note 6.3)	54,496,068,083	52,520,002,760
	55,484,081,124	53,335,175,248
6.1 Hire Purchases		
Rentals receivable	-	18,766,649
Unearned income	-	(122,879)
Net rentals receivable (note 6.1.1)	-	18,643,770
Allowance for impairment (note 6.1.2)	-	(2,164,071)
	-	16,479,699
6.1.1 Net rentals receivable - Hire Purchases		
Receivable -more than one year		
Rentals receivable	-	7,692,179
Unearned income	-	124,554
	-	7,816,733
Receivable within one year		
Rentals receivable	-	3,992,929
Unearned income	-	(247,433)
	-	3,745,495
Overdue		
Rentals receivable	-	7,081,541
	-	18,643,770

Notes to the Financial Statements

As at 31 March 2017

	2017 Rs.	2016 Rs.
6.1 Hire Purchases (Contd.)		
6.1.2 Allowance for impairment - Hire Purchases		
Balance as at 1st of April	2,164,071	2,424,986
Provision / (reversal) for the year	(2,164,071)	(260,916)
Balance as at 31st March	-	2,164,071
6.1.2.a Individual impairment		
Balance as at 1st of April	-	1,357,028
Provision / (reversal) for the year	-	(1,357,028)
Balance as at 31st March	-	-
6.1.2.b Collective impairment		
Balance as at 1st of April	2,164,071	1,067,958
Provision / (reversal) for the year	(2,164,071)	1,096,113
Balance as at 31st March	-	2,164,071
6.2 Mortgage Loans		
Rentals receivable	1,452,004,641	1,100,573,875
Unearned income	(374,109,327)	(255,516,707)
Net rentals receivable (note 6.2.1)	1,077,895,314	845,057,168
Allowance for impairment (note 6.2.2)	(89,882,272)	(46,364,379)
	988,013,041	798,692,789
6.2.1 Net rentals receivable - Mortgage Loans		
Receivable - more than one year		
Installments receivable	948,055,361	683,362,878
Unearned income	(239,814,740)	(171,909,530)
	708,240,620	511,453,348
Receivable within one year		
Installments receivable	299,225,836	214,740,160
Unearned income	(134,294,587)	(83,607,177)
	164,931,249	131,132,983
Overdue		
Installments receivable	204,723,444	202,470,837
	1,077,895,314	845,057,168

As at 31 March 2017	2017 Rs.	2016 Rs.
6.2.2 Allowance for impairment - Mortgage Loans		
Balance as at 1st of April	46,364,379	81,571,621
Provision / (reversal) for the year	43,517,893	(35,207,241)
Balance as at 31st March	89,882,272	46,364,379
6.2.2.a Individual impairment		
Balance as at 1st of April	-	-
Reversal for the year	14,458,744	-
Balance as at 31st March	14,458,744	-
6.2.2.b Collective impairment		
Balance as at 1st of April	46,364,379	81,571,621
Provision / (reversal) for the year	29,059,149	(35,207,241)
Balance as at 31st March	75,423,528	46,364,379
6.3 Sundry Loans		
Total receivable	62,955,949,704	61,203,640,749
Unearned income	(6,984,098,591)	(7,312,317,867)
Net receivable (note 6.3.1)	55,971,851,113	53,891,322,882
Allowance for impairment (note 6.3.2)	(1,475,783,030)	(1,371,320,123)
	54,496,068,083	52,520,002,760
6.3.1 Net receivable - Sundry Loans		
Receivable -more than one year		
Installments receivable	40,500,529,998	39,711,490,383
Unearned income	(3,413,072,652)	(3,907,935,042)
	37,087,457,345	35,803,555,340
Receivable within one year		
Installments receivable	20,547,396,489	20,256,697,557
Unearned income	(3,571,025,938)	(3,404,382,825)
	16,976,370,551	16,852,314,732
Overdue		
Installments receivable	1,908,023,217	1,235,452,810
	55,971,851,113	53,891,322,882

Notes to the Financial Statements

As at 31 March 2017

	2017 Rs.	2016 Rs.
6.3 Sundry Loans (Contd.)		
6.3.2 Allowance for impairment - Sundry Loans		
Balance as at 1st of April	1,371,320,123	1,092,935,982
Provision for the year	104,462,908	278,384,140
Balance as at 31st March	1,475,783,030	1,371,320,123
6.3.2.a Individual impairment		
Balance as at 1st of April	546,676,766	414,363,854
Provision / (reversal) for the year	37,321,575	132,312,912
Balance as at 31st March	583,998,341	546,676,766
6.3.2.b Collective impairment		
Balance as at 1st of April	824,643,357	678,572,128
Provision for the year	67,141,333	146,071,228
Balance as at 31st March	891,784,689	824,643,357
6.4 Factoring Receivables		
Gross receivable	17,823,865,341	14,493,158,118
Allowance for impairment (note 6.4.1)	(1,299,227,274)	(894,557,226)
	16,524,638,067	13,598,600,891
6.4.1 Allowance for impairment		
Balance as at 1st of April	894,557,226	158,878,197
Provision for the year	404,670,048	735,679,029
Balance as at 31st March	1,299,227,274	894,557,226
6.4.1.a Individual impairment		
Balance as at 1st of April	500,000,000	-
Provision / (reversal) for the year	439,736,329	500,000,000
Balance as at 31st March	939,736,329	500,000,000
6.4.1.b Collective impairment		
Balance as at 1st of April	394,557,226	158,878,197
Provision for the year	(35,066,281)	235,679,029
Balance as at 31st March	359,490,945	394,557,226

As at 31 March 2017

	2017 Rs.	2016 Rs.
6.5 Margin Trading Receivables		
Gross amount outstanding at year end	94,825,018	85,597,164
Allowance for impairment	-	-
Net balance on margin trading	94,825,018	85,597,164
6.6 Portfolio Analysis		
6.6.1 Sector-wise exposure of the lending portfolio - before impairment provision		
Agriculture	6,372,360,281	6,279,146,181
Manufacturing	7,706,594,972	7,904,558,795
Economics And Social	1,409,104,525	1,410,104,727
Trade	19,763,704,338	21,588,238,172
Factoring	17,294,700,931	14,493,158,119
Margin Trading	94,825,018	85,597,164
Tourism	1,422,950,463	1,382,648,751
Services	13,463,339,321	13,615,749,820
Transportation	5,092,978,170	4,653,101,968
Construction	4,493,623,152	4,217,704,574
Mining and Quarrying	328,425,492	348,480,756
Others	16,232,935,432	10,860,877,680
	93,675,542,095	86,839,366,707
6.6.2 Product wise analysis of portfolio		
Lease receivables	15,476,013,038	14,202,393,776
Hire Purchase receivables	-	18,643,770
Loans & Advances	49,239,625,594	47,138,267,302
Factoring receivables	17,823,865,341	14,493,158,118
Margin trading receivables	94,825,018	85,597,164
Islamic business portfolio - Ijarah receivables	3,231,092,271	3,303,193,828
Islamic business portfolio - Other receivables (Murabaha, Musharakah etc.)	7,810,120,833	7,598,112,748
Gross portfolio	93,675,542,095	86,839,366,707
Less : Impairment provision	(3,163,264,766)	(2,576,131,327)
Net portfolio (note 6.6.3)	90,512,277,329	84,263,235,380
6.6.3 Net portfolio		
Rentals receivable on Leased Assets (note 5)	18,408,733,120	17,243,862,077
Hire Purchases, Loans and Advances (note 6)	55,484,081,124	53,335,175,248
Factoring receivable (note 6.4)	16,524,638,067	13,598,600,891
Margin trading receivables (note 6.5)	94,825,018	85,597,164
	90,512,277,329	84,263,235,380

Notes to the Financial Statements

As at 31 March 2017	2017 Rs.	2016 Rs.
7. OTHER RECEIVABLES		
Financial Assets		
Staff loans	250,605,452	224,602,047
Other accommodations	590,802,130	628,406,930
Provision for other accommodations	(590,802,130)	(628,406,930)
Letter of credit charges	4,332,135	4,307,575
Insurance premium receivables	74,180,882	22,597,474
	329,118,469	251,507,096
Non Financial Assets		
VAT receivable	381,448,855	158,765,387
Prepaid staff cost	102,826,327	71,147,704
Miscellaneous receivables	258,267,764	212,635,286
	742,542,946	442,548,377
Total Other receivables	1,071,661,415	694,055,473

As at 31 March 2017	2017 Rs.	2016 Rs.
8. INVESTMENT SECURITIES		
Investments held for trading (note 8.1)	258,161,072	1,017,002,569
Available for sale investments-carried at cost (note 8.2)	66,468,275	66,468,275
	324,629,347	1,083,470,844
8.1 Investments held for trading		
Expo Lanka Holdings PLC		
Original cost	18,000,000	18,000,000
Carrying amount as at 1st April	7,000,000	8,500,000
Adjustment for change in fair value - recognised in profits	(400,000)	(1,500,000)
Carrying amount as at 31st March	6,600,000	7,000,000
Investment in Unit Trusts		
Original cost	250,000,000	1,000,000,000
Carrying amount as at 1st April	1,010,002,569	-
Investments during the year	250,000,000	1,000,000,000
Disposal during the year	(1,040,793,428)	
Adjustment for change in fair value - recognised in profits	32,351,930	10,002,569
Carrying amount as at 31st March	251,561,072	1,010,002,569
Total investments held for trading	258,161,072	1,017,002,569

As at 31 March 2017	2017 Rs.	2016 Rs.
8.2 Available for sale investments carried at cost		
Credit Information Bureau Ltd.	343,275	343,275
LOLC Myanmar Micro Finance Company Ltd	66,125,000	66,125,000
Total	66,468,275	66,468,275

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

As at 31 March 2017	Relationship	2017 Rs.	2016 Rs.
9. AMOUNTS DUE FROM RELATED COMPANIES			
Eden Hotel Lanka PLC	Fellow Subsidiary	9,708,643	932,830
Commercial Leasing and Finance PLC	Fellow Subsidiary	102,340	-
LOLC Insurance - General Ltd	Fellow Subsidiary	1,909,490	419,339
LOLC Insurance - Life Ltd	Fellow Subsidiary	3,971,487	1,449,190
LOLC Securities Ltd	Fellow Subsidiary	683,964	90,041
BG Air services Ltd	Fellow Subsidiary	-	3,468
Galoya Plantation	Fellow Subsidiary	1,500,000	-
The Paradise Resort & Spa	Fellow Subsidiary	1,983,274	-
Sun & Fun Resorts Ltd.	Fellow Subsidiary	1,034,777	-
LOLC Factors Ltd	Fellow Subsidiary	163,612,000	-
BRAC Lanka Finance PLC	Fellow Subsidiary	32,884,957	3,468
Dickwella Resorts (pvt) Ltd	Fellow Subsidiary	1,393,853	6,806
Lanka Orix Information Technology services Ltd	Fellow Subsidiary	1,729,863	366,041
Browns Hotels and Resorts Ltd	Fellow Subsidiary	1,931,950	-
Millennium Development (pvt) Ltd	Fellow Subsidiary	1,330,125	-
Excel Restaurants (Pvt) Ltd	Fellow Subsidiary	729,101	-
		224,505,824	3,271,183

As at 31 March 2017	2017 Rs.	2016 Rs.
10. INVESTMENT PROPERTIES		
Balance as at 1st April	930,200,000	1,142,800,000
Additions and improvements	13,997,152	360,101
Disposals	(62,355,000)	(242,030,810)
Change in fair value	24,457,848	29,070,709
Balance as at 31st March	906,300,000	930,200,000

- 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. 10,962,000 during the current financial year. (2015-2016 : Rs. 1,748,564).
- During the financial year company has incurred expenses amounting to Rs. 6,579,374 for maintenance of the investment property. (2015-2016 - Rs. 1,713,781)
- Changes in fair values are recognised as gains in profit or loss and included in 'Net other operating income'.

Notes to the Financial Statements

10.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31 March 2017.

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)

As at 31 March 2017	Land	Building	Leasehold Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.

11. PROPERTY, PLANT AND EQUIPMENT

Cost/Valuation

Balance as at 01 April 2016	150,850,000	17,174,800	1,091,088,965	1,259,113,765
Additions	571,174,000	43,549,245	727,148,000	1,341,871,245
Revaluation	177,376,000	38,427,200	-	215,803,200
Balance as at 31 March 2017	899,400,000	99,151,245	1,818,236,965	2,816,788,210

Accumulated Depreciation

Balance as at 01 April 2016	-	243,495	48,463,040	48,706,535
Charge for the year	-	1,066,765	147,179,242	148,246,007
Revaluation	-	(1,186,376)	-	(1,186,376)
Balance as at 31 March 2017	-	123,884	195,642,282	195,766,167

Carrying Amount

As at 31 March 2017	899,400,000	99,027,360	1,622,594,683	2,621,022,043
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As at 31 March 2017	Land	Building	Leasehold Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.
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	32,717,252
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
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Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles amounting to Rs. 1,622,594,683 as at 31 March 2017 (2016 - Rs. 1,042,625,925) are purchased under finance leases and have been pledged as security for the related finance lease liabilities, details of which are disclosed in Note 12.2.

Assets given under operating leases

The motor vehicles of the company represents assets given under operating leases under short term and long term basis.

An analysis of the rentals to be received on such operating leases are as follows

As at 31 March 2017	2017 Rs.	2016 Rs.
Receivable within one year	342,854,375	162,314,400
Receivable within 1-5 years	857,161,600	459,103,850
Receivable after 5 years	3,093,500	4,320,250
Total	1,203,109,475	625,738,500

Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31st March 2017 and 31st March 2016.

Fully depreciated property, plant and equipment

There were no property, plant and equipment fully depreciated as at 31st March 2017 and 31st March 2016.

11.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of land and buildings was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's land and buildings once in every 3 years and the latest valuation was done on 31 March 2017.

The fair value measurement for all of the land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

Notes to the Financial Statements

11.1 Measurement of fair values (Contd.)

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio ranges from Rs.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)

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

As at 31 March 2017	2017 Rs.	2016 Rs.
Cost	782,748,045	168,024,800
Accumulated depreciation and impairment	(1,310,260)	(243,495)
Carrying value	781,437,784	167,781,305

As at 31 March 2017	2017 Rs.	2016 Rs.
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12. INTEREST BEARING BORROWINGS

Short-term loans	6,253,000,000	8,302,302,662
Long-term borrowings (note 12.1)	11,841,978,667	20,453,223,681
Finance leases (note 12.2)	1,068,481,984	1,094,417,463
Debentures (note 12.3)	4,950,000,000	4,950,000,000
Total borrowings	24,113,460,651	34,799,943,806

Interest payable	342,853,014	270,207,908
Liability recognised in statement of financial position	24,456,313,665	35,070,151,714

12.1 Long-term borrowings

Balance at the beginning of the year	20,453,223,681	764,975,600
Loans obtained during the year	2,155,700,000	20,421,823,681
Repaid during the year	(10,766,945,014)	(733,575,600)
Balance at the end of the year	11,841,978,667	20,453,223,681

Long-term borrowings - current	4,796,703,943	11,052,982,201
Long-term borrowings - non-current (note 12.1.a)	7,045,274,723	9,400,241,481
	11,841,978,666	20,453,223,681

As at 31 March 2017	2017 Rs.	2016 Rs.
12.1.a Analysis of non-current portion of long-term borrowings		
Repayable within 1-3 years	4,578,707,695	6,148,697,091
Repayable after 3 years	2,466,567,027	3,251,544,390
	7,045,274,723	9,400,241,481

The borrowings includes long term and short term loans which carry interest rates which are variable and are reset on a monthly / quarterly / semi-annually / annual basis.

As at 31 March 2017	2017 Rs.	2016 Rs.
12.2 Finance leases		
Gross lease rentals payable as at 1 April	1,281,759,996	665,812,229
Lease obtained during the year	593,542,233	727,505,000
Lease rentals paid during the year	(632,792,253)	(111,557,233)
Gross lease rentals payable as at 31 March	1,242,509,975	1,281,759,996
Less: Interest in suspense	(174,027,991)	(187,342,533)
Balance at the end of the year / present value of minimum lease payments	1,068,481,984	1,094,417,463
12.2.1 Analysis of finance leases		
Repayable within one year (note 12.2.1.a)	523,219,878	346,631,427
Repayable within 1-5 years (note 12.2.1.b)	545,262,106	747,786,036
	1,068,481,984	1,094,417,463
12.2.1.a Repayable within one year		
Gross lease rentals payable	616,914,159	439,381,431
Less: interest in suspense	(93,694,281)	(92,750,004)
	523,219,878	346,631,427
12.2.1.b Repayable within 1-5 years		
Gross lease rentals payable	625,595,816	842,378,565
Less: interest in suspense	(80,333,710)	(94,592,529)
	545,262,106	747,786,036
12.3 Debentures		
Balance at the beginning of the year	4,950,000,000	4,950,000,000
Debenture issued during the year (net of transaction cost)	-	-
Balance at the end of the year	4,950,000,000	4,950,000,000

The company issued fifty million (50,000,000) rated unsecured subordinated redeemable debentures at a value of Rs.100 each, totalling to Rs. 5 billion, 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. 50 million was incurred on the issue of these debentures. The amortisation of the transaction cost is included in the interest payable amount.

Notes to the Financial Statements

As at 31 March 2017	2017 Rs.	2016 Rs.
13. DEPOSITS FROM CUSTOMERS		
Customer deposits	77,680,697,534	57,839,986,244
Interest / profit payable		
Interest payable on deposits	2,802,791,088	2,263,236,953
Profits payable to Islamic Business Unit deposit holders	123,626,172	93,977,697
	2,926,417,260	2,357,214,650
Deposit liability recognised in statement of financial position	80,607,114,794	60,197,200,894
13.1 Analysis of customer deposits based on nature		
Fixed deposits - conventional	67,236,994,188	48,494,192,006
Fixed deposits - Islamic - Mudharabah	4,081,857,830	4,230,559,233
Fixed deposits - Islamic - Wakala	1,991,207,909	1,569,100,000
Fixed deposits - foreign currency	1,651,310,478	1,561,953,342
Fixed deposit bonds	395,097,800	415,529,000
Savings deposits - conventional	1,747,264,748	1,000,844,109
Savings deposits - Islamic	484,831,430	466,058,778
Savings deposits - foreign currency	92,133,151	101,749,776
Total deposits	77,680,697,534	57,839,986,244
13.2 Deposits based on maturity		
Deposits maturing within one year	63,469,514,967	44,386,778,927
Deposits maturing after one year	14,211,182,567	13,453,207,317
	77,680,697,534	57,839,986,244

As at 31 March 2017	2017 Rs.	2016 Rs.
14. TRADE PAYABLES		
Creditors for lease equipment and approved facilities to be disbursed	677,878,426	637,849,803

As at 31 March 2017	2017 Rs.	2016 Rs.
15. ACCRUALS AND OTHER PAYABLES		
Excess payments received from clients	150,977,318	109,355,895
Insurance payable	50,473,780	48,382,723
VAT / other tax payable	2,555,388	8,971,300
Other miscellaneous creditors	1,076,401,622	620,162,118
Payable on matured deposits	325,966,263	212,002,623
Stamp duty payable	11,160,475	12,523,615
IBU charity fund	3,432,829	7,204,557
	1,620,967,675	1,018,602,831

As at 31 March	Relationship	2017 Rs.	2016 Rs.
16. AMOUNTS DUE TO RELATED COMPANIES			
Lanka Orix Leasing Company PLC	Parent	371,173,624	203,769,488
Lanka Orix Leasing Company PLC-Refinance Loans	Parent	29,548,653	48,602,436
LOLC Micro Credit Ltd	Fellow Subsidiary	27,756,038	136,016,886
LOLC Corporate services Ltd	Fellow Subsidiary	1,682,156	-
LOLC Factors Ltd	Fellow Subsidiary	-	605,271,399
LOLC Motors Ltd	Fellow Subsidiary	4,098,350	3,120,600
		434,258,821	996,780,809

17. EMPLOYEE BENEFITS

17.1 Defined contribution plans

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

As at 31 March	2017 Rs.	2016 Rs.
Employees' Provident Fund		
Employers' contribution	31,303,816	21,844,675
Employees' contribution	21,069,210	14,563,117
Employees' Trust Fund	7,825,954	5,461,169

As at 31 March	2017 Rs.	2016 Rs.
17.2 Defined benefit plan		
Movement in the present value of the defined benefit obligation		
Defined benefit obligation as of 01 April	12,248,571	10,450,090
Expense included in Personnel Expenses	5,141,592	3,651,323
Remeasurement Component	1,504,720	(1,372,202)
	6,646,312	2,279,121
Benefits paid	(1,876,753)	(480,640)
Defined benefit obligation as at 31st March	17,018,130	12,248,571
17.2.a Expense included in Personnel Expenses		
Current Service Cost	3,474,194	2,658,565
Interest Cost	1,667,398	992,758
	5,141,592	3,651,323
17.2.b Actuarial gains and losses recognised in other comprehensive income		
Cumulative loss as at 1st April	2,940,653	4,312,855
(Gain) / loss recognised during the period	1,504,720	(1,372,202)
Cumulative loss as at 31st March	4,445,373	2,940,653

Actuarial valuation for defined benefit obligation was carried out as at 31 March 2017 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".

Notes to the Financial Statements

As at 31 March	2017	2016
17.2 Defined benefit plan (Contd.)		
17.2.c Key assumptions used in the above valuation are as follows:		
Discount Rate	12.00%	11.00%
Salary Increment Rate	9.00%	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	2017	2016
The defined benefit obligation under current assumptions	17,018,130	12,248,571
The defined benefit obligation if the discount rate increased by 100 basis points	15,555,653	11,167,201
The defined benefit obligation if the discount rate reduced by 100 basis points	18,718,105	13,503,799
The defined benefit obligation if the salary increment rate increased by 1%	18,720,579	13,669,609
The defined benefit obligation if the salary increment rate reduced by 1%	15,529,221	11,015,220
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(1,462,477)	(1,081,370)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	1,699,975	1,255,228
The change in the defined benefit obligation if the salary increment rate increased by 1%	1,702,449	1,421,038
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(1,488,909)	(1,233,351)

17.2.e Maturity analysis of the payments

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

As at 31 March	2017 Rs.	2016 Rs.
Within the next 12 months	2,449,327	2,071,821
Between 1 and 2 years	2,854,021	5,614,871
Between 2 and 5 years	14,503,778	12,267,855
Between 5 and 10 years	46,997,830	35,510,850
Total expected payments	66,804,956	55,465,397

As at 31 March	2017		2016	
	Number of shares	Rs.	Number 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	2017 Rs.	2016 Rs.
19. RESERVES		
Statutory reserve (note 19.1)	1,556,438,753	1,239,075,154
Revaluation reserve (note 19.2)	206,229,960	-
Cash flow hedge reserve (note 19.3)	14,236,742	22,747,657
Available for sale investment reserve (note 19.4)	(115,484,939)	(160,153,753)
Retained earnings (note 19.5)	7,364,836,012	6,096,465,015
	9,026,256,529	7,198,134,074
19.1 Statutory reserve		
Balance at the beginning of the year	1,239,075,154	953,676,506
Transferred during the year	317,363,599	285,398,648
Balance at the end of the year	1,556,438,753	1,239,075,154

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% (2015/16 - 20%) of its annual net profit after tax to this reserve in compliance with this direction.

As at 31 March	2017 Rs.	2016 Rs.
19.2 Revaluation Reserve		
Balance at the beginning of the year	-	-
Transferred during the year	216,989,576	-
Related tax	(10,759,616)	-
Balance at the end of the year	206,229,960	-

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

As at 31 March	2017 Rs.	2016 Rs.
19.3 Cash flow hedge reserve		
Balance at the beginning of the year	22,747,657	-
Gain / (loss) arising from cash flow hedge recognised in OCI	(11,820,715)	34,156,257
Related tax - current tax - expense / (reversal) - note 27	(9,778,295)	-
Related tax - deferred tax - expense / (reversal) - note 27	13,088,096	(11,408,600)
Balance at the end of the year	14,236,742	22,747,657

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.

Notes to the Financial Statements

19.3 Cash flow hedge reserve (Contd.)

The hedging instrument is a forward exchange contract and as at 31st March 2017 was a liability and had a fair value of Rs. 5,998,199

The portion of the foreign currency loan that is subject to hedge accounting is to be settled during the financial years 2017/18 - 2022/23 and the derivative will be rolled over until that date.

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

As at 31 March	2017 Rs.	2016 Rs.
19.4 Available for Sale Investment Reserve		
Balance at the beginning of the year	(160,153,753)	86,036,783
Fair value changes during the year - increase / (decrease)	44,668,814	(246,190,536)
Balance at the end of the year	(115,484,939)	(160,153,753)

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

As at 31 March	2017 Rs.	2016 Rs.
19.5 Retained Earnings		
Balance at the beginning of the year	6,096,465,015	4,953,882,436
Profit for the year	1,586,817,994	1,426,993,242
Remeasurements of defined benefit liability - gain / (loss)	(1,083,398)	987,985
Transfer to statutory reserve fund	(317,363,599)	(285,398,648)
Balance at the end of the year	7,364,836,012	6,096,465,015

As at 31 March	2017 Rs.	2016 Rs.
20. INTEREST INCOME		
Interest on leases	3,256,904,896	2,827,065,239
Interest on hire purchases	136,361	7,320,164
Interest on loans	10,403,319,839	7,496,881,646
Income from factoring portfolio	3,386,062,003	1,649,596,359
Interest on margin trading	15,107,970	33,284,619
Income from operating lease and hire	216,962,699	50,836,841
Interest on overdue rentals and others	1,211,246,932	1,072,612,148
	18,489,740,700	13,137,597,016

As at 31 March	2017 Rs.	2016 Rs.
21. INTEREST EXPENSE		
Interest on fixed deposits	7,386,960,410	4,148,247,834
Interest on savings deposits	67,558,918	45,818,046
Profit distributed to Islamic Business Unit deposit holders	558,485,895	480,400,473
Interest on foreign currency deposits	69,456,936	64,990,148
Interest on re-red refinancing	2,823,690	3,773,910
Finance lease interest	125,893,047	71,259,352
Interest on loans & bank overdraft	3,248,094,494	1,684,984,796
	11,459,273,390	6,499,474,559

As at 31 March	2017 Rs.	2016 Rs.
22. NET OTHER OPERATING INCOME		
Sundry income	85,236,207	37,957,849
Service charges	354,932,248	241,789,835
Arrangement and documentation fees	193,263,194	207,007,494
Collections from contracts written off	218,548,341	159,584,229
Fair value change in investment properties (Note 10)	24,457,848	29,070,709
Interest income and capital gain on government securities	982,164,310	527,505,599
Interest income on term deposits	473,900,598	66,226,107
Change in fair value of derivatives - forward contracts (note 4.3)	(28,698,717)	94,334,091
Net exchange loss	(56,870,998)	(138,188,264)
Provision for payables to clients	(10,500,000)	(9,539,899)
Adjustment for increase / (decrease) in value of investments (note 8.1)	31,951,930	8,502,569
Dividend income	200,503	165,424
Interest income from staff loan	68,165,042	53,408,699
Disposal gain / (loss) on investment property	11,902,750	(32,315,560)
	2,348,653,257	1,245,508,882

As at 31 March	2017 Rs.	2016 Rs.
23. DIRECT EXPENSES EXCLUDING INTEREST COST		
Factored insurance	323,419,958	251,794,016
VAT on general expenses	309,002,010	194,393,911
Portfolio handling fee	669,342,613	465,529,015
Others	9,643,590	-
	1,311,408,171	911,716,942

As at 31 March	2017 Rs.	2016 Rs.
24. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS		
Impairment provision / (reversal) for lease rentals receivable (Note 5.2)	36,646,661	(54,690,899)
Impairment provision / (reversal) for receivables from hire purchases (Note 6.1.2)	(2,164,071)	(260,916)
Impairment provision / (reversal) for mortgage loan (Note 6.2.2)	43,517,893	(35,207,241)
Impairment provision / (reversal) for receivables from sundry loans (Note 6.3.2)	104,462,908	278,384,140
Impairment provision / (reversal) for factoring receivables (Note 6.4.1)	404,670,048	735,679,029
Impairment provision / (reversal) for other receivables	(37,604,799)	(57,649,925)
Impairment provision / (reversal) for insurance receivable	-	40,857,990
Written-off during the year	779,513,473	661,463,899
	1,329,042,113	1,568,576,077

Notes to the Financial Statements

25. PROFIT FROM OPERATIONS

Profit from operations is stated after charging all expenses including the following,

As at 31 March	2017 Rs.	2016 Rs.
Directors' emoluments	7,235,438	57,103,370
Audit fees and expenses		
- Audit Services	2,215,150	2,013,000
- Audit Related Services	949,300	904,050
- Non Audit Services	Nil	Nil
Depreciation on property, plant and equipment	148,246,007	32,717,251
25.1 Personnel expenses		
- Salaries, wages & other related cost	1,380,224,129	1,069,592,645
- Defined contribution plans - EPF & ETF	39,129,770	27,305,844
- Defined benefit plan cost	5,141,592	3,651,323
	1,424,495,490	1,100,549,812
25.2 Penalties paid to Central Bank of Sri Lanka		
A penalty was paid to CBSL for delay of one day in submitting a weekly return	100,000	-

26. MATURITY OF ASSETS AND LIABILITIES

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

As at 31 March	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.17 Rs.	Total as at 31.03.16 Rs.
Cash and cash equivalents	4,924,111,973	-	-	-	-	4,924,111,973	3,497,994,396
Deposits with banks and other financial institutions	12,757,943,827	272,084,474	925,318,179	206,220,598	-	14,161,567,078	10,206,770,924
Investment in government securities	6,726,050,604	-	72,954,075	17,225,370	1,036,946,444	7,853,176,493	8,397,496,235
Derivative assets	12,219,869	11,620,468	-	-	-	23,840,338	98,163,191
Rentals receivable on leased assets	2,277,049,245	4,329,814,335	9,317,998,856	2,543,945,512	238,297,362	18,707,105,309	17,505,587,605
Allowance for impairment	-	-	-	-	-	(298,372,189)	(261,725,528)
Hire purchases, loans and advances	7,998,040,700	11,256,007,761	15,889,670,088	20,329,830,062	1,576,197,815	57,049,746,427	54,755,023,819
Allowance for impairment	-	-	-	-	-	(1,565,665,303)	(1,419,848,573)
Factoring receivable	17,823,865,341	-	-	-	-	17,823,865,341	14,493,158,118
Allowance for impairment	-	-	-	-	-	(1,299,227,274)	(894,557,226)
Margin trading receivables	94,825,018	-	-	-	-	94,825,018	85,597,164
Allowance for impairment	-	-	-	-	-	-	-
Other receivables	594,765,055	200,109,181	112,463,182	111,829,437	52,494,560	1,071,661,415	694,055,473
Investments securities	258,161,072	-	-	-	66,468,275	324,629,347	1,083,470,844
Amount due from related companies	224,505,824	-	-	-	-	224,505,824	3,271,183
Investment properties	-	-	906,300,000	-	-	906,300,000	930,200,000
Property plant and equipment	-	-	-	-	2,621,022,043	2,621,022,043	1,210,407,229
Total Assets as at 31st March 2017	53,691,538,530	16,069,636,219	27,224,704,379	23,209,050,980	5,591,426,499	122,623,091,840	
Total Assets as at 31st March 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	110,385,064,854

Notes to the Financial Statements

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

As at 31 March	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.17 Rs.	Total as at 31.03.16 Rs.
Bank overdraft	2,393,316,396	-	-	-	-	2,393,316,396	1,941,608,486
Interest bearing borrowings	8,247,249,469	3,668,527,367	9,963,799,577	1,756,595,660	820,141,593	24,456,313,665	35,070,151,714
Deposits from customers	31,177,396,178	34,578,877,874	8,844,437,683	6,006,403,060	-	80,607,114,794	60,197,200,894
Trade payables	677,878,426	-	-	-	-	677,878,426	637,849,803
Accruals and other payables	718,423,063	135,198,108	381,231,331	311,947,840	74,167,333	1,620,967,675	1,018,602,831
Derivative liabilities	16,548,027	2,430,035	-	-	-	18,978,063	17,859,000
Amount due to related companies	434,258,821	-	-	-	-	434,258,821	996,780,809
Current tax payable	-	268,931,782	-	-	-	268,931,782	309,887,595
Deferred tax liability	-	-	1,102,057,559	-	-	1,102,057,559	984,741,078
Employee benefits	-	-	-	17,018,130	-	17,018,130	12,248,571
Stated capital	-	-	-	-	2,000,000,000	2,000,000,000	2,000,000,000
Statutory reserve	-	-	-	-	1,556,438,753	1,556,438,753	1,239,075,154
Revaluation Reserve	-	-	-	-	206,229,960	206,229,960	-
Cash flow hedge reserve	-	-	-	-	14,236,742	14,236,742	22,747,657
Available for sale investment reserve	-	-	-	-	(115,484,939)	(115,484,939)	(160,153,753)
Retained earnings	-	-	-	-	7,364,836,012	7,364,836,012	6,096,465,015
Total Liabilities & Equity as at 31st March 2017	43,665,070,381	38,653,965,166	20,291,526,149	8,091,964,689	11,920,565,454	122,623,091,840	
Total Liabilities & Equity as at 31st March 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	110,385,064,854

27. INCOME TAX EXPENSE

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

As at 31 March	2017 Rs.	2016 Rs.
Current tax - recognised in OCI		
Current tax charge	459,741,544	379,870,141
Under provision of current taxes in respect of prior years	9,951,337	1,264,007
	469,692,881	381,134,148
Deferred Tax		
Deferred tax charge (27.2)	120,066,282	211,528,638
Income tax expense reported in statement of profit or loss	589,759,163	592,662,785
Current tax - expense / (reversal) - recognised in OCI		
Relating to exchange gain recognised in OCI (in hedge reserve)	9,778,295	-
Deferred tax charge / (reversal) recognised in OCI		
Defined benefit plans	(421,322)	384,217
Fair value change in derivatives recognised in hedge reserve	(13,088,096)	11,408,600
Property plant and equipment	10,759,616	-
	(2,749,801)	11,792,817
Total income tax expense recognised in OCI	7,028,494	11,792,817
27.1 Current tax payable		
Tax payable as at 1st April	309,887,595	434,425,679
Current tax expense for the year	479,471,176	381,134,148
Tax paid during the year	(520,426,989)	(505,672,232)
Tax payable as at 31st March	268,931,782	309,887,595

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

As at 31 March	2017		2016	
	%	Rs.	%	Rs.
Accounting profit before income tax		2,176,577,157		2,019,656,028
Tax effect at the statutory income tax rate of 28%	28%	609,441,604	28%	565,503,688
Tax effect of other allowable credits	-7%	(161,642,578)	-7%	(138,683,364)
Tax effect of non deductible expenses	6%	132,008,800	8%	164,578,455
Under / (over) provision in the previous years	0%	9,951,337	0%	1,264,007
Income tax expense	27%	589,759,163	29%	592,662,785

Notes to the Financial Statements

27.2 Deferred Taxation

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

As at 31 March	Statement of Financial Position		Statement of Profit or loss and Other Comprehensive Income	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Deferred tax liability - recognised in profit or loss - expense / (reversal)				
Lease receivables	1,118,395,601	1,011,144,217	107,251,384	167,847,496
Net forward exchange contracts	3,040,933	11,076,573	(8,035,641)	11,076,573
Property plant and equipment	2,885,288	760,358	2,124,930	760,358
	1,124,321,822	1,022,981,148	101,340,674	179,684,428
Deferred tax assets - recognised in profit or loss - expense / (reversal)				
Defined benefit plans	3,520,372	2,606,217	(914,155)	(887,791)
Net forward exchange contracts	-	-	-	15,336,972
Finance lease liability	26,579,307	46,219,070	19,639,763	17,395,029
	30,099,679	48,825,287	18,725,608	31,844,210
Deferred tax assets - recognised in OCI - expense / (reversal)				
Defined benefit plans	1,244,704	823,383	(421,322)	384,217
Fair value change in derivatives recognised in hedge reserve	1,679,496	-	(1,679,496)	-
	2,924,200	823,383	(2,100,817)	384,217
Deferred tax liability - recognised in OCI - expense / (reversal)				
Fair value change in derivatives recognised in hedge reserve	-	11,408,600	(11,408,600)	11,408,600
Property plant and equipment	10,759,616	-	10,759,616	-
	10,759,616	11,408,600	(648,984)	11,408,600
Deferred tax expense / (reversal) for the current year - recognised in profit or loss			120,066,282	211,528,638
Deferred tax expense / (reversal) for the current year - recognised in OCI			(2,749,801)	11,792,817
Net deferred tax liability	1,102,057,559	984,741,078		

As at 31 March	2017 Rs.	2016 Rs.
27.2.a Movement in temporary differences		
Taxable temporary differences		
Lease receivables	3,994,270,004	3,611,229,345
Forward exchange contracts (net) - recognised in P&L	10,860,474	39,559,191
Forward exchange contracts (net) - recognised in OCI	-	40,745,000
Property plant and equipment - recognised in P&L	10,304,601	2,715,565
Property plant and equipment - revaluation - recognised in OCI	38,427,200	-
	4,053,862,278	3,694,249,101
Deductible temporary differences		
Defined benefit plans - recognised in profit or loss	12,572,757	9,307,918
Defined benefit plans - recognised in OCI	4,445,373	2,940,453
Forward exchange contracts (net) - recognised in OCI	5,998,199	-
Finance lease liability	94,926,097	165,068,107
	117,942,426	177,316,478
Net taxable temporary differences	3,935,919,853	3,516,932,623

28. EARNINGS PER SHARE

28.1 Basic earnings per share

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

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

As at 31 March	2017 Rs.	2016 Rs.
Amounts used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	1,586,817,994	1,426,993,242
As at 31 March		
	No.	No.
Number of ordinary shares used as the denominator:		
Ordinary shares in issue at the beginning of the year	2,800,000,000	2,800,000,000
Weighted average number of ordinary shares in issue applicable to basic earnings per share	2,800,000,000	2,800,000,000
Basic earnings per share (Rs.)	0.57	0.51

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.

Notes to the Financial Statements

As at 31 March	2017 Rs.	2016 Rs.
29. CASH AND CASH EQUIVALENTS		
29.1 Favourable cash & cash equivalents balance		
Cash in hand and at bank	4,924,111,973	3,497,994,396
29.2 Unfavourable cash & cash equivalent balances		
Bank overdraft	(2,393,316,396)	(1,941,608,486)
Total cash and cash equivalents for the purpose of cash flow statement	2,530,795,577	1,556,385,910

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	
		2017 Rs.	2016 Rs.
Lease portfolio	Short term borrowing	9,967,186,000	6,934,283,508

These financial assets are pledged against the borrowings made. The lender has the right over the lease receivables in the event of non payment.

32. RELATED PARTY DISCLOSURES

32.1 Parent and Ultimate Controlling Party

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

32.2 Transactions with Key Management Personnel (KMPs)

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

As at 31 March	2017 Rs.	2016 Rs.
32.2.1 Compensation of KMPs		
Short term employment benefits	37,235,629	68,341,180
Total	37,235,629	68,341,180

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	2017 Rs.	2016 Rs.
Deposits held with the Company	1,025,178,236	793,236,470
Interest paid / charged	117,702,686	101,490,974
Interest payable	6,015,324	34,918,747
Loans granted (excluding Directors)	19,379,021	14,659,498
Capital outstanding on facilities granted to KMPs (excluding Directors)	29,072,480	22,293,019
Accommodation outstanding as a percentage of the Company's Capital Funds	0.22%	0.18%

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 2017 and 2016, refer notes no.9 and 16 accordingly).

Relationship	Nature of Transactions	Transaction value 2017 Rs.	Transaction value 2016 Rs.
Parent Company	Net funds granted by the Parent during the year (excluding opening balance)	505,389,376	118,841,696
	Shared expenses (including vat)	2,471,743,537	1,461,164,236
	Asset hire charges	125,816,038	121,534,520
	Interest on re-red refinancing	2,823,690	3,773,910
	Treasury management fee	210,729,737	481,000,000
	Royalty	288,873,157	-
	Fund transfer interest	191,287,040	172,801,102
	Franchise Fee	29,797,257	-
Fellow Subsidiaries & Associates	Deposits & other borrowings by the company	2,034,783,749	2,388,847,172
	Investments held by the company	855,186,164	-
	Interest paid/charge	35,648,392	46,747,799
	Interest payable	226,745	5,808,869
	IT service fee	111,589,960	120,000,000
	Portfolio handling fee	669,342,613	465,529,015
	Supply of leased vehicles	302,327,128	697,047,184
	Yard fee	17,900,350	12,679,192
	Loan/ lease granted	371,012,682	228,986,025
	Rental collections	755,102,377	314,057,143
	Interest income	268,410,873	181,424,350
	Interest income from Investment	20,288,904	-
	Capital outstanding on facilities granted	1,271,770,205	1,071,267,248

Notes to the Financial Statements

32.3 Transactions with related parties (Contd.)

Relationship	Nature of Transactions	Transaction value 2017 Rs.	Transaction value 2016 Rs.
Other Related Companies/Affiliates	Supply of leased vehicles	113,600,000	169,763,578
	Debentures issued	-	-
	Interest paid/charge	253,902,325	235,825,582
	Rental collections	-	130,993,610
	Interest income	1,079,263	8,274,211
	Capital outstanding on facilities granted	7,543,036	6,548,235
Other Related Organisations	Deposits held with the company	254,396,722	233,545,815
	Interest paid/charge	9,784,287	1,803,564
	Interest payable	128,411	6,267,987
Accommodation outstanding as a percentage of the Company's Capital Funds		9.61%	8.78%

All of the above transactions (including borrowing / lending / investing transactions) with related parties are on arm's length basis and are on terms that are generic to non - related parties.

33. EVENTS OCCURRING AFTER THE REPORTING DATE

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

34. OPERATING SEGMENTS

	Operating Segment				Total Rs.
	Conventional Financial Services Rs.	Islamic Financial Services Rs.	Factoring Business Rs.	Others/ Adjustments Rs.	
For the year ended 31st March 2017					
Total revenue - Interest income & other income	14,998,719,120	2,104,660,708	3,735,014,128	-	20,838,393,957
External revenue	14,998,719,120	2,104,660,708	3,735,014,128	-	20,838,393,957
Net interest cost	(8,850,887,610)	(874,067,683)	(1,734,318,097)	-	(11,459,273,390)
Profit before operating expenses	6,147,831,511	1,230,593,025	2,000,696,031	-	9,379,120,567
Operating expenses	(4,301,854,473)	(537,469,259)	(669,342,613)	-	(5,508,666,345)
Allowance for impairment & write-offs	(854,151,921)	(45,476,554)	(429,413,638)	-	(1,329,042,113)
Value added tax on financial services	(68,018,194)	(97,113,745)	(199,703,013)	-	(364,834,951)
Results from operating activities	923,806,923	550,533,468	702,236,767	-	2,176,577,157
For the year ended 31st March 2016					
Total revenue	10,869,523,436	1,636,308,151	1,877,274,311	-	14,383,105,898
External revenue	10,869,523,436	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	(3,177,194,693)	(376,784,682)	(465,529,015)	-	(4,019,508,390)
Allowance for impairment & write-offs	(757,041,447)	(75,855,601)	(735,679,029)	-	(1,568,576,077)
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)	-	2,019,656,028
Depreciation					
For the year ended 31st March 2017	148,246,007	-	-	-	148,246,007
For the year ended 31st March 2016	32,717,251	-	-	-	32,717,251
Capital expenditure - Property Plant and equipment					
For the year ended 31st March 2017	1,341,871,245	-	-	-	1,341,871,245
For the year ended 31st March 2016	1,231,579,800	-	-	-	1,231,579,800
As at 31-03-2017					
Total assets	96,714,161,498	11,434,801,552	16,524,638,068	(2,050,509,279)	122,623,091,840
Total liabilities	87,462,908,873	9,659,797,649	16,524,638,068	(2,050,509,279)	111,596,835,311
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

Notes to the Financial Statements

As at 31 March

2017
Rs.

2016
Rs.

35. COMMITMENTS AND CONTINGENCIES

35.1 Contingent liabilities

	2017 Rs.	2016 Rs.
Guarantees issued to banks and other institutions - backed by deposits	897,802,735	671,001,727

35.2 Commitments

Forward exchange contracts- (commitment to purchase)	9,674,127,329	3,390,826,026
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Unutilised loan facilities	10,498,570,369	9,087,623,362
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Letter of credit	-	133,501,296
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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

Supplementary Financial Information - Islamic Business Unit

Statement of Financial Position

As at 31 March 2017

	Note	2017 Rs.	2016 Rs.
ASSETS			
Cash and bank balances	3	315,833,572	120,480,965
Murabaha / Musawamah /Wakala receivables	4	2,832,391,243	2,863,475,398
Diminishing Musharaka receivables	5	4,956,192,913	4,692,273,871
Ijarah rent receivables	6	3,231,092,271	3,293,316,642
Investment in quoted shares	7	6,600,000	7,000,000
Other receivables	8	75,591,553	51,658,296
Investment properties	9	18,000,000	12,500,000
Total assets		11,435,701,552	11,040,705,173
LIABILITIES			
Mudharabah investments		4,081,857,830	4,230,559,233
Mudharabah savings		484,831,430	466,058,778
Profit payable on Mudharabah investments		102,355,405	86,885,203
Wakala investments		1,991,207,909	1,569,100,000
Profit payable on Wakala investments		21,270,766	7,092,495
Ijarah Sukuk Bond	10	422,353,191	
Income tax payable		197,523,144	138,217,880
Accruals and other payables	11	242,768,438	256,179,639
Due to head office	12	2,223,188,604	2,973,777,435
Total liabilities		9,767,356,717	9,727,870,662
OWNER'S FUND			
Retained earnings		1,668,344,835	1,315,334,511
Total owners fund		1,668,344,835	1,315,334,511
Total liabilities & owners fund		11,435,701,552	11,043,205,173

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 160 through 167.

Supplementary Financial Information - Islamic Business Unit

Statement of Profit or Loss and Other Comprehensive Income

As at 31 March 2017

	Note	2017 Rs.	2016 Rs.
Revenue	13	2,068,594,983	1,605,795,031
Profit paid to Mudharabah/Wakala investors		(558,485,895)	(480,400,473)
Profit paid on other funding arrangement		(315,581,787)	(79,522,472)
Other direct expenses		(137,924,984)	(53,034,258)
		1,056,602,317	992,837,828
Non distributable other income / (expenses)	14	36,065,725	30,513,120
Total operating income		1,092,668,042	1,023,350,948
Employee benefits	15	(142,043,509)	(124,866,148)
(Provision)/reversal for credit losses		(45,476,554)	(75,855,602)
Other operating expenses		(257,500,766)	(251,918,534)
Profit from operations	16	647,647,213	570,710,665
Value added tax on financial services		(97,113,745)	(55,565,443)
Profit before taxation		550,533,468	515,145,222
Income tax expense	17	(197,523,144)	(138,217,880)
Profit for the year		353,010,325	376,927,342
Other comprehensive income		-	-
Total comprehensive income		353,010,325	376,927,342

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 160 through 167.

Statement of Cash Flow

Year ended 31 March 2017

	2017 Rs.	2016 Rs.
Cash Flows From / (Used in) Operating Activities		
Net Profit before Income Tax Expense	550,533,468	515,145,222
Adjustments for:		
Provision for fall/(Increase) in Value of Investments	400,000	1,500,000
Allowance for/(reversal of) Doubtful Debts	5,421,914	(10,272,521)
Provision for payables to clients	(3,000,000)	(2,500,000)
Change in Fair Value of Investment Property	(3,000,000)	(2,500,000)
Investment income	-	(500,104)
Accrued profit on their instrument	596,189,803	
Profits attributable to Mudharabah / Wakala investors	277,877,880	480,400,473
Operating Profit before Working Capital Changes	1,424,423,065	981,273,070
Change in Other Receivables	(23,933,257)	(14,408,003)
Change in Trade and Other Payables	(10,411,201)	20,957,827
Change in Amounts due to Head office	195,911,171	(658,324,493)
Change in Ijarah rent receivables	60,930,263	(1,338,612,115)
Change in Murabaha / Musawamah receivables	(230,803,106)	(722,192,778)
Change in Diminishing Musharaka receivables	(6,159,586)	(1,656,026,078)
Change in Mudharabah investments from Customers	(148,701,403)	196,121,185
Change in Wakala investments from Customers	422,107,909	789,100,000
Change in Mudharabah savings Deposits from Customers	18,772,652	81,795,605
Cash used in Operations	1,702,136,507	(2,320,315,780)
Profits paid to Mudharabah / Wakala investors	(248,229,405)	(454,728,949)
Income Tax Paid	(138,217,880)	(97,619,204)
Net Cash Used in Operating Activities	1,315,689,221	(2,872,663,932)
Cash Flows from / (Used in) Investing Activities		
Profit Received	-	500,104
Net Cash Flows from Investing Activities	-	500,104
Cash Flows from / (Used in) Financing Activities		
Net proceeds from other instruments	390,911,482	
Net Proceeds from Qurd hassan	(946,500,000)	2,398,000,000
Profit Paid - Other instruments	(564,748,095)	
Net Cash Flows from Financing Activities	(1,120,336,613)	2,398,000,000
Net Increase/(Decrease) in Cash and Cash Equivalents	195,352,607	(474,163,828)
Cash and Cash Equivalents at the beginning of the period	120,480,965	594,644,793
Cash and Cash Equivalents at the end of the period	315,833,572	120,480,965
Analysis of Cash and Cash equivalents at the end of the period		
Cash and Bank Balances	315,833,572	120,480,965
	315,833,572	120,480,965

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 160 through 167.

Supplementary Financial Information - Islamic Business Unit

Notes to the Supplementary Financial Statements

1. GENERAL

LOLC Finance PLC (formerly known as Lanka ORIX Finance PLC) (the “Company”) is a quoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No 42 of 2011 (formerly Finance Companies Act, No. 78 of 1988.)

LOLC Finance PLC has set up the Islamic Business Unit (“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 Jayawardenepura Mawatha, Rajagiriya.

1.1 Principal activities and nature of business

The principal activities of the IBU comprised of Mudharabah and Wakala (Profit Sharing investments), Diminishing Musharakah (Partnership Financing), Murabaha/Musawamah (Trade Financing), Ijarah (Leasing).

1.2 BASIS OF PREPARATION

1.2.1 Statement of compliance

These supplementary financial statements of the IBU are prepared on based on the accounting policies explained in Note 2.

The results of IBU and the financial position of the IBU form part of the financial statements of LOLC Finance PLC which is prepared in accordance with Sri Lanka Accounting Standards. LOLC Finance PLC’s primary set of financial statements was authorised for issue by the Board of Directors in accordance with a resolution of the Directors passed on 23 June 2017. Therefore, the isolated financial statements of the IBU should be read in conjunction with the LOLC Finance PLC’s primary set of financial statements.

These Financial Statements include the following components:

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

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

1.2.2 Basis of Measurement

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

Items	Measurement basis
Non-derivative financial instruments at fair value through profit or loss	Fair value
Investment property	Fair value

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

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

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

basis, or to realise the assets and settled the liability simultaneously.

1.2.2 Materiality and Aggregation

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

1.2.3 Going Concern

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

1.2.4 Comparative information

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

1.3 Functional and presentation currency

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

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

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

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

1.4 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with the described accounting policies requires management to make judgments,

estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

Critical Accounting estimate / judgment	Disclosure reference Note
Fair value measurement of financial instruments and investment properties	1.4.1
Impairment losses on loans and advances	1.4.2
Provisions for liabilities and contingencies	1.4.3

1.4.1 Fair Value Measurement

A number of the Company's (LOLC Finance PLC including the IBU) accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

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

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

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

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

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

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

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

1.4.2 Impairment Losses on Loans and Advances

In addition to the provisions made for possible loan losses based on the parameters and directives for specific provisions on loans and advances by the Central Bank of Sri Lanka, the IBU reviews its loans and advances portfolio at each reporting date to assess whether a further allowance for impairment should be provided in the statement of profit or loss. The judgements by the management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors though actual results may differ, resulting in future changes to the provisions.

1.4.3 Provisions for liabilities and contingencies

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

2. SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.1 Financial assets and financial liabilities

2.1.1 Non-derivative financial assets

2.1.1.a Initial recognition of financial assets

Date of recognition

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

Initial measurement of financial Assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value

Supplementary Financial Information - Islamic Business Unit

Notes to the Supplementary Financial Statements

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

2.1.1.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.

2.1.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit or loss

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

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

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

Held-to-maturity financial assets

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

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

Loans and Receivables

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

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

- Cash and cash equivalents

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

- Ijarah receivables

The LOLC Finance PLC's IBU buys and lease out equipment required by its clients for a fee (Rental). The duration of the lease and value of the rental is agreed in advance.

Ownership of the asset will remain with the Company till the end of the lease period. Rent receivables on Ijarah advances reflected in the statement of financial position are the total rent receivables after eliminating unearned income and deducting pre paid rentals, rental collections and provision for impairment losses.

- Murabaha, Musawamah and Diminishing 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 recognised in other comprehensive income and presented within equity in the available for sale reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the statement of profit or loss.

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

2.1.2 Non-derivative financial liabilities Classification and Subsequent Measurement of Financial Liabilities

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

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

Other financial liabilities comprise of Mudharabah deposits, Wakala deposits, Sukuk bonds, trade payables, accruals & other payables and amounts due to head office.

Profit Payable to the Investors

Profits payable are recognised on accrual basis and are credited to Investors' accounts when the profit is distributed on a monthly basis on or before the 10th of the following month. Profit on Wakala and Sukuk are accrued on a monthly basis and paid as per the agreement.

2.1.3 Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

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

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

Financial liabilities

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

2.1.4 Offsetting of financial instruments

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

2.1.5 Amortised cost measurement

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

2.1.6 Fair value measurement

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

Determination of fair value

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

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

2.1.7 Impairment

Non-derivative financial assets

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

The IBU computes 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.

Supplementary Financial Information - Islamic Business Unit

Notes to the Supplementary Financial Statements

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

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

- **Lands & Buildings**

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

2.2 Investment property

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

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

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

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

Determining Fair value

An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the company's investment property portfolio annually.

2.3 Employee benefits

2.3.1 Short-term employee benefits

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

2.3.2 Defined contribution plans

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

2.4 Provisions

A provision is recognised if, as a result of a past event, the IBU has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there

is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

2.5 Events occurring after the reporting date

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

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

2.6 Benevolent Loan (Qurd Hassan)

Qurd Hassan is a loan or debt extended which is absolutely free from interest or any charges. The borrower is only required to repay the principal amount borrowed, but it may pay an additional amount at its discretion, as a token of appreciation.

The Company extends Qurd Hassan to the IBU as and when required and the IBU settles those when funds are available.

SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF INCOME AND EXPENSES

2.7 Revenue Recognition

2.7.1 Murabaha/Musawamah Income

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

2.7.2 Ijarah Income

Profits and losses arising from Ijarah assets are recognised over the term of the lease, commencing from the month in which the lease is executed so as to yield a constant periodic rate of return on Ijarah assets.

2.7.3 Diminishing Musharakah Income

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

2.7.4 Profit in Suspense

Profit from advances classified as non-performing is accounted for on cash basis. Income falling due on non-performing advances is credited to profit in suspense account.

2.7.5 Fees and other income

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

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

Collections on contracts written off are accounted for on cash basis

2.7.6 Dividends

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

2.8 Expenditure Recognition

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

Expenses incurred by the IBU for which a fee is charged from the customers, has been presented net of the related income.

2.8.1 Value Added Tax (VAT) on financial services

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

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

2.8.2 Nation Building Tax on financial services (NBT)

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

2.9 Income Tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Inland Revenue. The rate and tax laws used to compute the amount are those that are enacted or substantially enacted as at the statement of financial position date. Accordingly, provisions for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with provisions of Inland Revenue Act No. 10 of 2006 and amendments thereto.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date and any adjustments to tax payable in respect of previous years.

SIGNIFICANT ACCOUNTING POLICIES - STATEMENT OF CASH FLOWS

2.10 Cash flow statements

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

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

SIGNIFICANT ACCOUNTING POLICIES - GENERAL

2.11 Fair value measurement

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

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

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

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

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

Supplementary Financial Information - Islamic Business Unit

Notes to the Supplementary Financial Statements

As at 31 March 2017

	2017 Rs.	2016 Rs.
3. CASH AND BANK BALANCES		
Cash & bank balances	315,833,572	120,480,965
	315,833,572	120,480,965
4. MURABAHA / MUSAWAMAH / WAKALA RECEIVABLES		
Installment receivable	3,209,917,602	3,216,664,817
Unearned income	(371,263,043)	(345,004,594)
Income in suspense	(1,422,196)	(1,311,924)
Provision for credit losses	(4,841,120)	(6,872,901)
	2,832,391,243	2,863,475,398
5. DIMINISHING MUSHARAKA RECEIVABLES		
Installment receivable	4,999,695,860	4,726,452,526
Income in suspense	(15,886,748)	(12,065,797)
Provision for credit losses	(27,616,199)	(22,112,858)
	4,956,192,913	4,692,273,871
6. IJARAH RECEIVABLES		
Rent receivables	4,226,927,403	4,305,844,643
Unearned income	(985,695,056)	(1,002,650,815)
Income in suspense	(1,332,053)	(2,363,271)
Provision for credit losses	(8,808,023)	(7,513,915)
	3,231,092,271	3,293,316,642
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	(11,400,000)	(11,000,000)
	6,600,000	7,000,000
8. OTHER RECEIVABLES		
Staff car advances	22,900,478	23,900,153
Insurance premium receivable	19,263,197	4,973,556
Others	33,427,879	22,784,587
	75,591,553	51,658,296
9. INVESTMENT PROPERTIES		
Balance as at 1st April	15,000,000	12,500,000
Additions to Investment Properties from foreclosure of contracts	-	-
Change in fair value	3,000,000	2,500,000
Balance as at 31st March	18,000,000	15,000,000
10. IJARAH SUKUK BOND		
Balance at the beginning of the year	-	-
Ijarah Sukuk issued during the year	500,000,000	-
Repaid during the year	(109,088,517)	-
Balance at the end of the year	390,911,483	-
Profit Payable	31,441,708	-
Liability recognised in statement of financial position	422,353,191	-

As at 31 March 2017

	2017 Rs.	2016 Rs.
11. ACCRUALS AND OTHER PAYABLES		
Lease equipment creditors	54,521,631	112,527,705
Refunds payable	104,328,094	74,567,524
Insurance payable	15,613,306	30,915,207
IBU charity fund	3,432,829	7,199,735
Other payables	64,872,578	30,969,468
	242,768,438	256,179,639
12. DUE TO HEAD OFFICE		
Qurd hassan	1,906,500,000	2,853,000,000
Current account balance due to head office	316,688,604	120,777,435
	2,223,188,604	2,973,777,435
13. REVENUE		
Income from Ijarah receivables	593,485,358	503,816,050
Income from Diminishing Musharaka receivables	843,847,036	665,254,234
Income from Murabaha/Musawamah receivables	595,254,330	391,462,948
Profit on terminations	35,684,525	44,873,120
Income from Mudarabah deposits	323,734	388,680
	2,068,594,983	1,605,795,031
14. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)		
Takaful commission	26,653,279	30,528,896
Others	9,412,446	(15,776)
	36,065,725	30,513,120
15. EMPLOYEE BENEFITS		
Salaries & other benefits	142,043,509	124,866,148
	142,043,509	124,866,148
16. PROFIT FROM OPERATION		
Stated after charging		
Advertising	6,231,428	12,674,674
Business promotion expenses	52,797,630	36,018,342
17. INCOME TAX EXPENSE		
Income tax is provided at 28% of the taxable profits computed in accordance with the inland revenue act No 10 of 2006 (and amendments thereto)	197,523,144	138,217,880
	197,523,144	138,217,880

18. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date no circumstances have arisen which would require adjustments to, or disclosure in the financial statements.

Financial Information for Last Ten Years

Statement of Financial Position

As at	31.03.2017	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
	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	4,924,112	3,497,994	2,975,305	3,236,380	3,061,190	2,100,865	812,035	1,209,590	340,452	348,916
Deposits with banks and other financial institutions	14,161,567	10,206,771	761,095	466,476	414,634	846,457	-	143,295	1,519,769	35,894
Investment in government securities	7,853,176	8,397,496	5,900,718	4,936,822	3,378,980	1,442,826	2,136,000	3,149,302	804,718	713,391
Derivative assets	23,840	98,163	2,740	13,572	1,936	211,713	19,560	-	-	-
Rentals receivable on leased assets	18,408,733	17,243,862	13,150,376	10,836,503	11,452,172	11,018,808	4,332,440	1,249,074	865,496	981,678
Hire purchases, loans and advances	55,484,081	53,335,175	36,647,329	28,828,435	25,547,021	21,901,827	16,442,747	7,639,397	2,828,155	2,456,830
Factoring receivable	16,524,638	13,598,601	6,200,202	3,279,931	3,198,685	-	-	-	-	-
Margin trading receivables	94,825	85,597	293,712	123,408	-	-	80	8,845	51,070	79,880
Other receivables	1,071,661	694,055	639,352	1,418,033	357,943	576,261	322,055	193,431	252,418	172,503
Investments in shares	324,629	1,083,471	8,843	9,043	7,143	6,200	18,000	-	-	-
Amount due from related companies	224,506	3,271	2,883	5,930	75,649	77,067	150,867	3,042	6,382	6,115
Inventories	-	-	-	12,080	-	13,629	-	-	-	-
Real estate stock	-	-	-	-	2,598	16,449	16,262	22,930	28,996	121,467
Investment properties	906,300	930,200	1,142,800	215,173	71,500	71,500	71,500	91,990	91,990	-
Property plant and equipment	2,621,022	1,210,407	136,545	50,143	-	-	-	5,882	14,668	12,979
Total assets	122,623,092	110,385,065	67,861,900	53,431,929	47,569,453	38,283,601	24,321,546	13,716,775	6,804,114	4,929,655
LIABILITIES										
Bank overdraft	2,393,316	1,941,608	2,333,062	1,136,163	2,201,599	989,189	501,515	270,443	89,083	203,942
Interest bearing borrowings	24,456,314	35,070,152	11,040,028	823,838	5,981,573	5,042,010	627,024	1,101,812	-	-
Deposits from customers	80,607,115	60,197,201	41,309,960	42,617,800	32,069,049	25,843,130	17,899,089	10,129,683	5,303,921	3,339,665
Trade payables	677,878	637,850	645,905	328,986	434,517	211,163	685,144	146,223	18,312	35,484
Accruals and other payables	1,620,968	1,018,603	822,441	494,314	685,456	166,034	114,229	414,390	211,056	161,370
Derivative liabilities	18,978	17,859	57,515	8,104	40,097	-	7,597	-	-	-
Amount due to related companies	434,259	996,781	2,453,097	649,310	135,056	806,442	734,560	332,565	191,879	247,759
Current tax payable	268,932	309,888	434,426	282,718	178,418	175,447	72,999	11,176	869	-
Deferred tax liability	1,102,058	984,741	761,420	548,718	415,508	318,112	115,014	39,864	12,770	15,786
Employee benefits	17,018	12,249	10,450	8,008	4,550	4,729	2,881	2,325	1,667	1,872
Total liabilities	111,596,835	101,186,931	59,868,304	46,897,960	42,145,823	33,556,256	20,760,052	12,448,482	5,829,558	4,005,878
SHAREHOLDER'S FUNDS										
Stated capital	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	1,000,000	800,000	800,000
Statutory reserve	1,556,439	1,239,075	953,677	879,497	679,438	542,182	293,024	43,805	24,470	11,263
Investment fund reserve	206,230	-	-	391,850	287,762	157,146	39,539	-	-	-
Cash flow hedge reserve	14,237	22,748	-	-	-	-	-	-	-	-
Available for sale investment reserve	(115,485)	(160,154)	86,037	109,793	(2,117)	(12,126)	-	-	-	-
Retained earnings	7,364,836	6,096,465	4,953,882	3,152,829	2,458,547	2,040,144	1,228,931	224,488	150,086	112,513
Total equity	11,026,257	9,198,134	7,993,596	6,533,970	5,423,630	4,727,346	3,561,494	1,268,293	974,556	923,776
Total liabilities and equity	122,623,092	110,385,065	67,861,900	53,431,929	47,569,453	38,283,601	24,321,546	13,716,775	6,804,114	4,929,655

2011-2017 Statement of Financial Position is prepared based on LKAS/SLFRS. Prior periods are prepared based on SLAS's.

Statement of Profit or Loss

For the year ended	31.03.2017	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
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Interest income	18,489,741	13,137,597	10,871,227	10,515,811	8,457,606	5,971,895	3,113,150	1,661,049	1,111,044	725,106
Interest expense	(11,459,273)	(6,499,475)	(4,978,312)	(6,125,280)	(4,950,845)	(2,994,344)	(1,760,124)	(1,291,259)	(895,305)	(471,531)
Net interest income	7,030,467	6,638,122	5,892,915	4,390,531	3,506,761	2,977,550	1,353,026	369,790	215,740	253,575
Net other operating income	2,348,653	1,245,509	1,269,831	971,589	496,871	336,063	1,504,257	530,738	260,619	104,741
Direct expenses excluding interest cost	(1,311,408)	(911,717)	(428,892)	(297,539)	(121,899)	(89,569)	(97,481)	(34,447)	(53,590)	(23,271)
Allowance for impairment & write-offs	(1,329,042)	(1,568,576)	(1,497,302)	(1,371,346)	(1,237,473)	(72,433)	(155,634)	(208,476)	(79,253)	(51,448)
Personnel expenses	(1,424,495)	(1,100,550)	(897,364)	(687,106)	(548,439)	(469,514)	(309,594)	(111,076)	(63,899)	(48,750)
Depreciation	(148,246)	(32,717)	(12,166)	(3,823)	-	-	(2,048)	(2,093)	(5,744)	(6,201)
General & administration expenses	(2,624,517)	(1,974,524)	(1,860,447)	(1,390,608)	(970,659)	(811,042)	(666,374)	(296,040)	(149,389)	(98,204)
Profit from operations	2,541,412	2,295,547	2,466,575	1,611,698	1,125,162	1,871,055	1,626,151	248,396	124,484	130,442
Value added tax on financial service	(364,835)	(275,891)	(240,226)	(169,274)	(129,822)	(179,921)	(137,285)	(49,581)	(21,312)	(30,868)
Profit before tax	2,176,577	2,019,656	2,226,349	1,442,423	995,340	1,691,134	1,488,866	198,815	103,172	99,574
Income tax expense	(589,759)	(592,663)	(742,767)	(442,124)	(309,060)	(512,125)	(242,773)	(105,078)	(37,138)	(49,603)
Profit for the year	1,586,818	1,426,993	1,483,582	1,000,299	686,280	1,179,009	1,246,093	93,738	66,034	49,972

2012-2017 Profits are determined based on LKAS/SIFRS. Profits prior to that are determined in line with SLAS's.

Quarterly Statement of Financial Position

For the year ended	2016/17				2015/16			
	30-Jun-16 Rs '000	30-Sep-16 Rs '000	31-Dec-16 Rs '000	31-Mar-17 Rs '000	30-Jun-15 Rs '000	30-Sep-15 Rs '000	31-Dec-15 Rs '000	31-Mar-16 Rs '000
ASSETS								
Cash and bank balances	2,231,421	2,816,466	3,254,231	4,924,112	3,341,442	2,056,857	1,946,004	3,497,994
Deposits with banks and other financial institutions	11,927,388	9,990,938	10,240,499	14,161,567	267,400	284,652	314,042	10,206,771
Investment in government securities & others	8,470,198	9,251,846	11,771,232	7,853,176	6,678,947	7,088,480	7,446,568	8,397,496
Derivative assets	46,597	13,190	4,171	23,840	900	26,964	42,982	98,163
Rentals receivable on leased assets	17,692,284	18,273,407	18,405,469	18,408,733	14,658,192	16,261,788	17,214,389	17,243,862
Hire purchases, loans and advances	56,845,573	60,799,485	58,308,286	55,484,081	39,450,542	44,452,256	49,338,706	53,335,175
Factoring receivable	14,639,355	16,730,096	17,393,713	16,524,638	6,959,085	9,265,631	11,660,608	13,598,601
Margin trading receivables	90,057	91,213	91,720	94,825	211,892	176,204	229,999	85,597
Other receivables	858,736	886,093	1,350,927	1,071,661	652,488	702,897	780,808	694,055
Investment securities	1,002,571	73,168	72,768	324,629	74,568	74,668	74,568	1,083,471
Amount due from related companies	36,956	7,832	182,686	224,506	25,642	16,023	92,263	3,271
Investment properties	930,200	937,004	914,032	906,300	1,059,877	1,060,237	1,060,160	930,200
Property plant and equipment	1,669,804	2,023,424	2,185,880	2,621,022	133,005	324,748	385,238	1,210,407
Total assets	116,441,140	121,894,162	124,175,614	122,623,092	73,513,979	81,791,405	90,586,335	110,385,065
LIABILITIES								
Bank overdraft	1,654,211	1,682,358	1,428,432	2,393,316	3,606,943	1,878,126	2,837,814	1,941,608
Interest bearing borrowings	34,019,178	33,337,796	33,565,387	24,456,314	12,741,131	15,033,070	17,568,169	35,070,152
Deposits from customers	66,585,880	69,173,908	74,223,766	80,607,115	44,388,048	51,520,337	55,609,108	60,197,201
Trade payables	659,155	825,059	843,440	677,878	749,383	575,692	583,077	637,850
Accruals and other payables	1,421,100	1,421,239	1,569,211	1,620,968	1,071,122.91	1,076,791	928,194	1,018,603
Derivative liabilities	30,427	69,543	57,085	18,978	24,256	23,932	6,140	17,859
Amount due to related companies	1,087,051	3,809,040	590,958	434,259	1,231,535	1,645,038	2,636,930	996,781
Current tax payable	436,617	525,148	610,487	268,932	543,611	513,102	549,316	309,888
Deferred tax liability	984,741	984,741	984,741	1,102,058	761,420	761,420	761,420	984,741
Employee benefits	12,810	12,707	12,371	17,018	10,365	10,365	9,969	12,249
Total liabilities	106,891,170	111,841,539	113,885,878	111,596,835	65,127,815	73,037,874	81,490,138	101,186,931
SHAREHOLDERS' FUNDS								
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	1,239,075	1,239,075	1,239,075	1,556,439	953,677	953,677	953,677	1,239,075
Revaluation Reserve	-	-	-	206,230	-	-	-	-
Cash flow hedge reserve	(2,741)	18,076	5,803	14,237	-	-	-	22,748
Available for sale investment reserve	(105,785)	(15,404)	(109,529)	(115,485)	114,129	72,409	47,526	(160,154)
Retained earnings	6,419,421	6,810,876	7,154,387	7,364,836	5,318,359	5,727,446	6,094,995	6,096,465
Total equity	9,549,970	10,052,623	10,289,736	11,026,257	8,386,164	8,753,531	9,096,197	9,198,134
Total liabilities and equity	116,441,140	121,894,162	124,175,614	122,623,092	73,513,979	81,791,405	90,586,335	110,385,065

Investor Information

Shareholding as at 31 March

	2017		2016	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Resident	2,796,141,060	99.86	2,795,939,100	99.85
Non Resident	3,858,940	0.14	4,060,900	0.15
Total	2,800,000,000	100.00	2,800,000,000	100.00
			No. of Shares	% of Shares
Local Individuals			51,973,452	1.8562
Local Institutions			2,744,167,608	98.0060
Total Local			2,796,141,060	99.8622
Foreign Individuals			2,688,940	0.0960
Foreign Institutions			1,170,000	0.0418
Total Foreign			3,858,940	0.1378
			2,800,000,000	100.0000

TOP 20 SHAREHOLDERS

	2017		2016	
	No. of Shares	%	No. of Shares	%
1 Lanka ORIX Leasing Company PLC	2,520,000,000	90.00	2,520,000,000	90.00
2 Saakya Capital (Pvt) Ltd	128,045,234	4.57	128,045,234	4.57
3 Satya Capital (Pvt) Ltd	52,000,000	1.86	52,000,000	1.86
4 Capital Alliance Holdings Limited	28,000,000	1.00	28,000,000	1.00
5 Dr R.R.De Silva	11,371,515	0.41	11,371,515	0.41
6 National Savings Bank	4,550,000	0.16	4,550,000	0.16
7 Mr. D. Kotthoff	2,200,000	0.08	3,100,000	0.11
8 Dr. A. R. Wikramanayake	1,688,500	0.06	1,688,500	0.06
9 Peoples Leasing & Finance PLC/ Mr D.K.L. Chandrasena	1,601,000	0.06	NIL	NIL
10 Mr. S. V. Somasunderam	1,500,000	0.05	1,500,000	0.05
11 Bansei Securities Capital (Pvt) Ltd/ Mr. A.Nissanka	1,300,800	0.05	1,300,800	0.05
12 Mr L.A.J.F. Morais	1,111,449	0.04	966,449	0.03
13 Mr W.A.S.P.De Seram	1,039,089	0.04	906,389	0.03
14 Mrs. D.P. Pieris	1,000,000	0.04	1,000,000	0.04
15 Mr.P.M.M. Pieris	1,000,000	0.04	1,000,000	0.04
16 National Lanka Capital Ltd/ Rienzie Collom	944,140	0.03	NIL	NIL
17 Mrs B.C.R. Wickramaratne	930,000	0.03	765,000	0.03
18 Pan Asia Banking Corporation PLC/ S.S. Weerabahu	800,460	0.03	800,460	0.03
19 Mr A. W.A.L Dharmaprema	800,012	0.03	900,012	0.03
20 Bansei Securities Capital (Pvt) Ltd / M.I.Y. Dharmawardhana	700,000	0.03	700,000	0.03
	2,760,582,199	98.60	2,757,894,359	98.50

The Public Shareholding as at 31st March 2017 was 9.88%.

Analysis of Ordinary Shares as at 31 March

Range	2017			2016		
	No. of Shareholders	No. of Shares	% of Shares	No. of Shareholders	No. of Shares	% of Shares
1 - 1,000	1,302	529,242	0.02	1,250	523,686	0.02
1,001 - 10,000	951	3,944,777	0.14	942	3,834,985	0.14
10,001 - 100,000	387	14,059,172	0.50	361	12,872,580	0.46
100,001 - 1,000,000	92	27,059,222	0.97	81	26,760,354	0.95
Over 1,000,000 Shares	15	2,754,407,587	98.37	14	2,756,008,395	98.43
Total	2747	2,800,000,000	100.00	2648	2,800,000,000	100.00

Highest, Lowest and Closing Share Prices as at 31 March

	2017 Rs.	2016 Rs.
Highest	3.50	4.80
Lowest	1.90	2.50
Closing	2.20	2.80

STATEMENT OF VALUE ADDED

	2016/17		2015/16	
	Rs.	%	Rs.	%
Value added				
Income	18,489,740,700		13,137,597,016	
Other income	2,348,653,257		1,245,508,882	
Cost of borrowings	(11,459,273,390)		(6,499,474,559)	
General and administration Expenses	(3,935,924,848)		(2,886,241,327)	
Allowance for impairment & Write-offs	(1,329,042,113)		(1,568,576,077)	
	4,114,153,605		3,428,813,935	
Distribution of Value added				
To Employees	1,424,495,490	35	1,100,549,812	32
Remuneration and other benefits	1,424,495,490		1,100,549,812	
To Government	954,594,114	23	868,553,629	25
Indirect taxes	364,834,951		275,890,844	
Direct taxes	589,759,163		592,662,785	
To Expansion and Growth	1,735,064,001	42	1,459,710,493	43
Retained profits	1,586,817,994		1,426,993,242	
Depreciation and amortisation	148,246,007		32,717,251	
	4,114,153,605	100	3,428,813,934	100

Other Disclosures

1) Property held by the company

Location	Extent		Valuation	Number of building
1. Keselwatta, Panadura	0A-0R-25P	LKR	18,000,000	-
2. Telwala, Rathmalana	0A-0R-20P	LKR	71,000,000	1
3. Hendala, Wattala	0A-0R-9P	LKR	5,400,000	-
4. Idama, Moratuwa	0A-0R-14.85P	LKR	26,000,000	3
5. Wewala, Piliyandala	0A-0R-20P	LKR	6,000,000	-
6. Gothatuwa	0A-3R-35P	LKR	46,000,000	-
7. Wikremasingepura, Battaramulla	0A-3R-33.83P	LKR	69,000,000	-
8. Colombo 8 - Shady grove property	0A-0R-35.75P	LKR	386,500,000	1
9. Kosgoda	9A-0R-0P	LKR	200,000,000	-
10. Thalahena	0A-1R-38.62P	LKR	78,400,000	2
11. Beruwala	0A-1R-06.00P	LKR	67,832,320	1
12. Jethawana Road, Colombo 14	0A-2R-18.7P	LKR	490,719,925	1
13. Horana	0A-3R-06.83P	LKR	63,000,000	-
14. Mathugama	0A-2R-26.50P	LKR	137,000,000	1
15. Trincomalee	00A-0R-23.5P	LKR	71,000,000	1
16. Badulla	0A-1R-19.15P	LKR	93,599,000	1
17. Mannar	0A-1R-25.00P	LKR	12,519,000	-
18. Panadura	00A-0R-23.3 P	LKR	62,881,000	-
			1,904,851,245	

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 transaction	Aggregate Value of the related party transactions entered into during the financial year (Rs.)	Value of the related party transactions as a % of Net Revenue	Terms & conditions of the related party transactions
Lanka Orix Leasing Company PLC	Parent	Shared Expenses (including VAT)	2,471,743,537	11.9%	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)	505,389,376	2.4%	
		Asset hire charges	125,816,038	0.6%	
		Interest on re-red refinancing	2,823,690	0.0%	
		Treasury management fee	210,729,737	1.0%	
		Royalty	288,873,157	1.4%	
		Fund transfer interest	191,287,040	0.9%	
		Franchise fee	29,797,257	0.1%	
			3,826,459,832	18.4%	

4) Debenture Information

ICRA Lanka Ltd upgraded the credit rating of the above debentures to [SL]A- with stable outlook from [SL]BBB+ with stable outlook during the financial year 2015/16 and reaffirmed during this financial year as [SL]A-(Stable).

Interest rates of the debentures

Instrument type	Interest frequency (Fixed Rate)	Coupon (% p.a)	Interest yield as at last trade	Yield to maturity of last trade done	Interest rate of comparable Government Security
Type A - 5 Years Tenor	Quarterly	9.00%	9.80%	11.07%	12.53%
Type B - 5 Years Tenor	Semi Annually	9.10%	9.10%	9.10%	12.53%
Type C - 5 Years Tenor	Annually	9.25%	9.25%	9.25%	12.53%

Market prices & issue prices of debentures recorded during the quarter ended 31st March 2017 are as follows.

Instrument Type	Issue Price	Highest Price	Lowest Price	Last Traded	Last Traded Date
Type A - 5 Years Tenor	Rs.100.00	Rs. 95.56	Rs. 86.63	Rs. 91.79	28-Mar-17
Type B - 5 Years Tenor	Rs.100.00	Not Traded	Not Traded	Not Traded	N/A
Type C - 5 Years Tenor	Rs.100.00	Not Traded	Not Traded	Not Traded	N/A

Debt security related ratios.

Instrument Type	As at 31.03.2017	As at 31.03.2016
Debt to equity ratio	9.75 times	10.57 times
Quick asset ratio	0.85 times	0.02 times
Interest cover	1.19 times	1.31 times

5) Selected performance indicators

Regulatory Capital Adequacy	31.03.2017	31.03.2016
Total Tier I Core Capital (Rs. '000)	10,805,790	9,175,386
Total Capital Base (Rs. '000)	13,178,058	12,272,285
Core capital adequacy ratio (Minimum requirement 5%)	10.91%	10.07%
Total capital adequacy ratio (Minimum requirement 10%)	13.31%	13.47%
Asset Quality Ratios	31.03.2017	31.03.2016
Gross Non-Performing Advances Ratio	4.41%	4.15%
Net Non-Performing Advances Ratio	0.44%	0.50%
Regulatory Liquidity	31.03.2017	31.03.2016
Available Liquid Assets (Rs. '000)	11,996,053	8,045,507
Required Liquid Assets (Rs. '000)	9,558,509	7,726,927
Liquid assets to Deposits ratio	14.88%	13.37%

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	

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				

Form of Proxy

I/We.....
of being
a member/members of the above named Company hereby appoint
.....
of whom failing

Dr. Harsha Cabral, PC	of Colombo or failing him
Mr. Ishara Chinthaka Nanayakkara	of Colombo or failing him
Mrs. Kalsha Upeka Amarasinghe	of Colombo or failing her
Mrs. Dayangani Priyanthi Pieris	of Colombo or failing her
Mr. Panamulla Arachchige Wijeratne	of Colombo or failing him
Mr. Ashan Nissanka	of Colombo

as my/our proxy to represent me/us and vote on my/our behalf at the 16th Annual General Meeting of the Company to be held on 20th September, 2017 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. P A Wijeratne, 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 Dr. Harsha Cabral, PC, 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-elect as Director Mrs. D P Pieris, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4) 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 Seventeen

.....
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: LOFCKLC

Directors

Dr H Cabral PC - Chairman/Non Executive Director

Mr I C Nanayakkara - Deputy Chairman
(*alternate to Mrs K U Amarasinghe*)

Mrs K U Amarasinghe - Executive Director
(*Alternate to Mr I C Nanayakkara*)

Mrs D P Pieris -Senior Independent Director

Justice R K S Suresh Chandra -
Independent Director - retired with
effect from 03.07.2017

Mr P A Wijeratne - Independent Director
(*a.w.e.f 26.05.2017*)

Mr A Nissanka - Executive Director/ CEO

Secretaries

LOLC Corporate Services (Private) Limited
100/1 Sri Jayawardanapura Mawatha
Rajagiriya
Tel: 011 5880354/7 - 0115 880880 (general)

Auditors

Ernst & Young, Chartered Accountants

Lawyers

Julius & Creasy, Attorneys-at-Law
Nithya Partners

Registrars

PW Corporate Secretarial (Private) Ltd
No. 3/17 Kynsey Road, Colombo 8.
Tel: 011 4897733-5

Principal Activities

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

Bankers

Nations Trust Bank PLC
Citi Bank N.A.
Commercial Bank of Ceylon PLC
NDB Bank PLC
Bank of Ceylon
Seylan Bank PLC
MCB Bank
Deutsche Bank
Hatton National Bank PLC
Pan Asia Bank PLC
Hong Kong & Shanghai Banking Corporation
Sampath Bank PLC
DFCC Bank
Peoples Bank
Cargills Bank Limited
Union Bank of Colombo PLC

Designed & produced by

emagewise

Printed by Karunaratne & Sons (Pvt) Ltd

