ANNUAL REPORT 2022/23

LOLC FINANCE

Contents

LOLC FINANCE

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Performance Highlights

		2023	2022
Key Highlights of the Year			
New Executions	Rs. Million	205,427	123,858
Net Interest Income	Rs. Million	32,903	21,590
Profit Before Tax	Rs. Million	15,393	17,743
Profit After Tax	Rs. Million	15,393	16,951
Net Assets	Rs. Million	100,808	83,553
Total Value Added	Rs. Million	26,209	23,352
Market Capitalisation	Rs. Million	198,475	273,369
Value Added Per Employee	Rs. Million	6.13	4.89
Per Share			
Market Value	Rs.	6.00	14.20
Net Asset Value	Rs.	3.05	4.34
Earnings	Rs.	0.72	3.23
Total Staff	Number	4,273	4,771
Total Training Investment	Rs. Million	5.61	2.96
Total Training Hours	Hours	39,854	26,807
Number of Female Employees	Number	880	930
New Recruits	Number	128	693

Rs. 32,903 Mn
Net Interest Income

Rs. 15,393 Mn
Profit Before Tax

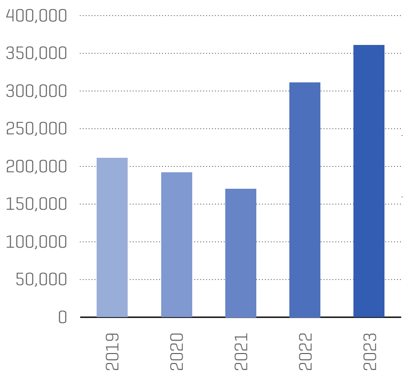
Rs. 100,808 Mn
Net Assets

Rs. 5.61 Mn
Training Investment

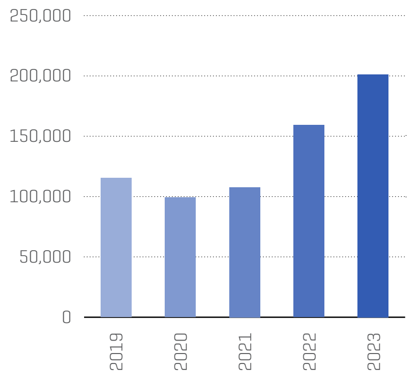
4,273
Total Staff

39,854
Total Training Hours

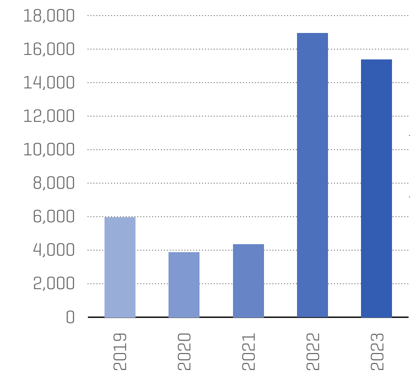
Total Assets
Rs. Million



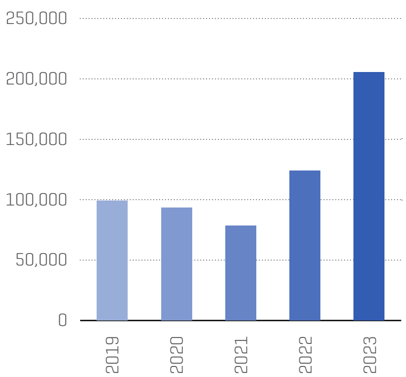
Customer Deposits
Rs. Million



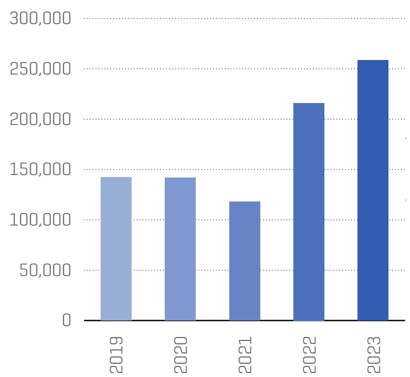
Profit After Tax
Rs. Million



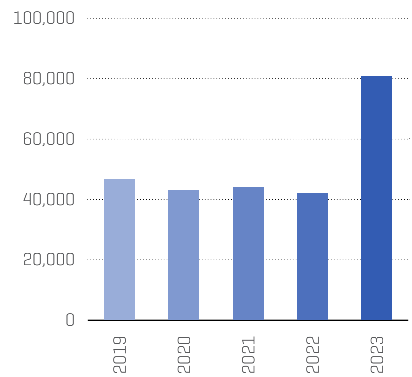
Executions
Rs. Million



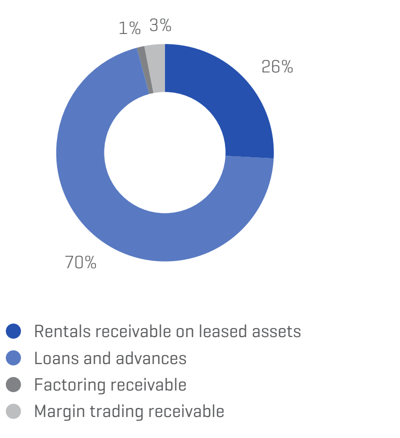
Portfolio
Rs. Million



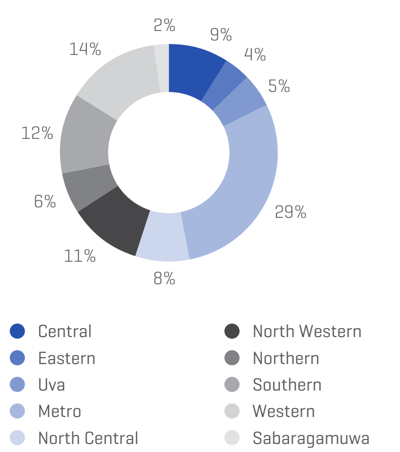
Revenue
Rs. Million



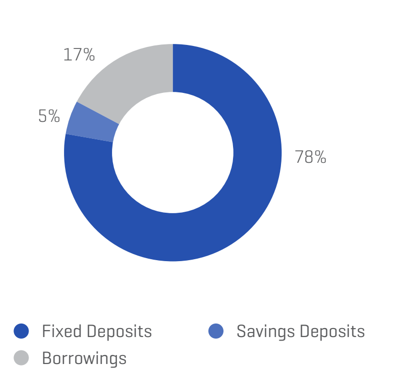
Portfolio Composition



Region Wise Portfolio



Funding Composition



IMPLEMENTED UNDER THE CENTRAL BANK OF SRI LANKA'S MASTER-PLAN FOR CONSOLIDATION OF THE FINANCIAL SERVICES SECTOR, LOLC FINANCE PLC CONFIDENTLY MANAGED THE INTRICACIES AND COMPLEXITIES OF THE MERGER AMIDST TRYING MACROECONOMIC CONDITIONS.

On behalf of the Board of Directors, I am pleased to share with you the Annual Report and Audited Financial Statements of LOLC Finance PLC for the year 2022/23.

CHALLENGES FACED & SURMOUNTED

The year under review was the most challenging in the history of Sri Lanka. The fuel and power shortages, the economic crisis with high growing inflation, and the high interest rate regime in the recent history of Sri Lanka rendered the operating environment extremely difficult to navigate. The economic crisis resulted in a protracted negative growth over the first three quarters of the financial year, showing a gradual recovery from negative growth in the last quarter.

Demonstrating resilience in the face of adversity and notwithstanding the challenging economic climate, LOLC Finance PLC transformed into the largest Non-Bank Financial Institution (NBFI) in the country by merging with Group Company, Commercial Leasing & Finance (CLC) PLC, which had acquired Sinhaputhra Finance PLC previously, and finally absorbing LOLC Development Finance PLC by year-end. Implemented under the Central Bank of Sri Lanka's master-plan for consolidation of the financial services sector, LOLC Finance PLC confidently managed the intricacies and complexities of the merger amidst trying macroeconomic conditions.

Amidst the crisis at hand, not only the NBFIs but the entire banking sector experienced de-growth in the asset portfolio and a marginal growth in deposits during 2022/23. The Company's strategy for the year under consideration was holding on to the book and liquidity management, which was the most important factor as the country and the entire banking sector were mired in a liquidity crisis.

As an organisation, we emerged strongly in terms of our financial performance. The strategic merger fuelled growth and enabled us to grow the portfolio by 20% by placing a greater emphasis on corporate lending, as our core MSME segments was badly impacted by the economic crisis. As a result, LOLC Finance posted PAT of Rs. 15.4 Bn which surpassed that of some of the largest banks in the country. So, from a profitability perspective, we manage to maintain the growth momentum in assets, deposits and our profitability.

Perhaps one of the biggest challenges during the period was managing the doubling of employee numbers as a result of the merger. Integrating people from diverse work cultures and portfolios was a daunting task but was nevertheless competently managed with a focus on optimising resources and maintaining efficiency.

As a result of the merger and consolidation, LOLC Finance PLC is now on par with the nation's largest banks and has grown beyond the boundaries of the NBFI sector. Our concentration on process reengineering and efficiencies will ensure that we further optimise the synergies from the merger.

STRENGTHENED DIGITALISATION JOURNEY

One of the key competitive advantages held by LOLC Finance PLC has been its strong fin-tech capabilities and suite of digital products. The desired digitalisation goals could not be realised due to negative factors in the wider economic environment, the lack of flexibility in imports, and access and affordability of technology due to the rupee-dollar fluctuations. Investment in further digitalisation efforts were curtailed as a result. Nevertheless, LOLC Finance achieved a new landmark, with its digital fin-tech lifestyle app, iPay, recording Rs. 100 Bn in transactions for the first time in its history. This milestone gives us the confidence of doubling the value of transactions before the end of the 2023/24 financial year. This massive growth also reflects the growing digital adoption in the market and the key contribution of iPay in driving a cashless economy. iPay is also number one on the national JustPay platform in terms of transactions.

OUR ESG COMMITMENT

Now more than ever, recent calamities such as the pandemic and the economic crisis have brought home the importance of Environmental, Social and Governance (ESG) to ensure business sustainability. LOLC Finance PLC, with its strong sustainable approach to business through digitalisation, community initiatives, its focus on uplifting the bottom-of-the-pyramid population, driving female empowerment and adherence to customer principles, has adopted ESG principles at the core of its operations. This year, we strengthened our commitment to achieving the UN Sustainability Development Goals (SDGs) and have established a special unit to concentrate on ESG aspects across the organisation.

GOING AHEAD, OUR FOCUS WILL BE ON DRIVING DIGITAL TO SERVICE THE CUSTOMER BETTER WHILE IMPROVING ORGANISATIONAL EFFICIENCIES. IN ADDITION, WE WILL CONTINUE TO BREAK NEW GROUND IN THE REAL FIN-TECH ARENA OF FINANCIAL SERVICES AND CONTINUOUSLY INVEST IN THE FINANCIAL SERVICES TECHNOLOGY.

Total Assets

Rs. 360.8 Bn

Profit After Tax

Rs. 15.4 Bn

In terms of ESG, the company has conducted many initiatives such as reforestation of a 5-acre forest and creating a butterfly garden, along with planting 12,000 trees in Deniyaya to meet the organisation's SDG goals and make a sustainable contribution to the nation. Along with parent company, LOLC Holdings PLC, we made a major contribution of Rs. 225.3 Mn towards Divi Saviya, a Group CSR initiative to alleviate the burden on the vulnerable, by donating dry rations during the height of the economic crisis and empowering students from economically underprivileged backgrounds with school supplies.

FUTURE OUTLOOK

Some sectors in the Sri Lankan economy have shown more resilience than others and we believe these sectors will be the first to rebound in the upcoming financial year, as the rest of the year under review will most likely exhibit negative growth. We have a positive outlook for economic recovery in 2023/24 and are geared to leverage on the positive sentiment by embarking on certain strategic projects.

The MSME sectors should slowly get back on their feet in 2023/24, supported by the regulator bringing down interest rates substantially. Our presence in the MSME sector plays a significant role in the economic growth of this country.

Going ahead, our focus will be on driving digital to service the customer better while improving organisational efficiencies. In addition, we will continue to break new ground in the real fin-tech arena of financial services and continuously invest in the financial services technology. We will also rationalise the branch network to optimise branches for greater reach and convenience for customers, with an emphasis on improving our reach into rural areas. The merger has also created exciting new opportunities for our employees, because parent group, LOLC Holdings is now a global conglomerate, which provides avenues to work in the Group's global offices.

As an expanded organisation in both size and capitalisation, our ability to move into new areas in the country has also increased. The times ahead are promising for LOLC Finance PLC as it forges ahead to leverage on its synergies post-merger to realise unique advantages.

CHAIRMAN'S STATEMENT ON CODE OF ETHICS

The Board sets the tone from the top to instil the right behaviours across all levels - from directors, officers and staff, based on the Company's Code of Ethics, which provides guidance to ensure duties are carried out with the highest standards of integrity. Additionally, this will also enable the Company to manage any potential impact with fair treatment. On behalf of the Board, I wish to confirm that there has not been any material breach of the Code of Ethics during the year under review.

APPRECIATION

We value the trust placed in us by our shareholders, customers and all other stakeholders as we consolidate our leadership in the industry. I would especially like to commend Executive Director/CEO and all executives and staff efforts not only to survive but to thrive amidst the challenging conditions during the year. The combined positive energy and confidence from all our stakeholders will always propel us forward despite adversity. We wish to thank Director Mrs. Kalsha Amarasinghe, who resigned from the Board on 29th May 2023, for her unwavering leadership, direction and guidance since the inception of the Company 20 years ago. We also appreciate the support extended by the Central Bank of Sri Lanka and other regulators in helping us navigate a challenging yet landmark year for the Company.

F K C P N Dias
Chairman

THE MARKET CAPITALISATION OF THE MERGED LOLC FINANCE PLC STANDS AT OVER RS. 190 BILLION. MOREOVER, THE NEWLY-MERGED LOLC FINANCE ACCOUNTS FOR 20% OF THE TOTAL ASSETS, LIABILITIES, AND EQUITY BASE OF THE NBFI INDUSTRY, WHICH HAS NEARLY 40 PLAYERS.

The financial year 2022/23 was one of the most significant in the history of LOLC Finance PLC, as it marked the first year of the historic merger of four Non-Bank Financial Institutions (NBFIs). Despite the enormity of the challenges that prevailed throughout the period under consideration due to the economic crisis and the complexity of the merger, LOLC Finance PLC concluded the year with one of the highest profitability numbers in its history in the banking and financial services industry.

HISTORIC MERGER

LOLC Finance PLC merged with its sister company Commercial Leasing & Finance PLC (CLC), becoming the largest Non-Banking Financial Institution (NBFI) in Sri Lanka earlier this year. CLC had previously acquired Sinhaputhra Finance PLC. By year-end, Group Company LOLC Development Finance had merged with LOLC Finance PLC. The market capitalisation of the merged LOLC Finance PLC stands at over Rs. 190 billion, placing it among the top three companies on the Colombo Stock Exchange (CSE) by market capitalisation.

Moreover, the newly-merged LOLC Finance accounts for 20% of the total assets, liabilities, and equity base of the NBFI industry, which has nearly 40 players. As a historic merger on this mammoth scale, we did not have any other entity against which we could benchmark our strategies and KPIs for managing the merger. Therefore, we did the next best thing, we set our own benchmarks. The internal challenges of merging four NBFIs into one were multiple, including different processes, diverse workplace cultures, varied products, and overlapping branches, departments, and management of staff.

While managing these internal complexities, we were faced with what was perhaps the worst financial and political turmoil in the country's history. The three key indicators - interest rates, inflation, and exchange rates rose sharply to unprecedented levels while the country was grappling with an energy crisis and a near-total import ban. People's livelihoods were severely affected, and enormous uncertainty prevailed, compounded by the first sovereign default in the history of Sri Lanka.

We prioritised liquidity as a key factor to instil confidence in our investors while maintaining portfolio quality, net interest margins, and managing overheads, all while preventing the portfolio from deteriorating. Our strategy was to continue our business activities by extending credit to our SME and micro customers while sustaining investment flows through deposits.

Simultaneously, we explored the most cost-efficient ways of conducting business, including process reengineering, digitalisation of products, processes, and distribution, and streamlining branches and staff, multitasking, and maintaining continuous communication with our customers and stakeholders.

The end result was a portfolio growth of 20%, deposit growth of 26%, a cost-to-income ratio of 43%, and Profit After Tax of Rs. 15.4 billion. This is not only the highest in the NBFI industry but also, more importantly, one of the highest in the entire banking industry.

PUTTING PEOPLE AT THE CENTRE OF OUR BUSINESS

The daunting merger of four companies was bound to evoke feelings of insecurity among all employees from diverse workplace cultures. Upon merging, the new entity had nearly 6,000 employees and a network of branches over 280. However, LOLC Finance PLC assured all employees of their job security and financial well-being by not only supporting them through the economic crisis but also refraining from retrenchment.

However, since the merger, the headcount has reduced to 4,800 due to natural attrition and staff migrating overseas in response to the economic crisis. Instead staff were also re-distributed across the merged entity to optimise human resources. The merger of branches was prioritised between weaker and stronger branches, thus reducing the count to over 230 branches. This exercise is vital for maximising resources and diversifying into new regions.

THE END RESULT WAS A PORTFOLIO GROWTH OF 20%, DEPOSIT GROWTH OF 26%, A COST-TO-INCOME RATIO OF 43%, AND PROFIT AFTER TAX OF RS. 15.4 BILLION. THIS IS NOT ONLY THE HIGHEST IN THE NBFI INDUSTRY BUT ALSO, MORE IMPORTANTLY, ONE OF THE HIGHEST IN THE ENTIRE BANKING INDUSTRY.

Total Gross Lending Portfolio

Rs. 258.5 Bn

Total Footprint

230+ Branches

STRENGTHENING SUSTAINABILITY

As the largest NBFI in the country, LOLC Finance has played a pivotal role in empowering the bottom-of-the-pyramid population, especially female entrepreneurs, by providing inclusive financing. Extending its commitment to sustainable financing, the company has been a pioneer in green financing, supporting environmentally friendly projects with an emphasis on renewable energy projects. During the year under review, the Company made significant strides in sustainable banking by driving numerous green initiatives and sustainability projects, including tree planting, beach cleanup, and coastal care projects. We have successfully converted many buildings into energy-efficient structures by implementing rooftop solar projects. Our journey towards digitalisation is further promoting paperless, cashless operations that minimise paper usage and eliminate waste.

FUTURE FOCUS

The Company aims to drive the industry and business towards digital banking while maintaining its close relationships with customers and other stakeholders. As the most valuable company in the NBFI industry, LOLC Finance PLC, as per Brand Finance, is a leader. We will continuously set new records and raise the bar in all aspects of business and banking.

Our efforts were recognised at various forums. LOLC Finance PLC won three prestigious awards at the Best Management Practices Company Awards in 2023. These include the Overall Silver Award in Best Management Practices, the Finance Category Winner Award, and the Award for Excellence in Best Management Practices. Impressively positioned on the esteemed Brand Finance Index 2023, the institution secured a prestigious fourth-ranking position among the nation's top 10 Fastest Growing Brands, displaying an impressive 18% surge in brand expansion. Notably, LOLC Finance is also the topmost brand in LMD's list of the 100 most valuable brands within the Financial Services Sector.

LOLC Finance also dominated the Lankapay Technnovation awards and won the 'Overall Excellence Award in Interbank Digital Payments' for a second year in a row. This was accompanied by several other awards, including Gold for NBFI of the Year for Financial Inclusivity, Gold for NBFI of the Year for Excellence in Customer Convenience, Gold for Best Mobile Application for Retail Payments via JustPay (Banks and NBFIs), Merit for Most Popular Digital Payment Product (Banks and NBFIs – Mobile Payment App), Gold for Overall Award Excellence in Interbank Digital Payments (NBFIs), and the People's Financial Services Brand of the Year at the 2023 SLIM-Kantar People's Awards.

This marks the sixth consecutive year that LOLC has been recognised by the Sri Lankan public as the top choice in the country's financial services industry.

ACKNOWLEDGEMENTS

I am grateful to the Chairman and Board of Directors of LOLC Finance PLC, as well as the management of the holding company LOLC Holdings PLC and valued shareholders, for placing their trust in me. The milestones we have achieved together during the year under review would not have been possible without the cooperation and commitment of all our stakeholders. I would like to express our gratitude to our valued depositors, multinational funding agencies and banks, as well as customers for being partners of our success story.

D M D K Thilakaratne
Director/CEO

Board of Directors

MR. F K C P N DIAS

Chairman/Non-Executive Director

Mr. Conrad Dias was appointed to the Board on 01st March 2020. He holds a master's in Business Administration (MBA) from University of Leicester UK and is a Fellow Member of the Chartered Management Accountants UK (FCMA) and Chartered Global Management Accountant (CGMA -USA). He is also a Fellow of Certified Management Accountants of Sri Lanka (FCMA) and Fellow Member of the British Computer Society (FBCS).

His experience spans close to three decades, as a visionary thought leader in business technology and his C-Level experience spans over 20+ years.

Fintech enthusiast who innovated many financial technology products and solutions, he is the Founder of iPay, a revolutionary platform beyond payments and Founder of OYES, another fintech platform that makes every day a pay day.

His thought leadership on technology and contribution in the field of ICT to the industry, society and at LOLC Group has been recognised with many local and international awards including the prestigious Computer Society of Sri Lanka CIO of the Year 2016 award. He was also awarded with Chartered Management Institute of Sri Lanka Professional Excellence Award 2017. Further he was inducted in to the Global CIO Hall of Fame 2020 of IDG (USA) CIO100 and is the only Sri Lankan to be granted this honour.

MR. D M D K THILAKARATNE

Executive Director/CEO

Mr. Krishan Thilakaratne is the Director/CEO of LOLC Finance PLC and a Member of the Senior Management Team of LOLC Holdings PLC. Mr. Thilakarathne was the former Director/CEO of Commercial Leasing and Finance PLC and was appointed to LOLC Finance PLC pursuant to the merger with effect from 31st March 2022.

Mr. Thilakaratne is a Board member of Seylan Bank PLC and further serves on the boards of LOLC Myanmar Micro Finance Company Ltd and Faso S Micro Deposit Organisation in Tajikistan.

He was a Board member of the Credit Information Bureau of Sri Lanka (CRIB), Prasac Micro Finance Institution Ltd. Cambodia and the past Chairman of the Finance Houses Association of Sri Lanka (FHASL), the Apex body for Non-Bank Financial Institutions (NBFIs) in Sri Lanka.

He is a member of the Associateship of the Institute of Bankers of Sri Lanka (AIB) and a passed finalist of the Chartered Institute of Management Accountants (CIMA) UK. He has followed a Strategic Leadership training programme in Micro Finance at Harvard Business School USA and counts over 27 years of experience in Management, Credit, Channel Management, Marketing, Factoring, Portfolio Management and Islamic Finance. He conceptualised and introduced Islamic Finance to LOLC Group in 2007 and is a Guest Speaker at the international Islamic Finance forums.

MRS. K U AMARASINGHE

Executive Director

Mrs. Kalsha Amarasinghe served as a Board Member from 05th March 2003 to 29th May 2023. She holds an Honours Degree in Economics and has an outstanding vision for investments.

Mrs. Amarasinghe further serves on the Boards and subsidiaries of LOLC Holdings PLC and Brown & Company PLC including LOLC Life Assurance Limited, Palm Garden Hotels PLC, Eden Hotel Lanka PLC, Browns Investments PLC, Serendib Hotels PLC, Hotel Sigiriya PLC, Dolphin Hotels PLC, Riverina Resorts (Pvt) Ltd, Green Paradise (Pvt) Ltd, P L Resorts (Pvt) Ltd, Browns Holdings Ltd, Sanctuary Resorts Lanka (Pvt) Ltd and Serendib Leisure Management Ltd.

MR. B C G DE ZYLVA

Non-Executive Director

Mr. Brindley De Zylva was appointed on 23rd April 2018 and serves as Non-Executive Director of LOLC Finance PLC. He is also the Chairman of LOLC (Cambodia) PLC and Serendib Microinsurance PLC and Managing Director of LOLC Myanmar Micro-Finance Company Limited. He joined the LOLC Group in 2003 and counts over 39 years' experience in the Non-Bank Financial Services Industry (NBFI) covering Licensed Finance Companies, Specialised Leasing, Micro Finance and Micro Insurance in South and South East Asia.

MR. P A WIJERATNE

Senior Independent Director

Mr. P A Wijeratne was appointed as an Independent Director on 26th May 2017 and has over twenty years of experience in Accounting, Financial Reporting, Investment of Internal Funds, Foreign Loan Disbursements and Repayments, Auditing, Public Debt Management and Administration as an ex Officio of the Central Bank of Sri Lanka. He joined CBSL in 1991 and worked in the Finance, Public Debt Management and Internal Audit departments till his retirement in year 2016.

He holds a BA in Economics (Special Field – Commerce) from the University of Kelaniya and a postgraduate Diploma in Accounting and Financial Economics and an MSc in Accounting and Financial Economics from the University of Essex, UK.

MR. K SUNDARARAJ

Independent Director

Mr. Kandiah Sundararaj counts over 28 years experience in Accounting, Auditing and Tax Consulting. He started his career as a Chartered Accountant in 1998 and is currently serving as the Tax Partner at M/S Amerasekera and Company, Chartered Accountants.

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

MR. S LANKATHILAKE

Independent Director

Mr. Sunil Lankathilake is a former Deputy Governor of the Central Bank Sri Lanka. He was appointed to the LOLC Finance Board, pursuant to the merger with LOLC Development Finance PLC on 31st January 2023. He holds an MSc in Economics and a Postgraduate Diploma in Economics from the University of Manchester, United Kingdom and a B. Com degree with first Class honours from the University of Peradeniya.

Mr. Lankathilake has more than 32 years of experience in the CBSL in the areas of Economic and Price Stability, Financial System Stability and Agency Functions. Prior to joining the Central Bank in 1986, he has worked as an Assistant Lecturer at the University of Peradeniya.

During his 32 years career in the CBSL, Mr. Lankathilake has participated in large number of foreign training programmes conducted by reputed training providers such as IMF, World Bank, ADB, University of Cambridge etc. in the areas of Macroeconomic Management, Macroeconomic Modelling, Financial Programming, Trade Policies, Competitiveness, Project Management, Foreign Investment, Strategic Planning and Management, Human Resource Management and Communication Policy. Mr. Lankathilake has also served as a member of the Board of Directors of Sri Lanka Export Credit Insurance Corporation, Board of Management of the Title Insurance Fund of Registrar General's Department, National Labour Advisory Committee, Securities Exchange Commission and several other committees in the fast. Mr. Lankathilake has authored many articles and published them in reputed international and local journals and with CBSL publications particularly in the areas of economic issues, small-scale industries, international trade, gem industry, apparel industry etc.

MR. A J L PEIRIS

Independent Director

Mr. Luxman Peiris retired as Additional Director of the Central Bank of Sri Lanka (CBSL) and was appointed as an Independent Director. pursuant to the merger with LOLC Development Finance PLC with effect from 31st January 2023. His career at the CBSL spanned 25 years, during which he worked in several different departments in the CBSL, including Economic Research, Management Development Centre, Governor's Office (Chief Protocol Officer), Domestic Operations and Payments and Settlements.

Mr. Peiris holds a BSc (Physical Science) with a First-Class Honours from the University of Kelaniya, Sri Lanka, an MSc and a Postgraduate Diploma in Agricultural Economics from the University of Reading, UK and an MSc and a Postgraduate Diploma in Quantitative Development Economics from the University of Warwick, UK.

Mr. Peiris served as the Vice President of the Clearing Association of Bankers (CAB). He was also the Coordinator CBSL SEACEN Financial Statistics. He is a member of the Sri Lanka Economic Association. He served in the Sri Lanka Army Volunteer Force attached to the 2nd Sri Lanka Army Service Corps as a Commissioned Officer too. He was adjudged as the Best Officer Cadet in Intake one in the Sri Lanka Army Volunteer Force in 1981. Presently he is an Exco member of the Sri Lanka Army Service Corps Ex-Servicemen's Association.

A JOURNEY OF STRENGTH AND ACHIEVEMENT.

MANAGEMENT DISCUSSION AND ANALYSIS

THE EXCELLENCE DEMONSTRATED BY THE COMPANY HAS LED IT TO WIN TOP AWARDS AT THE LANKAPAY TECHNNOVATION AWARDS IN 2023, REFLECTING THE COMPANY'S INDUSTRY STANDING IN THE NON-BANKING FINANCE INSTITUTION (NBFI) AND DIGITAL PAYMENTS SPACE.

MACROECONOMIC ENVIRONMENT

The Sri Lankan economy faced its share of challenges in the past year, but it is important to highlight the resilient spirit that emerged amidst these circumstances. Despite a 7.8% contraction in GDP, it is worth noting that the economy managed to maintain a 3.5% growth in 2021.

While there were hurdles such as acute fuel shortages due to foreign exchange constraints, these difficulties spurred innovation and resourcefulness within supply chains. The disruptions caused by prolonged power outages and limited raw materials also led to creative solutions that aimed to strengthen the country's production capabilities.

Admittedly, major utility price adjustments and currency depreciation created short-term pressures. However, these steps were taken to ensure a stable and sustainable economic future. It is worth mentioning that the Government actively sought assistance from the International Monetary Fund, showcasing its commitment to finding solutions and maintaining financial stability.

Every sector felt the impact of the economic situation, but the way they responded was commendable. The agriculture sector, despite a contraction of 4.6%, showed remarkable resilience in adapting to challenges. The industry sector, although contracting by 16%, displayed the ability to navigate through severe shortages and cost escalations, indicating a determined approach to overcome obstacles.

The services sector demonstrated its adaptability in the face of the pandemic's aftermath. Although there was a 2% contraction in 2022, it is important to highlight the positive trend observed in the first quarter, as the gradual recovery from the pandemic showcased the sector's potential for growth.

The figures may show a contraction in the overall size of the economy, but it is essential to recognise the dynamic efforts undertaken to stabilise the situation. The decline in per capita GDP reflects the impact of these challenges, but it also illustrates the economy's responsiveness to changing circumstances.

Amidst all this, the country's financial authorities proactively addressed inflation by raising monetary policy rates, underlining their dedication to maintaining price stability and ensuring a secure economic future.

In conclusion, the past year brought its fair share of difficulties, but it is important to recognise the positive steps taken, the resilience displayed across sectors, and the determination to stabilise and revitalise the economy. Sri Lanka's journey continues with a focus on innovation, adaptability, and sustainable growth.

A Resilient Financial Sector

Sovereign rating improvements, moderate sovereign exposure of the banking sector, gradual economic recovery, manageable foreign exchange dynamics, and a focus on addressing inflation, combined with the temporary suspension of external debt servicing for bilateral and commercial debts by the Government in April 2022, presented a unique opportunity for the financial sector to demonstrate resilience and adaptability. Throughout 2022, the banking sector showcased remarkable stability, effectively navigating through the evolving landscape. Despite ongoing concerns about credit quality, liquidity pressures, and profitability challenges due to impairments, the sector managed to uphold its strength and work towards bolstering capital buffers.

The Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector managed to continue its expansion during 2022 in terms of assets and deposits with adequate capital and liquidity buffers, amidst challenges stemming from the contraction of credit growth, declining profitability and increase in non-performing loans.

Financial markets also managed to withstand pressures from multiple fronts during 2022 and showed signs of revival from late 2022. The domestic foreign exchange market experienced strained liquidity conditions with a large depreciation of the exchange rate due to BOP stresses and unfavourable market sentiments during 2022.

However, the equity market recorded a dismal performance during 2022, reflecting the high yield for fixed-income securities and negative market sentiments against the backdrop of prevailing adverse macroeconomic conditions. Even so, the equity market registered net foreign inflows during the year. Financial infrastructure continued to support the functioning of the financial sector under the challenging economic environment.

Licensed Finance Companies and Specialised Leasing Companies

The NBFI sector managed to continue its expansion during 2022 amidst the economic contraction experienced by the country. Despite challenges faced from shrinking credit growth, declining profitability and increase in non-performing loans, the sector grew in terms of assets and deposits with adequate capital and liquidity buffers during 2022.

The total assets of the sector amounted to Rs. 1,611.2 Bn by end 2022, representing 5.2% of the total assets of Sri Lanka's financial system. The asset expansion was mainly driven by the growth of loans and advances portfolio followed by increase in investments and liquid assets. Loans and advances accounted for 74.4 per cent of the total assets of the sector. The sector maintained liquidity well above the minimum required level during 2022. However, profitability of the sector declined in 2022 compared to the previous year. The sector's Profit after Tax (PAT) reduced by 21% cent from Rs. 55.6 billion in 2021 to Rs. 43.9 billion in 2022, mainly due to substantial increase in interest expenses. During 2022, debt moratoria and concessions on loan repayments were extended to assist affected borrowers due to the prevailing extraordinary macroeconomic circumstances.

LENDING

Despite challenges arising out of Sri Lanka's economic crisis in 2022, LOLC Finance PLC's lending operation maintained a steady performance during the year under review. The operation continued to support customers impacted by the crisis while infusing efficiency and process improvement through digitalisation. Additionally, the integration and streamlining of lending operations due to the strategic amalgamation of LOLC Finance PLC, Commercial Leasing & Finance PLC, LOLC Development Finance and Sinhaputhra Finance PLC as one merged entity LOLC Finance PLC was a colossal achievement by the business unit.

Despite the challenges, the volume of loans disbursed and repayments by customers showed improvement as a result of the Company's efforts to sustain its lending portfolio. The two main avenues of growth during the year were gold loans and agricultural financing. Since the import ban on vehicles did not extend to agri equipment, the lending unit targeted agricultural financing of harvesters, tractors and so on. As the largest financier to the agricultural sector, LOLC Finance PLC ensured its branch network serviced customers to meet their targets. In addition, facilities were restructured to suit cash flows of customers along with other mechanisms to accommodate customer needs. The Company's Alternate Finance unit also recorded growth after the amalgamation of CLC's Islamic Business Unit with LOLC Al-Falaah. The company also succeeded in deriving growth from its corporate financing activities.

Maintaining low Non-Performing Loan (NPL) ratios posed a challenge due to reduction of cash flows, income and repaying capacity, and increase in expenses and other costs. Moreover, the regulator altered the threshold for calculating NPLs midway through the year, from 180 days to 120 days, thereby pushing up industry NPLs. Overall, the lending unit managed to steer the Company's NPL ratios well as compared to the industry average.

The ongoing import restriction on commercial vehicles, cars and other imports reduced key assets that the Company could finance. However, different market segments were identified that operate within the registered motor vehicle category and the aim is to onboard these segments now and be prepared for the time when business activities resume in the segment.

Digital inclusion played a key role in facilitating lending operations as customers were onboarded onto LOLC Finance's digital payment app, iPay, for customers to repay loans and advances without leaving their homes. Gold loan customers also adopted iPay.

Digitalisation is a journey and efforts were made to educate less digitally-inclined customers about the benefits of digital payments. Social media platforms were leveraged on to connect directly with target audiences.

Overall, the Company continued to explore ways to grow its portfolio while reducing costs to mitigate higher cost of funds and facilitate quick recoveries during the year under review.

SAVINGS AND DEPOSITS

The year under review commenced on a favourable note for deposits as interest rates spiked sharply in the initial months. The Company's reputation and brand identity helped it to achieve strong growth in deposits despite the volatile nature of the economy. Since the environment was not conducive enough for lending, deposits were invested in profit-bearing instruments. The progress in the Company's digital journey enabled it to attract digital savings by partnering with its popular fin-tech platform, iPay, further boosting online corporate customers. Digital savings accounts have made it simple to open savings accounts and fixed deposits for both customers and the deposits team, as the process is entirely automated. As the largest NBFI and being on par with some of the largest banks in the country, LOLC Finance PLC's deposit base is the highest in the NBFI sector.

The Operations unit of the Centre of Excellence provides notable back-office support and in time to come will become a 24/7 operation.

Product innovation has been a key hallmark of the Company. During the year, the Salary Saver account was launched in keeping with the aim to provide a solution to corporates. The Daily Savings promotion was introduced to offer daily cash collection services for customers, which performed well during the year. Driving product innovation further, the children's account will be re-launched with a renewed concentration on savings.

The excellence demonstrated by the Company has led it to win top awards at the Lankapay Technnovation Awards in 2023, including 'Overall Excellence Award in Interbank Digital Payments' for the fifth year in a row along with Gold awards for 'NBFI of the Year for Financial Inclusivity', 'NBFI of the Year for Excellence in Customer Convenience' and 'Best Mobile Application for Retail Payments via JustPay (Banks and NBFIs)'; and a Merit award for 'Most Popular Digital Payment Product (Banks and NBFIs – Mobile Payment App)' for the fourth year in a row, reflecting the Company's industry standing in the Non-Banking Finance Institution (NBFI) and digital payments space.

As the largest NBFI that has cornered over 20% of the NBFI market share, coupled with its brand reputation and trustworthiness, LOLC Finance PLC is geared for growth, surpassing the profitability achieved in the previous year. This strong performance is expected to attract a wider depositor base. On the Company's part, it will pursue out-of-the-box thinking while offering convenience and excellent customer service.

BRANCH NETWORK

During the year, no significant expansion was undertaken in the branch network as the modalities of the merger were being worked out. Following the merger, the branch network is in the process of being overhauled. Thus, branch closings and amalgamations are being deployed in a logical manner to optimise profitability and portfolios. The physical network was rationalised to almost over 230 branches by year-end as compared to over 280 branches following the merger with LOLC Development Finance by the year-end. Further reduction in branches will be effected to optimise the network in a cost-effective manner.

The merger also caused the initial gross portfolio to increase to Rs. 216 Bn, but due to the high interest regime, the branches refrained from pushing for business executions, instead managing collections and liquidity in line with market trends to mitigate challenges from weak economic conditions. As a result, the granular portfolio growth was managed notably and recorded slight growth overall.

The branches managed their portfolio quality without repossessions or any adverse legal actions through a sustainable customer relations approach, thereby ending the year with a healthy recovery ratio. While maintaining adequate liquidity ratios, branches saw constant inflow of deposits despite adverse conditions in the country and the banking sector, which reflects the confidence in LOLC Finance PLC as the largest and one of the most stable NBFI in Sri Lanka.

The Central Bank of Sri Lanka has granted the license to open 39 new branches for the merged entity and the Company is currently in the process of identifying the precise locations in which to establish its brand presence to widen its reach. In the meantime, managing costs and overheads and increasing portfolios with the existing island-wide branch footprint will be the main focus.

CREDIT CARDS

In the financial year under review, the Credit Cards unit increased its gross portfolio by Rs. 1.46 Bn, which reflects a 55% growth over the previous year. In addition, a total of 24,462 new cards were issued during the period, marking an average of over 2,000 new cards every month. One of the key factors for this impressive performance was continued investment in upgrading credit card features and adoption of the latest digital technologies to offer value addition. During 2022/23, process reengineering was undertaken and 'Robotic Process Automation' deployed to enhance efficiencies.

Customer access to credit cards and payments has been enhanced by entering into an arrangement with Mobitel, which allows bottom-of-the-pyramid customers, SMEs and MSMEs, to walk into their nearest Mobitel outlets to make their card payments with ease. This is in addition to digital payment verticals such as iPay and others such as LOLC Realtime, Internet banking, Mobile banking and Direct Debit instructions. While promoting the aforesaid digital verticals to make payments, the credit cards unit is also promoting 15,000 Mobitel retailers onboarded through the new initiative to support its collection efforts and to offer convenience to customers.

Furthermore, during the year under review, LOLC Finance PLC's SAVI credit cards for Government employees saw a rapid uptake. In a major achievement, the SAVI portfolio surpassed the Rs. 1 Bn portfolio mark within a short span of two years. The SAVI credit card product was launched targeting state sector employees and pensioners with the view to empowering the segment to enjoy convenience and an improved lifestyle.

The SWAIREE VISA Credit Card, the first-ever credit card in the industry, with various value-added services and benefits targeting career women initiated a scheme by donating a percentage of all its cardholder's monthly spending to a 'Women's Empowerment Fund'. In 2022/23, a donation of 1,000 packs of much-needed feminine hygiene products was made to female patients in the Maharagama Cancer Hospital.

Meanwhile, two major campaigns were carried out during the financial year in partnership with more than 500 merchants covering various parts of the island, offering attractive discounts, interest-free equated monthly payment options and easy payment schemes to facilitate and enable card customers with financial benefits and convenience. The company will continue to promote credit cards with plans to issue 'instant' credit cards in the near future.

IPAY

iPay continues to maintain its status as the number one payment platform in Sri Lanka in terms of the number of transactions and customer acquisitions. iPay users conduct over 1.65 million transactions monthly, valued at over Rs. 12.5 billion. It is the first fintech app to cross the milestone of one million transactions in a month on the JustPay platform.

Furthermore, iPay became the first FinTech app in Sri Lanka to surpass the Rs. 100 billion worth of transactions milestone since its inception and it also witnessed over 140,000 customers coming onboard in the 2022/23 period to exceed 430,000 iPay customers and the merchant base to over 44,000 while transaction volumes grew by 80% over the same period.

The app includes a host of features designed to securely integrate the customer and merchant ecosystem, making it a true fintech application. iPay was conceptualised as an ecosystem rather than a mere payment platform. With LOLC Finance operating as its merchant acquiring partner, iPay is internationally acclaimed as a mobile app developed on advanced software architecture. Customers can now open digital savings accounts and digital fixed deposits and accept credit card payments via iPay without visiting any LOLC Finance branches. To further strengthen iPay's presence beyond the island, it is now available in Cambodia. The user interface of iPay will be continuously enhanced to provide a more seamless customer onboarding journey, allowing customers to self-onboard and register for faster payments.

Several new features are also being added to enhance the user experience, including the ability for customers to check their own CRIB reports, purchase insurance solutions from LOLC insurance, send gifts, pay utility bills, open digital fixed deposits and digital savings accounts, and perform mobile reloads, among others. Customers can also conduct direct transactions through other bank accounts.

iPay has captured 50% of the market share in terms of user downloads of fintech apps and also accounts for 60% of the transaction volumes on the JustPay platform, which is a remarkable achievement. This impressive growth has occurred during the reviewed period.

iPay is the most highly-awarded fintech app, and during 2022/23, it won the Gold Award for Best Mobile Application for Retail Payments via JustPay (Banks and Non-Bank Financial Institutions). It also received the Merit Award for Most Popular Digital Payment Product (Banks and Non-Bank Financial Institutions Mobile Payment App) at the LankaPay Technnovation Awards 2023, which is considered the highest recognition for digital payment platforms in Sri Lanka. Additionally, the iPay app was recognised at the World Business Outlook Awards 2023 as the Winner of the Best Digital Finance Solution Provider Sri Lanka 2023 and the Most Innovative Non-Banking Finance Solutions Provider Sri Lanka 2023.

OYES

OYES (Own Your Earned Salary) is a platform where any organisation can advance its employees a percentage of their earned salary. OYES was introduced with a soft launch 2022 and is in the process of onboarding corporates, after which a full-fledged launch will be held in 2023. OYES functions as a facilitator in drawing salary advances, through offering easy access with the help of a KIOSK or through the iPay mobile app to one's earned salary.

Salaried workers often require cash urgently for various reasons and OYES was introduced to meet their emergencies through their own earned salaries. Through this platform, the employees will be allowed to draw cash advances from the present month salary, while enabling them to access real time fund transfers from their salary accounts 24/7 instantly. The salary settlement process will also be hassle-free as the drawn amount will be auto deducted from the salary. As an auxiliary benefit, OYES can also be added as a funding source to iPay, where an individual will be entitled to enjoy the full functionalities of iPay. OYES will also eliminate the burden of the employers through minimising cumbersome paperwork and disbursement procedures involved in salary advancing through the 100% digital and paperless solution provided. The platform will further enhance easy management and monitoring for the employers while allowing rapid report accessibility for audit trails.

LOLC AL-FALAAH

The historic merger between LOLC Finance PLC (LOFC) and Commercial Leasing & Finance PLC (CLC) changed the entire landscape of the NBFI industry, making LOLC Finance PLC the largest NBFI in Sri Lanka. Simultaneously, CLC's Islamic Business Unit was re-aligned with LOLC Finance's Al-Falaah, the Alternate Financial Services Unit, which catapulted LOLC Al-Falaah to the forefront of the alternate finance industry sphere. LOLC Al-Falaah is now the largest Islamic Financial Services Provider in the Non-Bank Financial Institutions (NBFI) segment in Sri Lanka with a total asset base of over Rs. 31 Bn and serving over 60,000 active clients in the alternate finance industry space. It is now in a position to distribute Islamic Finance across over 230 branches.

LOLC Al-Falaah has a strong brand identity and brand acceptance in the alternate financial services market space and performed well in 2022/23 despite the challenges emanating from the economic crisis. In a landmark achievement, the company surpassed the Rs. 10 Bn mark net inflow of its Mudharabah and Wakalah investments to reach a Rs. 23 Bn portfolio and a savings base that exceeds Rs. 1 Bn. This 84% growth in deposits reflects the trust reposed in the brand by customers to safeguard their hard-earned money.

LOLC Al-Falaah succeeded in effective management of the asset and liability book while growing both the assets portfolio and also drawing in new deposits. Whilst Revenue earnings reached Rs. 4.9 Bn, LOLC Al-Falaah achieved a 33.68% increase in Profit before Tax from Rs. 564 Mn in the previous year to Rs. 754 Mn in the year under review. The SBU succeeded in maintaining Non-Performing Loan (NPL) levels of 6.59% against an industry average exceeding 12%, which reflects its strong process-driven operations and risk-mitigating action strategies. In 2022/23, LOLC Al-Falaah distributed Profits to Depositors amounting to Rs. 2.5 Bn amidst the economic crisis. Return on Equity too indicated an upward trend. The Assets and Liability portfolios were managed masterfully to extend optimum returns to all stakeholders. At the close of the financial year-end, Retained Earnings were recorded as Rs. 5.4 Bn, reflecting 16% growth in comparison to the previous year's Rs. 4.7 Bn.

In order to reap benefits from the absorption of CLC's Islamic Business Unit with LOLC Al-Falaah, a Business Process Reengineering (BPR) exercise was undertaken to redesign and improve key business processes to achieve significant enhancements in performance, efficiency, and effectiveness, ultimately enhancing the overall credit application experience for both the financial institution and the borrowers. In tandem, LOLC Al-Falaah had been on a digitalisation drive and successfully digitalised its Wakalah Investments and Mudharabah accounts with iPay, the lifestyle fin-tech app from LOLC Finance PLC.

Greater adoption of Alternate Financial Services requires ongoing educational programmes to raise awareness amongst communities. LOLC Al-Falaah's Operations/ Compliance Unit organised several educational programmes in conjunction with the Scholar Supervisory Board (SSB) members and in-house scholar advisors during the year.

Sustainable giving is at the heart of Alternate Financial Services and during 2022/23, the Company disbursed Rs. 21.8 Mn for charitable projects under the pillars of health, education and social upliftment projects.

Furthermore, in recognition of its many achievements, LOLC Al-Falaah was felicitated with two prominent awards within the Islamic Banking and Financial Services Sector in Sri Lanka at the 11th edition of the SLIBFI (Sri Lanka Islamic Banking and Financial Institution) awards. Securing Gold Awards for 'Leasing Company of the Year' and 'Window of the Year' were significant wins, as LOLC Al-Falaah has won these awards consecutively over the years.

In addition, LOLC Al-Falaah was honoured with four prestigious awards at the Islamic Finance Forum for South Asia (IFFSA) for its achievements and exceptional performance in expanding the frontiers of Alternate Finance in the domestic and global financial arena. The Company was bestowed with a Gold Award for 'Islamic Leasing Company of the Year'; a Silver Award for 'Islamic Window/ Unit of the Year'; and two Bronze Awards for 'Islamic Finance Entity of the Year' and for 'Islamic Finance Product of the Year'. Further, LOLC Al-Falaah emerged as the Best Islamic Leasing Provider once again in the annual Islamic Finance News-Non Banking Financial Institution (IFN-NBFI) Global Polls for 2022. LOLC Al-Falaah has brought glory to the organisation by retaining this prestigious IFN-NBFI award for the third consecutive year.

LOLC Al-Falaah is poised to leverage on powerful synergies post-merger to offer a 360-degree alternate finance product portfolio with a wider reach and footprint in the country for its valued clientele along with advantages such as efficiencies, wide branch network and technology platforms including iPay, LOLC Finance's digital payment platform, to become a game-changer in the alternate finance industry.

MICROFINANCE

LOLC Finance is positioned as the largest financer in the Micro, Small and Medium Enterprise (MSME) sector, armed with an active base of approximately 275,000 customers and a portfolio of Rs. 190.46 Bn. As the most trusted financial services partner, the Company continued to facilitate customers who were badly impacted by the economic crisis.

During the period under review, over 69,000 loans and leases were provided to customers through products catering to Micro and SME sectors, amounting to Rs. 78.31 Bn. In order to mitigate the impact of volatile interest rates that prevailed in the market through the year, the Company reintroduced flexible interest rates especially for SME customers.

Providing further benefits to customers and suppliers, the Company entered into several Memorandum of Understandings (MOUs) with leading vehicle and agricultural equipment suppliers, including Hayley's Agriculture Holding Ltd, Browns & Company and Ideal Motors, to provide a one-stop shop for customers' leasing requirements.

Extending customer engagement further, training programmes were organised to help improve business skills of micro entrepreneurs and to uplift the knowledge of the Company's customer base with the collaboration of the Post Graduate Institute of Management and the Small Enterprise Development, a Government institution.

The microfinance operation focuses on three main customer segments, namely, micro and small scale entrepreneurs, including the agricultural community and women to empower them to become financially independent. Committed to fulfilling the aspirations of these key segments, the microfinance loans and leases help generate employment and uplift income levels to fulfill the Company's commitment to extending inclusive finance to those who need it the most.

GOLD LOANS

LOLC Finance PLC's Gold Loans proposition was enhanced during the year under review by offering the product across many more branches than in the previous year, which served to drive gross portfolio growth in Gold Loans by Rs. 15.1 Bn. Customers can now access the Gold Loans product from 169 branches of LOLC Finance PLC. During the year under review, the Gold Loans product was rolled out to the following branches: Battaramulla, Neluwa, Godakawela, Anamaduwa, Vallachchenei, Eheliyagoda, Pudukidiyirippu, Rikillagaskada, Ja-ela second branch, Al-Falaah Colombo and Al-Falaah Akurana. The total Gross Gold Loans portfolio now stands at Rs. 30.84 Bn. In 2022/23, the product recorded Profit Before Tax of Rs. 1.65Bn. The Company's Gold Loans are popular for customers looking for urgent short term financing from a trusted and reliable brand in the market.

OPERATIONS

The operations unit performs a crucial function in the lending process. The historic merger of four companies into the largest NBFI in the country significantly increased the challenges for the unit, as system and process migration were undertaken to integrate lending operations of all merged entities onto one centralised platform managed by the unit. The integration was successfully completed during the year. The operations unit is now housed at the Centre of Excellence and the entire operation is relocated to a 10-storey building in Wellawatte, where the entire back-end processing will take place.

As a result, all lending facilities approved across its network of branches will be channelled through the Operations unit. Infusing further efficiency, the team members have been allotted specific SLAs for each activity ranging from repayments, issuance of a certificate, etc. The operations unit also works closely with the RMV (Registration of Motor Vehicles Department) for vehicle loan financing.

Enhancing efficiency further, business process reengineering was undertaken during the year under review which saw the introduction of a superior document management system. Under the new system, documents are scanned and uploaded, making the entire process a paperless one, thereby furthering the Company's sustainability commitment to becoming a paperless and more digitalised operation. Facilitating online payments, SLIPS, CEFTS and direct transfer services are available for greater convenience. In the final analysis, the centralisation of lending operations of all merged entities will drive efficiencies and service excellence.

RECOVERIES

During the year under review, the Recoveries unit recorded an exceptional performance despite the economic crisis that prevailed through the period. The Non-Performing Loan (NPL) ratio was maintained well within industry norms amidst challenging conditions, with adequate provisioning being made during the year. In the month of March 2023 alone, the recoveries unit surpassed its target by Rs. 1.6 Bn, which reflects the robust recoveries process in place.

While the merger of LOLC Finance PLC expanded the branch network of the Company across the island, the use of digital channels such as iPay and other channels such as Direct Debit have enabled customers to complete financial transactions remotely without the need to visit branches. The centralised call centre has become a centre of excellence as it manages all customer queries under one roof, thereby streamlining the process significantly and providing an efficient service.

Supporting customers in times of difficulty remains a top priority and the recoveries team works closely with customers to restructure their debt repayments schedules to suit cash flows. Customer relationship management is a crucial skill for the recoveries team with the view of retaining customers into the long term.

Training and development efforts continued through the year for recoveries staff, with many processes fully automated which enable staff to focus on customer interaction. Going ahead, the recoveries team will continue to enhance customer convenience through a 360-degree approach.

FACTORING

Supporting the business growth amongst its Corporate micro and SME clientele across the country, the factoring operation recorded a portfolio of Rs. 2.5Bn during 2022/23 while posting a profit of Rs. 127 Mn. This strong performance shows a revival of the factoring operation which was impacted due to low customer demand through the pandemic period, as many small businesses were adversely affected by the prevailing weak economic conditions.

During the year under review, the factoring team was strengthened by hiring marketing professionals while the factoring system was integrated with the business intelligence reporting system to facilitate branches to obtain information of their factoring portfolio. This strategy helped to streamline the factoring portfolio.

Facilitating customer convenience further, the factoring operation activated direct fund transfers to client accounts at LOLC Finance branches, so that clients from remote areas could access the LOLC Finance branch closest to them and withdraw the payment.

As a responsible unit, the factoring team champions sustainability in its operations by practising energy conservation and focusing on achieving a paperless operation.

Factoring services are critical to improve cash flows for business to support economic recovery and the factoring team aims to accelerate the outreach of its services to small businesses poised for revival against a backdrop of an improving economic outlook.

MARKETING COMMUNICATIONS

The Marketing Communications (MarCom) division made significant strides in the past year, notably through the successful integration of two mergers, which has further elevated the Company's brand equity. The unit played a critical role in the mammoth merger of LOLC Finance PLC as it has to ensure that the branding and communications maximised the synergies of the new entity, which became the largest NBFI in the country and on par with the largest banks.

In this effort, strategic marketing communications concentrated on product lines, resulting in enhanced visibility and engagement. Furthermore, amidst a hectic year, the MarCom division supported sub-brands to actively engage with their customers and communicate through the Company's digital platforms. A sound digital communication strategy was adopted in reaching out to potential customers.

The efficacy of the Company's digital strategy on social media is evident from the newly-acquired customers who claim to have connected with the Company's offerings via digital platforms. Innovative digital services, such as the fin-tech lifestyle and payment platform iPay, have helped the Company to position itself as a youthful brand whilst leading the industry in digitalisation.

Moreover, during the year, the brand's association with Corporate Social Responsibility (CSR) initiatives was deepened, fostering a positive public perception. As a highly customer-centric brand, LOLC Finance engages closely with the wider community through a variety of CSR projects. Making a contribution during the economic crisis, LOLC Finance PLC came forward to participate in two projects through the 'Divi Saviya' programme, which distributed essential dry rations to families of low income and stationary for most deserving school children.

This year, the Company's accomplishments have been acknowledged with notable awards, solidifying its position as a leader in the industry. These accolades are a further affirmation of its status as the trusted financial services brand by all Sri Lankans. Winning the Financial Service Provider of the Year for the sixth consecutive year at the SLIM-KANTAR People's Awards, is a clear validation of public trust in the brand. LOLC Finance was also ranked amongst the top 20 in LMD Brands Annual Hall of Fame and anointed the Most Valuable Consumer Brand in the Financial Services Sector for 2023.

The purpose of the LOLC Finance PLC brand is to promote positive changes in the lives of people and society and its products and services seek to meet the needs of customers, reflecting its continuous efforts to provide the best experience to everyone who interacts with the brand.

CUSTOMER RELATIONSHIP MANAGEMENT

Customer Relationship Management has become an increasingly important tool to maintain and create relationships with customers, especially against a backdrop of rapidly-evolving industry. At LOLC Finance PLC, delivering consistent quality and memorable experiences across multiple channels have been key to exceeding customer expectations and building long-term relationships.

Digital transformation has been at the heart of building a customer-centric business to provide real time support. The Company's Call Centre offers real-time, personalised and efficient support to resolve customers' queries through the channel that is most convenient for them. In order to stay competitive and meet the fast-changing needs and expectations of customers, the Company's contact centre is leveraging on technology, using low-code automation to enhance customer experience. LOLC Finance is pioneering this area by exploring more self-service options for customers by streamlining and digitalising processes wherever possible, to empower customers and increase convenience.

During the period under review, which was marked by uncertainty amidst the economic crisis, customers were understandably anxious. Realising the importance of being easily accessible to them at any time for clarifications, the service hotlines were kept open to them 24x7 to fulfil their requirements.

In 2022/23, more customers subscribed to the Company's digital payment solution, iPay, during the year as it offers unparalleled convenience to conduct transactions remotely, which is reflected in an upsurge in volume growth. Considering the complex merger achieved by LOLC Finance, which created a sizeable customer base, call volumes increased significantly. The Company's hotlines provided accurate information and clarifications required by customers regarding their transactions, the merged entity, and their ongoing facilities.

It became challenging to recruit and retain talented employees during the year due to the concept of 'remote work', which came about in the post-COVID era. The downturn in the Sri Lankan economy further aggravated the issue as people looked for overseas employment opportunities in order to overcome their economic burdens. However, the Company eased hardships of its employees by assisting them with additional financial support through targeted schemes which helped retain talented employees and keep them focused.

Going forward, the Company remains committed to enhance customer experience by leveraging on automation, streamlining processes and equipping customers with self-service apps and communication channels.

HR REPORT

One of the prime success pillars of the historic merger of LOLC Finance PLC with three other entities, namely, Commercial Leasing & Finance PLC (CLC), Sinhaputhra Finance PLC and LOLC Development Finance, has been the effective integration of Human Resources (HR). The previous year witnessed a focus on initiating the management of the human capital element in the merger between CLC, Sinhaputhra Finance and LOLC Finance, which continued in 2022/23 as well. In addition, LOLC Development Finance was also merged in 2022/23.

LOLC Finance has a unique business model and the challenge was to bring employees from the three other companies with diverse cultures onto one platform. Therefore, cascading the values and culture of LOLC Finance PLC as the largest NBFI in the country is well underway. The successful blending of people and culture will pave the way for the merger to achieve its aim.

The period of uncertainty for incoming staff was minimised to ensure a feeling of security and comfort which was vital to retain talent. In order to stabilise the merged entity, voluntary resignations were not replaced immediately. Instead, staff was repurposed as per the skills and technical knowledge they hold to rationalise numbers. A meticulous communications strategy has been the cornerstone for the HR team, which has even travelled to offices of the acquired entities to establish a common ground and to reassure them of the fullest support from the LOLC Finance team. Conversations with all parties have been sustained through the restructuring, especially informing them about the Company procedures, policies, processes, and sharing product knowledge.

The mapping of systems, processes and roles has been done and the process of reviewing employee benefits, etc, is underway to align the expectations of employees across all the merged entities for a positive outcome. The senior management and the board have been supportive in allowing the HR team to design the ideal structure for the new entity, which involves placing the right talent in the right position after identifying skills, competencies, and so on.

As a merged entity, there is a need to develop strong leadership as part of succession planning to manage the base of almost 5,000 employees and the diverse products and services portfolio. The aim is to have the right people in the right positions to accrue the benefits of the merger.

In order to optimise the existing branch back-office cadre, a project on staff multitasking was initiated, which helped staff to get familiarised with on-the-job activities of selected roles, thereby, effectively engaging in job activities to manage peak volumes at branches.

Training & Development:

Training and development was a key requirement during the year to educate incoming staff on product processes along with leadership development and management development. LOLC Finance invests heavily in the training and development of its employees whilst creating a conducive and supportive workplace.

The HR department ensured a full calendar of training programmes for all staff cadres. Merger related trainings, focusing on upskilling, product training, process training and team building were some of the activities for staff. Branch manager soft skill trainings on customer service to share cross industry practices was also held. A special on-boarding programme was conducted to for the staff of Sinhaputhra Finance.

Employee Engagement:

Along with the merger, the HR team had to manage employee wellbeing during the economic crisis. The mental and physical wellbeing of employees took on critical importance during the economic crisis, when lives were disrupted due to the inability to access fuel, cooking gas and daily essentials. Flexible work arrangements continued to accommodate lifestyle changes needed to cope with the energy crisis. Transport facilities were also arranged for staff members along with other initiatives to support their daily lives. As part of the Company's strategic plan, the digitalisation process will continue to strive towards a paperless operation.

Despite the external adversities, the Company conducted its usual recreational and cultural events to maintain staff engagement: a Quiz Competition was held with over 120 teams across the company; the Blood donation campaign was a success with over 120 employees donating blood at the Bambalapitiya office premises; and a Christmas party was held by the Customer Relations team at Excel World which helped to strengthen bonds.

Moreover, LOLC Finance staff took part in the LOLC Kiddies party held at Excel World, an opportunity for staff and family members to enjoy a day away from work. In addition, the annual Iftar was held at head office was a great opportunity to experience the cultural diversity within the Group, as a large number of staff from all religious groups gathered to celebrate the event.

HR day:

The HR Day has grown from strength to strength, shining the spotlight on the contribution of staff to the success of the Company and giving the company the opportunity to convey appreciation to the staff. The HR team conducted regional visits to all the branches in a particular region and engaged with each and every employee to enhance relations with the management. Their feedback was sought to understand challenges they faced in the new merger. Overall, the HR team was met with positive feedback from the staff which inspired a new initiative called Multitasking, which involves empowering the back-office staff with enhanced skills through cross-functional activities. The employees' bonus and remuneration system was strengthened during the year by extending an exceptional bonus for all the employees in light of the merger.

During the year, LOLC Finance PLC won three prestigious awards at the Best Management Practices Company Award, 2023. These include the Overall Silver Award in Best Management Practices, Finance Category Winner Award, and the Award for Excellence in Best Management Practices. The Institute of Chartered Professional Managers (CPM) of Sri Lanka holds The Best Management Practices Company Awards to recognise companies that have exhibited exceptional leadership, policies and strategies, people management, partnerships, resources, processes, and performances in managing their businesses during the financial year

Future Plans for HR:

A key focus going ahead will be a comprehensive succession plan which makes optimal use of in-house talent to achieve corporate goals while allowing employees to thrive. The process has begun with a thorough competency mapping exercise. The successful integration of the almost 5,000 staff will be critical to the success of the merger.

INFORMATION AND TECHNOLOGY

LOLC Technology Services Ltd. (LOLC Tech) is the LOLC Group's centralised shared IT services provider and supports Group IT functions in almost 25 countries in African and Asian continents.

Data Centre:

The Group's secondary data centre was finally relocated to Sri Lanka's first-ever 'Tier 3 design certified' carrier-neutral high-density data centre at a third-party location. This has been a significant transformation supporting the digital roadmap of the Group, enhancing its ability to make computing capabilities and data availability for users with high resilience from a purpose-built data centre, which complies with the highest international standard available in the island. This will facilitate the future digital growth and the roadmap of the Group as its state-of-the-art technologies include the highest performance storage devices in the enterprise market to ensure the best performance, availability and resilience.

Information Security & Compliance (INFOSEC):

With the implementation of solutions such as the cloud security posture management, cloud workload protection and cloud-native latest security technologies available in the globe for Endpoint Protection and Security Information Events Management, INFOSEC is moving towards a cloud-based approach to align with the digital roadmap that supports business needs.

Further, the LOLC Group is compliant with the Payment Card Industry Data Security Standards (PCIDSS), which is the highest international standard available on securing payment card data. The LOLC Group is an ISO 27001:2013, 9001: 2015 & 20000:2018 compliant entity.

The Group has shifted to a cloud-centric approach while taking applicable security controls and procedures. This includes but is not limited to Vulnerability management, Extended Detection and Response (XDR), Secure Access Service Edge (SASE), Privileges Access Management (PAM), etc. The fundamental objective is to ensure that the highest level of security and protection over data and information is available across the Group, including its global business operations, by implementing the highest level of security controls to ensure secure and uninterrupted business operations. The organisation's security infrastructure has been strengthened with technologies which are industry-firsts, adopted much later by other banking and financial institutions.

LOIT for LOLC Finance PLC:

LOLC Technology Services played a pivotal role in the domain of acquisitions and mergers where Sinhaputhra Finance PLC and Commercial Leasing Company merged with LOLC Finance PLC. Due to the nature of the financial services industry, it has been a pivotal and imperative task in supporting the completion of these mergers, providing an uninterrupted and seamless service to end customers of Sinhaputhra Finance PLC, Commercial Leasing and LOLC Finance PLC during the merger, while also enhancing the post migration customer experience.

LOLC Technology Services achieved another milestone by replacing the ATM switch with an internally-developed ATM Switch, with the internally developed CEFT switch to be deployed as the next step in the related development. Alternatively, the internal developments supported the business operations of LOLC Finance PLC largely by the deployment of Robotic Process Automation in eight processes that elevated process efficiency and accuracy.

Other technological enhancements and new technological initiatives facilitated business needs while increasing the efficiency, accuracy and customer experience. Such initiatives include BI Platform for cross selling, Mobile savings collection app and LOFC SmartME mobile application which facilitated local business operations, while international business operations were supported with the implementation of Lending Modules and data migration, BI Implementation, O365 migration, and endpoint protection solutions.

Amplifying the commitment towards the technological financial sector, LOLC Finance PLC dominated the LankaPay Technnovation Awards for the fourth year in a row, winning as many as five top awards yet again, including the most coveted 'Overall Excellence Award' and 'Overall Excellence in interbank Digital Payments' for the second consecutive year, reflecting the Company's standing in the Non-Banking Finance Institution (NBFI) and Digital Payments landscape.

SUSTAINABILITY REPORT

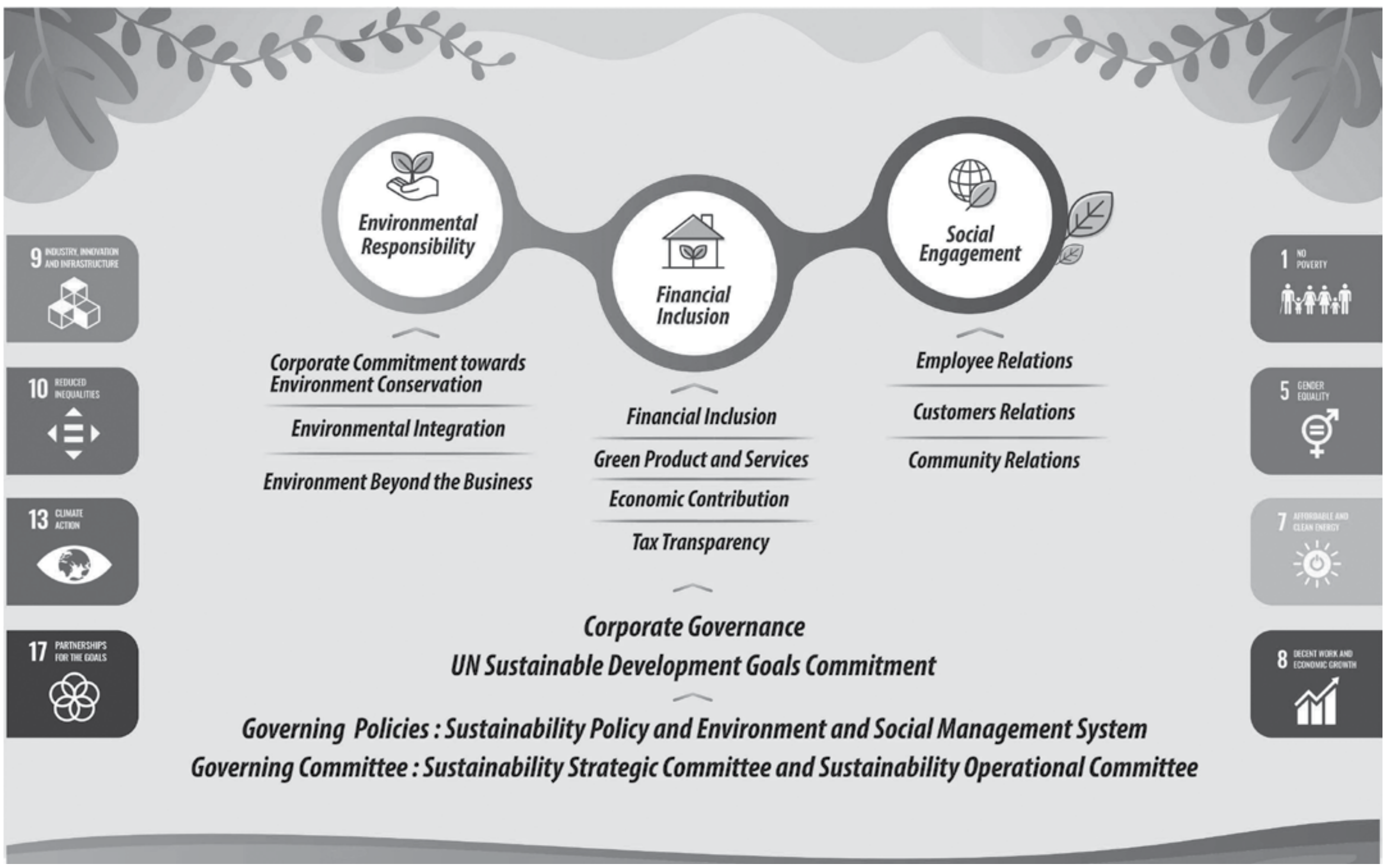
As an ethical and responsible organisation, LOLC Finance PLC is taking giant strides to reflect its willingness and ability to meet environmental and social responsibilities and corporate governance practices. During 2022/23, LOLC Finance PLC achieved some clear milestones on its sustainability journey while pursuing the triple bottom line of People, Planet and Profits.

LOLC Finance is proud to state that it is currently working on a blueprint to achieve Carbon Neutrality by 2030. During the year under review, a formal sustainability framework was established after close consultation with stakeholders. Some of the main initiatives are reforestation, green financing, plastic and paper recycling, and harnessing renewable sources of energy. The Company is also working toward obtaining the ISO 14001: 2015 certification for its Head Office and a Green Building Certification for company-owned branches.

As a first step, events were conducted across the organisation to enhance awareness amongst staff on the sustainability policy. Staff is encouraged to adopt the eco office concept by conserving paper, water and energy.

Sustainability Framework:

Categorised under the pillars of Environmental Responsibility, Financial Inclusion and Social Engagement, the new sustainability framework encompasses the Company's commitment across all indicators while working towards achieving the UN Sustainability Development Goals (SDGs).



Environmental and Social Management System (ESMS)

The articulated Environmental and Social Management System provides a roadmap for the company to conduct business in an environmentally-friendly and socially-responsible manner. The ESMS is designed to manage the environmental and social risk associated with Company operations while focusing on sustainable lending. The policy also encourages customers to prioritise green projects.

The main objectives of the ESMS are:

» To integrate E&S considerations into our daily operations including the lifecycle of loans to eligible borrowers so as to ensure that E&S risks and impacts are consistently .identified, understood, assessed, and managed;

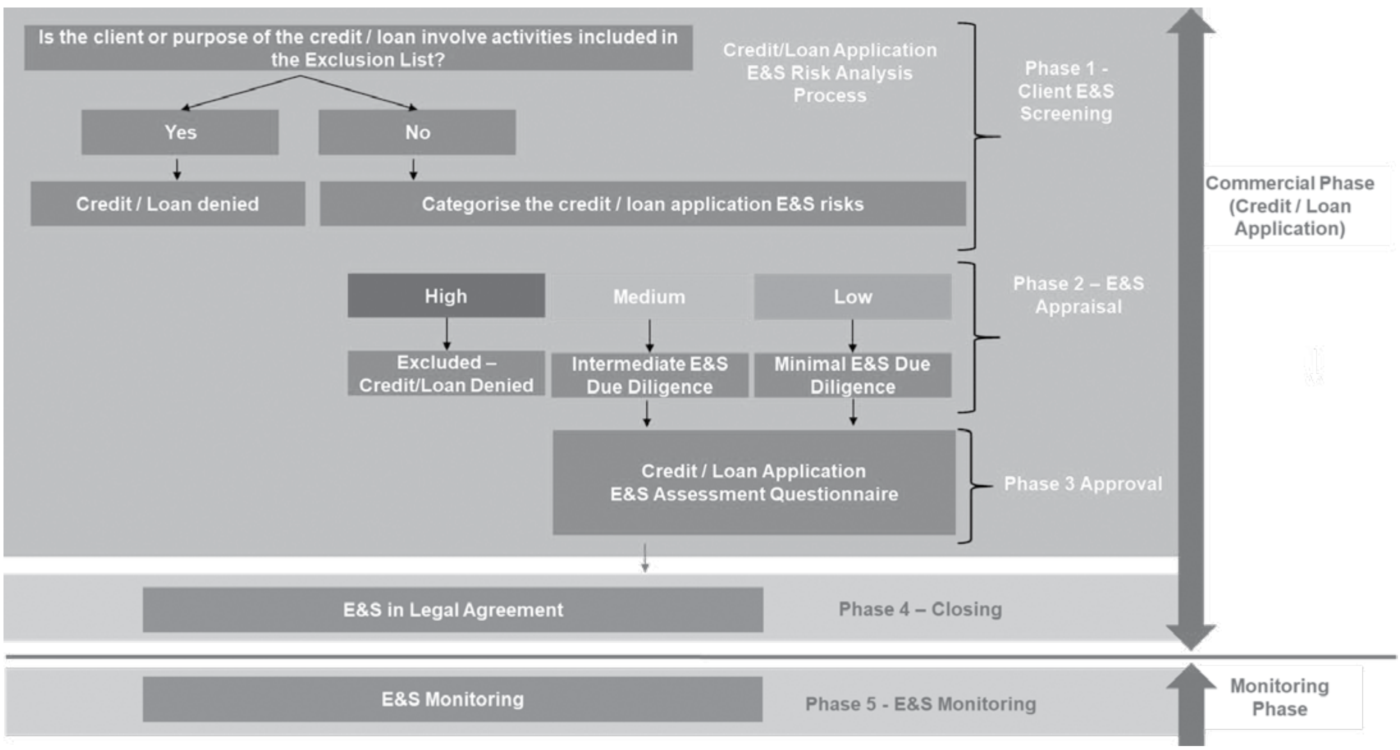
» To facilitate early detection and prompt management of potential E&S risks;

- To ensure potential E&S risks are within the risk appetite of LOFC;
- To set out the responsibilities for E&S risk identification, assessment, decision-making, as well as monitoring and escalation;
- To work with our customers to continuously manage E&S risks and impacts and seek improved E&S practices; and
- To support the establishment and maintenance of overall portfolio quality standards.

ESMS is framed by the following principles to achieve the above objectives,

- Credit granting based on the project/ activity follows the applicable environmental and social standards set by country regulators such as the Central Environmental Authority and Ministry of Environment
- Adoption of best practices on environmental and social due diligence
- The Company's ESMS will be subject to improvements in line with the regulation and policy changes relevant to the Ministry of Environment and Central Environment Authority, Green Financing Taxonomy of CBSL and IFC performance standards.

THE ESMS PROCESS:



Sustainability policy

LOLC Finance PLC (LOFC) has set the sustainability targets for 2030 that are focussed on environmental, economic & social criteria.

LOLC Finance PLC Reforestation and Ecosystem Restoration in Deniyaya

The Deniyaya Reforestation and eco system restoration project was initiated during the year under review, covering a 50-acre land area belonging to Mathurata Plantations, while five acres of land from Miyawaki Forest and Butterfly Gardens are also sheltered here. In addition to the restoration scheme, a biodiversity study and a carbon setting mapping is also fused to the same project with the intention of further elevating the expression of the complete project outcomes. The entire assignment will span a continuous period of 18 months with the tri-party partnership.

The core target of this project is to plant 20,000 trees ranging from 12,000 fruit plantations, medicinal herb plants and few other selected native plants. The venture will be entirely funded by LOLC Finance, while Mathurata Plantations will be offering 50 acres of private land area for plantations, whereas the planting undertaking will be handled by 'Thuru', under Vibhawa Solutions.

The reforestation project generates valuable carbon credits through the capture or prevention of carbon emissions, underscoring its carbon in-setting value. These credits can be utilised for carbon offsetting. Through this tree-planting endeavour, LOLC Finance effectively neutralises its carbon emissions, achieving a balance for its carbon footprint.

The following SDGs will be fulfilled as a result of this project: SDG 13, SDG 15 And SDG 17

ISO 14064:1 2018 certification for organisation level quantification and reporting of Green House Gas (GHG) emissions: Fifth Assessment Report (5AR) of IPCC,2006

LOLC Finance PLC initiated its first carbon footprint management strategy in 2022/2023 FY covering the head office and 201 branches. GHG calculation for 2022/2023 FY was conduced by the Sustainability Unit in accordance with ISO 14064:1 2018. This marks LOLC Finance PLC's first step in the journey towards achieving net zero certification.

Carbon reporting enables the Company to analyse, assess and manage all resulting Green House Gas (GHG) emissions which result from business operations, which will help to track the progress of GHG emission reduction and optimise branch operations.

Applied Standard: ISO 14064:1 2018 certification for organisation level quantification and reporting of Green House Gas (GHG) emissions: Fifth Assessment Report (5AR) of IPCC,2006

The Greenhouse Gas Protocol: The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)

Reporting Period: 01.04.2022 – 31.03.2023

Base Year: 2022/2023 FY

Direct Emission:

Direct emissions occur from sources that are under control by LOLC Finance PLC. This include emission by onsite diesel generators, refrigerant leakage, fire extinguisher, Company-owned vehicles, and employee transport paid by the Company.

Emission Source	tCO2e
Onsite Diesel Generators	259.99
Onsite Petrol Generators	7.70
Refrigerant Leakage	465.1124
Fire Extinguishers	0.03
Company-owned vehicles	11.78
Employee Transport paid by the Company*	3704.71
Total Direct Emission	4449.33

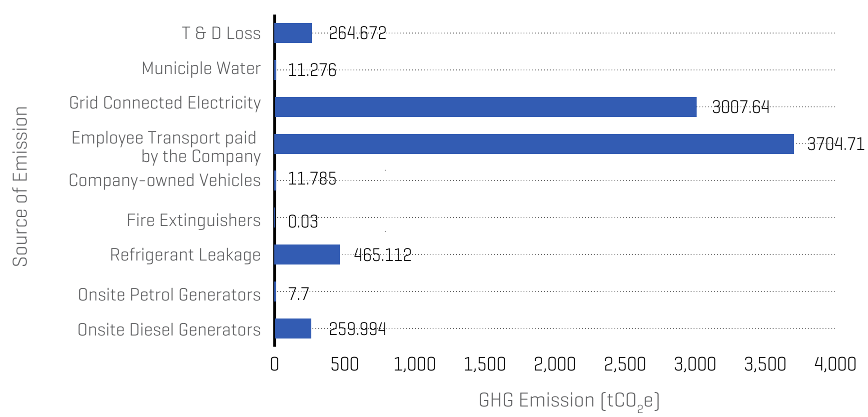
Indirect Emission:

Indirect emission are results of the activities of our organisation, but occur at sources owned or controlled by another entity. Indirect emission makes greater contribution to the Company's total GHG emissions. The highest contributor is electricity generated from the grid. Measures have been implemented to save energy across the Company to reduce the GHG emission.

Emission Source	Emission Source	tCO2e
Category 2: Indirect Emissions from imported Energy	Grid Connected Electricity	3007.639
Category 6: Indirect emissions from other sources	Municipal Water	11.276
	T & D Loss	264.672
Total Indirect emissions		3,283.587

Scope	GHG Emission (tCO_2) in 2022/23			
	Total emission	CO_2	N_2O	CH4
Direct GHG Emission (Scope 1)	4449.33	277.66	0.76	1.09
Indirect GHG Emission (Scope 2)	3007.64			
Other indirect GHG Emission (Scope 6)	275.95			
Total GHG Emission	7732.92	277.66	0.76	1.09
GHG Emission per employee	1.74			

GHG Emission of 2022/2023 FY



Central Bank of Sri Lanka Disclosure

LOLC Finance PLC recognises the growing importance of sustainable finance and its impact on our business, stakeholders and the broader community. While we acknowledge that our current Annual Report does not fully meet the comprehensive disclosure requirements outlined, we are committed to enhancing our sustainable finance practices and reporting in the interest of transparency and responsible financial stewardship.

While our current Annual Report provides an overview of our financial performance and strategic initiatives, we acknowledge that detailed disclosure of our sustainable finance policies and activities is a critical aspect that needs improvement. We are actively working to develop and implement a robust framework that outlines our commitment to sustainable finance principles, along with a comprehensive overview of our initiatives in this regard. This framework will lay the foundation for transparent reporting in the future. However, we implemented have Environmental and Social Management System (ESMS) to identify the environmental and social impacts on our lending platform.

Recognising the significance of these factors in risk management and decision-making, we are dedicating resources to assess and disclose these risks and measures more comprehensively in our upcoming reports. Our goal is to provide a holistic view of the potential impacts these risks could have on our operations and stakeholders.

We understand that disclosing the environmental and social impact of our investments and business activities is crucial in demonstrating our commitment to sustainability. While our current report may lack in-depth details in this area, we are actively exploring internationally recognised reporting frameworks, such as the Global Reporting Initiative and the recommendations of the Task Force on Climate-related Financial Disclosures, to ensure our future disclosures accurately reflect the true impact of our activities.

Our current Annual Report might not include a comprehensive update on our progress regarding sustainable finance activities, but we are excited to share that we have embarked on a dedicated journey to implement a Roadmap and Action Plan for the integration of sustainable finance practices within our organisation. We are committed to providing tangible updates on the progress made in the upcoming year, ensuring transparency and accountability to our stakeholders.

This report may not detail the total and annual amounts of sustainable funds raised and allocated, and we are actively working on refining our tracking and reporting mechanisms. Our aim is to ensure accurate and transparent reporting on the funds we raise for and allocate for sustainable finance-related activities, thereby showcasing our commitment to driving positive environmental and social outcomes.

LOLC Finance PLC embraces the responsibility of meeting evolving sustainable finance disclosure standards. While our current Annual Report might fall short of these requirements, we want to assure our stakeholders that we are diligently working towards enhancing our reporting and practices to meet the highest standards of transparency, accountability, and sustainability.

Financial Review

OVERVIEW

Through the attainment of a notable profit of Rs. 15.4 billion during the financial year 2022/23, LOLC Finance PLC has emerged as a prominent entity within the financial services domain. Its significant representation, constituting more than 20% of the aggregate assets, liabilities, and equity in this sector, underscores its substantial presence. This achievement of remarkable growth, even amidst the challenges inherent to the financial year 2022/23, serves to underscore the Company's adept management practices, dynamic business strategies, unwavering dedication to customer service and convenience, diverse spectrum of products, and innovative digital initiatives.

Over the review period, LOLC Finance PLC (LOFC) effectively executed a merger with LOLC Development Finance PLC (LODF), an affiliated entity. This strategic consolidation, executed despite the considerable difficulties arising from the unprecedented economic downturn, is a testament to LOFC's resolute commitment to maintaining its preeminent position. Furthermore, the Company has achieved a robust investment-grade credit rating of A (stable) from Lanka Rating Agency, attesting to its sound risk management protocols. Possessing an equity base of Rs. 101 billion and a capital adequacy ratio surpassing 21%, well exceeding the mandated 14% regulatory threshold, LOLC Finance stands on a solid financial foundation.

The Profit After Tax for the financial year ending on March 31, 2023, stands at Rs. 15.4 billion, reflecting the consistent growth of the institution.

From an operational standpoint, the Company's liability portfolio demonstrated a notable expansion, of Rs. 42 billion, reflecting a substantial growth of 26%. Concurrently, the Company's topline exhibited a remarkable escalation of 123% when compared to the previous fiscal year. However, these gains were counterbalanced by elevated borrowing costs, which experienced a threefold increase due to prevailing high interest rates. The Company's total assets, amounting to Rs. 360.8 billion as of March 31, 2023, serve to firmly establish its leadership within the Non-Bank Financial Institution (NBFI) sector. Furthermore, the Company upholds robust levels of essential risk management performance metrics, including capital, capital adequacy, and business performance, all of which serve to further fortify investor confidence.

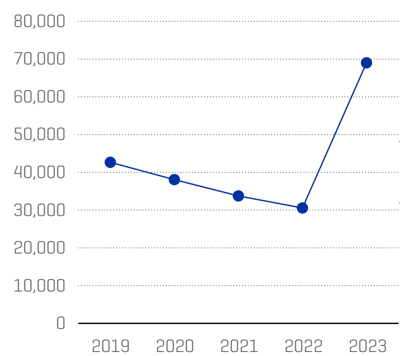
A comprehensive analysis of the financial performance is outlined within this financial review.

INTEREST INCOME

Throughout the duration of the financial reporting period, LOFC accomplished a significant increase in its interest income, experiencing a remarkable upsurge of 126% when contrasted with the preceding year. The Company's standing in relation to interest income over the past five years is delineated as follows:

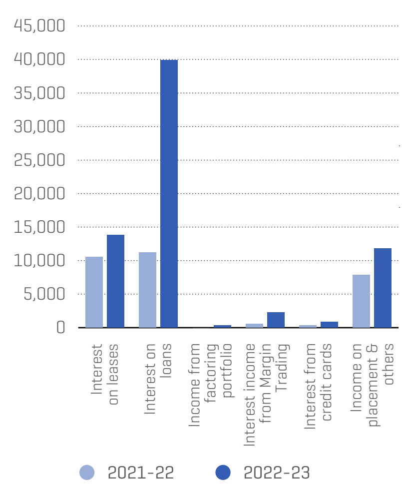
Movement of Interest Income in last Consecutive Five Years

Rs. Million



Interest Income Comparision 2021-22 & 2022-23

Rs. Million



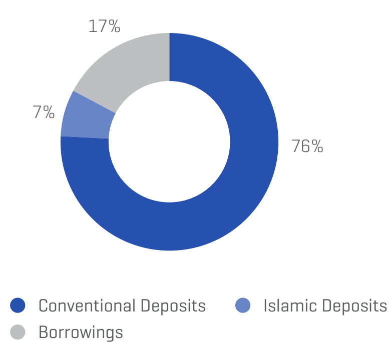
Interest income from leases constituted 20% (compared to 35% in 2021/22) of the total interest income, exhibiting an increase of 31% to reach Rs.13.8 billion. Meanwhile, interest income from loans emerged as the largest revenue generator for the Company, accounting for 58% of the total at Rs.39.9 billion. This marked a remarkable growth of 256% when compared to the preceding financial year.

Furthermore, interest income derived from government securities exhibited a notable increase of 97% compared to the previous year. Similarly, income from operating leases also experienced a substantial growth, showing a rise of 45%.

INTEREST EXPENSES

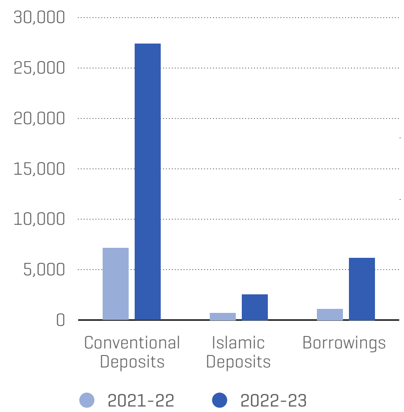
The total interest expense has experienced a significant increase of 302%, primarily attributed to the prevailing high interest rates in the market during the financial year under review. The majority of the portfolio is funded through customer deposits, with 76% of the interest expense being allocated to these deposits. Notably, the interest on conventional deposits has seen a substantial increase of 283%, while the profit share cost on alternative finance deposits has similarly risen by 257%. Moreover, the interest on borrowings has surged by 453% in comparison to the previous year.

Interest Expense Composition 2022-23



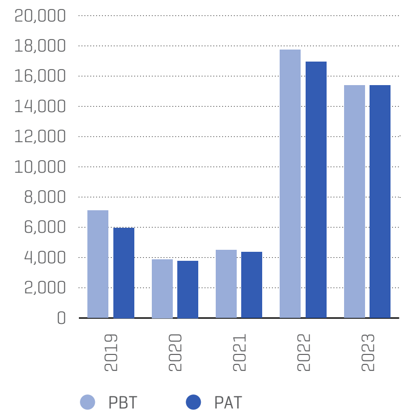
Interest Expense Comparision (2021-22 & 2022-23)

Rs. Million



Profitability

Rs. Million



NET INTEREST INCOME, OTHER OPERATING INCOME AND EXPENSES

During the reporting period, LOLC Finance PLC (LOFC) achieved an impressive 126% surge in interest income, showcasing its resilience in challenging economic conditions. High prevailing interest rates contributed to a substantial 302% increase in interest expenses, resulting in a significant Rs. 11.3 billion growth in net interest income, a remarkable 52% rise.

Net other operating income also improved by 11%, reaching Rs. 12.8 billion compared to the previous year's Rs. 11.5 billion. This improvement was largely driven by a positive exchange gain of Rs. 7.5 billion, contrasting with the previous financial year's net exchange loss of Rs. 1.9 billion. However, total overheads of the company escalated by 187% in comparison to the prior financial year. This increase was primarily attributed to the integration of expenses following the amalgamation with two sister companies, underscoring the Company's strategic expansion efforts.

PROFITABILITY

Facing the headwinds of sluggish economic growth and a decrease in asset quality, the Company has accomplished a significant milestone with a historic Profit After Tax (PAT) of Rs. 15.4 billion for the financial year. This achievement further solidifies LOFC's position as a leading value-generator in the country. Notably, the Return on Assets (ROA) and Return on Equity (ROE) reached impressive levels of 3.83% and 14.29% respectively.

ASSET BASE

LOFC demonstrated robust growth in its total assets, which expanded to Rs. 360.8 billion from the previous year's Rs. 311.6 billion. The key components of these assets include the net lending portfolio at Rs. 246.6 billion, representing 68% of the total, a significant increase from Rs. 206.8 billion in the prior year.

Investments in Government securities, deposits with financial institutions, and Investment Properties (IP) collectively amounted to Rs. 75.1 billion, contributing to the Company's diverse asset base. The Investment Properties, worth Rs. 41.2 billion, increased in value, strengthening the Company's Balance Sheet.

LENDING PORTFOLIO

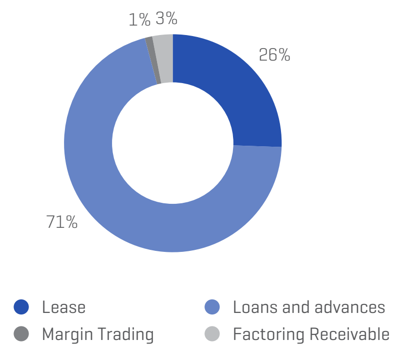
The gross lending portfolio saw a notable growth of 19.62%, reaching Rs. 258.46 billion compared to Rs. 216.07 billion in the previous year. The portfolio, primarily consisting of loans (71%), covers mortgage, sundry, gold loans, and credit cards. These loans effectively served both customers' working capital and consumption needs.

Particularly remarkable was the gold loan portfolio, surging by Rs. 15.1 billion, a substantial 96% rise compared to the previous financial year. Capitalising on the secure nature of gold loans as a 100% secure loan facility, the Company notably accelerated its gold loan portfolio.

The credit card portfolio also experienced a notable 55% increase compared to the previous financial year. Leases, encompassing vehicles and equipment, made up 26% of the total lending portfolio. Despite external challenges, strategic measures were adopted to maintain a satisfactory portfolio level.

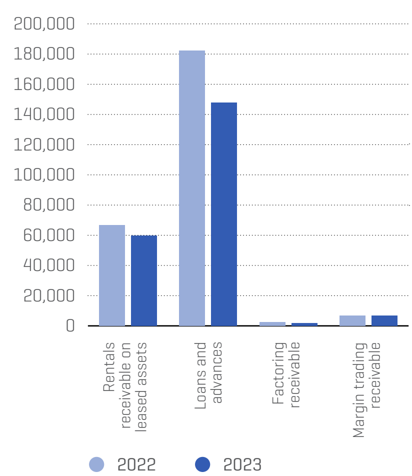
The Alternative Financial Services portfolio stood at Rs. 23.26 billion, constituting 9% of the overall lending portfolio.

Lending Portfolio



Comparison of Main Component in Lending Portfolio (2022-23 & 2021-22)

Rs. Million



FUNDING – DEPOSITS AND BORROWINGS

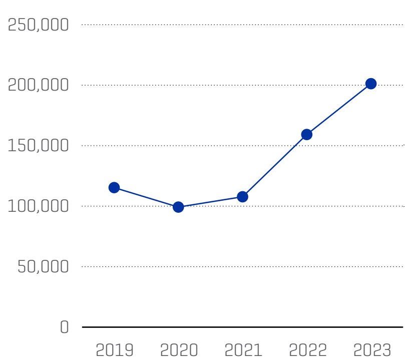
The deposit base displayed robust growth, expanding from Rs. 159 billion to Rs. 201 billion during the review year, underscoring the trust and confidence vested in the company. The Company continues to hold its position as the largest deposit-taking institution in the NBFI sector.

The primary funding source, conventional deposits, experienced a substantial 26% increase, growing from Rs. 127.4 billion in 2021/22 to Rs. 160.6 billion in 2022/23. Notably, deposits from the alternative business unit surged to Rs. 22.3 billion, marking an impressive 80% rise from the previous year.

However, foreign currency deposits saw a significant decline, dropping to Rs. 8.3 billion, reflecting a notable 48% decrease. To mitigate the risks associated with exchange rate fluctuations, the Company effectively employs forward exchange rate contracts and back-to-back deposits, successfully neutralising its exposure to such risks.

Movement of Interest Income in last Consecutive Five Years

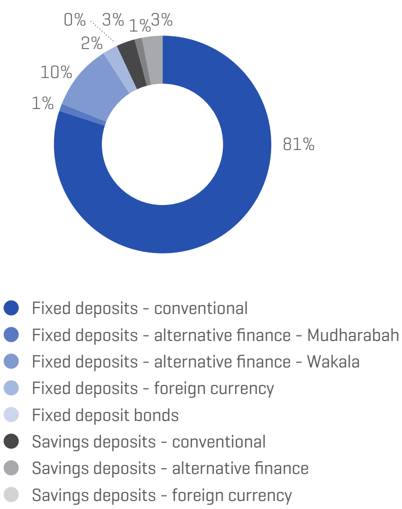
Rs. Million



Total borrowings, including bank overdrafts, have witnessed a 20% reduction when compared to the prior financial year. This decline is attributed to the Company's success in substituting high-cost borrowings with an expanded customer base, benefiting from rates that are comparatively lower than borrowing costs. The array of borrowings encompasses short-term loans, long-term loans, finance leases, and debentures.

Customer deposits have constituted a significant 83% (down from 76% in 2022) of the total borrowings and the remaining 17% (down from 24% in 2022) stems from banks and other borrowing sources.

Deposit Composition 2022-2023



REGULATORY RATIOS

Capital Adequacy Ratio (CAR)

Licensed Finance Companies are required to maintain a minimum core capital adequacy ratio (Tier 1) of 10% and a total capital adequacy ratio (Tier II) of 14%, in accordance with the Finance Business Act Direction No. 3 of 2018. The Company's capital adequacy was enhanced by retained profits. As of the reporting period, the Tier I/Core Capital Adequacy Ratio reached 21.20% (compared to 20.49% in 2021/22), and the total Capital Adequacy Ratio (Tier II) stood at 21.71% (compared to 20.71% in 2021/22), exceeding the regulatory threshold.

Capital Funds to Deposit Ratio

On 31st March 2023, the capital funds to deposits ratio reached 38.01%, significantly surpassing the required minimum of 10% set by the Central Bank of Sri Lanka.

Liquid Assets

The required minimum liquid assets remain at 10% of time deposits, 15% of savings deposits, and 10% of outstanding borrowings, excluding secured and unsecured foreign currency borrowings, as per the Finance Business Act Direction No. 07 of 2020. The Company's liquid assets amounted to Rs. 29.79 billion, well exceeding the minimum requirement of Rs. 22.64 billion. These liquid assets are prudently managed in government securities and deposits with banks and financial institutions, optimising returns.

Non-Performing Loans and Advances (NPL)

In contrast to the industry-wide Non-Performing Loan (NPL) ratio of 15.98% at the financial year's end, the Company's NPL ratio stood at a lower 14.58%, indicating an improved credit quality within its portfolio.

Strategy and Outlook

LOFC's sustainable strategy revolves around leveraging its unique business model and advanced technology platforms to drive business growth and profitability. As the largest NBFI in the country, LOFC is strategically positioned to fuel economic growth by financing grassroots businesses for expansion while supporting Small and Medium Enterprises (SME) and Micro communities to seize growth and diversification opportunities.

Amidst the challenges posed by depleting external dollar reserves and increasing political instability, the Company is proactively securing its balance sheet and reinforcing credit policies and collections, alongside expanding its deposit base. The Company's forward-focused strategy, alongside initiatives to enhance credit quality, ensures moderate growth in the near future, with robust expansion anticipated in the medium and long term.

OUR RESILIENT PATHWAY FORWARD.

STEWARDSHIP

Corporate Governance Framework of LOLC Finance PLC

Your Board of Directors is responsible and accountable for establishing the governance framework and corporate culture, and ensuring compliance with regulatory requirements.

The infrastructure used by the Board to translate the elements of the corporate governance culture and values as an operating model are its sub committees, management level committees with chartered responsibilities, delegated authority, connected policies, practices, procedures, and clear reporting lines within the organisation.

INSTRUMENTS OF GOVERNANCE

The external instruments of governance at LOLC Finance include the Companies Act, No. 7 of 2007, the Finance Business Act, No. 42 of 2011, the Finance Leasing Act, No. 56 of 2000, the Foreign Exchange Act, No. 12 of 2017, the Payment and Settlement Systems Act, No. 28 of 2005, the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 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 risk management, internal controls, and anti-money laundering, ethical conduct, fair treatment for all stakeholders. 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 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.

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

The Board of Directors is responsible for ensuring that the Company enriches shareholder value and meets all its stakeholder obligations, while ensuring that business is conducted with a consciousness of the need to meet high standards of integrity, ethics and social and environmental responsibility. The role of the Board provide leadership and guidance while facilitating performance by delegating appropriate levels of authority under clearly defined roles, responsibilities and lines of accountability. The matters assigned for the Board include, but not limited to, the following:

» Formulating the Company's strategy and direction for the long, medium and short term (retaining sufficient flexibility to consider the dynamism of the environment);

» Establishing values and standards and ensuring that these are communicated. The Board ensures that deviations are detected and dealt with justly and transparently.

» Identifying and designating key responsible persons who are in a position to significantly influence policy/ direct activities/exercise control over business activities/operations and risk management and defining their areas of authority and ensuring succession.

» Ensuring that systems and procedures are in place to monitor and report compliance with regulatory and statutory requirements and practice of good corporate governance principles. The Board calls for monthly compliance reports.

» Ensuring that all necessary financial and human resources required to achieve the objectives set out in the strategies are obtained.

» Approving the annual budget, tax plan and other corporate plans and detailing the ratios that are expected.

» Monitoring performance against budgets, regularly reviewing operational performance and updated forecasts for the current year.

» Having appropriate accounting policies and practices implemented and approving (delegating to the audit committee it recommendation) annual and interim financial statements for release to the public.

» Approving the operating policies and procedures for the control of Treasury activities and receiving regular reports on these activities.

» Reviewing periodically the effectiveness of the Company's system of internal control and identified risks and their management.

» Approving equity investments, acquisitions, divestments and other major capital expenditure contracts or financing arrangements.

» Reviewing periodically the Company's insurance.

» Reviewing at least annually the environmental, health and safety performance of the Company's operations.

» Ensuring that communication between the shareholders and the Company is facilitated, and approving all shareholder documentation.

» Approving any issues relating to the capital structure of the Company.

» Ensuring enhancement of shareholder value.

- Subject to CBSL clearance, approving appointments of Directors and Key Responsible Persons.
- Setting up Sub Committees of the Board, and approving their terms of reference, membership and powers
- Approving the appointment of the CEO.
- Approving the organisational structure and reviewing management plans and succession planning for key positions.
- Approving all material contracts and agreements and especially those not in the ordinary course of business, prior to the commitment of the Company;
- Approving all facilities beyond delegated amounts (periodically reviewed and revised by the Board);
- In appropriate circumstances, the Board, or any Director may seek independent professional advice, at the finance company's expense, and with the approval of the Board.
- Periodically assess the effectiveness of the Board Members' governance practices including: the selection, nomination and election of directors; the management of conflict of interests; and the determination of weaknesses and implementation of changes where necessary.
- Managing Conflicts of Interest of the Board Members - On identifying conflicts of interest, they are resolved with the concurrence of the entire Board and appropriate action taken to a avoid such conflicts. A director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her relative or a concern with a material interest. Such director/s will not be counted in the quorum for the relevant agenda item of the board meeting.
- The Board shall forthwith inform the Director – Department of Supervision of Non-Bank Financial Institutions the situation of the Company prior to taking any decision or action if it is likely that it will be unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.

DELEGATION OF AUTHORITY

It is the policy of the Company that employees who are heading core functions be classified as Key Responsible Personnel (KRP) in compliance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction No. 06 of 2021 of the CBSL.

However, the Board has not delegated matters to a Board Sub-Committee, CEO, or KRP, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions. Authority is delegated by the Board to the Key Responsible Personnel as follows, which is subject to review on a periodic basis to ensure that they remain relevant to the needs of the Company:

- Interviewing of Management level personnel has been delegated to the Executive Director/CEO (appointments are subject to CBSL approval if they are KRPs). The job description of such officers, and the terms of remuneration are also reviewed by this Director. The Board ensures appropriate selections by adopting this process.
- The Board approves seconding of employees for various operations of the Company from time to time.
- Delegated Authority Limits for facilities are reviewed, revised and approved by the Board periodically.
- Signing powers for various agreements including facility agreements are also reviewed, revised and approved by the Board.
- The Board approves authorised signatories for the banks.
- The Board delegates to the Executive Director / CEO the overseeing of the work of the KRPs and the functioning of routine operational affairs. To facilitate such oversight, the CEO meets with all the KRPs at Management level meetings and project committee meetings. Management meetings are also held frequently to discuss processes and controls. Recommendations arising from such meetings are escalated to the Board through Board subcommittee meetings.
- The Board delegates that all contracts entered into, may be entered into on behalf of the Company in writing and signed under the name of the Company by:
- two Directors of the Company, as authorised by a resolution of the Board and placing the Company Seal
- any one Director and Secretary of the Company as authorised by a resolution of the Board and placing the Company Seal
- Any other person as authorised by a resolution of the Board.
- one or more Attorneys appointed by the Board authorising them to enter into such obligation

COMPOSITION OF THE BOARD AND INDEPENDENCE

The Board's composition ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the Company.

- The number of directors on the Board as at 31st March 2023 comprised eight (08) members and of whom two (02) were Executive Directors.
- The total period of service of the directors (other than a director who held the position of executive director) has not exceeded nine years.
- Non - Executive Directors on the Board possess credible track records, and have necessary skills, competency and experience to bring independent judgment on the issues of strategy, performance, resources and standards of business conduct.
- The Corporate Governance Direction No. 5 of 2021 requires the number of Independent Directors of the Board to be at least three (03) or one-third (1/3) of the total number of directors, whichever is higher. Of the six (06) Non Executive Directors on the Board, four (04) are Independent Directors.
- Based on criteria specified by regulators, the Nomination Committee and Board have determined that four (04) members on the Board are in fact independent.

» Independent directors are aware of their obligations and shall immediately disclose to the Board any change in circumstances that may affect the status as an independent director. In such a case, the Board shall review such director's designation as an independent director and notify the Director, Department of Supervision of Non-Bank Financial Institutions in writing of its decision to affirm or change the designation.

» The Board does not comprise any Alternate Directors as of date. Representation through an Alternate Director will be effected as and when necessary, with prior approval of the Department of Supervision of Non-Bank Financial Institutions.

NOMINATION, ELECTION AND APPOINTMENT OF DIRECTORS AND SENIOR MANAGEMENT

The Nomination Committee proposes the nomination of a new director. If such nomination is approved and a Board decision is made to appoint the nominated individual as a Director, the Company Secretary submits the required documentation under Finance Business Act (Assessment of Fitness & Propriety of Key Responsible Persons) Direction to the Department of Supervision of Non-Bank Financial Institutions. Upon receiving the said approval, the nominee shall be appointed to the Board.

» The Chairman will send a formal letter of invitation to the new director.

» The Company Secretary will communicate with the incoming director:

a) To obtain the information required by statutory and regulatory authorities including his/her signature on the document indicating his/her consent to be appointed director

b) To provide the new director with copies of documents/ information which will facilitate the performance of his/her duties as a director. This will include (but not be limited to):

» The Articles of Association

» Relevant Acts governing the operations of the company

c) Directions/ Rules of regulatory bodies governing the operations of the Company.

In the case of Directors retiring on the completion of 9 years, 90 days prior to such retirement the Board on the recommendation of the Nomination Committee shall finalise the nomination of the candidate/ successor proposed to fill such vacancy and submit such nomination for CBSL approval.

Accordingly, executive, non executive and independent directors' appointments are subject to all relevant regulatory approvals, the provisions of the Companies Act and the Articles of Association including those relating to election/ re – election by the shareholders at Annual General Meetings and the removal of Directors.

BALANCE OF POWER

In accordance with best practices, the offices of Chairman and Chief Executive Officer are separate. This ensures a balance of power and enhances accountability. As the Chairman is a Non-Executive Director, to bring in a greater element of independence the Board has appointed Mr P A Wijeratne as the Senior Independent Director .

Role and responsibilities of the Chairperson and the CEO

The separation of the role of the Chairman of the Board from that of the CEO has been established to avoid concentration of power in one individual, and to ensure a degree of checks and balances.

The overall role of the Chairman is to lead and ensure the effectiveness of the Board. This includes:

» Promoting a culture of openness and debate at the Board.

» Maintaining / ensuring a balance of power between executive and non executive directors.

» Facilitating the effective contribution of all directors.

» Promoting high standards of corporate governance.

» Ensure the Board works effectively and discharges its responsibilities.

» Ensure the Board discusses all key issues in a timely manner.

» Implement decisions/directions of the regulator.

» Prepare the agenda for each Board Meeting and may delegate the function of preparing the agenda and to maintaining minutes in an orderly manner to the company secretary.

» Not engage in activities involving direct supervision of senior management or any other day-to-day operations.

» Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.

» Annual assessment on the Performance and the contribution during the past 12 months of the Board and the CEO.

Non - Executive Directors including senior director assess the Chairman's performance annually.

The overall role of the CEO is to function as the apex executive-in-charge of the day-to-day management of the Company.

The CEO will report directly to, and is ultimately accountable to the Board of Directors.

His responsibilities includes:

» Implementing business and risk strategies to achieve the Company's strategic objectives.

» Establishing a management structure that promotes accountability and transparency throughout the Company's operations and preserves the effectiveness and independence of control functions.

» Together with the Board, promote a sound corporate culture within the organisation to reinforce ethical, prudent and professional behaviour.

» Ensuring implementation of a proper compliance culture and being accountable for accurate submission of information to the regulator.

- Strengthening the regulatory and supervisory compliance framework
- Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner.
- Devote professional time to the service of the organisation (not carry on any other business, except as a non-executive director of another company).

The Chairman assess the CEO's performance annually.

ROLE OF THE COMPANY SECRETARY

The primary function of the Company Secretary is to handle the secretarial services to the Board and other functions specified under statutes and regulations. The Company Secretary maintains confidentiality of the affairs of the Company at all times. All Directors have access to the advice and services of the Company Secretaries with a view to ensuring compliance with all applicable laws, directions, rules and regulations.

The Chairman has delegated to the Company Secretary the function of preparing the agenda for board meetings subject to periodic review and amendment. The Board or Board sub committees, agree on items in future agendas on a regular or periodic basis. Any director may request the Company Secretary to include matters/proposals in the agenda where such matters/proposals relate to the promotion of business and the management of risks of the Company.

The Company Secretary maintains minutes of all Board and Board subcommittee meetings with sufficient details of submissions/ decisions. Any Director may at any reasonable time, on reasonable notice inspect the Minutes of the Board and/or shareholder meetings.

BOARD SUB COMMITTEES AND THEIR ROLES

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

i. Audit Committee

ii. Integrated Risk Management Committee

iii. Related Party Transaction Review Committee

iv. HR & Remuneration Committee

v. Nomination Committee

vi. Board Credit 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 meet quarterly or as and when necessary (transitional provisions applicable until July 2024).

MONITORING AND EVALUATION BY THE BOARD

On behalf of the Board its Sub-Committees fulfil regulatory requirements on monitoring and evaluation. These committees meet periodically to deliberate on matters falling within their respective charters/terms of reference and their recommendations are duly communicated to the main Board.

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

CODE OF ETHICS

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 Ethics.

The Board sets the tone from the top to instil the right behaviours among directors, officers and staff based on the said Code of Conduct and offer guidance to ensure duties are carried out in accordance with the highest standards of integrity and manage the impact of the Company's actions with equitable treatment. Regular trainings are conducted to raise awareness among employees regarding the corporate culture, values and conduct and impress upon them, the importance of adhering to these covenants.

ACCESS TO INFORMATION AND OBTAINING INDEPENDENT ADVICE

The Board has adopted a procedure for seeking independent professional advice. Directors are able to seek independent professional advice, at the Company's expense, if he/she is reasonably of the view that the Company needs independent professional advice either: to express the views or to agree with/disagree with the views of any other Director; or To cast the vote or would be in a better and comfortable position to make contribution when such independent professional advice is made available on any matter relating to the Company and/or any one or more of its stakeholders.

CAPACITY BUILDING OF BOARD MEMBERS

The Board members are provided with orientation of their roles and responsibilities as a Board member and how to gain further information and advice. The orientation and awareness sessions are provided by the Head of HR & Company Secretary for all elected Board members.

All Board members are provided with information about LOLC Finance PLC on:

- Board members position description
- Governance Policy
- Risk Management Policy
- Communication Policy
- Human Resources Policy and Grievance Management Procedures
- Work Health and Safety Policy
- Strategic Plan
- Annual Reports
- Board Meeting Minutes

Furthermore, 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 participation in regulatory industry forums, 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.

EVALUATING THE EFFECTIVENESS OF THE BOARD OF DIRECTORS

As required by the Finance Companies Corporate Governance Direction of 2021, the Company enhanced the scope of its annual Board performance assessment framework. Apart from the self evaluation undertaken by each director, evaluation of performance of board members including the CEO by the Chairman, Chairman's performance by non-executive directors and board sub committee evaluation by respective committee members have been established commencing March 2022. These evaluations are subsequently tabled at a Board meeting for review and to address areas that require improvement. Related records are maintained by the Company Secretaries.

ENGAGEMENT WITH SHAREHOLDERS

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

ENGAGEMENT WITH EMPLOYEES

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

In terms of engaging with the employees, the key channels used by the Board include the 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.

POLICY ON CONFLICTS OF INTEREST

The Governance framework 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.

Conflicts of Interest at core operational level, which are not within the purview of the Board, are actioned by the Human Resources Department in accordance with Code of Ethics signed and accepted by Staff Members.

RELATED PARTY TRANSACTIONS

Related party transactions include transactions between the Institution and any director, executives, stakeholders or companies owned or controlled by a director. Related party Transactions are also sources of conflicts of interests.

Upon appointment, each director makes a full, written disclosure of interest, which is handed over to the Secretary of the Board who will be responsible for maintaining a register. Each director is responsible to ensure that any interest is reported to the Secretary of the Board, for the latter to record same in the conflicts of interest register. Full and timely disclosure of any conflict or perceived conflict, must be made to the Board.

Directors becoming aware of the fact that he is in a situation of conflict in any item of the agenda, disclose it to the Board / sub-Committees of Board and cause same to be recorded in the interests register. If any question arises before the Board / sub-Committees of Board as to the existence of a real or perceived conflict, the Board / Sub Committees should by majority, determine if a Conflict or Related Party Transactions exists. Director(s) potentially in the conflict of interest situation or related party transaction does not participate in any discussion/ decision of the issue.

Disclosure by a Director of a real, potential or perceived conflict of interest or related party transaction is recorded in the minutes of proceedings of the said meeting.

INTERNAL CONTROL

The external auditor's certification on the effectiveness of the Internal Control Mechanisms in respect of the audited financial statements released has been published in this Annual Report.

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 except for the minimum float rules specified by the Colombo Stock Exchange.

GROUP GOVERNANCE FRAMEWORK (LOLC FINANCE PLC AS A HOLDING COMPANY)

The Company is responsible for exercising adequate oversight over its subsidiaries and associates if any, while complying with independent legal, regulatory and governance responsibilities that apply to them. Based on its governance framework, the Company has defined its role and responsibilities for oversight and implementation of group wide policies as explained below.

In terms of applicable standards, the investments made by the Company in Commercial Insurance Brokers (CIB) and El-Oula Microfinance Egypt S.A.E. (EO) being below fifty percent are considered associate investments. Hence the Company has a limited amount of influence to participate in strategic decision making and or direct their policies. Nevertheless, since both CIB and EO are both regulated entities (by the Insurance Regulatory Commission of Sri Lanka and the Financial Regulatory Authority of Egypt) each of these entities abide by its applicable governance rules and regulations.

The ownership structure of CIB and EO are direct and simple and therefore oversight is straightforward. Furthermore, being associates, CIB and EO function fairly independently.

The Company's involvement is only at Board level and the representation at Board level enables LOFC to properly understand the respective operating environments, material risks and developments of each entity, including legal/regulatory requirements and level of compliance. The Company has established a process to regularly monitor/ report performance of these entities at the holding company level. Furthermore, directors representing LOFC ensure compliance requirements are satisfied.

The Company will also ensure that the group structure shall be simplified and does not undermine its ability to exercise effective oversight. The authority for the creation of legal entities under the management of LOFC and identifying and managing material group wide risks through effective policies and controls will be at the discretion of the Board of Directors of LOFC subject to satisfying applicable laws and regulations.

The Board and the Senior Management (Key Responsible Persons) of the Company shall at all times uphold the objectives, strategies, policies and governance framework set by LOFC, the holding company, while adequately addressing company specific risks, which are fully consistent with the regulatory obligations of LOFC.

The Company as the holding company will avoid setting up complicated structures that lack economic substance or business that could considerably increase the complexity of operations.

In the event LOFC becomes a subsidiary of another financial institution (whereas presently it is not) subject to prudential regulation, LOFC will ensure discharge of its own legal and governance responsibilities.

LOLC FINANCE PLC

Holdings of associate companies as at 31/03/2023

Associate Company	LOLC Egypt - El OULA Microfinance - Egypt	Commercial Insurance Brokers (Private) Limited
Percentage of holding	25%	40%

The extent of compliance as required by the Finance Companies (Corporate Governance) Direction No. 05 of 2021 and the Listing Rules of the Colombo Stock Exchange and subsequent amendments thereto:

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
1	**Board's overall responsibilities**	
1.2	**Business strategy and Governance Framework**	
a.	Approving and overseeing the implementation of strategic objectives, including, the overall business strategy with measurable goals for at least next three years and update annually in light of the current developments.	The Board assumes overall responsibility and accountability for the operations of the Company by setting up the strategic direction, Governance Framework, establishing corporate culture and ensuring compliance with all regulatory requirements to drive the organisation into a sustainable future. The Board has approved a three-year Strategic Business Plan on 28th July 2021 up to 2025. This is in the process of being reviewed taking into account the prevalent economic and social emergencies in the country.
b.	Approving and implementing FCs governance framework in the light of the FCs size, complexity, business strategy and regulatory requirements.	The Board has approved its Governance Framework on 24th April 2023 in line with its business model and regulatory framework. Please refer page 28 for details. This will be subject to periodic review to maintain its relevance to the organisation.
c.	Assessing the effectiveness of its governance framework periodically	The effectiveness and adequacy of the Governance Framework will be reviewed annually . Its effectiveness would also be reflected by the level of compliance of the Company in activities it engages in under applicable laws, rules and regulations;
d.	Appointing the chairman and the chief executive officer and define the roles and responsibilities.	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 on 31st March 2023.
1.3	**Corporate Culture and Values**	
a)	Ensuring that there is a sound corporate culture within the FC which reinforces ethical, prudent and professional behaviour	The Company has a sound corporate culture which encourage ethical, prudent and professional behaviour of employees of the Company. The corporate values are communicated throughout the Company. A Code of Ethics has been established and communicated to all directors, officers and staff of the Company to reinforce ethical, prudent and professional conduct.
b)	Playing a lead role in establishing the FC's corporate culture and values, including developing a code of conduct and managing conflicts of interest.	The Board believes that the establishment of a strong corporate culture, built on core values, is facilitated through the implementation of a comprehensive Code of Conduct. A board approved Conflict of Interest Policy has also been established by the Company .
c)	Promoting sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.	The Board ensures that ESG factors are integrated into the Company's overall strategy, decision-making processes, and risk management. A Sustainability Policy has been approved by the Board on 24/03/2023 to establish ESG considerations in to the Company's business plan.
d)	Approving the policy of communication with all stakeholders, including depositors, shareholders, borrowers and other creditors, in the view of projecting a balanced view of the FC's performance, position and prospects in public and regulators.	The Company has established a Stakeholder Communication Policy approved by the Board on 30/03/2021 and a Stakeholder Engagement Policy approved by the Board on 24/03/2023.
1.4	**Risk Appetite, Risk Management and Internal Controls**	
a)	Establishing and reviewing the Risk Appetite Statement (RAS) in line with FC's business strategy and governance framework.	The revised Risk Management Policy was approved by the Board on 24/04/2023 which includes the Company's Risk Appetite Statement in line with the Company's business model and governance framework.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
b)	Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.	The Board has delegated this function to its sub-committee, the Integrated Risk Management Committee (IRMC). The Board has approved an annual plan submitted by the Head of Risk Management through the IRMC which covers risk management. In line with the Risk Policy, reports are submitted to the IRMC which then reviews the risk and agrees on appropriate mitigation methods. Key Risk Indicators approved by the Board & new risks identified by business/ service units are monitored and reported monthly by the Head of Risk Management to enable the Company to action mitigative measures for imminent risk identified under specified areas. Reports on Liquidity and Maturity of Deposits are submitted to the Board by the Treasurer on a monthly basis Furthermore, minutes of the quarterly IRMC meetings are tabled at Board Meetings for review and guidance.
c)	Adopting and reviewing the adequacy and the effectiveness of the FC's internal control systems and management information systems periodically.	The key processes that have been established by the Board to review the adequacy and effectiveness of the Company's Internal Controls and Management Information Systems, include the following: The Board Audit Committee and the Board Integrated Risk Management Committee ensures that the Company's controls and risks are being appropriately managed and actions proposed for mitigation of risks. These two committees facilitate an ongoing process for identifying, evaluating and managing significant risks faced by the Company, including enhancing the system to cater to changes in the business and regulatory environment. The CEO through the Heads of Departments ensure that approved business strategies are implemented and that agreed policies and procedures on risk/ internal control are implemented and adhered to. The Heads of Departments are therefore accountable and responsible for their respective areas of operation, including the accuracy of information presented to the Management/ Board, and managing risk in their day- to-day activities through established processes and controls. In addition the Internal Audit ensures that staff adheres to such processes and controls. Where there is a breach of authority, such issues are escalated by the Head of Risk Management or the Head of Internal Audit with including recommendations for rectification to the Board through the Board Audit Committee/IRMC . The Internal Audit performs a comprehensive exercise that entails reviewing of all aspects of Management Information Systems including operational and regulatory risks. Application and product wise MIS reviews have been periodically carried out by the Internal Audit. The Internal Audit also provides an independent assurance that the Company's risk management, governance and internal control processes are operating effectively and fit for purpose. The Board is of the view that the system of internal controls and management information systems in place are sound and adequate to provide reasonable assurance regarding the reliability of management information and financial reporting.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
d)	Approving and overseeing business continuity and disaster recovery plan for the FC to ensure stability, financial strength, and preserve critical operations and services under unforeseen circumstances.	The Board has approved a Business Continuity Policy in May 2023. In terms of IT operations a disaster recovery plan is periodically tested by the IT Dept.
1.5	**Board Commitment and Competency**	
a)	All members of the Board shall devote sufficient time on dealing with the matters relating to affairs of the company	The Board Members devote their time/expertise to take part in meetings / contribute to the deliberations of the board and committees. Member participation at meetings can be found on pages 70 to 72.
b)	All members of the Board shall possess necessary qualifications, adequate skills, knowledge, and experience.	The expertise and experience of Board Members are included in their profiles found on pages 8 to 9.
c)	The Board shall regularly review and agree the training and development needs of all the members.	No specific areas have been identified by any board member during the last 2 years. Forums which are held for directors are communicated and nominations called. A formal policy and procedure will be established to enable directors to seek training and development desired at the cost of the Company.
d)	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually on individual performance, of its Boards as a whole and that of its committees and maintain records of such assessments.	For the FYE 31.03.2023, the Company carried out the following assessments: self evaluations by each board member, committee evaluations by each subcommittee member, evaluation of all other directors by the chairman, and chairman's evaluation by the non executive directors.
e)	The Board shall resolve to obtain external independent professional advice to the Board to discharge duties to the FC.	The Board has approved a policy that permits members to obtain independent professional advice when necessary.
1.6	**Oversight of Senior Management**	
a)	Identifying and designating senior management, who are in a position to significantly influence policy, direct activities and exercise control over business operations and risk management.	Senior management identified as key responsible personnel (KRPs) of the Company have been approved by the Board .
b)	Defining the areas of authority and key responsibilities for the senior management.	Areas of authority and responsibilities defined in the job descriptions of the KRPs have been approved by the Board.
c)	Ensuring the senior management possess the necessary qualifications, skills, experience and knowledge to achieve the FC's strategic objectives.	KRPs are appointed based on established HR policies and the skills, qualifications, & experience required to fulfil the job role.
d)	Ensuring there is an appropriate oversight of the affairs of the FC by senior management.	The Company has a policy on oversight of the affairs of the Company by KRPs. Delegated authority given to KRPs is reviewed periodically by the Board to ensure that they remain relevant to the needs of the company. Performance of the KRPs are evaluated bi annually .
e)	Ensuring the FC has an appropriate succession plan for senior management.	The succession plan will be reviewed to reflect changes to staff /KRP structures consequent to the mergers between the company and two other finance companies in the Group.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
f)	Meeting regularly with the senior management to review policies, establish lines of communication and monitor progress towards strategic objectives.	Board members meet the KRPs regularly during most subcommittee meetings (Audit & IRMC in particular) which enable communication and monitoring of different functions/responsibilities held by the KRPs.
1.7	**Adherence to the Existing Legal Framework**	
a)	Ensuring that the FC does not act in a manner that is detrimental or prejudicial to the interests of, and obligations to, depositors, shareholders and other stakeholders.	The Board has approved and adopted a Compliance Plan comprising the laws of the land and in particular those which are applicable to licensed finance companies. This is subject to annual review and approval by the Board.
b)	Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.	Compliance with applicable laws, directions and regulations are monitored by the Compliance Team with monthly confirmations obtained from each business/service unit on adherence to applicable and related policies and procedures laid down in line with such laws, directions and regulations. The said level of adherence is independently monitored via internal controls by Internal Audit.
c)	Acting with due care and prudence, and with integrity and be aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently	Employees are made aware of work ethics during orientation in terms of the Code of Ethics governed by the Company. Periodic training sessions carried out by Compliance/HR of changes in regulations ensures that staff are regularly briefed of the level of conduct expected when performing their duties. Breaches if detected will be dealt with based on the circumstances/level of damage or consequences in line with established HR policies and procedures.
2	**Governance Framework**	
2.1	Board shall develop and implement a governance framework in with these directions and including but not limited to the following; a. role and responsibilities of the Board b. matters reserved for the Board; c. delegation of authority; d. composition of the Board e. the Board's independence; f. the nomination, election and appointment of directors and appointment of senior management. g. the management of conflicts of interests h. access to information and independent advice i. capacity building of Board members; j. the Board's performance evaluation; k. role and responsibilities of the chairman and the chief executive officer l. role of company secretary; m. Board sub committees and their role n. limits on related party transactions	As approved by the Board corporate governance practices adopted by the Company since its inception and fine-tuned over the years, including the criteria listed in this direction have been brought under a comprehensive Governance Framework. This will be subject to periodic review and revision to maintain its relevance.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
3	**Composition of the Board**	
3.1	The Board's composition shall ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the FC.	The Directors are eminent persons with necessary qualifications, adequate skills and knowledge, expertise and experience to bring an independent judgment and their profiles are on pages 8 to 9.
3.2	The number of directors on the Board shall not be less than 7 and not more than 13	The Board comprise eight (08) members. Please refer the Report of the Board of Directors for details.
3.3	The total period of service of a director other than a director who holds the position of chief executive officer/executive director shall not exceed nine years , subject to direction 3.4.	None of the non executive directors on Board have exceeded 9 years.
3.4	Non-executive directors, who directly or indirectly holds more than 10% of the voting rights or who appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence are eligible to hold office exceeding 9 years of service with prior approval of Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in direction 4.2 and 4.3. provided, however number of non- executive directors eligible to exceed 9 years are limited to one-fourth (¼) of the total number of directors of the Board.	Not applicable
3.5	**Executive Directors**	
a)	Only an employee of a FC shall be nominated, elected and appointed, as an executive director of the FC, provided that the number of executive directors shall not exceed one-third (1/3) of the total number of directors of the Board.	There are two Executive Directors on the Board: Mr D M D K Thilakaratne being the CEO and Mrs K U Amarasinghe.
b)	A shareholder who directly or indirectly holds more than 10% of the voting rights of the FC, shall not be appointed as an executive director or as senior management. Provided however, existing executive directors with a contract of employment and functional reporting line and existing senior management are allowed to continue as an executive director/senior management until the retirement age of the FC and may reappoint as a non-executive director subject to provisions contained in direction 4.2 and 4.3. Existing executive directors without a contract of employment and functional reporting line need to step down from the position of executive director from the effective date of this direction and may reappoint as a non-executive director subject to provisions contained in direction 4.2 and 4.3.	Having received CBSL approval on 15th June 2023 Mrs Amarasinghe resigned from the Board .

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
c)	In the event of presence of the executive directors, CEO shall be one of the executive directors and may be designated as the managing director of the FC.	D M D K Thilakaratne has been appointed as Executive Director/CEO
d)	All Executive directors shall have a functional reporting line in the organisation structure of the FC.	The Director/CEO has a functional reporting line in the Board approved Organisation Structure .
e)	The executive directors are required to report to the Board through CEO.	The job description of Mrs K U Amarasinghe indicates her reporting line to the CEO.
f)	Executive directors shall refrain from holding executive directorships or senior management positions in any other entity.	Mrs. K U Amarasinghe resigned from the board with effect from 29th May 2023 (CBSL approval granted by the letter dated 15th of June) considering the fact that she held an executive position in the holding company.
3.6	**Non-executive Directors**	
a)	Non-executive directors (NED) shall possess credible track records, have necessary skills and experience to bring independent judgment to bear on issues of strategy, performance, resources and standards of business conduct	Profiles of the directors are found on pages 8 to 9 With the recommendation of the Nomination Committee and the Board, fitness and propriety of all directors are subject to CBSL review annually.
b)	A non-executive director cannot be appointed or function as the CEO/executive director of the FC.	Not applicable
3.7	**Independent Directors**	
a)	The number of independent directors of the Board shall be at least three or one third of the total numbers of directors, whichever is higher.	Of the 8 directors who are Board Members, 4 meet the criteria of independent directors.
b)	Independent directors appointed shall be of highest calibre, with professional qualifications, proven track record and sufficient experience.	The said 4 directors have been assessed and approved by CBSL to be fit and proper independent directors
c)	A non-executive director shall not be considered independent if such: I. Director has a direct or indirect shareholding exceeding 5% of the voting rights of the FC or exceeding 10% of the voting rights of any other FC. II. Director or a relative has or had during the period of one year immediately preceding the appointment as director, material business transaction with the FC, as described in direction 12.1(c) hereof, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the FC as shown in its last audited statement of financial position.	Directors designated as Independent Non Executive Directors do not fall into the categories mentioned in (i) to (viii): P A Wijeratne K Sundararaj S Lankathilake A J L Peiris

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
	III. Director has been employed by the FC or its affiliates or is or has been a director of any of its affiliates during the one year, immediately preceding the appointment as director. IV. Director has been an advisor or consultant or principal consultant/advisor in the case of a firm providing consultancy to the FC or its affiliates during the one year preceding the appointment as director. V. Director has a relative, who is a director or senior management of the FC or has been a director or senior management of the FC during the one year, immediately preceding the appointment as director or holds shares exceeding 10% of the voting rights of the FC or exceeding 20% of the voting rights of another FC. VI. Director represents a shareholder, debtor, or such other similar stakeholder of the FC; VII. Director is an employee or a director or has direct or indirect shareholding of 10% or more of the stated capital in a company or business organisation, in which any of the other directors of the FC is employed or a director; VIII. Director is an employee or a director or has direct or indirect shareholding of 10% or more of the voting rights in a company, which has a transaction with the FC as defined in direction 12.1(c), or in which any of the other directors of the FC has a transaction as defined in direction 12.1(c), aggregate value outstanding of which at any particular time exceeds 10% of the stated capital as shown in its last audited statement of financial position of the FC.	
3.8	**Alternate Directors**	Not Applicable
a)	Representation through an alternate director is allowed only if, i) With prior approval of the Director, Department of Supervision of Non-Bank Financial Institutions under Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) or as amended; and ii) If the current director is unable to perform the duties as a director due to prolonged illness or unable to attend more than three consecutive meetings due to being abroad.	Not applicable

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
b)	The existing directors of the FC cannot be appointed as an alternate director to another existing director of the FC.	Not applicable
c)	A person appointed as an alternate director to one of the directors cannot extend his role by acting as an alternate director to another director in the same Board	Not applicable
d)	An alternate director cannot be appointed to represent an executive director	Not applicable
e)	In the event an alternate director is appointed to represent an independent director, the person so appointed shall also meet the criteria that apply to the independent director	Not applicable
3.9	**Cooling off Periods**	
a)	There shall be a cooling off period of six months prior to an appointment of any person as a director, CEO of the FC, who was previously employed as a CEO or director, of another FC. Any variation thereto in exceptional circumstances where expertise of such persons requires to reconstitute a Board of a FC which needs restructuring, shall be made with prior approval of the Monetary Board.	Consequent to the merger between CLC and the Company, the appointment of the CEO of CLC as the CEO of LOFC was approved by the Monetary Board of the CBSL without the requirement of a cooling off period.
b)	A director, who fulfills the criteria to become an independent director, shall only be considered for such appointment after a cooling off period of one year if such director has been previously considered as non-independent under the provisions of this Direction.	Consequent to the merger between LODF and the Company, the appointment of Mr S Lankathilake and Mr A J L Peiris independent directors of LODF, as independent directors of LOFC were approved by the Monetary Board of the CBSL without the requirement of a cooling off period.
3.10	Director or a KMP of a FC including CEO shall not be appointed, elected or nominated as a director of another FC except where such FC is a parent company, subsidiary company or an associate company of the first mentioned FC subject to conditions stipulated in Direction 3.5(f).	Not applicable
3.11	The Board shall determine the appropriate limits for directorships that can be held by directors. However, a director of a FC shall not hold office as a director or any other equivalent position (shall include alternate directors) in more than 20 companies/societies/bodies, including subsidiaries and associates of the FC.	The Board complies with the regulatory limit of 20. A separate parameter has not been set by the Board.
4	**Assessment of Fit and Proper Criteria**	
4.1	No person shall be nominated, elected or appointed as a director of the FC or continue as a director of such FC unless that person is a fit and proper person to hold office as a director of such FC in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended.	Directors nominated to the Board have been appointed with the approval of the Central Bank in terms of the requirements of the Fitness & Propriety Direction 6 of 2021. Additionally, Directors so appointed are subject to an annual assessment under the same direction.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
4.2	A person over the age of 70 years shall not serve as a director of a FC.	Was not applicable during the year under review.
4.3	Notwithstanding provisions contained in 4.2 above, a director who is already holding office at the effective date of this direction and who attains the age of 70 years on or before 31.03.2025, is permitted to continue in office as a director, exceeding 70 years of age up to maximum of 75 years of age subject to the following, a) Assessment by the Director/Department of Supervision of Non-Bank Financial Institutions on the fitness and propriety based on the criteria specified in the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction. b) Prior approval of the Monetary Board based on the assessment of the Director/ Department of Supervision of Non-Bank Financial Institutions in 4.3(a). c) The maximum number of directors exceeding 70 years of age is limited to one-fifth (1/5) of the total number of directors. d) The director concerned shall have completed a minimum period of 3 continuous years in office, as at the date of the first approval.	Not applicable
5	**Appointment and resignation of directors and senior management**	
5.1	The appointments, resignations or removals shall be made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	New appointments to the Board during the year under review were made with the approval of the CBSL in terms of the requirements of the Fitness & Propriety Direction 6 of 2021: S Lankathilake (ID) & A J L Peiris (ID) . A resignation after the year under review was also made subject to approval under the said direction: Mrs K U Amarasinghe (ED)
6	**The Chair and The Chief Executive Officer**	
6.1	There shall be a clear division of responsibilities between the chairperson and CEO and responsibilities of each person shall be set out in writing.	The role and responsibilities of the Chairman and the CEO have been defined and segregated as approved by the BOD and reflected in their respective JDs.
6.2	The chairperson shall be an independent director, subject to 6.3 below.	The Chairman, Mr. F K C P N Dias is a Non- Independent, Non- Executive Director.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
6.3	In case where the chairperson is not independent, the Board shall appoint one of the independent directors as a senior director, with suitably documented terms of reference to ensure a greater independent element. Senior director will serve as the intermediary for other directors and shareholders. Non-executive directors including senior director shall assess the chairperson's performance at least annually.	The Board has appointed Mr. P A Wijeratne as Senior Independent Director on 23.06.2021 which was approved by CBSL on 23.08.2021.
6.4	**Responsibilities of the Chairperson**	
	The responsibilities of the chairperson shall at least include the following: a. provide leadership to the Board; b. maintain and ensure a balance of power between executive and non- executive directors; c. secure effective participation of both executive and non-executive directors d. ensure that the Board works effectively and discharges its responsibilities e. ensure that all key issues are discussed by the Board in a timely manner f. Implement decisions/directions of the regulator. g. Prepare the agenda for each Board Meeting and may delegate the function of preparing the agenda and to maintaining minutes in an orderly manner to the company secretary. h. Not engage in activities involving direct supervision of senior management or any other day to day operational activities. i. Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board. j. Annual assessment on the Performance and the contribution during the past 12 months of the Board and the CEO.	The role and responsibilities of the Chairman has been defined and approved by the Board and reflected in his JD. The Chairman is responsible to provide leadership, guidance, and oversight to the Board, ensuring that it operates effectively, fulfils its responsibilities, and acts in the best interests of the organisation and its stakeholders. Performance and contribution of the CEO is also annually assessed by the Chairman. Board approved Governance Framework includes the Responsibilities of the Chairman.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
6.5	**Responsibilities of the CEO**	
	The CEO shall function as the apex executive-in-charge of the day-to-day- management of the FCs operations and business. The responsibilities of the CEO shall include: a. implementing business and risk strategies in order to achieve the FCs strategic objectives; b. establishing a management structure that promotes accountability, and transparency throughout the FCs operations, and preserves the effectiveness and independence of control functions; c. promoting, together with the Board, a sound corporate culture within the FC which reinforces ethical, prudent and professional behaviour d. Ensuring implementation of proper compliance culture and being accountable for accurate submission of information to the regulator e. Strengthening the regulatory and supervisory compliance framework. f. Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner. g. CEO must devote the whole of the professional time to the service of the FC and shall not carry on any other business, except as a non-executive director of another company, subject to Direction 3.10.	The role and responsibilities of the CEO has been defined and approved by the BOD and reflected in the JD. The CEO is the apex executive who is responsible for day-to-day operations of the Company with the assistance of members of the senior management and is accountable to the Board to recommend the Company's strategy implementation and ensure appropriate internal controls are in place to assess and manage risks.
7	**Meetings of the Board**	
7.1	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of papers shall be avoided as far as possible.	**Complied with,** The Board formally met 12 times during the year 2022/23. There were 62 instances during the year under review where the Board's consent was obtained through the circulation resolutions. These were also ratified at a following board meeting.
7.2	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for scheduled Board Meetings	The policy on Board's relationship with the Company Secretary approved by the Board on 30.03.2021 makes it possible for all directors to add matters and proposals to the Board meeting agenda.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
7.3	A notice of at least 3 days shall be given for a scheduled Board Meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	Annual calendar of Board/Sub Committee meetings is shared at the beginning of the year. A monthly calendar is shared before/at the beginning of each month. Specific meeting requests are then sent approximately 7 days prior to each meeting with the exception of additional meetings convened for specific/special matters.
7.4	A director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions.	Meeting material is shared through Boardpac, three days prior to the meeting. Documents received after the deadline, are identified under late documents as advised by the Chairman with permission from the Board.
7.5	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 fourth of the number of directors that constitute the quorum at such meeting are independent directors.	The Company has fulfilled this requirement. Details of meeting attendance / participation is provided on page 70.
7.6	The chairperson shall hold meetings with the non-executive directors only, without the executive directors being present, as necessary and at least twice a year.	Two such meetings were held during the year under review.
7.7	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 in the Board meeting.	Directors abstain from approving facilities which are obtained by his/her relatives.
7.8	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 be acceptable as attendance. However, continuous attendance (more than 6 meetings) through an alternate director will result in discontinuation of the directorship of the original director.	The directors have participated in more than two thirds of the board meetings held.
7.9	**Scheduled Board Meetings and Ad Hoc Board Meetings**	
	For the scheduled meetings, participation in person is encouraged and for ad hoc meetings where director cannot attend on a short notice, participation through electronic means is acceptable.	Due to prevalent circumstances scheduled meetings at times were also held on line (during the fuel crisis). Directors who are unable to be physically present join via MS Teams.
8	**Company Secretary**	
8.1	a) The Board shall appoint a company secretary considered to be a senior management whose primary responsibilities shall be to handle the secretarial services to the Board and of shareholder meetings, and to carry out other functions specified in the statutes and other regulations.	LOLC Corporate Services (Private) Limited – Group Secretaries has been appointed as Company Secretaries. Transitional provisions are applicable until July 2024 for the appointment of a dedicated individual employed by the Company.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
	b) The Board shall appoint its company secretary, subject to transitional provision stated in 19.2 below, a person who possesses such qualifications as may be prescribed for a secretary of a company under section 222 of the Companies Act, No. 07 of 2007, on being appointed the company secretary, such person shall become an employee of FC and shall not become an employee of any other institution.	Transitional provisions are applicable until July 2024 for the appointment of a dedicated individual employed by the Company.
8.2	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.	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.
8.3	The company secretary shall be responsible for preparing the agenda in the event chairperson has delegated carrying out such function.	The Chairman has delegated this responsibility to the Company Secretary .
8.4	The company secretary shall maintain minutes of the Board meetings with all submissions to the Board and/or voice recordings/video recordings for a minimum period of 6 years.	The Company Secretary maintains records of submissions and minutes of proceedings of the Board and its Sub Committee meetings. Voice/video recordings are not maintained.
8.5	The company secretary is responsible for maintaining minutes in an orderly manner and shall follow the proper procedure laid down in the Articles of Association of the FC.	Minutes are maintained by the Company Secretary as specified by the Articles of Association.
8.6	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: a. a summary of data and information used by the Board in its deliberations; b. the matters considered by the Board; c. the fact-finding discussions and the issues of contention or dissent including contribution of each individual director. 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; directions e. the Board's knowledge and understanding of the risks to which the FC is exposed and an overview of the risk management measures adopted; f. the decisions and Board resolutions.	Proceedings of meetings are recorded in minutes covering the given criteria. The process will be strengthened to reflect the contribution of individual board members.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
8.7	The minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Available for inspection upon request.
9	**Delegation of Functions by the Board**	
9.1	The Board shall approve a DA and give clear directions to the senior management ,as to the matters that shall be approved by the Board before decisions are made by senior management, on behalf of the FC.	Delegated authority limits are approved by the Board for different sectors/ senior management periodically with limits applicable at Board level.
9.2	In the absence of any of the sub-committees mentioned in Direction 10 below, the Board shall ensure the functions stipulated under such committees shall be carried out by the Board itself.	Subcommittees specified in Section 10 have been established by the Company.
9.3	The Board may establish appropriate senior management level sub-committees with appropriate DA to assist in Board decisions.	The following management level committee have been established with specific TORs including DA limits: » Asset & Liability Committee » Credit Committee » Legal Settlement Committee A dedicated IT Steering Committee was also formed subsequent to the year under review.
9.4	The Board shall not delegate any matters to a board sub-committee, executive directors or senior management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	The Corporate Governance Framework approved by the Board specifies areas assigned to the Board. Article 77 of the Company's Articles of Association empowers the Board to delegate its powers to a Committee of Directors or to a Director or employee upon such terms and conditions and with such restrictions as the Board may think fit. The Board has established a procedure under which powers have been delegated to the Director/CEO as sanctioned by the Company's Articles of Association.
9.5	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the FC.	The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Company. A process to review the delegation process has been approved by the Board. Based on the requirements of the Business/Service units and market conditions DA limits were reviewed by the Board periodically during the year under review.
10	**Board Sub-Committees**	
10.1	For the purpose of specifying the requirements for board committees, FCs are divided into two categories based on asset base as per the latest audited SoFP. FCs with asset base of more than 20 bn considered as category A and FCs with asset base of less than 20 bn to be considered as category B.	The Company falls under Category A

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
	FCs with asset base of more than Rs. 20 bn	
a.	(i) Shall establish a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Nomination Committee, Human Resource and Remuneration Committee and Related Party Transactions Review Committee	The Company has established the stated Committees governed by Board approved TORs.
	Meetings shall be held at least once in two months for BAC and BIRMC. Other committees shall meet at least annually	BAC met quarterly and additional meetings held as and when a need arises. BIRMC met quarterly. Transitional provisions available until July 2024. Details of meetings held are on pages 70 to 71.
b.	Each sub-committee shall have a written term of reference specifying clearly its authority and duties.	The following Committee TORs have been approved by the Board and revised periodically to maintain relevance: TOR for BAC – 14.08.2023 TOR for IRMC – 24.04.2023 TOR for BCC – 31.03.2023 TOR for RPTRC – 24.02.2020 TOR for HR & Remuneration – 21.10.2022 TOR for Nom Com – 23.03.2022
c.	The Board shall present a report on the performance of duties and functions of each committee, at the annual general meeting of the company.	The Company has reported the performance, duties and functions of each Committee in the Annual report for the financial year 2022/23. Please refer respective Board Sub-Committee reports for more details on pages 82 to 87.
d.	Each sub-committee shall appoint a secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records and carry out such other secretarial functions under the supervision of the chairperson of the committee.	The Company Secretary functions as secretary for each of the above mentioned committees under supervision of the respective Committee Chairman
e.	Each board sub-committee shall consist of at least three Board members and shall only consist of members of the Board, who have the skills, knowledge and experience relevant to the responsibilities of the board sub-committees.	Committee compositions comply with the requirements of this direction and are disclosed in the Committee Reports found on pages 82 to 87. Relevant experience and expertise of each member is found under profiles on pages 8 to 9.
f.	The Board may consider occasional rotation of members and of the chairperson of Board sub-committees, as to avoid undue concentration of power and promote new perspectives.	As recommended by the Nomination Committee, membership of most subcommittees were rotated based on expertise and experience required for specified areas at the end of the year under review.
10.2	Audit Committee	
a)	The chairperson of the committee shall be an independent director who possesses qualifications and experience in accountancy and/or audit	Mr. K Sundararaj (Independent, Non- Executive Director) has been appointed on 28.05.2020 as the Chairman of the Audit Committee. His profile can be found on page 8.
b)	The Board members appointed to the BAC shall be non-executive directors and majority shall be independent directors with necessary qualifications and experience relevant to the scope of the BAC.	All three members appointed to the BAC are independent non executive directors with related experience and expertise. Please refer Committee Report on page no. 82.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
c)	The secretary to the audit committee shall preferably be the chief internal auditor (CIA)	The Company Secretary functions as the Secretary to the BAC
d)	**External Audit Function**	
I.	The BAC shall make recommendations on matters in connection with the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes, the service period, audit fee and any resignation or dismissal of the auditor.	Having given due consideration to the criteria specified herein, the BAC recommended the re-appointment of external auditors for the year 2022/23
II.	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. Further, FC shall not use the service of the same external audit firm for not more than ten years consecutively.	Partner rotation has been practiced as prescribed by this direction. The most recent rotation was in March 2023. Auditor rotation will be subject to transitional provisions permitted by the CBSL.
III.	Audit partner of an FC shall not be a substantial shareholder, director, senior management or employee of any FC.	The Audit Partner of the Company is not a shareholder, director, senior manager or employee of any finance company.
IV.	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.	Last review was at the Meeting held on 08.03.2023. The External Auditors are independent as they report direct to the Audit Committee of the Board. Further, the Auditors' Engagement Letter is evidence of the External Auditors' independence, and that the audit is carried out in accordance with SLAuS.
V.	Audit partner shall not be assigned to any non-audit services with the FC during the same financial year in which the audit is being carried out. The BAC shall develop and implement a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit services does not impair the external auditor's independence or objectivity.	Requirement of the direction is covered by the Audit Charter approved by the Board. Auditors were also engaged to seek: a) an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 5 of 2021 issued by the Monetary Board; and b) the Company's level of adherence to the internal controls on financial reporting.
VI.	The BAC shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including: (i) an assessment of the FC'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.	This requirement was fulfilled at the Meeting held on 08.03.2023

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
VII.	The BAC shall review the financial information of the FC, in order to monitor the integrity of the financial statements of the FC in its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the FC's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	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.
VIII.	The BAC 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.	Of the 07 BAC meetings held the during the year, the Committee met the external auditors at 04 meetings and on 03 such occasions the auditors met the Committee in the absence of the executive management.
IX.	The BAC shall review the external auditor's management letter (ML) and the management's response thereto within 3 months of submission of such, and report to the Board.	ML for the year ended 31.3.2022 was reviewed by the BAC on 27.09.2022
e)	The BAC shall at least annually conduct a review of the effectiveness of the system of internal controls.	Internal Controls are reviewed by the BAC annually: for 2022 at a BAC meeting held on 29.06.2022; and for 2023 at a BAC meeting held on 14/08/2023.
f)	The BAC shall ensure that the KMPs are taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies with respect to internal audit function of an FC.	Internal control weaknesses and non compliances reported to the BAC are also monitored by the BAC/ Internal Audit for rectification with a subsequent follow up process to ensure compliance.
g)	**Internal Audit function:**	
I.	The committee shall establish an independent internal audit function (either in house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations) Direction or as amended that provides an objective assurance to the committee on the quality and effectiveness of the FC's internal control, risk management, governance systems and processes	The Company has established the Internal Audit function within the Company with a dedicated Head of Internal Audit to provide independent assurance to the BAC on the quality and effectiveness of the existing internal control systems of the Company, risk management, governance practices and processes.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
II.	The internal audit function shall have a clear mandate, be accountable to the BAC, and be independent of the audited activities. It shall have sufficient expertise and authority within the FC to carry out their assignments effectively and objectively.	The Internal Audit Charter was last reviewed and approved by the Board on 14.08.2023. The Internal Auditor reports to the BAC Chairman and has a clear mandate to carry out its functions.
III.	The BAC shall take the following steps with regard to the internal audit function of the FC:	
	I. Review the adequacy of the scope, functions and skills and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	Annually reviewed by the BAC. Last review was at the Meeting held on 08.03.2023
	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 ;	Internal Audit Plan for 2022/23 was approved by the BOD on 27th May 2022 and its progress was reviewed by the BAC quarterly .
	III. Assess the performance of the head and senior staff members of the internal audit department;	Annually assessed by the Committee.
	IV. Ensure that the internal audit function is independent and activities are performed with impartiality, proficiency and due professional care;	The Committee is satisfied that the Internal Audit function is independent.
	V. Ensure internal audit function carry out periodic review of compliance function and regulatory reporting to regulatory bodies.	Periodically audited by Internal Audit.
	VI. Examine the major findings of internal investigations and management's responses thereto. ;	Escalated to the BAC by Internal Audit .
h)	Committee shall review the statutory examination reports of the Central Bank of Sri Lanka (CBSL) and ensure necessary corrective actions are taken in a timely manner and monitor the progress of implementing the time bound action plan quarterly.	Examination Reports of the CBSL and rectification plans have been reviewed and monitored by the Board in the past. The Company will take measures to delegate such review to the BAC.
i)	**Meetings of the Committee**	
	I. The committee shall meet as specified in direction 10.1 above, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	As defined by this direction the BAC meets quarterly or as and when necessary to fulfil its responsibilities pre notified to members by the meeting agenda.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
	II. Other Board members, senior management or any other employee may attend meetings upon the invitation of the committee when discussing matters under their purview.	The CEO and other Board members including the Chairman are invited to be present . KRPs who are relevant for matters being discussed are also invited as advised by the Committee Chairman.
	III. BAC shall meet at least twice a year with the external auditors without any other directors/senior management/employees being present.	The BAC met the external auditors on three occasions without the presence of the other directors and invitees from the management.
10.3	**Board Integrated Risk Management Committee (BIRMC)**	
a.	The committee shall be chaired by an independent director. The Board members appointed to BIRMC shall be non-executive directors with knowledge and experience in banking, finance, risk management issues and practices. The CEO and Chief Risk Officer (CRO) may attend the meetings upon invitation. The BIRMC shall work with senior management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	All three members appointed to the IRMC are independent non executive directors with related experience and expertise. Please refer Committee Report on page no. 83.
b.	The secretary to the committee may preferably be the CRO	The Company Secretary serves as the secretary to the Committee
c.	The committee shall assess the impact of risks, including credit, market, liquidity, operational and strategic, Compliance and technology to the FC at least on once in two months basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board;	The Committee fulfils the requirements specified in the direction through quarterly meetings; and as delegated by the Committee monthly risk reporting is made by the Head of Risk Management to the Board. The ERM Department has established risk indicators under different risk categories which are monitored by a QPR system Transition provisions applicable until July 2024 in terms of frequency of meetings.
d.	Developing FC's risk appetite through a Risk Appetite Statement (RAS), which articulates the individual and aggregate level and types of risk that a FC will accept, or avoid, in order to achieve its strategic business objectives. The RAS should include quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices. The RAS should also define the boundaries and business considerations in accordance with which the FC is expected to operate when pursuing business strategy and communicate the risk appetite linking it to daily operational decision making and establishing the means to raise risk issues and strategic concerns throughout the FC.;	The RAS was reviewed and approved by the Board as part of the Risk Management Policy of the Company. Indicators on qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices will be incorporated in the RAS going forward. On 31.03.2023 revised KRIs were presented to the BOD and IRMC.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
e.	The BIRMC shall review the FC's risk policies including RAS, at least annually.	The Committee reviewed the Risk Management Policy and RAS on 15/6/2023
f.	The BIRMC shall review the adequacy and effectiveness of senior management level committees (such as credit, market, liquidity investment, technology and operational) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	Carried out Annually. The Committee evaluated the adequacy and effectiveness of the ALCO and Credit Committee for the year 2022/23.
g.	The committee shall assess all aspects of risk management including updated business continuity and disaster recovery plans.	Risks are monitored and reported based on Board approved predefined Key Risk Indicators where monthly risk assessments are reported to the Board by the HoR; and quarterly reviewed /actioned by the BIRMC. The BCP policy has been approved by the BOD while the Disaster Recovery is tested by IT Dept periodically.
h.	BIRMC shall annually assess the performance of the compliance officer and the CRO.	The Committee Chairman has assessed the performance of the Compliance Officer and the Head of Risk Management for the year under review.
i.	**Compliance function**	
i.	BIRMC shall establish an independent compliance function to assess the FC's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business operations.	The Company has established an independent compliance function reporting to the Chairman IRMC.
ii.	For FCs with asset base of more than Rs. 20 bn, a dedicated compliance officer considered to be senior management with sufficient seniority, who is independent from day-to-day management shall carry out the compliance function and report to the BIRMC directly. The compliance officer shall not have management or financial responsibility related to any operational business lines or income-generating functions, and there shall not be 'dual hatting', i.e. the chief operating officer, chief financial officer, chief internal auditor, chief risk officer or any other senior management shall not serve as the compliance officer.	The Company has a dedicated Compliance Head/Team with adequate resources to fulfil the obligations required by this direction.
iii.	iii. For FCs with asset base of less than Rs. 20bn, an officer with adequate seniority considered to be senior management shall be appointed as compliance officer avoiding any conflict of interest.	Not Applicable

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
iv.	The BIRMC shall ensure responsibilities of a compliance officer would broadly encompass the following I. develop and implement policies and procedures designed to eliminate or minimise the risk of breach of regulatory requirements;	The Board has approved the responsibilities of the Compliance Officer in terms of his job description. Additionally, the Board annually approves a Compliance Plan encompassing related responsibilities of the Company which will be performed/ overseen by the Compliance Team.
	II. ensure compliance policies and procedures are clearly communicated to all levels of the FC to enhance the compliance culture;	Compliance culture and requirements are communicated to staff at all levels during annual trainings organised by the Compliance Department. This process will be further strengthened to establish a portal/intranet for disseminating related updates to all staff.
	III. ensure that reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards;	Procedures for the involvement of Compliance prior to new product launches including in subsequent developments/modifications to ensure conformity to regulatory requirements , internal compliance and ethical standards will be strengthened by the Company going forward.
	IV. understand and apply all new legal and regulatory developments relevant to the business of FC; V. secure early involvement in the design and structuring of new products and systems, to ensure that they conform to regulatory requirements, internal compliance and ethical standards VI. highlight serious or persistent compliance issues and where appropriate, work with the management to ensure that they are rectified within an acceptable time; and VII. maintain regular contact and good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives with highest integrity	
j.	**Risk management function**	
i.	BIRMC shall establish an independent risk management function responsible for managing risk-taking activities across the FC.	The Board has appointed an Integrated Risk Management Committee comprising three independent directors with sufficient finance, banking and regulatory experience.
ii.	For FCs with asset base of more than Rs.20 bn, it is expected to have a separate risk management department and a dedicated CRO considered to be senior management shall carry out the risk management function and report to the BIRMC periodically.	The BIRMC has appointed an Independent Enterprise Risk Management Function on behalf of Company headed by a Head of Risk Management reporting directly to the IRMC. The Head of Risk Management report directly to the Chairman of the BIRMC
iii.	The CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the FC's risk management function is robust and effective to support its strategic objectives and to fulfill broader responsibilities to various stakeholders.	Responsibilities of the function have been approved by the Board an covered under the job description of the as well as TOR of the IRMC .

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
iv.	The BIRMC shall ensure that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers: I. various potential risks and frauds II. possible sources of such risks and frauds; III. mechanism of identifying, assessing, monitoring and reporting of such risks and frauds; includes quantitative and qualitative analysis covering stress testing	The Committee has a Board approved Risk Management Policy in addition to policies on Key Risk Indicators with pre-approved risk appetite parameters for credit risk management, liquidity risk management, operational risk management and overall enterprise risk management which provide the framework for management and assessment of risk. Accordingly, monthly reports on quantitative risks are presented to the Board through BIRMC incorporating appropriate risk indicators, management information and make recommendations on risk strategies and risk appetites. This process will be further strengthened to include qualitative risk indicators going forward. Please refer the BIRMC report on pages 83 for more details.
	IV. effective measures to control and mitigate risks at prudent levels; and V. relevant officers and committees responsible for such control and mitigation. The framework shall be reviewed and updated at least annually.	
v.	The chief risk officer shall also participate in key decision-making processes such as capital and liquidity planning, new product or service development, etc. and make recommendations on risk management	The Head of Risk Management participates in decision making relating to adoption of policies/procedures, new product development and the Asset and Liability Committee. The scope of the function will be reviewed and further strengthened going forward.
vi.	The CRO shall maintain an updated risk register, which shall be submitted to the BIRMC on a quarterly basis.	The Risk Register is submitted to the BIRMC quarterly by the Head of Risk Management. The Risk Register was reviewed and revised taking into consideration prevalent economic emergencies of the country with the approval of the Board after the year under review on 29/5/2023.
vii.	The BIRMC shall submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.	Monthly reports on quantitative risks are presented to the Board through BIRMC incorporating appropriate risk indicators, management information and make recommendations on risk strategies and risk appetites.
10.4	**Nomination Committee**	
a.	The committee shall be constituted with non-executive directors and preferably the majority may be independent directors. An independent director shall chair the committee. The CEO may be present at meetings by invitation of the committee.	The Committee comprises non executive directors with a majority of them being independent directors. Please refer committee report on page 86.
b.	Secretary to the nomination committee may preferably be the company secretary.	The Company Secretary serves as the Secretary to the Committee.
c.	The committee shall implement a formal and transparent procedure to select/appoint new directors and senior management. Senior management are to be appointed with the recommendation of CEO, excluding CIA, CRO and compliance officer.	The requirements of the directions have been adopted by the Committee as its TOR and approved by the BOD on 23.03.2022. Related procedures will be reviewed and strengthened going forward.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
d.	The committee shall ensure that directors and senior management are fit and proper persons to perform their functions as per the FBA (Assessment of Fitness and propriety of Key Responsible Persons)	Fit and proper assessment requirements specified by the CBSL are carried out annually for Board Members and on appointment/promotion/extensions/lateral movements for officers of the Company as and when applicable.
e.	The selection process shall include reviewing whether the proposed directors (i) possess the knowledge, skills, experience, independence and objectivity to fulfill their responsibilities on the board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to fully carry out their responsibilities.	Requirements set out in this direction are taken into consideration at the point of nomination/recommendation as included in the Committee TOR.
f.	The committee shall strive to ensure that the Board composition is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the FC as a whole.	Requirements specified in the direction have been mandated in the Committee TOR and will be established subject to transitional provisions.
g.	The committee shall set the criteria, such as qualifications, experience and key attributes required for eligibility, to be considered for appointment to the post of CEO and senior management.	Requirements specified in the direction have been mandated in the Committee TOR and will be established subject to transitional provisions.
h.	Upon the appointment of a new director to the Board, the committee shall assign the responsibility to the company secretary to disclose to shareholders: (i) a brief resume of the director; (ii) the nature of the expertise in relevant functional areas; (iii) the names of companies in which the director holds directorships or memberships in Board committees; and (iv) whether such director can be considered as independent.	The areas specified by the direction on new appointments are disclosed to the shareholders at the time of their appointment by way of announcements made to the Colombo Stock Exchange (CSE) as well as in the Annual Report by the Company Secretary, after obtaining approval from the Director of Department of Supervision of Non-Bank Financial Institutions of Central Bank of Sri Lanka.
i.	The committee shall consider and recommend (or not recommend) the re-election of current directors, taking into account the combined knowledge, performance towards strategic demands faced by the FC and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.	Requirements included in the Committee TOR. The Committee recommends re-election of directors based on the strategic requirements of the Company.
j.	The committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and senior management	Requirements included in the Committee TOR . A Board approved succession plan is available for the CEO and the Senior management which has to be updated taking into account the merged operations of three finance companies.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
k.	A member of the Nomination Committee shall not participate in decision making relating to own appointment/reappointment and the Chairperson of the Board should not chair the Committee when it is dealing with the appointment of the successor.	Requirements specified in the direction have been mandated in the Committee TOR .
10.5	**Human Resources and Remuneration Committee:**	
a.	The committee shall be chaired by a non-executive director and the majority of the members shall consist of non-executive directors.	The Committee comprises non executive directors of whom a majority are independent directors. Please refer Committee Report on page 84.
b.	The secretary to the human resource and remuneration committee may preferably be the company secretary.	The Company Secretary serves as the secretary to the Committee
c.	The committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to executive directors and senior management of the FC and fees and allowances structure for non-executive directors.	The Committee has approved a Remuneration Policy for the Company in November 2019 ; reviewed the staff salary structures/grading pursuant to amalgamation of the group finance companies; recommended a revision to the retainer and attendance fees paid to independent directors of the Board; and recommended the ratification of exgratia payments made to staff members for the year under review.
d.	There shall be a formal and transparent procedure in developing the remuneration policy.	Requirement built in to the TOR adopted on 21.10.2022. The remuneration policy has been developed to achieve fair and equitable benefits with transparent guidelines. The policy was recommended by the Committee and approved by the Board of Directors.
e.	The committee shall recommend the remuneration policy for approval of the Board on paying salaries, allowances and other financial incentives for all employees of the FC. The policy shall be subject to periodic review of the Board, including when material changes are made.	Requirement built in to the TOR adopted on 21.10.2022 The Committee periodically reviews the salary structures of staff members as and when required and/or when there are material changes.
f.	The remuneration structure shall be in line with the business strategy, objectives, values, long-term interests and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivise employees to take excessive risk or to act in self-interest.	Requirements specified in the direction have been mandated in the Committee TOR
g.	The committee shall review the performance of the senior management (excluding chief internal auditor, compliance officer, chief risk officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Requirements specified in the direction have been mandated in the Committee TOR. An effective annual evaluation process is in place to determine the basis for revising remuneration and other performance-based benefits for the Senior Management. This will be reviewed subject to transitional provisions.
h.	The committee shall ensure that the senior management shall abstain from attending committee meetings, when matters relating to them are being discussed.	Requirements specified in the direction have been mandated in the Committee TOR .

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
11	**Internal Controls**	
11.1	FCs shall adopt well-established internal control systems, which include the organisational structure, segregation of duties, clear management reporting lines and adequate operating procedures in order to mitigate operational risks	The Company has established a sound internal control system supported by the organisation structure, segregated duties and reporting lines for management, and operational procedures and policies for all the required areas of the Company to mitigate the operational risks. The Internal Controls are reviewed annually.
11.2	A proper internal control system shall: (a) promote effective and efficient operation; (b) provide reliable financial information; (c) safeguard assets; (d) minimise the operating risk of loss from irregularities, fraud and errors; (e) ensure effective risk management systems; and (f) ensure compliance with relevant laws, regulations and internal policies.	The effectiveness and compliance of the internal control mechanism is reported under the Directors' Statement on Internal Controls on page 78 and the External Auditor independent assurance on the Directors' Statement on Internal Control over Financial Reporting on page 80 in the Annual Report.
11.3	All employees shall be given the responsibility for internal controls as part of their accountability for achieving objectives	All employees are accountable and responsible for internal controls in terms of the functions performed in their respective areas while abiding with related policies/ procedures of the Company. These are in turn monitored by the Board through the BAC and the Internal Audit Dept. An annual sign off is also obtained by from the Heads of all Departments/Processes confirming compliance of all established policies and procedures.
12	**Related Party Transactions**	
12.1	Board shall establish a policy and procedures for related party transactions, which covers the following	A Board approved RPTs Policy has been established by the Committee for the Company which is periodically reviewed.
a.	All FCs shall establish a Related Party Transactions Review Committee (RPTRC) and the chairperson shall be an independent director and the members shall consist of non-executive directors.	The Board has appointed a RPT Review Committee comprising of Independent Directors and a TOR conforming with the requirements of this direction with transitional provisions.
b.	All related party transactions shall be prior reviewed and recommended by the RPTRC.	The RPT Policy approved by the Board governs all RPTs of the Company. Transactions which are within the purview of the Committee are reviewed and recommend for Board approval prior to the transaction. Routine transactions which are in the normal course of business and exempted by the CSE Code are reviewed quarterly post transaction.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
c.	The business transactions with a related party that are covered in this Direction shall be the following: a. Granting accommodation; b. Creating liabilities to the FC in the form of deposits, borrowings and any other payable; c. Providing financial or non-financial services to the FC or obtaining those services from the FC; or	Types of transactions with Related Parties have been defined in the Board approved RPT Policy.
	d. Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party.	
12.2	The committee shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the FC with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction. In this regard, there shall be a named list of natural persons/institutions identified as related parties, which is subject to periodic review as and when the need arises. a) Directors and senior management. b) Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC. c) Subsidiaries, associates, affiliates, holding company, ultimate parent company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa d) Directors and senior management of legal persons in paragraph (b) or (c). e) Relatives of a natural person described in paragraph (a), (b) or (d). f) Any concern in which any of the FC's directors, senior management or a relative of any of the FC's director or senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest.	The Committee has identified individuals and entities considered as related parties. This list is periodically reviewed and updated. 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. Further, Directors are individually requested to declare their transactions with the company at each Board meeting and in the annual declaration.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
12.3	The committee shall ensure that the FC does not engage in business 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 FC. For the purpose of this paragraph, "more favourable treatment" shall mean: a) Granting of "total accommodation" to a related party, exceeding a prudent percentage of the FCs regulatory capital, as determined by the committee. b) Charging of a lower rate of interest 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 favorable terms, 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 FCs 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	The Company has implemented a system that enables the Company to capture and retrieve data on RPTs. This system generates comprehensive reports for management review and for quarterly review of the Committee reflecting all related party transactions including expenses, income, lending and amounts outstanding . Through this system the Company ensures that no favourable transaction has been entered in to with such parties. The system is subject to continuous development. The Committee further ensures that the transactions with Related Parties are on normal commercial terms offered to the public in line with the RPT Policy established. The RPT Policy stipulates that no Director shall participate in any discussion of a proposed related party transaction for which he or she is a related party to, other than to provide information on the transaction to the committee. Transactions carried out with Related Parties in the ordinary course of business (Recurrent transactions) are disclosed in the Financial Statements on 'Related Party Disclosures' under Note 2.20 on page 116 in Financial Statements.
13	**Group Governance**	
13.1	**Responsibilities of the FC as a Holding Company**	
a)	The FC is responsible for exercising adequate oversight over its subsidiaries and associates while complying with the independent legal, regulatory and governance responsibilities that apply to them.	The Company does not have subsidiaries. It has associate investments which are listed out in page 78 in the Report of the Board of Directors.
b)	The Board of the FC shall	
i.	Ensure that the group governance framework clearly defines the roles and responsibilities for the oversight and implementation of group-wide policies.	The Group Governance framework approved by the Board, defines its oversight powers.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
ii.	Ensure that the differences in the operating environment, including the legal and regulatory requirements for each company, are properly understood and reflected in the group governance framework.	Board representation in associate investments ensure understanding their operating environments including legal/regulatory and economic conditions.
iii.	Have in place reporting arrangements that promote the understanding and management of material risks and developments that may affect the holding FC and its subsidiaries.	Performance of the associate entities are reported & reviewed at monthly board meetings.
iv.	Assess whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions; and	The internal controls of the Company have limited access to being extended to the associate investments as LOFC has limited opportunity to influence policy/decision making
v.	Ensure that there are adequate resources to effectively monitor compliance of the FC and its subsidiaries with all applicable legal and regulatory requirements.	Performance of the associate entities are reported & reviewed at monthly board meetings. Board presence in associate investments ensure understanding their operating environments including legal/regulatory requirements.
c)	The FC, as the apex entity, shall ensure that the group structure does not undermine its ability to exercise effective oversight. The Board shall establish a clearly defined process of approving the creation of new legal entities under its management and identifying and managing all material group-wide risks through adequate and effective policies and controls	Board representation in associate investments ensure understanding their operating environments including legal/regulatory and economic conditions. The Board shall going forward establish a clearly defined process for approving the creation of new legal entities under its management.
d)	The Board and senior management of the FC shall validate that the objectives, strategies, policies and governance framework set at the group level are fully consistent with the regulatory obligations of the FC and ensure that company-specific risks are adequately addressed.	The Company has limited opportunity to influence policy/decision making of the associate investments. However, their activities and obligations are monitored through the nominees appointed to such boards.
e)	The FC shall avoid setting up complicated structures that lack economic substance or business purpose that can considerably increase the complexity of the operations.	Not applicable
13.2	If the FC is a subsidiary of another financial institution subject to prudential regulation, FC shall discharge its own legal and governance responsibilities.	The Company is not a subsidiary of another financial institution.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
14	**Corporate culture**	
14.1	A FC shall adopt a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity of reporting, protection and proper use of company assets and fair treatment of customers.	The Board has approved and adopted a Codes of Ethic for Directors, Officers and Staff Members.
14.2	The FC shall maintain records of breaches of code of conduct and address such breaches in a manner that upholds high standards of integrity.	Breaches detected during the year under review have been dealt with in accordance with the HR /Disciplinary Policy of the Company. Records of such breaches are maintained by the HR Department.
14.3	A FC shall establish a Whistleblowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Employees shall be able to raise concerns about illegal, unethical or questionable practices in a confidence manner and without the risk of reprisal. The BAC shall review the policy periodically.	The Company has a Board-approved Whistleblowing Policy whereby employees of the Company could raise concerns in confidence about the malpractices in the Company. The BAC ensures that a proper process is in place in line with the Board approved policy for a fair and independent investigation and appropriate follow-up action on such matters. The policy is in the process of being reviewed.
15	**Conflicts of interest**	
15.1		
a.	Relationships between the directors shall not exercise undue influence or coercion. A director shall abstain from voting on any Board resolution in relation to a matter in which such director or any of the relatives or a concern in which such director has substantial interest, is interested, and such director shall not be counted in the quorum for the relevant agenda item in the Board meeting.	In compliance with the requirements of this direction the Board has approved the adoption of the policy on managing Conflicts of Interest.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
b.	The Board shall have a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties. The policy for managing conflicts of interest shall, I. Identify circumstances which constitute or may give rise to conflicts of interests II. Express the responsibility of directors and senior management to avoid, to the extent possible, activities that could create conflicts of interest. III. Define the process for directors and senior management to keep the Board informed on any change in circumstances that may give rise to a conflict of interest. IV. Implement a rigorous review and approval process for director and senior management to follow before they engage in certain activities that could create conflicts of interest. V. Identify those responsible for maintaining updated records on conflicts of interest with related parties, and VI. Articulate how any non-compliance with the policy to be addressed	The Conflicts of Interest Policy covers the requirements specified in this section with guidelines to deal with any conflict that arises. In addition Article 79 of the Company's Articles of Association requires an interested Director to disclose his/her interest at Board meetings. Article 83 requires such a Director to abstain from voting on any Board resolution. He/she will not to be counted in the quorum.
16	**Disclosures**	
16.1	The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in Sinhala, Tamil and English. The Board shall ensure that at least following disclosures are made in the Annual Report of the FC.	The Board has complied with the requirements of this section in publishing the Company's financial statements.
i.	**Financial statements**-In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include, » 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. » A statement of responsibility of the Board in preparation and presentation of financial statements.	Please refer the Report of the Board of Directors on pages 76 to 79 and the Statement of Directors' Responsibility for Financial Reporting on page 77.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
ii.	**Chairperson, CEO and Board related disclosures**-· Name, qualification and a brief profile. » Whether executive, non-executive and/or independent director. » Details of the director who is serving as the senior director, if any. » The nature of expertise in relevant functional areas. » Relatives and/or any business transaction relationships with other directors of the company. » Names of other companies in which the director/CEO concerned serves as a director and whether in an executive or non-executive capacity. » Number/percentage of board meetings of the FC attended during the year; and » Names of board committees in which the director serves as the Chairperson or a member.	Please refer the following reports: » Details of the Directors are given in the profiles of the Board of Directors on pages 8 to 9 including that of the Senior Independent Director. » Names of other companies in which the directors serve can be found in the Report of the Board of Directors on pages 79. » Declaration of any relationship with board members can be found on page 76 in the Report of the Board of Directors » Attendance at Board Meetings and Sub-Committee meetings including Committee Compositions are given on pages 70 to 72.
iii.	**Appraisal of board performance** » An overview of how the performance evaluations of the Board and its committees have been conducted	The performance evaluations of the Board and the Sub-Committees for FYE 31.03.2023 have been completed based on criteria recommended by regulations. These evaluations were tabled at Board/Committee meetings after the year under review for noting and necessary action where relevant.
iv.	**Remuneration**	
	» A statement on remuneration policy, which includes Board fee structure and breakdown of remuneration of senior management, level and mix of remuneration (financial and non-financial, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation)	A statement on the remuneration policy has been disclosed in Report of the Board of Directors on page 76 of the Annual report.
	» The aggregate values of remuneration paid by the FC to its directors and senior management.	Directors - Rs. 38,364,559 Senior Management - Rs. 137,314,746 Please refer note 33 to the financial statements for further details.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
v.	**Related party transactions-**	
	» The nature of any relationship [including financial, business, family or other material/ relevant relationship[s]], if any, between the Chairperson and the CEO and the relationships among members of the Board.	There is no financial, business, family or other relationship between the Chairman and the Director/CEO. There is no financial, business, family or other material relationship between any other members of the Board. A process has been developed for Directors to disclose any relationships between the Chairman and the CEO and or between any other Board members.
	» Total net accommodation granted 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 FC's core capital.	Net accommodations granted to each category of related parties as a percentage of capital funds of the Company at the year end is disclosed on page 167 (note 33.3).
	» The aggregate values of the transactions of the FC with its senior management during the financial year, set out by broad categories such as accommodation granted, and deposits or investments made in the FC.	Deposits held by the KMPs (Excluding Directors) Rs. 187,080,078 Iterest Paid/ Charged (Excluding Directors) Rs. 14,951,820 Interest Payable – KMPs ((Excluding Directors) Rs. 16,885,089 Loans Granted – KMPs (Excluding Directors) Rs. 90,557,346 Capital outstanding on facilities granted to KMPs (excluding Directors) Rs. 80,015,672
vi.	**Board appointed committees-** » The details of the chairperson and members of the board committees and attendance at such meetings.	The Board has established the following Committees required by this direction. Details of membership, activities of each Committee are found on pages 82 to 87. Board Audit Committee Report Board Integrated Risk Management Committee Report Board Nomination Committee Report Board Human Resources and Remuneration Committee Report Board Related Party Transaction Review Committee Report
vii.	**Group Structure-** » The group structure of the FC within which it operates.	The Group Structure of the Company is on page 33. The Company as two associate investments which are listed out in the Report of the Board of Directors on pages 78.
	» The group governance framework.	A Group Governance Framework has been approved by the Board detailing the Company's oversight responsibilities and methods of monitoring of subsidiaries or associates if any.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
	Director's report- » A report, which shall contain the following declarations by the Board » The FC has not engaged in any activity, which contravenes laws and regulations. » The directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested. » The FC has made all endeavours to ensure the fair treatment for all stakeholders, in particular the depositors. » The business is a going concern with supporting assumptions; and » The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness.	Refer Report of the Board of Directors on pages 76 to 79 for the following disclosures: declaration on not engaging in any activity, which contravenes laws and regulations, director's declaration on RPTs and abstaining from voting , fair treatment of all stakeholders including depositors, going concern, review of internal controls covering material risks and assurance of their effectiveness.
ix.	**Statement on Internal Control-** » A report by the Board on the FC'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 for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. » The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published. » A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances. » A statement of the regulatory and supervisory concerns on lapses in the FC's risk management, or non-compliance with the Act, and rules and directions	Please refer the Directors' Statement on Internal Controls Over Financial Reporting on page 80 The Company has obtained a certification from M/s Ernst & Young, Chartered Accountants on the effectiveness of the internal controls over financial reporting. Please refer page 80 of the report. 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.

Direction Reference	Finance Companies Corporate Governance Direction No. 5 of 2021	Level of Compliance of LOLC Finance PLC
x.	**Corporate governance report-** Shall disclose the manner and extent to which the company has complied with Corporate Governance Direction and the external auditor's assurance statement of the compliance with the Corporate Governance Direction.	This report serves the said purpose stipulated in this direction. The external auditors confirmation is found on page 05 Of this report. 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. 05 of 2021 issued by the Monetary Board and has obtained a report on factual findings. However its publication has not been permitted by the Auditors as there is no clear guideline issued by the CBSL.
xi	**Code of Conduct –** » FC's code of business conduct and ethics for directors, senior management and employees. » The Chairperson shall certify that the company has no violations of any of the provisions of this code.	The Board has approved and adopted a Codes of Ethics and a Policy for managing Conflicts of Interest for Directors, Officers and Staff Members. Please refer the Chairman's statement on page 05 relating to any breach of the Code of Conduct.
xii.	**Management report –** » Industry structure and developments » Opportunities and threats » Risks and concerns » Sustainable finance activities carried out by the company » Prospects for the future	Refer pages 12 to 24 on the Management Discussion and Analysis provided in this Annual Report
xiii.	**Communication with shareholders –** » The policy and methodology for communication with shareholders. » The contact person for such communication.	A Board approved Stakeholder Communication Policy is in place which covers all stakeholders including depositors, creditors, shareholders, and borrowers. The Board of Directors, officers, and employees comply with the policy in order to ensure effective communication. The contact person for such communication is the Company Secretary.

Direction Reference	Rules of the Colombo Stock Exchange	LOFC's level of compliance
7.10.5	HR & Remuneration Committee	**Complied with**
a.	**Composition** Shall comprise of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, which ever shall be higher.	As at 31st March 2023 the Committee comprised two Independent Non-Executive Directors and one Non-Executive Director.
b.	**Functions** The Remuneration Committee shall recommend the remuneration payable to the executive directors and Chief Executive Officer of the Public Listed Entity and/or equivalent position thereof, to the board of the Listed Entity which will make the final determination upon consideration of such recommendations.	The committee periodically reviews Board Remuneration and makes recommendations to the Board.
c.	**Disclosure in the Annual Report** The annual report should set out the names of directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors.	The Committee comprises Mr. P A Wijeratne, Mr. K Sundararaj, Mr F K C P N Dias, while Mr Wijeratne serves as the Committee Chairman. The Committee is guided by the Board approved Remuneration Policy. The aggregate remuneration paid to executive and non executive directors is disclosed in the Directors Report on page 76.
7.10.6	Audit Committee	**Complied with**
a.	**Composition** Shall comprise of a minimum of two independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, which ever shall be higher.	As at 31st March 2023 the Committee comprised two Independent Non-Executive Directors and one Non Executive Director.
b.	**Functions** Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a Listed Entity, in accordance with Sri Lanka Accounting Standards. Overseeing of the Entity's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. Overseeing the processes to ensure that the Entity's internal controls and risk management, are adequate, to meet the requirements of the Sri Lanka Auditing Standards. Assessment of the independence and performance of the Entity's external auditors. To make recommendations to the board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors	The Committee is guided by a Board approved Audit Committee Charter which includes the functions of those listed here.

Direction Reference	Rules of the Colombo Stock Exchange	LOFC's level of compliance
c.	**Disclosure in the Annual Report** The names of the directors (or persons in the parent company's committee in the case of a group company) comprising the audit committee should be disclosed in the annual report.	The Committee comprises Mr. K Sundararaj, Mr. P A Wijeratne and Mr B C G de Zylva, while Mr. Sundararaj serves as the Committee Chairman.
	The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the annual report.	The Committee has made this determination.
	The annual report shall contain a report by the audit committee, setting out the manner of compliance by the Entity in relation to the above, during the period to which the annual report relates.	Please refer the Committee report on page 82.
7.14.1.i (b)	Minimum Public Holding Requirement	**Not Complied**
	Disclosure in terms of rule 7.14.1.i (b) of the Listing	The Company is not complaint with the Minimum Public Holding
	Rules of the Colombo Stock Exchange ("CSE")	Requirement stipulated by the CSE Rule 7.14.1.i (b) as at end of March 2023:
		Float Adjusted Market Capitalisation was Rs. : 6,577,848,666/-
		The public Holding percentage was 3.31% :
		The number of Public Shareholders were : 19,600
		The Company is exploring possibilities of complying with the Listing Rules of the Colombo Stock Exchange.
9.2.2- 9.2.4	Related Party Transactions Review Committee	**Complied with**
	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.	As at 31st March 2023, the Committee comprised two Independent Non-Executive Directors (one of whom is the Committee Chair) and one Non Executive Director. The Committee members are Mr. P A Wijeratne, Mr. K Sundararaj, Mr B C G de Zylva, while Mr Wijeratne serves as the Committee Chairman.
9.3.3	Disclosure in the Annual Report	
	a) Non-recurrent Related Party Transactions if aggregated value exceeds 10% of the equity or 5% of Total assets whichever is lower	During the year under review the Company entered into a non-recurrent related party transaction valued at Rs. 95,412,357,959/-, exceeding 10% of the equity and 5% of the total assets on 31st January 2023 being the cost of amalgamation with LOLC Development Finance PLC in line with the CBSL Masterplan for Consolidation of the NBFI Sector.
	b) Recurrent Related Party Transactions – if Aggregated value exceeds 10% gross income as in the latest audited accounts	The aggregate value of the recurrent related party transactions did not exceed 10% of the gross revenue/ income of the Company during the year requiring disclosure in terms of Section 9.3.2 (b) of the Listing Rules of the CSE.
	c) The Annual Report shall contain a Report of the Related Party Transactions Review Committee in the prescribed manner.	Please refer Committee Report on page 85
	d) A declaration by the Board of Directors as an affirmative	Please refer the Directors Report on pages 76 to 79

MEMBER ATTENDANCE AT MEETINGS

Board Meetings

Name of the Director	Independent	Non-Independent	Executive	Non-Executive	Date of Appointment	27.04.2022	27.05.2022	29.06.2022**	28.07.2022	30.08.2022	27.09.2022	21.10.2022	29.11.2022	16.12.2022	27.01.2023	01.03.2023 (Feb)	31.03.2023	Total 12
F K C P N Dias		✓		✓	01/03/2020	✓	✓	✓*	✓	✓	✓	✓	✓	✓	✓	✓	✓*	12
D M D K Thilakaratne			✓		31/03/2022	✓	✓	✓*	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
Mrs. K U Amarasinghe			✓		05/03/2003	✓	✓*	✓*	–	✓	–	✓	✓	✓	✓	✓	✓*	10
B C G de Zylva		✓		✓	23/04/2018	✓	✓*	✓*	✓	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	12
P A Wijeratne	✓				26/05/2017	✓	✓	✓*	✓*	–	✓	✓	✓	✓	✓	–	✓	10
K Sundararaj	✓				23/07/2019	✓	✓	✓*	✓*	✓	✓*	✓	✓	✓	✓	✓	✓*	12
A J L Pieris	✓				31/01/2023	–	–	–	–	–	–	–	–	–	–	✓	✓	02
S Lankathilake	✓				31/01/2023	–	–	–	–	–	–	–	–	–	–	✓	✓	02

*Participated online via Microsoft Teams

** Virtual Meetings held via Microsoft Teams

Audit Committee Meetings

Name of the Committee Member	Meeting Dates							Total 07
	27.05.2022	29.06.2022**	10.08.2022**	27.09.2022	11.11.2022	14.02.2023	08.03.2023	
K Sundararaj (Committee Chairman)	✓	✓*	✓*	✓*	✓	✓	✓	07
P A Wijeratne	✓	✓*	✓*	✓	✓	✓	✓	07
B C G de Zylva	–	✓*	✓*	✓*	✓*	✓*	–	05
By Invitation								
Head of Finance	✓	✓*	✓*	✓	✓	✓	✓	07
Head of Internal Audit	✓	✓*	–	✓	✓	✓	✓	06
Chief Operating Officer	✓	✓*	✓*	✓	✓	✓	✓	07
F K C P N Dias	✓	✓*	–	✓	✓	✓*	✓	06
D M D K Thilakaratne	✓	✓*	–	✓	✓	✓	✓	06
Mrs K U Amarasinghe	–	✓*	–	–	✓	–	–	02
A J L Pieris (appointed on 31.01.2023)	–	–	–	–	–	✓	✓	02
S Lankathilake (appointed on 31.01.2023)	–	–	–	–	–	✓	✓	02

*Participated online via Microsoft Teams

** Meetings held via Microsoft Teams

Met with external auditors – 27/05/2022, 29/06/2022, 27/09/2022, 08/03/2023

Met auditors without Management – 29/06/2022, 27/09/2022, 08/03/2023

Integrated Risk Management Committee Meetings

Name of Committee Member	Meeting Dates				Total
	16.06.2022**	23.09.2022	16.12.2022	23.03.2023	04
P A Wijeratne (Committee Chairman)	✓*	✓	✓	✓	04
K Sundararaj	✓*	✓	✓	✓	04
B C G de Zylva	✓*	✓*	-	✓*	03
By Invitation					
Head of Risk Management	✓*	✓	✓	✓	04
Compliance Officer	✓	✓	✓	✓	04
Chief Operating Officer	✓	✓	✓	✓	04
Head of Treasury	✓	✓	✓	✓	04
Head of Finance	✓	✓	✓	✓*	04
F K C P N Dias	✓*	✓	✓	✓	04
D M D K Thilakaratne	✓*	✓	✓	✓	04
Mrs K U Amarasinghe	-	✓	✓	✓	03
A J L Pieris (appointed on 31.01.2023)	-	-	-	✓	01
S Lankathilake (appointed on 31.01.2023)	-	-	-	✓	01

*Participated online via Microsoft Teams

** Meetings held via Microsoft Teams

Related Party Transactions Review Committee Meetings

Name of Committee Member	Meeting Dates				Total
	27.05.2022	10.08.2022**	11.11.2022	14.02.2023	04
P A Wijeratne (Committee Chairman)	✓	✓*	✓	✓	04
K Sundararaj (Appointed to the Committee w.e.f 31.03.2022)	✓	✓*	✓	✓	04
B C G de Zylva (Appointed to the Committee w.e.f 31.03.2022)	✓*	✓*	✓*	✓*	04
By Invitation					
Head of Finance	✓	✓*	✓	✓	04
Compliance Officer	✓	-	✓	✓	03
Chief Operating Officer	✓	✓*	✓	✓	04
Head of Treasury	✓	-	-	✓	02
F K C P N Dias	✓	-	✓	✓*	03
D M D K Thilakaratne	✓	-	✓	✓	03
Mrs K U Amarasinghe	-	-	✓	-	01
A J L Pieris (appointed on 31.01.2023)	-	-	-	✓	01
S Lankathilake (appointed on 31.01.2023)	-	-	-	✓	01

*Participated online via Microsoft Teams

** Meetings held via Microsoft Teams

HR & Remuneration Committee Meetings

Name of Committee Member	Meeting Dates 31.03.2023	Total 01
P A Wijeratne (Committee Chairman)	✓	01
K Sundararaj	✓*	01
F K C P N Dias	✓*	01
By Invitation		
D M D K Thilakaratne	✓	01
B C G de Zylva	✓*	01
Mrs K U Amarasinghe	✓*	01
A J L Pieris (appointed on 31.01.2023)	✓	01
S Lankathilake (appointed on 31.01.2023)	✓	01

*Participated online via Microsoft Teams

Nomination Committee Meetings

Name of Committee Member	Meeting Dates 31.03.2023	Total 01
P A Wijeratne (Committee Chairman)	✓	01
K Sundararaj	✓*	01
F K C P N Dias	✓*	01
By Invitation		
D M D K Thilakaratne	✓	01
B C G de Zylva	✓*	01
Mrs K U Amarasinghe	✓*	01
A J L Pieris (appointed on 31.01.2023)	✓	01
S Lankathilake (appointed on 31.01.2023)	✓	01

*Participated online via Microsoft Teams

Enterprise Risk Management

The country's economy experienced its most severe economic downturn in 2022, with the country witnessing a significant decline in GDP growth, high inflation rates, high exchange rate fluctuations and a sharp increase in unemployment. Additionally, the economic downturn has also led to a decrease in consumer spending and investment, further exacerbating the challenges faced by the financial industry. Therefore, in response to the emerging challenges, the Company adopted an approach that was focused on managing risks and growing selected portfolios while optimising capital.

The Board holds responsibility for the management of risk and ensures controls are incorporated into all important processes to mitigate potential negative impacts, providing a solid foundation to navigate under extreme conditions. When managing risks in relation to the Company's strategic objectives, the established risk management policies and risk management instruments are crucial. The Company's robust risk management framework embraces the best practices in identifying, assessing, measuring and managing key and emerging risks. The risk management framework is aligned with the business strategy of the Company, and much attention is paid to managing emerging risks in the current context. The management is given direction by the Board-approved risk management policies when it comes to putting processes in place within the organisation.

RISK GOVERNANCE STRUCTURE

The risk management system, which consists of governance, structure, risk management tools and culture, all aim to match employee behaviour with the risk appetite of the Company. The risk governance structure is based on the approach of a three-line defence model that enables the company to possess the necessary expertise and manage the daily operations with defined responsibilities and accountabilities.

The business units serve as the first line of defence and manage risks associated with day-to-day operations. With regard to good risk management, the second line of defence challenges the first line of defence and offers recommendations and direction. The third line provides independent assurance about the processes, procedures, and risk exposures in place by carrying out internal audits on a periodic basis.

APPROACH TO RISK MANAGEMENT

The Integrated Risk Management Committee (IRMC) has been established by the Board to carry out its oversight duties for risk management and ensure the sufficiency and efficiency of internal control mechanisms. The IRMC meets quarterly and is responsible for managing risks and compliance in accordance with laws, regulations and risk-related policies. The Board Audit and Risk Committees play an important role in managing risks in the internal and external environment. The committees assess material risks, including strategy, credit, market, operational, legal, cyber and other emerging risks. The risk related policies and procedures established by the Board provide all operations departments with clear guidance in carrying out their responsibilities. The improvements are also made to risk-related policies and procedures taking into consideration the changes in the regulatory guidelines and foreseeable developments in the operating environment.

While strengthening the risk management capabilities, the impact of internal and external risk drivers is actively tracked and evaluated as the organisation moves toward its strategic objectives. The Company's risk appetite statement expresses the amount of risk that the Company is willing to accept when achieving its strategic goals. The risk appetite of the Company is articulated to safeguard the financial stability and ensure that the Company operates at an acceptable risk profile with the resources available. The amount of capital necessary to function in accordance with the risk tolerance was kept at the appropriate levels. The risk appetite statement is reviewed annually in line with the strategic direction of the Company.

Enterprise Risk Management

Credit Risk

The Company's strategy is to always maintain a high-quality loan portfolio. The portfolio is managed with robust risk management which comprises policies, procedures, collateral management, post-disbursement monitoring, sharing of credit-related knowledge, monitoring and portfolio analysis.

Operational Risk

Operational risk arises due to inadequate or failed people, processes, systems, and external events inherent in financial operations. Operational risk tools such as Key Risk Indicators (KRIs) loss databases, and scenario analysis are used to minimise the risk with the aim of strengthening the controls in the operating environment.

Market Risk

Market risk is managed through laid-down policies and procedures, ensuring the Company operates within its risk appetite. Interest rate risk and exchange rate risk are monitored with related limits, and necessary actions are promptly recommended to minimise the risk.

Concentration Risk

Concentration risk limits are defined in the risk appetite statement and a diversification strategy is adopted to manage the risk.

Liquidity Risk

The Company's strategy is to maintain liquid assets at optimum levels to increase profitability through optimal usage of liquid assets. The risk policies and procedures are reviewed to keep them current with the changing operating environment. Stress tests are conducted to determine the funding availability to meet obligations under normal and stressed conditions

Compliance Risk

Regulatory and other new legal laws are communicated in a timely manner to relevant business units and provide the required guidance for implementation and compliance by embedding the compliance culture in order to mitigate the risk.

Reputational Risk

Reputational risk is managed through laid-down policies, procedures, systems, and training programmes. A customer complaint handling process is in place to ensure appropriate actions are taken for the identified risks.

Strategic Risk

Managing strategic risk has become a high priority. The right technology, predictive analysis, and mitigation actions for risks associated with the strategy have helped manage the strategic risk of the Company.

KRIs are measures that are used to quantify risks and provide essential assistance for making decisions based on them. The board-approved KRIs pertaining to credit, market, operational, and other risks are identified with risk tolerance limits that are benchmarked with the industry and monitored by the risk management department. KRIs allow businesses the opportunity to match risk appetite and tolerance levels, enabling timely and continuous risk monitoring. The KRI dashboard and loss distribution are analysed and presented at the IRMC to identify the implications of material risks. The outcomes are reported to relevant stakeholders with recommendations for necessary action as applicable. The committee always recommends corrective actions to mitigate the impact of such risks.

Stress testing is a risk management method that looks forward in order to assess the possible effects of both unforeseen occurrences and changes in the Company's financial factors, such as capital, asset quality, and profitability. The capital plays an important role in an unstable economic environment. The stress testing of capital under different stress scenarios was carried out to ascertain the capital's adequacy to face unforeseen adverse conditions. A variety of parameters under credit, market, operational, and concentration risk were subjected to stress tests at various frequencies, focusing on adverse stress scenarios and outcomes, which were carefully analysed and presented at the IRMC. This leads to understanding the level of risks, quantifying the impact, taking proactive decisions to mitigate such risks, and developing contingency plans while ensuring that the capital is sufficient to sustain the losses.

A comprehensive business continuity plan is available and tested annually to ensure the continuation of functions in the event of a disaster such as disruptions to data transfer, natural disasters, terrorist attacks, or pandemics, ensuring operational resilience. The Business Continuity Management Steering Committee directs the governance of business continuity management to lessen the effects of business disruption.

The effectiveness of the BCP is evaluated in a range of scenarios to identify areas that still need improvement, and the BCP is updated with the necessary revisions in order to keep consumers' trust in the company and minimise the effects of service interruptions.

The Company made investments in digitalisation in order to serve its customer base with innovative digital products and services to cater to the demands of changing lifestyles. In light of the growing digitalisation of society, the IT security team conducted risk assessments covering all IT-related hazards, including cybersecurity risk. The Company extensively collaborates with its customers, and robust recovery strategies are continuously adopted to manage the NPL ratio while keeping the Company's credit portfolio in good shape. Regular risk exposures are monitored, and remedial actions are discussed at the several executive committees, including ALCO and the credit committee, which are also engaged in managing risk prudently.

The risk culture is reinforced through regular training and communication to ensure that all employees understand their role in identifying and mitigating risks. This helps to foster a proactive approach towards risk management and encourages employees to be vigilant in identifying potential risks. By promoting a strong risk culture, the Company manages to minimise the impact of risks and create a safer working environment for everyone involved.

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 2023.

PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

LOFC is a Licensed Finance Company in terms of the Finance Business Act No. 42 of 2011. The Company is also a registered finance leasing establishment in terms of the Finance Leasing Act No. 56 of 2000.

During the year the principal activities of the Company comprised Finance Business, Finance leasing, Islamic Finance, issue of Payment Cards, Micro Finance Loans, Gold Loans and provision of Advances for Margin Trading in the Colombo Stock Exchange.

MARKETS SERVED

The Company operates in all provinces of Sri Lanka with the largest concentration of branches being in Western and North Central Provinces.

DIRECTORATE

The Board of Directors of the Company for the year under review comprise the following:

1. F K C P N Dias	Chairman, Non-Executive Director
2. D M D K Thilakaratne	Executive Director/CEO
3. Mrs. K U Amarasinghe (resigned from the Board with effect from 29.05.2023)	Executive Director
4. B C G De Zylva	Non-Executive Director
5. P A Wijeratne	Senior Independent Director
6. K Sundararaj	Independent Director
7. S Lankathilake (appointed to the Board with effect from 31.01.2023)	Independent Director
8. A J L Peiris (appointed to the Board with effect from 31.01.2023)	Independent Director

The profiles of the above Directors can be found on pages 8 to 9.

The Board welcomes Messrs S Lankathilake and A J L Peiris who were appointed as Independent Directors on 31.01.2023 upon completion of the amalgamation with L O L C Development Finance PLC. The Board looks forward to benefiting from their expertise in development finance and economics.

In compliance with Section 3.5 (f) of the Corporate Governance Direction No. 5 of 2021, Mrs. K U Amarasinghe resigned with effect from 29th May 2023. The Board places on record its immense gratitude to Mrs Amarasinghe for her contribution towards the strategic decision making of the board over the past 20 years.

The aforesaid changes to the directorate have been approved by the Central Bank of Sri Lanka.

RECOMMENDATIONS FOR RE-ELECTION OF DIRECTORS

In terms of Article 70 of the Articles of Association of the Company, Mr. S Lankathilake and Mr. A J L Peiris will retire and being eligible seek re-election as directors.

In terms of Article 75 of the Articles of Association of the Company Mr. F K C P N Dias and Mr P A Wijeratne will retire by rotation and being eligible seek re-election as directors.

The Board recommends their re-election.

The approval of the Department of Supervision of Nonbank Financial Institutions of the Central Bank of Sri Lanka has been Sought for the existing/continuing directors of the Company in terms of Sec. 7.2 (a) of the Fitness & Propriety of Directors and Officers Direction No. 6 of 2021.

DIRECTORS' SHAREHOLDING

	Director's Name	As at 31.03.2023	As at 31.03.2022
1	F K C P N Dias	Nil	Nil
2	D M D K Thilakaratne	Nil	Nil
3	Mrs. K U Amarasinghe	Nil	Nil
4	B C G De Zylva	Nil	Nil
5	P A Wijeratne	455,998	455,998
6	K Sundararaj	Nil	Nil
7	S Lankathilake	Nil	Nil
8	A J L Peiris	Nil	Nil

DIRECTORS INTERESTS IN CONTRACTS

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

Lists of companies on which these Directors serve are included in page 79.

DIRECTORS' DECLARATIONS IN TERMS OF SECTION 16.1 OF THE FINANCE BUSINESS ACT DIRECTIONS NO. 05 OF 2021, CORPORATE GOVERNANCE

The Chairman and the Directors of the Company have made declarations as per the requirements in the above Directions, that there is no financial, business, family or other material/relevant relationship(s) between the Chairman and the CEO and/or amongst the members of the Board.

DIRECTORS' REMUNERATION

The Company paid Rs. 38,364,559/- as Directors' remuneration for the financial year ended 31st March 2023 (Rs. 40,913,600/- for 31st March 2022).

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 84.

CAPITAL STRUCTURE

The stated capital of the Company is Rs. 306,993,805,500/50 divided into 33,079,212,299 shares.

The debt capital of the company comprises rated unsecured subordinated redeemable debentures of thirty four million (34,110,193) issued in July 2018 and fifty million (50,000,000) issued in September 2020. These debentures are listed in the Colombo Stock Exchange and Lanka Rating Agency rated Rs.2.5Bn debentures as A- (Stable) and Rs.5Bn debentures as A (Stable).

The details of the Debentures in issue as at 31st March 2023 are set out in Note 14.3 to the Financial Statements on page 153.

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 70 to 72.

CORPORATE GOVERNANCE

LOLC Finance PLC is governed by the requirements of the Finance Companies (Corporate Governance) Direction No. 05 of 2021 (with transitional provisions applicable from 01.07.2022 to 01.07.2024) and the Listing Rules of the Colombo Stock Exchange.

The manner in which the Board of Directors of the Company ensures adherence with the above requirements has been disclosed on pages 28 to 72.

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
» HR & Remuneration Committee
» Related Party Transaction Review Committee
» Nomination Committee

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

The reports of these committees can be found on pages 82 to 87.

MANAGEMENT COMMITTEES

The Company has the following management level committees to manage matters relating to credit, liquidity, collections and operational level planning and risk management:

» Credit Committee
» Asset Liability Committee
» Legal Settlement Committee
» Management Committee

COMPLIANCE WITH LAWS AND REGULATIONS

The Company has not engaged in any activity that contravenes any applicable law or regulation, and to the best of the knowledge of the Directors the Company has been in compliance with all prudential requirements, regulations and laws.

The Company is compliant with the Listing Rules of the Colombo Stock Exchange (CSE) with the exception of the requirements relating to the Minimum Public Float under rule 7.14.1.i.b. Please refer page 69. for further details.

INDUSTRIAL RELATIONS

Human Capital Strategies of the Company are based on respected HR practices to attract and retain right people. Policies are in place to develop and motivate the workforce for current and future business needs of the Company.

Disciplinary matters are dealt according to the board approved policies in compliance with labour regulations. There was no occurrence of any issue detrimental to the harmonious industrial relations of the Company during the year under review which required disclosure under Rule 7.6 (Vii) of the Listing Rules of the CSE.

SCHOLAR SUPERVISORY BOARD

As the Company offers Alternate Financial Services, from its dedicated Strategic Business Unit (SBU) under product brand Al-Falaah, the Board has installed a dedicated Scholar Supervisory Board (SSB) for monitoring of the business's conceptual and operational compliance. The SSB reviews all Alternate Finance products offered, and periodically audits the processes, thereby providing comfort to customers of the product standards, and further strengthening the Board's control.

Two of the three member SSB are based in Sri Lanka and the remaining member is an internationally renowned scholar based in South Africa. Members of the panel are acclaimed experts in the Islamic Banking & Finance industry. Whilst being academically and professionally qualified in respective standards, two of the members are conferred with the 'Certified Shari'ah Advisor & Auditor' accreditation by the Accounting & Auditing Organisation for Islamic Financial Institutes (AAOIFI) of Bahrain, which is the accepted body for standards of Alternate Financial Services practitioners globally.

Currently Alternate Financial Services are offered through the standard LOFC Channel network of over 219 locations which also include dedicated Al-Falaah service desks within.

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

The Financial Statements and the Auditors report are found on pages 93 to 96.

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.

The Statement of Directors' Responsibilities for Financial Reporting is on page 89.

DIRECTORS' STATEMENT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

In terms of Section 16.1 (ix) of Finance Companies (Corporate Governance) Direction No. 05 of 2021, the Board has issued a statement on the internal control mechanism of the Company on page 80 The Assurance Report from the Independent Auditors on the Directors' Statement on Internal Controls over Financial Reporting obtained by the Board is on page 80.

SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements and any changes thereof where applicable have been included in the Notes to the Financial Statements on pages 106 to 120.

TRANSACTIONS WITH RELATED PARTIES

In terms of LKAS 24, the Directors have disclosed transactions which are classified as related party transactions under Note 33.3 on pages 167 to 168.

The Board confirms that the Company has not engaged in transactions with any related party in a manner that would grant such party more favourable treatment than that offered to other clients of the Company.

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2023 and that such transactions with the company if any, have been disclosed while abstaining from voting on matters of material interest.

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. As the auditors have expressed their willingness to continue, as advised by the Audit Committee, the Board recommends their re-appointment for the year 2023/2024 at a fee to be decided by the Board.

The Auditors' remuneration for the year ended 31st March 2023 is disclosed in Note 27 to the Financial Statements.

The Audit Committee reviews the appointment of the Auditor, its effectiveness, its independence and its relationship with the Company, including the level of audit and nonaudit fees paid. The Auditor's were also engaged to seek an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 05 of 2021 issued by the Monetary Board and the Company's level of adherence to the internal controls on financial reporting.

As far as the Directors are aware, the Auditors do not have any other relationship with the Company or any interest in contracts with the Company.

RISK MANAGEMENT AND 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.

AMALGAMATION BETWEEN THE COMPANY AND LOLC DEVELOPMENT FINANCE PLC

In accordance with the CBSL Master Plan for Consolidation of Non-Bank Financial Institutions, the amalgamation of LOLC Development Finance PLC (LODF) with the Company, LOLC Finance PLC was concluded effective from 31st January, 2023 with requisite regulatory and statutory approvals. The Company, being the surviving entity, therefore succeeds to all the property, rights, powers, privileges, liabilities and obligations of the amalgamating company LODF.

Please refer Note 37 for further details.

ASSOCIATE COMPANIES

The Company holds the following associate investments:

COMMERCIAL INSURANCE BROKERS (PRIVATE) LIMITED

The Company holds 40% of the equity of Commercial Insurance Brokers (Private) Limited (CIB). Mr D M D K Thilakaratne and Mr N Weerapana have been nominated to its Board by the Company. During the past 34 years CIB has been engaged in the business of life and general insurance. It is one of the premier insurance broking firms in the country.

LOLC EL-OULA MICROFINANCE EGYPT

The Company held 25% shareholding in LOLC El-Oula Microfinance Egypt. Effective from 16th July 2023, the holding diluted to 15.10% due to non subscription of rights.

LOLC MYANMAR MICROFINANCE COMPANY LTD

The Company holds 17.33% shareholding in LOLC Myanmar Micro-Finance Company Limited (LMML), the Group's greenfield lending operation considered to be among the top 10 MFI's in Myanmar.

EVENTS AFTER THE REPORTING DATE

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

FAIR TREATMENT FOR STAKEHOLDERS

The Board of Directors declare that the Company has taken necessary measures to ensure the fair and equitable treatment for all stakeholders, including its shareholders of depositors.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Wednesday the 27th day of September 2023 at 10:00 a.m. as a virtual meeting and the Notice of Meeting is on page 206.

For and on behalf of the Board of Directors of

LOLC Finance PLC

D M D K Thilakaratne

Director/CEO

F K C P N Dias

Chairman

LOLC Corporate Services (Private) Limited

Secretaries

29th June 2023

Rajagiriya

DIRECTORS' DECLARATIONS

Name of the Director	Directorates as at 31.03.2023
Mr. F K C P N Dias	LOLC Finance PLC LOLC Holdings PLC LOLC Technology Services Ltd LOLC Technologies Ltd Digital Mobility Solutions Lanka (Pvt) Ltd oDoc (Private) Limited I Pay Global FZC Fusion X Global FZC LOLC Finance Philippines Inc LOLC Myanmar Microfinance Company Limited Fina Trust Microfinance Bank Limited – Nigeria LOLC Cambodia PLC Sanasa Development Bank PLC iPay Ceylon (Pvt) Ltd Pak Oman Micro Finance Bank Ltd LOLC Bank Philippines PT LOLC Management Indonesia Serendib Micro-insurance PLC
Mr D M D K Thilakaratne	LOLC Finance PLC (Executive Director) Seylan Bank PLC Commercial Factors (Private) Limited Commercial Insurance Brokers (Pvt) Ltd LOLC Myanmar Micro Finance Company Limited Fazos LLC – Tajikistan OJSC Micro Finance Company ABN – Kyrgyzstan
Mr B C G De Zylva	LOLC Finance PLC LOLC Myanmar Microfinance Co. Ltd (Executive Director) LOLC (Cambodia) Plc. Serendib Micro Insurance (Cambodia)
Mrs K U Amarasinghe	LOLC Finance PLC (Executive Director - r.w.e.f 29.05.2023) LOLC Holdings PLC LOLC Life Assurance Limited Palm Garden Hotels PLC Eden Hotel Lanka PLC Brown & Company PLC Browns Investments PLC Riverina Resorts (Pvt) Ltd Browns Holdings Ltd Green Paradise (Pvt) Ltd Serendib Hotels PLC Hotel Sigiriya PLC Serendib Leisure Management Limited Danya Capital (Pvt) Ltd LOLC Serendib (Pvt) Ltd Dolphin Hotels PLC Ultimate Sports (Pvt) Ltd P L Resorts (Pvt) Ltd
Mr P A Wijeratne	LOLC Finance PLC
Mr K Sundararaj	LOLC Finance PLC
Mr S Lankathilake	LOLC Finance PLC
Mr A J L Peiris	LOLC Finance PLC LOLC Life Assurance Limited

Directors' Statement on Internal Control over Financial Reporting

REPORTING RESPONSIBILITY

The Board of LOLC Finance PLC hereby issues this report on adherence to prudential requirements, regulations, and laws, as mandated by Section 16 (1) (ix) of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance.

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 framework covering processes relating to investment balances and reconciliations related to asset balances are being made. The matters addressed by the External Auditors in this respect will be taken into consideration and appropriate steps will be taken to incorporate same, where applicable.

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

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.

DECLARATION ON PRUDENTIAL REQUIREMENTS, REGULATIONS AND LAWS

There are no material non-compliance to prudential requirements, regulations, laws and internal controls affecting the Company.

There have been no incidents of concern raised by the Director of Non-Bank Supervision of the Central Bank of Sri Lanka regarding the Company's Risk Management Systems or non-compliance, which would lead to directions for public disclosure by the Monetary Board. As a result, there are no measures to be taken or disclosures required in this regard.

By order of the Board,

Mr. Conrad Dias
Chairman/Non-Executive Director

Mr. Krishan Thilakaratne
Director/Chief Executive Officer

29th June 2023

Independent Assurance Report

Building a better working world

Ernst & Young
Chartered Accountants
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ey.com

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF LOLC FINANCE PLC

Report on the Directors' Statement on Internal Control Over Financial Reporting included in the Directors' Statement on Internal Control

We were engaged by the Board of Directors of LOLC Finance PLC ("Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the Annual Report for the year ended 31 March 2023.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with Section 16 (1) (ix) of the Finance Companies Corporate Governance Direction no. 05 of 2021, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

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

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

Our responsibilities and compliance with SLSAE 3051

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

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

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

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

Summary of work performed

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

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

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

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

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

Our conclusion

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

29th June 2023

Colombo

Partners: H M A Jayesinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), Ms. A A Ludowyke FCA FCMA, Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: G B Goudian ACMA, Ms. P S Paranavitane ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

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. During the year under review, the Committee comprised the following members:.

K Sundararaj	Committee Chairman/ Independent Director
P A Wijeratne	Senior Independent Director
B C G de Zylva	Non-Executive Director (resigned from the Committee on 31.03.2023)
A J L Peiris	Independent Director (appointed to the Committee on 31.03.2023)

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. 5 of 2021 and the Listing Rules of the Colombo Stock Exchange.

The Charter has been reviewed and updated in August 2023. The Committee has been mandated to ensure that a sound Financial Reporting System is established by: reviewing the appropriateness of procedures in place for the identification, evaluation and management of business risks; ensuring that internal controls relating to all areas of operations, including Human Resources and IT enhance good governance while not impeding business; seeking assurance that agreed control systems are in place, are operating efficiently and are regularly monitored; ensuring that appropriate controls are put in place prior to the implementation of significant business changes, facilitating monitoring of the changes; reviewing internal and external audit functions; and ensuring compliance with applicable laws, regulations, listing rules and established policies of the Company.

ACTIVITIES OF THE COMMITTEE

Mr. Kandiah Sundararaj counts over 28 years experience in Accounting, Auditing and Tax consulting. He started his career as a Chartered Accountant in 1998 and is currently serving as the Tax Partner in M/s Amerasekera and Company, Chartered Accountants. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka and holds a Master of Business Administration in Finance from the University of Colombo.

During the year under review the Committee reviewed Interim and Annual Financial Statements prior to publication, checked and recommended changes in accounting policies, significant estimates and judgments made by the management, compliance with relevant accounting standards/regulatory requirements, issues arising from internal and external audit, and reviewed the committee performance during the year under review.

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

The Committee addressed the External Auditors' findings reported in the Management Letter relating to the previous financial year's (2021/22) audit.

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

The Audit Committee has determined that the External Auditors are in fact independent as: they are not engaged in providing any non-audit services to the Company; and the fees charged for audit assignments are not significant to impair their judgment/ independence.

In accordance with good governance initiatives and applicable regulations, audit partner rotation is practiced and the need for periodic auditor rotation will also be considered at the conclusion of transitional provisions. The Audit Committee has recommended to the Board and the shareholders the reappointment of the External Auditors.

MEETINGS

The Committee meets quarterly and additional meetings are held as and when a need arises. Seven (07) meetings were held during the year and the members' attendance at Audit Committee meetings is provided on page 70. The CEO and the Head of Finance are invited to these meetings. Minutes of such meetings which include details of matters discussed are reported regularly at Board meetings. The audit partner was invited to attend four meetings and on three instances, the auditors were able to meet with the Audit Committee members without the presence of other directors and members of the management.

Mr. K Sundararaj
Chairman, Audit Committee

Rajagiriya
29th June 2023

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. During the year under review the Committee comprised the following members:

P A Wijeratne	Committee Chairman/ Senior Independent Director (stepped down from the position of Committee Chair and continues to serves as a member with effect from 31.03.2023)
K Sundararaj	Independent Director
B C G de Zylva	Non-Executive Director (resigned from the Committee on 31.03.2023)
S Lankathilake	Committee Chairman/ Independent Director (appointed to the Committee on 31.03.2023)

TERMS OF REFERENCE

The IRMC is governed by its Terms of Reference (TOR) which includes the provisions of the Finance Companies Corporate Governance Direction No. 5 of 2021 issued by the Monetary Board of the Central Bank of Sri Lanka. The TOR was reviewed and strengthened in April 2023 in accordance with the requirements of the aforesaid direction.

ACTIVITIES OF THE COMMITTEE

Credit, Operational, Market, Liquidity, Compliance, Technology and Regulatory and Reputational Risks are monitored by divisional heads and reported to ERM on a monthly basis. The Head of Risk Management in turn performs an independent and selective scrutiny of relevant matters and issues summarised reports monthly to the Board, as well as quarterly reports to the Committee with recommendations for concurrence and/ or specific directions in order to ensure that the risks are managed appropriately.

As delegated by the Committee the Head of Risk Management further submits a risk assessment report to the Board, subsequent to each meeting within a week of each meeting, stating the risk mitigation actions adopted. The Committee works closely with the key responsible persons and the Board in fulfilling its duties in risk management.

During the year the Committee: reviewed and revised the Key Risk Indicators/risk parameters adopted; reviewed actual results computed monthly against such revised risk indicators and took prompt corrective strategies to mitigate the effects of the specific risk; reviewed and recommended the adoption of a business continuity policy; 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, including the compliance plan; reviewed the adequacy and effectiveness of management level committees such as Assets & Liability Committee and the Credit Committee. The Committee further reviewed its own performance during the year under review.

MEETINGS

During the year the Committee met four times on a quarterly basis. The attendance of members at meetings is stated on page 71. Proceedings of meetings are also tabled at a subsequent meeting of the Board.

S Lankathilake

Chairman, Integrated Risk Management Committee.

Rajagiriya

29th June 2023

Report of the HR & Remuneration Committee

COMPOSITION

The Remuneration Committee was initially established to assist the Board in evaluating and recommending remuneration for Board Members. Thereafter, in 2022 the scope of the Committee was enhanced taking into consideration a wider range of responsibilities prescribed by the Central Bank of Sri Lanka while changing its name to "HR & Remuneration Committee". The Committee comprises the following Members:

P A Wijeratne	Committee Chairman/ Senior Independent Director
K Sundararaj	Independent Director
F K C P N Dias	Non-Executive Director

TERMS OF REFERENCE

Accordingly, the HR & Remuneration Committee Terms of Reference (TOR) was revamped in October 2022 to include provisions of the Finance Companies Corporate Governance Direction No. 5 of 2021 issued by the Monetary Board of the Central Bank of Sri Lanka and the requirements set out in the Listing Rules of the Colombo Stock Exchange.

The Committee has adopted 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 Remuneration Policy was last revised November 2019.

The Committee is also responsible for: establishing a formal and transparent procedure for developing the remuneration policy; determining remuneration relating to executive directors, senior managers and fees and allowances for non-executive directors; recommend the remuneration policy on paying salaries, allowances and other financial incentives for all employees of the Company including any subsequent material changes for approval of the Board; ensure that the remuneration structure is in line with the business strategy, and cost structure of the Company; incorporate measures to prevent conflicts of interest; excluding chief internal auditor, compliance officer, chief risk officer review the performance of the senior management against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.

ACTIVITIES OF THE COMMITTEE

During the year, the Committee reviewed and revised its Terms of Reference in accordance with the requirements of the Central Bank of Sri Lanka; recommended for board approval the restructuring of fees paid to independent directors, restructuring of staff benefits/re-designations consequent to the amalgamation with LOLC Development Finance PLC and periodic revisions made to HR policies adopted by the Company. The Committee also reviewed and ratified the basis of granting staff performance based exgratia payments for the year under review.

The total amount paid as directors' emoluments have been disclosed on page 76.

MEETINGS

The Committee meets annually. One meeting was held during the year under review. The attendance of members at the meeting is stated on page 72. Proceedings of this meeting were also tabled at a subsequent meeting of the Board.

Mr. P A Wijeratne
Chairman, Remuneration Committee

Rajagiriya
29th June 2023

Report of the Related Party Transaction Review Committee

COMPOSITION

The Related Party Transaction Review Committee was initially formed by the Board to comply with the related Rules of the Colombo Stock Exchange. During the year under review, the Committee comprised the following members:

P A Wijeratne	Committee Chairman/ Senior Independent Director (resigned from the Committee on 31.03.2023)
K Sundararaj	Independent Director
B C G De Zylva	Non-Executive Director (resigned from the Committee on 31.03.2023)
A J L Peiris	Committee Chairman/ Independent Director (appointed to the Committee on 31.03.2023)
S Lankathilake	Independent Director (appointed to the Committee on 31.03.2023)

TERMS OF REFERENCE

The Committee is governed by its Terms of Reference (TOR) which encompass the requirements stipulated under the Code of Best Practice on Related Party Transactions (RPTs) issued by the Securities and Exchange Commission of Sri Lanka. The TOR was last revised in February 2020.

POLICIES AND PROCEDURES ADOPTED

On behalf of the Board, the Committee has established a Related Party Transaction Policy consistent with the Company's business model to ensure that all related party transactions are carried out in compliance with the provisions in its TOR, the Directions issued to Finance Companies by CBSL on Lending/Single Borrower Limits and the Sri Lanka Accounting Standards while maintaining fairness and transparency. This Policy was last revised in August 2022 taking into consideration the related provisions stipulated in the Finance Companies (Corporate Governance) Direction No. 5 of 2021 issued by the Monetary Board of the Central Bank of Sri Lanka (CBSL).

The Committee quarterly reviews all recurrent and non-recurrent RPTs of the Company. The Company has implemented a system that enables the Company to capture and retrieve data on RPTs. This system generates comprehensive reports for management review and for quarterly review of the Committee reflecting all related party transactions including expenses, income, lending and amounts outstanding.

When reviewing facilities to RPTs, the Committee considers the nature of the transaction, terms, conditions, value and the statement of compliance signed off by the key responsible persons of the Company in order to determine whether the transaction proposed will be carried out in accordance with the policy adopted.

Reviewing and approval of RPTs are either at its quarterly meetings with a majority of the members present to form a quorum or by circulation consented to by a majority.

The Committee reviews the policy and procedures on an annual basis or when need arises.

ACTIVITIES OF THE COMMITTEE

During the year the Committee has reviewed the list of individuals and entities identified as related parties of the Company, 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, CBSL and the Sri Lanka Accounting Standards had been complied with in relation to approvals/reporting/disclosure. With the approval of the Board, the Committee further reviewed and adopted a connected party policy (individuals/entities that does not fall under the definition of LKAS 24 but affiliated to the entity) as proposed by the Management.

During the year under review, having obtained the requisite approvals, the Company entered into a non-recurrent related party transaction valued at Rs. 95,412,357,959/-, exceeding 10% of the equity and 5% of the total assets on 31st January 2023 being the cost of amalgamation with LOLC Development Finance PLC in line with the CBSL Masterplan for Consolidation of the NBFI Sector.

The aggregate value of the recurrent related party transactions did not exceed 10% of the gross revenue/income of the Company during the year requiring disclosure in terms of Section 9.3.2 (b) of the Listing Rules of the CSE.

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

A declaration by the Board of Directors as an affirmative statement of the Compliance with the Listing Rules pertaining to related party transactions is given on page 116 of this report.

MEETINGS

Four Committee meetings were held during the year. The attendance of members at meetings is stated on page 71. 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.

Mr. A J L Peiris

Chairman, Related Party Transaction Review Committee

Rajagiriya

29th June 2023

Report of the Nomination Committee

COMPOSITION

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

P A Wijeratne	Committee Chairman/ Senior Independent Director (resigned from the Committee on 31.03.2023)
K Sundararaj	Independent Non-Executive Director (resigned from the Committee on 31.03.2023)
F K C P N Dias	Non-Executive Director
S Lankathilake	Committee Chairman/ Independent Director (appointed to the Committee on 31.03.2023)
A J L Peiris	Independent Director (appointed to the Committee on 31.03.2023)

TERMS OF REFERENCE

The Committee Charter/Terms of Reference (TOR) was revised in March 2022 in accordance with the provisions of the Finance Companies Corporate Governance Direction No. 5 for 2021 issued by the Monetary Board of the Central Bank of Sri Lanka.

ACTIVITIES OF THE COMMITTEE

The Committee's duties and responsibilities are: assist the Board in identifying qualified individuals to become Board members; implement a formal and transparent procedure for the appointment of new directors and senior managers; annual review of 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 and succession planning; ensure that directors and senior managers are fit and proper persons to perform their functions; 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.

During the year under review, the Committee, reviewed and rotated the membership of its sub committees taking into consideration the experience and expertise of each individual member in terms of the requirements of CBSL as well as CSE; reviewed further the officers identified as key responsible persons of the Company; and recommended for Board and CBSL approval the continuation/re-election of existing Board members in terms of the Finance Companies Fitness & Propriety of Directors & Officers Direction No. 6 of 2021.

MEETINGS

One Committee meeting was held during the year under review and proceedings of this meeting were reported to the Board. The attendance of members at meetings is stated on page 72.

S Lankathilake
Chairman, Nomination Committee

Rajagiriya
29th June 2023

Report of the Board Credit Committee

COMPOSITION

The Board Credit Committee was established to assist the Board in assessing large credit facilities recommended by the Management after the year under review. The Committee comprises the following membership:

P A Wijeratne	Committee Chairman/ Senior Independent Director (appointed to the Committee on 31.03.2023)
A J L Peiris	Independent Director (appointed to the Committee on 31.03.2023)
S Lankathilake	Independent Director (appointed to the Committee on 31.03.2023)

TERMS OF REFERENCE

The Board established this Committee voluntarily and its Charter/Terms of Reference (TOR) defines its purpose.

ACTIVITIES OF THE COMMITTEE

The Committee's duties and responsibilities are: assist the Board in effectively fulfilling its responsibilities relating to credit direction, credit policy and lending guidelines to inculcate a healthy lending culture, standards and practices while ensuring relevant rules, regulations and directions issued by the appropriate authorities are complied with; to fulfil this objective consider changes proposed by the Management from time to time to the credit policy and lending guidelines of the Company; review the credit risk controls in lending, ensure alignment with the market context and the internal policy on prevailing regulatory framework to ensure continuous maintenance and enhancement of the overall quality of the lending portfolio; evaluate and approve credit proposals which are within the delegated authority limits of the committee approved by the Board as well as recommend credit proposals which fall within the purview of the Board.

P A Wijeratne
Chairman, Nomination Committee

Rajagiriya
29th June 2023

Chief Executive Officer's and Head of Finance's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the institute of Chartered Accountants of Sri Lanka. The requirements of the Companies Act No.7of 2007, the Finance Business Act No.42 of 2011, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka.

Accordingly, the Company has prepared Financial Statements which comply with SLFRSs/ LKASs and related interpretations applicable for the period ended 31 March 2023, together with the comparative period data as at and for the year ended 31 March 2022, as described in the accounting policies.

We accept responsibility for the integrity and accuracy of these Financial Statements. There are no changes to the accounting policies since the publication of the Annual Report for the year ended 31st March 2023. 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, 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 also confirm that the Company has sufficient resources to continue in operation and has applied the going concern basis in preparing these Financial Statements.

We are responsible for establishing and maintaining internal controls and procedures. We have designed such controls and procedures, or caused such controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us and for safeguarding the Company's assets and preventing and detecting fraud and error.

We have evaluated the effectiveness of the Company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this Annual Report. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involves management or other employees.

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

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

Mr. Buddhika Weeratunga
Head of Finance

Mr. Krishan Thilakaratne
Director/Chief Executive Officer

Rajagiriya
29th June 2023

Directors’ Responsibility for Financial Reporting

This statement outlines the responsibility of the Directors regarding the preparation of the Financial Statements for the Company in accordance with the Companies Act No. 07 of 2007.

The Directors confirm that the Company’s Financial Statements for the year ended 31st March 2023, 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 2023, 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.

Further, it is the responsibility of the Directors to ascertain that the Company possesses sufficient resources to sustain its operations, substantiating the rationale for employing the going concern approach in formulating these Financial Statements.

The Board of Directors also gives its approval to the interim Financial Statements after they are reviewed and recommended by the Board Audit Committee, before these statements are made public.

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

The External Auditors, Messrs. Ernst & Young, were provided with the opportunity to make appropriate inspections of financial records, minutes and other documents to enable them to form an opinion of the Financial Statements. The Report of the Auditors is set out on pages 93 to 96.

Mr. Krishan Thilakaratne
Director/Chief Executive Officer

Rajagiriya
29th June 2023

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FINANCIAL INFORMATION

Financial Calendar

Financial Calendar 2022/23	
1st Quarter Results 2022/23 released on	Wednesday, August 10, 2022
2nd Quarter Results 2022/23 released on	Monday, November 14, 2022
3rd Quarter Results 2022/23 released on	Wednesday, February 15, 2023
4th Quarter Results 2022/23 released on	Tuesday, May 30, 2023
Annual report for 2022/23 released on	Thursday, August 31, 2023
22nd Annual General Meeting on	Wednesday, September 27, 2023

Proposed Financial Calendar 2023/24	
1st Quarter Results 2023/24 will be released on	Monday,August 14, 2023
2nd Quarter Results 2023/24 will be released on	Wednesday, November 15, 2023
3rd Quarter Results 2023/24 will be released on	Thursday, February 15, 2024
4th Quarter Results 2023/24 will be released on	Friday, May 31, 2024
Annual report for 2023/24 released on	Friday, August 30, 2024
23rd Annual General Meeting on	Monday, September 30, 2024

Independent Auditor's Report

EY
Building a better working world

Ernst & Young
Chartered Accountants
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Sri Lanka

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ey.com

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF LOLC FINANCE PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of LOLC Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2023, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Provision for credit impairment on financial assets carried at amortised cost As at 31 March 2023, provision for credit impairment on financial assets carried at amortised cost net of impairment allowances amounted to LKR 247Bn and is disclosed in notes 6 & 7.	In addressing the adequacy of the provision for credit impairment on financial assets carried at amortised cost, our audit procedures included the following key procedures. » We assessed the alignment of the Company's provision for credit impairment computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report. » We evaluated the Internal controls over estimation of credit impairment, which included assessing the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management. » We checked the completeness, accuracy and classification of the underlying data used in the computation of credit impairment by agreeing details to relevant source documents and accounting records of the Company.

Partners: H M A Jayesinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACMA, D L B Karunathilaka ACMA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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Key audit matter	How our audit addressed the key audit matter
This was a key audit matter due to the materiality of the reported provision for credit impairment which involved complex calculations; degree of judgements, significance of assumptions and level of estimation uncertainty associated with estimating future cashflows management expects to receive from such financial assets. Key areas of significant judgments, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following; » Management overlays to incorporate the current economic contraction. » The Incorporation of forward-looking information such that expected cashflows reflect current and anticipated future external factors evaluated under different economic scenarios and the probability weighting determined for each of these scenarios.	» In addition to the above, following procedures were performed. » For Lease receivables, Loans & advances assessed on an individual basis for impairment: – We evaluated the reasonableness of credit quality assessment. – We checked the arithmetical accuracy of the underlying individual impairment calculations. – We evaluated the reasonableness of key inputs used in provision for credit impairment made with particular focus on current economic contraction. Such evaluations were carried out considering the customer exposure to elevated risk industries, debt moratoriums, status of recovery actions of collaterals in forecasting the value and timing of cashflows. » For Lease receivables, Loans & advances assessed on a collective basis for impairment: – We tested key inputs as disclosed in note 2.24.3 and the calculations used in the provision for credit impairment. – We assessed whether judgements used in assumptions and estimates made by the management when estimating future cashflows, in the underlying methodology and management overlays were reasonable. Our assessment included portfolio segmentation, elevated risk industries, evaluating the reasonableness of forward-looking information, different economic scenarios and probability weighting assigned to each of those scenarios. » We assessed the adequacy of the related financial statement disclosures set out in notes 6 & 7.
Information Technology (IT) systems and internal controls over financial reporting Company's financial reporting process is significantly reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets. Accordingly, IT systems and related internal controls over financial reporting were considered a key audit matter.	Our audit procedures included the following: » We obtained an understanding of the Internal control environment of the processes and checked relevant controls relating to financial reporting and related disclosures. » We involved our internal specialised resources to check and evaluate the design and operating effectiveness of IT systems and relevant controls, including those related to user access and change management. » We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the company and the actions taken to address these risks. » We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of general ledger reconciliations.

Key audit matter	How our audit addressed the key audit matter
Valuation of Investment Properties Investment properties are carried at fair value in accordance with its accounting policies and note disclosed in notes 2.5 and 12 respectively. This was a key audit matter due to the: » materiality of the reported Investment Properties which amounted to LKR 41 Bn as of reporting date; and » degree of assumptions, judgements and estimation uncertainties associated with the fair valuation of investment properties such as reliance on comparable market transactions and consideration of current market conditions. Key areas of significant judgments, estimates and assumptions used in the valuation of the investment properties as disclosed in note 12 included the following: » Estimate of per perch value of the investment properties » Estimate of the per square foot value of the buildings	Our audit procedures included the following; » We assessed the competency, capability and objectivity of the external valuer engaged by the Group. » We read the external valuer's report and understood the key estimates made and the approach taken by the valuer in determining the valuation of each property. » We assessed the reasonableness of the significant judgements made by the valuer and valuation techniques used, per perch price and value per square foot used by the valuer in the valuation of each property. » We have also assessed the adequacy of the disclosures made in notes 2.5 and 12 in the financial statements.

Other information included in the Company's 2023 Annual Report

Other information consists of the information included in the Company's 2023 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2023 annual report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Building a better working world

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

29 June 2023
Colombo

Statement of Financial Position

For the year ended 31 March	Note	2023 Rs.	2022 Rs.
ASSETS			
Cash and bank balances	3	16,484,821,741	12,282,959,936
Deposits with banks and other financial institutions		2,493,925,171	8,885,610,812
Investment in government securities and others	4	31,452,712,476	23,841,482,770
Derivative financial instruments	5.1	64,428,025	3,450,265,935
Financial assets at amortised cost			
Rentals receivable on leased assets	6	62,066,670,371	56,960,214,609
Loans and advances	7	175,582,031,440	141,614,957,527
Factoring receivable	7.6	2,270,162,033	1,418,432,849
Margin trading receivable	7.5	6,649,394,997	6,816,480,464
Investment securities	8	4,732,580,531	6,288,566,228
Investment in associate	9	564,084,948	1,833,660,667
Amount due from related companies	10	57,161,090	47,381,972
Other receivables	11	5,477,987,295	1,084,330,013
Inventories		146,134,701	428,031,504
Investment properties	12	41,252,661,173	38,287,958,119
Property and equipment and right-of-use assets	13	11,552,981,653	8,326,734,940
Total assets		360,847,737,644	311,567,068,345
LIABILITIES			
Bank overdraft	3	8,783,895,368	5,675,768,259
Interest bearing borrowings	14	31,429,413,795	44,309,903,398
Deposits from customers	15	201,270,901,382	159,252,382,263
Trade payables	16	258,736,201	1,141,928,384
Accruals and other payables	17	10,890,336,109	7,835,592,729
Derivative financial instruments	5.2	11,634,977	13,175,698
Amount due to related companies	18	1,069,238,403	3,719,367,746
Current tax payable	29.1	2,681,710,123	2,525,556,194
Deferred tax liability	29.2	2,990,836,600	2,974,781,275
Employee benefits	19.2	652,806,770	565,709,494
Total liabilities		260,039,509,727	228,014,165,440
SHAREHOLDERS' FUNDS			
Stated capital	20	306,993,805,501	211,581,447,542
Statutory reserve	21.1	5,213,771,358	4,444,108,028
Revaluation reserve	21.2	1,247,187,997	1,505,632,154
Cash flow hedge reserve	21.3	41,014,495	(83,701,505)
Fair value through OCI reserve	21.4	331,628,639	140,752,964
Regulatory loss allowance reserve	21.5	3,231,500,379	-
Merger reserve	21.6	(262,914,889,649)	(169,284,516,561)
Retained earnings	21.7	46,664,209,197	35,249,180,283
Total equity		100,808,227,917	83,552,902,905
Total liabilities and equity		360,847,737,644	311,567,068,345
Commitments and Contingencies	36	31,665,622,336	22,863,999,342
Net asset value per share		3.05	4.34

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

(Mr.) Buddhika Weeratunga
Head of Finance

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

(Mr.) Krishan Thilakaratne
Director / CEO

(Mr.) Conrad Dias
Chairman / Non Executive Director

The annexed notes to the financial statements on pages 103 through 172 form an integral part of these financial statements.

29 June 2023
Rajagiriya (Greater Colombo)

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March	Note	2023 Rs.	2022 Rs.
Interest income	22	69,027,128,557	30,569,862,999
Interest expense	23	(36,124,595,817)	(8,979,991,819)
Net interest income		32,902,532,740	21,589,871,180
Net other operating income	24	12,767,702,863	11,522,271,915
Direct expenses excluding interest cost	25	(879,932,477)	(863,534,058)
Allowance for impairment & write-offs	26	(6,396,889,918)	(2,991,759,900)
Personnel expenses	27.1	(6,057,681,094)	(3,564,802,548)
Depreciation	13	(734,219,712)	(207,247,901)
General & administration expenses		(11,289,223,941)	(5,904,664,088)
Profit from operations	27	20,312,288,461	19,580,134,600
Value added tax on financial services	25.1	(4,023,910,543)	(1,837,501,042)
Profit before tax		16,288,377,918	17,742,633,558
Share of profit / (loss) of equity accounted investee		(895,111,321)	-
Profit before tax		15,393,266,597	17,742,633,558
Income tax (expense) / reversal	29	-	(792,048,095)
Profit for the year		15,393,266,597	16,950,585,463
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability - gain / (loss)	19.2.b	51,711,081	24,422,219
Related tax	29	(28,785,054)	(5,861,333)
		22,926,027	18,560,886
Revaluation gain on property, plant and equipment	21.2	-	1,495,420,151
Related tax	21.2	(258,444,158)	(318,626,179)
		(258,444,158)	1,176,793,972
Movement in fair value (Equity investments at FVOCI)		12,376,236	95,307,266
Total of items that will never be reclassified to profit or loss		(223,141,895)	1,290,662,124

For the year ended 31 March	Note	2023 Rs.	2022 Rs.
Items that are or may be reclassified to profit or loss			
Movement in fair value through OCI reserve	4.1.2	175,480,700	-
Related tax	4.1.2	3,018,739	-
		178,499,439	-
Movement in hedge reserve	21.3	155,895,000	(119,316,738)
Related tax	21.3	(31,179,000)	8,007,481
		124,716,000	(111,309,257)
Total of items that are or may be reclassified to profit or loss		303,215,438	(111,309,257)
Total other comprehensive income, net of tax		80,073,543	1,179,352,867
Total comprehensive income for the year		15,473,340,140	18,129,938,330
Basic earnings per share	30	0.72	3.23

The annexed notes to the financial statements on pages 103 through 172 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 March	Note	Stated Capital Rs.	Statutory Reserve Rs.	Revaluation Reserve Rs.
Balance as at 01 April 2021		12,762,500,000	3,596,578,755	328,838,183
Total comprehensive income for the year				
Profit for the year		-	-	-
Other comprehensive income, net of income tax				
Remeasurements of defined benefit liability - gain / (loss)	19.2 / 29.2	-	-	-
Revaluation gain on property, plant and equipment	21.2	-	-	1,176,793,972
Revaluation gain on fair value through OCI investments	8.2.2	-	-	-
Net movement of cashflow hedges	21.3 / 29.2	-	-	-
		-	-	1,176,793,972
Total comprehensive income for the year		-	-	1,176,793,972
Transactions recorded directly in equity				
Transfer to statutory reserve fund	21.1	-	847,529,273	-
Shares issued during the year	20	198,818,947,542	-	-
Excess of the investment and other adjustments on merger with subsidiary	21.6	-	-	-
Total transactions recorded directly in equity		198,818,947,542	847,529,273	-
Balance as at 31 March 2022		211,581,447,542	4,444,108,028	1,505,632,154
Balance as at 01 April 2022		211,581,447,542	4,444,108,028	1,505,632,154
Total comprehensive income for the year				
Profit for the year		-	-	-
Other comprehensive income, net of income tax				
Remeasurements of defined benefit liability - gain / (loss)	19.2 / 29.2	-	-	-
Revaluation gain on property, plant and equipment	21.2	-	-	(258,444,158)
Revaluation gain on fair value through OCI investments	8.2.2	-	-	-
Movement in fair value through OCI reserve	4.1.2	-	-	-
Net movement of cashflow hedges	21.3 / 29.2	-	-	-
		-	-	(258,444,158)
Total comprehensive income for the year		-	-	(258,444,158)
Transactions recorded directly in equity				
Transfer to regulatory loss allowance reserve	21.5	-	-	
Transfer to statutory reserve fund	21.1	-	769,663,330	-
Shares issued during the year	20	95,412,357,959	-	-
Excess of the investment and other adjustments on merger with subsidiary	21.6	-	-	-
Total transactions recorded directly in equity		95,412,357,959	769,663,330	-
Balance as at 31 March 2023		306,993,805,501	5,213,771,358	1,247,187,997

The annexed notes to the financial statements on pages 103 through 172 form an integral part of these financial statements.

Cash flow Hedge Reserve Rs.	Fair Value Through OCI Reserve Rs.	Regulatory loss allowance reserve Rs.	Merger Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
27,607,752	45,445,698	-	-	19,127,563,206	35,888,533,593
-	-	-	-	16,950,585,463	16,950,585,463
-	-	-	-	18,560,886	18,560,886
-	-	-	-	-	1,176,793,972
-	95,307,266	-	-	-	95,307,266
(111,309,257)	-	-	-	-	(111,309,257)
(111,309,257)	95,307,266	-	-	18,560,886	1,179,352,868
(111,309,257)	95,307,266	-	-	16,969,146,349	18,129,938,330
-	-	-	-	(847,529,273)	-
-	-	-	-	-	198,818,947,542
-	-	-	(169,284,516,561)	-	(169,284,516,561)
-	-	-	(169,284,516,561)	(847,529,273)	29,534,430,981
(83,701,504)	140,752,964	-	(169,284,516,561)	35,249,180,282	83,552,902,905
(83,701,504)	140,752,964	-	(169,284,516,561)	35,249,180,282	83,552,902,905
-	-	-	-	15,393,266,597	15,393,266,597
-	-	-	-	22,926,027	22,926,027
-	-	-	-	-	(258,444,158)
-	12,376,236	-	-	-	12,376,236
-	178,499,439	-	-	-	178,499,439
124,715,999	-	-	-	-	124,715,999
124,715,999	190,875,675	-	-	22,926,027	80,073,543
124,715,999	190,875,675	-	-	15,416,192,623	15,473,340,140
-	-	3,231,500,379	-	(3,231,500,379)	-
-	-	-	-	(769,663,330)	-
-	-	-	-	-	95,412,357,959
-	-	-	(93,630,373,088)	-	(93,630,373,088)
-	-	3,231,500,379	(93,630,373,088)	(4,001,163,709)	1,781,984,871
41,014,495	331,628,639	3,231,500,379	(262,914,889,649)	46,664,209,197	100,808,227,917

Statement of Cash Flows

For the year ended 31 March	Note	2023 Rs.	2022 Rs.
Cash flows from operating activities			
Profit before income tax expense		15,393,266,597	17,742,633,558
Adjustments for:			
Depreciation	13	734,219,712	207,247,901
(Profit)/ loss on sales of investment property and PPE	24	(48,178,109)	(10,787,672)
Change in fair value of derivatives - forward contracts	24	2,864,647,190	(1,790,082,378)
Provision for fall / (increase) in value of investments	24	(51,672,111)	(518,067,319)
Impairment provision for the year	26	1,685,314,523	(6,593,369,409)
Change in fair value of investment property	24	(3,525,884,968)	(6,925,550,077)
Provision for defined benefit plans	19.2	62,301,733	25,946,126
Share profit of equity accounted investee		895,111,321	-
Investment income		(5,695,903,918)	(2,423,673,259)
Finance costs	23	36,124,595,817	8,979,991,819
Operating profit before working capital changes		48,437,817,788	8,694,289,290
Change in other receivables		(3,504,044,855)	(633,795,513)
Change in inventories		309,974,623	(147,913,565)
Change in trade and other payables		1,857,820,262	817,923,498
Change in amounts due to / due from related parties		(2,698,991,721)	21,850,967
Change in lease receivables		5,583,532,125	3,032,196,059
Change in loans and advances		(28,542,014,918)	(7,725,596,676)
Change in factoring receivables		(737,609,652)	-
Change in margin trading advances		212,402,274	(6,808,029,485)
Change in fixed deposits from customers		31,483,788,815	7,817,174,260
Change in savings deposits from customers		(7,102,997,505)	5,300,554,673
Cash (used in) / generated from operations		45,299,677,236	10,368,653,508
Finance cost paid on deposits		(23,301,640,135)	(8,312,826,411)
Gratuity paid	19.2	(37,477,082)	(22,311,473)
Income tax paid	29.1	(7,523,981)	(10,570,091)
Net cash from / (used in) operating activities		21,953,036,037	2,022,945,533
Cash flows from investing activities			
Acquisition of property, plant & equipment & investment property		(2,505,371,926)	(6,084,962,864)
Proceeds from sale of property, plant & equipment & investment property		329,772,361	299,161,584
Purchase of government securities		(76,882,231,614)	(31,393,852,407)
Proceeds from sale of government securities		71,794,463,715	27,628,388,944
Net proceeds from investments in commercial papers		(3,454,854,860)	-
Net proceeds from investments in term deposits		6,391,685,641	(779,142,636)
Net proceeds from investments securities		4,982,965,607	696,021,218
Interest received		5,695,903,918	2,423,673,259
Net cash flows used in investing activities		6,352,332,842	(7,210,712,902)
Cash flows from financing activities			
Proceeds from interest bearing loans & borrowings		(21,638,670,777)	218,510,687
Lease rentals paid	14.2.1	(11,045,700)	(26,703,945)
Finance cost paid on borrowings		(6,061,266,990)	(1,044,961,881)
Net cash flows from / (used in) financing activities		(27,710,983,468)	(853,155,139)
Net increase / (decrease) in cash and cash equivalents		594,385,412	(6,040,922,509)
Addition on merger with subsidiary		499,349,282	1,086,427,307
Cash and cash equivalents at the beginning of the year		6,607,191,677	11,561,686,879
Cash and cash equivalents at the end of the year (note 3)		7,700,926,372	6,607,191,677

The annexed notes to the financial statements on pages 103 through 172 form an integral part of these 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 parent is LOLC Ceylon Holdings PLC and ultimate parent undertaking and controlling entity is LOLC Holding PLC, which is incorporated in Sri Lanka.

1.1.3 Principal activities and nature of operations

The principal activities of the Company comprised of leasing, loans, margin trading, mobilisation of public deposits and alternative financing.

There were no significant changes in the nature of the principal activities of the Company during the financial period 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 2023 was 5,098 (Mar 2022 – 4,850).

1.2 Basis of preparation

1.2.1 Statement of compliance

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

These Financial Statements include the following components:

» a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the period under review;

» a Statement of Financial Position providing the information on the financial position of the Company as at the period-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 29 June 2023.

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	5
Non-derivative financial instruments at fair value through profit or loss	Fair value	8.1
Available for sale financial assets / fair value through other comprehensive income	Fair value	4.1.2
Investment property	Fair value	12
Land and buildings	Fair value	13
Net defined benefit assets / (liabilities)	Actuarially valued and recognised at the present value	19.2

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

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

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

1.2.4 Materiality and aggregation

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

1.2.5 Going concern basis of accounting

Upon the recent merger, the Directors of the Company expect significant growth in assets as the synergies of the combined entity will unlock new market opportunities and would be a controlling arm of the NBFI sector as the market leader.

The management has formed reasonable judgement that the Company has adequate resources to continue its business operations for the foreseeable future monitoring its business performance and continuity by adopting risk mitigation initiatives. 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 period under review.

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

1.4 Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

Critical Accounting estimate / judgment	Disclosure reference Note
Fair value measurement of financial instruments / investment properties / land and buildings	1.4.1 / 12.1 / 13.1
Financial assets and liability classification	1.4.2
Impairment losses on loans and advances	1.4.3
Impairment losses on available for sale investments	1.4.4
Impairment losses on other assets	1.4.5
Defined benefit obligation	1.4.6
Provisions for liabilities and contingencies	1.4.7

1.4.1 Fair value measurement

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

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

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

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

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

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.

- **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

Note 12 – Investment property;

Note 13 – Property, plant and equipment; and

Note 2.3 & 2.3.4 – Financial instruments;

1.4.2 Financial assets and liability classification into categories

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

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

1.4.3 Impairment losses on loans and advances

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

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

The policy on impairment loss on loans and advances is disclosed in more detail in Note 2.3.10.

1.4.4 Impairment losses on available for sale investments

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

The impairment loss on available for sale investments is disclosed in Note 2.3.10.

1.4.5 Impairment losses on other assets

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

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

1.4.6 Defined benefit obligation

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

1.4.7 Provisions for liabilities and contingencies

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

2.1 Basis of consolidation

2.1.1 Business combinations under common control

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

2.1.2 Transactions eliminated on consolidation

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

2.2 Foreign currency transactions

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

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

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

SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.3 Financial assets and financial liabilities

2.3.1 Non-derivative financial assets

2.3.1.a Initial recognition of financial assets

Date of recognition

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

Initial measurement of financial assets

The classification of financial instruments at initial recognition depends on their cash flow characteristics and business model for managing the instrument. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Financial Reporting Standard – SLFRS 09 on 'Financial Instruments'.

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

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

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

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

2.3.1.b Classification of financial assets

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

» amortised cost;

» fair value through other comprehensive income (FVOCI); and

» fair value through profit or loss (FVTPL).

2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

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

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

» how the performance of the portfolio is evaluated and reported to the management;

» the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

· the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity and how cash flows are realised.

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

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

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

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

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

Amortised cost

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

This includes cash and cash equivalents, deposits with banks and other financial institutions, investments in Standing Deposit Facilities (REPO's), lease receivables, 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.

» **Rentals receivable on leased assets**

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.

» **Loans and advances**

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

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

» Financial guarantees

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

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

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

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

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in statement of profit or loss as incurred.

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

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

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

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

2.3.2 Non-derivative financial liabilities

Classification and subsequent measurement of financial liabilities

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

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

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

Bank overdrafts

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

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

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

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

2.3.3 Derivatives held for risk management purposes and hedge accounting

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

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

These hedging relationships are discussed below.

i. **Fair value hedges**

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

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

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

The Company does not have any fair value hedges

ii. **Cash flow hedges**

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

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

iii. **Net investment hedges**

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

The Company does not have any net investment hedges.

2.3.3.a Other non-trading derivatives

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

2.3.4 Reclassification of financial assets and liabilities

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

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

2.3.5 Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

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

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

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

Financial liabilities

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

2.3.6 Modification of financial assets and financial liabilities

Modification of financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses measured using pre modification interest rate. In other cases, it is presented as interest income.

As per the Circular Nos. 4 and 5 of 2020 issued by CBSL dated May 4, 2020 and June 9, 2020 and Circular Nos. 4 and 9 of 2021 issued by CBSL dated March 12, 2021 and October 6, 2021 respectively, the Company granted payment deferrals to eligible customers affected by COVID-19, modifying the original contract. In this regard, NBFIs were allowed to charge upto a maximum of 11.5% per annum on the deferred instalments during the moratorium period of equated monthly instalments (EMI) loans. For other loans various types of interest rate concessions were given to the customers. Further, with the view of meeting the challenges faced by businesses and individuals due to the second wave of COVID-19, CBSL directed banks to extend the debt moratorium to such businesses and individuals further during the financial year 2021/22 as well. Finance Companies were expected to convert the capital and interest falling due during the moratorium period into a term loan. Repayment period of the new loans shall be minimum of two years, however, may vary based on the terms and conditions agreed with the borrower. NBFIs were allowed to recover interest at a rate not exceeding the latest auction rate for 364-days Treasury Bills, available by April 01, 2021, plus 5.5 per cent per annum and shall not exceed 11.5% per annum.

So, the Company has made an assessment in this regard and it shows there is more than 4% PV difference across all the category of the loan due to the first moratorium. Further, in our view such difference would be further increased considerable considering the second moratorium offered by CBSL. Further, the loss of other fees that the Company used to charge its customers at the time of a modification and the penal interest also considerable due to moratorium. In the absence of any prescribed guidelines within SLFRS 9, entities need to develop their own policies and methods while performing the quantitative and qualitative evaluation of such modifications. So, based on the business model and the overall lending strategy, any PV loss beyond 3% will be significant to the Company. Therefore, from the date of moratorium started, the interest accrual will be made based on the revised effective interest rate adjusting applicable costs and fees.

Modification of financial liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

2.3.7 Offsetting of financial instruments

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

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

2.3.8 Amortised cost measurement

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

2.3.9 Fair value measurement

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

Determination of fair value

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

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

2.3.10 Impairment

Overview of the expected credit loss (ECL) principles

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

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

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

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

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

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available. Based on that, management has decided that an exposure to have significantly increased credit risk when contractual payments of a customer are more than 60 days past due and loss to take place after 120 days in accordance with the rebuttable presumption in SLFRS 9.

Individually Significant Impairment Assessment and Loans which are Not Impaired Individually

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

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

» Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated

» Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument

» Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument

» Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet it's obligation

» An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems

» Significant increase in credit risk on other financial instruments of the same borrower

» An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis

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

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

Calculation of ECL

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

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

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

» Probability of Default (PD): PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

» Exposure at Default (EAD): EAD is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise and expected draw downs on committed facilities.

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

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

Forward Looking Information

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

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

Accordingly, under the collective assessment, customers operating in risk elevated industries including Tourism, Transportation and Construction were assessed for Lifetime ECL. Exposures outstanding from the borrowers operating in these industries have been classified as stage 2 unless such exposures are individually significant and have specifically been identified as stage 1 reflecting forward looking view of the economy in relation to the business.

2.4 Leases

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

2.4.1 Finance Leases

Finance leases – Company as a lessee

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

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

Finance leases – Company as a lessor

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

2.4.2 Operating Leases

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

Operating leases – Company as a lessor

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

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

2.5 Investment property

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

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

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

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

2.6 Property plant and equipment

2.6.1 Recognition and measurement

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

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

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

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

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

Cost model

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

Revaluation model

The Company revalues its land, buildings and motor vehicles 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. In previous financial years, motor vehicles were under cost model and from the financial year 2021/22, it was changed from the cost model to the revaluation model and has not led to a retrospective restatement due to the exemption available in paragraph 17 of LKAS 8 "Accounting Policies, Change in Accounting Estimates and Errors".

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

2.6.2 Subsequent costs

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

2.6.3 Depreciation

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

The estimated useful lives for the current period 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.

2.6.4 Right-of-Use Assets

Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position. Right-of-use assets of the Company include land and buildings under long term rental agreements for its use as offices and branches. The Company recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-use assets are measured at cost less any accumulated amortisation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are amortised on the straight-line basis over the lease term.

2.7 Impairment - non-financial assets

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

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

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

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

2.8 Employee benefits

2.8.1 Short-term employee benefits

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

2.8.2 Defined contribution plans

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

2.8.3 Defined benefit plans

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

The Company recognises all actuarial gains and losses / remeasurement component arising from defined benefit plans immediately in other comprehensive income. Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The obligation is not externally funded.

2.9 Provisions

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

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

2.10 Equity movements

2.10.1 Ordinary shares

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

2.10.2 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's Board of Directors in accordance with the Articles of Association. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

2.10.3 Share issue costs

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

2.11 Capital commitments and contingencies

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

2.12 Events occurring after the reporting date

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

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

SIGNIFICANT ACCOUNTING POLICIES –RECOGNITION OF INCOME AND EXPENSES

2.13 Interest income and interest expense

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

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

Interest income and expense presented in the statement of profit or loss includes the interest on financial assets and financial liabilities measured at amortised cost, fair value through other comprehensive Income (FVOCI) and fair value through profit or loss (FVTPL) calculated on an effective interest basis.

2.13.1 Income from leases and term loans

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

2.13.2 Factoring

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

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

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

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

2.14 Fees, commission and other income

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

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

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

2.15 Dividends

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

2.16 Expenditure recognition

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

2.16.1 Value Added Tax (VAT) on financial services

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

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

2.16.2 Nation Building Tax on financial services (NBT)

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

2.16.3 Lease payments

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

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

2.17 Income tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Note 29 represent the major components of income tax expense to the financial statements.

2.17.1 Current tax expense

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

2.17.2 Deferred tax

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

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

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

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

The relevant disclosures are given in Note 29.2 to the financial statements.

2.18 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Specific disclosures are included in Note 30.1. 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 30.2 to the financial statements.

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.19 Cash flow statements

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

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

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

SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.20 Related Party Transactions

Transactions with related parties are conducted in the normal course of business. The relevant disclosures are given in Note 33 to the Financial Statements.

2.21 Operating Segments

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

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

Information regarding the results of each reportable segment is included in Note 35. Performance is measured based on segment profit before tax. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

2.22 Fair value measurement

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

» In the principal market for the asset or liability, or

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

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

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

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

Fair Value Hierarchy

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

Level 1

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

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

Level 2

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

This category includes instruments valued using;

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

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

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

Level 3

Inputs that are unobservable

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

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

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

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

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

The new and amended standards and interpretations that are issued up to the date of issuance of the Company's financial statements but are not effective for the current annual reporting period, are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

SLFRS 17 Insurance Contracts

In 8 January 2020, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued SLFRS 17 Insurance Contracts (SLFRS 17). SLFRS 17 was amended by Amendments to SLFRS 17 - Insurance Contracts, in 28 June 2021. SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 Insurance Contracts (SLFRS 4) that was issued in 2005. SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in SLFRS 4, which are largely based on grandfathering previous local accounting policies, SLFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of SLFRS 17 is the general model, supplemented by:

» A specific adaptation for contracts with direct participation features (the variable fee approach)

» A simplified approach (the premium allocation approach) mainly for short-duration contracts

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets:

Onerous Contracts – Costs of Fulfilling a Contract

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets (LKAS 37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 01 January 2022. Earlier application is permitted.

Amendments to LKAS 16 Property, Plant & Equipment: Proceeds before Intended Use

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued LKAS 16 Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 01 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Amendments to SLFRS 3 Business Combinations: Updating a reference to conceptual framework

In 23 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 3 Business Combinations - Updating a Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

An exception was also added to the recognition principle of SLFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of LKAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, it was decided to clarify existing guidance in SLFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards –

Subsidiary as a first-time adoption

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 1 First-time Adoption of International Financial Reporting Standards (SLFRS 1). The amendment permits a subsidiary that elects to apply paragraph D16(a) of SLFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to SLFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of SLFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

SLFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 9 Financial Instruments (SLFRS 9). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

LKAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to LKAS 41 Agriculture (LKAS 41). The amendment removes the requirement in paragraph 22 of LKAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of LKAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to SLFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021

In 4 December 2020, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued Covid-19-Related Rent Concessions - amendment to SLFRS 16 Leases. The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, in 28 June 2021, CA Sri Lanka extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021.

Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform Phase 1 and 2

IBOR reform Phase 1

In 15 January 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform (Phase 1). A summary of Phase 1 amendments are as follows:

» Highly Probable Requirement: when determining whether a forecast transaction is highly probable to be designated as a hedged item, an entity shall assume that the interest rate benchmark on which the hedged cashflows are based is not altered as a result of the reform

» Prospective assessments: when performing prospective assessments to evaluate whether a hedging relationship qualifies for hedge accounting, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

» LKAS 39 retrospective assessment: an entity is not required to undertake the 'LKAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assessment.

» Separately identifiable risk components: For hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement of risk component (or a portion) to be separately identifiable to be eligible for hedge accounting, only at the inception of such hedging relationships.

IBOR reform Phase 2

In addition to Phase 1 amendments, CA Sri Lanka also issued amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 due to Interest Rate Benchmark Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include several practical expedients.

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2021 in the Sri Lankan context.

2.24 Financial risk management

2.24.1 Overview

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

» Credit risk

» Liquidity risk

» Market risk

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

2.24.2 Risk management framework

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

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

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

2.24.3 Credit Risk

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

2.24.3.1 Management of credit risk

1) Facilities granted to customers

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

1. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

2. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Chief Credit Officer, CEO and the Board of Directors as appropriate.

3. Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

4. Monitoring limiting concentrations of exposure to counterparties, geographies and industries

5. Developing and maintaining a risk grading for significant clients in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the associated risks.

6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, and product types.

7. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

2) Allowances for impairment

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

3) Write-off policy

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

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2023 (March 2022: no collateral held).

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

(In Rs'mn)

As at 31st March	Leases		Mortgage Loans		Other Loans and Advances		Margin Trading		Factoring Receivables		Total	
	Mar-23	Mar-22	Mar-23	Mar-22	Mar-23	Mar-22	Mar-23	Mar-22	Mar-23	Mar-22	Mar-23	Mar-22
Carrying amount	62,065	56,960	1,686	4,506	175,562	137,109	6,649	6,816	2,270	1,418	248,232	206,810
Assets at amortised cost												
Individually impaired - Gross amount	2,717	805	-	248	1,676	2,437	-	-	552	611	4,945	4,101
Less : Allowance for impairment	(1,540)	(279)	-	(37)	(310)	(716)	-	-	(223)	(342)	(2,073)	(1,375)
Carrying amount	64,141	58,872	1,721	4,370	180,679	140,676	6,679	6,892	1,961	1,164	2,872	2,727
Portfolio subject to collective impairment - Gross amount	64,141	58,872	1,721	4,370	180,679	140,676	6,679	6,892	1,961	1,164	255,181	211,973
Less : Allowance for impairment	(3,253)	(2,438)	(35)	(75)	(6,484)	(5,288)	(30)	(75)	(20)	(15)	(9,821)	(7,890)
Carrying amount	60,888	56,434	1,686	4,295	174,195	135,388	6,650	6,816	1,941	1,149	245,360	204,083

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)	Mar-23	Mar-22
Against individually impaired customers :		
Property	1,074	2,348
Vehicles	1,498	615

(In Rs'mn)	Mar-23	Mar-22
Against individually impaired customers :		
Property	170,976	125,845
Vehicles	128,467	74,593

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 end of the period are shown below;

(In Rs'mn)	Mar-23	Mar-22
Property	-	-
Vehicles	1,498	646

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

(In Rs'mn)	Mar-23	Mar-22
Leases	-	13
Mortgage Loan	22	173
Other loans & advances	130	503

2.24.3.1 Management of credit risk (Contd.)

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 of 31 March 2023 (In Rs'mn)

Category	Leases	Mortgage Loans	Other Loans and Advances	Factoring Receivable	Margin Trading	Total
Not due / current	21,986	461	112,046	6,655	964	142,112
Overdue:						
Less than 30 days	13,205	252	14,214	10	328	28,009
31 - 60 days	8,716	133	19,592	6	88	28,535
61 - 90 days	6,081	18	8,450	4	21	14,574
91 - 120 days	3,829	9	4,827	3	6	8,674
above 120 days	10,324	848	21,550	1	554	33,277
Total	64,141	1,721	180,679	6,679	1,961	255,181

Age analysis of facilities considered for collective impairment as of 31 March 2022 (In Rs'mn)

Category	Leases	Mortgage Loans	Other Loans and Advances	Factoring Receivable	Margin Trading	Total
Not due / current	22,976	1,802	86,307	1,050	6,892	119,027
Overdue:						
Less than 30 days	8,194	774	12,065	100	-	21,133
31 - 60 days	5,811	531	16,414	5	-	22,760
61 - 90 days	3,340	77	4,564	9	-	7,990
91 - 120 days	10,081	110	7,538	-	-	17,728
121 - 150 days	1,661	32	3,094	-	-	4,788
151 - 180 days	1,368	50	2,636	-	-	4,054
Above 180 days	5,442	994	8,058	-	-	14,493
Total	58,871	4,370	140,676	1,164	6,892	211,973

Sensitivity Analysis of Allowance for Impairment Losses as at 31 March 2023 and 31 March 2022.

Sensitivity effect on impairment allowance Increase (In Rs'mn)

Changed criteria	Changed factor	Mar-23	Mar-22
Probability of default (PD)	Increase by 1%	304	230
Loss given default (LGD)	Increase by 10%	821	1,589

Analysis of total impairment for expected credit losses As at 31st March 2023 (In Rs'mn)

Category	Stage 01	Stage 02	Stage 03	Total
Financial assets at amortised cost				
Rentals receivable on leased assets	227	167	4,399	4,793
Loans and advances	580	296	5,953	6,829
Factoring receivable	16	3	223	243
Margin trading receivable	30	-	-	30
Other financial assets	4,625	-	-	4,625
Commitments and Contingencies	-	2	-	2
Total impairment for expected credit losses	5,478	469	10,576	16,522

As at 31st March 2022 (In Rs'mn)

Category	Stage 01	Stage 02	Stage 03	Total
Financial assets at amortised cost				
Rentals receivable on leased assets	382	661	1,674	2,717
Loans and advances	1,727	1,223	3,166	6,116
Factoring receivable	15	-	342	357
Margin trading receivable	75	-	-	75
Other financial assets	1,531	-	-	1,531
Commitments and Contingencies	-	2	-	2
Total impairment for expected credit losses	3,730	1,886	5,182	10,798

5) **Concentrations of credit risk**

The Company monitors concentrations of credit risk by sector to which the lending was made. The analysis is provided in Note 7.7.1 to the financial statements

2.24.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

2.24.4.1 Management of liquidity risk

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

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

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

2.24.4 Liquidity Risk (Contd.)

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

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

The maturity analysis of financial liabilities based on undiscounted gross outflow is reflected below (In Rs'mn)

As at 31st March 2023	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
Bank overdraft	8,784	8,784	8,784	-	-	-	-
Borrowings	31,429	29,499	2,508	11,077	14,370	1,351	192
Deposits from customers	201,271	202,527	75,952	65,303	39,553	21,719	-
Trade payables	259	259	259	-	-	-	-
Accruals and other payables	10,890	10,890	9,918	287	-	685	-
Derivative liabilities	12	12	12	-	-	-	-
Amount due to related companies	1,069	1,069	1,069	-	-	-	-
Total liabilities	253,714	253,039	98,501	76,668	53,923	23,755	192

(In Rs'mn)

As at 31st March 2022	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
Bank overdraft	5,676	8,196	8,196	-	-	-	-
Borrowings	44,310	48,523	14,516	10,609	11,962	10,916	519
Deposits from customers	197,974	153,120	55,901	74,503	18,966	3,749	-
Trade payables	3,775	3,775	3,775	-	-	-	-
Accruals and other payables	5,237	5,237	3,766	203	-	215	1,052
Derivative liabilities	13	13	13	-	-	-	-
Amount due to related companies	3,719	3,719	3,719	-	-	-	-
Total liabilities	260,704	222,584	89,888	85,316	30,928	14,881	1,571

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

(In Rs'mn)

As at 31st March 2023	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
Cash and cash equivalents	16,485	16,485	16,485	-	-	-	-
Deposits with banks and other financial institutions	2,494	2,522	2,522	-	-	-	-
Investment in government securities	31,453	40,550	15,428	9,773	4,022	4,411	6,915
Derivative assets	64	9,837	9,837	-	-	-	-
Financial assets at amortised cost							
Rentals receivable on leased assets	62,067	88,057	15,895	24,914	42,436	4,813	-
Loans and advances	175,582	206,235	62,533	51,777	79,225	12,623	78
Factoring receivable	2,270	2,513	2,513	-	-	-	-
Margin trading receivables	6,649	6,679	6,679	-	-	-	-
Investment securities	4,733	4,733	132	4,292	-	-	308
Investment in associates	564	564	564	-	-	-	-
Amount due from related companies	57	57	57	-	-	-	-
Other receivables	1,832	1,832	1,832	-	-	-	-
	304,250	380,064	134,478	90,756	125,683	21,847	7,300

(In Rs'mn)

As at 31st March 2022	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
Cash and cash equivalents	15,890	19,497	15,890	-	-	-	-
Deposits with banks and other financial institutions	9,789	7,997	7,997	-	-	-	-
Investment in government securities	29,167	25,445	11,391	1,495	6,844	728	4,985
Derivative assets	4,414	5,811	2,697	3,114	-	-	-
Financial assets at amortised cost							
Rentals receivable on leased assets	56,960	77,011	11,417	18,051	38,580	8,948	14
Loans and advances	141,615	167,142	31,198	43,840	68,231	23,491	383
Factoring receivable	3,550	1,775	1,586	1	189	-	-
Margin trading receivables	6,816	6,892	6,892	-	-	-	-
Investment securities	6,289	6,289	4,211	-	-	-	2,078
Investment in associates	1,834	-	-	-	-	-	-
Amount due from related companies	47	47	47	-	-	-	-
Other receivables	147	147	147	-	-	-	-
	276,518	318,051	93,473	66,501	113,844	33,166	7,461

2.24.4 Liquidity Risk (Contd.)

Contractual Maturities of Commitments & Contingencies

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31st March 2023 (In Rs'mn)

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	401	-	-	-	-	401
Total	401	-	-	-	-	401
Commitments						
Unutilised loan facilities & letter of credit	20,968	-	-	-	-	20,968
Forward exchange contracts - (commitment to purchase)	10,293	-	-	-	-	10,293
Allowance for ECL / impairment	2	-	-	-	-	2
Total	31,264	-	-	-	-	31,264

As at 31st March 2022 (In Rs'mn)

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	625	-	-	-	-	625
Total	625	-	-	-	-	625
Commitments						
Unutilised loan facilities & letter of credit	11,929	-	-	-	-	11,929
Forward exchange contracts - (commitment to purchase)	10,308	-	-	-	-	10,308
Allowance for ECL / impairment	2	-	-	-	-	2
Total	22,239	-	-	-	-	22,239

2.24.5 Market risk

The Company is exposed to the market risk due to changes in market, such as Foreign exchange rates, Interest rate, and equity prices.

Company is exposed to foreign currency risk mainly due to the foreign currency borrowings. The Company manages its exposure to the foreign exchange rates by entering in to forward rate contracts with the banks and placing deposit / maintaining financial assets in the same currency. In this way the Company eliminates substantial exposure on foreign currency risk.

The Company ensures the mix of variable and fixed rate borrowings to manage any exposure due to interest rate movement in the market. These are monitored by the treasury division.

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows.

Sensitivity analysis as at 31st March 2023 (In Rs'mn)

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.2023
Interest earning assets						
Deposits with banks and other financial institutions	2,494	-	-	-	-	2,494
Investment in government securities & others	17,614	6,379	975	1,499	4,986	31,453
Financial assets at amortised cost	-	-	-	-	-	-
Rentals receivable on leased assets	13,415	16,515	28,592	3,545	-	62,067
Loans and advances	50,657	44,698	68,447	11,702	78	175,582
Factoring receivable	2,270	-	-	-	-	2,270
Margin trading receivables	6,649	-	-	-	-	6,649
Total interest earning assets	93,100	67,591	98,014	16,746	5,064	280,515
Interest bearing liabilities						
Bank overdraft	8,784	-	-	-	-	8,784
Interest bearing borrowings	4,445	11,075	14,366	1,351	192	31,429
Deposits from customers	87,742	59,842	34,158	19,528	-	201,271
Total interest bearing liabilities	100,971	70,917	48,524	20,880	192	241,484
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(7,870)	(3,326)	49,490	(4,134)	4,872	39,031
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect	(79)	(33)	495	(41)	49	
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	79	33	(495)	41	(49)	

2.24.5 Market risk (Contd.)

Sensitivity analysis as at 31st March 2022 (In Rs'mn)

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.2022
Interest earning assets						
Deposits with banks and other financial institutions	8,625	260	-	-	-	8,886
Investment in government securities & others	11,265	1,647	7,799	45	3,086	23,841
Financial assets at amortised cost	-	-	-	-	-	-
Rentals receivable on leased assets	4,203	16,264	29,025	7,454	15	56,960
Loans and advances	27,875	32,556	59,657	21,189	339	141,615
Factoring receivable	1,267	1	151	-	-	1,418
Margin trading receivables	6,816	-	-	-	-	6,816
Total interest earning assets	60,052	50,728	96,631	28,688	3,439	239,537
Interest bearing liabilities						
Bank overdraft	5,676	-	-	-	-	5,676
Interest bearing borrowings	14,500	10,762	11,579	7,002	467	44,310
Deposits from customers	71,395	68,992	15,587	3,278	-	159,252
Total interest bearing liabilities	91,571	79,754	27,166	10,280	467	209,238
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(31,519)	(29,027)	69,465	18,408	2,972	30,299
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect	(315)	(290)	695	184	30	
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	315	290	(695)	(184)	(30)	

2.24.6 Capital Management

The Company's capital management is performed primarily considering regulatory capital. The Company's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company.

The Company is required to comply with the provisions of the Finance Companies (Capital Funds) Direction No.01 of 2003, Finance Companies (Capital Adequacy Requirements) Direction No.03 of 2018 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 31.03.2023	As at 31.03.2022
Ordinary share capital	306,994	211,581
Statutory reserve	5,214	4,444
Retained earnings	46,664	35,165
(-) Investment property revaluation	(19,828)	(16,302)
Other negative reserves and adjustments	(262,919)	(169,919)
Tier I capital	76,125	64,969
Subordinated debt	500	1,000
Provisions allowances & adjustments	1,316	(316)
Tier II capital	1,816	684
Total capital	77,941	65,653

2.25 Financial assets and liabilities

2.25.1 Accounting classifications and fair values

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities. (In Rs'mn)

As at 31st March 2023	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost/ Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
Cash and cash equivalents	-	-	16,485	16,485	16,485	
Deposits with banks & other financial institutions	-	-	2,494	2,494	2,494	
Investment in government securities & others	-	-	31,453	31,453	24,946	Level 1
Derivative assets	64	-	-	64	64	Level 2
Investment securities	4,425	307	1	4,733	4,733	Level 1 / 3
Financial assets at amortised cost						
Rentals receivable on leased assets	-	-	62,067	62,067	59,673	Level 2
Loans and advances	-	-	184,502	184,502	182,891	Level 2
Amount due from related companies	-	-	57	57	57	
Other financial assets	-	-	647	647	647	
Total financial assets	4,489	307	297,705	302,501	291,990	
Bank overdraft	-	-	8,784	8,784	8,784	
Interest bearing borrowings	-	-	31,429	31,429	30,822	Level 2
Deposits from customers	-	-	201,271	201,271	205,194	Level 2
Trade payables	-	-	259	259	259	
Accruals and other payables	-	-	10,785	10,785	10,785	
Derivative liabilities	12	-	-	12	12	Level 2
Amount due to related companies	-	-	1,069	1,069	1,069	
Total financial liabilities	12	-	253,597	253,609	256,924	

Note – For carrying amounts which fair value measurement level is not mentioned are approximate to the fair value.

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities. (In Rs'mn)

As at 31st March 2022	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost/ Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
Cash and cash equivalents	-	-	12,283	12,283	12,283	
Deposits with banks & other financial institutions	-	-	8,886	8,886	8,886	
Investment in government securities & others	-	-	23,841	23,841	18,391	Level 1
Derivative assets	3,450	-	-	3,450	3,450	Level 2
Investment securities	5,993	294	1	6,289	6,289	Level 1 / 3
Financial assets at amortised cost						
Rentals receivable on leased assets	-	-	56,960	56,960	57,595	Level 2
Loans and advances	-	-	148,431	148,431	146,754	Level 2
Amount due from related companies	-	-	47	47	47	
Other financial assets	-	-	255	255	255	
Total financial assets	9,443	294	250,705	260,443	253,950	
Bank overdraft	-	-	5,676	5,676	5,676	
Interest bearing borrowings	-	-	44,310	44,310	43,737	Level 2
Deposits from customers	-	-	159,252	159,252	157,835	Level 2
Trade payables	-	-	1,142	1,142	1,142	
Accruals and other payables	-	-	7,542	7,542	7,542	
Derivative liabilities	13	-	-	13	13	Level 2
Amount due to related companies	-	-	3,719	3,719	3,719	
Total financial liabilities	13	-	221,642	221,655	219,665	

Note – For carrying amounts which fair value measurement level is not mentioned are approximate to the fair value.

2.25.2 Valuation technique

Level 2 fair value – market comparison technique

- Derivative assets and liabilities / Forward exchange contracts – fair value is based on broker quotes of similar contracts and the quotes reflect the actual transaction in similar instrument

Level 2 fair value – discounted cash flows

Financial instruments not measured at fair value

For the purpose of disclosing fair value of the financial instruments not measured at fair value (carried at amortised cost) discounted cash flows have been used to derive the fair value.

3. CASH AND CASH EQUIVALENTS

As at 31 March	2023 Rs.	2022 Rs.
3.1 Favourable cash & cash equivalents balance		
Cash in hand and at bank	16,484,821,741	12,282,959,936
3.2 Unfavourable cash & cash equivalent balances		
Bank overdraft	(8,783,895,368)	(5,675,768,259)
Total cash and cash equivalents for the purpose of cash flow statement	7,700,926,373	6,607,191,677

4. INVESTMENT IN GOVERNMENT SECURITIES AND OTHERS

As at 31 March	2023 Rs.	2022 Rs.
Financial instruments - measured at amortised cost		
Investment in government securities (note 4.1)	27,997,857,616	23,841,482,770
Investment in commercial papers (note 4.2)	3,454,854,860	-
	31,452,712,476	23,841,482,770

4.1 Investment in government securities

As at 31 March	2023		2022	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
Investment in Government Standing Deposit Facilities	7,007,080,828	7,007,080,828	7,758,177,941	7,758,177,941
Investment in Treasury Bills	597,839,900	699,730,500	928,649,750	909,729,900
Investment in Treasury Bonds	25,017,871,919	14,857,320,851	16,685,566,604	11,253,966,794
Allowance for impairment (ECL)	(4,624,935,030)	(4,624,935,030)	(1,530,911,525)	(1,530,911,525)
	27,997,857,616	17,939,197,149	23,841,482,770	18,390,963,110

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

As at 31 March	2023 Rs.	2022 Rs.
Investment in Treasury Bonds	175,480,700	-
Amount transferred to P&L on disposal	-	-
Total recognised in OCI	175,480,700	-

4.1.2 Fair value adjustments recognised in other comprehensive income - cumulative

As at 31 March	2023 Rs.	2022 Rs.
Investment in Treasury Bonds	172,461,961	-
Related Tax	3,018,739	-
	175,480,700	-

4.2. Investment in commercial papers

As at 31 March	2023		2022	
	Carrying value	Fair value	Carrying value	Fair value
	Rs.	Rs.	Rs.	Rs.
Investment in commercial papers	3,454,854,860	3,454,854,860	-	-

5. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 March	2023	2022
	Rs.	Rs.
Net derivative assets / (liabilities)		
Derivative assets (note 5.1)	64,428,025	3,450,265,935
Derivative liabilities (note 5.2)	11,634,977	13,175,698
Net derivative assets / (liabilities)	52,793,048	3,437,090,237

5.1 Derivative assets

Forward exchange contracts	64,428,025	3,450,265,935

5.2 Derivative liabilities

Forward exchange contracts	11,634,977	13,175,698

5.3 Change in fair value during the year - gain / (loss)

Recognised in profit or loss	(2,864,647,190)	1,790,082,378
Recognised in OCI	519,650,000	(358,134,304)
	(2,344,997,190)	1,431,948,073

6. RENTALS RECEIVABLE ON LEASED ASSETS

As at 31 March	2023	2022
	Rs.	Rs.
Rentals receivable	96,189,377,881	84,592,969,340
Unearned income	(25,694,810,372)	(20,948,611,569)
Net rentals receivable (note 6.1)	70,494,567,509	63,644,357,771
Deposits received from lessees	(3,634,645,842)	(3,966,847,378)
Allowance for ECL / impairment (note 6.2)	(4,793,251,296)	(2,717,295,784)
	62,066,670,371	56,960,214,609

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

	Stage 01	Stage 02	Stage 03	Total
	Rs.	Rs.	Rs.	Rs.
As at 31 March 2023				
Rentals receivable on leased assets	43,901,128,131	9,917,311,977	13,041,481,558	66,859,921,667
Impairment for expected credit losses (Note 6.b)	(227,209,567)	(166,649,287)	(4,399,392,441)	(4,793,251,296)
Net rentals receivable on leased assets	43,673,918,564	9,750,662,690	8,642,089,117	62,066,670,371
As at 31 March 2022				
Rentals receivable on leased assets	40,304,034,392	13,126,414,535	6,247,061,465	59,677,510,393
Impairment for expected credit losses (Note 6.b)	(382,310,013)	(661,030,801)	(1,673,954,970)	(2,717,295,784)
Net rentals receivable on leased assets	39,921,724,379	12,465,383,735	4,573,106,495	56,960,214,609

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

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2022	382,310,013	661,030,801	1,673,954,970	2,717,295,784
Net charge to profit or loss	(273,674,649)	(631,288,724)	1,501,473,159	596,509,786
Addition on merger with subsidiary	118,574,203	136,907,211	1,223,964,312	1,479,445,725
Balance as at 31 March 2023	227,209,567	166,649,287	4,399,392,441	4,793,251,296
Balance as at 01 April 2021	323,812,191	1,604,127,397	2,026,512,515	3,954,452,103
Net charge to profit or loss	(50,070,200)	(1,096,254,082)	(915,656,823)	(2,061,981,104)
Addition on merger with subsidiary	108,568,022	153,157,485	563,099,278	824,824,785
Balance as at 31 March 2022	382,310,013	661,030,801	1,673,954,970	2,717,295,784

6.1 Net Rentals Receivable

As at 31 March	2023 Rs.	2022 Rs.
Receivable -more than one year		
Rentals receivable	41,222,543,991	39,371,375,934
Unearned income	(14,290,783,835)	(10,862,694,621)
	26,931,760,156	28,508,681,313
Receivable within one year		
Rentals receivable	48,888,650,510	41,406,649,904
Unearned income	(11,404,026,537)	(10,085,916,949)
	37,484,623,973	31,320,732,956
Overdue		
Rentals receivable	6,078,183,380	3,814,943,502
	70,494,567,509	63,644,357,771

6.2 Allowance for ECL / impairment

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	2,717,295,784	3,954,452,103
Provision / (reversal) for the year	596,509,787	(2,061,981,104)
Addition on merger with subsidiary	1,479,445,724	824,824,785
Balance at the end of the year	4,793,251,296	2,717,295,784

6.2.1 Individually significant clients - impairment

Balance at the beginning of the year	279,229,198	465,550,368
Provision / (reversal) for the year	928,340,948	(272,450,235)
Addition on merger with subsidiary	332,689,473	86,129,065
Balance at the end of the year	1,540,259,619	279,229,198

6.2.2 Individually non-significant clients - impairment

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	2,438,066,587	3,488,901,735
Provision / (reversal) for the year	(331,831,161)	(1,789,530,870)
Addition on merger with subsidiary	1,146,756,251	738,695,721
Balance at the end of the year	3,252,991,677	2,438,066,587

7. LOANS AND ADVANCES

As at 31 March	2023 Rs.	2022 Rs.
Mortgage Loans (note 7.1)	6,018,379,360	4,505,565,976
Sundry Loans (note 7.2)	135,194,498,854	119,331,422,448
Gold Loan (note 7.3)	30,581,367,213	15,511,144,393
Credit Cards (note 7.4)	3,787,786,013	2,266,824,709
	175,582,031,440	141,614,957,527

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

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2023				
Loans and advances :				
Mortgage Loans	3,731,729,933	516,956,756	1,993,598,237	6,242,284,926
Speed Draft	54,017,161,868	1,253,035,910	3,294,320,846	58,564,518,623
Group Loans	3,721,932,619	695,354,602	2,797,048,867	7,214,336,088
Sundry Loans	56,379,324,527	7,298,294,796	11,750,758,416	75,428,377,739
Gold Loan	24,011,792,907	2,992,147,743	3,832,758,297	30,836,698,947
Credit Cards	3,221,911,132	527,873,384	373,170,567	4,122,955,083
Gross loans and advances	145,083,852,986	13,283,663,191	24,041,655,230	182,409,171,407
Impairment for expected credit losses (note 7.b)	(579,816,124)	(296,151,147)	(5,953,172,695)	(6,829,139,967)
Net loans and advances	144,504,036,862	12,987,512,044	18,088,482,534	175,580,031,440
Balance as at 31 March 2022				
Loans and advances :				
Mortgage Loans	3,183,897,469	192,134,700	1,241,548,142	4,617,580,311
Speed Draft	40,436,570,597	2,675,677,169	1,760,550,332	44,872,798,097
Group Loans	9,502,592,784	1,503,467,838	1,763,519,495	12,769,580,118
Sundry Loans	52,165,208,919	8,216,509,027	6,718,714,210	67,100,432,155
Gold Loan	14,916,562,199	643,842,821	150,242,442	15,710,647,462
Credit Cards	2,336,414,128	205,331,083	118,181,436	2,659,926,647
Gross loans and advances	122,541,246,096	13,436,962,637	11,752,756,057	147,730,964,790
Impairment for expected credit losses (note 7.b)	(1,726,845,258)	(1,222,778,787)	(3,166,383,218)	(6,116,007,263)
Net loans and advances	120,814,400,837	12,214,183,851	8,586,372,838	141,614,957,527

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

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2022	1,726,845,258	1,222,778,787	3,166,383,218	6,116,007,263
Net charge to profit or loss	(1,229,445,630)	(1,007,788,451)	42,445,935	(2,194,788,146)
Addition on merger with subsidiary	82,416,496	81,160,812	2,744,343,542	2,907,920,850
Balance as at 31 March 2023	579,816,124	296,151,147	5,953,172,695	6,829,139,967
Balance as at 01 April 2021	1,612,677,843	2,124,934,155	5,478,022,744	9,215,634,742
Net charge to profit or loss	(579,654,767)	(1,360,496,710)	(3,741,168,858)	(5,681,320,334)
Addition on merger with subsidiary	693,822,182	458,341,341	1,429,529,332	2,581,692,856
Balance as at 31 March 2022	1,726,845,258	1,222,778,787	3,166,383,218	6,116,007,263

7.1 Mortgage Loans

As at 31 March	2023 Rs.	2022 Rs.
Rentals receivable	9,023,050,349	6,132,712,489
Unearned income	(2,780,765,423)	(1,515,132,178)
Net rentals receivable (note 7.1.1)	6,242,284,926	4,617,580,311
Allowance for ECL / impairment (note 7.1.2)	(223,905,566)	(112,014,335)
	6,018,379,360	4,505,565,976

7.1.1 Net rentals receivable - Mortgage Loans

	2023 Rs.	2022 Rs.
Receivable - more than one year		
Installments receivable	3,078,010,675	2,846,919,277
Unearned income	(1,279,446,536)	(688,362,950)
	1,798,564,139	2,158,556,326
Receivable within one year		
Installments receivable	5,023,300,783	2,459,872,779
Unearned income	(1,501,318,887)	(826,769,228)
	3,521,981,897	1,633,103,551
Overdue		
Installments receivable	921,738,890	825,920,433
	6,242,284,926	4,617,580,311

As at 31 March	2023 Rs.	2022 Rs.

7.1.2 Allowance for ECL / impairment - Mortgage Loans

Balance at the beginning of the year	112,014,335	174,988,431
Provision / (reversal) for the year	111,891,231	(95,784,409)
Addition on merger with subsidiary	-	32,810,313
Balance at the end of the year	223,905,566	112,014,335

7.1.2.a Individually significant clients - impairment

Balance at the beginning of the year	36,987,577	174,988,431
Provision / (reversal) for the year	(36,982,762)	(138,000,854)
Balance at the end of the year	4,815	36,987,577

7.1.2.b Individually non-significant clients - impairment

Balance at the beginning of the year	75,026,757	-
Provision / (reversal) for the year	148,873,993	42,216,444
Addition on merger with subsidiary	-	32,810,313
Balance at the end of the year	223,900,751	75,026,757

As at 31 March	2023 Rs.	2022 Rs.

7.2 Sundry Loans

Total receivable	156,992,696,268	140,226,171,076
Unearned income	(15,785,463,818)	(15,483,360,706)
Net receivable (note 7.2.1)	141,207,232,451	124,742,810,370
Allowance for ECL / impairment (note 7.2.2)	(6,012,733,597)	(5,411,387,922)
	135,194,498,854	119,331,422,448

7.2.1 Net receivable - Sundry Loans

Receivable -more than one year		
Installments receivable	79,539,096,639	81,724,693,584
Unearned income	(8,727,707,003)	(8,285,403,696)
	70,811,389,636	73,439,289,888
Receivable within one year		
Installments receivable	67,565,204,521	51,387,934,922
Unearned income	(7,057,756,814)	(7,197,957,010)
	60,507,447,706	44,189,977,912
Overdue		
Installments receivable	9,888,395,109	7,113,542,570
	141,207,232,451	124,742,810,370

7.2.2 Allowance for ECL / impairment - Sundry Loans

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	5,411,387,922	8,777,078,705
Provision / (reversal) for the year	(2,306,575,176)	(5,912,980,441)
Addition on merger with subsidiary	2,907,920,850	2,547,289,658
Balance at the end of the year	6,012,733,597	5,411,387,922

7.2.2.a Individually significant clients - impairment

Balance at the beginning of the year	715,475,900	1,979,461,820
Provision / (reversal) for the year	(405,420,274)	(1,593,407,656)
Addition on merger with subsidiary	36,235	329,421,736
Balance at the end of the year	310,091,861	715,475,900

7.2.2.b Individually non-significant clients - impairment

Balance at the beginning of the year	4,695,912,022	6,797,616,885
Provision for the year	(1,901,154,902)	(4,319,572,785)
Addition on merger with subsidiary	2,907,884,615	2,217,867,922
Balance at the end of the year	5,702,641,735	4,695,912,022

7.3 Gold loans

As at 31 March	2023 Rs.	2022 Rs.
Gross amount outstanding at year end	30,836,698,947	15,710,647,461
Allowance for ECL / impairment (note 7.3.1)	(255,331,734)	(199,503,068)
Balance at the end of the year	30,581,367,213	15,511,144,393

7.3.1 Allowance for ECL / impairment

Balance at the beginning of the year	199,503,068	36,654,822
Provision / (reversal) for the year	55,828,666	161,255,362
Addition on merger with subsidiary	-	1,592,884
Balance at the end of the year	255,331,734	199,503,068

7.3.1.a Individually significant clients - impairment

Balance at the beginning of the year	928,015	-
Provision / (reversal) for the year	(928,015)	-
Addition on merger with subsidiary	-	928,015
Balance at the end of the year	-	928,015

7.3.1.b Individually non-significant clients - impairment

Balance at the beginning of the year	198,575,053	36,654,822
Provision for the year	56,756,681	161,255,362
Addition on merger with subsidiary	-	664,869
Balance at the end of the year	255,331,734	198,575,053

7.4 Credit Card

As at 31 March	2023 Rs.	2022 Rs.
Gross amount outstanding at year end	4,122,955,083	2,659,926,647
Allowance for ECL / impairment (note 7.4.1)	(335,169,070)	(393,101,938)
Balance at the end of the year	3,787,786,013	2,266,824,709

7.4.1 Allowance for ECL / impairment

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	393,101,938	226,912,784
Provision / (reversal) for the year	(57,932,867)	166,189,154
Balance at the end of the year	335,169,070	393,101,938
Individually non-significant clients - impairment		
Balance at the beginning of the year	393,101,938	226,912,784
Provision for the year	(57,932,867)	166,189,154
Balance at the end of the year	335,169,070	393,101,938

7.5 Margin Trading Receivables

As at 31 March	2023 Rs.	2022 Rs.
Gross amount outstanding at year end	6,679,180,382	6,891,582,656
Allowance for ECL / impairment (note 7.5.1)	(29,785,385)	(75,102,192)
Net balance on margin trading	6,649,394,997	6,816,480,464

7.5.1 Allowance for ECL / impairment

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	75,102,192	-
Provision / (reversal) for the year	(45,316,807)	75,102,192
Balance at the end of the year	29,785,385	75,102,192

7.5.1.a Individually non-significant clients - impairment

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	75,102,192	-
Provision / (reversal) for the year	(45,316,807)	75,102,192
Balance at the end of the year	29,785,385	75,102,192

7.6 Factoring Receivables

As at 31 March	2023 Rs.	2022 Rs.
Gross receivable	2,512,831,380	1,775,221,728
Allowance for ECL / impairment (note 7.6.1)	(242,669,348)	(356,788,879)
	2,270,162,033	1,418,432,849

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

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2023				
Factoring receivable	1,932,312,117	26,681,561	553,837,702	2,512,831,380
Impairment for expected credit losses (note 7.6.b)	(16,350,691)	(3,293,940)	(223,024,717)	(242,669,348)
Net factoring receivable	1,915,961,426	23,387,622	330,812,985	2,270,162,033
Balance as at 31 March 2022				
Factoring receivable	1,163,734,294	450,293	611,037,141	1,775,221,728
Impairment for expected credit losses (note 7.6.b)	(14,673,150)	(34,010)	(342,081,718)	(356,788,879)
Net factoring receivable	1,149,061,144	416,283	268,955,422	1,418,432,849

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

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2022	14,673,150	34,010	342,081,718	356,788,879
Net charge to profit or loss	1,677,541	3,259,929	(119,057,001)	(114,119,531)
Addition on merger with subsidiary	-	-	-	-
Balance as at 31 March 2023	16,350,691	3,293,940	223,024,717	242,669,348
Balance as at 01 April 2021	-	-	-	-
Net charge to profit or loss	-	-	-	-
Addition on merger with subsidiary	14,673,150	34,010	342,081,718	356,788,879
Balance as at 31 March 2022	14,673,150	34,010	342,081,718	356,788,879

7.6.1 Allowance for ECL / impairment

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	356,788,879	-
Provision / (reversal) for the year	(114,119,531)	-
Addition on merger with subsidiary	-	356,788,879
Balance at the end of the year	242,669,348	356,788,879

7.6.1.a Individually significant clients - impairment

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	342,081,719	-
Provision / (reversal) for the year	(119,442,781)	-
Addition on merger with subsidiary	-	342,081,719
Balance at the end of the year	222,638,938	342,081,719

7.6.1.b Individually non-significant clients - impairment

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	14,707,160	-
Provision / (reversal) for the year	5,323,250	-
Addition on merger with subsidiary	-	14,707,160
Balance at the end of the year	20,030,409	14,707,160

7.7 Portfolio Analysis

7.7.1 Sectorwise exposure of the lending portfolio - before impairment provision.

As at 31 March	2023 Rs.	2022 Rs.
Agriculture	32,271,705,172	31,986,891,420
Manufacturing	14,605,189,461	14,274,816,278
Economics and Social	13,791,766,116	8,213,636,481
Trade	41,700,750,982	38,175,306,947
Factoring	2,509,405,396	1,775,221,728
Margin Trading	6,679,180,382	6,891,582,656
Tourism	2,403,187,593	1,655,324,955
Services	64,615,954,568	46,159,207,633
Transportation	27,717,747,296	30,427,109,070
Construction	15,713,374,026	17,297,635,819
Mining and Quarrying	2,274,525	1,092,660,288
Others	36,450,569,454	18,125,886,293
	258,461,104,836	216,075,279,566

7.7.2 Product wise analysis of portfolio

Lease receivables	61,947,454,035	56,713,068,754
Loans & Advances	164,055,911,504	135,026,563,000
Factoring receivables	2,512,831,380	1,775,221,728
Margin trading receivables	6,679,180,382	6,891,582,656
Alternative finance portfolio - Ijarah receivables	4,912,467,632	2,964,441,639
Alternative finance portfolio - Other receivables (Murabaha, Musharakah etc.)	18,353,259,902	12,704,401,789
Gross portfolio	258,461,104,836	216,075,279,566
Less : Allowance for ECL / impairment	(11,892,845,995)	(9,265,194,118)
Net portfolio	246,568,258,840	206,810,085,448

7.7.3 Net portfolio

As at 31 March	2023 Rs.	2022 Rs.
Rentals receivable on leased assets (note 6)	62,066,670,371	56,960,214,609
Loans and advances (note 7)	175,582,031,440	141,614,957,527
Margin trading receivable (note 7.5)	6,649,394,997	6,816,480,464
Factoring receivable (note 7.6)	2,270,162,033	1,418,432,849
	246,568,258,840	206,810,085,449

8. INVESTMENT SECURITIES

As at 31 March	2023 Rs.	2022 Rs.
Investment securities measured at amortised cost (note 8.2)	977,218	966,218
Investment securities measured at FVTPL – debt / equity investments (note 8.1)	4,424,824,113	5,993,197,046
Investment securities measured at FVOCI – equity investments (note 8.2.2)	306,779,200	294,402,964
	4,732,580,531	6,288,566,228

8.1 Investment securities measured at FVTPL – debt / equity investments

Equity shares Name of the company	Original Cost Rs.	Balance as at 01 April 2022 Rs.	Investments during the year Rs.	Fair value - recognised in profits Rs.	Disposal during the year Rs.	Addition on merger with subsidiary Rs.	Balance as at 31 March 2023 Rs.
Expo Lanka Holdings PLC	1,653,174	19,080,384	-	(6,406,050)	-	-	12,674,334
LOLC Myanmar Micro Finance Co. Ltd (note 8.1.a)	861,125,000	1,782,263,402	-	-	-	-	1,782,263,402
Sampath Bank PLC	469,738	330,618	-	47,539.50	-	-	378,158
ACL Cables PLC	1,653,448	3,149,636	-	1,390,032.00	-	-	4,539,668
Access Engineering PLC	269,990	150,000	-	(8,000.00)	-	-	142,000
Aitken Spence Hotel Holdings PLC	403,468	133,000	-	94,620.00	-	-	227,620
Chemical Industries Colombo PLC (NV)	-	900	-	882.00	-	-	1,782
Commercial Bank of Ceylon PLC	713,656	345,563	-	19,437.40	-	-	365,000
Commercial Bank of Ceylon PLC (NV)	125,982	305,474	-	(28,265.60)	-	-	277,208
Softlogic Finance PLC	1,233,775	224,660	-	(38,240.00)	-	-	186,420
Nations Lanka Finance PLC	181,666	56,700	-	(16,200.00)	-	-	40,500
Colombo Dockyard PLC	106,682	45,000	-	(6,600.00)	-	-	38,400
Piramal Glass Ceylon PLC	603,484	1,762,500	-	944,700.00	-	-	2,707,200
Laugfs Gas PLC	798,342	247,250	-	152,650.00	-	-	399,900
Nestle Lanka PLC	171,819	81,120	-	10,814.00	-	-	91,934
Nations Trust Bank PLC	1,528,176	826,830	-	420,530.00	-	-	1,247,360
Swisstek (Ceylon) PLC	602,195	1,180,812	-	(450,573.00)	-	-	730,239
Peoples Leasing & Finance PLC	2,443,373	1,516,249	-	25,483.40	-	-	1,541,732
Renuka Agri Foods PLC	790,758	663,000	-	221,000.00	-	-	884,000
Seylan Bank PLC (NV)	1,876,908	3,237,509	-	(25,431.30)	-	-	3,212,078
Union Bank of Colombo Limited	17,500	5,460	-	840.00	-	-	6,300
United Motors Lanka PLC	495,407	300,000	-	(500.00)	-	-	299,500
The Lanka Hospitals Corporation PLC	502,566	501,000	-	629,000.00	-	-	1,130,000
Merchant Bank of Sri Lanka	79,874	27,500	-	(10,500.00)	-	-	17,000
Total equity shares	877,846,981	1,816,434,567	-	(3,032,832)	-	-	1,813,401,735

Equity shares Name of the company	Original Cost Rs.	Balance as at 01 April 2021 Rs.	Investments during the year Rs.	Fair value - recognised in profits Rs.	Disposal during the year Rs.	Addition on merger with subsidiary Rs.	Balance as at 31 March 2022 Rs.
Expo Lanka Holdings PLC	1,653,174	4,104,383	-	14,976,002	-	-	19,080,384
LOLC Myanmar Micro Finance Co. Ltd (note 8.1.a)	861,125,000	981,415,880	-	(56,845,617)	-	857,693,139	1,782,263,402
Sampath Bank PLC	469,738	-	-	-	-	330,618	330,618
ACL Cables PLC	1,653,448	-	-	-	-	3,149,636	3,149,636
Access Engineering PLC	269,990	-	-	-	-	150,000	150,000
Aitken Spence Hotel Holdings PLC	403,468	-	-	-	-	133,000	133,000
Cemical Industries Colombo PLC (NV)	-	-	-	-	-	900	900
Commercial Bank of Ceylon PLC	713,656	-	-	-	-	345,563	345,563
Commercial Bank of Ceylon PLC (NV)	125,982	-	-	-	-	305,474	305,474
Softlogic Finance PLC	1,233,775	-	-	-	-	224,660	224,660
Nations Lanka Finance PLC	181,666	-	-	-	-	56,700	56,700
Colombo Dockyard PLC	106,682	-	-	-	-	45,000	45,000
Piramal Glass Ceylon PLC	603,484	-	-	-	-	1,762,500	1,762,500
Laugfs Gas PLC	798,342	-	-	-	-	247,250	247,250
Nestle Lanka PLC	171,819	-	-	-	-	81,120	81,120
Nations Trust Bank PLC	1,528,176	-	-	-	-	826,830	826,830
Swisstek (Ceylon) PLC	602,195	-	-	-	-	1,180,812	1,180,812
Peoples Leasing & Finance PLC	2,443,373	-	-	-	-	1,516,249	1,516,249
Renuka Agri Foods PLC	790,758	-	-	-	-	663,000	663,000
Seylan Bank PLC (NV)	1,876,908	-	-	-	-	3,237,509	3,237,509
Union Bank of Colombo Limited	17,500	-	-	-	-	5,460	5,460
United Motors Lanka PLC	495,407	-	-	-	-	300,000	300,000
The Lanka Hospitals Corporation PLC	502,566	-	-	-	-	501,000	501,000
Merchant Bank of Sri Lanka	79,874	-	-	-	-	27,500	27,500
Total equity shares	877,846,981	985,520,263	-	(41,869,615)	-	872,783,920	1,816,434,567

As at 31 March	2023 Rs.	2022 Rs.
Investment in Unit Trusts		
Original cost	2,377,920,492	3,550,000,000
Carrying amount at the beginning of the year	3,562,534,214	4,120,231,452
Investments during the year	-	16,150,000,000
Adjustment for change in fair value - recognised in profits	147,564,393	243,004,216
Addition on merger with subsidiary	3,710,995,836	-
Disposal during the year	(4,910,927,669)	(16,950,701,454)
Carrying amount at the end of the year	2,510,166,775	3,562,534,214
Trading Gold Stock		
Original cost	94,432,872	227,866,473
Carrying amount at the beginning of the year	614,228,265	192,615,311
Investments during the year	148,038,356	104,680,236
Adjustment for change in fair value - recognised in profits	(92,859,451)	316,932,718
Disposal during the year	(568,151,568)	-
Carrying amount at the end of the year	101,255,603	614,228,265
Total investments held for trading	4,424,824,113	5,993,197,046

8.1.a Valuation technique - LOLC Myanmar Micro Finance Company Ltd

The fair value measurement for above equity investment has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Residual Income Approach	As at 31st March 2023, unobservable inputs based on cost of equity, terminal growth, exchange rate were improved and no revaluation gain recognised on conservative basis. As at 31st March 2022, value per share was derived based on cost of equity (16.11%), terminal growth (2%), exchange rate (MMK/LKR 0.1682) and forecasted cash flows.	'The estimated fair value would increase (decrease) if: » Cost of equity was lesser / (higher) » Terminal growth was higher / (lesser) » Exchange rate was higher / (lesser) » Forecasted cashflows were higher / (lesser)

8.2 Investment securities measured at amortised cost and FVOCI

8.2.1 Investment securities measured at amortised cost

As at 31 March	2023 Rs.	2022 Rs.
Credit Information Bureau of Sri Lanka	608,468	597,468
Equity Investments Lanka Limited	168,750	168,750
Finance Houses Consortium (Pvt) Ltd.	400,000	400,000
Impairment for expected credit losses (Note 8.2.1.a)	(200,000)	(200,000)
	977,218	966,218

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

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2023				
Investment securities measured at amortised cost	1,177,218	-	-	1,177,218
Impairment for expected credit losses (note 8.2.1.b)	(200,000)	-	-	(200,000)
Net Investment securities measured at amortised cost	977,218	-	-	977,218
Balance as at 31 March 2022				
Investment securities measured at amortised cost	1,166,218	-	-	1,166,218
Impairment for expected credit losses (note 8.2.1.b)	(200,000)	-	-	(200,000)
Net Investment securities measured at amortised cost	966,218	-	-	966,218

8.2.2 Investment securities measured at FVOCI – equity investments

As at 31 March	2023 Rs.	2022 Rs.
LOLC Asia (Pvt) Ltd		
Carrying amount at the beginning of the year	294,402,964	199,095,698
Adjustment for change in fair value - recognised in OCI	12,376,236	95,307,266
Carrying amount at the end of the year	306,779,200	294,402,964
Total	307,387,668	295,000,432

9. INVESTMENT IN ASSOCIATE

	Ownership interest Rs.	No. of shares	2023 Cost Rs.	2023 Carrying value Rs.	2022 Cost Rs.	2022 Carrying value Rs.
Commercial Insurance Brokers (Private) Limited	40.00	240,000	800,000	236,138,354	800,000	226,752,441
LOLC Development Finance PLC	44.33	105,499,048	-	-	1,265,987,676	1,606,908,226
LOLC El-Oula Microfinance Egypt	25.00	1,107,378	348,075,272	327,946,594	-	-
Total			348,875,272	564,084,948	1,266,787,676	1,833,660,667

The principal activities of the equity accounted investees are as follows;

» Commercial Insurance Brokers (Private) Limited - Insurance Brokering

» LOLC Development Finance PLC - Leasing / Loans / Deposit mobilisation

» LOLC El-Oula Microfinance Egypt - Leasing / Loans / Deposit mobilisation

9.1 Summarised financial information

Summarised financial information to the carrying amount of the interest in the associate recognised in the Financial Statements is as follows:

As at 31 March	Commercial Insurance Brokers (Private) Limited 2023 Rs.	Commercial Insurance Brokers (Private) Limited 2022 Rs.	LOLC Development Finance PLC 2023 Rs.	LOLC Development Finance PLC 2022 Rs.	LOLC El-Oula Microfinance Egypt 2023 Rs.	LOLC El-Oula Microfinance Egypt 2022 Rs.
Original cost of investment	800,000	800,000	1,265,987,676	1,265,987,676	348,075,272	-
Add: Share of profit applicable to the Company						
Investment in associate at the beginning of the year	226,752,441	-	1,606,908,226	-	-	-
Addition on merger with subsidiary	-	207,096,665	-	189,178,027	-	-
Disposal on merger with subsidiary	-	-	(722,539,668)	-	-	-
Total comprehensive income :	13,685,913	24,855,776	(884,368,558)	151,742,523	(20,128,678)	-
Profit or loss for the period recognised in income statement, net of tax (note 9.2.a)	17,672,167	12,114,359	(827,882,976)	172,173,881	(20,128,678)	-
Profit or loss and other comprehensive income, net of tax (note 9.2.a)	(3,986,254)	12,741,417	(56,485,582)	(20,431,357)	-	-
Dividend received	(5,100,000)	(6,000,000)	-	-	-	-
Carrying amount at the end of the year	236,138,354	226,752,441	-	1,606,908,226	327,946,594	-

9.2 Summarised financial information in respect of the associate is set out below:

9.2.a Summarised Income Statement

As at 31 March	Commercial Insurance Brokers (Private) Limited		LOLC Development Finance PLC		LOLC El-Oula Microfinance Egypt	
	2023 Rs.	2022 Rs.	2023 Rs.	2022 Rs.	2023 Rs.	2022 Rs.
Revenue	225,901,283	204,239,311	5,493,240,261	5,452,004,858	1,513,566,470	-
Expenses	(159,921,262)	(168,455,721)	(7,258,282,886)	(4,889,749,683)	(1,519,794,774)	-
Income tax	(19,799,599)	(5,497,692)	(102,503,000)	(173,863,836)	(74,286,408)	-
Profit from continuing operations, net of tax	46,180,422	30,285,898	(1,867,545,625)	388,391,339	(80,514,712)	-
Company's share of profit from continuing operations, net of tax	13,372,169	12,114,359	(827,882,976)	172,173,881	(20,128,678)	-
Other comprehensive income, net of tax	(9,965,636)	31,853,542	(127,420,668)	(46,089,234)	-	-
Company's share of other comprehensive income from continuing operations, net of tax	(3,986,254)	12,741,417	(56,485,582)	(20,431,357)	-	-
Share of results of equity accounted investee recognised in Statement of Profit or Loss and Other Comprehensive Income	9,385,914	24,855,776	(884,368,558)	151,742,523	(20,128,678)	-

9.2.b Summarised Statement of Financial Position

As at 31 March	Commercial Insurance Brokers (Private) Limited		LOLC Development Finance PLC		LOLC El-Oula Microfinance Egypt	
	2023 Rs.	2022 Rs.	2023 Rs.	2022 Rs.	2023 Rs.	2022 Rs.
Non-current assets	522,517,723	499,034,216	-	8,213,487,515	251,701,119	-
Current assets	239,694,838	229,873,313	-	13,709,673,493	3,242,646,506	-
Non-current liabilities	(148,914,405)	(120,431,041)	-	(5,322,652,796)	(2,544,812,208)	-
Current liabilities	(36,995,878)	(26,714,925)	-	(13,444,376,981)	(245,624,786)	-
Net assets	576,302,278	581,761,563	-	3,156,131,232	703,910,631	-
Company's share of net assets	230,520,911	232,704,625	-	1,399,112,975	175,977,658	-
Goodwill	5,617,443	(5,952,184)	-	207,795,251	151,968,936	-
Disposal on merger with subsidiary	-	-	-	-	-	-
Carrying amount of investment in associate	236,138,354	226,752,441	-	1,606,908,226	327,946,594	-

The Company recognises the share of net assets of the associate under the Equity Method to arrive at the Directors' valuation. The maturity analysis of investment in associate is given in Note 28.

10. AMOUNTS DUE FROM RELATED COMPANIES

As at 31 March	Relationship	2023 Rs.	2022 Rs.
Brown & Company PLC	Fellow subsidiary	4,189,200	-
Browns Engineering & Construction (Pvt) Ltd	Fellow subsidiary	2,131	-
Ceylon Graphene Technologies (Private) Limited	Fellow subsidiary	1,666	1,666
Dolphin Hotels PLC	Fellow subsidiary	3,695	-
Eden Hotel Lanka PLC	Fellow subsidiary	203,324	2,694
Forti Grains (Pvt) Ltd	Fellow subsidiary	1,170	-
Frontier Capital Lanka (Pvt) Ltd	Fellow subsidiary	1,170	-
Green Paradise Resorts (Private) Limited	Fellow subsidiary	38,789	1,010
Hotel Sigiriya PLC	Fellow subsidiary	9,393	-
Leapstitch Technologies (Pvt) Ltd	Fellow subsidiary	803,250	-
LOLC Technologies Limited	Fellow subsidiary	10,388,336	2,191,711
LOLC Asset Holding Co/ LOLC Life Assurance Co.	Fellow subsidiary	-	10,000
LOLC Factors Ltd	Fellow subsidiary	897,029	1,340,551
LOLC GEO Technologies (Pvt) Ltd	Fellow subsidiary	1,170	-
LOLC General Insurance Limited	Fellow subsidiary	34,409,225	27,817,558
LOLC Life Assurance Limited	Fellow subsidiary	2,203,566	7,829,887
LOLC Investment Holdings Six (Pvt.) Ltd	Fellow subsidiary	1,170	-
LOLC Motors Limited	Fellow subsidiary	651,467	-
LOLC Property Nine (Pvt) Ltd	Fellow subsidiary	1,170	-
LOLC Securities Ltd	Fellow subsidiary	-	7,899,885
LOLC Tea (Pvt) Ltd	Fellow subsidiary	-	3,879
Millennium Development Limited	Fellow subsidiary	359,825	-
Serendib Hotels PLC	Fellow subsidiary	2,933	-
Sun & Fun Resorts Ltd.	Fellow subsidiary	2,985,833	283,131
Taprobane Plantations (Private) Limited	Fellow subsidiary	5,579	-
		57,161,090	47,381,972

11. OTHER RECEIVABLES

As at 31 March	2023 Rs.	2022 Rs.
Financial Assets		
Staff loans	6,799,406	20,860,217
Other receivables	1,604,411,030	659,041,878
Provision on other receivable	(816,172,063)	(424,450,113)
	795,038,373	255,451,982
Non Financial Assets		
VAT receivable	241,990,374	250,542,628
WHT recoverable	-	-
Prepaid staff cost	28,156,756	30,696,082
Other Debtors & Prepayments	3,280,579,080	38,130,807
Miscellaneous receivables	1,132,222,712	509,508,513
	4,682,948,922	828,878,030
Total Other receivables	5,477,987,295	1,084,330,013

12. INVESTMENT PROPERTIES

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	38,287,958,119	21,088,740,181
Additions to Investment Properties from foreclosure of contracts	868,875,920	332,511,900
Additions and improvements		
Improvements	82,794,379	19,321,953
Additions	2,215,922,787	5,074,889,173
Transfers to property, plant and equipment	(3,332,500,000)	(492,800,000)
Addition on merger with subsidiary	44,500,000	5,361,501,000
Disposals	(440,775,000)	(21,756,165)
Change in fair value	3,525,884,968	6,925,550,077
Balance at the end of the year	41,252,661,173	38,287,958,119

» Investment Properties includes bare lands and land and buildings acquired by the company from clients who defaulted on accommodations granted and purchased properties. These properties are held by the Company for capital appreciation.

» The company incurred expenses for the improvements of the investment properties and received rent income amounting to Rs.65,343,555 during the current year (2021/22 - Rs.96,960,937) from these properties.

» During the year company has incurred expenses amounting to Rs.128,765,638 for maintenance of the investment property. (2021/22 - Rs.30,993,121)

» Changes in fair values are recognised as gains in profit or loss and included in 'Net other operating income'.

12.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31 March 2023. The fair value has been determine based on valuation perform by Mr. W M Chandrasena, FIV (SL) Marics (UK) Chartered Valuation Surveyor.

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

2.) Valuation technique

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

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio as of March 2023 ranges from Rs.62,500 to Rs.28,000,000 in the Colombo area and Rs.43,750 to Rs.14,000,000 outside the Colombo area. As of March 2022, per perch values were ranges from Rs.470,000 to Rs.37,500,000 in the Colombo area and Rs.30,000 to Rs.4,750,000 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 year used.	The estimated fair value would increase (decrease) if: » Depreciation rate was lesser / (higher) » Square feet value was higher / (lesser)

13. PROPERTY, PLANT AND EQUIPMENT

Company Cost/Valuation	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Freehold Motor Vehicles Rs.	Other equipment and software Rs.	Right-of use assets Rs.	Total Rs.
Balance as at 01 April 2022	3,142,650,000	1,661,854,049	178,961,000	1,890,320,000	1,391,593,349	1,753,323,447	10,018,701,844
Additions	-	-	118,335,000	1,300,004	86,652,675	367,081	206,654,760
Addition on merger with subsidiary	-	-	-	10,231,902	367,107,629	322,718,905	700,058,436
Disposals	-	-	-	(9,750,000)	(113,795)	(5,330,792)	(15,194,587)
Revaluation	-	-	-	-	-	-	-
Transfers from investment properties	2,230,000,000	1,102,500,000	-	-	-	-	3,332,500,000
Transfers / Adjustment	-	3,601,641	-	-	176,443,843	-	180,045,484
Balance as at 31 March 2023	5,372,650,000	2,767,955,690	297,296,000	1,892,101,906	2,021,683,700	2,071,078,642	14,422,765,938
Accumulated Depreciation							
Balance as at 01 April 2022	-	504,048	67,999,000	(64,691,157)	987,244,157	700,910,856	1,691,966,904
Charge for the year	-	62,989,246	40,514,508	131,219,728	225,691,618	273,804,613	734,219,712
Depreciation on disposals	-	-	-	(193,718)	(113,795)	(21,613,149)	(21,920,662)
Addition on merger with subsidiary	-	-	-	1,028,714	300,865,746	136,033,059	437,927,519
Revaluation	-	-	-	-	-	-	-
Transfers to investment properties	-	-	-	-	-	-	-
Transfers / Adjustment	-	-	-	-	27,590,811		27,590,811
Balance as at 31 March 2023	-	63,493,294	108,513,508	67,363,566	1,541,278,536	1,089,135,380	2,869,784,284
Carrying Amount							
As at 31 March 2023	5,372,650,000	2,704,462,396	188,782,492	1,824,738,340	480,405,164	981,943,262	11,552,981,653

Company Cost/Valuation	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Freehold Motor Vehicles Rs.	Other equipment and software Rs.	Right-of use assets Rs.	Total Rs.
Balance as at 01 April 2021	180,500,000	166,004,048	273,915,000	1,158,782,292	79,369,609	-	1,858,570,950
Additions	-	787,866	54,961,000	-	77,060,750	857,942,122	990,751,738
Addition arising from merger of subsidiary	2,387,650,000	1,167,850,000	-	173,470,000	1,235,162,989	895,381,325	5,859,514,314
Disposals	-	-	-	(10,300,000)	-	-	(10,300,000)
Revaluation	160,300,000	251,569,667	(790,000)	419,242,708	-	-	830,322,375
Transfers to investment properties	414,200,000	78,600,000	-	-	-	-	492,800,000
Transfers / Adjustment	-	(2,957,533)	(149,125,000)	149,125,000	-	-	(2,957,533)
Balance as at 31 March 2022	3,142,650,000	1,661,854,049	178,961,000	1,890,320,000	1,391,593,349	1,753,323,447	10,018,701,844
Accumulated Depreciation							
Balance as at 01 April 2021	-	1,624,811	119,527,979	518,128,780	56,070,941	-	695,352,512
Charge for the year	-	6,390,309	12,066,610	16,203,108	39,678,880	391,301,138	465,640,045
Depreciation on disposals	-	-	-	(5,031,930)	-	-	(5,031,930)
Addition arising from merger of subsidiary	-	-	-	-	891,494,335	309,609,718	1,201,104,053
Revaluation	-	(7,511,072)	(63,595,589)	(593,991,115)	-	-	(665,097,776)
Transfers to investment properties	-	-	-	-	-	-	-
Transfers / Adjustment	-	-	-	-	-		-
Balance as at 31 March 2022	-	504,048	67,999,000	(64,691,157)	987,244,157	700,910,856	1,691,966,904
Carrying Amount							
As at 31 March 2022	3,142,650,000	1,661,350,000	110,962,000	1,955,011,157	404,349,192	1,052,412,591	8,326,734,940

13. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles amount to Rs.188,782,492 as at 31 March 2023 (31 March 2022 - Rs.110,962,000) are purchased under finance leases and have been pledged as security for the related finance lease liabilities.

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	2023 Rs.	2022 Rs.
Receivable within one year	291,255,951	118,546,500
Receivable within 1-5 years	262,014,586	214,124,965
Total	553,270,537	332,671,465

Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31 March 2023 and 31 March 2022.

Fully depreciated property, plant and equipment

There were motor vehicles amount to Rs.331,902 and office equipment amount to Rs.1,027,043,881 in property, plant and equipment fully depreciated as at 31 March 2023 and as at 31 March 2022 it was Rs.1,508,000 in motor vehicles and Rs.47,504,368 in office equipment.

13.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of property, plant and equipment 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 2023.

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.

The Company has decided to change its accounting policies relating to Motor Vehicles (both leasehold and free hold) from Cost Model to Revaluation Model as per LKAS 16 with effect from 31st March 2023. Management has voluntarily changed the aforementioned accounting policy with the view that it will provide more relevant and reliable information in financial statements to economic users.

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of land and buildings, 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 as of March 2023 ranges from Rs.62,500 to Rs.28,000,000 in the Colombo area and Rs.43,750 to Rs.14,000,000 outside the Colombo area. As of March 2022, per perch values were ranges from Rs.470,000 to Rs.37,500,000 in the Colombo area and Rs.30,000 to Rs.4,750,000 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 year used.	The estimated fair value would increase (decrease) if: » Depreciation rate was lesser / (higher) » Square feet value was higher / (lesser)

13.2 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	2023 Rs.	2022 Rs.
Cost	4,808,105,690	1,991,063,382
Accumulated depreciation and impairment	(63,493,294)	(23,001,276)
Carrying value	4,744,612,395	1,968,062,106

14. INTEREST BEARING BORROWINGS

As at 31 March	2023 Rs.	2022 Rs.
Short-term loans	363,291,900	14,650,000,000
Long-term borrowings (note 14.1)	20,618,010,036	19,661,065,288
Lease liability (note 14.2)	1,115,628,526	1,199,460,769
Debentures (note 14.3)	7,500,000,000	7,500,000,000
Total borrowings	29,596,930,462	43,010,526,058
Interest payable	1,832,483,333	1,299,377,340
Liability recognised in statement of financial position	31,429,413,795	44,309,903,398

14.1 Long-term borrowings

Balance at the beginning of the year	19,661,065,288	12,109,298,395
Loans obtained during the year	3,000,000,000	11,957,391,781
Loans transferred on merger with subsidiary	8,544,077,577	11,783,769,930
Repaid during the year	(2,043,055,252)	(4,405,624,888)
Balance at the end of the year	20,618,010,036	19,661,065,288
Long-term borrowings - current	12,798,175,840	10,897,159,784
Long-term borrowings - non-current (note 14.1.a)	7,819,834,196	8,763,905,504
	20,618,010,036	19,661,065,288

14.1.a Analysis of non-current portion of long-term borrowings

Repayable within 1-3 years	6,802,748,258	4,117,066,969
Repayable after 3 years	1,017,085,938	4,646,838,535
	7,819,834,196	8,763,905,504

14.2 Lease liability

Finance leases (note 14.2.1)	32,973,284	40,073,154
Obligation on lease liability - right of use assets (note 14.2.2)	1,082,655,242	1,159,387,616
	1,115,628,526	1,199,460,769

As at 31 March	2023 Rs.	2022 Rs.
14.2.1 Finance leases		
Gross lease rentals payable at the beginning of the year	49,991,381	24,296,631
Lease obtained during the year	-	52,398,695
Lease rentals paid during the year	(11,045,700)	(26,703,945)
Gross lease rentals payable at the end of the year	38,945,681	49,991,381
Less: Interest in suspense	(5,972,397)	(9,918,228)
Balance at the end of the year / present value of minimum lease payments	32,973,284	40,073,154
14.2.1.1 Analysis of finance leases		
Repayable within one year (note 14.2.1.a)	7,706,451	6,849,194
Repayable within 1-5 years (note 14.2.1.b)	25,266,833	33,223,960
	32,973,284	40,073,154
14.2.1.a Repayable within one year		
Gross lease rentals payable	10,334,834	10,307,940
Less: interest in suspense	(2,628,383)	(3,458,746)
	7,706,451	6,849,194
14.2.1.b Repayable within 1-5 years		
Gross lease rentals payable	28,610,847	39,683,441
Less: interest in suspense	(3,344,014)	(6,459,482)
	25,266,833	33,223,960
14.2.2 Obligation on lease liability of right-of use assets		
Balance at the beginning of the year	1,159,387,616	-
Addition during the year	367,081	583,030,088
Accretion of interest	122,317,473	74,489,762
Payments during the year	(424,566,225)	576,357,528
Transferred on merger with subsidiary	225,149,297	604,463,763
Balance at the end of the year	1,082,655,242	1,159,387,616
14.2.2.1 Maturity analysis of obligation on lease liability		
Less than 01 year	215,024,173	112,804,548
01 to 05 years	539,708,432	702,526,277
More than 05 years	327,922,637	344,056,791
	1,082,655,242	1,159,387,616

Sensitivity of Right-of-Use Assets / Lease Liability to Key Assumptions

Sensitivity to Discount Rates 1% increase/(decrease) in discount rate as at 31st March 2023 would have (decreased)/increased the lease liability by approximately Rs. 23.7 Mn with a similar (decrease)/increase in the right-of-use asset. Had the Company increased/(decreased) the discount rate by 1%, the Company's profit before tax for the year would have (decreased)/increased by approximately Rs. 1.8 Mn.

Sensitivity to Lease Term had the lease term of all existing lease agreements been increased by further one year, lease liability of the Company as at 31st March 2023 would have increased by Rs. 360 Mn with a similar increase in the right-of-use assets. Further, this would reduce the profit before tax of the Company by Rs. 9.3 Mn.

14.3 Debentures

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	7,500,000,000	2,500,000,000
Transferred on merger with subsidiary	-	5,000,000,000
Balance at the end of the year	7,500,000,000	7,500,000,000

The company issued rated unsecured subordinated redeemable debentures, thirty four million (34,110,193) totalling to Rs.2.5Bn in July 2018 with a five year maturity duration, incurring transaction costs and during the year as a result of the merger, fifty million (50,000,000) debentures totalling to Rs.5Bn had been issued in September 2020 transferred to the Company. These debentures are listed in the Colombo Stock Exchange. The amortisation of the transaction cost is included in the interest payable amount.

15. DEPOSITS FROM CUSTOMERS

As at 31 March	2023 Rs.	2022 Rs.
Customer deposits	191,186,788,263	155,929,957,835
Interest / profit payable		
Interest payable on deposits	9,310,622,324	3,170,194,369
Profits payable to alternative finance deposit holders	773,490,796	152,230,059
	10,084,113,119	3,322,424,428
Deposit liability recognised in statement of financial position	201,270,901,382	159,252,382,263

15.1 Analysis of customer deposits based on nature

Fixed deposits - conventional	154,455,577,011	122,273,175,771
Fixed deposits - alternative finance - Mudharabah	1,925,877,004	3,177,560,799
Fixed deposits - alternative finance - Wakala	19,250,758,733	8,211,680,811
Fixed deposits - foreign currency	3,187,652,971	2,797,620,406
Fixed deposit bonds	4,176,036	4,176,036
Savings deposits - conventional	6,109,156,206	5,103,504,297
Savings deposits - alternative finance	1,128,062,348	1,033,581,299
Savings deposits - foreign currency	5,125,527,954	13,328,658,416
Total deposits	191,186,788,263	155,929,957,835

15.2 Deposits based on maturity

Deposits maturing within one year	137,500,114,565	137,064,806,878
Deposits maturing after one year	53,686,673,698	18,865,150,958
	191,186,788,263	155,929,957,835

16. TRADE PAYABLES

Creditors for lease equipment and approved facilities to be disbursed	258,736,201	1,141,928,384

17. ACCRUALS AND OTHER PAYABLES

As at 31 March	2023 Rs.	2022 Rs.
Excess payments received from clients	986,055,687	763,519,687
Insurance payable	37,523,399	381,074,621
VAT / other tax payable	330,730,819	244,341,865
Other miscellaneous creditors	9,246,139,115	5,408,566,906
Payable on matured deposits	287,459,197	1,001,198,999
Stamp duty payable	-	34,579,214
Allowance for impairment (ECL) - Undrawn credit facilities	2,427,891	2,311,437
	10,890,336,109	7,835,592,729

18. AMOUNTS DUE TO RELATED COMPANIES

As at 31 March	Relationship	2023 Rs.	2022 Rs.
LOLC Holding PLC	Parent	955,683,775	3,627,826,427
LOLC Factors Ltd	Fellow subsidiary	-	104,755
LOLC Information Technology Services Limited	Fellow subsidiary	110,018,244	62,435,438
LOLC Motors Ltd	Fellow subsidiary	-	12,272,550
LOLC Development Finance PLC	Fellow subsidiary	-	8,195
LOLC Corporate services Ltd	Fellow subsidiary	595,000	1,190,000
LOLC Property 1-4	Fellow subsidiary	2,941,384	2,895,875
LOLC Life Insurance	Fellow subsidiary	-	358,161
LOLC General Insurance	Fellow subsidiary	-	12,276,345
		1,069,238,403	3,719,367,746

19. EMPLOYEE BENEFITS

19.1 Defined contribution plans

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

As at 31 March	2023 Rs.	2022 Rs.
Employees' Provident Fund		
Employers' contribution	268,926,628	182,952,644
Employees' contribution	179,284,418	121,968,430
Employees' Trust Fund	81,828,880	45,738,157

As at 31 March	2023 Rs.	2022 Rs.

19.2 Defined benefit plan

Movement in the present value of the defined benefit obligation

Defined benefit obligation at the beginning of the year	565,709,494	332,531,588
Transferred on merger with subsidiary	62,272,625	229,543,253
Expense included in Personnel Expenses (note 19.2.a)	114,012,814	50,368,345
Remeasurement Component	(51,711,081)	(24,422,219)
	124,574,358	255,489,379
Benefits paid	(37,477,082)	(22,311,473)
Defined benefit obligation at end of the year	652,806,770	565,709,494

19.2.a Expense included in Personnel Expenses

Current Service Cost	17,955,815	42,170,878
Interest Cost	96,056,999	26,602,527
(Gain) / loss recognised during the year (due to plan amendment)	-	(18,405,060)
	114,012,814	50,368,345

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

Cumulative loss at the beginning of the year	152,157,011	176,579,230
(Gain) / loss recognised during the year	(51,711,081)	(24,422,219)
Cumulative loss at end of the year	100,445,930	152,157,011

Acturial valuation for defined benefit obligation was carried out as at 31 March 2023 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 Actuarial Cost Method", a method recommended by the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

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

As at 31 March	2023	2022
Discount Rate	14.00%	15.00%
Salary Increment Rate	11.50%	12.50%
Retirement Age	60	60
Staff Turnover	2.5% - 15.0%	2.5% - 15.0%

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 under the Payment of Gratuity Act No. 12 of 1983. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 Years of service. The obligation is not externally funded.

Current weighted average duration of the defined benefit obligation is 9 years.

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

19.2.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	2023 Rs.	2022 Rs.
The defined benefit obligation under current assumptions	652,806,770	565,709,494
The defined benefit obligation if the discount rate increased by 100 basis points	604,718,294	489,926,544
The defined benefit obligation if the discount rate reduced by 100 basis points	708,182,101	589,545,097
The defined benefit obligation if the salary increment rate increased by 1%	707,983,316	594,778,970
The defined benefit obligation if the salary increment rate reduced by 1%	604,073,161	485,153,483
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(48,088,476)	(75,782,950)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	55,375,332	23,835,604
The change in the defined benefit obligation if the salary increment rate increased by 1%	55,176,547	29,069,477
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(48,733,609)	(80,556,011)

19.2.e Maturity analysis of the payments

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

As at 31 March	2023	2022
Within the next 12 months	71,686,237	51,403,113
Between 1 and 2 years	67,914,542	71,962,635
Between 2 and 5 years	266,971,099	249,899,929
Between 5 and 10 years	785,049,551	646,935,870
Total expected payments	1,191,621,429	1,020,201,547

20. STATED CAPITAL

As at 31 March	2023		2022	
	Number of shares	Rs.	Number of shares	Rs.
Balance at the beginning of the year	19,251,334,334	211,581,447,542	5,250,000,000	12,762,500,000
Issue of shares	13,827,877,965	95,412,357,959	14,001,334,334	198,818,947,542
Balance at the end of the year	33,079,212,299	306,993,805,501	19,251,334,334	211,581,447,542

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.

21. RESERVES

As at 31 March	2023 Rs.	2022 Rs.
Statutory reserve (note 21.1)	5,213,771,358	4,444,108,028
Revaluation reserve (note 21.2)	1,247,187,997	1,505,632,154
Cash flow hedge reserve (note 21.3)	41,014,495	(83,701,505)
Fair value reserve (note 21.4)	331,628,639	140,752,964
Regulatory loss allowance reserve (note 21.5)	3,231,500,379	-
Merger reserve (note 21.6)	(262,914,889,649)	(169,284,516,561)
Retained earnings (note 21.7)	46,664,209,197	35,249,180,283
	(206,185,577,584)	(128,028,544,636)

21.1 Statutory reserve

Balance at the beginning of the year	4,444,108,028	3,596,578,755
Transferred during the year	769,663,330	847,529,273
Balance at the end of the year	5,213,771,358	4,444,108,028

The reserve is created according to Direction No.1 of 2003 issued under the Finance Business Act No.42 of 2011. The Company transferred 5% (2021/22 - 5%) of its annual net profit after tax to this reserve in compliance with this direction.

21.2 Revaluation Reserve

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	1,505,632,154	328,838,183
Transferred during the year	-	1,495,420,151
Related tax	(258,444,158)	(318,626,179)
Balance at the end of the year	1,247,187,997	1,505,632,154

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

21.3 Cash flow hedge reserve

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	(83,701,505)	27,607,752
Gain / (loss) arising from cash flow hedge recognised in OCI	155,895,000	(119,316,738)
Related tax - current tax - expense / (reversal) - note 29	(155,895,000)	85,952,233
Related tax - deferred tax - expense / (reversal) - note 29	124,716,000	(77,944,752)
Balance at the end of the year	41,014,495	(83,701,505)

The cash flow hedge reserve is maintained to recognise the change in the fair value of, the derivative (forward exchange contract) designated under the hedge relationship and the hedge item (portion of a foreign currency borrowing). The objective of the hedge is to mitigate the risk arising on the movement in foreign exchange rates and the resulting cash flows.

The hedging instrument are forward exchange contracts and as at 31 March 2023, there were assets with fair value of Rs.64,428,025 and liabilities with fair value of Rs.11,634,977.

The portion of the foreign currency loan that is subject to hedge accounting is to be settled during the financial years 2022/23 - 2021/22 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.

21.4 Fair Value Reserve

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

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	140,752,964	45,445,698
Investment in government securities measured at FVOCI	175,480,700	-
Investment securities measured at FVOCI – equity investments	12,376,236	95,307,266
Related Tax	3,018,739	-
Balance at the end of the year	331,628,639	140,752,964

21.5 Regulatory Loss Allowance Reserve

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	-	-
Transferred during the year	3,231,500,379	-
Balance at the end of the year	3,231,500,379	-

As per Section 7.1.3 of Finance Business Act Direction No.01 of 2020, where the loss allowance for expected credit loss falls below the regulatory provision, company shall maintain the additional loss allowance in a non-distributable regulatory loss allowance reserve (RLAR) through an appropriation of its retained earnings. In compliance with the requirement, the Company has transferred additional loss allowance from retained earnings.

21.6 Merger Reserve

The merger reserve comprises the costs of the mergers with Commercial Leasing and Finance PLC as of 31 March 2022 and LOLC Development Finance PLC as of 31 January 2023, which exceeded the carrying amounts of the identifiable assets and liabilities of the acquiree.

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	(169,284,516,561)	-
Total cost on Common Control Transaction	(95,412,357,959)	(198,818,947,542)
Carrying amount of identifiable net assets merged (note 37)	1,781,984,871	29,534,430,981
Balance at the end of the year	(262,914,889,649)	(169,284,516,561)

21.7 Retained Earnings

Balance at the beginning of the year	35,249,180,283	19,127,563,207
Profit for the year	15,393,266,597	16,950,585,463
Premeasurements of defined benefit liability - gain / (loss)	22,926,027	18,560,886
Transfer to statutory reserve fund	(769,663,330)	(847,529,273)
Transfer to regulatory loss allowance reserve	(3,231,500,379)	-
Excess of investment on merger with subsidiary	-	-
Balance at the end of the year	46,664,209,197	35,249,180,283

22. INTEREST INCOME

As at 31 March	2023 Rs.	2022 Rs.
Interest on leases	13,788,943,226	10,551,278,839
Interest on loans	39,930,243,994	11,217,759,011
Income from factoring portfolio	348,613,388	-
Interest from credit cards	854,568,738	356,619,107
Interest on margin trading	2,294,126,328	567,663,888
Income from operating lease and hire	446,010,788	308,632,840
Interest on overdue rentals and others	5,668,718,177	5,144,236,055
Interest income on government securities	4,188,505,587	2,121,806,104
Interest income on term deposits	727,010,296	301,867,155
Interest income on commercial papers	780,388,035	-
	69,027,128,557	30,569,862,999

23. INTEREST EXPENSE

As at 31 March	2023 Rs.	2022 Rs.
Interest on fixed deposits	26,552,777,301	6,864,919,204
Interest on savings deposits	557,766,944	182,550,142
Finance cost amortisation of RTU assets	122,317,473	74,489,762
Profit distributed to alternative finance deposit holders	2,540,767,120	712,269,078
Interest on foreign currency deposits	289,699,990	100,801,752
Finance lease interest	3,235,547	1,854,773
Interest on loans & bank overdraft	6,058,031,444	1,043,107,108
	36,124,595,817	8,979,991,819

24. NET OTHER OPERATING INCOME

As at 31 March	2023 Rs.	2022 Rs.
Sundry income	1,281,987,863	965,476,710
Service charges	83,256,779	2,494,300
Arrangement and documentation fees	322,944,125	271,252,969
Collections from contracts written off	2,772,892,042	2,919,629,915
Fair value change in investment properties (Note 12)	3,525,884,968	6,925,550,077
Change in fair value of derivatives - forward contracts (note 5.3)	(2,864,647,190)	1,790,082,378
Net exchange gain / (loss)	7,520,854,195	(1,905,487,684)
Adjustment for increase / (decrease) in value of investments (note 8.1 / 8.2.2)	51,672,111	518,067,319
Interest income from staff loan	24,679,859	24,418,259
Disposal gain / (loss) on PPE	48,178,109	10,787,672
	12,767,702,863	11,522,271,915

25. DIRECT EXPENSES EXCLUDING INTEREST COST

As at 31 March	2023 Rs.	2022 Rs.
Insurance expenses factored to accommodations	615,078,042	828,425,784
VAT on general expenses	166,716,994	35,108,274
Portfolio handling fee	98,137,442	-
	879,932,477	863,534,058

25.1 Taxes on financial services

As at 31 March	2023 Rs.	2022 Rs.
Value added tax	3,765,180,462	1,837,501,042
Social security contribution levy	258,730,081	-
	4,023,910,543	1,837,501,042

26. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS

As at 31 March	2023 Rs.	2022 Rs.
Impairment provision / (reversal) for lease rentals receivable (Note 6.2)	596,509,787	(2,061,981,104)
Impairment provision / (reversal) for mortgage loan (Note 7.1.2)	111,891,231	(95,784,409)
Impairment provision / (reversal) for receivables from sundry loans (Note 7.2.2)	(2,306,575,176)	(5,912,980,441)
Impairment provision / (reversal) for credit card receivables (Note 7.4.1)	(57,932,867)	166,189,154
Impairment provision / (reversal) for receivables from Gold loans (Note 7.3.1)	55,828,666	161,255,362
Impairment provision / (reversal) for margin trading receivables (Note 7.5.1)	(45,316,807)	75,102,192
Impairment provision / (reversal) for factoring receivables (Note 7.6.1)	(114,119,531)	-
Impairment provision / (reversal) for other financial assets	3,108,037,302	1,072,984,259
Impairment provision / (reversal) for insurance receivable	336,991,919	1,845,579
Written-off during the year	4,711,575,395	9,585,129,309
	6,396,889,918	2,991,759,900

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

As at 31 March	Impairment charge to profit or loss Rs.	Written-off during the year Rs.	Charge / (reversal) to profit or loss net of write-offs Rs.	Provision impact (reversal) as per CBSL Rs.
Rentals receivable on leased assets	2,898,385,098	2,301,875,311	596,509,787	1,132,223,694
Loans and advances	202,554,132	2,399,342,279	(2,196,788,147)	695,718,192
Margin trading	(45,316,807)	-	(45,316,807)	(45,316,807)
Factoring receivable	(103,761,727)	10,357,804	(114,119,531)	(23,965,801)
Other financial assets	3,108,037,302	-	3,108,037,302	3,108,037,302
Insurance receivable	336,991,919	-	336,991,919	336,991,919
	6,396,889,918	4,711,575,395	1,685,314,523	5,203,688,499

27. PROFIT FROM OPERATIONS

As at 31 March		2023 Rs.	2022 Rs.
Profit from operations is stated after charging all expenses including the following,			
Directors' emoluments		38,364,559	40,913,600
Audit fees and expenses	- Audit Services	3,800,000	3,645,000
	- Audit Related Services	1,475,000	1,298,000
Depreciation on property, plant and equipment		734,219,712	207,247,901

27.1 Personnel expenses

- Salaries, wages & other related cost	5,592,912,773	3,285,743,402
- Defined contribution plans - EPF & ETF	350,755,507	228,690,801
- Defined benefit plan cost	114,012,814	50,368,345
	6,057,681,094	3,564,802,548

28. MATURITY OF ASSETS AND LIABILITIES

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

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.2023 Rs.	Total as at 31.03.2022 Rs.
Cash and cash equivalents	16,484,821,741	-	-	-	-	16,484,821,741	12,282,959,936
Deposits with banks and other financial institutions	2,493,925,171	-	-	-	-	2,493,925,171	8,885,610,812
Investment in government securities	17,614,340,888	6,378,629,420	974,723,883	1,498,957,010	4,986,061,275	31,452,712,476	23,841,482,770
Derivative assets	64,428,025	-	-	-	-	64,428,025	3,450,265,935
Financial assets at amortised cost							
Rentals receivable on leased assets	16,317,985,364	16,959,997,398	29,793,221,075	3,788,717,829	-	66,859,921,667	59,677,510,393
(-) Allowance for ECL / impairment	-	-	-	-	-	(4,793,251,296)	(2,717,295,784)
Loans and advances	55,461,010,398	45,879,980,196	69,179,211,223	11,811,114,169	77,855,422	182,409,171,407	147,730,964,789
(-) Allowance for ECL / impairment	-	-	-	-		(6,827,139,967)	(6,116,007,263)
Factoring receivable	2,512,831,380	-	-	-	-	2,512,831,380	1,775,221,728
(-) Allowance for ECL / impairment	-	-	-	-	-	(242,669,348)	(356,788,879)
Margin trading receivable	6,679,180,382	-	-	-	-	6,679,180,382	6,891,582,656
(-) Allowance for ECL / impairment	-	-	-	-	-	(29,785,385)	(75,102,192)
Investments securities	132,393,936	4,292,430,177	-	-	307,756,418	4,732,580,531	6,288,566,228
Investment in associate	-	-	-	-	564,084,948	564,084,948	1,833,660,667
Amount due from related companies	57,161,090	-	-	-	-	57,161,090	47,381,972
Other receivables	3,670,747,814	1,797,807,134	2,847,510	6,584,837	-	5,477,987,295	1,084,330,013
Inventories	-	146,134,701	-	-	-	146,134,701	428,031,504
Investment properties	-	-	-	-	41,252,661,173	41,252,661,173	38,287,958,119
Property plant and equipment	-	-	-	-	11,552,981,653	11,552,981,653	8,326,734,940
Total Assets as at 31 March 2023	121,488,826,188	75,454,979,027	99,950,003,691	17,105,373,844	58,741,400,889	360,847,737,644	311,567,068,344
Total Assets as at 31 March 2022	84,922,534,708	53,956,926,748	136,625,466,337	29,216,453,526	15,678,990,072	311,567,068,344	

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

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.2023 Rs.	Total as at 31.03.2022 Rs.
Bank overdraft	8,783,895,368	-	-	-	-	8,783,895,368	5,675,768,259
Interest bearing borrowings	4,444,710,919	11,075,437,616	14,365,868,745	1,351,098,182	192,298,333	31,429,413,795	44,309,903,398
Deposits from customers	87,742,229,645	59,841,998,039	34,158,264,457	19,528,409,240	-	201,270,901,382	159,252,382,263
Trade payables	258,736,201	-	-	-	-	258,736,201	1,141,928,384
Accruals and other payables	9,918,149,643	287,459,197	-	684,727,269	-	10,890,336,109	7,835,592,729
Derivative liabilities	11,634,977	-	-	-	-	11,634,977	13,175,698
Amount due to related companies	1,069,238,403	-	-	-	-	1,069,238,403	3,719,367,746
Current tax payable	-	2,681,710,123	-	-	-	2,681,710,123	2,525,556,194
Deferred tax liability	-	-	2,990,836,600	-	-	2,990,836,600	2,974,781,275
Employee benefits	-	-	-	652,806,770	-	652,806,770	565,709,494
Stated capital	-	-	-	-	306,993,805,501	306,993,805,501	211,581,447,542
Statutory reserve	-	-	-	-	5,213,771,358	5,213,771,358	4,444,108,028
Revaluation Reserve	-	-	-	-	1,247,187,997	1,247,187,997	1,505,632,154
Cash flow hedge reserve	-	-	-	-	41,014,495	41,014,495	(83,701,505)
Fair value reserve	-	-	-	-	331,628,639	331,628,639	140,752,964
Regulatory loss allowance reserve	-	-	-	-	3,231,500,379	3,231,500,379	-
Merger reserve					(262,914,889,649)	(262,914,889,649)	(169,284,516,561)
Retained earnings	-	-	-	-	46,664,209,197	46,664,209,197	35,249,180,283
Total Liabilities & Equity as at 31 March 2023	112,228,595,156	73,886,604,974	51,514,969,803	22,217,041,461	101,000,526,250	360,847,737,644	311,567,068,345
Total Liabilities & Equity as at 31 March 2022	102,810,360,119	82,483,124,924	30,140,836,040	11,060,823,139	85,071,924,123	311,567,068,345	

29. INCOME TAX EXPENSE

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

As at 31 March	2023 Rs.	2022 Rs.
Current tax - recognised in P&L		
Current tax charge	-	-
Deferred Tax		
Deferred tax expense / (reversal) (note 29.2)	-	792,048,095
Income tax expense reported in statement of profit or loss	-	792,048,095
Current tax - expense / (reversal) - recognised in OCI		
	155,895,000	(85,952,233)
Deferred tax charge / (reversal) recognised in OCI		
Available for sale financial assets	(3,018,739)	-
Property, plant and equipment	258,444,158	318,626,179
Defined benefit plans	28,785,054	5,861,333
Fair value change in derivatives recognised in hedge reserve	(124,716,000)	77,944,752
	159,494,473	402,432,263
Total income tax expense / (reversal) recognised in OCI	315,389,473	316,480,030

29.1 Current tax payable

	2023	2022
Tax payable at the beginning of the year	2,525,556,194	857,902,877
Current tax expense for the year - recognised in P&L	(155,895,000)	85,952,233
Current tax expense for the year - recognised in OCI	155,895,000	(85,952,233)
Addition on merger with subsidiary	163,677,909	1,678,223,409
Tax paid during the year	(7,523,981)	(10,570,091)
Tax payable	2,681,710,123	2,525,556,194

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

As at 31 March	2023		2022	
	%	Rs.	%	Rs.
Accounting profit before income tax		16,288,377,918		17,742,633,558
Tax effect at the statutory income tax rate of 30%	30%	4,886,513,375	24%	4,258,232,054
Tax effect of other allowable credits	17%	2,821,517,852	-34%	(6,086,521,907)
Tax effect of non deductible expenses	-23%	(3,672,161,830)	10%	1,828,289,853
Deferred tax adjustment	0%	-	4%	792,048,095
Tax benefit on acquisition of subsidiary	-25%	(4,035,869,397)	0%	-
Income tax expense	0%	-	4%	792,048,095

29.2 Deferred Taxation

As at 31 March	2023 Rs.	2022 Rs.
Balance at the beginning of the year	2,974,781,275	1,733,249,164
Deferred tax expense / (reversal) - recognised in P&L	-	792,048,095
Deferred tax expense / (reversal) - recognised in OCI	159,494,473	402,432,263
Addition on merger with subsidiary	(143,439,146)	47,051,752
Balance at the end of the year	2,990,836,602	2,974,781,275

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

Deferred tax is measured using a tax rate of 30% (2021/22 -24%) on temporary differences.

Deferred tax expense / (reversal)

Deferred tax liability / (asset)	Balance as at 01 April 2022 Rs.	Recognised in P&L - expense / (reversal) Rs.	Recognised in OCI - expense / (reversal) Rs.	Addition on merger with subsidiary Rs.	Balance as at 31 March 2023 Rs.
Recognised in P&L / Equity (retained earnings)					
Lease receivables	1,511,318,901	218,913,754	-	(11,539,034)	1,718,693,620
Finance lease liability	1,344,545	(1,344,545)	-	-	-
Property plant and equipment	239,776,983	381,037,496	-	4,142,350	624,956,829
Cost of acquisition of subsidiary (note 29.2.b)	(1,322,698,505)	(2,665,531,280)	-	-	(3,988,229,785)
Defined benefit plans	(99,252,596)	(88,856,807)	-	(18,480,662)	(206,590,065)
Forward exchange contracts (net)	468,863,012	(453,025,097)	-	-	15,837,914
Investment property	1,630,707,363	4,319,180,217	-	5,159,400	5,955,046,981
Provision for Impairment - SLFRS 9	(166,695,242)	(1,836,962,313)	-	(125,672,624)	(2,129,330,179)
Tax Losses	(126,588,575)	126,588,575	-	-	-
Recognised in OCI					
Available for sale financial assets	3,018,739	-	(3,018,739)	-	-
Property plant and equipment	746,788,331	-	258,444,158	2,951,424	1,008,183,912
Defined benefit plans	(36,517,683)	-	28,785,054	-	(7,732,628)
Forward exchange contracts (net)	124,716,000	-	(124,716,000)	-	-
Net deferred tax liability / (asset)	2,974,781,275	-	159,494,473	(143,439,146)	2,990,836,600

29.2 Deferred Taxation (Contd.)

Deferred tax liability / (asset)	Balance as at 01 April 2021 Rs.	Recognised in P&L - expense / (reversal) Rs.	Recognised in OCI - expense / (reversal) Rs.	Addition on merger with subsidiary Rs.	Balance as at 31 March 2022 Rs.
Recognised in P&L					
Lease receivables	1,590,276,362	(150,616,893)	-	71,659,432	1,511,318,901
Finance lease liability	31,219,811	(25,389,148)	-	(4,486,117)	1,344,545
Property plant and equipment	146,613,606	12,498,469	-	80,664,909	239,776,983
Cost of acquisition of subsidiary (note 29.2.b)	(859,067,322)	(167,892,942)	-	(295,738,240)	(1,322,698,505)
Defined benefit plans	(37,428,566)	(6,733,649)	-	(55,090,381)	(99,252,596)
Forward exchange contracts (net)	31,235,760	437,627,252	-	-	468,863,012
Investment property	795,515,045	692,555,008	-	142,637,310	1,630,707,363
Provision for Impairment - SLFRS 9	-	-		(166,695,242)	(166,695,242)
Tax Losses	-	-		(126,588,575)	(126,588,575)
Recognised in OCI					
Available for sale financial assets	3,018,739	-	-	-	3,018,739
Property plant and equipment	27,473,496	-	318,626,179	400,688,655	746,788,331
Defined benefit plans	(42,379,015)	-	5,861,333	-	(36,517,683)
Forward exchange contracts (net)	46,771,248	-	77,944,752	-	124,716,000
Net deferred tax liability / (asset)	1,733,249,164	792,048,095	402,432,263	47,051,752	2,974,781,275

29.2.a Temporary differences

Temporary differences - taxable / (deductible)

As at 31 March	2023 Rs.	2022 Rs.
Recognised in P&L / Equity (retained earnings)		
Lease receivables	5,728,978,735	6,297,162,088
Finance lease liability	-	5,602,273
Property plant and equipment	2,083,189,431	999,070,764
Cost of acquisition of subsidiary	(13,294,099,282)	(5,511,243,769)
Defined benefit plans	(688,633,550)	(413,552,483)
Forward exchange contracts (net)	52,793,048	1,953,595,882
Investment property	19,850,156,602	16,307,073,634
Provision for Impairment - SLFRS 9	(7,097,767,264)	(1,666,952,418)
Tax Losses	-	(1,265,885,747)
Recognised in OCI		
Available for sale financial assets	-	12,578,079
Property plant and equipment	3,360,613,041	3,111,618,044
Defined benefit plans	(25,775,427)	(152,157,011)
Forward exchange contracts (net)	-	519,650,000
Net taxable / (deductible) temporary difference	9,969,455,334	20,196,559,335

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

During the financial year 2017/18, the Company paid Rs.12,291,200,000 to acquire 100% of LOLC Micro Credit Limited. In addition, during the financial year 2021/22 and 2022/23, the Company paid purchase consideration of Rs.198,818,947,542 and Rs.95,412,357,959 to be merged with Commercial Leasing and Finance PLC and LOLC Development Finance PLC respectively.

Since this was inline with the Central Bank of Sri Lanka's consolidation program, the Company is able to claim the purchase consideration as a qualifying payment in calculating the income tax liability.

During the year Rs.10,676,922,888 was claimed keeping inline with the requirements of the Inland Revenue Act. The Company expects to claim the remaining amount over the future year based on the profitability of the Company.

On a prudent basis the management has decided to evaluate the recoverability of this claim based on the projected taxable profits for the future years and expects to recover Rs.16,617,624,102 over such year and a deferred tax asset of Rs.3,988,229,785 was recognised during the year.

The management will annually re-evaluate the recoverability of this claim and adjust the deferred tax asset accordingly.

Unrecognised deferred tax asset	2023 Rs.	2022 Rs.
Remaining amount to be claimed at the beginning of the year	199,719,015,542	7,898,903,094
Consideration paid to acquire subsidiary	95,412,357,959	198,818,947,542
Previous year adjustment	(5,027,663,857)	371,477,494
Amount claimed during the year	(10,676,922,888)	(7,370,312,588)
Remaining amount to be claimed in future years	279,426,786,756	199,719,015,542
Tax rate	30%	24%
Deferred tax asset on remaining amount	83,828,036,027	47,932,563,730
Recognised deferred tax asset	(3,988,229,785)	(1,322,698,505)
Unrecognised deferred tax asset	79,839,806,242	46,609,865,225

30. EARNINGS PER SHARE

30.1 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.

	2023 Rs.	2022 Rs.
Amounts used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	15,393,266,597	16,950,585,463

	2023 Rs.	2022 Rs.
Number of ordinary shares used as the denominator:		
Ordinary shares in issue at the beginning of the year	19,251,334,334	5,250,000,000
Effects of new shares issued during the year	2,235,191,233	-
Weighted average number of ordinary shares in issue applicable to basic earnings per share	21,486,525,567	5,250,000,000
Basic earnings per share (Rs.)	0.72	3.23

30.2 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.

31. COMPARATIVE FIGURES

Comparative information has been reclassified to conform to the current year presentation, where necessary. No information has been restated.

32. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged Rs.	Carrying Amount Pledged Rs.
Lease portfolio	Short term borrowing	24,155,519,559	27,065,754,655

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

33. RELATED PARTY DISCLOSURES

33.1 Parent and Ultimate Controlling Party

The Company's immediate parent is LOLC Private Ltd and ultimate parent undertaking and controlling entity is LOLC Holding PLC.

33.2 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 LOLC Holding 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.

33.2.1 Compensation of KMPs

	2023 Rs.	2022 Rs.
Short term employment benefits	175,679,305	117,818,470
Total	175,679,305	117,818,470

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

This is also included under Note 27.1.

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

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

	2023 Rs.	2022 Rs.
Deposits held with the Company	187,080,078	45,458,944
Interest paid / charged	14,951,820	3,787,226
Interest payable	16,885,089	902,066
Loans granted (excluding Directors)	90,557,346	60,220,736
Capital outstanding on facilities granted to KMPs (excluding Directors)	80,015,672	67,431,302
Accommodation outstanding as a percentage of the Company's Capital Funds	0.10%	0.08%

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

33.3 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 2023 and 31 March 2022, refer notes no.10 and 17 accordingly).

Relationship	Description of Transactions	Nature	2023 Rs.	2022 Rs.
Parent Company	Net funds granted by the Parent during the year (excluding opening balance)	Transaction value	2,672,142,652	106,714,854
	Reimbursement of expenses	Expense	718,906,823	255,889,572
	Asset hire charges	Expense	255,679,715	230,207,742
	Royalty	Expense	1,157,433,073	515,505,134
	Fund transfer interest	Expense	169,065,320	10,459,198

33.3 Transactions with related parties

Relationship	Description of Transactions	Nature	2023 Rs.	2022 Rs.
Fellow Subsidiaries & Associates	Deposits & other borrowings by the company	Deposits	459,098,849	148,825,360
	Interest paid/charge	Expense	23,117,958	2,810,459
	Interest payable	Expense	7,697,713	569,203
	Investments held by the company	Investment	-	3,683,574,592
	Consideration on merge with subsidiary	Transaction value	95,412,357,959	198,818,947,542
	IT service fee	Expense	1,013,296,344	506,429,266
	Yard fee	Expense	3,300,000	7,200,000
	Services / Maintenance fee	Expense	683,171,012	103,267,878
	Loan / lease granted	Disbursements	7,105,269,667	2,668,055,482
	Capital outstanding on facilities granted	Lending facilities	7,290,699,466	2,475,299,631
	Rental collections	Collections	1,003,585,602	453,801,391
	Interest income	Income	1,141,713,966	153,904,001
	Rent Income	Income	40,856,940	1,161,600
	Franchise fee income	Income	413,636,136	268,539,389
Other Related Parties	Services / Maintenance fee	Expense	406,710,018	388,109,246
	Deposits held with the company	Deposits	185,954,357	176,269,125
	Interest paid / charge	Expense	62,505,373	8,904,386
	Interest payable	Expense	6,438,588	1,967,120
	Rental collections	Collections	227,746,446	53,737,445
	Interest income	Income	612,767,113	55,237,112
Accommodation outstanding as a percentage of the Company's Capital Funds			9.00%	4.52%

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.

34. EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date, which would require adjustments to or disclosure in the financial statements.

35. OPERATING SEGMENTS

	Operating Segment			
	SME Finance Rs.	Development Finance Rs.	Alternative Financial Services Rs.	Total Rs.
For the year ended 31 March 2023				
Total revenue - Interest income & other income	55,321,724,413	21,281,618,981	5,191,488,025	81,794,831,420
Inter segmental revenue	-	-	-	-
External revenue	55,321,724,413	21,281,618,981	5,191,488,025	81,794,831,420
Net interest cost	(23,891,756,753)	(9,614,426,407)	(2,618,412,658)	(36,124,595,817)
Profit before operating expenses	31,429,967,661	11,667,192,574	2,573,075,368	45,670,235,603
Operating expenses	(12,422,092,887)	(5,006,501,182)	(1,532,463,155)	(18,961,057,225)
Allowance for impairment & write-offs	(2,804,456,734)	(3,534,281,719)	(58,151,465)	(6,396,889,918)
Value added tax on financial services	(3,318,732,003)	(476,909,950)	(228,268,589)	(4,023,910,543)
Results from operating activities	12,884,686,036	2,649,499,723	754,192,159	16,288,377,918
For the year ended 31 March 2022				
Total revenue - Interest income & other income	22,704,491,046	16,689,491,745	2,698,152,122	42,092,134,914
Inter segmental revenue	-	-	-	-
External revenue	22,704,491,046	16,689,491,745	2,698,152,122	42,092,134,914
Net interest cost	(4,804,322,274)	(3,440,207,015)	(735,462,530)	(8,979,991,819)
Profit before operating expenses	17,900,168,772	13,249,284,730	1,962,689,592	33,112,143,095
Operating expenses	(5,474,037,030)	(3,930,815,306)	(1,135,396,259)	(10,540,248,595)
Allowance for impairment & write-offs	(1,487,659,199)	(1,380,505,801)	(123,594,901)	(2,991,759,900)
Value added tax on financial services	(507,362,398)	(1,190,694,544)	(139,444,100)	(1,837,501,042)
Results from operating activities	10,431,110,145	6,747,269,080	564,254,333	17,742,633,558
Depreciation				
For the year ended 31 March 2023	623,192,907	111,026,805	-	734,219,712
For the year ended 31 March 2022	173,492,083	33,755,818	-	207,247,901
Capital expenditure - Property Plant and equipment				
For the year ended 31 March 2023	175,404,962	31,249,798	-	206,654,760
For the year ended 31 March 2022	829,381,539	161,370,199	-	990,751,738
As at 31-03-2023				
Total assets	279,631,195,117	49,818,536,006	31,398,006,521	360,847,737,644
Total liabilities	184,230,404,196	49,818,536,006	25,990,569,525	260,039,509,727
As at 31-03-2022				
Total assets	240,476,731,995	46,788,813,425	24,301,522,926	311,567,068,345
Total liabilities	161,577,073,926	46,788,813,425	19,648,278,089	228,014,165,440

36. COMMITMENTS AND CONTINGENCIES

As at 31 March	2023 Rs.	2022 Rs.
36.1 Contingent liabilities		
Guarantees issued to banks and other institutions - backed by deposits	401,378,124	624,696,822
36.2 Commitments		
Forward exchange contracts - (commitment to purchase)	10,293,353,884	10,307,825,961
Unutilised loan facilities	20,968,462,437	11,929,165,122
Allowance for ECL / impairment	2,427,891	2,311,437
	31,665,622,336	22,863,999,342

On the commitment to purchase the foreign currencies the company will receive USD 28,296,594, GBP 2,055,000 and AUD 1,000,000.

37. AMALGAMATION OF LOLC DEVELOPMENT FINANCE PLC (LODF) WITH LOLC FINANCE PLC (LOFC) IN TERMS OF THE PROVISIONS OF THE COMPANIES ACT, NO. 7 OF 2007 (LOFC / "THE COMPANY")

Pursuant to the Initial Corporate Disclosure made on Colombo Stock Exchange dated on 12th December 2022, LOLC Finance PLC (LOFC - The Company) has expressed its interest in proposed amalgamation of LOLC Development Finance PLC (LODF) under Master Plan for Consolidation of Non-Bank Financial Institution imposed by Central Bank of Sri Lanka (CBSL). Accordingly, the company has received the principal approval from both Central Bank of Sri Lanka and Securities and Exchange Commission of Sri Lanka and other relevant regulatory authorities to take effect the Amalgamation on the proposed effective date of 31st January 2023.

Accordingly, Board has sought the approval from Shareholders through an Extraordinary General Meeting in compliance to the requirement imposed under Companies Act No 07 of 2007 and Securities and Exchange Commission Act and accordingly relevant approval was received on 4th January 2023.

In terms of Section 08 of the Listing Rules of the Colombo Stock Exchange (CSE), subsequent communication made in terms of Rule 5.11.2 of the Listing Rules of the CSE "the value and/ or the consideration, for the purpose of amalgamation; the share exchange ratio is based on the Market Price of a share of LODF and LOFC, as at end of Trading Five (5) Market days, prior to the dated fixed for both shareholders meeting"

Accordingly, amalgamation was executed on following manner;

	Value (Rs.)
Existing number of shares of LODF	251,415,963
Number of new shares of LOFC issued to existing LODF shareholders	13,827,877,965
Price per share of LOFC on 31st January 2023 (effective date of amalgamation)	6.90
Total cost to LOFC on Common Control Transaction	95,412,357,959
Net assets of LODF on 31.01.2023	2,504,524,542
Excess of consideration over and above the net asset value	93,630,373,088

Proportion of the share exchange : 55 new LOFC shares for every 1 share of LODF

The carrying amounts of the identifiable assets and liabilities of the acquiree as at 31st January 2023, which the date of merger is as follows;

As at 31 March	2023 Rs.
ASSETS	
Cash and cash equivalents	508,664,919
Investment securities	5,698,156,589
Leases, advances and other loans	15,383,644,443
Trade and other receivables	1,359,459,821
Investment properties	44,500,000
Property, plant and equipment	262,130,918
Total assets	23,256,556,690
LIABILITIES	
Bank overdrafts	9,315,637
Interest bearing loans & borrowings	8,811,512,284
Deposits from customers	10,889,021,977
Trade and other payables	959,670,863
Provision for taxation	20,238,762
Retirement benefit obligations	62,272,625
Total liabilities	20,752,032,148
Carrying amount of identifiable net assets	2,504,524,542
Results of the merger of above entity are as follows;	
Total cost to LOFC on Common Control Transaction	95,412,357,959
Carrying amount of identifiable net assets merged	(2,504,524,542)
Carrying amount of equity investment in LODF	722,539,671
Resulting excess	93,630,373,088

Generally, the excess of Rs.262.9 billion would have been recognised as goodwill on amalgamation and would have been reflected as an asset of the amalgamated entity. However, as this transaction was between two subsidiaries of the LOLC Group, it is considered as a transaction under common control, hence not within the scope of the accounting standard SLFRS 03 – Business Combination. For transactions under common control such as this, the Statement of Recommended Practice (SORP) issued by the Institute of Chartered Accountants of Sri Lanka applies which requires any excess to be recognised in equity. Hence, the excess of Rs.262.9 billion was reflected as a negative reserve within equity ("Merger Reserve").

The break up of the equity value of the entity is as follows.

Description	Amount (Rs.)
Stated capital	306,993,805,501
Statutory reserve	5,213,771,358
Revaluation reserve	1,247,187,997
Cash flow hedge reserve	41,014,495
Fair value through OCI reserve	331,628,639
Regulatory loss allowance reserve	3,231,500,379
Merger reserve	(262,914,889,649)
Retained earnings	46,664,209,197
Total equity	100,808,227,917

37. AMALGAMATION OF LOLC DEVELOPMENT FINANCE PLC (LODF) WITH LOLC FINANCE PLC (LOFC) IN TERMS OF THE PROVISIONS OF THE COMPANIES ACT, NO. 7 OF 2007 (LOFC / "THE COMPANY") (CONTD.)

As reflected above it is noted that the entity has sufficient positive reserves and the large Merger Reserve overshadows the other positive reserves.

As a result of this negative Merger Reserve, the net assets of the company as at 31.3.2023 is reflected less than half of the stated capital as at that date.

Description	Amount (Rs.)
Stated Capital immediately after the amalgamation	306,993,805,501
Net assets as of 31st March 2023	100,808,227,917

Section 220 (1) of the Companies Act No 2007 requires that "if at any time it appears to a director of a company that the net assets of the company are less than half of its stated capital, the Board shall within twenty working days of that fact becoming known to the director, call an Extraordinary General Meeting of shareholders of the company, to be held not later than forty working days from that date of calling of such meeting to notify this matter."

Section 220 (2) of the Companies Act also requires "The notice calling a meeting under this section shall be accompanied by a report prepared by the board, which advises shareholders of—

(a) the nature and extent of the losses incurred by the company;

(b) the cause or causes of the losses incurred by the company;

(c) the steps, if any, which are being taken by the board to prevent further such losses or to recoup the losses incurred.

As per this section, the company appears to be facing serious loss of capital situation. However, as the cause for the said serious loss of capital is due to the negative Merger Reserve referred to above and not due to operational losses, the Board of Directors are in the process of taking necessary actions to comply with the requirements of the Companies Act No.7 of 2007.

The company has retained earnings of Rs.46.7 billion as at 31st March 2023. The profits made by the company over the past years are as follows.

Year ended	Profit for the year (Rs.)
31.03.2023	15,393,266,597
31.03.2022	16,950,585,463
31.03.2021	4,365,938,557
31.03.2020	3,779,684,187
31.03.2019	5,962,868,027

Further, having reviewed the financial position, the Management is confident that there will not be any impact on the Company's ability to continue as a going concern due to following:

» Capital adequacy and the liquidity ratios of the company being well above the CBSL minimum requirements

» The current serious loss of capital position triggered by amalgamation accounting is expected to be recovered within the next 1-3 year with the profits of the Company.

Consolidated financial statements

As at the year end, since the subsidiary is merged with the parent, a separate consolidated statement of financial position is not presented as the parent's statement of financial position includes the financial position of the subsidiary as at 31st March 2023 with consolidation adjustments.

Building a better working world

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BOARD OF DIRECTORS OF LOLC FINANCE PLC

Opinion

We have audited the statement of financial position as at 31 March 2023 and the statement of comprehensive income for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financials").

In our opinion, the accompanying financial statement of the LOLC Finance PLC ("the company"), AL-Falaah, Alternate Financial Services Unit ("Unit") for the year ended 31 March 2023 is prepared, in all material aspects, in accordance with the accounting policies set forth in pages 179 to 184 of the financial statement.

Basis for opinion

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

Emphasis of Matter - Basis of Accounting and Restriction on Distribution

We draw attention to the accounting policies set forth in pages 177 to 184 of the financial statement, which describes the basis of accounting. As a result, the financial statements may not be suitable for another purpose. Our audit work has been undertaken so that we might state to the Board of Directors of the LOLC Finance PLC, those matters that we are required to state, in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume the responsibility to anyone other than the addressee, for our audit work, for this report, or for the opinion we have formed. Our opinion is not modified in respect of this matter.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

29 June 2023
Colombo

Partners: H M A Jayesinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACMA, D L B Karunathilaka ACMA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Statement of Financial Position

As at 31 March	Note	2023 Rs.	2022 Rs.
ASSETS			
Cash and bank balances	3	5,547,597,315	603,738,364
Deposits with banks and other financial institutions		2,048,743,772	177,334
Murabaha / Musawamah /Wakalah Finance	4	1,301,377,967	2,113,506,060
Diminishing Musharakah receivables	5	16,935,845,248	16,634,052,515
Ijarah rent receivables	6	4,328,237,645	4,518,046,048
Wadi'ah Gold Storage Facility	7	671,443,923	183,735,776
Trading assets - Fair value through profit or loss	8	16,407,646	19,080,384
Investment Properties	10	143,000,000	122,800,000
Other receivables	9	405,353,006	66,312,057
Amount due from related companies		-	40,074,387
Total assets		31,398,006,522	24,301,522,926
LIABILITIES			
Deposits from customers	11	23,080,494,620	12,575,052,969
Income tax payable	18	317,599,624	321,257,538
Accruals and other payables	12	2,057,615,385	418,746,808
Amount due to related companies	13	534,859,896	6,333,220,775
Total liabilities		25,990,569,525	19,648,278,089
OWNER'S FUND			
Retained earnings		5,407,436,996	4,653,244,837
Total owners fund		5,407,436,996	4,653,244,837
Total liabilities & owners fund		31,398,006,522	24,301,522,926

I certify that these financial statements have been prepared in accordance with the basis of preparation and notes.

[Mr.] Buddhika Weeratunga
Head of Finance

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

[Mr.] Krishan Thilakarathne
Director/CEO

[Mr.] Conrad Dias
Chairman / Non Executive Director

The annexed notes to the financial statements on pages 177 through 189 form an integral part of these financial statements.

29th June 2023
Rajagiriya (Greater Colombo)

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 March	Note	2023 Rs.	2022 Rs.
Revenue	14	4,878,017,971	2,471,160,641
Profit paid to Mudharabah/Wakalah investments		(2,540,735,836)	(712,269,078)
Profit paid on other funding arrangement		(253,097)	(23,193,453)
Other direct expenses		(77,423,725)	(113,811,902)
		2,259,605,313	1,621,886,209
Non distributable other income / (expenses)	15	313,470,054	226,991,481
Total operating income		2,573,075,367	1,848,877,690
Employee benefits	16	(542,290,133)	(354,952,353)
(Provision)/reversal for credit losses		(58,151,465)	(123,594,901)
Other operating expenses		(990,173,022)	(666,635,004)
Profit from operations		982,460,747	703,695,433
Value added tax on financial services		(228,268,589)	(139,444,100)
Profit before taxation		754,192,158	564,251,333
Income tax expense	17	-	(181,991,622)
Profit for the year		754,192,158	382,259,711
Other comprehensive income		-	-
Total comprehensive income		754,192,158	382,259,711

The annexed notes to the financial statements on pages 177 through 189 form an integral part of these financial statements.

Cash Flow Statement

As at 31 March	2023 Rs.	2022 Rs.
Cash Flows From / (Used in) Operating Activities		
Net Profit before Income Tax Expense	754,192,158	564,251,333
Provision for fall/(Increase) in value of investments	2,672,738	(17,023,048)
Allowance for/(reversal of) doubtful debts	58,151,465	123,594,901
Change in fair value of investment property	(20,200,000)	
Investment income	(178,879,439)	(96,632,938)
Profits attributable to investment made from banks & other Financial institutions	253,097	23,193,453
Profits attributable to Mudharabah / Wakalah investors	2,540,735,836	712,269,078
Operating profit before working capital changes	3,156,925,855	1,309,652,778
Change in other receivables	(298,966,562)	(16,784,295)
Change in trade and other payables	1,635,210,664	(2,852,539)
Change in amounts due to head office	(5,798,360,879)	1,673,240,422
Change in Ijarah rent receivables	189,808,403	(99,987,648)
Change in Murabaha / Musawamah receivables/ Wakalah Finance	753,976,628	(461,415,011)
Change in Diminishing Musharakah receivables	(301,792,733)	(4,546,151,660)
Change in Wadi'ah Gold Storage Facility	(487,708,147)	(144,696,984)
Change in Mudharabah investments from customers	(3,649,555,000)	(476,260,731)
Change in Wakalah investments from customers	14,060,515,603	(1,850,977,331)
Change in Mudharabah savings deposits from customers	94,481,048	141,076,417
Cash used in Operations	9,354,534,880	(4,475,156,583)
Profits paid to Mudharabah / Wakalah investors	(2,540,735,836)	(712,269,078)
Income tax paid	-	-
Net Cash Used in Operating Activities	6,813,799,045	(5,187,425,661)
Cash Flows from / (Used in) Investing Activities		
Investments in Unit trust	-	103,595,501
Net proceeds from Investments in Mudaranah Deposits	(2,048,566,438)	4,962,381,766
Profit Received	178,626,342	96,632,938
Net Cash Flows from Investing Activities	(1,869,940,097)	5,162,610,205
Cash Flows from / (Used in) Financing Activities	-	-
Net Increase/(decrease) in cash and cash equivalents	4,943,858,949	(24,815,455)
Cash and cash equivalents at the beginning of the period	603,738,364	439,517,795
Addition on merger with subsidiary	-	189,036,024
Cash and cash equivalents at the end of the period	5,547,597,315	603,738,364
Analysis of cash and cash equivalents at the end of the period		
Cash and bank balances	5,547,597,315	603,738,364
	5,547,597,315	603,738,364

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 accounting policies and notes on pages 177 through 189 form an integral part of the Financial Statements.

Notes to the Supplementary Finance Information

1. GENERAL

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

LOLC Finance PLC has set up the Al-Falaah, Alternate Financial Service Unit ("LOLC Al-Falaah") which commenced its operations in February 2008, under Islamic economic jurisprudence. It is housed in the head office premises at No. 100/1 Sri Jayewardenepura Mawatha, Rajagiriya.

1.1.1 Principal activities and nature of business

The principal activities of the LOLC Al-Falaah comprised of Mudharabah (Profit Sharing Investments & Savings) and Wakalah (Term Investments), Diminishing Musharakah (Property & Project Financing), Murabaha (Trade Financing), Musawamah (Import Financing), Wakalah (Working Capital Financing), Wadi'ah (Gold Storage Facility) and Ijarah (Leasing).

1.1.2 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.

1.2 BASIS OF PREPARATION

1.2.1 Statement of compliance

These supplementary financial statements of the LOLC Al-Falaah are prepared on based on the accounting policies explained in Note 2.

The results of LOLC Al-Falaah and the financial position of the LOLC Al-Falaah 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 29 June 2023. Therefore, the isolated financial statements of the LOLC Al-Falaah 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 LOLC Al-Falaah for the year under review.

» a Statement of Financial Position providing the information on the financial position of the LOLC Al-Falaah as at the year-end.

» a Statement of Cash Flows providing the information to the users, on the ability of the LOLC Al-Falaah to generate cash and cash equivalents and the needs of the LOLC Al-Falaah 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 alternate basis on each reporting date:

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

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

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

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

1.2.3 Materiality and Aggregation

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

1.2.4 Going Concern basis of accounting

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

1.2.5 Comparative information

The accounting policies have been consistently applied by the LOLC Al-Falaah 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 LOLC Al-Falaah 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 LOLC Al-Falaah) accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

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

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

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

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

» **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities.

» **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

» **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

Note 10 – Investment property

Note 2.1 – Financial instruments

1.4.2 Impairment Losses on Financial Accommodation

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

1.4.3 Provision for liabilities and contingencies

The LOLC Al-Falaah 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

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	Financial assets and financial liabilities
2.2	Investment property
2.3	Employee benefits
2.4	Provisions
2.5	Events occurring after the reporting date
2.6	Benevolent Loan (Qurd Hassan)
2.7	Revenue Recognition
2.8	Expenditure Recognition
2.9	Income Tax
2.10	Cash flow statements
2.11	Fair value measurement

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

Initial measurement of financial Assets

The classification of financial instruments at initial recognition depends on their cash flow characteristics and business model for managing the instrument. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Financial Reporting Standard – SLFRS 09 on 'Financial Instruments'.

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

2.2.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories: (effective after 1 April 2018)

» amortised cost.

» fair value through other comprehensive income (FVOCI); and

» fair value through profit or loss (FVTPL).

2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

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

» whether management's strategy focuses on earning contractual mark-up revenue, maintaining a particular profit ratio/rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

» how the performance of the portfolio is evaluated and reported to the management

» the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed

» the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity and how cash flows are realised.

Assessment of whether contractual cash flows are solely payments of principal and mark-up (SPPI test)

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

For the purposes of this assessment,

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

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

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

Amortised cost

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

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

» Cash and cash equivalents

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

» Ijarah receivables

The LOLC Finance PLC's LOLC Al-Falaah 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, Wakalah Finance and Diminishing Musharakah receivables

Murabaha/Musawamah to customers with fixed installments are stated in the statement of financial position net of provision for impairment losses and income, which is not accrued to revenue.

Diminishing Musharakah/ Wakalah finance to customers is reflected in the statement of financial position at amounts disbursed less repayments and provision for doubtful debts.

» Financial guarantees

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

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

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

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

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in statement of profit or loss as incurred.

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

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

Mark-up income is recognised in profit or loss using the effective mark-up method. Dividend income is recognised in profit or loss when the Company becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

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

Amortised cost - Financial Accommodations and Receivables

Financial accommodations 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.

Financial accommodations and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, Ijarah receivables, Murabaha, Musawamah, Wakalah Finance and Diminishing Musharakah 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 LOLC Al-Falaah in the management of its short-term commitments.

» Ijarah receivables

The LOLC Finance PLC's LOLC Al-Falaah 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 Wakalah Finance and Diminishing Musharakah receivables**

Murabaha/Musawamah to customers with fixed installments are stated in the statement of financial position net of provision for impairment losses and income, which is not accrued to revenue.

Diminishing Musharakah/ Wakalah Finance to customers is reflected in the statement of financial position at amounts disbursed less repayments and provision for doubtful debts.

2.1.2 Non-derivative financial liabilities

Classification and Subsequent Measurement of Financial Liabilities

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

The LOLC Al-Falaah 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, Wakalah deposits, trade payables, accruals & other payables and amounts due to head office.

Profit Payable to the Mudharabah Investors

Profits payable are recognised on accrual basis and are credited to Investors' accounts when the profit is distributed on a monthly basis on or before the 10th of the following month.

Profit Payable to the Wakalah Investors

Profits payable are recognised on accrual basis and credited to Investors' accounts on a monthly or maturity basis.

2.1.3 Derecognition of financial assets and financial liabilities

Financial assets

The LOLC Al-Falaah derecognises a financial asset when the rights to receive cash flows from the asset have expired or the LOLC Al-Falaah 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 LOLC Al-Falaah has transferred substantially all the risks and rewards of the asset, or

(b) The LOLC Al-Falaah 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 LOLC Al-Falaah 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

Overview of the expected credit loss (ECL) principles

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

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

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

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

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

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available. Based on that, management has decided that an exposure to have significantly increased credit risk when contractual payments of a customer are more than 60 days past due and loss to take place after 120 days in accordance with the rebuttable presumption in SLFRS 9.

Individually Significant Impairment Assessment and Financial Accommodations which are Not Impaired Individually

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

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

» Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated

» Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument

» Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument

» Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its obligation

» An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems

» Significant increase in credit risk on other financial instruments of the same borrower

» An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis

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

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

Calculation of ECL

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

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

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

» Probability of Default (PD): PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

» Exposure at Default (EAD): EAD is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and income, whether scheduled by contract or otherwise and expected draw downs on committed facilities.

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

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

Forward Looking Information

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

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

Accordingly, under the collective assessment, customers operating in risk elevated industries including Tourism, Transportation and Construction were assessed for Lifetime ECL. Exposures outstanding from the borrowers operating in these industries have been classified as stage 2 unless such exposures are individually significant and have specifically been identified as stage 1 reflecting forward looking view of the economy in relation to the business.

2.1.8 Write-off policy

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

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 LOLC Al-Falaah 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 mark-up 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 LOLC Al-Falaah as and when required and the LOLC Al-Falaah settles those when funds are available.

SIGNIFICANT ACCOUNTING POLICIES –RECOGNITION OF INCOME AND EXPENSES

2.7 Revenue Recognition

2.7.1 Murabaha/Musawamah/ Wakalah Finance 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 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.

2.7.5 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 LOLC Al-Falaah 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.

2.9 Income Tax

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.

2.9.1 Current tax expense

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment 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.

3. CASH AND BANK BALANCES

As at 31 March	2023 Rs.	2022 Rs.
Cash & bank balances	5,547,597,315	603,738,364
	5,547,597,315	603,738,364

4. MURABAHA / MUSAWAMAH /WAKALAH RECEIVABLES

As at 31 March	2023 Rs.	2022 Rs.
Instalment receivable	2,052,023,411	2,436,104,493
Unearned income	(745,062,083)	(313,871,275)
Provision for impairment	(5,583,361)	(8,727,158)
	1,301,377,967	2,113,506,060

5. DIMINISHING MUSHARAKAH RECEIVABLES

As at 31 March	2023 Rs.	2022 Rs.
Instalment receivable	17,046,298,575	16,841,721,032
Provision for impairment	(110,453,326)	(207,668,517)
	16,935,845,248	16,634,052,515

6. IJARAH RENT RECEIVABLES

As at 31 March	2023 Rs.	2022 Rs.
Rent receivables	6,405,106,282	6,187,716,271
Unearned income	(1,920,591,189)	(1,576,256,236)
Provision for impairment	(156,277,448)	(93,413,986)
	4,328,237,645	4,518,046,048

7. WADI'AH GOLD STORAGE FACILITY

As at 31 March	2023 Rs.	2022 Rs.
Gross amount outstanding	675,137,666	182,881,145
Provision for impairment	(3,693,743)	854,631
	671,443,923	183,735,776

8. TRADING ASSETS - FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 March	2023 Rs.	2022 Rs.
Original Cost	1,653,174	1,653,174
Carrying amount as at 1st April	19,080,384	4,105,383
Adjustment for change in fair value - recognised in profits	(2,672,738)	14,975,001
Disposal during the period	-	-
Carrying amount as at 31st March	16,407,646	19,080,384
Carrying amount as at 1st April	-	101,547,454
Investments during the year	-	-
Disposal during the year	-	(103,595,501)
Adjustment for change in fair value - recognised in profits	-	2,048,047
Carrying amount as at 31st March	-	-
Total investments held for trading	16,407,646	19,080,384

9. OTHER RECEIVABLES

As at 31 March	2023 Rs.	2022 Rs.
Staff car advances	112,093,387	608,927
Insurance premium receivable	(271,419,796)	23,057,306
WHT receivable	4,060,442	-
Others	560,618,972	42,645,825
	405,353,006	66,312,057

10. INVESTMENT PROPERTIES

As at 31 March	2023 Rs.	2022 Rs.
Balance as at 1st April	122,800,000	122,800,000
Additions to Investment Properties from foreclosure of contracts	-	-
Change in fair value	20,200,000	-
Balance as at 31 March	143,000,000	122,800,000

11. DEPOSITS FROM CUSTOMERS

As at 31 March	2023 Rs.	2022 Rs.
Customer deposits	22,308,316,693	12,422,822,910

11.1 Analysis of Customer Deposits Based on Nature

Mudharabah investments	1,925,345,613	5,576,593,160
Wakalah investments	19,254,908,733	5,812,648,451
Mudharabah savings	1,128,062,348	1,033,581,299
Total deposits	22,308,316,693	12,422,822,910

PROFIT PAYABLE

Profit payable on Mudharabah investments	43,238,516	41,545,969
Profit payable on Wakalah investments	728,939,411	110,684,090
	772,177,927	152,230,059
Deposit liability recognised in statement of financial position	23,080,494,620	12,575,052,969

12. ACCRUALS AND OTHER PAYABLES

As at 31 March	2023 Rs.	2022 Rs.
Trade Payable	131,177,887	87,787,322
Refunds payable	643,311,372	46,586,395
Insurance payable	29,206,066	12,038,759
Al-Falaah charity fund	18,686,014	10,198,965
Other miscellaneous creditors	975,946,516	69,001,170
Other payables	259,287,530	193,134,196
	2,057,615,385	418,746,808

13. AMOUNT DUE FROM RELATED COMPANIES

Carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with its related parties as defined under LKAS 24 "Related Party Disclosures".

As at 31 March	2023 Rs.	2022 Rs.
Fund received from related companies	-	3,159,000,000
Current account balance due to related companies	534,859,896	3,174,220,774
	534,859,896	6,333,220,775

14. REVENUE

Revenue is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

As at 31 March	Note	2023 Rs.	2022 Rs.
Direct Income	14.1	4,634,502,047	2,280,336,428
Other Operating Income	14.2	243,515,924	190,824,213
		4,878,017,971	2,471,160,641

14.1 Direct Income

Income from Ijarah receivables	1,171,313,338	800,404,964
Income from Diminishing Musharakah receivables	2,882,208,174	1,204,057,187
Income from Murabaha/Musawamah/Wakalah Finance	485,075,740	265,830,884
Income from Wadi'ah Gold Storage Facility	95,904,795	10,043,393
	4,634,502,047	2,280,336,428

14.2 Other Operating Income

Profit on terminations	65,388,680	94,191,275
Income from Mudarabah/Wakalah deposits	178,127,244	96,632,938
	243,515,924	190,824,213

15. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)

As at 31 March	2023 Rs.	2022 Rs.
Arrangement & documentation Fee	37,146,627	39,593,488
Collection admin fee	163,751,940	131,012,001
Franchise Fee	57,331,931	36,702,450
Sundry income	53,609,473	19,490,932
Takaful commission	1,630,083	192,609
	313,470,054	226,991,481

16. EMPLOYEE BENEFITS

As at 31 March	2023 Rs.	2022 Rs.
Salaries & other benefits	542,290,133	354,952,353
	542,290,133	354,952,353

17. INCOME TAX EXPENSE

As at 31 March	2023 Rs.	2022 Rs.
Income tax expense reported in statement of profit or loss	-	181,991,622
	-	181,991,622

18. INCOME TAX PAYABLE

As at 31 March	2023 Rs.	2022 Rs.
Current tax payable		
Tax payable at the beginning of the year	321,257,538	135,608,003
Adjustment to the Opening balance	(3,657,913)	3,657,913
Current tax expense for the year - recognised in P&L	-	181,991,622
Tax payable	317,599,624	321,257,538

19. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date no circumstances have arisen which would require adjustments to, or disclosure in the financial statements.

Statement of Financial Position

As at	31.03.2023 Rs'000	31.03.2022 Rs'000	31.03.2021 Rs'000	31.03.2020 Rs'000	31.03.2019 Rs'000	31.03.2018 Rs'000	31.03.2017 Rs'000	31.03.2016 Rs'000	31.03.2015 Rs'000	31.03.2014 Rs'000
ASSETS										
Cash and bank balances	16,484,822	12,282,960	13,422,690	8,333,561	17,535,538	11,323,366	4,924,112	3,497,994	2,975,305	3,236,380
Deposits with banks and other financial institutions	2,493,925	8,885,611	7,203,306	17,282,277	21,637,176	26,346,552	14,161,567	10,206,771	761,095	466,476
Investment in government securities	31,452,712	23,841,483	15,838,455	10,790,843	18,150,996	10,871,768	7,853,176	8,397,496	5,900,718	4,936,822
Derivative assets held for risk management	64,428	3,450,266	325,029	273,195	568,530	133,541	23,840	98,163	2,740	13,572
Financial assets at amortised cost										
Rentals receivable on leased assets	62,066,670	56,960,215	43,098,407	43,842,381	42,941,837	43,605,124	18,408,733	17,243,862	13,150,376	10,836,503
Loans and advances	175,582,031	141,614,958	61,466,957	87,112,949	88,995,842	97,072,665	55,578,906	53,420,772	36,941,041	28,951,843
Factoring receivable	2,270,162	1,418,433	-	2,998,752	4,253,668	10,638,755	16,524,638	13,598,601	6,200,202	3,279,931
Margin trading receivable	6,649,395	6,816,480	83,553	1,768						
Investment securities	4,732,581	6,288,566	5,498,000	2,958,199	2,809,229	1,965,299	324,629	1,083,471	8,843	9,043
Investment in associate	564,085	1,833,661	-	-	-	-	-	-	-	-
Amount due from related companies	57,161	47,382	33,222	63,233	5,569	32,909	224,506	3,271	2,883	5,930
Other receivables	5,477,987	1,084,330	731,692	914,073	937,941	1,122,496	1,071,661	694,055	639,352	1,418,033
Inventories	146,135	428,032	271,727	2,023	4,811	9,078	-	-	-	12,080
Investment properties	41,252,661	38,287,958	21,088,740	15,963,886	11,635,211	6,278,187	906,300	930,200	1,142,800	215,173
Property plant and equipment	11,552,982	8,326,735	1,163,218	1,351,207	1,559,025	1,714,491	2,621,022	1,210,407	136,545	50,143
Total assets	360,847,738	311,567,068	170,224,996	191,888,346	211,035,373	211,114,232	122,623,092	110,385,065	67,861,900	53,431,929
LIABILITIES										
Bank overdraft	8,783,895	5,675,768	1,861,003	1,283,201	2,242,496	4,243,170	2,393,316	1,941,608	2,333,062	1,136,163
Interest bearing borrowings	31,429,414	44,309,903	16,437,442	51,558,593	61,086,897	70,490,432	24,456,314	35,070,152	11,040,028	823,838
Deposits from customers	201,270,901	159,252,382	107,791,136	99,261,181	115,365,141	110,027,420	80,607,115	60,197,201	41,309,960	42,617,800
Trade payables	258,736	1,141,928	144,788	1,048,944	1,161,094	1,593,496	677,878	637,850	645,905	328,986
Accruals and other payables	10,890,336	7,835,593	4,557,547	3,331,643	3,072,454	2,388,376	1,620,968	1,018,603	822,441	494,314
Derivative liabilities	11,635	13,176	-	114,349	661,931	482,464	18,978	17,859	57,515	8,104
Amount due to related companies	1,069,238	3,719,368	620,862	854,198	817,644	1,497,000	434,259	996,781	2,453,097	649,310
Current tax payable	2,681,710	2,525,556	857,903	960,255	1,501,293	813,718	268,932	309,888	434,426	282,718
Deferred tax liability	2,990,837	2,974,781	1,733,249	1,888,186	2,272,773	2,402,219	1,102,058	984,741	761,420	548,718
Employee benefits	652,807	565,709	332,532	298,142	87,061	70,303	17,018	12,249	10,450	8,008
Total liabilities	260,039,510	228,014,165	134,336,462	160,598,693	188,268,784	194,008,598	111,596,835	101,186,931	59,868,304	46,897,960
SHAREHOLDER'S FUNDS										
Stated capital	306,993,806	211,581,448	12,762,500	12,762,500	7,880,000	7,880,000	2,000,000	2,000,000	2,000,000	2,000,000
Statutory reserve	5,213,771	4,444,108	3,596,579	3,378,282	3,189,298	1,996,724	1,556,439	1,239,075	953,677	879,497
Revaluation Reserve	1,247,188	1,505,632	328,838	241,528	241,528	241,528	206,230	-	-	391,850
Cash flow hedge reserve	41,014	(83,702)	27,608	(77,310)	(39,059)	(6,333)	14,237	22,748	-	-
Available for sale investment reserve	-	-	-	-	-	(7,166)	(115,485)	(160,154)	86,037	109,793
Fair value through OCI reserve	331,629	140,753	45,446	11,957	(21,756)	-	-	-	-	-
Regulatory loss allowance reserve	3,231,500	-	-	-	-	-	-	-	-	-
Merger reserve	(262,914,890)	(169,284,517)	-	-	-	-	-	-	-	-
Retained earnings	46,664,209	35,249,180	19,127,563	14,972,696	11,516,579	7,000,882	7,364,836	6,096,465	4,953,882	3,152,829
Total equity	100,808,228	83,552,903	35,888,534	31,289,653	22,766,588	17,105,634	11,026,257	9,198,134	7,993,596	6,533,970
Total liabilities and equity	360,847,738	311,567,068	170,224,996	191,888,346	211,035,373	211,114,232	122,623,092	110,385,065	67,861,900	53,431,929

Statement of Profit or Loss

Year ended	31.03.2023 Rs'000	31.03.2022 Rs'000	31.03.2021 Rs'000	31.03.2020 Rs'000	31.03.2019 Rs'000	31.03.2018 Rs'000	31.03.2017 Rs'000	31.03.2016 Rs'000	31.03.2015 Rs'000	31.03.2014 Rs'000
Interest income	69,027,129	30,569,863	33,761,534	38,081,709	42,663,318	23,818,183	18,489,741	13,137,597	10,871,227	10,515,811
Interest expense	(36,124,596)	(8,979,992)	(12,446,790)	(19,271,364)	(20,891,754)	(13,902,137)	(11,459,273)	(6,499,475)	(4,978,312)	(6,125,280)
Net interest income	32,902,533	21,589,871	21,314,744	18,810,345	21,771,563	9,916,047	7,030,467	6,638,122	5,892,915	4,390,531
Net other operating income	12,767,703	11,522,272	10,298,438	4,919,828	4,012,257	1,816,619	2,348,653	1,245,509	1,269,831	971,589
Direct expenses excluding interest cost	(879,932)	(863,534)	(950,855)	(1,279,608)	(1,522,224)	(1,047,933)	(1,311,408)	(911,717)	(428,892)	(297,539)
Allowance for impairment & write-offs	(6,396,890)	(2,991,760)	(16,341,362)	(7,843,541)	(5,700,505)	(3,709,288)	(1,329,042)	(1,568,576)	(1,497,302)	(1,371,346)
Personnel expenses	(6,057,681)	(3,564,803)	(3,156,955)	(2,971,773)	(3,165,698)	(1,370,493)	(1,424,495)	(1,100,550)	(897,364)	(687,106)
Depreciation	(734,220)	(207,248)	(131,854)	(201,533)	(163,498)	(173,817)	(148,246)	(32,717)	(12,166)	(3,823)
General & administration expenses	(11,289,224)	(5,904,664)	(5,979,228)	(6,661,847)	(6,734,428)	(2,997,554)	(2,624,517)	(1,974,524)	(1,860,447)	(1,390,608)
Profit from operations	20,312,288	19,580,135	5,052,929	4,771,869	8,497,467	2,433,582	2,541,412	2,295,547	2,466,575	1,611,698
Value added tax on financial service	(4,023,911)	(1,837,501)	(556,146)	(892,210)	(1,389,654)	(348,841)	(364,835)	(275,891)	(240,226)	(169,274)
Profit from operating activities	16,288,378	17,742,634	4,496,783	3,879,659	7,107,812	2,084,740	2,176,577	2,019,656	2,226,349	1,442,423
Share of profit / (loss) of equity accounted investee	(895,111)	-	-	-	-	-	-	-	-	-
Profit before tax	15,393,267	17,742,634	4,496,783	3,879,659	7,107,812	2,084,740	2,176,577	2,019,656	2,226,349	1,442,423
Income tax (expense) / reversal	-	(792,048)	(130,845)	(99,975)	(1,144,944)	116,686	(589,759)	(592,663)	(742,767)	(442,124)
Profit for the year	15,393,267	16,950,585	4,365,939	3,779,684	5,962,868	2,201,426	1,586,818	1,426,993	1,483,582	1,000,299

Quarterly Statement of Financial Position

As at	2022-23				2021/22			
	30-Jun-22 Rs'000	30-Sep-22 Rs'000	31-Dec-22 Rs'000	31-Mar-23 Rs'000	30-Jun-21 Rs'000	30-Sep-21 Rs'000	31-Dec-21 Rs'000	31-Mar-22 Rs'000
ASSETS								
Cash and bank balances	38,709,760	25,874,685	3,761,876	16,484,822	19,281,633	20,033,868	8,731,152	12,282,960
Deposits with banks and other financial institutions	6,537,261	2,057,644	2,767,389	2,493,925	6,492,397	3,615,015	1,849,120	8,885,611
Investment in government securities & others	37,509,907	28,662,953	33,091,243	31,452,712	17,544,016	14,185,008	15,330,917	23,841,483
Derivative assets held for risk management	3,305,509	479,046	662,114	64,428	224,892	210,625	100,568	3,450,266
Financial assets at amortised cost								-
Rentals receivable on leased assets	54,419,983	53,506,388	51,537,265	62,066,670	43,901,205	44,797,724	45,167,156	56,960,215
Loans and advances	142,439,726	161,617,867	183,481,128	184,501,588	60,778,138	63,627,055	76,629,446	141,614,958
Factoring receivable	-	-	-	-	-	-	-	1,418,433
Margin trading receivable	-	-	-	-	-	-	-	6,816,480
Investment securities	902,523	890,425	430,893	4,732,581	5,736,888	1,455,794	3,599,853	6,288,566
Investment in associate	3,985,013	3,878,574	3,700,677	564,085	-	-	-	1,833,661
Amount due from related companies	3,516,472	7,997,164	8,169,854	57,161	74,636	40,570	18,130	47,382
Other receivables	256,403	116,738	146,062	5,477,987	708,766	608,090	753,201	1,084,330
Inventories	224,997	146,020	147,445	146,135	90,862	267,867	52,009	428,032
Investment properties	40,127,704	40,222,957	41,763,950	41,252,661	21,354,190	21,601,563	25,072,691	38,287,958
Property plant and equipment	8,167,252	8,037,503	10,509,766	11,552,982	1,153,926	1,662,863	2,158,988	8,326,735
Total assets	340,102,511	333,487,966	340,169,664	360,847,738	177,341,549	172,106,042	179,463,231	311,567,068
LIABILITIES								
Bank overdraft	6,058,033	6,378,145	10,337,430	8,783,895	14,474,558	2,681,925	2,431,393	5,675,768
Interest bearing borrowings	39,464,920	36,977,308	35,698,738	31,429,414	14,429,347	16,548,857	13,013,588	44,309,903
Deposits from customers	185,466,601	180,786,133	185,064,811	201,270,901	104,706,630	103,950,327	106,157,038	159,252,382
Trade payables	525,340	427,780	332,094	258,736	507,274	712,003	334,165	1,141,928
Accruals and other payables	16,343,791	8,954,353	5,544,030	10,890,336	3,442,294	5,426,273	5,916,874	7,835,593
Derivative liabilities held for risk management	22,221	59,723	10,698	11,635	3,174	2,304	32,970	13,176
Amount due to related companies	1,155,495	6,945,071	2,357,802	1,069,238	308,350	94,262	280,892	3,719,368
Current tax payable	2,583,225	2,658,268	2,807,164	2,681,710	994,441	1,747,314	1,168,307	2,525,556
Deferred tax liability	2,974,781	2,974,781	3,184,283	2,990,837	1,733,249	1,733,249	1,733,249	2,974,781
Employee benefits	576,744	595,318	616,318	652,807	342,159	351,583	359,943	565,709
Total liabilities	255,171,152	246,756,881	245,953,368	260,039,510	140,941,476	133,248,097	131,428,419	228,014,165
SHAREHOLDERS' FUNDS								
Stated capital	211,581,448	211,581,448	211,581,448	306,993,806	12,762,500	12,762,500	12,762,500	211,581,448
Statutory reserve	4,444,108	4,444,108	4,444,108	5,213,771	3,596,579	3,596,579	3,596,579	4,444,108
Revaluation Reserve	1,505,632	1,505,632	1,318,935	1,247,188	328,838	328,838	328,838	1,505,632
Cash flow hedge reserve	(83,702)	(83,702)	(114,881)	41,014	23,853	23,853	23,853	(83,702)
Regulatory loss allowance reserve	-	-	-	3,231,500	-	-	-	-
Fair value reserve	135,162	131,984	129,454	331,629	45,446	45,446	45,446	140,753
Merger reserve	(169,284,517)	(169,284,517)	(169,284,517)	(262,914,890)	-	-	-	(169,284,517)
Retained earnings	36,633,227	38,436,131	46,141,749	46,664,209	19,642,857	22,100,729	31,277,596	35,249,180
Total equity	84,931,359	86,731,085	94,216,296	100,808,228	36,400,073	38,857,945	48,034,812	83,552,903
Total liabilities and equity	340,102,511	333,487,966	340,169,664	360,847,738	177,341,549	172,106,042	179,463,231	311,567,068

Quarterly Statement of Profit or Loss and Other Comprehensive Income

As at	2022/23					2021/22				
	Quarter Ended				Year Ended	Quarter Ended				Year Ended
	30-Jun-22 Rs'000	30-Sep-22 Rs'000	31-Dec-22 Rs'000	31-Mar-23 Rs'000	31-Mar-23 Rs'000	30-Jun-21 Rs'000	30-Sep-21 Rs'000	31-Dec-21 Rs'000	31-Mar-22 Rs'000	31-Mar-22 Rs'000
Interest income	13,096,097	17,396,141	18,193,282	20,341,609	69,027,129	7,450,421	7,541,616	7,929,390	7,648,436	30,569,863
Interest expense	(6,343,758)	(9,241,371)	(9,752,762)	(10,786,705)	(36,124,596)	(2,296,303)	(2,169,269)	(2,161,230)	(2,353,190)	(8,979,992)
Net interest income	6,752,339	8,154,769	8,440,520	9,554,904	32,902,533	5,154,118	5,372,347	5,768,160	5,295,246	21,589,871
Net other operating income	1,068,418	2,071,301	6,162,075	3,465,909	12,767,703	748,487	863,661	4,761,873	5,148,251	11,522,272
Direct expenses excluding interest cost	(122,170)	(160,542)	(254,869)	(342,351)	(879,932)	(150,728)	(194,037)	(246,270)	(272,499)	(863,534)
Allowance for impairment & write-offs	(2,101,488)	(3,109,877)	(1,058,565)	(126,960)	(6,396,890)	(2,549,489)	(275,601)	1,979,159	(2,145,829)	(2,991,760)
Personnel expenses	(1,381,930)	(1,264,471)	(1,279,450)	(2,131,830)	(6,057,681)	(829,991)	(744,749)	(838,200)	(1,151,863)	(3,564,803)
Depreciation	(166,124)	(162,922)	(152,175)	(252,999)	(734,220)	(9,293)	(78,538)	(60,573)	(58,844)	(207,248)
General & administration expenses	(2,176,276)	(2,869,436)	(2,916,960)	(3,326,552)	(11,289,224)	(1,396,485)	(1,343,154)	(1,498,960)	(1,666,065)	(5,904,664)
Profit from operations	1,872,769	2,658,823	8,940,576	6,840,121	20,312,288	966,619	3,599,929	9,865,189	5,148,397	19,580,135
Value added tax on financial service	(452,067)	(674,436)	(917,295)	(1,980,112)	(4,023,911)	(289,787)	(364,701)	(688,322)	(494,691)	(1,837,501)
Profit from operating activities	1,420,702	1,984,387	8,023,281	4,860,009	16,288,378	676,832	3,235,228	9,176,867	4,653,706	17,742,634
Share of profit of equity accounted investee, net of tax	21,014	(106,439)	(177,897)	(631,789)	(895,111)	-	-	-	-	-
Profit before income tax expense	1,441,716	1,877,947	7,845,384	4,228,219	15,393,267	676,832	3,235,228	9,176,867	4,653,706	17,742,634
Income tax (expense) / reversal	(57,669)	(75,044)	(148,896)	281,608	-	(161,539)	(777,356)	-	146,847	(792,048)
Profit for the year	1,384,047	1,802,904	7,696,488	4,509,827	15,393,267	515,293	2,457,872	9,176,867	4,800,553	16,950,585

Investor Information

1. MARKET PRICE PER SHARE AS AT 31 MARCH

	2023 Rs.	2022 Rs.
Highest during the year	12.00	39.90
Lowest during the year	4.30	5.70
Last traded as at the end of the year	6.00	14.20

2. COMPOSITION OF SHAREHOLDERS AS AT 31ST MARCH

	2023		2022	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Institutions				
Resident	29,764,829,372	89.98	16,059,442,053	83.42
Non Resident	2,592,905,176	7.84	2,615,928,573	13.59
Individuals				
Resident	715,729,079	2.16	568,081,349	2.95
Non Resident	5,748,672	0.02	7,882,359	0.04
Total	33,079,212,299	100	19,251,334,334	100

3. DISTRIBUTION OF SHAREHOLDERS AS AT 31 MARCH

Range		2023			2022		
		No. of Shareholders	No. of Shares	% of Shares	No. of Shareholders	No. of Shares	% of Shares
1	1,000	5,739	2,217,732	0.01	7,405	2,667,854	0.01
1,001	10,000	6,864	29,657,798	0.09	8,345	34,893,227	0.18
10,001	100,000	5,395	192,859,788	0.58	5,497	186,324,522	0.97
100,001	1,000,000	1,487	397,165,827	1.20	1,351	361,681,793	1.88
Over 1,000,000 Shares		130	32,457,311,154	98.12	136	18,665,766,938	96.96
Total		19,615	33,079,212,299	100	22,734	19,251,334,334	100

4. TOP 20 SHAREHOLDERS

Name of Shareholder	2023		2022	
	No. of Shares	% of Issued Capital	No. of Shares	% of Issued Capital
1. LOLC Ceylon Holdings PLC	29,389,519,216	88.846	15,651,765,122	81.30
2. LOLC Asia Private Limited	2,592,235,176	7.836	2,614,934,919	13.58
3. Phantom Investments (Pvt) Ltd	76,644,002	0.232	47,922,000	0.25
4. Saakya Capital Private Ltd	55,170,414	0.167	NIL	NIL
5. Andaradeniya Estate Private Limited	23,809,524	0.072	NIL	NIL
6. Mr. V. R. Ramanan	20,200,000	0.061	100,000	0.00
7. Mr. S. M. Atapattu	14,411,391	0.044	653,040	0.00
8. Maweli Finance (Pvt) Ltd	12,026,530	0.03	21,768	0.00
9. CIC Holdings PLC/CIC Charitable & Educational Trust Fund	8,707,200	0.026	8,707,200	0.05
10. DFCC Bank PLC/J N Lanka Holdings Company (Pvt) Ltd	7,670,295	0.023	1,000,000	0.01
11. Mr. A. J. Tissera	5,999,500	0.018	NIL	NIL
12. People's Leasing & Finance PLC / Mr. D. M. P. Disanayake	5,833,647	0.018	6,033,647	0.03
13. Mr A. A. Sunil	5,665,468	0.017	5,665,468	0.03
14. Mrs. K. V. W. S. Maddumage	5,500,000	0.017	5,692,884	0.03
15. Nuwara Eliya Property Developers (Pvt) Ltd	5,334,744	0.016	5,334,744	0.03
16. People's Leasing and Finance PLC/S. Gobinath	4,800,000	0.015	3,611,001	0.02
17. Mrs. M. Arudpragasam & Mr. A. M. Arudpragasam	4,370,870	0.013	1,771,351	0.01
18. Mr. S. Selvarajah	4,169,638	0.013	1,063,183	0.01
19. Merchant Bank of Sri Lanka & Finance PLC/ G. K. G. L Wijayathilake	4,159,400	0.013	75,230	0.00
20. Capstone Investment (Private) Limited	4,132,761	0.012	542,965	0.00
Total	32,250,359,776	100.00	18,354,894,522	100.00

5. PUBLIC SHAREHOLDING

	2023 %	2022 %
Public Holding percentage	3.31	5.11
Number of public shareholders	19,600	22,726
Float adjusted market capitalisation (Rs.)	6,577,848,666	13,969,655,708

The Company is not compliant with the minimum public holding requirement stipulated in the Listing Rule 17.14.1.i(b) (Option 1) of the Colombo Stock Exchange, consequent to the amalgamations of the Company with Commercial Leasing & Finance PLC on 31st March 2022 and LOLC Development Finance PLC on 31s t January 2023. Your Board is in the process of exploring options available for complying with the said rule.

6. MARKET PRICE OF LISTED DEBENTURES

Debentures 2018/2023	HIGHEST		LOWEST		END OF THE YEAR	
	2022/2023	2021/2022	2022/2023	2021/2022	2022/2023	2021/2022
Semi Annually 14.75% D0445 LOFC-BD C2408	NIL	112.75	NIL	103.11	NIL	103.45
Date		06.08.2021		22.02.2022		23.02.2022

Debentures 2018/2023	HIGHEST		LOWEST		END OF THE YEAR	
	2022/2023	2021/2022	2022/2023	2021/2022	2022/2023	2021/2022
D0446-Type B (LOFC-BD-31/07/23-C2409-0)	NIL	84.49	NIL	83.94	NIL	84.49
Date		01.02.2022		11.01.2022		01.02.2022

7. STATEMENT OF VALUE ADDED

As at 31 March	2022/23 Rs.	2021/22 Rs.
Value added		
Interest Income	69,027,128,557	30,569,862,999
Other Income	11,872,591,542	11,522,271,915
Cost of Borrowing	(36,124,595,817)	(8,979,991,819)
General and administration Expenses	(12,169,156,418)	(6,768,198,146)
Allowance for impairment & write-offs	(6,396,889,918)	(2,991,759,900)
	26,209,077,946	23,352,185,049
Distribution of value added		
To Employees	6,057,681,094	3,564,802,548
Remuneration and other benefits	6,057,681,094	3,564,802,548
To Government	4,023,910,543	2,629,549,137
Indirect Taxes	4,023,910,543	1,837,501,042
Direct Taxes	-	792,048,095
To Expansion and Growth	16,127,486,309	17,157,833,364
Retained Profits	15,393,266,597	16,950,585,463
Depreciation and amortisation	734,219,712	207,247,901
	26,209,077,946	23,352,185,049

Other Disclosures

1. PROPERTIES HELD BY THE COMPANY

Location	Property Name	District	Province	Extent	Latest Valuation Rs.	Number of building
1	Hendala, Wattala / Hekithth waththa	Colombo	Western	0A-0R-9P	265,000,000	
2	Idama, Moratuwa	Colombo	Western	0A-0R-14.85P	44,500,000	4
3	Wewala, Piliyandala	Colombo	Western	0A-0R-20P	41,500,000	
4	Gothatuwa Property	Colombo	Western	0A-3R-35P	163,000,000	
5	Wickremasinghepura,	Colombo	Western	0A- 3R- 33.83P	1,642,000,000	
6	Shady Grove Property	Colombo	Western	0A- 0R- 35.75P	44,000,000	1
7	Land In Kosgoda	Kaluthara	Western	9A- 0R- 00.00P	75,000,000	
8	Thalaheena Property	Colombo	Western	1A- 3R- 13.47P	80,000,000	
9	Horana Property	Colombo	Western	0A-3R-06.83P	40,500,000	
10	No-296 Horana Proprty	Colombo	Western	0A- 0R- 10.1P	208,000,000	
11	Badulla Property	Badulla	Uva	0A-1R-19.15P	48,500,000	
12	Mannar Property	Mannar	Northern	0A-0R-23.5P	30,000,000	
13	Beruwala Property	Kaluthara	Western	0A – 1R – 06.00P	91,500,000	1
14	Jethawana Property	Colombo	Western	0A-2R-19.90 P	88,400,000	1
15	Nawala 2Nd Lane Property	Colombo	Western	0A-0R-08.70 P	56,000,000	1
16	Piliyandala Property - Thumbowila	Colombo	Western	0A-0R-30.50 P	32,700,000	1
17	Rathnapura Property - Bandaranayakepura	Rathnapura	Sabaragamuwa	0A-0R-32.69 P	31,800,000	1
18	Rajagiriya Land (Valuation Unit)	Colombo	Western	0A- 1R- 12.50P	35,900,000	1
19	Colombo 14 - Grandpass - Vincent Perera Mw	Colombo	Western	4A- 3R- 8.6P	28,000,000	1
20	Grandpass Property- Deed 220	Colombo	Western	A2-R3-14.5P	20,750,000	5
21	Kiribathgoda Property	Gampaha	Western	0A- 0R- 30.57P	116,000,000	1
22	Watinapaha Property - Pannala	Gampaha	Western	19A-0R-35.85P	52,000,000	
23	Ebert Silva Proprty - Chilaw	Puttalam	North western	0A- 0R- 40.0P	59,000,000	
24	No 72 Galle Road ,Kaluwamodara,Beruwala	Kaluthara	Western	0A- 1R- 22.55P	93,000,000	1
25	Wellampitiya Yard	Colombo	Western	5A- 0R- 3.11P	632,000,000	1
26	Land & Building - Kotta Road	Colombo	Western	0A- 0R- 10.00P	85,600,000	1
27	Investment Property Wattala (Peliyagoda)	Colombo	Western	0A-0R-16.61P	161,500,000	1
28	Investment Property Dampe - Kesbewa	Colombo	Western	0A-0R-40P	203,500,000	
29	Malabe Property	Colombo	Western	0A-0R-12P	170,000,000	
30	Battaramulla Land	Colombo	Western	0A-0R-38.71P	57,500,000	
31	Ip Gamunu Mw, Rajagiriya	Colombo	Western	A0-R0-P30.25	18,700,000	
32	Biyagama Property	Gampaha	Western	A0-R0-P23.70	141,000,000	1
33	Gnanendra Mawatha Property - Nawala	Colombo	Western	A0-R01-P04	30,000,000	3
34	Yakkala Proprty (Plan - 4897)	Gampaha	Western	A7-R02-P9.20	15,000,000	
35	Dambulla Property (Padeniya)	Dambulla	Central	A0-R0-P35.96	6,800,000	
36	Waskaduwa Property (Desatara, Kalutara)	Kaluthara	Western	A0-R02-P39.5	5,500,000	
37	Kadawatha Property	Gampaha	Western	A0-R01-P.3	48,400,000	
38	Kadawatha Property (No 348)	Gampaha	Western	A0-R0-P12.85	86,500,000	
39	Baththaramulla Property (Plan -8248)	Colombo	Western	A0-R0-P16.1	10,300,000	
40	Rathnapura Property -Kataliyanpala	Rathnapura	Sabaragamuwa	A0-R0-P15	51,000,000	
41	Panadura Property -No.224,Gorakana,Panadura	Kaluthara	Western	A0-R0-P39.63	19,500,000	1
42	Panadura Property -No.222,Gorakana,Panadura	Kaluthara	Western	A0-R0-20P	17,000,000	1
43	Panadura Property-No.12/4,Gorakana,Panadura	Kaluthara	Western	A0-R01-P07	72,000,000	1
44	Moratuwa Property -No,24,1St Lane,Angulana	Colombo	Western	A0-R0-P19.84	11,000,000	
45	Horana Property-Villa Resident	Colombo	Western	A0-R01-P25.73	102,000,000	
46	Matara Property -Deed 1285	Matara	Southern	A0-R2-P11.299	228,000,000	

1. PROPERTIES HELD BY THE COMPANY (CONTD.)

Location	Property Name	District	Province	Extent	Latest Valuation Rs.	Number of building
47	Matara Property	Matara	Southern	A0-R2-P26.30	265,000,000	
48	Excellent Property - Deed No 37 (Lenadora)	Dambulla	Central	A1-R1-P2	44,500,000	
49	Kahatagahawatta Property -Deed 131 - Kandana	Colombo	Western	A0-0R-4.2P	41,500,000	1
50	Delgahawatta Pannipitiya Property -Deed 105	Colombo	Western	A0-0R-32.62P	163,000,000	
51	Colombo 13 - Bluemendhal - Cyril C Perera Mw	Colombo	Western	1A- 3R- 16.5P & 11,063 Sq	1,642,000,000	9
52	Pahadamulla Property -Deed 9767	Kaluthara	Western	A0-R0-20P	44,000,000	1
53	Welabodawila Property -(Nawala, Senanayaka)	Colombo	Western	A0-R0-9P	75,000,000	
54	Mahara Property -Deed No.7179B	Gampaha	Western	A0-R1-19.80P & 7612 Sq	80,000,000	
55	Property Malwana No -68/2014	Gampaha	Western	A0-R0-P 30	40,500,000	
56	Malwana Sunflower Construction Property	Gampaha	Western	A5-R0-32.67P	208,000,000	
57	Property Kiribathgoda	Gampaha	Western	A0-R0-P23.30	48,500,000	
58	Merigam Kanda Property	Gampaha	Western	A0-R03 -4.50P	30,000,000	
59	Damugahawatta Property - Kottawa	Colombo	Western	A0-R0- 40P	91,500,000	1
60	Ranmuthugala Property 37.P	Gampaha	Western	A0-R0 -37 P	88,400,000	1
61	Eriyagaha Kumbura Property 20-P - Kotikawatta	Colombo	Western	A0-R0 -20 P	56,000,000	
62	Madangahawatta Property 16.77P - Uyana, Moratuwa	Colombo	Western	A0-R0 -10.77 P	32,700,000	
63	Thalagahawattha Kolonnawa Property	Colombo	Western	A0-R0 -10.62P	31,800,000	
64	Abagahawattha Maharagama Property 12.5P	Colombo	Western	A0-R0 -12.5P	35,900,000	
65	Horana Property 28.5P (Dikhena)	Colombo	Western	A0-R0-P29.50	28,000,000	
66	Nuwaraeliya Property 10.8P	Nuwaraeliya	Central	A0-R0-P10.8	20,750,000	
67	Walgama Property	Colombo	Western	A0-R2-P34	116,000,000	1
68	Kurunegala Property	Kurunegala	North western	A0-R0-P10.90	52,000,000	
69	Paragahakotuwe Kumbura Property Lot B (368)	Kurunegala	North western	A0-R0-P12.5	59,000,000	
70	Paragahakotuwe Kumbura Property(367)	Kurunegala	North western	A0-R0-P23	93,000,000	
71	Kurunegala Property	Kurunegala	North western	A0-R3-P20.5	632,000,000	
72	Malawatta Estate	Gampaha	Western	A0-R2-P5.6	85,600,000	
73	Waragoda Property	Gampaha	Western	A0-R2-P15	161,500,000	
74	Millagahawatta Property - Nawala	Colombo	Western	A0-R0-P15.6	203,500,000	1
75	Hettiyana Property(Matara)	Matara	Southern	A0-R0-P39	170,000,000	1
76	Thalahena Malabe (787)	Colombo	Western	A0-R0-P38.27	57,500,000	
77	Minuwangoda Property(Boragodawatta)	Gampaha	Western	A0-R0-P22	18,700,000	
78	Kandy Rd Thalahena Malabe	Colombo	Western	A0-R0-P29.42 & 5040 Sq	141,000,000	
79	Pattinigewatta Property	Colombo	Western	A0-R0-P20	30,000,000	
80	Erewwala Property(Kesbawa)	Colombo	Western	A0-R0-P15	15,000,000	
81	Damparagahawatta Peoperty	Colombo	Western	A0-R0-P9.7	6,800,000	
82	Korathota Athurugiriya	Colombo	Western	A0-R0-P10	5,500,000	
83	Nikakotuwa Estate Property	Matale	Central	A3-R0-P4	48,400,000	
84	Dematagoda Property	Colombo	Western	A0-R0-P11.05	86,500,000	
85	Udagama Property	Kandy	Central	A0-R0-P11.83	10,300,000	
86	Pitakotte Property	Colombo	Western	A0-R0-P25.4	51,000,000	
87	Kotabodawatta avissavelle Property D267	Kaluthara	Western	A0-R1-P38.5	19,500,000	
88	Siriyapulla, mahara, kadawatha	Gampaha	Western	A0-R0-P20	17,000,000	
89	Bandarawatta Estate (Yakkala)	Gampaha	Western	A0-R0-P38.8	72,000,000	1
90	No 114/21, Sooriyapaluwa, Mawatha, Kandana	Gampaha	Western	A0-R0-P10.84	11,000,000	
91	Horagala Property	Colombo	Western	A1-R1-P26.5	102,000,000	

Location	Property Name	District	Province	Extent	Latest Valuation Rs.	Number of building
92	Kirigalpotta Property	Matale	Central	A1-R3-P25.3	135,000,000	1
93	Kesbawa Property Monarch Ltd	Colombo	Western	A0-R0-P11.75	32,000,000	
94	Ladhubima Property-malabe athurugiriya	Colombo	Western	A0-R2-P23.15	125,000,000	
95	Bogahawaththa Property-Sharmila Amidon	Colombo	Western	A0-R0-P9.8	15,500,000	
96	Kosgahalanda Property (Rag Priyani)	Colombo	Western	A0-R0-P19.8	78,500,000	
97	Topuwewatta Property- Rickey Skylark(Pvt) Ltd	Kaluthara	Western	A1-R0-P0	128,000,000	
98	Watarappola .Rabangewatta Property Guadian	Colombo	Western	A0-R0-P6.13	41,000,000	
99	Kadawatha Property-S.D.D. Gunawardena / Ihala Karagahamuna, Kadawatha	Gampaha	Western	A0-R0-P38.5 & 2075 Sq	63,750,000	
100	Malwattha Property-hokandara-sanduma lanka	Colombo	Western	A0-R0-P10.15	31,000,000	
101	Anuradhapura Property (W.H.Hettiarachchi)	Anuradhapura	North central	A0-R2-P4.17	65,000,000	
102	Kelanimulla Property M/S Hanco Investment	Colombo	Western	A0-R2-P38.10	367,000,000	1
103	Udahamulla Village Property (Zabir)	Colombo	Western	A0-R0-P9.75	44,000,000	
104	Malamulla Property RLD Wasantha Kumar Property	Kaluthara	Western	A0-R3-P15.40	49,000,000	
105	Rathmalana Gnanasiri Abeywickrama Property	Colombo	Western	A0-R0-P9.67	57,500,000	1
106	Welisara Property Blue mountain properties (Pvt) Ltd	Colombo	Western	A0-R0-P20.5	27,400,000	
107	Galigamuwa P.P.N. Perera Property	Kegalle	Sabaragamuwa	A0-R0-P72.18 & 3850 Sq	51,500,000	1
108	C R S R Trading Attanagalla Property	Gampaha	Western	A0-R0-P10	4,000,000	
109	Ambalanthota A Muthumala Property	Hambanthota	Southern	A0-R0-P17.20	64,500,000	
110	Pathadumbara Kandy land Ex(Pvt)Ltd Property	Kandy	Central	A0-R3-P34.4	15,000,000	
111	Walawage Nishantha Kumara Jamburaliya Property	Colombo	Western	A0-R3-P0	66,000,000	
112	N S C International Pvt (Ltd) Moratuwa Property	Colombo	Western	A0-R0-P9.72	11,500,000	
113	bogahawatu kotasa Hapugoda Kadana	Gampaha	Western	A0-R0-P10	15,000,000	
114	Sanguine garment Property(H D jagath Jayasundara)	Gampaha	Western	A0-R0-P20	31,000,000	
115	Golden Links International, Pragathi Mw Kotte Property	Colombo	Western	A0-R0-P13.99	16,750,000	
116	Ravindra Dayasiri kumarage Thalangama Property	Colombo	Western	A0-R0-P15	33,000,000	
117	S Vishvalingam Arugambay property	Ampara	Eastern	A5-R2-P15	179,000,000	
118	S Vishvalingam Pothuwil property	Ampara	Eastern	A12-R3-P18.8	87,500,000	
119	Buddhi Metals (Pvt) Ltd Habangewatta Property	Colombo	Western	A0-R2-P5	35,000,000	
120	Horizon tour-inn property pugoda	Gampaha	Western	A4-R1-P2	34,000,000	
121	W U Senavirathna company (Pvt) Ltd property Godigamuwa.	Colombo	Western	A0-R0-P18.83	108,000,000	
122	NISANSALA BORALESGAMUWA LAND	Colombo	Western	A0-R0-P0	46,000,000	
123	Kolitha Amarasekara Kundasale Property	Kandy	Central	A0-R2-P31.1	63,000,000	
124	ASP Construction Nawala Property	Colombo	Western	A1-R0-P3.5 & 7260Sq	1,110,000,000	
125	Pinwatta-Panadura Property-Creative Entertainment	Kurunegala	North western	A0-R0-P21.14	47,760,000	1
126	G N Jayawardena Wattala Property	Colombo	Western	A0-R0-P20	46,000,000	
127	Manik Tea Enterprises Ltd Property	Colombo	Western	A2-R1-P19.55	32,000,000	
128	Buddhi Metals (Pvt) Ltd Homagama Property 02	Colombo	Western	A1-R2-P15	85,000,000	
129	Buddhi Metals (Pvt) Ltd Homagama Property 01	Colombo	Western	A0-R0-P9.82	7,800,000	
130	I C Nanayakkara NO 730, Havelock RD , Colombo 06 property	Colombo	Western	A0-R0-P29.10	480,000,000	
131	Panadura Jayanthi Mala Abeyrathne Property	Kaluthara	Western	A0-R0-P16.5	35,100,000	1
132	Ja Ela Beedee Mervin Property/Nimshi Auto Kandana Property	Gampaha	Western	A0-R0-P12.5	5,940,000	
133	M K D D Wijayarathna Mathugama Property	Kaluthara	Western	A0-R0-P27	40,000,000	
134	S T C Pathiraja Wennappuwa Property	Gampaha	Western	A0-R1-P31.6	40,000,000	

1. PROPERTIES HELD BY THE COMPANY (CONTD.)

Location	Property Name	District	Province	Extent	Latest Valuation Rs.	Number of building
135	ORU MIX ASPHALT (PVT) LTD Delwala Property(Meerigama)	Gampaha	Western	A10-R3-P6	140,000,000	
136	P C P Jayasinghe Padeniya Village Property(Dambulla)	Dambulla	Central	A0-R1-P17	100,500,000	1
137	W D N Perera's Biyagama Property	Gampaha	Western	A0-R0-P12	18,000,000	
138	M M Saalim Makola property	Gampaha	Western	A0-R0-P12	20,000,000	
139	I D S Champika Kaduwela Property	Colombo	Western	A0-R0-P21.4	31,000,000	
140	Central Homes & Real Estate Ja Ela Property	Gampaha	Western	A0-R0-P13.25	23,156,250	
141	D W Ajith Aluthwala Property	Galle	Southern	A0-R0-P55	28,500,000	
142	Aquacleen International Angoda Property	Colombo	Western	A0-R0-P19	49,000,000	
143	WI Mudalige Kotte Property	Colombo	Western	A0-R0-P18.5	203,500,000	1
144	Ranaviru Prabath Cooray Mw Property - D P Jayasinghe Property	Colombo	Western	A0-R2-P17.25	583,500,000	
145	W U Senavirathna Kahathuduwa property	Colombo	Western	A0-R0-P10.1	18,000,000	
146	W U Senavirathna Maharagama property	Colombo	Western	A0-R0-P12.1	68,500,000	1
147	Sadara Senavirathna Depanama 11.55P Property	Colombo	Western	A0-R0-P16.8	99,000,000	1
148	Sadara Senavirathna Depanama 12.40P Property	Colombo	Western	A0-R0-P10.8	45,000,000	1
149	Sadara Senavirathna Depanama 17.20P Property	Colombo	Western	A0-R0-P17.75	87,000,000	1
150	Don Nimal Kodituwakku-Maradana Property	Colombo	Western	A0-R0-P8.48	112,000,000	1
151	Orumex PVT LTD Kolonnawa Property (Jayalath Trades & Transport)	Colombo	Western	A0-R0-P86.76	390,000,000	1
152	Liyanagemulla Seeduwa Property (K.A.D.A.G Damayanthi)	Gampaha	Western	A0-R0-P28.78	47,000,000	
153	Gothatuwa Manigamulla Rd. Property	Colombo	Western	0A-0R-25.90P	32,000,000	
154	A R A LATHIF Rohini Rd. Property	Colombo	Western	0A-0R-03.00P	91,000,000	1
155	Artigala Property 01	Colombo	Western	0A-1R-19.00P & 0A-0R-34.20P	14,300,000	1
156	Artigala Gonawala Property 02	Colombo	Western	0A - 0R - 34.20P	24,000,000	
157	Rajapihilla Rd Kurunegala Property	Kurunegala	North western	0A-0R-01.1P	5,000,000	
158	Ahangama Property	Galle	Southern	0A-2R-13.00P & 0A-2R-P11.50	101,000,000	1
159	Meegahathenna Property-Lucky Tea Factory	Kaluthara	Western	1A-0R-14.20P	52,000,000	1
160	Weerapana Property-Lucky Tea Factory	Kaluthara	Western	0A-3R- 10.08P	126,500,000	1
161	Waterfront Cinnamon Life Apartments	Colombo	Western	1270 Sq	160,000,000	
162	Havelock Apt. Tower-Edmonton	Colombo	Western	1442 Sq	98,847,000	
163	Havelock Apt. Tower-Edmonton	Colombo	Western	1442 Sq	98,955,000	
164	Havelock Apt. Tower-Edmonton	Colombo	Western	1442 Sq	98,983,000	
165	Havelock Apt. Tower-Melford	Colombo	Western	1690 Sq	118,371,000	
166	Havelock Apt. Tower-Melford	Colombo	Western	1356 Sq	96,711,000	
167	Havelock Apt. Tower-Melford	Colombo	Western	1345 Sq	96,715,000	
168	Havelock Apt. Tower-Melford	Colombo	Western	1356 Sq	98,239,000	
169	Havelock Apt. Tower-Melford	Colombo	Western	1356 Sq	98,267,000	
170	Havelock Apt. Tower-Peterson	Colombo	Western	1259 Sq	89,551,000	
171	Havelock Apt. Tower-Peterson	Colombo	Western	1259 Sq	89,799,000	
172	Havelock Apt. Tower-Peterson	Colombo	Western	1367 Sq	98,799,000	
173	Havelock Apt. Tower-Peterson	Colombo	Western	1302 Sq	92,663,000	
174	Havelock Apt. Tower-Peterson	Colombo	Western	1259 Sq	91,325,000	
175	Havelock Apt. Tower-Peterson	Colombo	Western	1302 Sq	91,195,000	
176	Havelock Apt. Tower-Peterson	Colombo	Western	1259 Sq	91,353,000	
177	Havelock Apt. Tower-Peterson	Colombo	Western	1302 Sq	94,509,000	

Location	Property Name	District	Province	Extent	Latest Valuation Rs.	Number of building
178	Havelock Apt. Tower-Peterson	Colombo	Western	1023 Sq	74,139,000	
179	Havelock Apt. Tower-Peterson	Colombo	Western	1023 Sq	75,959,000	
180	Havelock Apt. Tower-Peterson	Colombo	Western	1302 Sq	95,147,000	
181	Havelock Apt. Tower-Peterson	Colombo	Western	1367 Sq	100,883,000	
182	Havelock Apt. Tower-Peterson	Colombo	Western	1023 Sq	76,699,000	
183	Havelock Apt. Tower-Peterson	Colombo	Western	1367 Sq	102,415,000	
184	Havelock Apt. Tower-Peterson	Colombo	Western	1023 Sq	76,699,000	
185	Havelock Apt. Tower-Peterson	Colombo	Western	1367 Sq	103,943,000	
186	Havelock Apt. Tower-Straford	Colombo	Western	1173 Sq	84,363,000	
187	Havelock Apt. Tower-Straford	Colombo	Western	1119 Sq	80,239,000	
188	Havelock Apt. Tower-Straford	Colombo	Western	1356 Sq	99,551,000	
189	Sillicon Technologies Property	Colombo	Western	0A- 0R- 35.18P	128,000,000	1
190	LOMO Gaurage Property	Colombo	Western	1A- 1R- 33.71P	856,000,000	1
191	N'Eliya Bunglow Property	Nuwaraeliya	Central	21.03P	150,000,000	
192	Nawala Riyapola Property	Colombo	Western	0A-3R-19.14P	1,391,000,000	1
193	Mr.O.C Baduge Property	Gampaha	Western	0A-1R-14.21	162,000,000	1
194	M/S Hilltop Global (Private) Limited Property	Puttalam	North western	0A-0R-20.40P	101,000,000	
195	Mr Ajs Jayakody Property	Puttalam	North western	0A-2R-22.94P	56,500,000	1
196	Kanthavel Vinothan Property	Batticaloa	Eastern	0A-R0-08.78P	2,600,000	
197	Design Print Property	Colombo	Western	0A-R0-19.1P	383,000,000	1
198	Ms MC TIT Associates Property	Colombo	Western	0A-0R-13.32P	40,000,000	
199	Thamalu Transport Services (Pvt) Ltd Property	Hambanthota	Southern	1A-2R-38.70P	83,000,000	
200	M/S Narrow Fabrics International Property	Kurunegala	North western	0A-0R-9.8P	27,600,000	
201	M/S Orient Gold Plus (Pvt) Ltd Property	Colombo	Western	0A-0R-06.47P	42,000,000	
202	M/S Raveena Garment Property	Dambulla	Central	0A-0R-36P	48,000,000	1
203	Dharini Impex (Factoring) Property	Colombo	Western	0A-0R-06.01P	15,000,000	1
204	G.A.U Nishantha Property	Gampaha	Western	0A-1R-16.10P	120,000,000	1
205	Mihinthale Yard Property	Anuradhapura	North central	0A-2R-0.0P & 3990 Sq	37,000,000	1
206	Hewage Holding-(Factoring) Property	Kurunegala	North western	0A-3R-27.68P	150,000,000	1
207	Mr G P A G C R Chandrasena Property	Dambulla	Central	0A-0R-09.50P	45,900,000	1
208	Universal Paper Products (Pvt) Ltd Property	Gampaha	Western	0A-0R-20.20P	32,000,000	
209	Mr S S Samaranayake Property	Gampaha	Western	0A-1R-39.7P	16,000,000	
210	Dishara Export S-(Factoring) Property	Galle	Southern	6A-2R-18.5P	46,000,000	
211	M/S DHT Cement (Pvt) Ltd Property	Colombo	Western	0A-0R-19.00P	105,500,000	1
212	M/S DHT Cement (Pvt) Ltd Property	Colombo	Western	0A-0R-28.00P	170,000,000	1
213	Smart Metals-(Factoring) Property	Colombo	Western	0A-0R-64.10P	80,000,000	
214	Civimec Contraction Pvt Ltd Property	Colombo	Western	0A- 0R- 9.65P	29,000,000	
215	S S Impex-(Factoring) Property	Nuwaraeliya	Central	0A- 0R- 24P	33,600,000	
216	Ceylon & Foreign Traders PLC-(Factoring) Property (Liberty Plaza Shop)	Colombo	Western	141 Sq	17,000,000	1
217	Isuru Traval & Tours Pvt Ltd Property	Colombo	Western	0A- 0R- 47.60P	114,000,000	1
218	D G K Krishantha Property	Kurunegala	North western	1A-0R-03.0P	24,000,000	
219	Kandy Property	Kandy	Central	0A-0R-10.40P	44,600,000	1
220	Rahula Road Angoda Property	Colombo	Western	0A-1R-03.75P	66,000,000	1
221	Nuwara eliya	Nuwaraeliya	Central	0A-1R-19.35P	74,000,000	
222	IT Property-Kurunegala	Kurunegala	North western	0A-1R-04.06P	431,500,000	1
223	IT Property-Kandy	Kandy	Central	0A-0R-13.25P	165,359,000	1

1. PROPERTIES HELD BY THE COMPANY (CONTD.)

Location	Property Name	District	Province	Extent	Latest Valuation Rs.	Number of building
224	IT Property-Kandy	Kandy	Central	0A-0R-07.45P & 225 Sq	92,975,000	1
225	IT Property-Kelaniya	Kandy	Central	0A-0R-39.05P	287,559,000	1
226	R.A.A. Rupasinghe Property	Nuwaraeliya	Central	12.8P	90,400,000	1
227	Kandy Tyre House Pvt Ltd (Sampath Gunathilaka) Property	Colombo	Western	10.98P	147,000,000	1
228	P.G.S . Senadheera Property	Kandy	Central	38P	32,000,000	
229	K.H.G.P.A.K. Jayawardane Property	Kandy	Central	10.5P	2,600,000	
230	P.D.G.D.Gunawardane Property	Dambulla	Central	40P	14,000,000	
231	S.G.N. Ariyaratne Property	Kandy	Central	63.5P	12,700,000	
232	P.R.M.Perera Property	Kurunegala	North western	46P	7,250,000	
233	K.M.P.A.I.B. Bandara Onwin Project Property	Matale	Central	131.9P	138,000,000	1
234	R.P.K Amarajeewa Property	Kandy	Central	12P	22,000,000	1
235	Cinnamon Life Apartment -17-B2c	Colombo	Western	1270 Sq	117,000,000	
236	Cinnamon Life Apartment -36 B2c	Colombo	Western	1270 Sq	127,000,000	
237	Cinnamon Life Apartment -15 B2c	Colombo	Western	1270 Sq	110,000,000	
238	Cinnamon Life Apartment -11 B2a	Colombo	Western	1270 Sq	112,000,000	
239	K A S PREMALAL Property	Gampaha	Western	0A-0R-10.00P	7,000,000	
240	A E Dissanayaka Battaramulla Property	Colombo	Western	0A-0R-15.00P	57,500,000	
241	Japmatap Street Property-R.S Wijerathna	Colombo	Western	0A-0R-04.50P	36,000,000	1
242	Hashiharan Property	Trincomalee	Eastern	0A-0R-08.10P	47,000,000	
243	Senuri Auto Property	Gampaha	Western	0A-0R-17.09P	20,000,000	
244	Bandaragama Property	Kaluthara	Western	0A-0R-30P	6,500,000	
245	Buddhi Metal International (Pvt) Ltd Property	Colombo	Western	0A-0R-35P	65,000,000	
246	M.P.M.S. Jayawardena Property	Colombo	Western	0A-0R-7.25P	21,000,000	
247	V R K Perera Property	Gampaha	Western	0A-1R-11.4P	77,000,000	
248	Capital Towers Apartments	Colombo	Western	843 Sq	82,500,000	
249	Capital Towers Apartments	Colombo	Western	867 Sq	85,500,000	
250	Capital Towers Apartments	Colombo	Western	867 Sq	86,500,000	
251	Capital Towers Apartments	Colombo	Western	867 Sq	86,500,000	
252	Capital Towers Apartments	Colombo	Western	867 Sq	87,500,000	
253	Capital Towers Apartments	Colombo	Western	1,214 Sq	94,000,000	
254	Capital Towers Apartments	Colombo	Western	1,045 Sq	92,000,000	
255	Capital Towers Apartments	Colombo	Western	1,045 Sq	93,000,000	
256	Capital Towers Apartments	Colombo	Western	1,045 Sq	94,000,000	
257	Capital Towers Apartments	Colombo	Western	1,045 Sq	95,000,000	
258	Capital Towers Apartments	Colombo	Western	1,045 Sq	96,000,000	
259	Capital Towers Apartments	Colombo	Western	1,425 Sq	96,500,000	
260	Capital Towers Apartments	Colombo	Western	1.319 Sq	108,000,000	
261	Capital Towers Apartments	Colombo	Western	843 Sq	80,500,000	
262	Capital Towers Apartments	Colombo	Western	988 Sq	92,000,000	
263	A D A K KARUNARATHNE - Moratuwa Property	Colombo	Western	0A-2R-14.82P	38,999,409	
264	JA-ELA Property - BRAC	Gampaha	Western	1A-4R-63.15P	44,500,000	
265	Chaminda Asitha Kulathunga Property - Gonatuwewatta & Gonatuweyaya Alias Gotuwehena	Matale	Central	0A-0R-39.00P	36,000,000	1
266	Amalgamation property - Hairu eng	Ampara	Eastern	02A-0-R-35P	130,000,000	1
267	Bakmeekotuwa kumbura - Narasinghe Arachchilage Rat	Kegalle	Sabaragamuwa	0A-0R-20P	1,500,000	1

Location	Property Name	District	Province	Extent	Latest Valuation Rs.	Number of building
268	Ambakote watta land	Kandy	Central	0A-0R-20.4P	2,000,000	
269	Makulethannawatta land	Kandy	Central	0A-1R-04.528P	5,788,640	
270	Jafna property	Jafna	Northern	1R-24.61P	425,000,000	
271	Lional kumarasiri ekanayake property	Kegalle	Sabaragamuwa	0A-1R-26P	6,472,298	1
272	New ratna h/w property - Polonnaruwa	Polonnaruwa	North central	A0-0R-14P	65,500,000	1
273	Chandima paduwawala - Bungalow Kegalle	Kegalle	Sabaragamuwa	A16-R1-P20	19,859,500	1
274	J G B epakanda - Kandy land	Kandy	Central	0A-1R-11.69P	1,166,900	
275	Dolapihilla land - Kandy	Kandy	Central	A0-1R-5P	1,957,166	
276	Kalagedihena land	Gampaha	Western	A0-R0-P31	19,800,000	
277	Tri-zen property's at union place-80	Colombo	Western	73,581 Sq	1,178,415,171	
278	Sanguine garment Property-2	Colombo	Western	35.06P	24,000,000	1
279	No. 334/2017, Padeniya, Dambulla	Matale	Central	0A-0R-33.50P	260,000,000	2
280	No. 437/1A, Cotta road, Rajagiriya	Colombo	Western	0A-0R-08.15P	139,000,000	1
281	No. 43, Central road, Trincomalee	Trincomalee	Eastern	0A-0R-23.50P	171,000,000	1
282	No. 555, Galle road, Pattiya, Panadura	Kalutara	Western	0A-1R-15.55P	365,000,000	1
283	No. 333, Main street, Colombo, Pettah	Colombo	Western	0A-0R-01.62P	74,000,000	1
284	No. 504 & 504A, Nawala road, Nawala	Colombo	Western	0A-2R-13.96P	808,500,000	1
285	No. 501 & 501/2, Galle road, Wellawatta	Colombo	Western	0A-3R-3.67P	2,524,000,000	2
286	No. 68, Bauddhaloka Mawatha, Colombo 04	Colombo	Western	0A-0R-19.00P	762,000,000	1
287	No. 68, Main road, Tissamaharama	Hambantota	Southern	0A-0R-20.20P	145,000,000	1
288	No. 09, 11 & 15A, Kande Veediya, Kandy	Kandy	Central	0A-1R-1.87P	1,283,000,000	2
289	No. 10, Elbert Wijegunawardena Mawatha, Mathugama	Kalutara	Western	0A-2R-26.50P	239,500,000	-
290	No. 35, Maithreepala Senanayake Mawatha, Anuradhapura	Anuradhapura	North central	0A-0R-14.03P	91,000,000	-
291	No. 08, Abaya Place, 3rd lane off, Maithreepala Senanayake Mw, Anuradhapura	Anuradhapura	North central	0A-0R-14.71P	58,500,000	-
292	No. 74, Colombo road, Negombo	Gampaha	Western	0A-1R-35.65P	340,000,000	-
293	No. 9 & 9A, Station road, Kadaweediya, Matara	Matara	Southern	0A-0R-20.85P	125,000,000	-
294	No. 25/4, Lauries road, Bambalapitiya	Colombo	Western	0A-0R-21.45P	321,000,000	-
295	No. 72, Bauddhaloka Mawatha, Colombo 04	Colombo	Western	0A-0R-19.15P	430,000,000	-

2. NON-RECURRENT RELATED PARTY TRANSACTIONS

During the Financial year the Company entered in to a non-recurrent related party transaction exceeding 10% of the equity and 5% of the total assets of the Company. As at 31st January 2023, LOLC Finance PLC merged with LOLC Development Finance PLC and the transaction cost of the merger was Rs.95,412,357,959. However detailed related party transactions were disclosed in the note no 33.

3. RECURRENT RELATED PARTY TRANSACTIONS

During the current period there were no recurrent related party transactions which exceeds 10% of the equity or 5% of the total assets, whichever is lower, in the company. However detailed related party transactions were disclosed in the note no 33

All the transactions with related parties which are disclosed under note 33 are recurrent, of revenue or trading nature and are necessary for day-to-day operations of the Company. In the opinion of the Related Party Transaction Review Committee, terms for all these transactions are not favourable to the related party than those generally available to the public.

4. SELECTED KEY PERFORMANCE INDICATORS

Regulatory Capital Adequacy		31.03.2023	31.03.2022
Total Tier 1 Core Capital	Rs.'000	76,125,263	64,969,174
Total Capital Base	Rs.'000	77,941,311	65,653,398
*Core Capital Adequacy Ratio (Minimum Requirement 10%)		21.20%	20.49%
*Total Capital Adequacy Ratio (Minimum Requirement 14%)		21.71%	20.71%

*As at 31.03.2022, the minimum Core Capital Adequacy Ratio required was 8%, while the minimum Total Capital Adequacy Ratio required was 12%

Asset Quality Ratios		31.03.2023	31.03.2022
**Net Non-Performing Advances Ratio		9.65%	2.30%

Regulatory Liquidity		31.03.2023	31.03.2022
Available Liquid Assets	Rs.'000	29,791,552	39,238,387
Required Liquid Assets	Rs.'000	22,637,101	19,813,506
Liquid Assets to Deposits Ratio		14.80%	24.64%

**With effect from 1st April 2022, criteria for classification of credit facilities as non-performing loans has been changed from 180 days past due to 120 days past due.

5. DEBENTURE INFORMATION

The debt capital of the company comprises rated unsecured subordinated redeemable debentures thirty four million (34,110,193) issued in July 2018 and fifty million (50,000,000) issued in Sep 2020. These debentures are listed in the Colombo Stock Exchange and Lanka Rating Agency rated Rs.2.5Bn debentures as A- (Stable) and Rs.5Bn debentures as A (Stable).

Interest rates of the debentures

Instrument type	Interest frequency	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	Semi-annually	14.75%	14.75%	11.72%	25.86%
Type B - 5 Years Tenor	At maturity	20.13%	20.13%	20.13%	25.86%
Type A - 5 Years Tenor	Semi-annually	10.50%	10.50%	8.86%	25.86%
Type B - 5 Years Tenor	Semi-annually	16.23%	16.23%	16.23%	25.86%

Market prices & issue prices of debentures recorded during the financial year ended 31st March 2023 are as follows.

Instrument Type	Issue Price	Highest Price	Lowest Price	Last Traded Price	Last Traded Date
Type A - 5 Years Tenor	Rs.100.00	Not Traded	Not Traded	Not Traded	N/A
Type B - 5 Years Tenor	Rs. 49.83	Not Traded	Not Traded	Not Traded	N/A
Type A - 5 Years Tenor	Rs.100.00	Not Traded	Not Traded	Not Traded	N/A
Type B - 5 Years Tenor	Rs.100.00	Not Traded	Not Traded	Not Traded	N/A

Debt security related ratios

As at 31 March	As at 31.03.2023 Rs.	As at 31.03.2022 Rs.
Debt to equity ratio (With Deposits)	2.4 times	2.5 times
Quick asset ratio	0.96 times	0.75 times
Interest cover	1.56 times	3.18 times

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE 22ND ANNUAL GENERAL MEETING of the Company will be held on Wednesday , 27th September 2023 at 10.00 am as a virtual meeting with arrangements for the on-line meeting platform made at the registered office of the Company at No.100/1, Sri Jayawardenapura Mawatha, Rajagiriya, for the following purposes:

1. To receive and consider the Annual Report and Financial Statements for the year ended 31st March 2023, with the Report of the Auditors thereon.

2. To re-elect as Director Mr. S Lankathilake who retire in terms of Article 70 of the Articles of Association of the Company.

3. To re-elect as Director Mr. A J L Peiris who retire in terms of Article 70 of the Articles of Association of the Company.

4. To re-elect as Director Mr. F K C P N Dias who retire by rotation in terms of Article 75 of the Articles of Association of the Company.

5. To re-elect as Director Mr P A Wijeratne who retire by rotation in terms of Article 75 of the Articles of Association of the Company.

6. To re-appoint as Auditors Messrs. Ernst and Young, Chartered Accountants for the ensuing financial year at a remuneration to be fixed by the Directors.

7. To approve in terms of the Companies (Donations) Act No.26 of 1951, the making of donations by the Directors as determined by them for the current Financial Year and until the next Annual General Meeting of the Company.

By Order of the Board

LOLC Finance PLC

LOLC Corporate Services (Private) Limited

Secretaries

31st August 2023

Rajagiriya (in the greater Colombo)

Form of Proxy

I/We ....

holder of NIC/ Reg. No .... of .... being

a member/members of the LOLC Finance PLC hereby appoint ....

of .... whom failing

Mr. Francisco Kankanamalage Conrad Prasad Niroshan Dias	of Colombo or failing him
Mr. Don Manuwelge Don Krishan Thilakaratne	of Colombo or failing him
Mr. Brindley Chrishantha Gajanayake De Zylva	of Colombo or failing him
Mr. Panamulla Arachchige Wijeratne	of Colombo or failing him
Mr. Kandiah Sundararaj	of Colombo or failing him
Mr. Sunil Lankathilake	of Colombo or failing him
Mr. Annakkarage Jayantha Luxman Peiris	of Colombo

as my/our proxy to represent me/us and vote on my/our behalf at the Annual General Meeting of the Company to be held as an on-line meeting on Wednesday the 27th day of September 2023 at 10.00 a.m. 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. S Lankathilake who retire in terms of Article 70 of the Articles of Association of the Company.		
2.	To re-elect as Director Mr. A J L Peiris who retire in terms of Article 70 of the Articles of Association of the Company..		
3.	To re-elect as Director Mr. F K C P N Dias who retire by rotation in terms of Article 75 of the Articles of Association of the Company.		
4.	To re-elect as Director Mr. P A Wijeratne who retire by rotation in terms of Article 75 of the Articles of Association of the Company.		
5.	To re-appoint as Auditors M/s Ernst and Young, Chartered Accountants for the ensuing financial year at a remuneration to be fixed by the Directors.		
6.	To approve in terms of the Companies (Donations) Act No.26 of 1951, the making of donations by the Directors as determined by them for the current Financial Year and until the next Annual General Meeting of the Company.		

dated this .... day of ...., Two Thousand Twenty Three.

....

Signature of Shareholder

(Please delete inappropriate words and refer overleaf for instructions)

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 Proxy shall

   a) in the case of an individual, be under the hand of the shareholder or his or her attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.

   b) if the shareholder is a company or a corporation, be either under its common seal or under the hand of an officer or attorney authorised by such organisation in that behalf in accordance with its Articles of Association or Constitution.

3 Please indicate with an 'X' how the proxy should vote on each Resolution. If no indication is given, the proxy shall exercise his/her discretion and vote as he/she thinks fit.

4 The completed Form of Proxy should be deposited at the registered office of the Company No: 100/1, Sri Jayawardenapura Mawatha, Rajagiriya or scanned and emailed to **corporateservices@lolc.com** with the email subject titled "LOFC AGM PROXY" 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 (CSE) on 7th July 2011.

CREDIT RATING

Lanka Rating Agency assigned the Company with a long-term rating of 'A' with a stable outlook.

REGISTERED OFFICE AND HEAD OFFICE

No. 100/1, Sri Jayewardenepura Mawatha, Rajagiriya
Tel: 011 5880880
Fax: 011 2865606
Website: https://www.lolcfinance.com/
Swift: LOFCKLC

DIRECTORS

F K C P N Dias, Non Excutive Chairman

D M D K Thilakaratne, Executive Director/CEO

Mrs K U Amarasinghe, Executive Director

B C G de Zylva, Non-Executive Director

P A Wijeratne, Senior Independent Director

K Sundararaj, Independent Director

S Lankathilake, Independent Director

A J L Peiris, Independent Director

SECRETARIES

LOLC Corporate Services (Private) Limited
100/1, Sri Jayawardenapura Mawatha, Rajagiriya
Tel: 011 5880356-60
Email: corporateservices@lolc.com

AUDITORS

Ernst & Young, Chartered Accountants

LAWYERS

Julius & Creasy, Attorneys-at-Law
Nithya Partners

REGISTRARS

PW Corporate Secretarial (Pvt) Ltd
No. 3/17 Kynsey Road, Colombo 8
Tel: 0114 640360-3

PRINCIPAL ACTIVITIES

During the year the principal activities of the Company comprised Finance Business, Finance leasing, Islamic Finance, issue of Payment Cards, Micro Finance Loans, Gold Loans and provision of Advances for Margin Trading in the Colombo Stock Exchange.

BANKERS

Standard Chartered Bank
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
Digital Plates & Printing by Softwave Printing and Publishing (Pvt) Ltd.

www.lolcfinance.com

LOLC FINANCE PLC
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Fax: +94 112 865 606