



INTERIM FINANCIAL STATEMENTS

For the nine months ended

31st December 2017

LOLC Finance PLC

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As at 31st December 2017

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LOLC Finance PLC

STATEMENT OF FINANCIAL POSITION

As at 31st December 2017

| | As at 31.12.2017 (Unaudited) Rs. '000 | As at 31.03.2017 (Audited) Rs. '000 |
|------------------------------------------------------|---------------------------------------------|-------------------------------------------|
| ASSETS | | |
| Cash and bank balances | 9,845,394 | 4,924,112 |
| Deposits with banks and other financial institutions | 12,341,612 | 14,161,567 |
| Investment in government securities and others | 8,032,749 | 7,853,176 |
| Derivative assets | 2,206 | 23,840 |
| Rentals receivable on leased assets | 22,269,647 | 18,408,733 |
| Hire purchases, loans and advances | 58,281,982 | 55,484,081 |
| Factoring receivable | 13,676,925 | 16,524,638 |
| Margin trading receivables | 224,272 | 94,825 |
| Other receivables | 954,121 | 1,071,661 |
| Investment securities | 9,356,323 | 324,629 |
| Amount due from related companies | 230,583 | 224,506 |
| Investment properties | 4,782,779 | 906,300 |
| Property plant and equipment | 1,573,221 | 2,621,022 |
| Total assets | 141,571,815 | 122,623,092 |
| LIABILITIES | | |
| Bank overdraft | 3,631,465 | 2,393,316 |
| Interest bearing borrowings | 16,684,577 | 24,456,314 |
| Deposits from customers | 104,402,484 | 80,607,115 |
| Trade payables | 947,490 | 677,878 |
| Accruals and other payables | 1,607,592 | 1,620,968 |
| Derivative liabilities | 98,658 | 18,978 |
| Amount due to related companies | 627,855 | 434,259 |
| Current tax payable | 401,894 | 268,932 |
| Deferred tax liability | 1,102,058 | 1,102,058 |
| Defined benefit obligations | 16,548 | 17,018 |
| Total liabilities | 129,520,619 | 111,596,835 |
| EQUITY | | |
| Stated capital | 2,000,000 | 2,000,000 |
| Statutory reserve | 1,556,439 | 1,556,439 |
| Revaluation reserve | 206,230 | 206,230 |
| Cash flow hedge reserve | (3,664) | 14,237 |
| Available for sale investment reserve | 23,237 | (115,485) |
| Retained earnings | 8,268,955 | 7,364,836 |
| Total equity | 12,051,196 | 11,026,257 |
| Total liabilities and equity | 141,571,815 | 122,623,092 |
| Net assets per share (Rs.) | 4.30 | 3.94 |

Certification :

These financial statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007.

Sgd.

(Mr.) Imraz Iqbal
Head of Finance

The Board of Directors is responsible for the preparation and presentation of these financial statements.
Signed for and on behalf of the Board

Sgd.

(Mr.) I.C. Nanayakkara - Deputy Chairman

Sgd.

(Mr.) Ashan Nissanka - Director / CEO

09th February 2018
Rajagiriya (Greater Colombo)

LOLC Finance PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 31st December 2017

| | For the period ended | | | For the quarter ended | | |
|----------------------------------------------------------------|--------------------------------------|--------------------------------------|---------------|--------------------------------------|--------------------------------------|---------------|
| | 31.12.2017 (Unaudited) Rs '000 | 31.12.2016 (Unaudited) Rs '000 | Variance % | 31.12.2017 (Unaudited) Rs '000 | 31.12.2016 (Unaudited) Rs '000 | Variance % |
| Interest income | 16,229,105 | 13,404,888 | 21% | 5,701,750 | 4,939,727 | 15% |
| Interest expense | (10,463,596) | (8,283,961) | -26% | (3,593,201) | (3,036,668) | -18% |
| Net interest income | 5,765,509 | 5,120,927 | 13% | 2,108,549 | 1,903,060 | 11% |
| Net other operating income | 2,521,575 | 1,619,909 | 56% | 897,805 | 529,801 | 69% |
| Total income | 8,287,084 | 6,740,836 | 23% | 3,006,354 | 2,432,861 | 24% |
| Operating expenses | | | | | | |
| Direct expenses excluding interest cost | (1,314,014) | (1,029,050) | -28% | (339,055) | (393,166) | 14% |
| Allowance for impairment & write-offs | (2,107,326) | (814,952) | -159% | (1,081,778) | (349,312) | -210% |
| Personnel expenses | (1,149,075) | (947,205) | -21% | (394,927) | (318,399) | -24% |
| Depreciation | (131,490) | (103,888) | -27% | (44,232) | (40,744) | -9% |
| General & administration expenses | (2,139,759) | (2,103,333) | -2% | (790,168) | (733,980) | -8% |
| Profit from operations | 1,445,421 | 1,742,408 | -17% | 356,195 | 597,260 | -40% |
| Value added tax on financial services | (259,908) | (225,868) | -15% | (56,491) | (85,391) | 34% |
| Profit before income tax expense | 1,185,512 | 1,516,540 | -22% | 299,703 | 511,869 | -41% |
| Income tax expense | (281,394) | (458,618) | 39% | (16,259) | (168,358) | 90% |
| Profit for the period | 904,119 | 1,057,922 | -15% | 283,444 | 343,511 | -17% |
| Other comprehensive income | | | | | | |
| Items that are or may be reclassified to profit or loss | | | | | | |
| Available-for-sale financial assets-net change in fair value | 138,722 | 50,625 | 174% | (36,754) | (94,125) | -61% |
| Gain / (loss) on cash flow hedges | (17,901) | (16,945) | -6% | 16,186 | (12,273) | -232% |
| | 120,821 | 33,680 | 259% | (20,568) | (106,398) | -81% |
| Total comprehensive income | 1,024,939 | 1,091,602 | -6% | 262,876 | 237,113 | 11% |
| Basic earnings per share (Rs.) | 0.32 | 0.38 | | 0.10 | 0.12 | |

Figures in brackets indicate deductions.

LOLC Finance PLC

STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31st December 2017

| | Stated Capital Rs '000 | Statutory Reserve Rs '000 | Revaluation Reserve Rs '000 | Cash flow Hedge Reserve Rs '000 | Available for Sale Investment Reserve Rs '000 | Retained Earnings Rs '000 | Total Equity Rs '000 |
|-------------------------------------------------------------|---------------------------|---------------------------------|-----------------------------------|---------------------------------------|-----------------------------------------------------|---------------------------------|-------------------------|
| Balance as at 01 April 2016 | 2,000,000 | 1,239,075 | - | 22,748 | (160,154) | 6,096,465 | 9,198,134 |
| Total comprehensive income for the period | | | | | | | |
| Profit for the period | - | - | - | - | - | 1,057,922 | 1,057,922 |
| <i>Other comprehensive income, net of income tax</i> | | | | | | | |
| Net change in fair value of AFS investments | - | - | - | - | 50,625 | - | 50,625 |
| Net movement of cashflow hedges | - | - | - | (16,945) | - | - | (16,945) |
| Total other comprehensive income for the period | - | - | - | (16,945) | 50,625 | - | 33,680 |
| Total comprehensive income for the period | - | - | - | (16,945) | 50,625 | 1,057,922 | 1,091,602 |
| Balance as at 31 December 2016 | 2,000,000 | 1,239,075 | - | 5,803 | (109,529) | 7,154,387 | 10,289,736 |
| Balance as at 01 January 2017 | 2,000,000 | 1,239,075 | - | 5,803 | (109,529) | 7,154,387 | 10,289,736 |
| Total comprehensive income for the period | | | | | | | |
| Profit for the period | - | - | - | - | - | 528,896 | 528,896 |
| <i>Other comprehensive income, net of income tax</i> | | | | | | | |
| Net change in fair value of AFS investments | - | - | - | - | (5,956) | - | (5,956) |
| Remeasurements of defined benefit liability - gain / (loss) | - | - | - | - | - | (1,083) | (1,083) |
| Net movement of cashflow hedges | - | - | - | 8,434 | - | - | 8,434 |
| Revaluation gain | - | - | 206,230 | - | - | - | 206,230 |
| Total other comprehensive income for the period | - | - | 206,230 | 8,434 | (5,956) | (1,083) | 207,624 |
| Total comprehensive income for the period | - | - | 206,230 | 8,434 | (5,956) | 527,813 | 736,520 |
| Transactions recorded directly in equity | | | | | | | |
| Transfer to Statutory Reserve Fund | - | 317,364 | - | - | - | (317,364) | - |
| Total transactions recorded directly in equity | - | 317,364 | - | - | - | (317,364) | - |
| Balance as at 31 March 2017 | 2,000,000 | 1,556,439 | 206,230 | 14,237 | (115,485) | 7,364,836 | 11,026,257 |
| Balance as at 01 April 2017 | 2,000,000 | 1,556,439 | 206,230 | 14,237 | (115,485) | 7,364,836 | 11,026,257 |
| Total comprehensive income for the period | | | | | | | |
| Profit for the period | - | - | - | - | - | 904,119 | 904,119 |
| <i>Other comprehensive income, net of income tax</i> | | | | | | | |
| Net change in fair value of AFS investments | - | - | - | - | 138,722 | - | 138,722 |
| Net movement of cashflow hedges | - | - | - | (17,901) | - | - | (17,901) |
| Total other comprehensive income for the period | - | - | - | (17,901) | 138,722 | - | 120,821 |
| Total comprehensive income for the period | - | - | - | (17,901) | 138,722 | 904,119 | 1,024,939 |
| Transactions recorded directly in equity | | | | | | | |
| Transfer to Statutory Reserve Fund | - | - | - | - | - | - | - |
| Total transactions recorded directly in equity | - | - | - | - | - | - | - |
| Balance as at 31 December 2017 | 2,000,000 | 1,556,439 | 206,230 | (3,664) | 23,237 | 8,268,955 | 12,051,196 |

LOLC Finance PLC

STATEMENT OF CASH FLOWS

For the nine months ended 31st December 2017

| | 2017 Rs '000 | 2016 Rs '000 |
|-----------------------------------------------------------------------|--------------------|--------------------|
| Cash flows from / (used in) operating activities | | |
| Profit before income tax expense | 1,185,512 | 1,516,540 |
| Adjustments for: | | |
| Depreciation | 131,490 | 103,888 |
| (Profit) / loss on Sales of Investment property | - | 1,277 |
| Change in fair value of derivatives - forward contracts | 101,315 | 130,418 |
| Provision for fall / (increase) in value of investments | (18,525) | (30,091) |
| Impairment provision for the period | 1,106,668 | 334,420 |
| Provision for defined benefit plans | - | 900 |
| Investment income | (1,511,683) | (1,026,364) |
| Finance costs | 10,463,596 | 8,195,184 |
| Operating profit / (loss) before working capital changes | 11,458,373 | 9,226,172 |
| Change in other receivables | 117,540 | (751,875) |
| Change in trade and other payables | 256,235 | (134,927) |
| Change in amounts due to / due from related parties | 187,519 | 403,693 |
| Change in lease receivables | (4,310,246) | (1,213,372) |
| Change in hire purchase, loans and advances | (4,035,372) | (5,232,004) |
| Change in factoring receivables | 3,427,848 | (3,818,873) |
| Change in margin trading advances | (129,447) | (6,123) |
| Change in fixed deposits from customers | 17,921,252 | 13,074,687 |
| Change in savings deposits from customers | 5,506,112 | 481,010 |
| Cash generated from / (used in) operations | 30,399,814 | 12,028,387 |
| Finance cost paid on deposits | (8,572,163) | (5,230,182) |
| Gratuity paid | (471) | (778) |
| Income tax paid | (148,431) | (158,019) |
| Net cash from / (used in) operating activities | 21,678,749 | 6,639,408 |
| Cash flows from / (used in) investing activities | | |
| (Acquisitions) / disposals of property, plant & equipment | (2,947,418) | (698,481) |
| Net proceeds from investments in term deposits | (4,566,438) | (33,728) |
| Proceeds from sale of investment property | - | 37,768 |
| Investments in companies | - | - |
| Net proceeds from Investments in unit trust | (9,013,169) | 1,040,793 |
| Net proceeds from investments in government securities | 6,345,541 | (3,323,111) |
| Interest received | 1,511,683 | 1,026,364 |
| Net cash flows used in investing activities | (8,669,800) | (1,950,395) |
| Cash flows from / (used in) financing activities | | |
| Net proceeds from interest bearing loans & borrowings | (7,796,117) | (2,121,938) |
| Lease rentals paid | (411,075) | (392,960) |
| Finance cost paid on bank loans and over draft | (1,118,623) | (1,904,701) |
| Net cash flows from / (used in) financing activities | (9,325,815) | (4,419,600) |
| Net increase / (decrease) in cash and cash equivalents | 3,683,134 | 269,413 |
| Cash and cash equivalents at the beginning of the year | 2,530,796 | 1,556,386 |
| Cash and cash equivalents at the end of the period | 6,213,929 | 1,825,799 |
| Analysis of cash and cash equivalents at the end of the period | | |
| Cash and bank balances | 9,845,394 | 3,254,231 |
| Bank overdraft | (3,631,465) | (1,428,432) |
| | 6,213,929 | 1,825,799 |

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OPERATING SEGMENTS

For the nine months ended 31st December 2017

| | Conventional Financial Services Rs '000 | Islamic Financial Services Rs '000 | Factoring Business Rs '000 | Others/ Adjustments Rs '000 | Total Rs '000 |
|-----------------------------------------------------|-----------------------------------------------|------------------------------------------|----------------------------------|-----------------------------------|-------------------|
| For the nine months ended 31st December 2017 | | | | | |
| Total revenue | 13,592,045 | 1,892,375 | 3,266,259 | - | 18,750,680 |
| Inter-segmental revenue | - | - | - | - | - |
| External revenue | 13,592,045 | 1,892,375 | 3,266,259 | - | 18,750,680 |
| Net interest cost | (8,211,165) | (951,931) | (1,300,500) | - | (10,463,596) |
| Profit before operating expenses | 5,380,880 | 940,444 | 1,965,759 | - | 8,287,084 |
| Operating expenses | (3,736,044) | (419,929) | (578,365) | - | (4,734,338) |
| Allowance for impairment & write-offs | (815,138) | (112,570) | (1,179,618) | - | (2,107,326) |
| Value added tax on financial services | (169,609) | (54,977) | (35,322) | - | (259,908) |
| Profit before income tax | 660,090 | 352,968 | 172,455 | - | 1,185,512 |
| For the nine months ended 31st December 2016 | | | | | |
| Total revenue | 10,802,985 | 1,582,798 | 2,639,013 | - | 15,024,797 |
| Inter-segmental revenue | - | - | - | - | - |
| External revenue | 10,802,985 | 1,582,798 | 2,639,013 | - | 15,024,797 |
| Net interest cost | (6,143,955) | (642,463) | (1,497,543) | - | (8,283,961) |
| Profit before operating expenses | 4,659,029 | 940,335 | 1,141,471 | - | 6,740,836 |
| Operating expenses | (3,168,369) | (373,553) | (641,554) | - | (4,183,476) |
| Allowance for impairment & write-offs | (783,991) | (41,488) | 10,528 | - | (814,952) |
| Value added tax on financial services | (74,387) | (74,915) | (76,567) | - | (225,868) |
| Profit before income tax | 632,282 | 450,380 | 433,878 | - | 1,516,540 |
| As at 31.12.2017 | | | | | |
| Total assets | 115,126,502 | 13,192,124 | 13,676,925 | (423,736) | 141,571,815 |
| Total liabilities | 104,996,903 | 11,270,527 | 13,676,925 | (423,736) | 129,520,619 |
| As at 31.03.2017 | | | | | |
| Total assets | 96,885,941 | 11,435,702 | 16,524,638 | (2,223,189) | 122,623,092 |
| Total liabilities | 87,528,029 | 9,767,357 | 16,524,638 | (2,223,189) | 111,596,835 |

LOLC Finance PLC

NOTES TO INTERIM FINANCIAL STATEMENTS

As at 31st December 2017

1. General

- These interim financial statements have been prepared in accordance with LKAS 34 Interim Financial Reporting and do not include all of the information required for a full set of financial statements.
- The requirements of the Colombo Stock Exchange and the Companies Act No.7 of 2007 have also been considered in preparing these financial statements
- The information for the preparation of these interim financial statements has been drawn up from the unaudited financial records of the Company.
- Accounting policies and methods of computation as stated in the annual report for the year 2016/17 are followed in the preparation of these Interim Financial Statements

2. Stated Capital

The Stated Capital of the Company is represented by 2,800,000,000 ordinary shares.

3. Provision for management expenditure

All expenses related to management expenditure are fully provided for in these Interim Financial Statements.

4. Share information

Market prices of ordinary shares recorded during the quarter ended 31st December 2017 are as follows:

| | Rs' |
|---------------------------------------|------|
| Market price as at 31st December 2017 | 3.70 |
| Highest Price | 4.30 |
| Lowest Price | 3.20 |

5. Debenture information

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

ICRA Lanka Ltd upgraded the credit rating of the above debentures to [SL]A- with stable outlook from [SL]BBB+ with stable outlook during the financial year 2015/16 and reaffirmed during this financial year as [SL]A-(Stable).

- 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 | Quarterly | 9.00% | 9.91% | 11.30% | 9.97% |
| Type B - 5 Years Tenor | Semi Annually | 9.10% | 9.10% | 9.10% | 9.97% |
| Type C - 5 Years Tenor | Annually | 9.25% | 9.25% | 9.25% | 9.97% |

- Market prices & issue prices of debentures recorded during the quarter ended 31st December 2017 are as follows.

| Instrument Type | Issue Price | Highest Price | Lowest Price | Last Traded Price | Last Traded Date |
|------------------------|-------------|---------------|--------------|-------------------|------------------|
| Type A - 5 Years Tenor | Rs.100.00 | Rs. 90.84 | Rs. 90.84 | Rs. 90.84 | 18-Apr-17 |
| Type B - 5 Years Tenor | Rs.100.00 | Not Traded | Not Traded | Not Traded | N/A |
| Type C - 5 Years Tenor | Rs.100.00 | Not Traded | Not Traded | Not Traded | N/A |

- Debt security related ratios

| | As at 31.12.2017 | As at 31.03.2017 |
|----------------------|------------------|------------------|
| Debt to equity ratio | 10.35 times | 9.75 times |
| Quick asset ratio | 0.83 times | 0.85 times |
| Interest cover | 1.11 times | 1.19 times |

LOLC Finance PLC

NOTES TO INTERIM FINANCIAL STATEMENTS

As at 31st December 2017

6 Financial assets and liabilities

6.1 Accounting classifications and fair values

As at 31st December 2017

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

| Description | Fair value – derivatives | Fair value - held for trading | Fair value through other comprehensive income / carried at cost– available for sale | Amortized cost / Not measured at fair value | Total Carrying amount | Rs. '000 | |
|-------------------------------------|--------------------------|-------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------|-----------------------|--------------------|------------------------------|
| | | | | | | Fair value | Fair value measurement level |
| Cash and cash equivalents | - | - | - | 9,845,394 | 9,845,394 | 9,845,394 | |
| Deposits with banks | - | - | - | 12,341,612 | 12,341,612 | 12,341,612 | |
| Investment in government securities | | | | | | | |
| - Measured at fair value | - | - | 3,507,351 | - | 3,507,351 | 3,507,351 | Level 1 |
| - Measured at amortized cost | - | - | - | 4,525,399 | 4,525,399 | 4,525,399 | |
| Derivative assets | 2,206 | - | - | - | 2,206 | 2,206 | Level 2 |
| Investment securities | - | 9,289,855 | - | 66,468 | 9,356,323 | 9,356,323 | Level 1 |
| Rentals receivable on leased assets | - | - | - | 22,269,647 | 22,269,647 | 22,412,784 | Level 2 |
| Hire purchases, loans and advances | - | - | - | 58,281,982 | 58,281,982 | 58,267,772 | Level 2 |
| Factoring receivable | - | - | - | 13,676,925 | 13,676,925 | 13,676,925 | |
| Margin trading receivables | - | - | - | 224,272 | 224,272 | 224,272 | |
| Amount due from related companies | - | - | - | 230,583 | 230,583 | 230,583 | |
| Other financial assets | - | - | - | 407,296 | 407,296 | 407,296 | |
| Total financial assets | 2,206 | 9,289,855 | 3,507,351 | 121,869,579 | 134,668,990 | 134,797,916 | |
| Bank overdraft | - | - | - | 3,631,465 | 3,631,465 | 3,631,465 | |
| Interest bearing borrowings | - | - | - | 16,684,577 | 16,684,577 | 16,223,550 | Level 2 |
| Deposits from customers | - | - | - | 104,402,484 | 104,402,484 | 104,479,040 | Level 2 |
| Trade payables | - | - | - | 947,490 | 947,490 | 947,490 | |
| Accruals and other payables | - | - | - | 1,540,602 | 1,540,602 | 1,540,602 | |
| Derivative liabilities | 98,658 | - | - | - | 98,658 | 98,658 | Level 2 |
| Amount due to related companies | - | - | - | 627,855 | 627,855 | 627,855 | |
| Total financial liabilities | 98,658 | - | - | 127,834,472 | 127,933,130 | 127,548,660 | |

LOLC Finance PLC

NOTES TO INTERIM FINANCIAL STATEMENTS

As at 31st December 2017

Financial assets and liabilities (Cont.)

6.1 Accounting classifications and fair values

As at 31st March 2017

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

| Description | Fair value – derivatives | Fair value - held for trading | Fair value through other comprehensive income / carried at cost– available for sale | Amortized cost / Not measured at fair value | Total Carrying amount | Rs. '000 | |
|-------------------------------------|--------------------------|-------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------|-----------------------|--------------------|------------------------------|
| | | | | | | Fair value | Fair value measurement level |
| Cash and cash equivalents | - | - | - | 4,924,112 | 4,924,112 | 4,924,112 | |
| Deposits with banks | - | - | - | 14,161,567 | 14,161,567 | 14,161,567 | |
| Investment in government securities | | | | | | | |
| - Measured at fair value | - | - | 1,127,126 | - | 1,127,126 | 1,127,126 | Level 1 |
| - Measured at amortized cost | - | - | - | 6,726,051 | 6,726,051 | 6,726,051 | |
| Derivative assets | 23,840 | - | - | - | 23,840 | 23,840 | Level 2 |
| Investment securities | - | 258,161 | - | 66,468 | 324,629 | 324,629 | Level 1 |
| Rentals receivable on leased assets | - | - | - | 18,408,733 | 18,408,733 | 18,279,673 | Level 2 |
| Hire purchases, loans and advances | - | - | - | 55,484,081 | 55,484,081 | 54,309,994 | Level 2 |
| Factoring receivable | - | - | - | 16,524,638 | 16,524,638 | 16,524,638 | |
| Margin trading receivables | - | - | - | 94,825 | 94,825 | 94,825 | |
| Amount due from related companies | - | - | - | 224,506 | 224,506 | 224,506 | |
| Other financial assets | - | - | - | 329,118 | 329,118 | 329,118 | |
| Total financial assets | 23,840 | 258,161 | 1,127,126 | 116,944,100 | 118,353,227 | 117,050,080 | |
| Bank overdraft | - | - | - | 2,393,316 | 2,393,316 | 2,393,316 | |
| Interest bearing borrowings | - | - | - | 24,456,314 | 24,456,314 | 23,975,905 | Level 2 |
| Deposits from customers | - | - | - | 80,607,115 | 80,607,115 | 80,402,810 | Level 2 |
| Trade payables | - | - | - | 677,878 | 677,878 | 677,878 | |
| Accruals and other payables | - | - | - | 1,594,047 | 1,594,047 | 1,594,047 | |
| Derivative liabilities | 18,978 | - | - | - | 18,978 | 18,978 | Level 2 |
| Amount due to related companies | - | - | - | 434,259 | 434,259 | 434,259 | |
| Total financial liabilities | 18,978 | - | - | 110,162,929 | 110,181,907 | 109,497,193 | |

LOLC Finance PLC

NOTES TO INTERIM FINANCIAL STATEMENTS

As at 31st December 2017

6.2 Financial assets and liabilities- Valuation technique

Level 2 fair value – market comparison technique

- Derivative assets and liabilities / Forward exchange contracts – fair value is based on broker quotes of similar contracts and the quotes reflect the actual transaction in similar instrument

Level 2 fair value – discounted cash flows

Financial instruments not measured at fair value

- For the purpose of disclosing fair value of the financial instruments not measured at fair value (carried at amortized cost) discounted cash flows has been used to derive the fair value.

7. Selected performance indicators

| Regulatory Capital Adequacy | 31.12.2017 | 31.03.2017 | 31.12.2016 |
|-------------------------------------------------------------|-------------------|-------------------|-------------------|
| - Total Tier I Core Capital Rs. '000 | 11,540,325 | 10,805,790 | 9,600,962 |
| - Total Capital Base Rs. '000 | 13,912,593 | 13,178,058 | 12,697,860 |
| - Core capital adequacy ratio (Minimum requirement 5%) | 10.17% | 10.91% | 9.48% |
| - Total capital adequacy ratio (Minimum requirement 10%) | 12.27% | 13.31% | 12.54% |
| Asset Quality Ratios | 31.12.2017 | 31.03.2017 | 31.12.2016 |
| - Gross Non-Performing Advances Ratio | 5.99% | 4.41% | 4.53% |
| - Net Non-Performing Advances Ratio | 1.40% | 0.44% | 0.93% |
| Regulatory Liquidity | 31.12.2017 | 31.03.2017 | 31.12.2016 |
| - Available Liquid Assets Rs. '000 | 23,552,264 | 11,996,053 | 10,818,722 |
| - Required Liquid Assets Rs. '000 | 11,959,450 | 9,558,509 | 8,961,681 |
| - Liquid assets to Deposits ratio | 22.56% | 14.88% | 14.58% |

8. Contingent liabilities

There are no significant changes in the nature of the contingent liabilities disclosed in the annual report for the year ended 31 March 2017.

9. Comparative information

Comparative information has not been reclassified or restated.

LOLC Finance PLC

NOTES TO INTERIM FINANCIAL STATEMENTS

As at 31st December 2017

10. Events after reporting date

There have been no material events occurring after the reporting date that require adjustment to or disclosure in these Financial Statements other than those disclosed in note 10.1.

10.1 Acquisition of LOLC Micro Credit Limited and subsequent merger

On 29th January 2018 the Company acquired 100% of the shares of LOLC Micro Credit Ltd (LOMC) and the acquisition price was Rs.156.18 per share totalling to Rs.12,291,200,000.

In December 2017 the Company received approval from the Central Bank of Sri Lanka (CBSL) to acquire 100% shares of LOMC and to merge LOMC with LOLC Finance PLC (LOFC / "the Company") in line with the financial sector consolidation plans. Post merger LOFC will be the remaining entity. LOMC was 80% owned by Lanka Orix Leasing Company PLC (LOLC) and 20% by Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO). LOLC is the controlling shareholder of LOFC.

The merger is expected to be completed by 31st March 2018 and post merger, the Directors expect significant growth in assets as the synergies of the combined entity will unlock new market opportunities. The merger will immediately increase the asset base of the Company and to comply with capital adequacy requirements of CBSL, the Company has proposed a rights issue totalling to a value of Rs.5.88Bn.

The provisional fair values of the identifiable assets and liabilities of the acquiree as at 31-January-2018 were;

| | Rs'000 |
|--------------------------------------------------------------------|-------------------|
| Assets | |
| Cash and cash equivalents | 5,316,836 |
| Investment securities | 19,473,960 |
| Advances and other loans | 57,335,339 |
| Trade and other receivables | 849,632 |
| Property, plant and equipment | 744,386 |
| | 83,720,153 |
| Liabilities | |
| Bank overdrafts | 301,851 |
| Interest bearing loans & borrowings | 57,744,158 |
| Provision for taxation | 965,766 |
| Trade and other payables | 12,854,846 |
| Deferred taxation | 1,676,742 |
| Retirement benefit obligations | 39,443 |
| | 73,582,806 |
| Fair value of Identifiable net assets acquired | 10,137,347 |
| Results of the acquisitions of above entity are as follows: | |
| Fair value of consideration paid | 12,291,200 |
| Fair value of Identifiable net assets acquired | (10,137,347) |
| Resulting excess | 2,153,853 |

Since this business combination is within entities under the common control of the ultimate parent LOLC, no goodwill will be recognized and upon the merger the excess paid will be recognized in equity.

LOLC Finance PLC

STATEMENT OF DIRECTORS' HOLDING AND CHIEF EXECUTIVE OFFICER'S HOLDING IN SHARES OF THE ENTITY

As at 31st December 2017

| Directors Name | No. of shares | % |
|-------------------------------------------|----------------------|----------|
| Dr. L.J.S.H. Cabral (Chairman) | Nil | Nil |
| Mr. I.C. Nanayakkara (Deputy Chairman) | Nil | Nil |
| Mr. A. Nissanka (Director / CEO) | 1,300,800 | 0.05% |
| Mrs. K.U. Amarasinghe | Nil | Nil |
| Mrs. D.P. Pieris | 1,000,000 | 0.04% |
| Mr. P.A. Wijeratne | 5,000 | 0.00% |

LOLC Finance PLC

TOP 20 SHAREHOLDERS

As at 31st December 2017

| | Shareholder | No. of Shares | % of Issued Capital |
|-------------------------------------------------|--------------------------------------------------------------|----------------------|---------------------|
| 1 | Lanka ORIX Leasing Company PLC | 2,520,000,000 | 90.00% |
| 2 | Saakya Capital (Pvt) Ltd | 128,045,234 | 4.57% |
| 3 | Satya Capital (Pvt) Ltd | 52,000,000 | 1.86% |
| 4 | Capital Alliance Holdings Ltd | 18,747,044 | 0.67% |
| 5 | Dr. R.R.De Silva | 11,371,515 | 0.41% |
| 6 | National Savings Bank | 4,550,000 | 0.16% |
| 7 | Mr D. Kotthoff | 4,419,406 | 0.16% |
| 8 | Sezeka Limited | 2,050,000 | 0.07% |
| 9 | Dr A.R. Wikramanayake | 1,688,500 | 0.06% |
| 10 | Mr S.V. Somasunderam | 1,500,000 | 0.05% |
| 11 | Bansei Securities Capital (Pvt) Ltd / Mr A. Nissanka | 1,300,800 | 0.05% |
| 12 | Mr L.A.J.F. Morais | 1,181,128 | 0.04% |
| 13 | Hatton National Bank PLC / Sanka Ramoorthy Nadaraj Kumar | 1,047,318 | 0.04% |
| 14 | Mrs D.P. Pieris | 1,000,000 | 0.04% |
| 15 | Mr P.M.M. Pieris | 1,000,000 | 0.04% |
| 16 | Colombo Trust Finance PLC / Mr Rienzie Collom | 920,815 | 0.03% |
| 17 | People's Leasing and Finance PLC / HI Line Trading (Pvt) Ltd | 862,164 | 0.03% |
| 18 | Miss D.M.N.S. Jayatunge | 849,892 | 0.03% |
| 19 | Seylan Bank PLC / Arrc Capital (Pvt) Ltd | 834,780 | 0.03% |
| 20 | Mr A.W.A.L. Dharmaprema | 800,012 | 0.03% |
| Total shares held by Top 20 Shareholders | | 2,754,168,608 | 98.36% |

Public shareholding

Information pertaining to public shareholding as at 31st December 2017 is as follows:

| | 31-Dec-17 | 31-Dec-16 |
|--------------------------------------|---------------|-------------|
| Public holding percentage | 9.88% | 10.00% |
| Number of public shareholders | 2,810 | 2,733 |
| Float Adjusted Market Capitalization | 1,023,568,000 | 728,000,000 |

The Company is compliant with the Minimum Public Holding requirement stipulated in the Listing Rule 17.13.1.(b) (Option 1) of the Colombo Stock Exchange.