



Lanka Rating Agency

Rating Report

LOLC Finance PLC- 20Bn Listed, Rated, Unsecured, Senior Redeemable Debenture

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
04-Sep-2025	A+	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

LOLC Finance PLC ("LOFC" or "the Company") retains its position as the largest Licensed Finance Company (LFC) in Sri Lanka, while successfully navigating a volatile and competitive operating environment. The Company consolidated its market presence through a series of strategic mergers in 2022 and 2023 with a focus on efficiency. As of FY25, LOFC's asset base reached LKR~430bn, representing about ~20.5% of the industry's total assets, underscoring its dominant market position. The Company benefits from a strong ownership profile and its association with the diversified LOLC Group. During FY25, net interest income surged to nearly LKR~42bn, reflecting a ~10.8% increase from FY24, while the core spread improved to ~11.6% from around ~11.0% in FY24, aligned with declining interest rates that facilitated liability re-pricing. The Profit After Tax (PAT) grew markedly by ~16.4%, reaching LKR~25.1bn in FY25 from LKR~21.5bn in FY24, driven by higher net interest income and reversal of impairment. Meanwhile, the core income constitutes around ~84% of the total income, with non-core income—including fair value gains from investment properties and government securities and provisions write-backs—comprising ~16%.

LOFC maintains strong credit quality with NPLs below industry averages at both gross (~7.3%) and a net level (~4.97%) in FY25, though marginally higher than its peer group. The rating recognizes LOFC's solid capital base, with a Capital Adequacy Ratio (CAR) of ~25.9% in FY25, up from ~23.0% in FY24, well above the regulatory minimum mandated by the Central Bank of Sri Lanka (CBSL). The shareholders of the Company recently completed its share buyback transaction worth of LKR~21.1bn, and ~3.5bn shares. The CAR of the Company post this transaction stands at ~20.1% as of 1HCY25. LOFC has taken a cautious approach towards deposit mobilization with a clear focus on managing deposit costs to sustain its spread. The rating upgrade reflects a notable improvement in the key performance metrics alongside a sustained growth trajectory. Going forward, LOFC intends to focus on sustaining its leading position and improve efficiency through key digital initiatives to expand outreach and enhance customer experience.

LOFC is poised to issue a listed, rated, unsecured, senior, redeemable debenture for refinancing of existing borrowings and enhance lending portfolio.

The assigned rating is dependent on maintaining growth momentum, upholding governance standards, and sustaining key operational and financial indicators. Any material slowdown in the envisaged growth, or an instability in the performance indicators, such as an increase in Non-Performing Loans (NPLs), or pressure on the capital adequacy, would be viewed negatively and could adversely impact the rating.

Disclosure

Name of Rated Entity	LOLC Finance PLC- 20Bn Listed, Rated, Unsecured, Senior Redeemable Debenture
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Non-Banking Financial Institution Rating(Jul-24),Methodology Debt Instrument Rating(Aug-24)
Related Research	Sector Study Leasing & Finance Companies(Feb-25)
Rating Analysts	Ruwanthi Sylva ruwanthi@lra.com.lk +94 114 500099

Profile LOLC Finance PLC (“LOFC” or “the Company”) is a quoted public limited liability company, registered as a Finance Company under the Finance Business Act No. 42 of 2011. The Company was incorporated in 2001 and listed on the Colombo Stock Exchange (CSE) in 2011. LOFC is also registered with the Securities and Exchange Commission as a Market Intermediary authorized to operate as a Margin Provider. The company is currently listed on the Dirisavi Board of the CSE. In March 2022, LOFC amalgamated with Commercial Leasing and Finance PLC (CLF), which had previously merged with Sinhaputhra Finance PLC (SFPLC). Subsequently, effective 31st January 2023, LOFC further merged with LOLC Development Finance PLC (LODF), consolidating its operations within the group. LOFC engages in principal activities including leasing, loans, margin trading, mobilization of public deposits, and alternative financing. The Company has also launched digital In-house developed products such as iPay, OYES, and Oasys, reflecting its commitment to innovative financial solutions.

Ownership LOFC is majorly owned by LOLC Ceylon Holdings PLC (LOCH), holding ~90.96% of the Company's shares as of FY25. Additionally, LOLC Asia Private Limited (LOAL) holds around ~5.72%. Both LOCH and LOAL are ultimately owned by LOLC Holdings PLC, which maintains an effective combined shareholding of ~96.7% in LOFC. The ultimate beneficial owner is Mr. Ishara Nanayakkara, a prominent Sri Lankan businessman and the group's largest shareholder, who has served on LOLC's Board since 2002. The diversified structure of the holding company provides stability and strategic backing for LOFC. The LOLC Group, one of Sri Lanka's most diversified conglomerates, operates across sectors such as licensed finance, insurance, banking, plantations, leisure, IT, construction, and real estate. On a consolidated level, the LOLC Group has earned a profit after tax of LKR~41.0bn in FY25 (FY24: LKR~21.8bn). The group has a profound asset base of LKR~2.0tn (FY24: LKR~1.7tn) and equity of LKR~604.6bn (FY24: LKR~487.3bn) in FY25.

Governance The Board of Directors comprises seven (7) directors, including six (6) Non-Executive Directors, of whom four (4) are Independent Directors. To enhance governance, the Company has appointed Mr. P. A. Wijeratne as a Senior Independent Director, given that the Chairman of the Board is not an independent director. The Chairman of the Board, Mr. F. K. C. P. N. Dias, was appointed in 2020. He brings nearly 20+ years of experience to the Board. The Board of Directors collectively possesses extensive knowledge and expertise to effectively oversee the Company's affairs. The Board of Directors has established six sub-committees: the Board Audit Committee (BAC), Board Integrated Risk Management Committee (IRMC), Board HR & Remuneration Committee, Board Related Party Transaction Review Committee, Board Nomination and Governance Committee, and Board Credit Committee. The Company's external auditors, i.e., Deloitte, issued an unqualified audit opinion on the financial statements of the Company for FY25.

Management The Company maintains a robust organizational structure that effectively supports LOFC's operations, ensuring seamless coordination and efficient use of resources. Led by CEO Mr. Thilakaratne—who previously served as Director/CEO of CLF—he is supported by a seasoned management team with relevant expertise. The company has established four management committees – the Credit Committee, the Asset and liability Committee, the IT Security Committee and the Management Committee to support the effective execution and oversight of its operations. Its IT infrastructure includes “Fusion,” an in-house developed core banking system, alongside an online banking platform, mobile app, call center modules, and Oracle. The company operates under a comprehensive Risk Management Governance Framework designed to ensure responsible oversight and effective control of all material risks. As part of this framework, Enterprise Risk Management – Risk (ERM-Risk) maintains an independent reporting line to the Board of Directors through the Chairman of the Board Integrated Risk Management Committee (BIRMC).

Business Risk As of FY25, there are thirty-three (33) Licensed Finance Companies (LFCs) in Sri Lanka, with 27 listed on the Colombo Stock Exchange. The sector's overall performance has improved during FY25, with profitability increasing by ~34% in FY25 to LKR~69.02bn, up from LKR~51.5bn in FY24. The sector's asset base has also grown steadily to record at LKR~2.1tn in FY25 from LKR~1.8tn in FY24. Furthermore, the sector's net interest margin experienced a notable rise of ~10.7% during FY25. Sector-wide average ROA was recorded at ~6.6%, while the ROE stood at ~15.1%. LOFC is the largest player in Sri Lanka's LFC sector in FY25, in terms of its asset base, equity, and profits. It accounted for ~20.6% of the industry's assets, ~30.3% of its equity, and ~36.3% of the sector's profits as of FY25. During FY25, LOFC's interest income and interest expense slightly declined to LKR~68.3bn and LKR~26.2bn, respectively, due to lower interest rates. Consequently, the net interest income increased by ~10.8% to record at LKR~42.1bn in FY25 from LKR~38.0bn in FY24. Core income constitutes around ~84% of total income, with non-core income—including fair value gains from investment properties and government securities and provisions write-backs—comprising ~16%. LOFC posted a profit after tax (PAT) of LKR~25.1bn in FY25, representing a ~16.4% year-on-year increase from LKR~21.5bn in FY24. Consequently, the Company's return on assets (ROA) and return on equity (ROE), improved to ~6.2% and ~18.5% respectively during FY25 (FY24: ~5.8% and ~19.3%). Post-amalgamation, LOFC is Sri Lanka's largest LFC by assets, with over 203 branches and plans to open an additional 15–20 branches. The company is also expanding its gold loan portfolio, along with SME and individual loan segments. Going forward, LOFC intends to focus on sustaining its leading position while maintaining cost efficiency by leveraging technology. In this regard, the Company has undertaken several digital initiatives to expand outreach and improve customer experience.

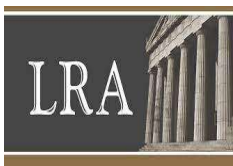
Financial Risk LOFC offers leasing, loans, pawning, factoring, credit cards, and margin trading. In FY25, LOFC's gross NPLs stood at ~7.34%, while net NPLs were recorded at ~4.97%, remaining below industry levels of ~8.3%. Pawning and margin trading segments had the lowest NPLs, while factoring portfolio recorded the highest NPLs during FY25. LOFC invested LKR~29bn in government securities. The Company's investments in investment properties grew by ~13.9% to LKR~55.0bn, up from FY24. Additionally, the Company's unit trust holdings stood at LKR~17.0bn, while investment in ISBs clocked in at LKR~7.3bn. As of FY25, LOFC's customer deposits constituted ~90.3% (FY24: ~89.3%) of its funding base, totaling around LKR~225.7bn. The proportion of interest-bearing borrowings and overdrafts in the total funding reduced to ~9.7% in FY25, compared to ~10.7% in FY24. The Company's Capital Adequacy Ratio (CAR) stood at ~25.9% in FY25, up from ~23% in FY24, and was well above the regulatory minimum. In FY23, the CAR was recorded at ~21.7%.

Instrument Rating Considerations

About The Instrument LOFC is in the process of issuing LKR20bn Listed, Rated, Unsecured, Senior Redeemable Debenture. The issue consists of three types of debentures. Type A is expected to offer a fixed rate of 11.10% to be paid annually, while Type B will be offering a fixed rate of 10.81% to be paid semi-annually, and Type C will be providing annual payments at a floating rate of 364 days T-bill + 250bps, without a cap. The objective of this issuance is to facilitate LOFC's strategic growth initiatives, particularly expanding its lending portfolio over the next 12 months.

Relative Seniority/Subordination Of Instrument In the event of winding up, the debenture holders' claims shall rank after the claims of secured creditors and statutory preferential claims but pari passu with the claims of unsecured creditors. The debentures shall rank higher than any subordinated debt and shall have priority over the claims of ordinary and preference shareholders of the Company.

Credit Enhancement The debentures carry a tenor of five years, and the entire principal will be repaid at the end of the tenor. It is an unsecured debt instrument and is not underwritten.



Lanka Rating Agency

LOLC Finance
Public Limited Company

Mar-25

Mar-24

Mar-23

Mar-22

12M

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A BALANCE SHEET

1 Total Finance-net	282,896	222,658	220,937	201,660
2 Investments	103,793	96,366	78,066	73,702
3 Other Earning Assets	2,794	4,060	2,494	8,886
4 Non-Earning Assets	25,581	27,292	33,662	22,122
5 Non-Performing Finances-net	14,670	27,095	25,688	5,198
Total Assets	429,734	377,472	360,848	311,567
6 Funding	249,917	231,097	242,565	217,087
7 Other Liabilities	30,293	24,029	17,475	10,927
Total Liabilities	280,210	255,126	260,040	228,014
Equity	149,524	122,345	100,808	83,553

B INCOME STATEMENT

1 Mark Up Earned	68,318	74,994	69,027	30,570
2 Mark Up Expensed	(26,211)	(37,019)	(36,125)	(8,980)
3 Non Mark Up Income	8,915	13,747	9,099	8,603
Total Income	51,021	51,722	42,001	30,193
4 Non-Mark Up Expenses	(23,164)	(21,127)	(18,961)	(10,540)
5 Provisions/Write offs	(4,825)	(6,551)	(6,148)	(8,143)
6 Reversals	7,789	969	2,524	8,071
Pre-Tax Profit	30,821	25,013	19,416	19,580
7 Taxes on Financial Services	(5,737)	(3,466)	(4,024)	(2,630)
Profit Before Income Taxes	25,084	21,547	15,392	16,951
8 Income Taxes	-	-	-	-
Profit After Tax	25,085	21,547	15,393	16,951

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	46.2%	42.4%	45.1%	34.9%
b ROE	18.5%	19.3%	16.7%	28.4%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	122.2%	111.1%	106.6%	101.5%
b Accumulated Provisions / Non-Performing Advances	34.5%	24.4%	31.6%	64.1%

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	16.8%	19.5%	20.1%	22.0%
b Borrowings from Banks and Other Financial Institutions / Funding	7.6%	8.3%	12.3%	18.8%

4 MARKET RISK

a Investments / Equity	69.4%	78.8%	77.4%	88.2%
b (Equity Investments + Related Party) / Equity	1.7%	2.2%	2.7%	4.7%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	34.8%	32.4%	27.9%	26.8%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	20.5%	21.4%	18.4%	47.2%



Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-Term Rating
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Scale	Short-Term Rating
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business / financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.	Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.	Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.	Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) LRA finds it impractical to surveil the opinion due to lack of requisite information.	Harmonization A change in rating due to revision in applicable methodology or underlying scale.
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening. Rating actions may include "maintain", "upgrade", or "downgrade".

Note: This scale is applicable to the following methodology(s):

- | | |
|---------------------------------|--------------------------------------|
| a) Broker Entity Rating | e) Holding Company Rating |
| b) Corporate Rating | f) Independent Power Producer Rating |
| c) Debt Instrument Rating | g) Microfinance Institution Rating |
| d) Financial Institution Rating | h) Non-Banking Finance Company |

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