Lanka Rating Agency

Rating Report

LOLC Finance PLC - 10Bn Listed, Rated, Unsecured, Senior Redeemable Debentures

Report Contents

Rating History				
Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
01-Sep-2026	A+	Stable	Initial	-
04-Sep-2025	A+	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

LOLC Finance PLC ("LOFC" or "the Company") is a publicly listed entity incorporated in 2001 and got listed on Colombo Stock Exchange (CSE) in 2011. The principal activities of LOFC encompass leasing, granting loans, margin trading, mobilization of public deposits, factoring, digital financial products (including Digital FDs and Savings), renting of properties and alternative financing solutions. The Company maintains its position as the largest Licensed Finance Company (LFC) in Sri Lanka by asset base, although its share of sector assets narrowed to ~18.3% in FY26 (FY25: ~20.6%) as industry-wide growth outpaced the Company's expansion.

The rating reflects the Company's sustained performance, dominant position in the LFC sector and strong financial and business profile. The Company has announced a share buyback that is expected to reduce its Capital Adequacy Ratio (CAR), although it is expected to remain adequate. Backed by a strong sponsor group (LOLC Group) with presence in Sri Lanka and other countries, LOFC maintained its market position as its asset base expanded by ~30.0% to LKR~558.6bn in FY26 (FY25: LKR~429.7bn), underpinned by a ~39.7% increase in the lending portfolio. Consequently, Net Interest Income (NII) rose by ~18.6% to LKR~49.9bn (FY25: LKR~42.1bn), supported by higher advances in the gold loan and personal loan segments and an improvement in the core spread to ~7.9% (FY25: ~7.1%). Despite the stronger core spread in FY26, the Company's Net Interest Margin (NIM) moderated to ~11.2% (FY25: ~12.0%) as average lending yields declined to ~20.7% (FY25: ~22.8%). Profit After Tax (PAT) grew by ~9.3% to LKR~27.4bn in FY26 (FY25: LKR~25.1bn), although ROA and ROE declined to ~5.5% and 18.0%, respectively in comparison to FY25.

Asset quality improved, with the gross Non-Performing Loan (NPL) ratio declining to ~5.0% in FY26 from ~7.3% in FY25 (the adjusted NPL ratio is ~9.2% for FY25 after reclassifying certain high risk loans to stage 3) and net NPL improving to ~3.2% (FY25: ~4.8%), aided by a reduction in Stage 3 loans driven by improved recoveries. However, the NPL ratio remained slightly above the industry average of 4.4%. Despite an increase in the borrowings to LKR~103.9bn (FY25: LKR~24.2bn) in FY26, the funding base remains deposit driven. Liquidity remains adequate with Liquid Assets/Funding ratio of ~17.0% (FY25: ~16.9%) in FY26.

The Company's Tier 1 and Total Capital Adequacy Ratio (CAR) moderated to ~23.5% (FY25: ~26.2%) and ~23.3% in FY26 (FY25: ~25.9%), though both remain comfortably above the ~17% regulatory minimum applicable to LOFC given its asset base. However, as per the public disclosures and management of LOFC, the total CAR is expected to drop to ~19.0% by the end of August 2026 as the Company is in the process to repurchase ~2.3bn shares in LKR~16.1bn buyback.

Going forward, the assigned rating will remain contingent on LOFC's position as the biggest LFC in Sri Lanka while maintaining its profitability, asset quality, and capitalization metrics. Significant improvement in the business and financial performance will have positive rating implications. Meanwhile, slowdown in growth, substantial increase in NPLs and weaken of capitalization would impact the rating negatively.

Disclosure	
Name of Rated Entity	LOLC Finance PLC - 10Bn Listed, Rated, Unsecured, Senior Redeemable Debentures
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Debt Instrument Rating(Aug-24)
Related Research	Sector Study | Capital Markets(Aug-25)
Rating Analysts	Ruwanthi Sylva | ruwanthi@lra.com.lk | +94 114 500099

Issuer Profile

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, listed on the Colombo Stock Exchange (CSE) since 2011, and registered with the Securities & Exchange Commission (SEC) as a Margin Provider. The Company is presently listed on the Second Board of the CSE due to non-compliance with the Minimum Public Holding (MPH) requirement; public holding stood at ~3.69% in FY26 (FY25: ~3.31%) against a required minimum of ~10.00% on float adjusted market capitalization of LKR~5.78bn (FY25: LKR~7.35bn). Principal activities include leasing, loans, margin trading, deposit mobilization, factoring, digital financial products (Digital FDs and Savings, iPay, OYES, and OASYS), renting of properties, and alternative financing solutions. LOFC's branch network stood at ~203 branches as of FY26 (FY25: ~203), supplemented by 57 low-cost Super Dealer Points (SDP) as of June 2026.

Ownership LOFC is majorly owned by LOLC Ceylon Holdings (Pvt) Ltd (LOCH), holding ~96.29% as of FY26 (FY25: ~90.96%). Mr. Ishara Nanayakkara is the Ultimate Beneficial Owner (UBO) due to his ownership in LOCH though ownership of LOLC Holdings PLC (LOHP). Mr. Nanayakkara has served on LOHP's Board since 2002 and holds senior positions across the Group's diversified entities, providing continuity and strategic direction. The LOLC Group is one of Sri Lanka's most diversified conglomerates, spanning financial services, insurance, banking, leisure, construction, and technology across multiple geographies. On a consolidated basis, the Group's PAT declined to LKR~23.4bn in FY26 (FY25: LKR~41.0bn), while its asset base grew to LKR~2.32tn (FY25: LKR~2.03tn) and equity to LKR~654.3bn (FY25: LKR~604.2bn).

Governance The Board comprises seven directors, six of whom are non-executive (four Independent). Mr. F.K.C.P.N. Dias chairs the Board; the Chief Executive Officer (CEO) is also a Board member. The Chairman brings close to three decades of fintech and business technology leadership, including recognition in the IDG CIO100 Global Hall of Fame. Six sub-committees support the Board: Audit, Integrated Risk Management, Human Resource (HR) & Remuneration, Related Party Transaction Review, Nomination & Governance, and Credit. Deloitte issued an unqualified audit opinion on LOFC's FY26 financial statements.

Management The Company is headed by the CEO and is structured into 10 Business Units (BUs), each led by a BU Head who reports directly to the CEO. The Company is led by CEO Mr. D.M.D.K. Thilakaratne, who brings over 25 years of financial sector experience, supported by an experienced team. Four management committees oversee operations: Credit, Asset & Liability, Legal Settlement, and Management. The in-house "Fusion" core banking system is shared across the Group companies complemented by online and mobile banking platforms and an active disaster recovery site. Internal Audit conducts annual spot audits at each branch and risk-based reviews, reporting directly to the Board Audit Committee.

Business Risk There are ~32 Leasing & Finance Companies (LFCs) in Sri Lanka out of which ~31 are publicly listed. Sector assets grew to LKR~3,054bn (FY25: LKR~2,089bn); sector gross NPL improved to ~4.4% (FY25: ~8.6%); sector Return On Assets (ROA) and Return On Equity (ROE) stood at ~6.2%/ and ~17.1%, respectively. LOFC remains the largest LFC by assets, holding ~18.3% of sector assets, ~19.8% of sector deposits, ~17.0% of sector loans, and ~30.3% of sector Profit After Tax (PAT) as of FY26 (FY25: ~20.6%, ~20.1%, ~19.0%, and ~36.1%). Interest income rose by ~15.3% to LKR~78.7bn (FY25: LKR~68.3bn), led by ~58% growth in loan-related interest income, particularly gold and personal loans. PAT rose to LKR~27.4bn (FY25: LKR~25.1bn) in FY26, a slower ~9.3% pace; ROA and ROE reduced to ~5.5% and ~18.0% (FY25: ~6.2% and ~18.5%), respectively. LOFC's branch network stood at ~203 branches as of FY26, supplemented by ~57 low-cost Super Dealer Points (SDPs), and the Company continues to pursue a multi-channel distribution strategy alongside an ongoing digitization agenda across its lending and deposit products.

Financial Risk Gross Non-Performing Loan (NPL) ratio improved to ~5.0% in FY26 (FY25: ~7.3%, or ~9.2% on an adjusted basis reflecting reclassification of high-risk sector and moratorium loans to Stage 3) and net NPL to ~3.2% (FY25: ~4.8%), though gross NPL remains moderately above the industry average of ~4.4%. Total investments declined to LKR~92.0bn in FY26 (FY25: LKR~103.8bn) following full liquidation of unit trust holdings, partly offset by higher government securities of LKR~33.6bn (FY25: LKR~28.7bn). The cumulative short-term (up to 3-month) negative funding gap widened to LKR~60.7bn in FY26 (FY25: LKR~43.7bn), coinciding with a sharp rise in interest-bearing borrowings and a reduced deposit share of ~72% in terms of funding (FY25: ~90%). Total Capital Adequacy Ratio (CAR) stood at ~23.31% in FY26 (FY25: ~25.92%), Tier 1 at ~23.54% (FY25: ~26.18%), both well above the ~17% regulatory minimum applicable to LOFC.

Instrument Rating Considerations

About The Instrument In December 2025, LOFC issued LKR ~10bn (with an unexercised upsize option of LKR ~5bn) in listed, rated, senior, unsecured, redeemable five-year debentures across three tranches (Type A: fixed ~11.25%; Type B: fixed ~10.95% semi-annual; Type C: floating, 364-day T-Bill + ~2.50%). Commercial Bank of Ceylon PLC (CBCPLC) acts as Principal Banker and National Development Bank PLC ("NDBPLC" or "the Trustee") as THE Trustee. Proceeds are earmarked for on-lending growth within 12 months of allotment; interim funds are held in government securities.

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 N/A

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LOLC Finance PLC	Mar-26	Mar-25	Mar-24
Public Listed Companies	12M	12M	12M
A BALANCE SHEET			
1 Total Finance-net	401,073	276,583	217,659
2 Investments	92,033	103,787	96,382
3 Other Earning Assets	15,229	2,794	4,060
4 Non-Earning Assets	35,747	25,637	27,389
5 Non-Performing Finances-net	14,469	20,932	31,982
Total Assets	558,552	429,734	377,472
6 Funding	375,376	249,917	232,631
7 Other Liabilities	27,772	30,293	22,496
Total Liabilities	403,148	280,210	255,127
Equity	155,404	149,524	122,345
B INCOME STATEMENT			
1 Mark Up Earned	78,741	68,318	75,006
2 Mark Up Expensed	(28,809)	(26,211)	(37,019)
3 Non Mark Up Income	5,705	4,153	13,495
Total Income	55,637	46,259	51,482
4 Non-Mark Up Expenses	(25,545)	(23,164)	(21,812)
5 Provisions/Write offs	-	-	(7,843)
6 Reversals	630	7,727	3,186
Pre-Tax Profit	30,722	30,822	25,013
7 Taxes on Financial Services	(6,204)	(5,737)	(3,466)
Profit Before Income Taxes	24,519	25,085	21,547
8 Income Taxes	2,887	-	-
Profit After Tax	27,406	25,085	21,547
C RATIO ANALYSIS			
1 PERFORMANCE			
a Non-Mark Up Expenses / Total Income	45.9%	50.1%	42.4%
b ROE	18.0%	18.5%	33.3%
2 CREDIT RISK			
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	112.5%	121.8%	110.8%
b Accumulated Provisions / Non-Performing Advances	31.9%	25.0%	20.3%
3 FUNDING & LIQUIDITY			
a Liquid Assets / Funding	17.0%	16.9%	19.7%
b Borrowings from Banks and Other Financial Institutes / Funding	24.9%	7.6%	8.3%
4 MARKET RISK			
a Investments / Equity	59.2%	69.4%	78.8%
b (Equity Investments + Related Party) / Equity	1.6%	1.7%	2.2%
5 CAPITALIZATION			
a Equity / Total Assets (D+E+F)	27.8%	34.8%	32.4%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	18.3%	20.5%	309.7%

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)	Rating Watch	Suspension	Withdrawn	Harmonization
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'.	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.	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.	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.	A change in rating due to revision in applicable methodology or underlying scale.

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

Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (LKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets as at FY26 (LKR)
Listed Rated Unsecured Senior Redeemable Debentures	10,000,000,000	5 Years	Clean	N/A	N/A	NDB Bank	10,000,000,000

Name of Issuer	LOLC Finance PLC
Issue Date	10th December 2025
Maturity	10th December 2030
Coupon Basis	Type A - 11.25%, Type B - 10.95% and Type C - 10.50%
Repayment	Capital at Maturity, Coupon Type A - Annual, Type B -Semi-Annual, Type C - Annual
Option	N/A

LOLC Finance PLC

Due Date Principal	Opening Principal	Principal Repayment	Coupon Due Date	Fixed Rate	Coupon	Principal Outstanding
	LKR				YYYY-MM-DD	LKR
Type A					**Fixed**	
10-Dec-30	8,041,450,000	Every 10th Dec	Annual	11.25%		8,041,450,000
Type B					**Fixed**	
10-Dec-30	2,000,000	June 10th & Dec 10th	Semi-Annual	10.95%		2,000,000
Type C				**Floating**	**Floating**	
10-Dec-30	1,956,550,000	Every 10th Dec	Annual	10.50%		1,956,550,000