## **LOLC Finance PLC** FINANCIAI STATEMENTS



For The Year Ended 31st March 2021

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	For the year e	For the year ended 31 March	
	31 Mar 2021 (Audited) Rs '000	31 Mar 2020 (Audited) Rs '000	Varianc %
Interest income	33,761,534	38,081,709	(0.11)
Interest expense	(12,446,790)	(19,271,364)	(0.35)
Net interest income	21,314,744	18,810,345	0.13
Net other operating income	10,298,438	4,919,828	1.09
Total Income	31,613,182	23,730,172	0.33
Operating Expenses			
Direct expenses excluding interest cost	(950,855)	(1,279,608)	(0.26)
Personnel expenses	(3,156,955)	(2,971,773)	0.06
Directors' emoluments	(36,151)	(44,071)	(0.18)
Depreciation	(131,854)	(201,533)	(0.35)
General & administration expenses	(5,943,077)	(6,617,776)	(0.10)
Profit from operations before provision for taxataion and possible losses	21,394,291	12,615,410	0.70
Allowance for impairment & write-offs	(16,341,362)	(7,843,541)	1.08
Operating profit after provision for possible losses	5,052,929	4,771,869	0.06
Value added tax on financial services	(556,146)	(892,210)	(0.38)
Profit before income tax expense	4,496,783	3,879,659	0.16
Income tax (expense) / reversal	(130,845)	(99,975)	0.31
Profit after taxation	4,365,939	3,779,684	0.16
Other comprehensive income	1,0 00,000	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	-
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability - gain / (loss)	19,845	(185,272)	(1.11)
Related tax	(12,620)	50,690	(1.11)
Refuted that	7,225	(134,583)	(1.05)
Revaluation gain on property, plant and equipment	96,208	(154,505)	(1.05)
Related tax	(8,897)	_	_
	87,311	_	_
Movement in fair value (Equity investments at FVOCI)	10,711	12,254	(0.13)
Related tax	3,473	(1,225)	(3.83)
Tolated tax	14.185	11.029	0.29
Total of items that will never be realessified to profit or loss	108,721	,	
Total of items that will never be reclassified to profit or loss	108,721	(123,554)	(1.88)
Items that are or may be reclassified to profit or loss	10.205	22.604	(0.15)
Movement in fair value through OCI reserve	19,305	22,684	(0.15)
		45	15.11
Movement in hedge reserve	130,493	(53,125)	(3.46)
Related tax	(25,575)	14,875	(2.72)
	104,917	(38,250)	(3.74)
Total of items that are or may be reclassified to profit or loss	124,222	(15,566)	(8.98)
Total other comprehensive income, net of tax	232,942	(139,120)	(2.67)
Total comprehensive income for the year	4,598,881	3,640,564	0.26
Basic earnings per share	0.83	0.77	

	Stated Capital Rs '000	Statutory Reserve Rs '000	Revaluation Reserve Rs '000	Cash flow Hegde Reserve Rs '000	Fair Value Reserve Rs '000	Retained Earnings Rs '000	Total Equity Rs '000
Balance as at 01 April 2019	7,880,000	3,189,298	241,528	(39,059)	(21,756)	11,516,579	22,766,588
Total comprehensive income for the year Profit for the year	-	-	-	-	-	3,779,684	3,779,68
Other comprehensive income, net of income tax Remeasurements of defined benefit liability - gain / (loss) Revaluation gain on fair value through OCI investments	-	-	-	-	11.029	(134,583)	(134,583 11,02
Movement in fair value through OCI reserve Net movement of cashflow hedges	-	-	-	(38,250)	22,684	-	22,68 (38,250
Total other comprehensive income for the year	-	-	-	(38,250)	33,713	(134,583)	(139,120
Total comprehensive income for the year	-	-	-	(38,250)	33,713	3,645,102	3,640,56
Transactions recorded directly in equity							
Transfer to Statutory Reserve Fund Shares issued during the year	4,882,500	188,984 -	-	-	-	(188,984)	4,882,50
Total transactions recorded directly in equity	4,882,500	188,984	-	-	-	(188,984)	4,882,50
Balance as at 31 March 2020	12,762,500	3,378,282	241,528	(77,310)	11,957	14,972,696	31,289,65
Balance as at 01 April 2020	12,762,500	3,378,282	241,528	(77,310)	11,957	14,972,696	31,289,65
Total comprehensive income for the year					-		
Profit for the year	-	-	-	-	-	4,365,939	4,365,93
Other comprehensive income, net of income tax Remeasurements of defined benefit liability - gain/(loss)	-	-	-	-	-	7,225	7,22
Revaluation gain on property, plant and equipment Revaluation gain on fair value through OCI investments	-	-	87,311	-	14,185	-	87,31 14,18
Movement in fair value through OCI reserve Net movement of cashflow hedges	-	-	-	104,917	19,305	-	19,30 104,91
Total other comprehensive income for the year	-	-	87,311	104,917	33,489	7,225	232,94
Total comprehensive income for the year	-	-	87,311	104,917	33,489	4,373,164	4,598,88
Transactions recorded directly in equity Transfer to Statutory Reserve Fund	-	218,297	-	-	-	(218,297)	
Total transactions recorded directly in equity	-	218,297	-	-	-	(218,297)	
Balance as at 31 March 2021	12,762,500	3,596,579	328,838	27,608	45,446	19,127,563	35,888,5

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igures in brackets indicate deductions								
STATEMENT OF FINANCIAL P	OSITIO	N						
STATEMENT OF FINANCIAL I	OSITIO	11						
As at					Iarch 2021 udited)	31st March 2020 (Audited)		
					s '000	Rs '000		
ASSETS								
Cash and bank balances				1	3,422,690	8	3,333,561	
Deposits with banks and other financial institutio	ons				7,203,306	17	,282,277	
Investment in government securities and others				1	5,838,455	10	,790,843	
Derivative financial instruments					325,029		273,195	
Financial assets at amortised cost:								
Rentals receivable on leased assets				4	13,098,407	43	,842,381	
Loans and advances				(	51,550,510	90	,113,469	
Investment securities					5,498,000	2	,958,199	
Amount due from related companies					33,222		60,706	
Other receivables					731,692		916,600	
Inventories					271,727		2,023	
Investment properties				2	21,088,740	15	,963,886	
Property plant and equipment					1,163,218	1	,351,207	
Total assets				17	70,224,996	191	,888,346	
LIABILITIES								
Bank overdraft					1,861,003	1	,283,201	
Interest bearing borrowings				1	6,437,442	51	,558,593	
Deposits from customers				10	7,791,136	99	,261,181	
Trade payables					144,788	1	,048,944	
Accruals and other payables					4,557,547	3	,331,643	
Derivative financial instruments					-		114,349	
Amount due to related companies					620,862		854,198	
Current tax payable					857,903		960,255	
Deferred tax liability					1,733,249	1	,888,186	
Employee benefits					332,532		298,142	
Total liabilities				13	34,336,462	160	,598,693	
SHAREHOLDERS' FUNDS								
Stated capital				1	2,762,500	12	2,762,500	
Statutory reserve					3,596,579	3	,378,282	
Revaluation reserve					328,838		241,528	
Cash flow hedge reserve					27,608		(77,310)	
Fair value through OCI reserve					45,446		11,957	
Retained earnings				1	9,127,563	14	,972,696	
Total equity				3	35,888,534	31	,289,653	
Total liabilities and equity				17	70,224,996	191	,888,346	
Commitments and Contingencies					9,367,740	31	,491,198	
Net asset value per share					6.84		5.96	

**LOLC Finance PLC** 

Figures in brackets indicate deductions

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## INDEPENDENT AUDITOR'S 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 2021, 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.

we consucted our adult in accordance with A TLEMA Aviuning Systamators (SLEAUSS). Our repositionities made times standards are timered described in the Adultor's responsibilities for the audit of the financial statements section of our report. We are independent of the Companion accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other chical 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 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 mistatement 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.

 We evaluated the design, implementation and operating effectiveness of controls where relevant over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management.
 We cheecked the completeness and accuracy of the underlying data used in the computations by agreein sgainficant details to source documents and accounting records of the company. determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 Financial Instruments (SLFRS 9).

This was a key audit matter due to:

materiality of the reported impairment allowance which involved complex spread sheets calculations; and the degree of assumptions, judgements and estimation uncertainty associated with the We test-checked the underlying calculations.
 In addition to the above, following focused procedures were performed:

For a sample of loans and advances individually assessed for impairment:

Evaluating the reasonableness of the provisions made with particular focus on the impact of COVID-19 on elevated risk industries, strategic responsive actions taken, collateral values, and the value and timing of future cashflows.

calculations.

Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment alloware included the following:

the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt monatorium relief measures granted by the company), and
forwardlooking macroconomic factors, includin developing and incorporating macrococonomic sectors, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses. For loans and advances collectively assessed for impairment:

Assessing the reasonableness of assumptions and estimates used by management including the reasonableness of forward-looking information and scenarios; and

As relevant assessing the basis for and data used by management to determine overlays in consideration of the probable effects of the COVID-19 pandemic.

We assessed the adequacy of the related financial statement disclosures as set out in Note(s) 7.b and 6.b.

Key audit matter How our audit addressed the key audit matter

Key audit matter

IT systems and controls relevant to financial reporting
The Company uses multiple IT systems in its operations. We selected IT systems and controls relevant to financial reporting as a key audit matter due to:
The Company's financial reporting process being heavily dependent on information derived from its IT systems and
Key financial statement disclosures involving the use of multiple system—generated reports and calculations there on.
A changed working environment of increased remote access.

Impact of moratoriums and other relief measures on recognition of interest income Moratoriums and other relief measures were granted by the Company to customers affected by the COVID – 19 Pandemic. Impact of moratoriums and other relief measures

SELECTED PERFORMANCE INDICATORS

How our audit addressed the key audit matter

Our audit procedures included the following:

Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access. Understanding and evaluation the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and gathering of required information in calculating the significant information for financial statements disclosures.

Checking the source data of the eports used to generate significant disclosures for accuracy and completeness.

Assessing the reasonability of management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant.

Our audit procedures included (among others) the following procedures: procedures:

We evaluated the competence, capabilities and objectivity of the external valuer engaged by the Company

We read the valuation reports to obtain an understanding of the key estimates made and valuation techniques used by the external valuer in the valuation of land and buildings.

We engaged our internal specialized resources to assist us in evaluating the appropriateness of the valuation techniques used by the external valuer and assessing the reasonableness of the significant judgements and assumptions, such as price per perch of land and price per square foot of building.

Janditions we concluded the adousce, of the related financial statement

Key audit matter

Valuation of Investment Properties
As at 31 March 2021, land and buildings carried at fair
value classified as Investment Property amounts to
LKR 21,088 Million and represents 12% of total assets
and fair value of such property was determined by
external value rengaged by the Company.
This was a key audit matter due to:
materially of reported fair value for such
property and related fair value gain
Degree of assumptions and judgements
associated with the valuation, amplified by the
impact of COVID—19—pandemic The
valuation contained higher estimation
uncertainties due to fewer comparable market
transactions, which are generally considered a
strong source of evidence regarding fair value.

Key areas of significant judgement and assumptions included estimate of price per perch of land and price per square foot of building as disclosed in note 11.

In addition, we evaluated the adequacy of the related financial statement

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 and, in doing so, cons whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially insistent of Essential on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Accounting Standards, and for such internal control as management determines is necessary to enable the preparat 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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to finand 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 imisstatement 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.

Lidentify 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 once resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

5.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.

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations 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 1884.

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ers: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA 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 FC

	As at 31	.03.2021	As at 31.03.2020		
Item	Actual	Required	Actual	Required	
Regulatory Capital Adequacy (%) Tier 1 Capital Adequacy Ratio	15.88%	7.00%	13.10%	7.00%	
Total Capital Adequacy Ratio	18.32%	11.00%	15.10%	11.00%	
Capital Funds to Deposit Liabilities Ratio	29.19%	10.00%	28.35%	10.00%	
Assets Quality (Quality of Loan Portfolio) (%)					
Gross Non-Performing Loans Ratio	12	.61%	8.31%		
Net Non-Performing Loans Ratio	1	.43%	3.97%		
Net Non-Performing Loans to Core Capital Ratio		.19%	22.28%		
Provision Coverage Ratio	88	.64%	52.20%		
Profitability(%)					
Net Interest Margin	1	14.67%		10.35%	
Return on Assets (before tax)	1	2.48%		1.24%	
Return on Equity (after Tax)		13.00%		7.57%	
Cost to Income ratio	32	.32%	57.25%		
Liquidity (%)					
Available Liquid Assets to required liquid assets (Minimum 100 %)		.10%	163.42%		
Liquid Assets to external funds	22	.14%	14.06%		
Memorandum information	_				
Number of branches		07	113		
External Credit rating	(SL) A (Sta	ble outlook)	(SL) A (Stable outlook)		
Regulatory penalties imposed last 6 months					
Amount (Rs.Mn)		Nil	Nil		
Regulatory Deposit Restrictions					
Cap on total deposits (Rs. Mn)		Nil		Nil	
Downsizing of deposits-per month/ quarter/ year (Rs. Mn)		Nil	Nil		
Freezing of deposits		Nil	Nil		
Regulatory Borrowing Restrictions					
Cap on total borrowings (Rs. Mn)		Nil		Nil	
Downsizing of borrowings-per month/ quarter/ year (Rs. Mn)		Nil		Nil	
Freezing of borrowings		Nil		Nil	
Regulatory Lending Restrictions					
Cap on total lending portfolio (Rs. Mn)		Nil		Nil	
ownsizing of lending portfolio-per month/ quarter/ year (Rs. Mn)		Nil		Nil	
Restriction on granting new credit facilities and/or extending the terms of		N.T.		Nil	
existing credit facilities		Nil		INII	
Any Other Regulatory Restrictions		277		N 771	
Please specify		Nil		Nil	

ICRA Lanka assigned the company and issuer rating of [SL]A (Stable outlook).

The Board of Directors is responsible for these financial statements. The Head of Finance of LOLC Finance PLC certifies that the financial statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007 & Finance Companies (Publication of half yearly financial statements) guidelines No. 2 of 2006 issued under the Finance Business Act, No. 42 of 2011.

(sgd) (sgd) Mr. Conrad Dias Mrs. K.U. Amarasinghe Director /CEO **Executive Director** 

Mr. Buddhika Weeratunga Head of Finance

(sgd)

23-June-2021 Rajagiriya (Greater Colombo)