

LOLC Finance PLC FINANCIAL STATEMENTS



For The Year Ended 31st March 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Company		Variance %
	For the year ended 31 March		
	31 Mar 2021 (Audited) Rs '000	31 Mar 2020 (Audited) Rs '000	
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 taxation 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			
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	(1.25)
	7,225	(134,583)	(1.05)
Revaluation gain on property, plant and equipment	96,208	-	-
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)
	14,185	11,029	0.29
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			
Movement in fair value through OCI reserve	19,305	22,684	(0.15)
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	

Figures in brackets indicate deductions

STATEMENT OF CHANGES IN EQUITY

	Statutory Reserve Rs '000	Revaluation Reserve Rs '000	Cash flow Hedge 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
Total comprehensive income for the year	-	-	-	-	3,779,684	3,779,684
Profit for the year	-	-	-	-	3,779,684	3,779,684
Other comprehensive income, net of income tax	-	-	-	-	(134,583)	(134,583)
Remeasurements of defined benefit liability - gain / (loss)	-	-	-	11,029	-	11,029
Revaluation gain on fair value through OCI investments	-	-	-	22,684	-	22,684
Movement in fair value through OCI reserve	-	-	-	14,185	-	14,185
Net movement of cashflow hedges	-	-	-	(38,250)	-	(38,250)
Total other comprehensive income for the year	-	-	-	(38,250)	33,713	(134,583)
Total comprehensive income for the year	-	-	-	(38,250)	33,713	3,640,564
Transactions recorded directly in equity						
Transfer to Statutory Reserve Fund	-	188,984	-	-	(188,984)	-
Shares issued during the year	4,882,500	-	-	-	-	4,882,500
Total transactions recorded directly in equity	4,882,500	188,984	-	-	(188,984)	4,882,500
Balance as at 31 March 2020	12,762,500	3,378,282	241,528	(77,310)	11,957	14,972,696
Balance as at 01 April 2020	12,762,500	3,378,282	241,528	(77,310)	11,957	14,972,696
Total comprehensive income for the year	-	-	-	-	4,365,939	4,365,939
Profit for the year	-	-	-	-	4,365,939	4,365,939
Other comprehensive income, net of income tax	-	-	-	-	7,225	7,225
Remeasurements of defined benefit liability - gain/(loss)	-	-	-	-	7,225	7,225
Revaluation gain on property, plant and equipment	-	-	87,311	-	-	87,311
Revaluation gain on fair value through OCI investments	-	-	-	14,185	-	14,185
Movement in fair value through OCI reserve	-	-	-	19,305	-	19,305
Net movement of cashflow hedges	-	-	-	(104,917)	-	(104,917)
Total other comprehensive income for the year	-	-	87,311	104,917	33,489	7,225
Total comprehensive income for the year	-	-	87,311	104,917	33,489	4,373,164
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

Figures in brackets indicate deductions

STATEMENT OF FINANCIAL POSITION

As at	31st March 2021 (Audited) Rs '000	31st March 2020 (Audited) Rs '000
ASSETS		
Cash and bank balances	13,422,690	8,333,561
Deposits with banks and other financial institutions	7,203,306	17,282,277
Investment in government securities and others	15,838,455	10,790,843
Derivative financial instruments	325,029	273,195
Financial assets at amortised cost:		
Rentals receivable on leased assets	43,098,407	43,842,381
Loans and advances	61,550,510	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	21,088,740	15,963,886
Property plant and equipment	1,163,218	1,351,207
Total assets	170,224,996	191,888,346
LIABILITIES		
Bank overdraft	1,861,003	1,283,201
Interest bearing borrowings	16,437,442	51,558,593
Deposits from customers	107,791,136	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	134,336,462	160,598,693
SHAREHOLDERS' FUNDS		
Stated capital	12,762,500	12,762,500
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	19,127,563	14,972,696
Total equity	35,888,534	31,289,653
Total liabilities and equity	170,224,996	191,888,346
Commitments and Contingencies	9,367,740	31,491,198
Net asset value per share	6.84	5.96

Figures in brackets indicate deductions

LOLC Finance PLC

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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.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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
Impairment allowance on loans & leases: As at 31 March 2021, loans & advances and receivables from lease (net of impairment) amounted to LKR 61,550,510 Million (Note 07) and LKR 43,098,407 Million (Note 06). Our audit procedures included amongst others the following: As described in Note 7.2, impairment allowance on such financial assets carried at amortised cost is 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 sheet calculations; and • the degree of assumptions, judgments and estimation uncertainty associated with the calculations. Key areas of significant judgments, estimates and assumptions used by management in the assessment of the impairment allowance included the following: • the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the company); and • forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.	We assessed the alignment of the company's impairment computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following: • 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 checked the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records of the company. • We re-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: • Assessing the appropriateness of the criteria used by the management to determine whether there are any indicators of impairment; and • Evaluating the reasonableness of the provisions made with particular focus on the impact of COVID-19 on elevated risk industries, strategic response actions taken, collateral values, and the value and timing of future cashflows. 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 the reasonableness of the COVID-19 pandemic. • We assessed the adequacy of the related financial statement disclosures as set out in Notes 7.b and 8.b.

Key audit matter	How our audit addressed the 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; • Key financial statement disclosures involving the use of multiple systems - 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. Impacts of moratoriums and other relief measures on the recognition of interest revenue on loans & receivables and lease rentals receivable & stock out on hand was a key audit matter due to: • Significant judgments that were applied in determining whether such moratoriums and other relief measures have resulted in substantial modifications or not, to contracts with customers as set out in Note 21 to the financial statements; • Use of spread sheet-based calculations by management to quantify the impacts of such moratoriums and other relief measures on the amount of revenue recognized for the period.	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 evaluating 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 reports used to generate significant disclosures for accuracy and completeness; • Assessing the reasonableness of management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant. Our audit procedures (among others) included the following: • We gained an understanding of the process adopted by the Company to grant, record and account for moratoriums and other relief measures provided to customers; • We assessed the reasonableness of judgments applied by management in determining whether moratoriums and other relief measures have resulted in substantial modifications or not, to customer contracts. This included evaluating whether interest income on modified contracts have been recognized in line with its accounting policy for interest revenue recognition; • We tested the accuracy of underlying spread sheet-based calculations. Our procedures included testing the completeness and accuracy of the data used in such spread sheet-based calculations, by agreeing to source documents and moratorium customer returns.

Partners: 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 B S P Fernando FCA FCMA Ms. K. R. M. Fernando FCA ACMA Ms. L. K. H. Feroz FCA A P A Gunasekera FCA FCMA A Hejira FCA D K Halangamwala FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA Ms. A. A. Lakshmy FCA FCMA Ms. G. G. Mananatha FCA A J E Perera ACA ACMA Ms. P. V. K. N. Sajewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Gouilan ACA M P M Ruben FCA FCMA
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SELECTED PERFORMANCE INDICATORS

Item	As at 31.03.2021		As at 31.03.2020	
	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%	15.04%	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	6.19%		22.28%	
Provision Coverage Ratio	88.64%		52.20%	
Profitability (%)				
Net Interest Margin	14.67%		10.35%	
Return on Assets (before tax)	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 %)	382.10%		163.42%	
Liquid Assets to external funds	22.14%		14.06%	
Memorandum information				
Number of branches	107		113	
External Credit rating	(SL) A (Stable 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	
Downsizing of lending portfolio-per month/ quarter/ year (Rs. Mn)	Nil		Nil	
Restriction on granting new credit facilities and/or extending the terms of existing credit facilities	Nil		Nil	
Any Other Regulatory Restrictions				
Please specify	Nil		Nil	

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

CERTIFICATION :

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) Mr. Conrad Dias Director /CEO (sgd) Mrs. K.U. Amarasinghe Executive Director (sgd) Mr. Buddhika Weeraratna Head of Finance

23-June-2021
Rajagiriya (Greater Colombo)