

LOLC Finance PLC FINANCIAL STATEMENTS



For The Year Ended 31st March 2022

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Company	
	For the year ended 31 March	
	31 Mar 2022 (Audited) Rs '000	31 Mar 2021 (Audited) Rs '000
Interest income	30,569,863	33,761,534
Interest expense	(8,979,992)	(12,446,790)
Net interest income	21,589,871	21,314,744
Net other operating income	11,522,272	10,298,438
Total Income	33,112,143	31,613,182
Operating Expenses		
Direct expenses excluding interest cost	(863,534)	(950,855)
Personnel expenses	(3,564,803)	(3,156,955)
Directors' emoluments	(40,914)	(36,151)
Depreciation	(207,248)	(131,854)
General & administration expenses	(5,863,750)	(5,943,077)
Profit from operations before provision for taxation and possible losses	22,571,894	21,394,291
Allowance for impairment & write-offs	(2,991,760)	(16,341,362)
Operating profit after provision for possible losses	19,580,135	5,052,929
Value added tax on financial services	(1,837,501)	(556,146)
Profit before income tax expense	17,742,634	4,496,783
Income tax (expense) / reversal	(792,048)	(130,845)
Profit after taxation	16,950,585	4,365,939
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Remeasurements of defined benefit liability - gain / (loss)	24,422	19,845
Related tax	(5,861)	(12,620)
	18,561	7,225
Revaluation gain on property, plant and equipment	1,495,420	96,208
Related tax	(318,626)	(8,897)
	1,176,794	87,311
Movement in fair value (Equity investments at FVOCI)	95,307	10,711
Related tax	-	3,473
	95,307	14,185
Total of items that will never be reclassified to profit or loss	1,290,662	108,721
Items that are or may be reclassified to profit or loss		
Movement in fair value through OCI reserve	-	19,305
Movement in hedge reserve	(119,317)	130,493
Related tax	8,007	(25,575)
	(111,309)	104,917
Total of items that are or may be reclassified to profit or loss	(111,309)	124,222
Total other comprehensive income, net of tax	1,179,353	232,942
Total comprehensive income for the year	18,129,938	4,598,881
Basic earnings per share	3.23	0.83

Figures in brackets indicate deductions

STATEMENT OF FINANCIAL POSITION

As at	31 st March 2022 (Audited) Rs '000	31 st March 2021 (Audited) Rs '000
ASSETS		
Cash and bank balances	12,282,960	13,422,690
Deposits with banks and other financial institutions	8,885,611	7,203,306
Investment in government securities and others	23,841,483	15,838,455
Derivative financial instruments	3,450,266	325,029
Financial assets at amortised cost :		
Rentals receivable on leased assets	56,960,215	43,098,407
Loans and advances	149,849,871	61,550,510
Investment securities	6,288,566	5,498,000
Investment in associate	1,833,661	-
Amount due from related companies	47,382	33,222
Other receivables	1,084,330	615,275
Inventories	428,032	271,727
Investment properties	38,287,958	21,088,740
Property plant and equipment	8,326,735	1,163,218
Total Assets	311,567,068	170,108,579
LIABILITIES		
Bank overdraft	5,675,768	1,861,003
Interest bearing borrowings	44,309,903	16,437,442
Deposits from customers	159,252,382	107,791,136
Trade payables	1,141,928	144,788
Accruals and other payables	7,835,593	4,441,130
Derivative financial instruments	13,176	-
Amount due to related companies	3,719,368	620,862
Current tax payable	2,525,556	857,903
Deferred tax liability	2,974,781	1,733,249
Employee benefits	565,709	332,532
Total Liabilities	228,014,165	134,220,046
SHAREHOLDERS' FUNDS		
Stated capital	211,581,448	12,762,500
Statutory reserve	4,444,108	3,596,579
Revaluation Reserve	1,505,632	328,838
Cash flow hedge reserve	(83,702)	27,608
Fair value through OCI reserve	140,753	45,446
Merger Reserve	(169,284,517)	-
Retained earnings	35,249,180	19,127,563
Total equity	83,552,903	35,888,534
Total liabilities and equity	311,567,068	170,108,579
Commitments and Contingencies	22,863,999	9,332,908
Net asset value per share	4.34	6.84

Figures in brackets indicate deductions



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HMAJ/WDPL/TP 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 2022, 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
Basis for opinion
We conducted our audit in accordance with Sri Lanka Auditing Standards (SLASs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled other ethical 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
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 risk 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 allowances for financial assets carried at amortised cost Impairment allowances for financial assets carried at amortised cost as stated in Note 4, 6, 7 & 26 respectively is in accordance with the accounting policies described in Note 1.4 & 2.3.	Our audit procedures included amongst others the following: • We assessed the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management. • We evaluated the design, implementation and operating effectiveness of internal controls over estimation of impairment allowances, including testing of relevant source documents and accounting records of the Company. For financial assets assessed on a collective basis for impairment: • We tested key calculations used in the impairment allowances. • We assessed whether significant judgments used in assumptions and estimates made by the management in the underlying methodology and management practices were reasonable. We also evaluated the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios. Our procedures were based on the best available information up to the date of our report. For Loans and Leases assessed on an individual basis for impairment: • We assessed the reasonableness and timeliness of management's internal assessments of credit quality based on the borrower's particular circumstances. • We checked the accuracy of the underlying individual impairment calculations. • We evaluated the reasonableness of key inputs used in the provision for credit impairment made with the particular focus on current economic conditions. Such evaluations were carried out considering value and timing of cash flow forecasts particularly relating to elevated risk industries, status of recovery action and collateral values. We assessed the adequacy of the related financial statement disclosures set out in notes 2.3, 4, 6, 7 & 26.

Key audit matter	How our audit addressed the key audit matter
Financial reporting related IT based Internal controls A significant part of the Company's financial reporting process is primarily reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and finalised with the use of spreadsheets. Accordingly, financial reporting related IT based Internal controls is considered a key audit matter.	Our audit procedures included the following: • We obtained an understanding of the Internal control environment of the processes relating to financial reporting and related disclosures. • We identified and tested checked relevant controls of key IT systems related to the Company's financial reporting process. • We evaluated the design and operating effectiveness of IT controls, including those related to user access and change management. • We checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of general ledger reconciliations. Our audit procedures included the following: • We assessed the competency, capability and objectivity of the external valuer engaged by the Group. • We read the external valuer's report and understood the key estimates made and the approach taken by the valuer in determining the valuation of each property. • We assessed the reasonableness of the significant judgments made by the valuer and valuation techniques used, per perch price and value per square foot used by the valuer in the valuation of each property. • We have also assessed the adequacy of the disclosures made in notes 2.5 and 12 in the financial statements.

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 K B S P Fernando FCA FCMA, Ms. K R M Fernando FCA ACMA, Ms. L K H I. Fonseka FCA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Halangamwala FCA FCMA LLB (Lond), H M A Jayasinghe FCA FCMA, Ms. A A Ladooshe FCA FCMA, Ms. G G S Manuanga FCA, A A J R Perera ACA ACMA, Ms. P K N Sajeewani FCA, N M Sultaim ACA ACMA, B E Wijerathna FCA FCMA, Principals: G B Goodwin ACA, T P M Rubera FCMA FCCA, A member firm of Ernst & Young Global Limited

Key audit matter	How our audit addressed the key audit matter
Accounting for Merger of the Company with Commercial Leasing and Finance PLC The Company merged with Commercial Leasing and Finance PLC on 31 March 2022. The Company recognised I.R. 100% as the merger reserve in the financial statements as disclosed in note 21.5 & 37. We considered the accounting for the merger as recommended by the Statement of Recommended Practice for Merger Accounting for Common Control Contributions in the key audit matter as it represents a significant transaction entered into by the Company during the year.	Our audit procedures included (among others) the following procedures: • We read the relevant board resolutions and approvals from regulators and shareholders. • We obtained the audited financial statements of Commercial Leasing and Finance PLC and cross checked the mathematical accuracy of the calculations. • We assessed the adequacy of the disclosures included in the notes 21.5 & 37 to the financial statements.

Other information included in the Company's 2022 Annual Report
Other information consists of the information included in the Company's 2022 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2022 annual report is expected to be made available to us after the date of this auditor's report.
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 identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
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 with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial 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.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud 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 SLASs will always detect a material misstatement 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.

As part of an audit in accordance with SLASs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
• Identify 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
• 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 control.
• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
• 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 be considered 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 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.

Report on Other Legal and Regulatory Requirements
As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were 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.

29 June 2022
Colombo

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 K B S P Fernando FCA FCMA, Ms. K R M Fernando FCA ACMA, Ms. L K H I. Fonseka FCA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Halangamwala FCA FCMA LLB (Lond), H M A Jayasinghe FCA FCMA, Ms. A A Ladooshe FCA FCMA, Ms. G G S Manuanga FCA, A A J R Perera ACA ACMA, Ms. P K N Sajeewani FCA, N M Sultaim ACA ACMA, B E Wijerathna FCA FCMA, Principals: G B Goodwin ACA, T P M Rubera FCMA FCCA, A member firm of Ernst & Young Global Limited

SELECTED PERFORMANCE INDICATORS

Item	As at 31.03.2022		As at 31.03.2021	
	Actual	Required	Actual	Required
Regulatory Capital Adequacy (%)				
Tier 1 Capital Adequacy Ratio	20.49%	8.00%	15.88%	7.00%
Total Capital Adequacy Ratio	20.71%	12.00%	18.01%	11.00%
Capital Funds to Deposit Liabilities Ratio	40.76%	10.00%	29.19%	10.00%
Assets Quality (Quality of Loan Portfolio) (%)				
Gross Non-Performing Loans Ratio	6.69%		12.61%	
Net Non-Performing Loans Ratio	2.30%		1.43%	
Net Non-Performing Loans to Core Capital Ratio	8.00%		6.19%	
Provision Coverage Ratio	65.59%		88.64%	
Profitability (%)				
Net Interest Margin	13.13%		14.67%	
Return on Assets (before tax)	9.24%		2.48%	
Return on Equity (after Tax)	33.62%		13.00%	
Cost to Income ratio	31.83%		32.32%	
Liquidity (%)				
Available Liquid Assets to required liquid assets (Minimum 100%)	180.19%		382.10%	
Liquid Assets to external funds	18.82%		22.14%	
Memorandum information				
Number of branches	220		107	
External Credit rating	(SL) A (Stable outlook)		(SL) A (Stable outlook)	
Regulatory penalties imposed last 6 months				
Amount (Rs. Mn)	-		-	
Regulatory Deposit Restrictions				
Cap on total deposits (Rs. Mn)	-		-	
Downsizing of deposits - per month / quarter / year (Rs. Mn)	-		-	
Freezing of deposits	-		-	
Regulatory Borrowing Restrictions				
Cap on total borrowings (Rs. Mn)	-		-	
Downsizing of borrowings-per month/ quarter/ year (Rs. Mn)	-		-	
Freezing of borrowings	-		-	
Regulatory Lending Restrictions				
Cap on total lending portfolio (Rs. Mn)	-		-	
Downsizing of lending portfolio-per month/ quarter/ year (Rs. Mn)	-		-	
Restriction on granting new credit facilities and/or extending the terms of existing credit facilities	-		-	
Any Other Regulatory Restrictions				
Please specify	-		-	

Note: Selected key performance indicators for the current financial year have been calculated based on the performance of the combined entity.
ICRA Lanka assigned the company and issuer rating of [SL]A (Stable outlook).

CERTIFICATION :
We, the undersigned, being the Chief Executive Officer, the Head of Finance and the Compliance Officer of LOLC Finance PLC certify jointly that:

(a) The above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka (CBSL)
(b) The information contained in these statements have been extracted from the audited financial statements of the Company.

LOLC Finance PLC

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Mr. Jithendra Gunatileka
Compliance Officer
29 June-2022
Rajagiriya (Greater Colombo)