ANCHORED
IN STRENGTH

LOLC FINANCE

LOLC FINANCE PLC
ANNUAL REPORT 2020/21

Scan the QR Code with your smart device to view this report online
www.lolcfinance.com

ANCHORED IN STRENGTH

At LOLC Finance we have always been driven by agility and adaptability; qualities that have powered us in another difficult year rife with new challenges. We are proud to report that the positive performance recorded in this Annual Report has been achieved by the timely and decisive actions we implemented across a variety of business measures.

The commendable results achieved in trying circumstances are the results of the collective effort of our team to adopt stringent cost management strategies and to prudently manage operations — leveraging a strong corporate spirit with adaptable strategies, convenient technologies, and local understanding. Through it all, we have devised meaningful support for our stakeholders, enhancing SME, MSME and micro finance resilience through debt moratoriums, loan guarantees and direct lending — while also enabling customer convenience and connectivity through our digital products.

Today your Company is strongly anchored to leverage our business model and digital frameworks, guided by a stable outlook to deliver excellence in financial products and services, with hopes of creating lasting value in all that we choose to do.

CONTENTS

About Us

Executive Reviews

Management Discussion & Analysis

Stewardship

Financial Statements

Supplementary Financial Information - Al-Falaah, Alternate Financial Services Unit

Financial Information for Last Ten Years

VISION

We believe in an inclusive financial service that requires client advocacy and stewardship, a passion for leading-edge solutions and the delivery of services that exceed customer expectations.

MISSION

Our mission is to help set the industry standard in Non-Bank Financial Services. We reach out to all Small and Medium Enterprises and provide them with affordable and convenient financial services tailored to their specific needs.

CORPORATE VALUES

We are committed to the highest standards of ethical conduct in all we do. We believe that honesty and integrity engender trust, which is the cornerstone of our business. We abide by the laws of the land and strive to be good citizens and take responsibility for our actions. We recognise that our success as an enterprise depends on the talents, skills and expertise of our staff and our ability to function as a closely-integrated team. We appreciate our diversity and believe that respect – for our employees, customers, partners, regulators and all those with whom we interact – is an essential element of all positive and productive business relationships. We understand the importance of our mission and the trust our customers place in us. With this in mind, we strive to excel in every aspect of our business and approach, every challenge with a determination to succeed.

KEY HIGHLIGHTS OF THE YEAR

		2021	2020
New Executions	Rs. Million	49,967	72,985
Net Interest Income	Rs. Million	21,315	18,810
Profit Before Tax	Rs. Million	4,497	3,880
Profit After Tax	Rs. Million	4,366	3,780
Net Assets	Rs. Million	35,889	31,290
Total Value Added	Rs. Million	8,342	7,945
Market Capitalisation	Rs. Million	29,400	11,550
Value Added Per Employee	Rs. Million	2.59	2.74
Per Share			
Market Value	Rs.	5.60	2.20
Net Assets	Rs.	6.84	6.41
Earnings	Rs.	0.83	0.77
Total Staff	Number	3,013	2,715
Total Training Investment	Rs. Million	0.36	19.60
Total Training Hours	Hours	11,800	51,024
Number of Female Employees	Number	504	499
New Recruits	Number	283	504

Net Interest Income
Rs. 21,315 Mn

Profit Before Tax
Rs. 4,497 Mn

Net Assets
Rs. 35,889 Mn

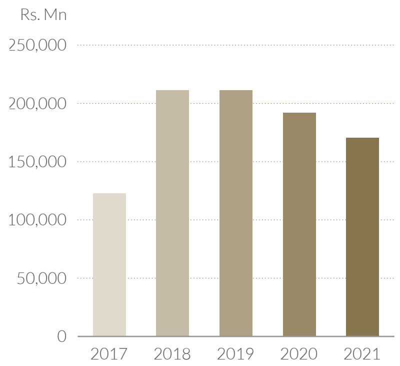
Total Staff
3,013

Staff Growth
11%

Total Training Hours
11,800

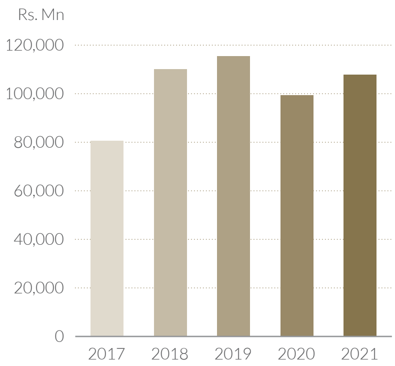
OPERATIONAL HIGHLIGHTS

TOTAL ASSETS



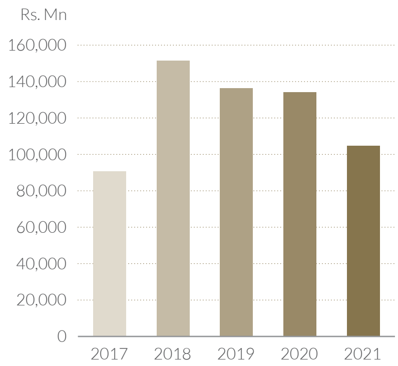
2021 ➤ RS. 170.2 BN

CUSTOMER DEOPSITS



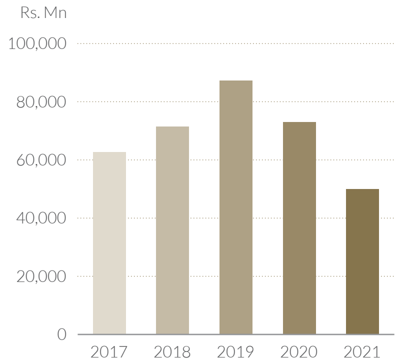
2021 ➤ RS. 107.8 BN

PORTFOLIO



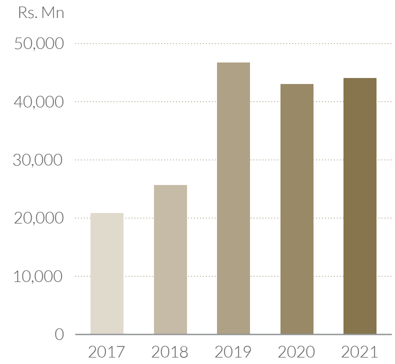
2021 ➤ RS. 104.6 BN

NEW EXECUTIONS



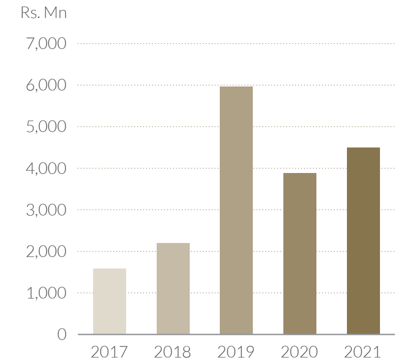
2021 ➤ RS. 49.9 BN

REVENUE



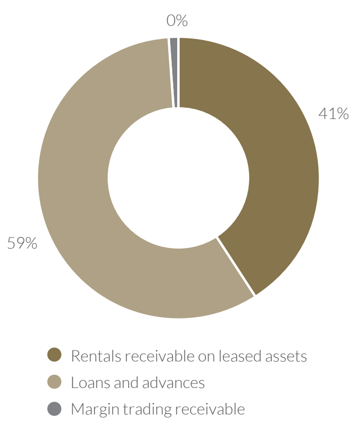
2021 ➤ RS. 44.1 BN

PROFIT AFTER TAX

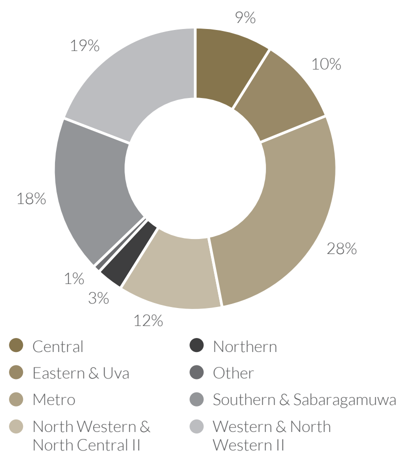


2021 ➤ RS. 4.4 BN

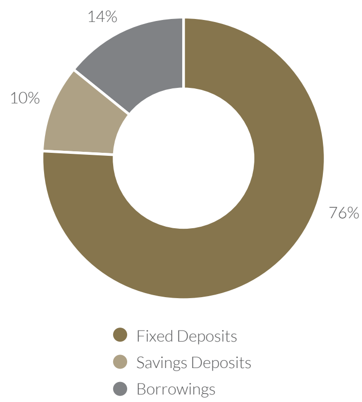
PORTFOLIO COMPOSITION



REGION WISE PORTFOLIO



FUNDING COMPOSITION



MILESTONES 2020/2021

LOLC Ruwanwella Branch relocated to 52/B Singhegiri, Yatanwala, Ruwanwella.

LOLC Kochchikade Branch relocated to No. 160, Chilaw Road, Kochchikade.

Recognised as the first NBFI in Sri Lanka to be awarded a Payment Card Acquiring Licence by the Central Bank of Sri Lanka.

Surpassing the Credit Card portfolio of Rs. 1.6 Bn amidst COVID-19, which adversely impacted card issuance and cardholder spending across the market.

Launch of LOLC Savi Credit Card – A unique Credit Card Product, bundled with many financial and non-financial benefits and privileges, exclusively designed for esteemed Government sector employees and Government pensioners.

Highest Credit Card Issuer with a contribution of over 20% to the total Credit Cards issued in Sri Lanka in 1st Q. of 2021.

LOLC Al-Falaah unveils pioneering Wadi'ah Gold-Storage Facility with multiple customer benefits.

Al-Falaah emerged as the Best Islamic Leasing Provider 2020 at the IFN Best Banks Global Awards.

At the 2020 SLIBFI awards, Al-Falaah won the Gold awards for the Islamic Leasing Company

At the Islamic Finance Forum South Asia (IFFSA) Awards 2019/20, Al-Falaah emerged as the 'Leasing Company of the Year' winning the South Asian Gold award.

At the IFFSA 2019/20, LOLC Al-Falaah won the Bronze award under the 'Window of the Year' category competing with its South Asian regional counterparts.

LOLC Al-Falaah's charity disbursed funds to the highest number of beneficiaries amounting to 1,260 during the FY 2020/21.

iPay introduced new features offering customers the ability to open digital savings accounts, digital fixed deposits and credit card payment acceptance for an improved customer experience.

iPay's transaction volumes per month grew from Rs. 37 Mn in 2019/20 to reach Rs. 1.1 Bn by 31st March 2021.

iPay registered a user growth of 400% and merchant growth of 234% and 1,100% growth in overall transaction value during the year.

iPay recorded the highest value of JustPay transaction count compared to its competitors.

iPay introduced EKYC to detect user liveness which helped minimise fraudulent transactions.

Finance Derivative of Netherlands recognised iPay as the Best Electronic Payment Solutions Provider Sri Lanka in 2021.

AWARDS AND CERTIFICATIONS

LOLC Al-Falaah was awarded IFN Best Islamic Leasing Provider 2020
• GOLD •

LOLC Al-Falaah emerged as the winner of the SLIBFI Islamic Leasing Company 2020
• GOLD •

LOLC Al-Falaah was awarded IFFSA Islamic Leasing Company of the Year 2020
• GOLD •

LOLC Al-Falaah was awarded IFFSA Islamic Banking Window/Unit of the Year 2020
• BRONZE •

LOLC Finance's CEO, Conrad Dias was named amongst the 11 CIO Hall of Fame inductees, the 1st Sri Lankan to be inducted to the Global CIO Hall of Fame

iPay emerged as the winner of the FutureEdge 50 for its Payment Platform Deployment in Cambodia

Prasanna Siriwardena emerged as a winner at the 3rd edition of Sri Lanka Digital Maestros Award 2020 for Exemplary Work in Digital Transformation

BRANCH NETWORK

Northern Province

07

North-Central Province

11 02 02

North-Western Province

08 02

Central Province

09 04 01

Sabaragamuwa Province

09 01

As at 31st March

- LOLC Finance Branches
- LOLC Finance Savings Centres
- LOLC Finance Service Centres
- LOLC Finance, Al-Falaah Branches/LOLC Finance, Al-Falaah Service Centres

Southern Province

Uva Province

Eastern Province

Western Province

ANCHORED IN PRODUCTIVITY

Executive Reviews

BOARD OF DIRECTORS

MR. B C G DE ZYLVA
Non-Executive Chairman

Mr. Brindley de Zylva serves as Chairman of LOLC Finance PLC & LOLC (Cambodia) PLC, Managing Director of LOLC Myanmar Micro-Finance Company Limited and Director of both Serendib Microinsurance PLC. and Browns Machinery in Cambodia. He joined the LOLC Group in 2003 and counts over 37 years' experience in the Non-Bank Financial Services Industry (NBFI) covering Licensed Finance Companies, Specialised Leasing Companies and Micro Finance in Sri Lanka, Myanmar and Cambodia."

MR. F K C P N DIAS
Director/CEO

Mr. Conrad Dias was appointed to the Board on 01st March 2020. He holds Masters in Business Administration (MBA) from University of Leicester UK, Fellow Member of Chartered Management Accountants UK (FCMA), Chartered Global Management Accountant (CGMA -USA). He is also a Fellow of Certified Management Accountant of Sri Lanka (FCMA), and British Computer Society (FBCS).

His experience spans over close to 3 decades and as a visionary thought leader in business technology and his C-Level experience spans over 20+ years.

Fintech enthusiast who innovated many financial technology products and solution and he is the Founder of iPay a revolutionary platform beyond payments and Founder of OYES another fintech platform that making everyday a payday.

His thought leadership on technology and contribution in the field of ICT to the industry, society and in LOLC Group was recognised by many local and international awards including prestige's Computer Society of Sri Lanka CIO of the year 2016. He was also award and Chartered Management Institute of Sri Lanka Professional Excellence Award 2017. Further he was inducted to Global CIO Hall of Fame 2020 of IDG CIO100 and only Sri Lankan to get this accolade."

MRS. K U AMARASINGHE
Executive Director

Mrs. Kalsha Amarasinghe holds an Honours Degree in Economics and has an outstanding vision for investments. She serves on the Boards of subsidiaries of Browns Group of Companies and LOLC Holdings PLC.

Other key appointments: Director – LOLC Holdings PLC, LOLC Finance PLC, LOLC Life Assurance Limited, Palm Garden Hotels PLC, Riverina Resorts (Pvt) Ltd., Eden Hotel Lanka PLC, Brown & Co. PLC, Browns Investments PLC, Green Paradise (Pvt) Ltd., Browns Holdings Ltd., Danya Capital (Pvt) Ltd. Ultimate Sports (Pvt) Ltd. Melana Capital (Pvt) Ltd, Serendib Hotels PLC, Dolphin Hotels PLC, Hotel Sigiriya PLC, Sanctuary Resorts Lanka (Pvt) Ltd., Serendib Leisure Management Ltd. and Kammala Hoteliers (Pvt) Ltd.

MRS. D P PIERIS
Senior Independent Director

Mrs. Priyanthi Peiris was appointed to the Board in June 2012. She is an Attorney-at-Law of the Supreme Court of Sri Lanka and has over 40 years of experience in corporate and financial law. She is also a solicitor of England & Wales.

She is currently engaged in private practice. She served on the boards of Forbes & Walker Ltd., Forbes Ceylon Ltd., Forbes Stock Brokers Ltd, Forbes Air Services Ltd. (general sales agent for Emirates), Vanik Corporate Services Ltd., Office Network (Pvt) Ltd., Capital Reach (Holdings) Ltd. and Associated Motorways Ltd. She currently serves on the boards of Associated Electrical Corporation Ltd, Asia Asset Finance PLC, Abans Electricals PLC, PW Corporate Secretarial (Pvt) Ltd, and MTN Corporate Consultants (Pvt) Ltd.

She served as a legal adviser to the Ministry of Finance from 2002 - 2004 and as a legal consultant to the Colombo Stock Exchange from 2004 - 2011. She was also a member of the committees set up by the SEC to recommend amendments to the Takeovers & Mergers Code1995 (as amended) and was a member of the committee appointed to recommend amendments to the Rules for Corporate Governance.

MR. P A WIJERATNE
Independent Director

Mr. P A Wijeratne has over twenty years of experience in Accounting, Financial reporting, Investment of internal funds, Foreign loan disbursements and repayments, Auditing, Public debt management and Administration as an ex Officio of the Central Bank of Sri Lanka. He has joined CBSL in 1991 and has worked in the Finance, Public Debt Management and Internal Audit departments till his retirement in year 2016.

He holds a BA degree in Economics (Special Field – Commerce) from University of Kelaniya and a postgraduate Diploma in Accounting and Financial Economics. He has read for his MSc in Accounting and Financial Economics at the University of Essex, UK.

MR. KANDIAH SUNDARARAJ
Independent Director

Mr. Kandiah Sundararaj counts over 28 years experience in Accounting, Auditing and Tax consulting. He started his career as a Chartered Accountant in 1998 and is currently serving as the Tax Partner in M/s Amarasekera and Company, Chartered Accountants.

Mr. Sundararaj is a fellow member of the Institute of Chartered Accountants of Sri Lanka and holds a Master of Business Administration in Finance from the University of Colombo.

CHAIRMAN'S REVIEW

THE RAPID ADOPTION OF THE COMPANY'S IPAY DIGITAL PLATFORM FACILITATED OPERATIONS DURING THE YEAR AND GENERATED NEW OPPORTUNITIES. GOING AHEAD, THE DIGITAL PLATFORM WILL PLAY A KEY ROLE IN ACHIEVING GREATER PROFITABILITY.

Mr. B C G de Zylva
Non-Executive Chairman

Dear Shareholders

I am pleased to present to you the Annual Report and Financial Statements for the year ended 31st March 2021. The events of the year were unprecedented by any standards. Despite the economic uncertainty that prevailed through the year under consideration, Your Company sustained its resilient outlook to deliver a mature and reasonable performance under the circumstances.

Macro-economic Review

Alongside the global economic downturn induced by the pandemic, the Sri Lankan economy contracted by 3.6% in 2020, which witnessed the Central Bank of Sri Lanka responding with extraordinary policy interventions to mitigate the socioeconomic impact on individuals and businesses. The contraction observed was driven due to pandemic-induced lockdowns and travel and import restrictions. As a result of policy measures undertaken by the Government and the Central Bank, export earnings rebounded within a relatively short span of time to reach pre-pandemic levels. The Government announced loan schemes aimed at providing working capital for businesses affected by the pandemic. Accordingly, credit extended to the private sector began to rebound in the second half of 2020. In the meantime, the regulator ensured financial system stability by introducing several measures aimed at safeguarding the interests of financial institutions as well as those of depositors, while enabling the financial sector to provide the extraordinary support required by the economy due to the pandemic.

Financial Sector Stability

Even before the outbreak of the COVID-19, the financial services sector was burdened with rising non-performing loans, lower profitability due to rising credit costs and subdued loan growth. Although the stability of Sri Lanka's financial system was preserved in 2021, the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) reported decline in the asset base, credit and deposits, and profitability, and increase in Non Performing Loans (NPLs) during the year. The moratoriums offered by the companies on the direction of the Central Bank should reduce near-term liquidity shocks stemming mainly from non-payment of loan rentals and possibly compound pressure on the profitability of the sector. Large, well-managed and highly capitalised companies such as LOLC Finance PLC were able to withstand the pressures admirably.

Rs. 170 Bn
TOTAL ASSET BASE

Rs. 4.4 Bn
PROFIT AFTER TAX

"AS ONE OF THE LARGEST REGISTERED FINANCE COMPANIES IN THE COUNTRY, THE INFLOW RECORDED DURING THE YEAR IS A CLEAR DEMONSTRATION OF THE CONTINUED PUBLIC CONFIDENCE IN THE COMPANY.

Company Performance

As one of the largest registered finance companies in the country, the inflow recorded during the year is a clear demonstration of the continued public confidence in the Company. The focus during the year was on sustaining a high quality loan book and managing Non Performing Loan (NPL) portfolios. LOLC Finance recorded a Total Assets base of Rs. 170 billion and a PAT of Rs. 4.4 billion. Although the core activities of general and alternate financing segment were impacted as a result of the economic downturn and import restrictions, the Company managed to expand its footprint into gold loans, second-hand vehicle financing and debt restructuring to mitigate any further impact and deliver a satisfactory performance. The rapid adoption of the Company's iPay digital platform facilitated operations during the year and generated new opportunities. Going ahead, the digital platform will play a key role in achieving greater profitability. The Company sustained its (SL) A (Stable) rating by ICRA Lanka Limited.

Appreciation

I would like to thank my fellow directors for their unstinted support and would also like to commend the Senior Management and Staff who delivered exceptional operational and financial results considering the challenging circumstances. The trust placed in us by our shareholders, depositors and all other stakeholders has contributed greatly to the Company's performance.

Mr. B C G de Zylva
Chairman

DIRECTOR/CEO'S REVIEW

ONE OF THE KEY HIGHLIGHTS OF THE YEAR WAS HOW TECHNOLOGY POWERED THE COMPANY'S GROWTH AND PROFITABILITY DURING THE YEAR. THE DEMAND FOR TECHNOLOGY ROSE TO THE HIGHEST LEVELS DURING THIS PERIOD AND BECAME A KEY DIFFERENTIATOR.

Mr. F K C P N Dias
Director/CEO

The year under consideration brought with it a once-in-a-century health crisis of epic proportions which tested the mettle of businesses within Sri Lanka and across the globe. Notwithstanding the various pandemic-induced challenges, I am pleased to share with you the resilient performance delivered by LOLC Finance PLC in FY 2020/21.

Already weakened by the unfavourable economic conditions in the previous year, the COVID-19 outbreak put further pressure on the Sri Lankan economy, resulting in a 3.6% contraction in the GDP. Lockdowns and other travel and mobility restrictions made it challenging for businesses to operate for the full 12 months at full capacity. Three successive waves of infections over the year further impacted the economic climate while the vehicle import ban, low interest regime and spate of moratoriums announced by the Central Bank of Sri Lanka (CBSL) severely impacted many Non-Banking Financial Institutions (NBFIs) in the country.

Financial Performance

Amidst all these pressures, LOLC Finance PLC, as one of the largest and profitable NBFIs in the country, delivered a sound financial performance during the year under review. The Company recorded a Total income of Rs. 44.1 Bn and a Net interest income of Rs. 21.31 Bn which is a 2.5% and a 13.3% increase respectively compared with the previous year. With the decline in overhead expenses compared with previous year and with the prudent provisioning policy, the Company recorded a strong profit after tax of Rs. 4.4 Bn which is an impressive increase of 15.5% compared to the previous year.

The annualised Return on equity decreased to 13% over 13.98% recorded in the previous year but the annualised Return on asset showed an impressive increase to 2.41% over the 1.88% recorded in the previous year due to the strong profitability levels of the Company during the year under review.

The Company's financial position was well managed and cashflows remained positive throughout the year irrespective the adverse economic condition due to the COVID-19 pandemic situation in the country. The capital adequacy ratio of Tier I – 15.88% and Total Capital Ratio 18.01% were maintained above the minimum stipulated by the regulator, Central Bank of Sri Lanka.

Operational Review

One of the key highlights of the year was how technology powered the Company's growth and profitability during the year.

Rs. 44.1 Bn
TOTAL INCOME

Rs. 21.3 Bn
NET INTEREST INCOME

" THE COMPANY'S FINANCIAL POSITION WAS WELL MANAGED AND CASHFLOWS REMAINED POSITIVE THROUGHOUT THE YEAR IRRESPECTIVE THE ADVERSE ECONOMIC CONDITION DUE TO THE COVID-19 PANDEMIC SITUATION IN THE COUNTRY.

The demand for technology rose to the highest levels during this period and became a key differentiator for all businesses in the LOLC Group, more so in the financial services sector, as customer were unable to visit branches. As a technology-focused Group, investments in expanding the technological capability of the Group were made in the preceding years, which helped LOLC Finance to fulfil the demand for technology under the current circumstances with ease.

One of the early pillars of success during the year was the speed with which the transition to work from home was managed. Considering the size of the Company and even the LOLC Group, every sector of the Group was quickly enabled with work from home while supporting and servicing customer needs via digital platforms.

Despite many challenges and capital investment restrictions during the year, the Company continued invest and upgrade technology platforms. During the period under review, technology infrastructure was further improved to gain more robustness by upgrading two data centres and converting them to be resilient and to service the increasing needs of the Company.

Accelerating the digitalisation process, the Company introduced many digital products during the period - Digital Speed draft focusing on micro-entrepreneurs and Digital Deposit to create customer convenience, fully digital electronic KYC (eKYC) in new customer on-boarding and opening of digital savings accounts to serve customers.

A year in which business continuity planning was tested, LOLC Finance PLC sustained its planning while working with smaller teams due to travel restrictions and successfully ensures uninterrupted operations.

Apart from the challenges faced by the Company, its valued customers were also impacted on business and cash flows and the Company worked closely with them to extend concessions, moratoriums and to restructure loans. A significant number of moratoriums were given to customers, especially for pandemic-hit businesses such as in the tourism sector. Overall, a decline was seen in new executions due to the external conditions except for gold loans and credit cards which saw strong growth levels.

Alternate Finance

As the market leading preferred alternate financial services provider, LOLC Al-Falaah has garnered experience in this segment for almost 15 years and this is evident in the Company low NPL levels of 3.9% against an industry average of finance companies of over 13% in the year under review, or for that matter even compared to the NPL ratio in the banking sector during the comparable period. The Company's innovative approach to the alternate financial services and its longstanding relationships with its customer base enabled it to post a Profit after Tax of Rs. 278.32 Mn from Rs. 185.38 Mn in the previous year – which reflects a massive 50% growth, a phenomenal achievement by any standard and more so in the disruptive year experienced in 2020/21. Unfazed by the market conditions, LOLC Al-Falaah introduced 2 new Alternate products as per Islamic principles during the year – Gold loans and Speed draft.

Microfinance

Microfinance is a proven tool to revive the rural economy and this vision guides LOLC Finance's transactions with its customers, especially in a financial year adversely impacted by the COVID-19 pandemic. Committed to support its customers in the time of this crisis, LOLC Finance provided loans to approximately 37,300 small businesses, amounting to Rs. 4.6 billion. In response to a growing demand for housing loans, over 2,183 families were supported with Rs.938 million in assistance in the form of housing loans by LOLC Finance for purposes of renovation, building an extension, complete construction of a house or purchase of land or a house. Approximately Rs. 12.68 billion in leases were disbursed to customers to purchase income generating assets such as three-wheelers, light trucks, tractors, agri equipment and motorcycles. Although the Central Bank of Sri Lanka announced a debt moratorium for businesses and individuals affected by the pandemic, LOLC Finance extended further relief to customers by way of additional moratoriums and restructuring facilities to meet their current cash flow requirements, in the process waiving off overdue interest to reduce financial burden on customers. An additional 10,000 restructures were conducted for micro loan customers, which helped ease their financial worries.

Credit Cards

Despite the challenging operating environment in the year under review, the Credit Cards unit successfully achieved a portfolio of over Rs. 1.6 Bn while recording an operational profit of Rs. 32 Mn. One of the key factors for this impressive positive performance was that the Company continued to invest in upgrading credit card features while investing in digital technologies to be ahead of the curve. In the months of January, February and March 2021, it became the single highest issuer of credit cards in the industry: of the 20,919 cards issued in the first two months of 2021, LOLC Finance credit cards accounted for 20%.

The travel restrictions during the year accelerated the Company's investment in digitalisation. An online credit card application was launched for customers to apply for a credit card even during travel restrictions, purely as an online application or through a QR scan. Moreover, in keeping with its customer-oriented approach, cardholders were given an extension on

DIRECTOR/CEO'S REVIEW

payments and granted fee waivers based on individual needs across the country depending on which areas were most affected by the pandemic. During the year under review and for the first time in the financial services industry, a credit card product for state sector employees and pensioners was launched, which has empowered this segment of customers to enjoy convenience and an improved lifestyle.

Deposits

Deposit mobilisation proved challenging against the backdrop of weak economic growth and slowdown in commercial activities in the year under review. Despite the low interest rate regime which prevailed through the period under review, the economic fallout of COVID-19 forced small businesses to limit operations and thereby reduced their savings and investment capacity. The rupee depreciation and import restrictions exerted further pressure on the system. Achieving a deposit growth amidst this complex economic climate reflects the strong brand acceptance and reputation enjoyed by LOLC Finance in the market. Demonstrating resilience and strong customer-centricity, the Deposits arm achieved a growth of 8.59% in the year 2020/21 by continuing with its signature service for its clients through the pandemic. As a technology-focused Company, LOLC Finance leveraged strongly on technology by offering digital products such as Digital Savings and Digital Fixed Deposits to customers via its iPay platform for contactless transaction, an essential need amidst a pandemic. Apart from offering speed, convenience and the ability to conduct financial transactions remotely without even visiting a branch, the Company is expanding its digital solutions portfolio while simultaneously greening its footprint by going paperless and using electronic and digital platforms to communicate with customers.

Information Security

Greater reliance on technology demands a more secure system in the new tech landscape. Investments in the risk and compliance framework in information and data security has been a key focus of the Company and during the year under review as well several system changes and enhancements were achieved such as the core banking system.

Digital Footprint

The Company is pursuing the 'cloud and mobile' strategy along with key initiatives to look into data science and artificial intelligence to empower the organisation. Simultaneously, the digital twin of our financial services, iPay, has been winning accolades and gaining traction locally and globally. During 2020/21, iPay catapulted into the leading position amongst digital payment platforms in the country. Its enhanced user experience is evidenced by the phenomenal growth experienced in its customer base which grew by as much as 400% while the merchant base also expanded by 234%. iPay recorded a monthly-wise turnover of more than 1100% in March 2021 as compared to the corresponding month in the previous year. Outstripping competition, iPay transaction volume grew from Rs. 37 Mn per month to Rs. 1.1 Bn per month, which is a testimonial to the rapid adoption of the lifestyle fin-tech product amongst the almost 24 apps in the market.

Employee Wellbeing

One of the key focus areas was human capital and the leadership took a decision early on to maintain staff salaries, numbers and emoluments, with no reductions. Performance-based payments and bonuses were also paid as usual. At the same time, investment in training and development continued, with most training taking place virtually.

Future Outlook

The Company is going ahead with short to medium plans with the idea that the pandemic will be here to stay for some time and that operations will have to be managed within those constraints. The greatest importance is being given to safeguard employees and customers and investments in digital etch will help in this effort. Despite this, LOLC Finance remains optimistic about the prospects for the nation and the economy as the situation improves. LOLC Finance PLC is poised for flight and keen to partner and support customers at the grassroots to revive their livelihoods sooner rather than later, backed strongly by its financial services and advanced technology platforms.

Appreciation

I would like to thank the Chairman and Board of Directors for their guidance and confidence in my abilities to lead the team at LOLC Finance PLC through an extremely challenging year. The entire team needs to be appreciated for their dedication and hard work despite the challenges of working in the new normal. I also wish to thank our valued depositors, multinational funding agencies, banks as well as the customers who remained out strong supporter. I would like to thank the Governor of the Central Bank of Sri Lanka and officials for their support, especially staff of the Non-Banking Supervision division. Our valuable shareholders, investors and other stakeholders motivate us to reach higher as we continue our exciting growth and expansion journey at the forefront of the sector.

Mr. F K C P N Dias
Director/CEO

ANCHORED IN RESILIENCE

Management Discussion & Analysis

MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF OPERATIONS

Operating Environment

Amidst the COVID-19 pandemic, Sri Lanka's economy contracted by 3.6% in 2020. Lockdowns and other restrictive measures enacted by the Government in the second quarter helped contain the first wave of COVID-19 successfully, but these measures had a negative impact on tourism, construction, and transport sectors. Jobs and earnings losses disrupted private consumption and uncertainty impeded investment. The second wave erupted by the end of the third quarter and a third wave followed by end of the financial year, further eroding business confidence and investor sentiment.

While Sri Lanka's public expenditure increased, revenues declined, resulting in a widening of the fiscal deficit in 2020. As a result of the economic contraction and the elevated fiscal deficit, public and publicly guaranteed debt increased to untenable levels.

In response, the Central Bank of Sri Lanka (CBSL) undertook considerable monetary policy easing and additional measures to increase liquidity in the market and support businesses with financial sector regulatory measures such as debt moratoriums for COVID-19 affected businesses and individuals. Thereafter, CBSL implemented

"THE DEEP CUSTOMER RELATIONSHIPS FORGED BY THE DEPOSITS ARM HELPED IN THE RETENTION OF CLIENTS AND FOR GARNERING NEW BUSINESS.

a series of policy rate cuts - from further bringing the short-term rates lower, to the lowest long-term rates in years.

The CBSL also further implemented a policy package containing a variety of monetary stimulus measures to ease the financial difficulties faced by private sector entrepreneurs of which reduction of market lending and borrowing rates was key, bringing entire industries' rates down to historically low levels. The Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were 4.50% and 5.5% respectively, compared with 8.00% and 9.00% two years ago. However, the envisaged expansion of economic activities due to the low lending and borrowing rates did not materialise due to the third wave and the uncertain business climate that persisted, although the accelerated vaccination drive is expected to boost investor sentiment.

Conditions in the LFC/SLC sector

Sluggish economic conditions experienced in the preceding year had already triggered deterioration in the asset quality of the sector, which was further exacerbated by the COVID-19 pandemic. The pandemic-induced economic impact affected the asset quality of the sector. Despite the freezing of classifying part of loans as Non-Performing Loans (NPL) for businesses and individuals affected by COVID-19 due to the debt moratoriums introduced, the NPL ratio of the sector continued to increase during the period under review. The sector reached the peak of 14.1% of NPLs at the end of the second quarter of 2020 as a result of the low repayment capacity of borrowers due to weak economic activities, declining total loans and advances of the sector and spillover effects of the debt moratorium scheme. The drastic lowering of lending and borrowing rates had the effect of a severe shock on the financial services system and smaller and badly-managed companies struggled to survive in the low rate regime.

The Government further introduced import restrictions for vehicles to ease pressure on the exchange rate and overall balance of payment. Treasury bills are highly liquid money market instruments that provide financial institutions with an alternate source of liquidity and investment, while interest rate movements in the Treasury bill market provide a benchmark for the short-term credit market. Hence, changes in the volumes and rates in the Treasury bill market affect the cost, profitability and liquidity of financial institutions, which is what occurred during the year under review.

The real impact of the pandemic on asset quality is expected to be realised only upon cessation of the moratorium. Therefore, if the impact of the debt moratorium is not adequately managed, it may threaten the solvency and liquidity of the sector. All these external pressures had to be contended with during the year while simultaneously leveraging on the smallest emerging opportunities for growing the business.

Deposits

Demonstrating resilience and strong customer-centricity, the Deposits arm achieved a growth of 8.59% in the year 2020/21 by continuing with its signature service for its clients through the pandemic. The deep customer relationships forged by the Deposits arm helped in the retention of clients and for garnering new business, thereby leading LOLC Finance to become the number one Non-Banking Financial Institution (NBFI) in terms of the deposit base in 2020/21, despite the deposits in the overall sector contracting by as much as Rs. 8.1 Bn during the year.

Deposit mobilisation proved challenging against the backdrop of weak economic growth and slowdown in commercial activities in the year under review. Despite the low interest rate regime which prevailed through the period

8.59%
GROWTH IN DEPOSITS

55%
PORTFOLIO GROWTH IN GOLD LOANS YOY

Rs. 4.6 Bn
SMALL BUSINESS LOANS DISBURSED

under review, the economic fallout of COVID-19 forced small businesses to limit operations and thereby reduced their savings and investment capacity. The rupee depreciation and import restrictions exerted further pressure on the system. Achieving a deposit growth amidst this complex economic climate reflects the strong brand acceptance and reputation enjoyed by LOLC Finance in the market.

During the year, Sri Lanka persisted with the lowest interest rates in its history over the last decade. As a result of the nominal interest rate gap between the banking and non-banking sectors, customers opted for alternative investments as opposed to fixed deposits, thus deposit portfolio growth was further impacted.

Cognizant of the obstacles that would arise amidst this climate and in compliance with the travel restrictions and health protocols, the Deposits team mitigated the challenges to a large extent with some key innovations. The main aim was to provide a more personalised service to customers in order to feel financially secure with the Company.

Offering personalised services at customer doorsteps was a benefit the Company offered. A number of internal process improvements were made to enhance overall efficiency and service delivery for all customers.

MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF OPERATIONS

As a technology-focused company, LOLC Finance leveraged strongly on technology by offering digital products such as Digital Savings to customers via its iPay platform for contactless transaction, an essential need amidst a pandemic. Apart from offering speed, convenience and the ability to conduct financial transactions remotely without even visiting a branch, the Company is expanding its digital solutions portfolio while simultaneously greening its footprint by going paperless and using electronic and digital platforms to communicate with customers.

Lending

Despite the pandemic-induced disruption in the economy, the LOLC Finance's Lending business adapted to the challenging market conditions by leveraging with agility on emerging market opportunities to record a reasonable growth in the year under review. The focus during the year was on sustaining a high quality loan book and managing Non Performing Loan (NPL) portfolios.

The Company's core activities of general and alternate financing segment were severely impacted as a result of the economic downturn and import restrictions that prevailed almost through the year, exacerbated by lockdowns and mobility restrictions. The main customer segments for the Company's lending activities - SMEs and MSMEs - were adversely affected, which necessitated a paradigm shift by the Lending team.

Fortunately, since the agricultural sector was able to function through the year, the Company aggressively marketed its financing and refinancing products and services to agri-based SMEs. This segment proved to be fruitful for the Lending business during the year as the demand for leasing and refinancing for agri-equipment rose due to an increase in agricultural activities.

Moreover, the total ban on vehicle imports saw a drastic drop in unregistered and/or brand new vehicles and indicated a sharp contraction in the vehicle leasing business. Pre-empting the negative trend, the Lending operation shifted focus to registered/pre-owned vehicles, which were witnessing sharp prices hikes. As the first-mover in this segment during the year, the Company managed to corner a substantial share of the market, while also expanding leasing services to benefit price sensitive customers.

Launched in the previous year and recording an impressive first-year performance, the Company's Gold Loans portfolio went on to achieve Rs. 9.3 Bn in 2020/21 (Rs. 9.6 Bn with accrued interest), reflecting a 55% growth over the previous year. The Company's Gold Loan product was extended to 11 more locations while new products were also introduced to the Gold Loan portfolio to cater to customer needs. Notwithstanding the economic downturn in the financial services sector during the year, the Company catered to 14,000 Gold Loan customers during the period, a key achievement and a reflection of the trust and confidence in the LOLC brand.

One of the pillars of success for the Lending operation is the augmentation of digitalisation in customer interface during the year which was achieved by on-boarding customers onto the iPay platform, the lifestyle mobile app, which enables customers to service interest on gold loans digitally, from the safety of their homes.

The enhanced digitalisation also facilitated Speed draft, a key product for the SME customer base, which was revised and adapted to the digital platform. As a result, SMEs and MSMEs could route their transactions through the iPay platform without the need to make physical visits to branches.

As a responsible corporate citizen, the Company complied with the moratoriums announced by the regulator. However, on the request of customers, the Lending team went a step ahead to reschedule and restructure customer loans after evaluating their asset quality and cash flows to better suit their repayment capabilities. This strategy also helped accelerate collections and deposit mobilisation. The strong recovery effort by the team helped bring down NPLs from 15% to 12% range.

Another challenge to maintaining low NPLs for the entire industry was the regulation which prohibited finance companies from repossessing vehicles of customers who defaulted on payments. By rescheduling customer leases to better suit the reduced cash flow of some customers, the Lending operation was able to consolidate its recovery efforts.

As part of the Company's drive to enhance efficiency by leveraging on technology, the business process re-engineering process was implemented Company-wide and will enhance the digitalisation of the Lending operation even further, enabling customers to conduct financial transactions digitally.

The Lending operation remains focused on sustainable profitability and committed to the triple bottom line of People, Profits and Planet, as it looks ahead optimistically to an economic revival in its key customer segments.

Microfinance

LOLC Finance continued to entrench its footprint in the Microfinance sector by uplifting the income levels of its bottom-of-the-pyramid customers who rely on this critical financial support to realise their entrepreneurial ambitions and enhance the living standards to dream of a brighter future. Besides funding micro and small scale ventures, the Company also empowers them with technical skills, marketing knowledge, financial management, digital literacy and connects them with potential buyers on its digital iPay platform. This valuable guidance and support has helped micro and small scale businesses to scale up successfully in many sectors.

A leading microfinance entity, LOLC Finance focuses on three main customer segments, namely, micro and small scale entrepreneurs, the agricultural community and women. Committed to fulfilling the aspirations of these key segments, the Company's loans and leases help them generate employment, uplift income levels and empower women to become financially independent. Microfinance is a proven tool to revive the rural economy and this vision guides LOLC Finance's transactions with its customers, especially in a financial year adversely impacted by the COVID-19 pandemic.

Committed to support its customers in the time of this crisis, LOLC Finance provided loans to approximately 37,300 small businesses, amounting to Rs. 4.6 Bn. In response to a growing demand for housing loans, over 2,183 families were supported with Rs. 938 Mn in assistance in the form of housing loans by LOLC Finance for purposes of renovation, building an extension, complete construction of a house or purchase of land or a house. Approximately Rs. 12.68 Bn in leases were disbursed to customers to purchase income generating assets such as three-wheelers, light trucks, tractors, agri equipment and motorcycles.

Although the Central Bank of Sri Lanka announced a debt moratorium for businesses and individuals affected by the pandemic, LOLC Finance extended further relief to customers by way of additional moratoriums and restructuring facilities to meet their current cash flow requirements, in the process waiving off overdue interest to reduce the financial burden on customers. An additional 10,000 restructures were conducted for micro loan customers, which helped ease their financial worries.

Microfinance empowers small home-based businesses but many of these ventures were unable to attract customers due to lockdowns and mobility restrictions. In order to circumvent this challenge, the Microfinance team educated them on e-commerce and on-boarded them onto the Company's iPay platform, so that they could access potential customers on iPay's marketplace platform directly while reaching a wider audience. This was a key initiative by the Company as it supported these home-based businesses to generate income amidst the wider uncertainty due to the pandemic.

During the year under review, the Microfinance unit made deeper inroads into the second-hand vehicle financing market as a result of the total ban on vehicle imports placed by the Government during the year. As a result, the Company's small ticket lease portfolio compromising three-wheelers, light-trucks, motorcycles, tractors and harvesters expanded from Rs. 41.3 Bn during the previous financial year to Rs. 43.6 Bn in 2020/21.

Further, the micro loan portfolio contracted mainly because of the compound effect of government-induced debt write off in 2018, unfavourable economic conditions in 2019 as a result of the Easter Sunday attacks, followed by the global pandemic in 2020. The loan book contracted as a concerted move by the Company to reduce non-asset backed loans.

LOLC Finance strives to maintain a low Non-Performing Loan (NPL) ratio and has established a dedicated micro recoveries team for asset-backed and non-asset backed loans, which does an excellent job of focused recoveries regardless of the operating environment.

Moreover, complying with health protocols and lockdowns, the Microfinance team, which is empowered with digital devices, was able to operate smoothly from remote locations, staying connected and supporting customers through the year. The micro loan process is now 100% tab-based and no paper is used except for security documentation, which has helped green the Company's footprint.

Sustaining its high level of customer service, training for employees continued via online platforms with a focus on techniques to improve businesses while customers were invited to participate in digital literacy training programmes. Farmers and agri-related clients were engaged by sharing information with them on emerging technologies in farming and cultivation. Under this initiative, LOLC Finance, along with experts from Faculty of Agriculture in Kilinnochchi of the University of Jaffna, trained farmers in the Northern Province on micro irrigation systems. More significantly, the Company's approach to customers was recalibrated to adapt to the 'new normal' and staff was trained to empathise with clients considering the economic hardships experienced during the year.

The future growth strategy for the Microfinance segment is to focus on asset backed products and micro leases, with a special focus on financing leases for three-wheelers, motorcycles, light trucks, tractors and agri equipment. The demand for housing loans too is expected to rise as the economy improves.

As the leading player in the microfinance sector in Sri Lanka and globally, LOLC Finance offers sustainable microfinance products and services that have a positive impact on lives and livelihoods of thousands of customers at the grassroots level, a segment the Company believes will scale up to become the engine of growth for the national economy.

MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF OPERATIONS

LOLC Al-Falaah

As the most preferred alternate financial services provider in Sri Lanka, LOLC Al-Falaah continued to lead by example in the industry by demonstrating prudent growth strategies and the determination to surmount obstacles to sustain and grow profitability despite the external pressures that prevailed through the 2020/21 financial year.

Financial Performance

In an industry-wide trend of business slowdown, LOLC Al-Falaah proved its resilience by managing a Revenue of Rs. 2.40 Bn in 2020/21 as compared to Rs. 2.58 Bn in the previous year. The portfolio was infused with a strong focus on security-based lending and financing of sustainable business propositions. Despite all the challenges, LOLC Al-Falaah achieved the seemingly impossible task of recording a 30% increase in Profit before Tax for 2020/21 from Rs. 318.45 Mn in 2019/20 to Rs. 413.92 Mn in the year under review. This historic growth is even more commendable considering that the Company was unable to operate for more than about half the year due to lockdowns, branch closures, curfews and so on. Recording a 30% jump in profitability amidst this scenario reflects the strong management expertise and the skilled team at LOLC Al-Falaah.

The Company's innovative approach to the alternate financial system and its longstanding relationships with its customer base enabled it to post a Profit after Tax of Rs. 278.32 Mn from Rs. 185.38 Mn in the previous year – which reflects a massive 50% growth, a phenomenal achievement by any standard and more so in the disruptive year experienced in 2020/21.

While growing its profitability stridently in 2020/21, the Company ensured prudent measures were in place to mitigate any risks from the wider economic risks. LOLC Al-Falaah cautiously grew its Liability book and maintained a 6% growth overall mainly due to its strong customer relationships and longstanding presence in the market, ending the year by successfully growing its Asset portfolio. The investor confidence shown in the Company in an uncertain environment truly reflects the leadership status of the Company.

As the preferred market leading alternate financial services provider, LOLC Al-Falaah has garnered experience in this segment for almost 15 years and this is evident in the Company's low NPL levels of 3.9% against an industry average of finance companies of over 13% in the year under review, or for that matter even compared to the NPL ratio in the banking sector during the comparable period. Year-on-year, the Company's NPL ratio of 3.9% was lower considering the industry setbacks faced during consecutive years. LOLC Al-Falaah not only performed strongly in maintaining a sound performing book, but surpassed industry standards with perhaps the best NPL ratio in the industry.

Meanwhile, Retained Earnings grew from Rs. 2,604 Mn in the previous year to Rs. 2,883 Mn, in 2020/21, reflecting an 11% growth, once again a measure of the astute and professional management of the Company.

LOLC Al-Falaah's deposit portfolio grew significantly during the year under review from Rs. 11.2 Bn to Rs. 11.8 Bn under the reporting period, marking a growth of 6% in comparison with the previous year. Assets and Deposits portfolios were suitably sustained under the difficult circumstances. The Company succeeded in effective management of the asset and liability book while drawing in new deposits.

Committed to safeguarding investors, the Company distributed Profit to Depositors amounting to Rs. 948.53 Mn as against Rs. 875.74 Mn in the previous year, demonstrating a strong 8% growth despite the volatile economic conditions during the year. Return on Equity too showed a positive growth amidst volatile economic and industry conditions.

The major contribution to Company profitability came from the 'Diminishing Musharakah for Working Capital' product, which grew by 22% while most of the other products in the portfolio did not record anticipated growth as a direct effect of the pandemic-induced uncertainty and the subdued economy.

Supporting Customers

The Company's humane approach to business is based on its alternate finance principles and its industry-best customer care philosophy. LOLC Al-Falaah supported its customer base in the SME, MSME and the retail sector as many of them were impacted by the pandemic-induced challenges. The Company was able to help customers restructure and reschedule their loans to better suit their diminished cash flow while itself adopting a cautious lending strategy. Backed by the technology prowess of parent LOLC Finance PLC and holding group, LOLC, the Company leveraged on digital platforms to provide uninterrupted services to its customer base through the year under review.

Corporate Social Responsibility

Ensuring sustainable communities is a priority for the Company and it has disbursed funding across health, education and social upliftment projects year after year, even more so during the pandemic when it reached out to assist people across all communities. During the year under review, a sum of approximately Rs. 12 Mn was distributed amongst 1,260 beneficiaries for new and on-going CSR projects.

Awards and Accolades

As Sri Lanka's most awarded and trusted Alternate Financial services brand, LOLC Al-Falaah was bestowed with more recognition in the year under review. During 2020/21, the Company was awarded three top awards, namely, as the IFN Best Islamic Leasing Provider 2020, SLIBFI Islamic Leasing Company 2020 Gold Award and IFFSA Islamic Leasing Company of the year 2020 Gold Award. LOLC Al-Falaah also won the Bronze award as the 'IFFSA Islamic Banking Window/Unit of the Year 2020'. Being recognised on the local and global stage is a clear testament to the Company's industry leadership.

Product-wise Performance

The Company's comprehensive portfolio of products and services are in compliance with the principles of Islamic economic principles and cater to personal business needs of its diverse customer base. The product portfolio consists of a superior range of Alternate Financial Solutions in areas of Profit Sharing Investment and Savings Accounts, Leasing, Trade Financing, Import Financing, Property and Project Financing and Working Capital Financing. All financial activities of LOLC Al-Falaah are supervised by a dedicated and independent SSB chaired by a mix of industry leading local and international scholars

Mudharabah Fixed Deposits and Savings

The climate of liquidity crunch and lack of disposable incomes among customers who had to contend with reduced incomes and business closures due to lockdowns did not create an ideal atmosphere for deposit mobilisation. Nevertheless, the Company managed to draw in funds and record 11% growth while simultaneously honouring withdrawals from customers and ended the financial year under review by recording healthy growth in difficult times.

The 'Al-Falaah Ladies Savings Account' and 'Al-Falaah Junior Mudharabah Savings Account' remain popular safety net products for female customer and minors. Apart from encouraging savings, these products promote principles of Alternate Finance amongst the younger generation. The 'Al-Falaah Senior Savings Account' promotes financial independence amongst senior citizens.

Wakalah for Investment

LOLC Al-Falaah's financial stability and its backing by LOLC Finance PLC, which is Sri Lanka's largest Non-Banking Financial Institution (NBFI) being rated [SL] A with Stable Outlook by ICRA Lanka Limited, gives immense confidence to investors. As a result the product recorded 3% growth amidst the subdued climate while overall the Company's savings and deposits recorded 6% growth which is commendable under the circumstances.

Ijarah for Leasing

The lockdown, travel restrictions and vehicle import restrictions hampered normal business activity. The inability of businesses to operate for more than six months of the year under review resulted in weak interest for vehicle purchases coupled with the unfavourable exchange rate, although the Company managed to sustain its leasing book during 2020/21.

Murabaha for Trade Finance

The pandemic-induced economic slowdown and intermittent closure of shops had a direct impact on the product which witnessed a 30% drop. Customers reported weak trading activities and as a result did not avail of financing for maintaining large stocks.

Wakalah for Business and Working Capital Finance

The lack of appetite for business development resulted in a decline in the product performance, albeit to a lesser extent, as compared to the previous year. The lack of optimal monetary and fiscal conditions curbed traditional economic activities and with the economy contracting, this product, which is mostly used for business expansion and development, experienced low demand.

Musawamah for Import Finance

This product is preferred by importers, but during the period under review, considering the strict import ban and the volatility in exchange rates and weak consumer demand, business conditions were not conducive as many customer segments were adversely affected by the negative sequence of events through the year.

Diminishing Musharakah for Property and Project Finance

This versatile product provides financial assistance for working capital and refinance as well as purchase of assets. Considering the circumstances during the year, businesses avoided capital investments, therefore the Company engaged in refinancing to assist customers to keep their businesses afloat. This product was able to provide a timely and flexible solution to customers to suit the prevailing climate during the year under review. The Company went the extra mile to absorb risks to help finance customers. As a result, Diminishing Musharakah for working capital product grew by 22%. This product structure provides a multitude of functions to cater to different needs of clients such as raising funds, restructuring, rescheduling as well as purchase options.

Future Outlook

Undeterred by the unfavourable climate during the year, LOLC Al-Falaah introduced two new products, the returns of which will accrue during the upcoming financial year. The new products were designed to cater to evolving customer needs of customers. The main purpose behind the ground-breaking Wadi'ah Gold Loan Facility was to give financial access to the grass-root level clients who do not have direct access to banking and finance, but require small cash advances to develop daily businesses and self-employment. This is the first time that an alternate financial services company in Sri Lanka is offering this type of facility. Al-Falaah Wadi'ah allows customers the benefit of obtaining an interest-free maximum cash advance in the industry at zero mark-up against the gold storage value for any emergencies. Al-Falaah aims to make the facility available across all LOLC Finance branches and dedicated Al-Falaah centres island-wide by the end of the 1st quarter of 2021.

The Wakala-Speedraft will also be launched as an alternate financial solution that complements the most popular conventional 'LOLC Speed-Draft' or permanent and temporary overdraft facilities offered by commercial banks. The 'Wakala Speed Draft' was devised to help increase the liquidity of the business and facilitate a greater level of business activity, allowing greater flexibility of usage and repayment as and when customers require, especially during the present business climate. One of its main features is its ability to draw-down funds in flexible quantums based on the customer's cash-need and repayment capabilities.

Considering the commitment of the Government to accelerate the vaccination drive against COVID-19 and the tourism authorities gearing up to welcome tourists back to the island, the year ahead should witness renewed business confidence and an uptick in economic activities as organisations of all sizes become accustomed to working within the new normal.

As is evident with the launch of these unique products, LOLC Al-Falaah continued on its path of innovation in 2020/21 and expects to further leverage on technology to infuse speed and convenience to customers.

Going ahead, LOLC Al-Falaah will remain focused on capitalising on the situation to offer solutions to customers to address their urgent financial needs. Further, the Company processes will be fully automated for end-to-end digitalisation at customers' doorsteps with the backing of parent LOLC Finance's fintech capabilities.

Credit Cards

Despite the challenging operating environment in the year under review, the Credit Cards unit successfully achieved a portfolio of over Rs. 1.6 Bn while recording an operational profit of Rs. 32 Mn. One of the key factors for this impressive positive performance was that the Company continued to invest in upgrading credit card features while investing in digital technologies to be ahead of the curve. In the months of January, February and March 2021, it became the single highest issuer of credit cards in the industry: of the 20,919 cards issued in the first two months of 2021, LOLC Finance credit cards accounted for 20%.

The travel restrictions during the year accelerated the Company's investment in digitalisation. An online credit card application was launched for customers to apply for a credit card even during travel restrictions, purely as an online application or through a QR scan. Moreover, in keeping with its customer-oriented approach, cardholders were given an extension on payments and granted fee waivers based on individual needs across the country depending on which areas were most affected by the pandemic.

Another vital success factor was that the Company continued to ensure value addition to cardholders. During the year under review and for the first time in the financial services industry, a credit card product for state sector employees and pensioners was launched, which has empowered this segment of customers to enjoy convenience and an improved lifestyle. LOLC Savi applicants are not required to pay the joining fee and the annual charges which make their experience with the card much more rewarding. A special savings account with a free ATM card with zero charges on withdrawals and online transactions are among the many benefits offered with the Savi card. In addition, LOLC Finance has partnered with some of the country's leading retail and lifestyle outlets to offer valuable discounts and offers to Savi cardholders in LOLC Finance's mission to support and promote cashless transactions to all segments of the society. In addition, a consumer loan up to Rs. 2.5 Mn will be extended based on the SAVI cardholder s' financial discipline.

Infusing greater value, LOLC Finance credit cards have forged a strategic partnership with the Buddhist channel to sponsor a one-hour show every Poya day. In order to invite cardholders keen to participate in the Buddhist Channel, LOLC Savi cardholders are invited by turn to appear on the TV programme, which usually has a long waiting list.

Leveraging on the momentum gained during the year despite challenges, the future plans entail automating processing with a special focus on boosting online data capturing and integration with robotic process automation processes for greater efficiency and better customer service.

Reflecting high compliance standards, the Company has received Central Bank approval to accept credit card payments, which expands payment options for customers to repay their credit card in addition to LOLC branches and online payments. Approval has been obtained to have Commercial Leasing and Finance PLC (CLC) and LOLC Development Finance accept credit card payments. Since CLC and LODF have branches in remote rural areas, this will enhance convenience for customers from those areas to make payments without having to travel vast distances to access our branches. Regional agents are also being brought on-board to acquire credit card applications to widen cardholder base to rural areas. A special awareness programme on credit cards was also conducted amongst garment employees.

In keeping with the Company's aim to innovate, a co-branded credit card is in the process of being launched in partnership with CLC – making this the first time that two financial institutions will launch a co-branded credit card for unprecedented cardholder convenience.

In order to widen the cardholder base, the Company conducted trainings for potential customers in rural areas on benefits of credit cards and how to use them, in tandem with raising awareness about managing finances prudently. This is aligned to the Company's focus on the bottom of the pyramid customers and to promote digital payments and cashless payments for the mass market.

Currently LOLC Finance issues four main card types, namely Pulse, Gold, Platinum and World. Within these, there are subcategories based on existing client types, professions and other identified customer segments to best suit requirements. The LOLC MasterCard is embedded with an EMV Chip, ensuring the cardholder of maximum data security and safeguarding financial interest. The card is NFC enabled, assuring convenience and ease to the cardholder when transacting.

Credit Cards - Call Centre Operations

Parallel to the efforts taken to increase credit card issuance, steps were taken to improve customer satisfaction through the trilingual Call Centre as it plays a key role in the card business for both existing and potential customers. After collecting the preferred language option, all communication would happen based on the language choice considering the credit card base stretches from Jaffna to Matara. By on-boarding merchants from small towns, the Company is able to conduct targeted credit card promotions in these more remote regions to benefit the local merchants and cardholders. During extended lockdown periods when branches were unable to operate, the Call Centre remained operational and a vital contact point for cardholders to satisfy their queries. The Call Centre staff receives regular training in customer care to offer a personalised service to cardholders and other customers.

Recoveries

The year under review posed unprecedented challenges to the recovery operations, primarily not being able to move with lockdowns and health concerns, however in spite of the extenuating circumstances prevailing in the pandemic-affected year, the Recoveries operation optimised its performance by capitalising on any emerging opportunities. Some of the Company's key customers from the tourism sector and those involved indirectly were severely impacted by the economic fallout of the COVID-19 outbreak. In response, the Central Bank of Sri Lanka announced moratoriums to support those badly affected, which hampered collections. Despite these challenges, close relationships with customers helped record the highest collections for March 2021 at year-end, with NPLs maintained at the industry average.

Despite the lockdown, the Recoveries team employed strategies to circumvent the new challenges of mobility such as on-boarding customers onto the iPay platform to facilitate digital transactions via the leading lifestyle platform from the safety of their homes. Enhanced digital literacy of the clients addressed most of the issues associated with the necessity of having a physical meeting and ensure that they can make their payments through the account. The newly-upgraded call centres remained operational to support the Recoveries' effort while greater emphasis was placed on mobile recoveries as a way to offer customer convenience while keeping staff and customers safe.

The imposition of a ban on vehicle imports caused prices of vehicles in the market to rise sharply, which prompted some customers to take advantage of the high prices by selling their vehicles and settling their dues with the Company, which helped collections. With salary cuts and temporary suspension of vehicle allowances etc. by companies, many of the customers found it difficult to make repayments. The Company partnered many customers to offer waivers to help them settle their outstanding dues with us. Vehicle leasing constitutes almost all of the repossession business for NBFIs, which indicates the severe impact being felt by the financial services industry.

During the year, the loan book was intentionally reduced to protect the Company from defaulted payments. A prudent approach, a dedicated Recoveries team and strong relationships with customers helped delivering strong recoveries in an ever-challenging year.

Branch Network

LOLC Finance's island-wide network of 139 branches serves as the primary customer touch points, serving its loyal customers year after year. The strategically located branches are situated in key towns and cities with a high concentration of SMEs and in areas with greater population density, serving the needs of the people at the bottom of the pyramid. The branch network constitutes nearly 90% of the Company's Manufactured Capital.

In order to maintain cost controls, 129 of the total number of branches are rented locations, while only six are owned by LOLC Finance. In addition, the Company has set up four student savings centres in schools to facilitate the financial needs of students and to inculcate the savings habit while enhancing financial literacy at a young age.

The Company's efforts to transform some of its branches into digital branches is underway, having already been successful in fully digitalising five branches in Panadura, Piliyandala, Kohuwala, Kalutara and Horana, where 90% of back-end process flows were automated enabling all physical documentation (except those mandated by law) to be migrated to digital platforms. This initiative will be rolled out further to more branches as the economic situation improves in the country. The branch digitalisation will help reduce the carbon footprint of the Company to a significant extent whilst also eliminating the excessive use of paper, energy and other personnel costs.

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

Overview

As a leader in the Non-Banking Financial Institution (NBFI) sector, LOLC Finance PLC (LOFC) concluded yet another successful financial year amidst many challenges in the operating environment following the prolonged economic downturn with the spread of COVID 19. The Company continued to reap benefits from the far-reaching branch network established over the years and further retained its No. 1 position in the NBFI sector in terms of total assets and customer deposits. This position was strengthened by the strong confidence placed by the valued customers in the LOLC brand and the superior customer services of the Company.

The financial year under review posed challenges in terms of the economic environment, with increasing pressure on credit quality due to the outbreak of COVID 19 causing negative growth in the economy. This impacted the lending customers resulted in significant increase in overdue followed by higher provisions putting pressure on the profit margins. To arrest the situation, the management took steps to focus on collections and improving credit quality rather a shift from portfolio growth. The Company strengthened its credit controls with the implementation of fintech solutions, focussing more on asset backed lending. Despite the drop- in interest rates, strong customer confidence in the Company, resulted in a steady inflow of deposits. This assisted the Company to change its borrowings mix by reducing

"LOLC FINANCE PLC CONCLUDED YET ANOTHER SUCCESSFUL FINANCIAL YEAR AMIDST MANY CHALLENGES IN THE OPERATING ENVIRONMENT.

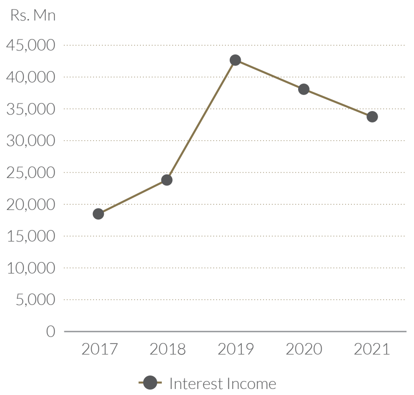
bank borrowings and increasing the proportion of retail customer deposits. These strategies helped the Company to maintain healthy profitability levels during the financial year.

A detailed analysis of the financial performance and financial position of the Company follows in this section of the Annual Report.

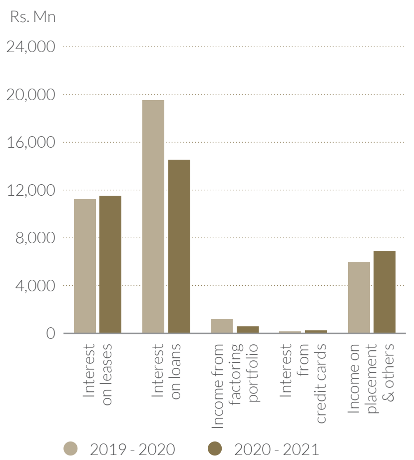
Interest Income

LOFC reported Rs. 33.76 Bn as interest income during the year, down by 11% compared with the previous year, due to the reduction in portfolio growth under the prolonged economic downturn following the spread of COVID 19. The position of the Company over the last 5 years in terms of interest income is as follows.

Movement of Interest Income in Last Consecutive Five Years



Interest Income Comparision 2019-2020 & 2020-2021



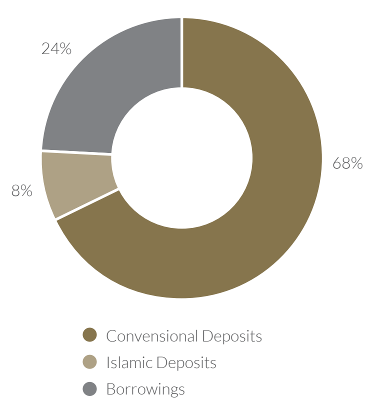
Interest income from leases constituted 34% (2019/20 - 29%) of the total interest income and showed an increase of 5% to Rs. 11.50 Bn. Interest income from loans was the biggest revenue generator (43% from interest income) for the Company, at Rs. 14.53 Bn, however, showing a negative growth of 26% compared to last financial year which is in line with declining portfolio.

Factoring income showed a decrease of 51% over the previous year. This was primarily because of the curtailing the factoring business due to negative economic conditions.

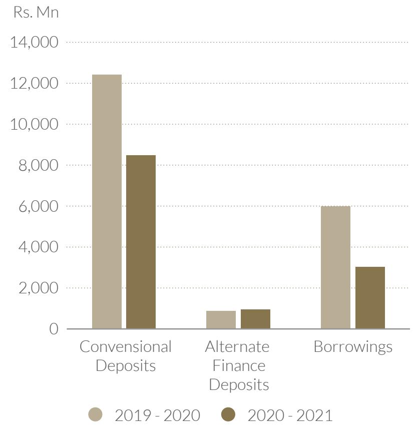
Interest Expenses

Total interest expense declined by 35% and this was a result from the sliding interest ceiling on deposits and debt instruments as published by the Central Bank of Sri Lanka. As majority of the portfolio is funded through customer deposits with 76% of the interest expense being attributed to customer deposits. The interest on conventional deposits declined by 32% while the profit share cost on alternate finance deposits increased by 8%. The interest on borrowings showed a decrease of 50% compared with the last financial year due to the low-cost borrowings from banks and other funding institutions.

Interest Expense Composition 2020-2021



Interest Expense Comparision (2019-2020 & 2020-2021)



Net Interest Income, Other operating income and Expenses

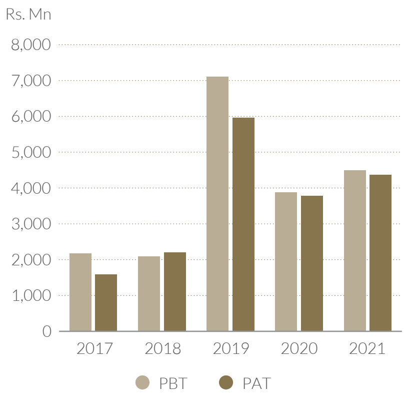
The decline in interest income was Rs. 4.32 Bn (11%) for the year compared with the comparative period. The decline was primarily due to the reduction in interest rates and moratorium granted to customers in compliance with the directions issued by the Central Bank of Sri Lanka. Moreover, decline in the interest income was also affected by the reduction in the lease portfolio, due to the restrictions imposed on importation of motor vehicles. On the other hand, interest expense reduced by Rs. 6.82 Bn which was 35% less than previous year. Despite the decrease in the lending portfolio prompting a reduction in interest income, the overall net interest income increased by Rs. 2.5 Bn, a 13% growth due to the rapid drop in the overall borrowings cost enjoyed due to the steep drop in the interest rate, reducing the overall borrowing costs on the deposits. Other operating income increased by 109% reaching Rs. 10.30 Bn compared to Rs. 5 Bn reported in the previous financial year. This was primarily due to the increase in fair value of investment properties, investment securities and the robust collections efforts made during current financial year.

Total overheads of the Company decreased by 8% and we acted decisively to put in place measures to adapt an efficient cost control mechanism over the financial year to protect company's cash flows.

Profitability

The Company managed the external shocks well and recorded Rs. 4,37 Bn profit after tax (PAT) for the financial year despite the pressures of a sluggish economic growth and asset quality deteriorations due to the spread of COVID 19. Return on Assets (ROA) and Return on Equity (ROE) were 2.41% and 13.00% respectively, as against 1.88% and 13.98% reported in the previous year.

Profitability



Asset Base

Due to the challenging economic conditions, Company's total assets base decreased by Rs. 22 Bn, a 11% decrease against the previous financial year. The company's total assets include cash and cash equivalents, lending portfolio, investments in government securities and deposits, investments in properties, other receivables and fixed assets. The lending portfolio constituted 61% of the total assets and stood at Rs. 105 Bn which was Rs. 134 Bn in the previous year and this contraction was mainly due to the outbreak of COVID 19 together with the restrictions imposed on the importation of vehicles which eventually resulted in the lending portfolio shrinking. Investments in government securities & deposits with banks and other financial institutions were Rs. 29 Bn. 17% of the total assets. Investment properties (IP) grew by 32% and stood at Rs. 21 Bn, representing 12% of total assets. As investment property prices appreciated, leading to higher valuations, it is an additional benefit to the company.

Lending Portfolio

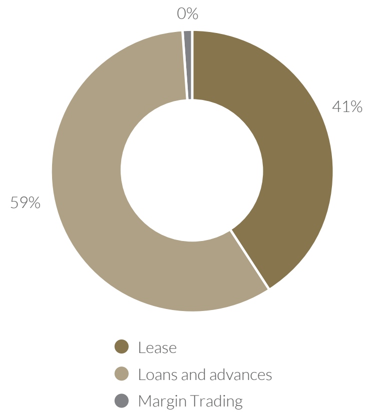
The overall portfolio declined by 22% year on year due to the sluggish economic condition with the outbreak of COVID 19 together with the restrictions imposed on vehicle importation declared by the government at the onset of the COVID 19 pandemic in March 2020.

The major part of the portfolio (59%) is consisting of loans, which included mortgage loans, sundry loans, gold loans, and credit card. These loans were mainly financed for both working capital requirements and consumption requirements of various customers. This loan portfolio was impacted in multiple ways starting with a sharp increase in NPL's owing to the widespread economic uncertainty. As a result of that, net portfolio decreased by Rs. 26 Bn which was a 29% decrease in comparison to previous financial year. Credit card portfolio is one of the high yielding products which was introduced 3 years back, increased by Rs. 327 Mn which was a 31% increase during the current period in comparison to previous financial year. Gold loan portfolio showed a remarkable progress during the current financial year increasing by Rs. 3.38 Bn which was a 55% increase against previous finance year. Company was on the move to accelerate gold loan portfolio significantly to capitalise the competitive advantage of gold loan business as this was 100% secured loan facility.

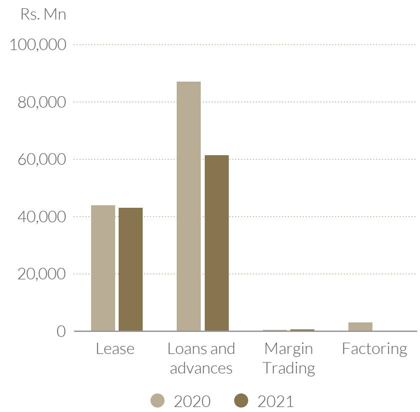
The other part of the portfolio (41%) constituted of Leases which included all types of vehicle and equipment leases. Strategic actions were taken to capitalise the market opportunities to maintain the portfolio at satisfactory levels despite the existing challenges in the market. As a result, we were able to maintain the portfolio at same levels with a slight decrease in comparison to the previous financial year.

The Islamic product portfolio stood at Rs. 10.39 Bn and remained at 10% of the total lending portfolio,

Lending Portfolio



Comparison of Main Component in Lending Portfolio (2020-2021 & 2019 - 2020)

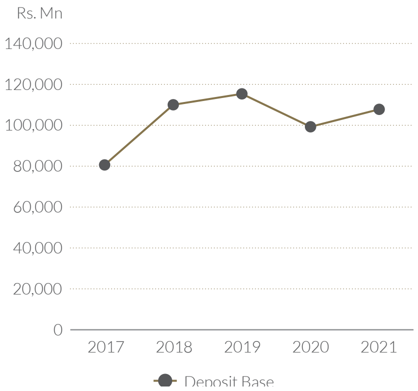


Funding – Deposits and Borrowings

LOFC customer deposits increased by Rs. 8.53 Bn which was a 9% increase in comparison to previous financial year, despite the record low interest rates in the market. Although, CBSL continued to reduce the maximum deposit rate throughout the year, competitive interest rates and wide range of products attracted new depositors to the company retaining the title of the largest deposit taking institution in the NBFI sector.

Conventional deposits remained as the Company's primary source of funding, recorded an increase of 3% from Rs. 81 Bn (2019/20) to Rs. 83 Bn despite the economic uncertainty triggered by the COVID 19 pandemic. Also, deposits from the alternate business unit increased to Rs. 11.82 Bn which was a 6% increase in comparison to previous financial year and foreign currency deposits increased significantly to Rs. 10 Bn which was a 157% increase at the end of the financial year. The risk of exchange rate fluctuations is effectively managed via forward exchange rate contracts and back-to-back deposits entered by the Company resulting in zero exposure.

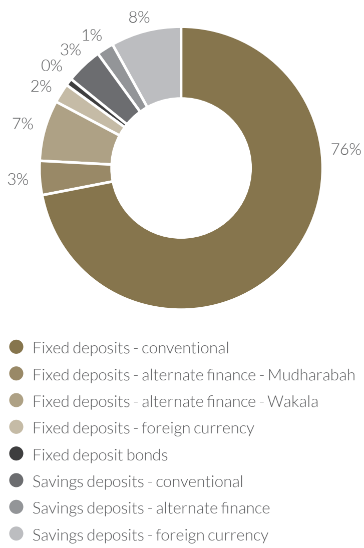
Movement of Deposit Base in Last Consecutive Five Years



Other borrowings which include short term loans, long term loans, finance leases and debentures decreased from Rs. 54 Bn to Rs. 19 Bn due to the contractions of business with the outbreak of COVID 19. During the year, the Company effectively managed operating cashflows and settled its short-term and long-term borrowings accordingly. As a result, the borrowing base reduced by 65% and stood at Rs. 19 Bn at the end of the financial year.

Customer deposits constituted 85% (Up from 2020's 65%) of the total borrowings and the balance 15% (down from 35% last year) was from banks and other borrowings.

Deposit Composition 2020 - 2021



Regulatory ratios

Capital Adequacy Ratio (CAR)

Licensed Finance Companies should maintain minimum core capital adequacy ratio (Tier 1) of 7% and total capital adequacy ratio (Tier 11) of 11% as per the Finance Business Act Direction No. 3 of 2018. Retained profits strengthen the capital adequacy requirements of the company. The Tier I / Core capital adequacy ratio was 15.88 % (2019/20 - 13.25%) and the total Capital Adequacy Ratio (Tier 11) reached 18.01 % (2019/20-14.66%), well above the regulatory required limit.

Capital Funds to Deposit Ratio

The capital funds to deposits ratio decreased to 28.89% as of March 31, 2021 compared to the comparative period (29.27%). The ratio was significantly higher than the required minimum level of 10% imposed by Central Bank of Sri Lanka.

Liquid Assets

Required minimum liquid assets remain at 6% of time deposits, 10% of savings deposits and 5% of outstanding borrowings excluding secured borrowings and unsecured foreign currency borrowings as per the Finance Business Act Direction No. 07 of 2020. The liquid assets of the Company stood at Rs. 30.35 Bn which was well above the required minimum amount of Rs. 7.06 Bn. The liquid assets are maintained in government securities and deposits with banks and other financial institutions optimising returns to the Company.

Non-Performing Loans and Advances (NPL)

The year under review was challenging, for the lending business due to the outbreak of COVID 19 and almost all the sectors were adversely affected by this pandemic deteriorating the asset quality of all sectors. The industry-wide non-performing (NPL) ratio was 13.9% whereas the Company recorded NPL ratio was 12.6% which was below the industry averages.

In conclusion, the Company is hoping for economic stability with a conducive environment for growth across all the industries in Sri Lanka despite medium term shocks that might affect certain sectors due to the COVID 19 pandemic. The strategies implemented to improve credit quality and futuristic strategic plans of the Company will ensure moderate growth for next couple of years with strong growth in the medium to long term. State-of-the-art fintech solutions will be implemented to enhance the efficiency and the productivity of business processes while focusing on superior customer experience. This ultimately will help us to thrive in a volatile market conditions and engender higher profitability in the future periods.

MANUFACTURED CAPITAL

Customer Relationship Management

The core of LOLC's business strategy, Customer Relationship Management (CRM) comprises activities, strategies and technologies that the organisation uses to manage its interactions with current and potential customers. CRM helps the businesses build a relationship with its customers to create loyalty and customer retention. Operating in a highly competitive market, it is important to strengthen customer loyalty as it is more cost-effective to service and maintain existing, loyal customers than to acquire new customers. Furthermore, loyal customers become good brand ambassadors and business introducers, which helps in increasing market share. At the core of the CRM is the Central Contact Centre which serves customers 24x7.

During the year under review, the Central Contact Centre faced the challenges posed by the pandemic where the Company had to move swiftly to introduce cashless transactions to customers and also be the primary and only point of contact for customers at certain times, for all their requirements related to services, as branch operations were continuously hampered by closures due to lockdowns. The team was also faced with the added challenge of operating the Central Contact Centre remotely, as the agents had to

> "THE COMPANY HAD TO MOVE SWIFTLY TO INTRODUCE CASHLESS TRANSACTIONS TO CUSTOMERS AND ALSO BE THE PRIMARY AND ONLY POINT OF CONTACT FOR CUSTOMERS.

work from home during the lockdowns. Since the agents were already enabled to work remotely as a contingency plan at the time the contact centre strategy was formulated, it was easy to continue to serve customers throughout, at full capacity, free of any interruptions.

Greater focus was placed on empowering customers and making their day-to-day transactions easier and pandemic-proof by introducing them to e-commerce through credit cards and digital payments via iPay. When doing so, customer confidentiality was maintained, and the customers were provided with a secure environment to carry out their transactions. Most customers were used to seeking the assistance of a trusted relative, such as a son/daughter/grandchild/spouse when carrying out their financial transactions and it was quite a challenge to engage them directly in the e-commerce platform by guiding and educating them on the usage.

Call durations became longer as agents had to explain things in more detail and many repeat calls were received from customers seeking assistance and reassurance that their transactions were secure, as it was a totally new concept for them, which was almost a paradigm shift. Although at first it was a laborious task to familiarise them with these two products as they were used to cash payments, in a short period, they were widely accepted by the customers and the transition to cashless payments happened smoothly and on a timely basis. Along with the advent to e-commerce, customer interactions increased, and customers became more demanding, as they wanted real-time support. For a customer-centric business, digital transformation plays an especially important role in terms of the contact centre. Expectations continue to rise as customers seek real-time, personalised and efficient support to solve their issues through the channel that is most convenient for them. If the contact centre is not able to provide the sort of service that is expected, it will most likely fall short of customer expectations.

Greater emphasis was placed on increasing customer interaction channels by making it possible for customers to contact the Company via emails and social media, as more and more customers look for support through these mediums. Multiple channels were maintained for the different customer segments and to train the team on how to effectively communicate with all segments.

Social media marketing has become an important component of the Company's advertising strategy, as it is an effective medium to reach certain target customer segments. While expanding the services of the Central Contact Centre (CCC) in order to maintain high customer satisfaction levels, the Company is leveraging technology to effectively cope with the increasing volume of customer interactions.

INTELLECTUAL CAPITAL

LOLC Technology Services Ltd or LOLC Tech functions as the centralised Group Information Technology (IT) services arm. Over the years, LOLC Tech has functioned as the enabler for all IT projects and initiatives carried out at LOLC Finance PLC. From provision of end user computing devices, to process automations and system implementations, LOLC Tech and its 200+ dedicated staff, have been a key driving force behind LOLC Finance PLC's success story.

Facilitating Work from Home (WFH)

The COVID-19 pandemic brought about a new set of challenges. With users being forced to work from home for extended periods of time, the need to provide a secure, yet hassle-free experience arose unexpectedly.

Users had been provided with dongles to help them connect remotely during instances where they were not able to be physically present in office. However, this solution was not convenient for extended time periods. To address this sudden requirement, the IT team provided several alternatives to suit the immediate needs of the business users. Dongles were provided from multiple telecommunication service providers in order to cater to a wider staff count, prevent dependency on a single service provider and address

> "LOLC TECH. AND ITS 200+ DEDICATED STAFF HAVE BEEN A KEY DRIVING FORCE BEHIND LOLC FINANCE PLC'S SUCCESS STORY.

coverage issues faced by certain service providers in certain areas. Several Virtual Private Network (VPN) client solutions from reputed vendors were also rolled out to users who did not have dongles. With a VPN client, users could connect their corporate devices to any wireless internet connection, but be able to access all corporate network resources, along with the necessary security controls. The user experience and controls are identical to that of physically being in office. The ability to provide multiple remote connectivity solutions at such short notice was one of the key factors behind the LOLC Group's quick and seamless transition to a Work from Home (WFH) model, which saw the entire organisation (including call centre functions) operating from outside office from the onset of the pandemic.

The WFH initiative also brought about cost savings to the company, which helped increase the rewards for employees. Staff were encouraged and motivated to follow training programmes and online certification courses, which helped them immensely in providing a higher quality of service to the Group, as well as assisting in their personal growth. The success of the WFH programme enabled relocation of all IT staff to a single building, eliminating the inconveniences that existed while operating from two locations, whilst also delivering considerable cost savings. The Group's eLearning platform was used to further assist training and development initiatives. This proved to be extremely effective and useful during the periods where travel restrictions were imposed.

Datacentre and Network Operations

The year under review was significant for the Group's data centre operations as the demand for data centre resources grew by 40% year-on-year. Despite having obtained budgetary approval, the Company managed to cater to the entire increase in workload without any upgrades to the infrastructure. Hence, a decision was taken to perform an upgrade in 2020/21 in order to ensure continued performance as well as provision for the group's rapid expansion plans.

LOLC Group's primary Enterprise Data Centre was initially set up in 2009. Infrastructure upgrades were carried out in 2014 and 2017. Since the last upgrade in 2017, several new business systems were introduced, including the Corporate Internet Banking solution. The LOLC Group operates two datacentres, the primary one at LOLC Group Head Office (Data Centre 1 - DC1) and the Secondary Data Centre (DC2) site hosted at a Managed Data Centre of a leading Telecommunications service provider. During the upgrade exercise, care was taken to ensure both sites had an equal capacity in terms of processing power, which will allow the team to operate from either data centre with no performance impacts, as the underlying infrastructure is the same at both locations. This project is currently in its final stages.

As the second phase of this exercise, the current secondary data centre (DC2) will become the primary data centre and the data centre located at the LOLC Head office will be shifted to another managed service provider to function as the Primary site. By locating both data centres with managed service providers, the aim is to eliminate the additional burden of maintaining continual power supply, cooling, environmental monitoring etc. internally. These will be handled by the service provider using domain experts. The service provider will also have a contractual obligation to ensure downtimes are at an absolute minimum.

Information Security & Compliance

Information security has been a priority of the LOLC Group for over a decade. As a result, a separate functional unit - INFOSEC - has been established to oversee information security and compliance related matters of the organisation. Over the years, INFOSEC has taken a number of initiatives to enhance and ensure the security of the organisation's critical information. Some of these have been industry firsts and were adopted by other banking and financial institutions much later. This greatly assisted the group's digitalisation drive as most of the core security infrastructure was already in place.

One of the biggest challenges faced was the onset of the COVID-19 pandemic, which required the entire user base to work remotely, whilst ensuring enhanced levels of security controls. Group IT adopted a 'Zero Trust' approach to securing data sometime back. 'Trust no one" is the key concept of Zero Trust, which is a framework that requires all users who are both in and outside of the organisation's network to be authenticated, authorized, and continuously validated for security configuration and posture before being granted access to applications and data. This greatly helped ensure security controls were the same or even more, whilst users could easily carry on with their daily tasks remotely.

All payment card related information handled by LOLC is stored according to Payment Card Industry Data Security Standards (PCIDSS) guidelines. Card numbers (where required) are stored in encrypted formats and are only made fully visible to users with an identified and approved business need. PCIDSS implementation is in progress and currently in the final remediation milestone. Other controls, including tokenisation (to ensure sensitive information is not communicated in readable formats during daily operations), and several other globally practised security mechanisms have been implemented to further secure sensitive information.

Compliance Standards

LOLC Group IT is the first in the banking and financial service sector in Sri Lanka to obtain ISO/IEC 27001:2005 certification for their datacentre in 2009. Now in its 11th year, having upgraded to the 2013 version, the certification ensures adequate processes, procedures and controls are implemented to provide the highest possible level of protection for confidential data.

This includes coverage of all end user computers, since they carry a significant level of risk.

ISO 9001:2015 has been obtained to ensure quality in the software development process and ISO 20000:2018 to ensure efficient and effective delivery of IT services. Best practices outlined in the General Data Protection Regulation (GDPR standard) are also followed when providing protection for sensitive customer data. LOLC Group IT is the first organisations in Sri Lanka to obtain all three ISO standards addressing the entire end-to-end IT service life-cycle.

An internal Security Information and Event Management (SIEM) solution has been implemented and is operational for almost a decade. This solution performs real-time logging, monitoring and to generate alerts on suspicious events, which helps to take necessary actions (including informing the relevant users) in order to prevent (or minimize) the attack. The possibility of implementing a group-level Security Operations Centre (SOC) is currently under evaluation. This will take the current SIEM to the next level by introducing analytics, correlation and predictive capabilities which would help the organisation better protect as well as to be better prepared against any attacks that may come through.

Data Protection

With digitalisation, the volumes of data being stored have increased rapidly. Auditing and monitoring are critical for detecting anomalies and also help in forensic analysis in case of a data breach. It is also important to understand the risk associated with individual systems, so that one can determine the level of visibility required for activities on those systems. To address this concern more effectively, the Company commenced a revamp of its Audit Vault solution. The Audit Vault consolidates audit data from databases, operating systems, directories, file systems, as well as application specific audit data, maintaining an irrefutable record of actions taken whether they are generated by a database, directory, or an operating system.

In 2017, the LOLC Group implemented a Web Application Firewall to provide additional protection to critical public facing web applications. Having completed its fourth year, the Group took a bold decision of upgrading the existing solution to a next-generation, managed solution. Having continued with the same vendor, this new solution features a highly skilled, dedicated team managing maintenance and configuration aspects of the group Web Application Firewall. The possibilities of implementing the new Audit Vault solution too on a similar operational model, are being evaluated.

Opting for a managed services model will help the Group view its security posture from a different perspective, whilst ensuring industry best practices are adopted during the configuration and maintenance process. Since the service providers have dedicated resources towards providing this service, the Group will benefit from cost optimisations brought on by the service provider's economies of scale. This would also ease the burden on existing human resources and help direct their time and efforts more fruitfully - towards additional research and development activities.

FusionX

The group also commenced the development and roll-out of FusionX, a next generation, exponential, cloud-based financial services suite, designed to provide cutting edge features, performance and security. With the intention of replacing the existing core-Financials system, FusionX is based on first principles of design thinking for banking technology and is geared to facilitate easy adoption of open banking.

Modules in the current road-map are listed below:

- **Legal Business Process Redesign** (BPR)

  Currently in the LIVE environment and in use by the group
- **Customer On boarding (COB)**

  Common customer on boarding to carried out on the FusionX platform, which will facilitate a single point to on-board customers with Know Your Customer (KYC) and Anti Money Laundering (AML) integrations. Go-Live planned for end 2021.
- **Yard Management**

  Facilitating comprehensive, end-to-end yard management functions, this module is current under testing.
- Remaining modules (Term Deposits, Virtual Accounts, Loan Module, Collateral Management) are under development with go-live dates estimated by Q4 2021/ Q1 2022.

Apart from FusionX, several other Financial Sector initiatives were also developed and successfully implemented in the Live environment. These include:

- Cash in Hand - Teller Automation solution
- BPR exercise for Recovery performed and solution rolled out successfully
- Mobile Gold Loan Module & Gold Loan iPay integration
- XGEN total solution rolled out
- Housing Loan Module
- Corporate Internet Banking
- Paperless Project Phase 1
- Vehicle Valuation App
- Credit Information Bureau of Sri Lanka (CRIB) Host-to-Host (H2H) Automation and Data Extraction
- Anti-Money Laundering Module

- Fixed Deposit Settlement through the Common Electronic Fund Transfer Switch (CEFTS) and Real-Time Gross Settlement (RTGS)
- Loan against Fixed Deposit solution
- Credit Card Auto Debit Process
- Internal Rate of Return work-flow Phase 1 Automation
- Digital Bank Account introduced through iPay
- Rental Recovery through internal Savings accounts solution
- Rental Recovery through external bank (Direct Debit Process)
- Letter process automation such as Legal No Objection, Bulk Deletion and Department of Motor Traffic letters

On-going Financial sector projects include:

- Business Process Redesign (BPR) Exercise for Facility Creation Automation Development
- Digital lending Platform Development
- Lanka Quick Response (QR) Code implementation

Robotic Process Automation (RPA)

Robotic Process Automation (RPA) initiatives were also rolled out across the organisation, bringing about tremendous time and cost savings. All solutions were designed so that Robotic Process Automation (RPA) could function as a virtual human, thereby automating repetitive, logic based processes. In some instances, RPA resulted in time and effort savings close to a staggering 90%.

iPay transactions are increasing exponentially. Therefore, the reconciliations of transactions manually is a near impossible task. Further, daily reconciliations become a nightmare when performed manually. By implementing the RPA reconciliation, the Company managed to handle the process effectively and efficiently, with enormous cost savings.

Credit Card Business Unit has also fast-tracked their marketing activities, resulting in a tremendous growth in transaction numbers. RPA solutions have supported business operations to handle this increased load by automating daily reconciliation processes and helping us to expand the operation.

Further, automated emailing of customized daily reports relating to micro finance operations, savings department, finance operations and marketing operations has resulted in time and cost savings for the organization, whilst providing users with updated insights to the business operations.

Release of Document (ROD) process involves automatically checking Insurance and Facility due payments (from the Insurance and Fusion systems respectively) before authorising the release the security documents pertaining to leased motor vehicles. This project was also recognized as a Winner at the Sri Lanka Association for Software Services Companies (SLASSCOM) RPA Conference 2020.

Cheque details of staff & supplier online payment requests are automatically updated to the OASYS^ ticketing system from the Fusion system, providing the requesting parties with real-time updates on the status of the payment.

Reminder messages of Fixed Deposit (FD) activation delays as well as notifications on Minor accounts due to be converted to Major accounts, are automatically generated and forwarded to the respective branch/teams via RPA solutions.

As part of the organisation's Business Process Redesign exercise, a novel solution named "Smart Marketing Executive" was introduced consisting of a web and mobile application. As the name suggests, this has enabled Marketing Executives to perform their day-to-day activities with minimal interaction with backend officers, resulting in a paperless office environment as well as quick service to the customers.

iPay

Driving greater adoption and introducing new applications features for its customer and merchant base, iPay, LOLC Finance PLC's' unique fintech initiative, catapulted into the leading position amongst digital payment platforms in the country in the 2020/21 financial year. During the period under review, iPay evolved from a mere payment gateway into a beyond lifestyle payment application that offers unprecedented convenience as compared to competitors in the marketplace.

400%

iPay CUSTOMER BASE GROWTH

234%

iPay MERCHANT BASE GROWTH

Rs. 1.1 Bn

TRANSACTION VOLUMES OF iPay REACHED BY 31ST MARCH 2021

Distinguishing itself from competition and undaunted by the pandemic induced disruptions, iPay went full steam ahead to introduce new features offering customers the ability to open digital savings account, digital fixed deposits and credit card payment acceptance for an improved customer experience. This allows customers to transact fully via the iPay app, without having to visit any LOLC branches. While adopting its lifestyle application, iPay also took into account elements of the user experience and the customer journey to ensure a user-friendly interface that becomes an indispensable part of customers' daily life as a reliable financial services partner.

Its enhanced user experience is evidenced by the phenomenal growth experienced in its customer base which grew by as much as 400% while the merchant base also expanded by 234%. iPay recorded a monthly-wise turnover of more than 1,100% in March 2021 as compared to the corresponding month in the previous year. Outstripping competition, iPay's transaction volumes per month grew from Rs. 37 Mn per month to Rs. 1.1 Bn per month, which is a testimonial to the rapid adoption of the lifestyle fin-tech product amongst the almost over 24 apps in the market.

As the leading digital payment application, iPay has ambitious plans to upscale its reach by leveraging on the growth momentum to triple its user base through targeted strategies which will be rolled out in the coming financial year. Strengthening its partnerships with leading merchants around the country, iPay aims to further develop its business applications for its merchant base by extending a superior digital experience and an easy on-boarding process.

Sustainability is at the core of all operations at LOLC and to demonstrate this, iPay, along with offering digital financial services, will offer digital tree planting so as to calculate the carbon footprint for its customers and then induct them into a loyalty scheme. This feature will allow users to feel pride in associating with a 'green' app such as iPay and lend them a sense of contributing to the environment. In addition, iPay is looking at adding merchant acquiring partner s to the iPay platform to accelerate expansion, having already partnered with Visa and Master card. In the near future iPay will invite Amex, Union Pay and JCB as partners for collections of merchant payments and utility payments in order to offer a wider choice to customers. Against a global backdrop of a 'work from home' trend that became a norm during the pandemic induced mobility restrictions, iPay is an ideal payment partner for the young and old to make financial transactions from the safety of their homes, with the click of a few buttons on their mobile devices.

HUMAN CAPITAL

HR Review

At LOLC Finance PLC, Human Capital is considered a key element in improving the assets of the organisation and to develop a sustainable competitive advantage. In keeping with the innovative, agile and rapidly evolving nature of the Company, LOLC Finance invests heavily in the training and development of its employees whilst creating a conducive and supportive workplace. During the year under review, the main transformation emerged with the COVID-19 pandemic and HR had to take immediate steps to ensure the smooth transition of employees to remote work, manage the various HR challenges that arose during the period and all the while keep employees safe from COVID-19.

Safeguarding Employees during the Pandemic

The Company took some unprecedented, swift and appropriate measures to safeguard employees while ensuring operations continued without disruption for customers. Contingency plans were put into action to tackle the challenges arising from the pandemic for the Company's employees.

Funding was provided to support COVID-19 affected families, leave was granted for employees to undergo quarantine, and salaries and benefits were maintained as before, without any reductions, which gave employees the assurance and peace of mind they needed

"THE COMPANY TOOK SOME UNPRECEDENTED, SWIFT AND APPROPRIATE MEASURES TO SAFEGUARD EMPLOYEES WHILE ENSURING OPERATIONS CONTINUED.

amidst this stressful period. Employees were also provided financial support to avail of private medical treatment as necessary. The Company donated medical supplies to treatments centres, thereby building strong relationships with the LOLC brand, supported enthusiastically by employees. Furthermore, transportation was provided to employees who had to report to work to help them avoid public transportation, tests were also conducted amongst staff and protective gear provided as needed, while the premises were kept clean and sanitized in compliance with guidelines established by the health authorities.

Employees on their part had to become accustomed to working from home and were suitably backed by the right technology, as a result of which most departments managed the transition well and could continue their operations smoothly. The work from home mode continued after the end of the financial year under review.

An online survey was conducted amongst employees to assess the impact of COVID-19 on their personal and professional lives and based on the findings, the Company appointed a team of professional counsellors who are a resource that employees can avail of to discuss any psychological difficulties or stress they experience as a result of the lockdowns, uncertainty and fears of the infection. This resource has been widely used by employees who have appreciated the thoughtfulness of the Company.

Training and Development

The year was marked by conducting regular employee engagements differently and as such all training programmes were moved online with encouraging results. The HR department ensured a full calendar of training programmes for all staff cadres and even the Branch Management Development programme was held 100% virtually. The Company is on a business process re-engineering drive and employees were trained on those activities as well apart from technical and soft skills sessions. Meanwhile, the HR team kept updating employees about the pandemic with instructions to stay safe.

LOLC Finance has adopted training framework which effectively identifies skill/knowledge gaps through a comprehensive annual training needs gathering exercise which is formulated, taking into consideration, employee performance and annual business goals for each entity of the group. Trainings needs are structured into the three pillars of technical/job related capability development, professional/soft skills development and leadership development to ensure employees are job ready and their skills and knowledge is consistently upgraded for better performance outcomes.

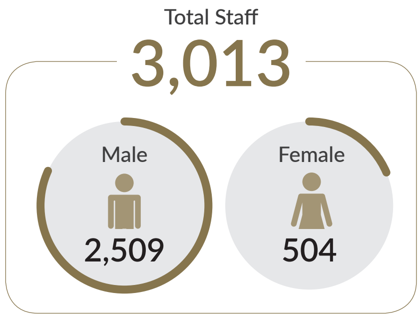
During the year, the Group adopted an end-to-end online recruitment on-boarding process. A fully operational grievance handling policy is also in place to address staff concerns and grievances being independently handled.

Rewards and Recognition

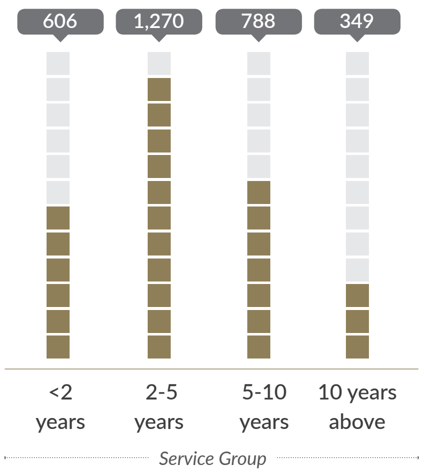
LOLC Finance asserts a highly performance-driven work ethos which is backed by a unique rewards and recognition framework that mainly consists of performance-based incentives, performance based bonuses, annual increments, and promotion scheme. This framework is designed with a clear intention of boosting employee morale, attracting, and retaining key talent whilst maintaining healthy attrition levels, thus elevating overall productivity. The state-of-the-art performance evaluation system helps in identifying and assessing individual contributions to the overall Company achievements. The performance evaluation mechanism categorises employees into different categories based on which employee reward and recognition is decided upon. Employees at LOLC Finance record high productivity, perform well in their roles and contribute to bring in profits, knowing that their efforts will be recognised and rewarded in a fair and just manner, whilst those who do not meet minimum performance criteria shall undergo rigorous training and development.

All activities in this regard were held online during the year.

Gender Analysis



Service Break Down



Carder Analysis

Succession Planning

The Company possesses tremendous talent, experience, and skill amongst its resources and in order to retain and motivate this talent, clear career progression has been charted, supported by investment in their further training and development. Strengthening of the leadership pipeline through succession planning has been key to LOLC Finance's success story of optimising talent. As a part of the overall HR strategy, a talent pipeline of experienced and capable employees that are prepared and ready to assume leadership roles are identified and developed. Promoting from within not only provides a clear path to greater compensation and responsibility, it also helps employees feel that they are been valued and identified to become future leaders of the organisation.

Remuneration and Welfare

In order to maximise organisational effectiveness, individuals must be motivated to deliver an organisation's goals and a competitive remuneration package to reward performance aligned to LOLC Finance's business model and strategy. High performers identified through the performance review process are further rewarded with additional increments, bonuses and promotions. Our approach is fundamentally based on rewarding each employee who makes a strong positive contribution to LOLC Finance's overall performance and does so in line with the required culture and mind-set. LOLC Finance participates in annual salary surveys, which helps to ensure our remuneration framework remains competitive and in line with industry benchmarks.

Employee Engagement

Having understood the importance of promoting greater social cohesion among employees, our annual event calendar provides a range of social and sports activities through which to build team spirit and camaraderie between employees at all levels. Although many sporting activities could not be held due to the pandemic, the HR team was successful in organising a host of cultural and social events online in 2020/21:

- Annual Pirith Ceremony - Pirith chanting took place at the LOLC Head Office with a minimum of staff while the rest could watch it online so that they too felt part of this annual tradition.
- Sinhala and Tamil New Year – The celebrations continued online for employees as various traditions were organised online and staff could vote via the digital platform for the Avurudu Kumara and Kumariya.
- Virtual Quiz Competition – This eagerly-anticipated event was held online with the enthusiastic participation of employees across all LOLC companies.

One of the encouraging outcomes by year-end was the fact that retention levels rose during the year as a direct result of the caring management practices adopted during the pandemic such that employees actually witnessed exactly how well LOLC was taking care of their wellbeing. Most employees have expressed a desire to return to work and the attempt will be to resume a hybrid model to ensure that operations remain uninterrupted at all times. The HR function in the Company remains committed to support employees in to realise their full potential while achieving the corporate vision.

SOCIAL AND RELATIONSHIP CAPITAL

Fuelled by the confidence and trust placed in the organisation, LOLC Finance gives back to its key stakeholder, namely, customers, suppliers and local communities, by creating a positive impact through various initiatives. The Company ensures its brand reputation remains strong by delivering its brand promise in a way that enhances the lives for these stakeholders. By closely engaging with stakeholders, LOLC Finance maintains its social license to operate.

CUSTOMER

As a key pillar of its success, LOLC Finance values its customer base and has established systems and processes that uphold and protect customer rights while offering a range of products and services that cater to their present and future requirements.

Ethical Products

The Company partners customers by ensuring their financial needs are met and their aspirations are fulfilled. It enables customers to uplift their living standards through responsible financial conduct and products that always place the customer interest at the forefront. This deliverable is reinforced with regular customer care training for employees to ensure customers are professionally guided and directed to the best products that fulfil their needs. The Company is in full compliance with the directives issued

"REGULAR CUSTOMER CARE TRAINING FOR EMPLOYEES TO ENSURE CUSTOMERS ARE PROFESSIONALLY GUIDED AND DIRECTED TO THE BEST PRODUCTS.

by the Central Bank of Sri Lanka regarding the disclosure of mandatory product information in all three languages, the display of interest rates and daily exchange rates at all our branches to give customers the opportunity to compare with peers before making an informed decision.

Customer Touchpoints

The Company reaches customers through a branch network spanning 25 districts and 139 branches across the country to ensure its services are available with ease. Digital adopted has been accelerated during 2020/21, as it encourages more customers to experience the sheer convenience of digital transactions. The adoption of LOLC Real Time online portal and the mobile app are gaining ground with each passing year. In order to increase the number of customer touchpoints, LOLC Finance's partnership with the mCash mobile money platform is extending unparalleled access to LOLC Finance customers and ease of connecting with over 16,000 mCash payment points located across the country. The iPay payment app grew in popularity and adoption, especially during the lockdown period, when more and more customers were on-boarded to facilitate online payments. The Company plans to enhance its digital platforms further to engage with customers.

Partnering Customers

The Company has mapped the entire life-cycle of customer relationships and ensured that its employees are able to provide the right solutions at each stage to uplift the customers and retain and attract new ones. Relationship-building and grievance-handling are the pivots on which LOLC Finance builds its customer engagement strategy which is delivered via Relationship Managers, front office customer service personnel and call centre agents, along with dedicated social media relations officers. Regular customer feedback and surveys are conducted to connect with our customers and understand their behaviour. Enhancing customer communication and addressing their needs and expectations in this manner forms the basis of all frontline and product-oriented decision-making, which further reflects our customer-centric philosophy. LOLC Finance is currently in the process of building a cognitive platform to better understand customers' financial needs using advanced analytical models.

Offering Transparency

LOLC Finance offers transparency to customers of its products and services to ensure they feel supported and protected at all times. Its responsible marketing practices are strictly underpinned by the highest ethical standards. The Company adopts best practices in sales and marketing. LOLC Finance has enhanced its digital marketing tools for greater transparency and efficiency. Customers are treated fairly and transparently at all times to build loyalty and to deliver our promise. The Company has invested in digital technology channels such as LOLC Real Time online portal, iPay as well as partnership with mCash which are playing a key role in its marketing efforts.

Customer Engagement

LOLC Finance has put in place a strategic customer engagement model which has helped it to retain and grow customers. Transparency, comprehensiveness, relevance and timeliness are qualities that underpin the Company's customer engagement strategy. A blend of both ATL and BTL channels are used to reach customers across various segments and to provide them with sufficient information on each product or service, so that they may fully understand every value proposition and be able to make an informed decision.

Respecting Customer Privacy

Investments in the risk and compliance framework in information and data security has been a key focus of the Company and during the year under review as well several system changes and enhancements were made. LOLC Finance upholds privacy of customer data backed by strong firewalls and risk framework. The Company follows best practices such as gathering only required information which is not shared for any other purpose. Various layers of physical, electronic and procedural safeguards are in place to protect customer information from unauthorised use, include limiting employee access to personally identifiable information to those with a business reason for knowing such information. Employees are regularly educated on the importance of confidentiality and customer privacy. The Company has established a stringent process for how customer account information can be disclosed about customer accounts or other personally identifiable data to unaffiliated third parties unless mandated by law.

SUPPLIER

Ethical Sourcing

The Company prides itself on its stable relationships with its suppliers and business partners who help maintain high quality standards while enhancing competitiveness. LOLC Finance pursues an ethical sourcing policy and thereby forges relationships only with suppliers willing to abide by standard labour laws and practices, while upholding basic human rights including and not restricted to the non-employment of child labour, providing equal opportunity to women, ensure health, safety and welfare of employees and adopting safe environmental practices. The risk of child, forced or compulsory labour is addressed through our supplier on-boarding procedures which include site visits. Suppliers found to be indulging in unethical practices or using unscrupulous means or any collusive practices are immediately blacklisted. By encouraging our suppliers to comply with our ethical standards we are able to build trust with all stakeholders.

SOCIAL AND RELATIONSHIP CAPITAL

LOLC Finance conducting their own CSR activities through its island wide branches

LOLC Finance was actively involved in the Group's drive to provide relief efforts for those affected by COVID-19

Serving the Unbanked

LOLC Finance's key objective is to ensure financial inclusion both for sustainable business and as a mark of its corporate stewardship. The Company has leveraged on digital technology as means of developing cost-effective and simple solutions to make it easier to reach out to the vast unbanked and under-banked population in the country. The Company partners businesses from the grassroots level to scale up and become profitable enterprises by bringing them into the mainstream financial system.

Corporate Social Responsibility

LOLC Finance is committed to uplifting the lives and livelihoods of local communities. The outbreak of the COVD-19 pandemic in Sri Lank and three successive waves of infections have had an adverse impact on grassroots communities. Staying true to its values, the Group stepped up to respond and support the communities in need as well as the Government during this overwhelming time by rescheduling loans and offering moratoriums.

In response, LOLC Finance's Branch and Regional Managers were proactively involved in relief campaigns during the lockdown period. With the COVID-19 outbreak in Sri Lanka, LOLC stepped forward to partner with two of Sri Lanka's premier broadcasting stations - Hiru Sahana Yaatra and Manusath Derana - to drive its humanitarian efforts. Assistance was extended to religious places, elders and children's homes as well as government hospitals located in various parts of the country and the Ministry of Defence. Health and safety equipment and supplies were distributed to frontline workers and essential dry ration packs were distributed to temples, churches and other religious places as well as elders and children's homes located in areas that are most effected by COVID-19. LOLC Finance branches also conducted their own CSR activities at the branch level, thereby contributing to the local communities they serve and operate in.

NATURAL CAPITAL

Natural Capital refers to the elements of the natural environment which provide valuable goods and services to people. As a leading responsible financial services institution, LOLC Finance ensures its operations have a positive impact on the environment. The Company ensures non-renewable energy is used in the most efficient manner while increasing reliance on renewable energy sources such as solar power in order to reduce its carbon footprint.

LOLC Green Tree-Planting

One of the critical ways in which LOLC Finance makes an impact on the Natural Capital is through its group-wide tree-planting project, LOLC Green, which although it was affected by the pandemic, its branches and appointed officials worked closely with the schools to ensure that the plants were taken care of even during lockdown. Biodiversity is critical to the health and stability of the Natural Capital as it provides resilience to shocks, like floods and droughts, and supports fundamental processes such as the carbon, nitrogen and water cycles as well as soil formation. Therefore, biodiversity is both a part of Natural Capital and also underpins the services that natural capital provides.

The LOLC Green committee has also taken the initiative to convert some of LOLC Finance's own branches to solar power to minimise energy usage while promoting

> "ONE OF THE CRITICAL WAYS IN WHICH LOLC FINANCE MAKES AN IMPACT ON THE NATURAL CAPITAL IS THROUGH ITS GROUP-WIDE TREE-PLANTING PROJECT, LOLC GREEN.

renewable energy. Playing a lead role in supporting the LOLC Group's main green initiative, LOLC Finance's branch network remains the key driver of this large-scale tree planting programme, which aims to plant trees at all schools across the island. Trees have been planted in 300 schools across the island as at year-end 31st March 2021.

Other Sustainable Initiatives

The Company is moving steadily towards becoming a paperless operation, reducing paper consumption by adopting digital tools and minimising paperwork. Customers receive transaction notifications by way of an SMS alert and interest advice slips by email, replacing the previous practice of sending a physical notice by post. These initiates have led to a significant reduction in the paper used on a daily basis.

The iPay digital platform is driving the paperless operation as it is an end-to-end operation that encourages customers to conduct their financial transaction through the app, thereby reducing visits to branches. This green technology is reducing the overall carbon footprint of the Company as a result.

The Company also benefits from LOLC Group's e-learning platform. Users can now participate in corporate trainings (and even evaluations) from the comfort of their own offices. This means employees no longer need to travel to the head office to attend training sessions. This offers the greatest benefits for outstation branches as travelling and accommodation costs (and the resulting carbon footprint) have been greatly reduced.

Electricity and fuel consumption forms the majority of the energy resources consumed by LOLC Finance at its head office and branch offices. In an effort to reduce daily electricity consumption the Company adopts energy saving lighting solutions as well as energy efficient equipment such as computers and printers. In addition, the solar panel installation project at the head office premises was also completed. At the same time, LOLC Finance continues to raise awareness among employees and encourages them to contribute towards greening the organisational footprint.

ANCHORED IN INTEGRITY

Stewardship

CORPORATE GOVERNANCE

LOLC Finance PLC continued to maintain high standards of corporate governance and ethical business conduct across all aspects of its operations and decision-making processes during the year under review.

Structure

The governance structure of LOLC Finance ensures alignment of its business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board Sub-Committees and Management.

Instruments of Governance

The corporate governance framework of LOLC Finance encompassing external and internal instruments of governance, enables the Board to provide assurance to investors that they have discharged their duties responsibly. The Board of Directors of LOLC Finance and staff at all levels consider it their duty and responsibility to act in the best interests of the Company.

It is this strong set of values that has facilitated the trust that our stakeholders have continued to place on the core values underlying our corporate activities.

The external instruments of governance at LOLC Finance include the Companies Act, No. 7 of 2007, the Finance Business Act, No. 42 of 2011, the Finance Leasing Act, No. 56 of 2000, the Foreign Exchange Act, No. 12 of 2017, the Payment and Settlement Systems Act, No. 28 of 2005, the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987, and any amendments thereto, including rules and directions issued to finance companies from time to time by the Monetary Board of the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange. The internal instruments of governance include the Articles of Association, the Role of the Board, Board approved policies, procedures, and processes for internal controls and anti-money laundering.

Policies and procedures have been established taking into consideration governance principles that define the structure and responsibility of the Board to ensure legal and regulatory compliance, to protect stakeholder interests, to manage risk and enhance the integrity of financial reporting. A whistle- blowing policy has been introduced and the number of the related 'hotline' has been shared with all employees. This was done to enhance accountability, so that deliberate deviations from controls and/ or processes and procedures could be highlighted by any employee and thus addressed promptly.

Board of Directors

The Board is responsible for the stewardship of the Company and the Directors ensure good governance at Board level and below on the basis of sound principles that provide the framework of how the business is conducted.

The members of the Board consist of persons with multiple industrial/ professional backgrounds in which they have achieved eminence, who contribute effectively to decisions made by the Board to guide LOLC Finance towards achieving its objectives. In accordance with best practices, the offices of Chairman and Chief Executive Officer are separate and the Chairman is a Non-Executive Director. This ensures a balance of power and enhances accountability. To bring in a greater element of independence the Board appointed Mrs Priyanthi Pieris as the Senior Independent Director (SID). Upon her retirement the Board appointed Mr P A Wijeratne as the next SID with CBSL approval.

The Appointment of Directors is subject to Central Bank approval with subsequent approval taken from the shareholders (for re-election) at an Annual General Meeting (AGM). At these meetings, an opportunity is given to all shareholders (public and nonpublic) to approve or to reject such appointments. Resolutions on new appointments/ re-appointment are communicated to the shareholders through the "Notice of the Annual General Meeting", with due prior notice.

Monitoring and Evaluation by the Board

LOLC Finance has in place a number of mandatory and voluntary Board Sub-Committees to fulfil regulatory requirements and for better governance of its activities. These committees meet periodically to deliberate on matters falling within their respective charters/terms of reference and their recommendations are duly communicated to the main Board.

The following mechanisms are in place for the Board to oversee the accomplishment of the targets in the business plan: review the performance of LOLC Finance at monthly Board meetings; seeking recommendations through Board appointed Sub-Committees on governance, including compliance with internal controls, human resources, risk management, credit and IT; review of statutory and other compliances through a monthly paper on compliance submitted to the Board covering the operations of LOLC Finance.

The corporate governance philosophy of LOLC Finance is within a framework of compliance and conformance, which has been established at all levels through a strong set of corporate values and a written Code of Conduct. All employees are required to embrace this philosophy in the performance of their official duties and in other situations that could affect the Company's image.

Skills and Performance of the Board

The updating of the skills and knowledge of all Directors is achieved by updates on proposed/new regulations, industry best practices, market trends and changes in the macro environment. It is also facilitated by providing them access to external and internal auditors, access to other external professional advisory services and the Company Secretaries, keeping them fully briefed on important developments in the business activities of the Group and by periodic reports on performance, and opportunities to meet Senior Management.

As required by the Finance Companies Corporate Governance Direction, LOLC Finance has established a well-defined self evaluation mechanism undertaken by each director annually to evaluate performance of the Board. These evaluations are subsequently tabled at a Board meeting for review and to address areas that require improvement. Related records are maintained by the Company Secretaries.

Engagement with Shareholders

The shareholders of LOLC Finance have multiple ways of engaging with the Board: the Annual General Meetings which are the main forum at which the Board maintains effective communication with its shareholders on matters which are relevant and of concern to the general membership such as the performance and their return on investment of LOLC Finance; access to the Board and the Company Secretaries; written correspondence from the Company Secretaries to inform shareholders of relevant matters; the website of LOLC Finance which is accessible by all stakeholders and the general public; and disclosures disseminated through the Colombo Stock Exchange including interim reporting.

Engagement with Employees

LOLC Finance recognises that employee involvement is a critical pre-requisite towards ensuring the effectiveness of the corporate governance system and therefore attaches great importance to employee communications and employee awareness of key events and significant developments. The necessity of sincere and regular communication in gaining employee commitment to organisational goals and values are stressed extensively and intensively through various communiques issued periodically by the Directors' Office. LOLC Finance follows an open-door policy for its employees at all levels. Regular dialogue is also maintained on work related issues as well as on matters pertaining to general interest that affect employees and their families.

In terms of engaging with the employees, the key channels used by the Board include the Executive Director/CEO who is an employee director and the main link between the Board and the rest of the employees; and the Board members and Board sub committees who conduct effective dialogue with the members of the Management on matters of strategic direction.

Avoiding Conflicts of Interest

The Governance structure at LOLC Finance ensures that the Directors take all necessary steps to avoid conflicts of interest in their activities with, and commitments to other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, such matters are disclosed and discussed at Board meetings, where Independent Directors who have no material interest in the transaction are present.

External Audit

M/s Ernst & Young, Chartered Accountants were re-appointed as External Auditors of the Company by the shareholders at the Annual General Meeting held in November 2020.

Their services were also engaged to seek: a) an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board; and b) the Company's level of adherence to the internal controls on financial reporting.

CORPORATE GOVERNANCE

The extent of compliance as required by the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and the Listing Rules of the Colombo Stock Exchange and subsequent amendments thereto:

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
2	The Responsibilities of the Board of Directors	
2.1	The Board of Directors shall strengthen the safety and soundness of the finance company by:	
a.	approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;	Complied with Board approved vision, mission and corporate values have been established and communicated throughout the company. The Company has developed a policy on Code of Conduct and Ethics for all employees, in line with strategic objectives & corporate values of the company.
b.	approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years;	Complied with The Company has formulated a Strategic Plan covering 2022-2025 which has been approved by the Board. This strategy has taken into account the related risks including the volatility of the economic/political/social/health conditions in which it operates which could cause disruptions in achieving its objectives.
c.	identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	Complied with The Board has delegated this function to its Sub-Committee, the Integrated Risk Management Committee (IRMC). The Board has approved an annual plan submitted by Enterprise Risk Management Division (ERM) which covers risk management. In line with the Risk Policy ERM reports are submitted to the IRMC which then reviews the risk and agrees on appropriate mitigation methods. Monthly risk reports are tabled at Board Meetings by ERM in order to highlight emergent risks. Furthermore, minutes of the quarterly IRMC meetings are tabled at Board Meetings for review and guidance. Risk Management Reports on Liquidity and Maturity of Deposits are submitted to the Board by the Treasurer on a monthly basis.
d.	approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied with A Board approved Stakeholder Communication Policy which covers all stakeholders is in place. This was reviewed and revised on 30.03.2021

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
e.	reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	**Complied with** The key processes that have been established by the Board to review the adequacy and integrity of the Company's Internal Controls and Management Information Systems, include the following: 1. The Board Audit Committee and the Board Integrated Risk Management Committee ensures that the Company's controls and risks are being appropriately managed and actions proposed for mitigation of risks. These two committees facilitate an ongoing process for identifying, evaluating and managing significant risks faced by the Company, including enhancing the system to cater to changes in the business and regulatory environment. 2. The CEO through the Heads of Departments ensure that approved business strategies are implemented and that agreed policies and procedures on risk/internal control are implemented and adhered to. The Heads of Departments are therefore accountable and responsible for their respective areas of operation, including the accuracy of information presented to the Management/ Board, and managing risk in their day- to-day activities through established processes and controls. In addition the Internal Audit ensures that staff adheres to such processes and controls. Where there is a breach of authority, such issues are escalated to the Board through the Board Audit Committee. 3. The Internal Audit performs a comprehensive exercise that entails reviewing of all aspects of Management Information Systems including operational and regulatory risks. Product- wise MIS reviews have been periodically carried out by the Internal Audit. The Internal Audit also provides an independent assurance that the Company's risk management, governance and internal control processes are operating effectively and fit for purpose. The Board is of the view that the system of internal controls and management information systems in place are sound and adequate to provide reasonable assurance regarding the reliability of management information and financial reporting.
f.	identifying and designating Key Management Personnel, who are in a position to: (i) influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	**Complied with** Board members including the CEO, heads of core functions and BUs have been identified and designated as KMPs by the Board as defined in the Sri Lanka Accounting Standards. This was reviewed by the Board last on 30.03.2021.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
g.	defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel;	**Complied with** Articles 76-78 of the Company's Articles of Association define the powers and duties of the Board of Directors. Further the responsibilities of the Board have been defined and approved. The areas of authority and responsibilities of the Key Management Personnel defined in individual job descriptions have been approved by the Board
h.	ensuring that there is appropriate oversight of the affairs of the finance company by Key Management Personnel, that is consistent with the finance company's policy;	**Complied with** The Company has a policy on oversight of the affairs of the Company by KMPs including a process to review the delegation process approved by the Board. Delegated authority given to KMPs is reviewed periodically by the Board to ensure that they remain relevant to the needs of the company.
I.	periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of Directors and appointment of Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	**Complied with** The Company has a Board approved procedure for appointment of Directors. Election of Directors is effected in accordance with the requirements of the directions issued by the Central Bank of Sri Lanka and the Companies Act, No. 07 of 2007. Directors are selected and nominated to the Board for skills and experience in order to bring about an objective judgment on issues of strategy, performance and resources. Effectiveness of this process is ascertained by their contribution at board meetings in their respective fields. A Nomination Committee has been appointed to assist the Board in identifying qualified individuals as potential directors. KMPs are selected and recruited in terms of the HR policy of the Company. Articles 79-87 of the Company's Articles of Association address the management of conflicts of interest of directors. A procedure for managing Board conflicts has been further approved by the Board. Conflicts of interest are managed on a monthly basis where Directors disclose their interests in other companies. KMPs declare their interests annually. Annual self evaluations of Directors were tabled subsequent to the financial year end, to determine any weaknesses of the above process and to implement changes where necessary.
j.	ensuring that the finance company has an appropriate succession plan for key management personnel;	**Complied with** The Company has a succession plan approved by the Board.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
k.	meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	Complied with Key Management Personnel are called in by the members of the Board during Board and Board Committee meetings when the need arises to explain matters relating to their area of functions.
l.	understanding the regulatory environment;	Complied with As a practice, the Company Secretaries includes an agenda item in monthly Board meetings tabling correspondence with regulators which enable the Directors to understand the regulatory environment, concerns and changes and make appropriate decisions. A monthly Compliance Report is also tabled at Board meetings. This report includes details of weekly, monthly, and annual returns duly submitted to the CBSL and the requirements of all the directions issued by the Monetary Board and the Company's current position with regard to each direction. A monthly confirmation is provided by the Head of Finance of statutory payments made such as VAT, VAT on financial services, EPF, ETF and Stamp duty.
m.	exercising due diligence in the hiring and oversight of External Auditors.	Complied with The Board Audit Committee is responsible for the hiring and overseeing of external auditors. Article 122 of the Company's Articles of Association lays down a process for appointing of external auditors at the AGM. The Audit Committee has recommended that the auditors be re-appointed for 2020/2021 The Audit Committee is governed by a Board approved Audit Charter/ TOR. Reviews are carried out to the Charter as and when necessary to ensure relevance. No reviews were carried out during the year under review.
2.2	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with paragraph 7 of this Direction.	Complied with The Board has appointed the Chairman and CEO. Functions and responsibilities of the Chairman and the CEO have been defined and approved by the Board.
2.3	There shall be a procedure determined by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) to discharge the duties to the finance company.	Complied with A Board-approved detailed procedure has been established to obtain independent professional advice when necessary.

CORPORATE GOVERNANCE

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
2.4	A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	**Complied with** Article 79 of the Company's Articles of Association requires an interested Director to disclose his/her interest at Board meetings. Article 83 requires such a Director to abstain from voting on any Board resolution. He/she will not to be counted in the quorum. In addition, a Board approved procedure is established to manage conflicts of interest of the Board members.
2.5	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	**Complied with** The Board approved policy on the Role of the Board defines its responsibilities and the matters which are specifically reserved to it for approval. Additionally a Board-approved Terms of Reference have been established for Executive and Non-Executive Directors, including Independent Directors. The Board has put in place systems and controls to facilitate the effective discharge of Board functions. Pre-set agenda of meetings ensure the direction and control of the Company is firmly under Board control and authority. The agenda of the monthly Board meetings includes reports on performance and on compliance with relevant regulations. This enables the Board to ensure that the company performs at an optimal level, while being fully compliant.
2.6	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	**Will comply with if the need arises.** The Board has implemented a procedure to alert them of any such event - in that, based on an assurance provided by the Head of Finance, the Compliance Officer reports in the monthly compliance statement that the Company could remain a going concern.
2.7	The Board shall include in the finance company's Annual Report, an annual Corporate Governance report setting out the compliance with this Direction.	**Complied with** This report serves the said requirement.
2.8	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	**Complied with** The Directors carry out a self evaluation annually and records are in the custody of the Company Secretaries.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
3.	Meetings of the Board	
3.1	The Board shall meet at least 12 times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	**Complied with** The Board met 12 times during the year. The monthly meeting scheduled for April was held in early May. Please see page 78 for further details. Approvals obtained through the circulation of resolutions (55) were subsequently tabled at the following board meeting.
3.2	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	**Complied with** A Board approved Policy on Board's relationship with the Company Secretary is in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
3.3	A notice of at least seven days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	**Complied with** A schedule of all meetings for the coming year is circulated to all Directors at the end of December or beginning of January. At the beginning of each month, a reminder of all meetings during that month is also sent out. In addition, notices are sent out seven days prior to the meeting. All these enable any Director to seek to include matters in the Agenda. Date of the next meeting is agreed to by all the members of the Board as a practice. Reasonable notice has been given for all other Board meetings.
3.4	A Director who has not attended at least two- thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an alternate director shall, however, be acceptable as attendance.	**Complied with** All the members have attended two-thirds or more of the meetings during the year. Please refer page 78 for further details.
3.5	The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and Shareholder meetings and to carry out other functions specified in the statutes and other regulations.	**Complied with** LOLC Corporate Services (Pvt) Ltd has been appointed as Company Secretaries of the Company.
3.6	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a board meeting, the Company Secretary shall be responsible for carrying out such function.	**Complied with** The Board approved policy on Board's relationship with the Company Secretary provides for the Chairman to delegate to the Company Secretary the preparation of the agenda for Board meetings.

CORPORATE GOVERNANCE

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
3.7	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	**Complied with** The Board approved policy on board's relationship with the Company Secretary provides that all Directors shall have access to the advice/ services of the Company Secretary.
3.8	The Company Secretary shall maintain the minutes of board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	**Complied with**
3.9	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Finance Company is exposed and an overview of the Risk Management measures adopted; and (f) the decisions and board resolutions.	**Complied with** Proceedings of meetings are recorded in minutes covering the given criteria.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
4.	Composition of the Board	
4.1	The number of Directors on the Board shall not be less than five and not more than 13.	**Complied with** The Board comprised six members as at 31st March 2021.
4.2	The total period of service of a Director other than a director who holds the position of Chief Executive Officer or executive Director shall not exceed nine years. The total period in office of a Non-Executive Director shall be inclusive of the total period of service served by such Director up to the date of this Direction.	**Complied with** Mrs D P Pieris retired having completed 9 years on 26th June 2021 subsequent to the year under review.
4.3	Subject to the transitional period an employee of a finance company may be appointed, elected or nominated as a Director of the finance company (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the company.	**Complied with** Board comprised two Executive Directors (including the Director/ CEO), and four Non-Executive Directors of whom three were Independent.
4.4	Subject to the transitional period the number of independent Non-Executive Directors of the Board shall be at least one-fourth of the total numbers of directors. A Non-Executive Director shall not be considered independent if such Director: a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company; b) has or had during the period of two years immediately preceding his appointment as Director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the Capital funds of the finance company as shown in its last audited balance sheet; c) has been employed by the finance company during the two year period immediately preceding the appointment as Director;	**Complied with** The Board comprised three Independent Directors as at 31st March 2021. Mrs. D P Pieris, Senior Independent Director (retired with effect from 26.06.2021) Mr. P A Wijeratne, Independent Non-Executive Director Mr. K Sundaraj, Independent Non-Executive Director

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
	d) has a relative, who is a Director or Chief Executive Officer or a Key Management Personnel or holds shares exceeding 10% of the paid up Capital of the finance company or exceeding 12.5% of the paid up capital of another finance company. e) represents a shareholder, debtor, or such other similar stakeholder of the finance company; f) is an employee or a Director or has a shareholding of 10% or more of the paid up Capital in a company or business organisation: (i) which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or (ii) in which any of the other Directors of the finance company is employed or is a Director or holds shares exceeding 10% of the Capital funds as shown in its last audited balance sheet of the finance company; or (iii) in which any of the other Directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the Capital funds, as shown in its last audited balance sheet of the Finance Company.	
4.5	In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non- Executive Director.	**Will comply when a need arises**
4.6	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	**Complied with** Directors' profiles are provided on pages 12 to 13.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
4.7	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one half of the number of Directors that constitute the quorum at such meeting are Non-Executive Directors.	**Complied with** The Company's Articles of Association (Article 98) provide that a quorum for a meeting is a majority provided that half of such quorum is Non-Executive. The quorum had been maintained at all Board meetings held during the financial year 2020/2021. Details of attendance at meetings are provided on pages 78 to 79.
4.8	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the finance company. The finance company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report which shall be an integral part of its Annual Report.	**Complied with** The Directors during the year under review were: 1. B C G de Zylva – Non Executive-Chairman 2. F K C P N Dias – Executive Director/CEO 3. Mrs. K U Amarasinghe – Executive Director 4. Mrs. D P Pieris – Senior Independent Director 5. P A Wijeratne – Independent Director 6. K Sundararaj – Independent Director 7. A Nissanka – Non-Executive Director -resigned with effect from 31st December 2020 The Directors' profiles are given on pages 12 to 13.
4.9	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	**Complied with** The Board has formed a Nomination Committee for this purpose and there is a Board approved procedure for the Board members to select and appoint new Directors to the Board. The Company's Articles 70-74 address the general procedure for appointment and removal of Directors to the Board. Furthermore the Company adheres to the Finance Companies (Fitness and Propriety of Directors and Officers performing Executive Functions) Direction No. 3 of 2011 when appointing new directors.
4.10	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	**Complied with** Article 70 of the Company's Articles of Association provides that Directors appointed shall be subject to election by shareholders at the first AGM.
4.11	If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	**Complied with** Directors' resignation and the reason for such resignation are duly informed to the Central Bank of Sri Lanka (CBSL) and Colombo Stock Exchange (CSE). The Board announces such situations to the shareholders through its Annual Report. Changes to the directorate during the year (resignation of Mr. A Nissanka) was announced to the shareholders via CSE disclosure after receiving approval from the Central Bank of Sri Lanka.

CORPORATE GOVERNANCE

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
5.	**Criteria to assess the fitness and propriety of directors**	
5.1	Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a finance company. (As amended by Direction No. 05 of 2020, Existing directors who attain 70 years of age on after 18/06/2020 shall continue in office subject to section 4.2 of this direction and the prior approval of the Monetary Board)	**Complied with** The Board of Directors have been assessed as fit and proper in terms of Section 3 (3) of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011. During the year under review the age of the current Directors were within the period permitted under this direction.
5.2	A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies/ societies/bodies corporate, including associate companies and subsidiaries of the finance company.	**Complied with** No Director holds directorships of more than 20 companies/entities/ institutions inclusive of subsidiaries or associate companies.
6.	**Delegation of Functions**	
6.1	The Board shall not delegate any matters to a board committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	**Complied with** Article 77 of the Company's Articles of Association empowers the Board to delegate its powers to a Committee of Directors or to a Director or employee upon such terms and conditions and with such restrictions as the Board may think fit. The Board has established a procedure under which powers have been delegated to the Director/CEO as sanctioned by the Company's Articles of Association.
6.2	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Finance Company.	**Complied with** The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Company. A process to review the delegation process has been approved by the Board.
7.	**The Chairman and the Chief Executive Officer**	
7.1	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the one and the same person.	**Complied with** Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.
7.2	The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	**Complied with** B C G De Zylva, Non-Executive Director was appointed as the Chairman, on 24th April 2018. Mrs. D P Pieris was appointed as the Senior Independent Director on 3rd July 2017 (on Mrs. Pieris' retirement on 26.06.2021, the Board appointed Mr. P A Wijeratne as the next Senior Independent Director with CBSL approval).

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
7.3	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	**Complied with** The Company as a practice discloses relationships in the Annual Corporate Governance Report. There is no financial, business, family or other relationship between the Chairman and the Director/CEO. There is no financial, business, family or other material relationship between any other members of the Board. A process has been developed for Directors to disclose any relationships between the Chairman and the CEO and or between any other Board members.
7.4	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.	**Complied with** The Chairman is responsible to lead, direct and manage the Board to ensure that it operates effectively and fully discharges its legal & regulatory requirements.
7.5	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	**Complied with** The Chairman has delegated this function to the Company Secretaries. This has been included in the 'Policy on Board's relationship with the Company Secretary' approved by the Board.
7.6	The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	**Complied with** The Chairman ensures that all Directors are properly briefed on issues arising at Board Meetings by submission of the agenda and Board papers with sufficient time prior to meetings. Further, minutes of previous month's Board meeting are distributed to the Board members and tabled at the next Board meeting for review and approval.
7.7	The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	**Complied with** The Chairman invites all directors to contribute to the deliberations of the Board in all its decision making.
7.8	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	**Complied with** The Company's self-evaluation process assesses the contribution of Non-Executive Directors.

CORPORATE GOVERNANCE

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
7.9	Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	**Complied with** The Chairman does not engage in activities involving direct supervision of key management personnel.
7.10	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	**Complied with** A Board approved communication policy covers this aspect. The Annual General Meeting of the Company is the main forum at which the Chairman including the Board maintains effective communication with shareholders. Periodic announcements made to the Colombo Stock Exchange also contribute towards this purpose.
7.11	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.	**Complied with**
8.	**Board appointed Committees**	
8.1	Every Finance Company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.	**Complied with** The Company has established an Audit Committee and an Integrated Risk Management Committee. Reports of these committees have been submitted to the main Board for their review. Please refer the reports on pages 89 to 91.
8.2	Audit Committee	Please refer page 89 for the Committee Report.
a.	The Chairman of the committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	K Sundararaj, Independent Non-Executive Director, was appointed as the Chairman of the Audit Committee on 28th May 2020. Mr. Sundararaj counts over 28 years experience in Accounting, Auditing and Tax consulting. He started his career as a Chartered Accountant in 1998 and is currently serving as the Tax Partner in M/s Amarasekera and Company, Chartered Accountants. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka and holds a Master of Business Administration in Finance from the University of Colombo.
b.	The Board members appointed to the committee shall be Non-Executive Directors.	**Complied with** The Committee consists of Independent Non-Executive Directors. The members of the Committee are: 1. K Sundararaj 2. P A Wijeratne 3. Mrs. D P Pieris (retired w.e.f. 26.06.2021)

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
c.	The committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	**Complied with** A formal agenda for Audit Committee meetings including items prescribed by the direction is followed for the conduct of Audit Committee meetings. The implementation of CBSL guidelines and relevant accounting standards; and the evaluation of the service period, fees and rotation of External Auditors are carried out by the Audit Committee in consultation with the Head of Finance.
d.	The committee shall review and monitor the External Auditors' independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	**Complied with** The External Auditors are independent as they report direct to the Audit Committee of the Board. Further, the Auditors' Engagement Letter is evidence of the External Auditors' independence, and that the audit is carried out in accordance with SLAuS.
e.	The committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditors' independence or objectivity. When assessing the External Auditors' independence or objectivity in relation to the provision of non-audit services, the committee shall consider: (i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services;	**Complied with** The Board has approved a specific procedure for the engagement of the External Auditors for providing non-audit services.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
	(ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the External Auditor.	
f.	The committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the finance company's compliance with directions issued under the act and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements in accordance with relevant accounting principles and reporting obligations; and (iii) the coordination between auditors where more than one auditor is involved.	Complied with
g.	The Committee shall review the financial information of the Finance Company, in order to monitor the integrity of the financial statements of the finance company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's Annual Report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied with The Committee has a process to review financial information of the Company when the quarterly and annual audited Financial Statements and the reports including accounting policies and changes to policies, significant assumptions/judgements prepared for disclosure are presented to the Committee.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
h.	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary	**Complied with** Of the four meetings held the during the year, the Committee met the external auditors at two meetings and on both occasions the auditors met the Committee in the absence of the executive management.
i.	The Committee shall review the External Auditors' management letter and the management's response thereto.	**Complied with**
j.	The Committee shall take the following steps with regard to the internal audit function of the finance company:	**Complied with**
	(i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	The Committee has considered the scope of the internal audit function and noted the adequacy of resources and that necessary authority had been allocated to carry out its work.
	(ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	The Audit Plan for 2020/2021 was tabled by the Head of Internal Audit and had been approved by the Board as recommended by the Audit Committee.
	(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	An overall assessment of performance of the senior staff members and the Head of Internal Audit for the year 2020/2021 has been carried out by the Committee.
	(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	No such situation has arisen during the year.
	(v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	No such situation has arisen during the year.
	(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	The Committee is satisfied that the internal audit function is performed with independence, impartiality and proficiency. The internal auditor reports direct to the Board Audit Committee.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
k.	The committee shall consider the major findings of internal investigations and management's responses thereto;	**Complied with**
l.	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the committee shall meet with the External Auditors without the Executive Directors being present.	**Complied with** The Committee has had two meetings with the External Auditors in the absence of the Executive Directors and the management.
m.	The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	**Complied with** The Board approved Terms of Reference of the Audit Committee ensures that it has the authority for points i to iv as required by the direction.
n.	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	**Complied with** During the year 2020/2021 the Committee has held four meetings and conclusions of such meetings have been recorded by the Company Secretary in the Minutes of the relevant meetings.
o.	The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings.	**Complied with** Please refer pages 78 and 89.
p.	The secretary to the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	**Complied with**

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
q.	The Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the External Auditor.	**Complied with** A whistle-blowing hotline has been publicised to all employees. The related policy is periodically reviewed and strengthened to cover the method of reporting any matters investigated to the Board Audit Committee.
8.3	Integrated Risk Management Committee	Please refer page 91 for the Committee Report.
a.	The Committee shall consist of at least one Non-Executive Director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	**Complied with** The Integrated Risk Management Committee comprises: P A Wijeratne - Committee Chairman/ Independent Director Mrs. D P Pieris - Senior Independent Director (r.w.e.f. 26.06.2021) C Dias - Executive Director/CEO G Weerakoon-DGM - Enterprise Risk Management B Weeratunga - Head of Finance S Samarasekera-AGM - Credit Risk Management W Ranatunga-AGM - Credit Risk Management J Gunatileka - Compliance Officer P Gamage - Head of Treasury C Jayanath - Head of Recoveries M Warnakula - Chief Operating Officer Mrs. R Weerasekera - Head of Liability Management P Siriwardena - CIO FS H Thilakaratne - DGM Digital Platforms C Jagoda - DGM Micro S Refai – DGM IBU
b.	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	**Complied with** As delegated by the Committee under the headship of the DGM ERM, the ERM Department assesses risks which have been identified by heads of divisions on a monthly basis are reported to the Board and summarised and submitted to the quarterly Committee meetings. ERM has established risk indicators under different risk categories which are monitored by a QPR system under the following categories: Liquidity Risk, Operational Risk, Strategic Risk, Credit Risk, Business Risk, Profitability Risk , Technology Risk and Stress Testing.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
c.	The Committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	**Complied with** During the year the Committee monitored the activities of the ALCO through direct reports and minutes of ALCO meetings which are tabled at the quarterly IRMC meetings. Matters reported by the ALCO include: Funding Gap analysed through Maturity Gap Analysis, Foreign Currency Position, Inter- company Exposures, Cost of funds, Investments and Borrowings. The lending rates are also periodically reviewed by the ALCO in line with regulatory requirements and market trends. Credit facilities are approved based on rates decided by the ALCO within the delegated authority limits. Treasury dealer limits have already been established and approved by the Board. Furthermore a new treasury management system has been implemented which would cover Limit for total Net Open Position (NOP) USD/LKR intraday and overnight limits; Limits for Total Net Open Position of other currencies; Aggregate Gap Limits (AGL); Loss limits for FX operations; Loss Limits on Marking to Market (MtM) and counter party limits. At the financial year end, the Committee reviewed the adequacy and effectiveness of the ALCO against its terms of reference and addressed areas that required improvement. The Committee also reviewed the facilities approved by the Credit Committee and changes that had been made to credit policies and delegated authority limits. The overall evaluation of both these Committees were carried out subsequent to the year under review.
d.	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.	**Complied with** Decisions taken at Committee Meetings are followed up by the ERM team. All reported risks are constantly monitored and remedial corrective action is taken if an adverse movement of the risk is evident. The Company deployed stress testing methodologies to assess the parameters set for identified key risk indicators and deviations were reported to the Committee quarterly. This process will be subject to continuous improvement and strengthening.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	**Complied with** Four meetings were held during the financial year 2020/2021.
f.	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	**Complied with** Specific risks and limits are identified by the IRMC and decisions are taken collectively. Moreover a formal documented disciplinary action procedure involving Internal Audit and HR is in place.
g.	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	**Complied with** The DGM ERM submits a summary report to the Members of the Board within seven days after the Committee meeting. This includes the risks discussed at IRMC meeting, mitigation actions proposed by ERM and the responses received from the risk owners. Further, approved Committee minutes are tabled at the subsequent Board meeting seeking the Board's views and specific direction.
h.	The Committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	**Complied with** A compliance unit has been established to carry out compliance responsibilities of the entity. A dedicated compliance officer in the capacity of a key management personnel has been appointed to head the compliance function. A monthly compliance sign-off is obtained from all business unit heads on regulatory requirements relating to their respective areas of responsibility. The Compliance Officer reports on the status of compliance to the Board and the Integrated Risk Management Committee on a monthly and quarterly basis respectively. Monitoring compliance with internal controls and approved policies on all areas of business operations are carried out by the ERM division under the supervision of the DGM ERM.
9.	Related party transactions	
9.1	The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.	

CORPORATE GOVERNANCE

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
9.2	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: a) A subsidiary of the finance company; b) Any associate company of the finance company; c) A Director of the finance company; d) A key management personnel of the finance company; e) A relative of a Director or a key management personnel of the finance company; f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company; g) A concern in which a Director of the finance company or a relative of a Director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.	**Complied with** A Board-approved process is in place to ensure that the Company does not engage in related party transactions as stipulated in this direction and to enable Directors to take measures to avoid a conflict of interest. Transactions with related parties are made with the sanction of the Board subject to such transactions being in the normal course of business. Further, Directors are individually requested to declare their transactions with the company at each Board meeting and in the annual declaration. A Board-approved procedure is in place to ensure that the Directors and the CEO make relevant disclosures in a timely manner, in the event they make an acquisition or disposal of shares in the entity, to facilitate making an announcement to the CSE within five market days upon such acquisition or disposal.
9.3	The transactions with a related party that are covered in this Direction shall be the following: a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, c) providing financial or non-financial services to the finance company or obtaining those services from the finance company, d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.	**Complied with** The Board has appointed a Related Party Transaction Review Committee in compliance with the Code of Best Practice on Related Party Transactions (RPTs) issued by the Securities & Exchange Commission of Sri Lanka. The Committee comprises the following membership: Mrs. D P Pieris – Senior Independent Director/Committee Chairman (retired w.e.f. 26.06.2021) P A Wijeratne – Independent Director (appointed to the chair w.e.f. 27.06.2021) K Sundararaj (appointed to the committee w.e.f. 27.06.2021) B C G de Zylva – Non Executive Director

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
9.4	The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, "more favourable treatment" shall mean: a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of five years or more. b) Charging of a lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty; c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extends beyond the terms granted in the normal course of business with unrelated parties; d) Providing or obtaining services to or from a related party without a proper evaluation procedure; e) Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.	**Complied with** The Company has implemented a system that enables the Company to capture and retrieve data on RPTs. This system generates comprehensive reports for management review and for quarterly review of the Committee reflecting all related party transactions including expenses, income, lending and amounts outstanding. The Company will further strengthen the favourable treatment monitoring mechanism by implementing an online system.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
10.	**Disclosures**	
10.1	The Board shall ensure that: (a) annual audited Financial Statements and periodical Financial Statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	**Complied with** The Financial Statements are prepared in accordance with the new Sri Lanka Accounting Standards (SLFRSs/LKASs) and the formats prescribed by the regulators. Annual Financial Statements are disclosed in the annual report; biannual (unaudited) financial statements are published in newspapers in all three languages and the quarterly statements are posted on CSE website.
10.2	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
a.	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	**Complied with** Please refer the Directors' Report on pages 83 to 85.
b.	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements has been done in accordance with relevant accounting principles and regulatory requirements.	**Complied with** Please refer the Directors' Statement on Internal Controls Over Financial Reporting on page 87.
c.	The External Auditors' certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31, 2010.	**Complied with** The Company has obtained a certification from M/s Ernst & Young, Chartered Accountants on the effectiveness of the internal controls over financial reporting. Please refer page 88 of the report.
d.	Details of Directors, including names, transactions with the finance company.	**Complied with** Directors' names and details are given in pages 12 to 13 Transactions with Directors during the year are as follows: Remuneration: Rs. 36,150,500 Accommodations granted: Nil Deposits with the Company: Rs. 143,082,667 Interest for the year: Rs. 24,625,469
e.	Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after January 1, 2010.	**Complied with** Fees/Remuneration paid amounted to Rs. 36,150,500.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
f.	Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	**Complied with** Net accommodations granted to each category of related parties as a percentage of capital funds of the Company at the year end was 5.99% disclosed on page 169 (note 32.2).
g.	The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	**Complied with** Remuneration paid: Rs. 80,403,266 Accommodations granted: Rs. 22,390,080 Deposits with the Company: Rs. 400,153,442 Interest for the year: Rs. 43,258,097
h.	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non- compliances.	**Complied with** Status of compliance with prudential requirements, regulations and laws are in the Directors' report set out in pages 83 to 85.
i.	A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	**Complied with** There were no significant supervisory concerns/lapses in the Company's risk management and compliance with this direction to be directed by the Monetary Board to be disclosed to the public.
j.	The External Auditors' certification of the compliance with the Act and rules and directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011.	**Complied with** The Company has engaged the services of the External Auditors to assess the Company's level of compliance with the Finance Companies Corporate Governance Direction No. 03 of 2008 issued by the Monetary Board and has obtained a report on factual findings. However its publication has not been permitted by the Auditors as there is no clear guideline issued by the CBSL.

CORPORATE GOVERNANCE

Section No.	Listing Rules of the Colombo Stock Exchange	LOFC's level of compliance
7.10	Corporate Governance Statement confirming that as at the date of the Annual Report that the Company is in compliance with these rules.	The Company is in compliance with the listing rules of the Colombo Stock Exchange, except for the requirements relating to Minimum Public Float. For further details please refer the Directors' Report on pages 83 to 85.
7.10.1	Non-Executive Directors The Board of Directors of a listed entity shall include at least: two Non-Executive Directors; or such number of Non-Executive Directors equivalent to one-third of the total number of Directors whichever is higher.	**Complied with** As at 31st March 2021 the Board comprised six directors, of whom four were Non-Executive Directors.
7.10.2	**Independent Directors** Where the Constitution of the Board of Directors includes only two Non-Executive Directors in terms of 7.10.1, both such Non-Executive Directors shall be independent. In all other instances two or 1/3rd of the Non-Executive Directors appointed to the Board, whichever is higher shall be independent.	**Complied with** As at 31st March 2021 the Board comprised three Independent Directors from whom signed declarations of independence were obtained.
7.10.3-4	**Disclosures Relating to Directors** Annual determination as to the independence or non- independence of each Non-Executive Director.	**Complied with**
a.	The board shall make a determination annually as to the independence or non-independence of each non- executive director based on such declaration and other information available to the board and shall set out in the annual report the names of directors determined to be 'independent'.	Declarations of Independence from the three directors were assessed by the board.
b.	In the event a director does not qualify as 'independent' against any of the criteria set out below but if the board, taking account all the circumstances, is of the opinion that the director is nevertheless 'independent', the board shall specify the criteria not met and the basis for its determination in the annual report.	The Board has reviewed and satisfied itself as to the Independent/Non-Independent status of the Non-Executive Directors whose names are disclosed in the Directors Report on page 86.
c.	In addition to disclosures relating to the independence of a director set out above, the board shall publish in its annual report a brief resume of each director on its board which includes information on the nature of his/her expertise in relevant functional areas.	Please refer Directors' profiles on pages 12 to 13.

Section No.	Listing Rules of the Colombo Stock Exchange	LOFC's level of compliance
d.	Upon appointment of a new director to its board, the Entity shall forthwith provide to the Exchange a brief resume of such director for dissemination to the public. Such resume shall include information on the matters itemised in paragraphs (a), (b) and (c) above.	The Company complies with this requirement, in the event a new Director is appointed to the Board.
7.10.5	Remuneration Committee	Complied with
a.	Composition Shall comprise of a minimum of two Independent Non- Executive Directors or of Non-Executive Directors a majority of whom shall be independent, which ever shall be higher.	As at 31st March 2021 the Committee comprised two Independent Non-Executive Directors.
b.	Functions The Remuneration Committee shall recommend the remuneration payable to the executive directors and Chief Executive Officer of the Public Listed Entity and/or equivalent position thereof, to the board of the Listed Entity which will make the final determination upon consideration of such recommendations.	The committee periodically reviews Board Remuneration and makes recommendations to the Board.
c.	Disclosure in the Annual Report The annual report should set out the names of directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non- executive directors.	The Committee comprises independent Non-Executive Directors, Mrs. D P Pieris and Mr. P A Wijeratne. (Upon Mrs Pieris' retirement on 26.06.2021, Mr Wijeratne was appointed to the chair and Mr K Sundararaj as member) The Committee is guided by the Board approved Remuneration Policy. The aggregate remuneration paid to executive and non executive directors is disclosed in the Directors Report on page 83. Please refer the Committee Report on page 92.
7.10.6	Audit Committee	Complied with
a.	Composition Shall comprise of a minimum of two independent Non- Executive Directors or of Non-Executive Directors a majority of whom shall be independent, which ever shall be higher.	As at 31st March 2021 the Committee comprised three Independent Non-Executive Directors.
b.	Functions Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a Listed Entity, in accordance with Sri Lanka Accounting Standards.	The Committee is guided by a Board approved Audit Committee Charter which includes the functions of those listed here.

Section No.	Listing Rules of the Colombo Stock Exchange	LOFC's level of compliance
	Overseeing of the Entity's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. Overseeing the processes to ensure that the Entity's internal controls and risk management, are adequate, to meet the requirements of the Sri Lanka Auditing Standards. Assessment of the independence and performance of the Entity's external auditors. To make recommendations to the board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors	
c.	**Disclosure in the Annual Report** The names of the directors (or persons in the parent company's committee in the case of a group company) comprising the audit committee should be disclosed in the annual report.	The Committee comprises Independent Non-Executive Directors Mr. K Sundararaj, Mr. P A Wijeratne and Mrs. D P Pieris (retired with effect from 26.06.2021) while Mr. Sundararaj serves as the Committee Chairman.
	The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the annual report.	The Committee has made this determination.
	The annual report shall contain a report by the audit committee, setting out the manner of compliance by the Entity in relation to the above, during the period to which the annual report relates.	Please refer the Committee report on page 89.
7.13.1	**Minimum Public Holding Requirement**	**Not Complied**
(b)	Disclosure in terms of rule 7.13.02 of the Listing Rules of the Colombo Stock Exchange ("CSE")	The Company is not compliant with the Minimum Public Holding Requirement stipulated by the CSE Rule 7.13.1 (b) as at end March 2021: Float Adjusted Market Capitalisation was Rs. 1,585,617,706/-; The public Holding percentage was 5.39%; The number of Public Shareholders were 4,154; The Company is evaluating available options of complying with the Listing Rules of the Colombo Stock Exchange

Section No.	Listing Rules of the Colombo Stock Exchange	LOFC's level of compliance
9.2.2-	**Related Party Transactions Review Committee**	**Complied with**
9.2.4	The Committee should comprise a combination of Non-Executive Directors and Independent Non-Executive Directors. The composition of the Committee may also include Executive Directors, at the option of the Listed Entity. One Independent Non-Executive Director shall be appointed as Chairman of the Committee.	As at 31st March 2021, the Committee comprised two Independent Non-Executive Directors, one of whom serves as the Committee Chairman and one Non-Executive director. A Separate Committee (independent of the parent entity) has been established by the Company. Functions of the Committee and details of meetings held are included in the Committee Report on Page 93.
9.3.3	**Disclosure in the Annual Report**	
	a) Non-recurrent Related Party Transactions if aggregated value exceeds 10% of the equity or 5% of Total assets whichever is lower	During the current period there were no non-recurrent related party transactions which qualify for the requirement.
	b) Recurrent Related Party Transactions – if Aggregated value exceeds 10% gross income as in the latest audited accounts	During the current period there were no recurrent related party transactions which qualify for the requirement.
	c) The Annual Report shall contain a Report of the Related Party Transactions Review Committee in the prescribed manner.	Please refer Committee Report on page 93.
	d) A declaration by the Board of Directors as an affirmative statement of the compliance with the rules pertaining to related party transactions:	Please refer the Directors Report on pages 83 to 85.

CORPORATE GOVERNANCE

Member Attendance at Meetings

Board Meetings

Name of Member	Executive	Non - Executive	Independent	Non Independent	Date of Appointment	05/05/2020**	28/05/2020	29/06/2020	29/07/2020	27/08/2020	25/09/2020	28/10/2020**	25/11/2020**	15/12/2020	27/01/2021	24/02/2021	30/03/2021	Total 12
B C G de Zylva		✓		✓	23.04.2018	✓	✓*	✓*	x	✓*	✓*	✓	✓	✓*	✓	✓	✓*	11
F K C P N Dias	✓			✓	01.03.2020	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
Mrs K U Amarasinghe	✓			✓	05.03.2003	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓*	✓	✓	12
Mrs D P Pieris (retired on 26.06.2021)		✓	✓		27.06.2012	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓*	✓*	✓*	12
P A Wijeratne		✓	✓		26.05.2017	✓	✓*	✓	✓	✓	✓	✓	✓	✓*	x	✓	✓	11
K Sundararaj		✓	✓		23.07.2019	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓*	✓*	11
A Nissanka (resigned on 31.12.2020)		✓		✓	15.10.2015	✓	✓	✓	✓	x	✓	✓	x	✓	-	-	-	07

*** MSTeams meetings * online participation*

Audit Committee Meetings

Name of Member	Meeting Dates				Total
	29/06/2020*	24/09/2020*	21/10/2020	08/02/2021	04
K Sundararaj	✓	✓	✓	✓	04
P A Wijeratne	✓	✓	✓	✓	04
Mrs D P Pieris (retired with effect from 26th June 2021)	✓	x	✓	✓	03
By Invitation					
F K C P N Dias (Director/ CEO)	✓	✓	✓	✓	04
B Weeratunga (Head of Finance)	✓	✓	✓	✓	04

**Meetings where the External Auditors met the members of the Audit Committee*

Integrated Risk Management Committee Meetings

Name of Member	Meeting Dates				Total
	27/05/2020	21/08/2020	18/11/2020	17/02/2021	04
P A Wijeratne	✓	✓	✓	✓	04
Mrs D P Pieris (Retired on 26.06.2021)	x	✓	x	x	01
F K C P N Dias	✓	✓	✓	✓	04
G Weerakoon	✓	✓	✓	✓	04
B Weeratunga	✓	✓	✓	✓	04
S Kalidasa/P Gamage	✓	✓	✓	✓	04
M Warnakula	✓	✓	✓	✓	04
Mrs R Weerasekera	✓	x	✓	✓	03
P Siriwardena	✓	✓	✓	✓	04
J Gunatilake	✓	✓	✓	✓	04
C Jayanath	✓	✓	x	✓	03
S Samarasekera	✓	✓	x	✓	03
I Ariyawansa/W Ranatunga	✓	✓	✓	✓	04
H Thilakaratne	✓	✓	✓	✓	04
C Jagoda	✓	x	✓	✓	03
S Refai (a.w.e.f.05.10.2020)	-	-	-	✓	01

Related Party Transactions Review Committee Meetings

Name of Member	Meeting Dates				Total
	29/06/2020	25/09/2020	21/10/2020	08/02/2021	04
Mrs D P Pieris (r.w.e.f. 26.06.2021)	✓	✓	✓	✓	04
P A Wijeratne	✓	✓	✓	✓	04
B C G De Zylva	✓	✓	✓	✓	04
K Sundararaj (a.w.e.f. 27.06.2021)	ABI	ABI	ABI	ABI	04

Remuneration Committee Meetings

Name of Member	Meeting Date	Total
	30/03/2021	01
Mrs D P Pieris (r.w.e.f. 26.06.2021)	√	01
P A Wijeratne	√	01
K Sundararaj (a.w.e.f. 27.06.2021)	ABI	01

Nomination Committee Meetings

Name of Member	Meeting Date	Total
	30/03/2021	01
Mr P A Wijeratne	√	01
Mr F K C P N Dias	√	01
Mrs K U Amarasinghe	x	0

ABI - attended by invitation

ENTERPRISE RISK MANAGEMENT

Risk

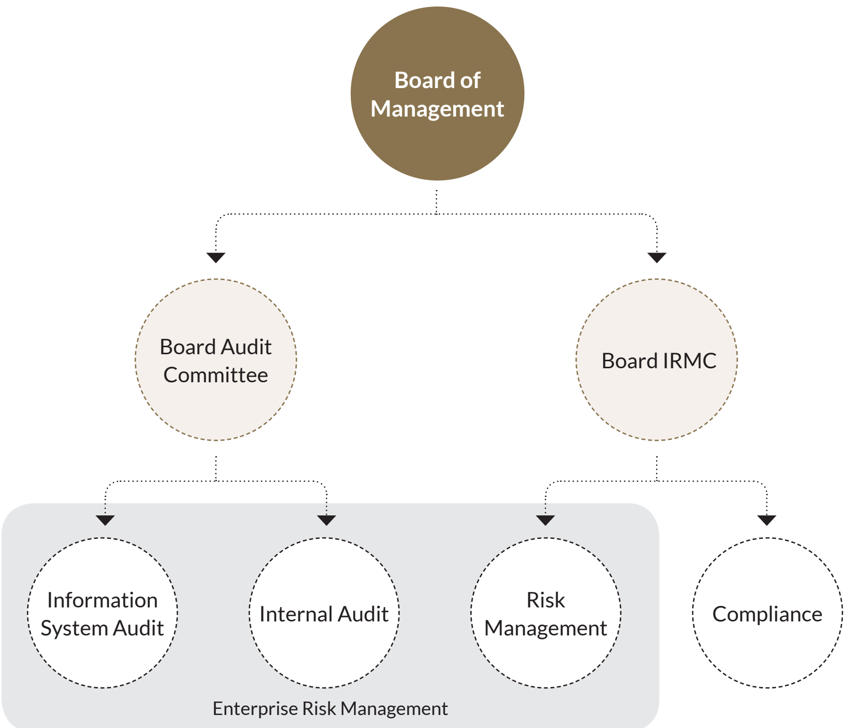
"Risk is anything that could be an impediment to achieve our objectives". The above statement is embedded in to our risk culture at LOLC Finance Plc (LOFC). This allows us to identify risks at all levels of operations in the organisation ranging from strategic decision making to operational level, from products to delivery channels and from internal stake holders to external stakeholders.

Risk Management

We strongly believe that effective risk management is a collective effort and is a responsibility of all levels 8 of staff spearheaded by the Board of Management. Our efforts are guided by our vision for risk, "Building an organisational Culture where Protection, Assurance, Reliability, Accountability, Transparency and Confidentiality are treasured and lasting values" and we strive to create this culture from the time an employee joins our ranks. Risk-related training is embedded in our induction training and selected targeted trainings too are conducted on a need basis. These interactions and awareness sessions allow our employees to be more receptive to risks arising and helps early identification of potential threats and vulnerabilities.

The risk governance structures at LOFC are driven by the Board with Risk Management, Internal Audit and Compliance functions playing a major role. Risk Management, Internal Audit and Information Systems Audit functions operate in synergy under the Enterprise Risk Management department while the Compliance department too forms a part of the risk governance structures at LOFC.

The independence of the risk governance structures is vital to ensure that the Board is appraised of all risk related information in an unbiased manner and LOFC has ensured that the departments coming under the risk governance structures retain their full independence by having reporting lines to the Board Integrated Risk Management Committee and Board Audit Committee.



The Process

Risk management is a cyclic process which need to be consistent and reliable and should be bound by a seamless mechanism to escalate any risk-related information to relevant risk owners for remedial action.

Risk identification at LOFC is a multilayered activity. Risk/process owners are primarily responsible for the identification and management of risk while the Enterprise Risk Management department forms an independent function for identification of enterprise-wide risks stemming from the business environment, while the internal audit too channels material level Risks detected through their reviews to risk department for evaluation. Formalisation of risk information gathering has taken place in the organisation by requiring each business unit to monthly report any perceived risks or emerging risks with in their operations to the Enterprise Risk Management department.

Identified risks are broadly categorised in to credit, market, operational, finance and business/strategic. Then these risks are assessed for the probable impact to the organisation and material risks are classified as Key Risks. The organisational appetite in the form of risk limits for key risks are decided and approved by the Board of Management. Such risk limits are continuously monitored for breaches and stress tested for potential breaches under different scenarios in order to take pro- active action to mitigate any adverse impact.

The responsibility of controlling risks with in the organisational appetite rests with the process /risk owners and the effectiveness of the risk control methodologies, mechanisms and internal controls are reviewed by the internal audit. The reviewing of effectiveness of the information systems facilitating the business processes are within the scope of the information systems audit. The Compliance unit ensures that the organisation is consistently in compliance with all applicable statues, directions by the regulatory authorities and ensures that necessary checks and balances are in place to prevent any non-compliances.

The Board is appraised every month on the movement of indicators associated with key risks and any other potential risks while IRMC meetings are held quarterly where monitored risks, emerging risks and strategy to manage such risks are discussed in detail and action taken. In addition, any adverse conditions developing in the operating environment are escalated to all relevant stakeholders as and when required for timely action.

Challenges

The year under review was a real test for the risk management practices of the organisation as we were compelled to face a myriad of risks due to the global pandemic. Key among them was the organisations ability to operate under restrictive conditions. The potential impacts were identified with the onset of the first wave of COVID-19 and the organisation seamlessly shifted to cluster/ roster based working environment with part of the staff; mainly back office operations working from home. This was possible mainly due to fact that the required technological infrastructure was already in place in the organisation few years prior to the onset of the pandemic. Customers too were given the required access and support through our online and mobile based platforms.

Impact on the customers too were unprecedented and the organisation managed to provide all the relief measures formulated by the Government to affected sectors. The asset portfolio was managed meticulously in order to prevent a major stress to the asset base. We have seen signs of recovery of the affected customers with the country gradually opening; yet are largely dependent on how fast the country returns to full operational levels seen prior to the pandemic. In order to manage the portfolio quality; stringent credit policies were adopted and practiced.

The restrictive nature of the operations brought in a new challenge due to relaxation of the internal controls on some operations. Yet by the time of the pandemic, the internal audit had transitioned to a continuous audit strategy of exception and anomaly monitoring in addition to the traditional audits therefore review mechanisms of key controls were kept largely intact.

All aforesaid aspects allowed us to face the challenges due to the pandemic and we are confident that the strong base of our risk management practices would enable us to face future challenges too.

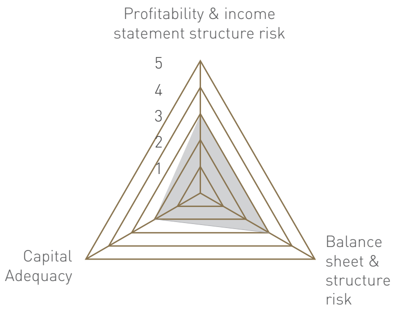
ENTERPRISE RISK MANAGEMENT

Risk Profile

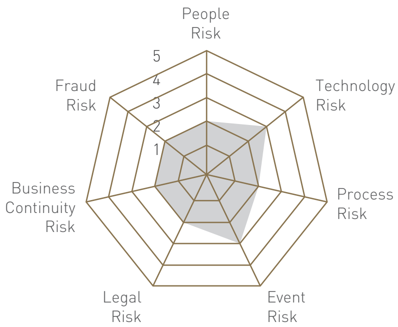
The following is for illustration purposes only and the risk is rated as perceived by us taking in to consideration the challenges expected due to the present global pandemic situation.

Risk Levels	Risk Score
Very High	5
High	4
Medium	3
Low	2
Very Low	1

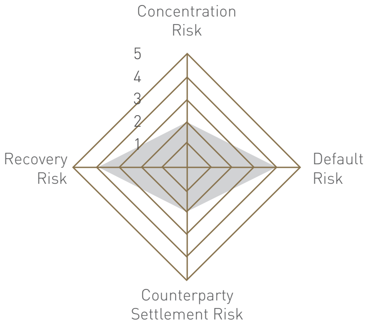
Financial Risk



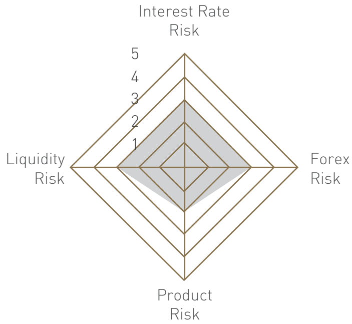
Operational Risk



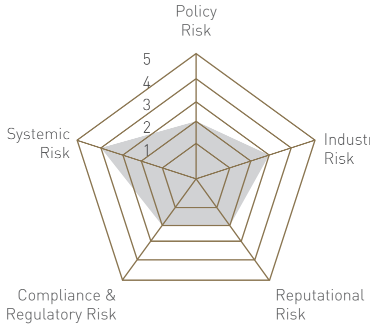
Credit Risk



Market Risk



Business & Strategic Risk



REPORT OF THE BOARD OF DIRECTORS

The Directors of LOLC Finance PLC (LOFC) have pleasure in presenting their Annual Report together with the Audited Financial Statements for the year ended 31st March 2021.

Principal Activities and Nature of Operations

LOFC is a Licensed Finance Company in terms of the Finance Business Act No. 42 of 2011. The Company is also a registered finance leasing establishment in terms of the Finance Leasing Act No. 56 of 2000.

During the year the principal activities of the Company comprised Finance Business, Finance leasing, Islamic Finance, issue of Payment Cards, Micro Finance Loans, Gold Loans and provision of Advances for Margin Trading in the Colombo Stock Exchange.

Markets Served

The Company operates in all provinces of Sri Lanka with the largest concentration of branches being in Western and North Central Provinces.

Directorate

The Board of Directors of the Company.

1.	B C G De Zylva	Chairman, Non-Executive Director
2.	F K C P N Dias	Director/ Chief Executive Officer
3.	Mrs. K U Amarasinghe	Executive Director
4.	Mrs. D P Pieris (Retired from the Board with effect from 26.06.2021)	Senior Independent Director
5.	P A Wijeratne	Independent Director
6.	K Sundararaj	Independent Director
7.	A Nissanka (Resigned from the Board with effect from 31.12.2020)	Non -Executive Director

Mr. Ashan Nissanka having served the LOLC Group for 23 years resigned from the services of the Company with effect from 31st December 2020. Mr. Nissanka was appointed to the Board in October 2015. He spearheaded the expansion of the Company's branch network and championed the branding campaign of the Company which enabled LOLC Finance to reach a wider customers base. The Board and the Management places on record their appreciation for the contribution made by him towards the progress of the Company.

In terms of Sec 4 (2) of the Finance Companies Corporate Governance Direction of No. 3 of 2008, Mrs. D P Pieris retired having completed 9 years on 26th June 2021. The Board and the Management places on record their gratitude for her immense contribution towards the deliberations of the Board and its subcommittees on legal, regulatory and governance aspects in her position as Senior Independent Director.

In accordance with the provisions of Section 7.2 of the said Direction with CBSL consent the Board has appointed Mr. P A Wijeratne, as the next Senior Independent Director.

Recommendations for re-election of Directors

In terms of Article 75 of the Articles of Association of the Company Mr. P A Wijeratne and Mr. K Sundararaj retire by rotation and being eligible seek re-election as directors.

The Board recommends their re-election. The approval of the Central bank of Sri Lanka has been obtained for the re-election of these directors.

Directors Interests in Contracts

The Directors have made the declarations required by the Companies Act No. 7 of 2007. These have been noted by the Board, recorded in the Minutes and entered into the Interest Register which is maintained by the Company.

Lists of companies on which these Directors serve are included in page 86.

Directors' Remuneration

The Company paid Rs. 36,150,500/- as Directors' remuneration for the financial year ended 31st March 2021 (Rs. 44,071,000/- for 31st March 2020.)

The Company has a Board approved Remuneration Policy. This policy stipulates that remuneration should be linked to competence and contribution, while serving to incentivise and motivate. This policy has been taken into account when determining remuneration for both staff and directors.

The report of the Remuneration Committee is on page 92.

REPORT OF THE BOARD OF DIRECTORS

Directors' Shareholding

	Directors Name	As at 31.03.2021	As at 31.03.2020
1.	B C G De Zylva	Nil	Nil
2.	F K C P N Dias	400,000	400,000
3.	Mrs. K U Amarasinghe	Nil	Nil
4.	Mrs. D P Pieris	Nil	Nil
5.	P A Wijeratne	5,000	5,000
6.	K Sundararaj	Nil	Nil
7.	A Nissanka (r.w.e.f. 31/12/2020)	N/A	1,300,800

Capital Structure

The Stated Capital of the Company is Rs. 12,762,500,000/- divided into 5,250,000,000 shares.

The company issued Thirty-Four Million (34,110,193) rated unsecured subordinated redeemable debentures in July 2018. These debentures are also listed in the Colombo Stock Exchange. ICRA Lanka Ltd rated these debentures as [SL]A-(Stable).

Details of utilisation of proceeds from debenture issues are disclosed in the other disclosures to the financial statements on page 203.

Meetings of the Board of Directors

Twelve scheduled monthly meetings were held during the year. A schedule of Directors Attendance at Board Meetings and Sub Committee Meetings has been included on pages 78 to 79.

Corporate Governance

LOLC Finance PLC is governed by the requirements of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and the Listing Rules of the Colombo Stock Exchange and subsequent amendments thereto.

The manner in which the Company ensures adherence with the above requirements has been disclosed on pages 48 to 79.

Board Sub Committees

In compliance with regulatory guidelines and also with best practices, the Board has formed the following sub committees:

- Audit Committee
- Integrated Risk Management Committee
- Remuneration Committee
- Related Party Transaction Review Committee
- Nomination Committee

These Committees assist the Board with its role of oversight of the Company's performance and conformance. Minutes of the meetings of these Committees are tabled at the next Board meeting, enabling the Board to benefit from the focused review of these Committees on the areas and issues within their purview. These subcommittees have met quarterly or as and when necessary.

The reports of these Committees can be found on pages 89 to 94.

Management Committees

The Company has the following management level Committees to manage matters relating to credit, liquidity, collections and operational level planning and risk management:

- Credit Committee
- Asset Liability Committee
- Legal Settlement Committee
- Management Committee

Compliance with Laws and Regulations

The Company has not engaged in any activity that contravenes any applicable law or regulation, and to the best of the knowledge of the Directors the Company has been in compliance with all prudential requirements, regulations and laws.

The Company is compliant with the Listing Rules of the Colombo Stock Exchange (CSE) with the exception of the requirements relating to the Public Float under rule 7.13.1.b. Please refer page 76 for further details.

Consequently, the Company was transferred to the Watch List in November 2018 and thereafter to the Second Board of the CSE on 15th November 2019. Your Board of Directors is in the process of evaluating options in this regard.

Industrial Relations

Human Capital Strategies of the Company are based on respected HR practices to attract and retain right people. Policies are in place to develop and motivate the workforce for current and future business needs of the Company.

Disciplinary matters are dealt according to the board approved policies in compliance with labour regulations. There was no occurrence of any issue detrimental to the harmonious industrial relations of the Company during the year under review which required disclosure under Rule 7.6 (Vii) of the Listing Rules of the CSE.

Scholar Supervisory Board

As the Company offers Alternate Financial Services, from its dedicated Strategic Business Unit (SBU) under product brand Al-Falaah, the Board has installed a dedicated Scholar Supervisory Board (SSB) for monitoring of the business's operational compliance. The SSB reviews all Alternate Finance products offered, and periodically audits the processes, thereby providing comfort to customers of the compliance of product standards, and further strengthening the Board's control.

Two of the three member SSB are based in Sri Lanka and the remaining member is an internationally renowned scholar based in South Africa. The 3 members of the panel are acclaimed experts in the Islamic Banking & Finance industry and are both academically and professionally qualified in respective standards.

Currently Alternate Financial Services are offered through the standard LOFC Channel network of over 140 locations which also include dedicated Al-Falaah service desks within.

Financial Statements & Auditor's Report and Directors' Responsibility for Financial Reporting

The financial statements and the auditors report are given on pages 99 to 108.

The Directors are responsible for the preparation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view that the financials have been prepared in accordance with the requirements of the Sri Lanka Accounting Standards, the Companies Act No. 7 of 2007, the Finance Business Act No. 42 of 2011 and all relevant directions of the Central Bank of Sri Lanka.

Significant Accounting Policies

The Accounting Policies adopted in the preparation of the financial statements and any changes thereof where applicable have been included in the Notes to the financial statements on pages 109 to 172.

Transactions with Related Parties

In terms of LKAS 24, the Directors have disclosed transactions which are classified as related party transactions under Note 32 on pages 169 to 170.

The Board confirms that the Company has not engaged in transactions with any related party in a manner that would grant such party more favourable treatment than that offered to other clients of the Company.

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2020.

Going Concern

The Directors believe that the Company is in a position to continue its operations in the foreseeable future. Accordingly, the financial statements are prepared on the basis that the Company is a going concern.

Statutory Payments

For the year under review, all known statutory payments have been made and all retirement gratuities have been provided for. Further, all management fees and payments to related parties for the year under review have been reflected in the accounts.

Internal Controls

The Enterprise Risk Management Division regularly reviews all aspects of operations, including controls, and compliance with relevant regulations. These reports are taken up for discussion by the Audit Committee or the Integrated Risk Management Committee as appropriate.

The Board could also seek the support of the external auditors to review and advise on any improvements needed to existing controls.

Events after the reporting date

No circumstances have arisen since the reporting date that would require disclosure.

Annual General Meeting

Annual General Meeting of the Company will be held on 24th September 2021 at 11.00 a.m. as an on-line audio-visual meeting with arrangements for the on-line meeting platform made at the registered office of the Company at No.100/1, Sri Jayawardenapura Mawatha, Rajagiriya.

For and on behalf of the Board of Directors of

LOLC Finance PLC

Conrad Dias

Director/ CEO

Brindley de Zylva

Chairman

23rd June 2021

Rajagiriya

REPORT OF THE BOARD OF DIRECTORS

Directors' Declarations

Name of the Director	Directorates as at 31.03.2021
B C G De Zylva	LOLC Myanmar Micro-Finance Company Limited
	LOLC (Cambodia) PLC
	Browns Machinery (Cambodia) Co. Ltd
	LOLC Finance PLC
	Serendib Microinsurance Plc
F K C P N Dias	LOLC Technology Services Ltd
	LOLC Technologies Ltd
	Digital Mobility Solutions Lanka (Pvt) Ltd
	oDoc (Private) Limited
	LOLC Finance Zambia Limited
	LOLC Holdings PLC
	LOLC Finance PLC
	I Pay Global FZC
	Fusion X Global FZC
	LOLC ASKI Finance Inc.
	LOLC Asia Private Ltd
	LOLC Inter Asia Development Bank
	LOLC Myanmar Microfinance Company Limited
	Fina Trust Microfinance Bank Limited – Nigeria
	LOLC Cambodia PLC
Mrs K U Amarasinghe	LOLC Holdings PLC
	LOLC Finance PLC
	LOLC Life Assurance Limited
	Palm Garden Hotels PLC
	Eden Hotel Lanka PLC
	Brown & Co. PLC
	Browns Investments PLC
	Riverina Resorts (Pvt) Ltd
	Browns Holdings Ltd
	Green Paradise (Pvt) Ltd
	Danya Capital (Pvt) Ltd
	Ultimate Sports (Pvt) Ltd
	Melana Capital (Pvt) Ltd
	Sanctuary Resorts Lanka (Private) Limited
	Serendib hotels PLC
	Kammala Hoteliers (Private) Limited
	Dolphin Hotels PLC
	Hotel Sigiriya PLC
	Serendib Leisure Management Limited
Mrs D P Pieris	PW Corporate Secretarial (Pvt) Ltd
	Asia Asset Finance PLC
	Sithijaya Fund Ltd
	Asian Centre for Lease Education
	Associated Electrical Corporation Ltd
	Abans Electricals PLC
	LOLC Finance PLC
	MTN Corporate Consultants (Pvt) Ltd
	JAT Holdings Limited
P A Wijeratne	LOLC Finance PLC
K Sundararaj	LOLC Finance PLC

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

In line with the section 10(2)(b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the Internal Control over Financial Reporting in place at LOLC Finance PLC. ("the Company").

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of Internal Control over Financial Reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board.

The Board is of the view that the system of Internal Control over Financial Reporting in place, is adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company is continuously improving the processes and procedures in line with the industry best practices and regulatory reporting requirements. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of design and effectiveness on an on-going basis. Progressive improvements on the control framework covering processes relating to investment balances and reconciliations related to asset balances are being made. The matters addressed by the External Auditor's in this respect, will be taken into consideration and appropriate steps will be taken to incorporate same, where applicable.

The Company adopts Sri Lanka Accounting Standard comprising LKAS and SLFRS and progressive improvements on processes to comply with requirements of recognition, measurement, classification and discourse are being made whilst further strengthening of process will take in its financial reporting and management information.

Board has given due consideration for the adoption of SLFRS 9 "Financial Instruments" which was applicable for financial reporting period beginning from 1st April 2018. The Board will continually take steps to strengthen the process and controls around management information systems and information required for validation and compliance in line with SLFRS 9.

Confirmation

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting.

By order of the Board,

Mr. Brindley de Zylva
Chairman/Non-Executive Director

Mr. Conrad Dias
Director/Chief Executive Officer

23rd June 2021

INDEPENDENT ASSURANCE REPORT

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF LOLC FINANCE PLC

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of LOLC Finance PLC (the "Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") included in the annual report for the year ended 31 March 2021.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008/ section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction no. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities and compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of the Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

28 June 2021

Colombo

REPORT OF THE AUDIT COMMITTEE

Composition

The Audit Committee was established for the purpose of assisting the Board in fulfilling their responsibilities relating to financial governance. The Committee comprises three Independent Non-Executive Directors.

K Sundararaj	Committee Chairman/Independent Non-Executive Director
Mrs. D P Pieris*	Senior Independent Director
P A Wijeratne	Independent Non-Executive Director

**retired w.e.f. 26th June 2021 subsequent to the year under review*

Terms of Reference

The Audit Committee is governed by the Audit Charter which defines its terms of reference. The composition and scope of the committee meets the requirements set out in the Finance Companies Corporate Governance Direction No. 3 of 2008 and the Listing Rules of the Colombo Stock Exchange.

The Charter was last reviewed in January 2019. The Committee has been mandated to ensure that a sound Financial Reporting System is established by: reviewing the appropriateness of procedures in place for the identification, evaluation and management of business risks; ensuring that internal controls relating to all areas of operations, including Human Resources and IT enhance good governance while not impeding business; seeking assurance that agreed control systems are in place, are operating efficiently and are regularly monitored; ensuring that appropriate controls are put in place prior to the implementation of significant business changes, facilitating monitoring of the changes; reviewing internal and external audit functions; and ensuring compliance with applicable laws, regulations, listing rules and established policies of the Company.

Activities of the Committee

Mr. Kandiah Sundararaj counts over 27 years experience in Accounting, Auditing and Tax consulting. He started his career as a Chartered Accountant in 1998 and is currently serving as the Tax Partner in M/s Amarasekera and Company, Chartered Accountants. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka and holds a Master of Business Administration in Finance from the University of Colombo.

During the year under review the Committee reviewed interim and annual Financial Statements prior to publication, checked and recommended changes in accounting policies, significant estimates and judgments made by the management, compliance with relevant accounting standards/regulatory requirements, and issues arising from internal and external audit.

Effectiveness of the Company's internal controls was evaluated through reports provided by the management, and by the Internal and External Auditors. The Committee is satisfied that an effective system of internal control is in place to provide the assurance on safeguarding the assets and the integrity of financial reporting. On behalf of the Audit Committee, the Internal Auditor performs a comprehensive exercise that entails reviewing of all aspects of MIS including operational and regulatory risks. The Company's level of compliance of the Corporate Governance Direction was assessed by the External Auditors.

The Committee addressed the External Auditors' findings reported in the Management Letter relating to the previous financial year's (2019/20) audit.

The Committee reviewed the independence and objectivity of the External Auditors, M/s Ernst & Young, Chartered Accountants and has received a declaration confirming that they do not have any relationship or interest in the Company as required by the Companies Act, No. 7 of 2007.

The Board/ Audit Committee has determined that the External Auditors are in fact independent as: they are not engaged in providing any non-audit services to the Company; and the fees charged for audit assignments are not significant to impair their judgment/ independence.

In accordance with good governance initiatives, audit partner rotation is practiced and the need for auditor rotation is considered every 7 years. The Audit Committee has recommended to the Board and the shareholders the reappointment of the External Auditors.

Meetings

The Committee meets quarterly and additional meetings are held as and when a need arises. Four meetings were held during the year and the members' attendance at Audit Committee meetings is provided on page 78. The CEO and the Head of Finance are invited to these meetings. Minutes of such meetings which include details of matters discussed are reported regularly at Board meetings. The audit partner was invited to attend two meetings and on both instances the auditors were able to meet with the Audit Committee members without the presence of other directors and members of the management.

REPORT OF THE AUDIT COMMITTEE

Auditors

M/s Ernst and Young, the Auditors of the company retire and offer themselves for re-appointment. The Board recommends their re-appointment for the year 2021/2022 at a fee to be decided by the Board.

The auditors' remuneration for the year ended 31st March 2021 is disclosed in Note 26 to the financial statements.

Their services were also engaged to seek: a) an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board; and b) the Company's level of adherence to the internal controls on financial reporting.

As far as the Directors are aware, the Auditors do not have any other relationship with the Company or any interest in contracts with the Company. Therefore, the Board has determined that the External Auditors are independent as they are not engaged in providing any non audit services and the fees charged for audit assignments are not significant to impair their judgement/independence.

Mr. K Sundararaj
Chairman, Audit Committee

Rajagiriya
23rd June 2021

REPORT OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

Composition

The Integrated Risk Management Committee (IRMC) was established to assist the Board in performing its oversight function in relation to different types of risk faced by the Company in its business operations and ensures adequacy and effectiveness of the risk management framework of the Company. The Committee comprises the following members:

P A Wijeratne	Committee Chairman/Independent Non-Executive Director
Mrs D P Pieris *	Senior Independent Director
C Dias	Executive Director/CEO
G Weerakoon	DGM – Enterprise Risk Management
B Weeratunga	Head of Finance
S Samarasekera	AGM – Credit Risk Management
W Ranatunga	AGM – Credit Risk Management
J Gunathilaka	Compliance Officer
P Gamage	Head of Treasury
C Jayanath	Head of Recoveries
M Warnakula	Chief Operating Officer
Mrs R Weerasekera	Head of Liability Management
P Siriwardena	CIO FS
H Thilakaratne	DGM Digital Platforms
C Jagoda	DGM Micro
S Refai	DGM-IBU

**retired w.e.f. 26th June 2021 subsequent to the year under review*

Terms of Reference

The IRMC is governed by its Terms of Reference which includes the provisions of Section 8 (3) of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board of the Central Bank of Sri Lanka. The TOR was reviewed and strengthened in October 2019.

The composition and the scope of work of the Committee are in conformity with the provisions of the aforesaid Direction.

Activities of the Committee

Credit, Operational, Market and Liquidity Risks are monitored by divisional heads and reported to ERM on a monthly basis. The DGM ERM in turn performs an independent and selective scrutiny of relevant matters and issues summarised reports monthly to the Board, as well as quarterly reports to the Committee for concurrence and/or specific directions in order to ensure that the risks are managed appropriately.

As delegated by the Committee the DGM ERM submits a risk assessment report to the Board, subsequent to each meeting within a week of each meeting, stating the risk mitigation actions pursued and seeking the Board's views. In addition, proceedings of meetings are also tabled at a subsequent meeting of the Board. The Committee works closely with the key management personnel and the Board in fulfilling its duties in risk management.

During the year the Committee: reviewed and revised risk indicators designed to monitor the level of specific risks, with a view to determining the adequacy of such indicators; reviewed actual results computed monthly against each risk indicator and took prompt corrective action to mitigate the effects of the specific risk; reviewed the effectiveness of the compliance function to assess the Company's compliance with laws, regulatory guidelines, internal controls and approved policies in all areas of business operations; and reviewed the adequacy and effectiveness of management committees such as Assets & Liability Committee and the Credit Committee.

Meetings

During the year the Committee met four times on a quarterly basis. The attendance of members at meetings is stated on page 79.

Mr. P A Wijeratne

Chairman, Integrated Risk Management Committee

Rajagiriya

23rd June 2021

REPORT OF THE REMUNERATION COMMITTEE

Composition

The Remuneration Committee was established to assist the Board in developing Human Resource strategies which would enable the company to attract and retain the required talent. The Committee comprises two Independent Directors.

Mrs. D P Pieris*	Committee Chairman/Senior Independent Director
P A Wijeratne	Independent Non-Executive Director
K Sundararaj**	Independent Non-Executive Director

**retired w.e.f. 26th June 2021 subsequent to the year under review*

*** appointed to the Committee w.e.f. 27th June 2021*

Terms of Reference

The Remuneration Committee is governed by a Board approved Remuneration Policy which has vested it with powers to evaluate, assess and recommend to the Board for approval any fee, remuneration and ex gratia to be paid out to its directors including the Chief Executive Officer based on: the need of the Company to be competitive; the need to attract, motivate and retain talent; and the need to encourage and reward high levels of performance and achievement of corporate goals and objectives.

The Remuneration Policy was last reviewed and approved in November 2019.

The composition and scope of the Committee meets the requirements set out in the Listing Rules of the Colombo Stock Exchange.

Activities of the Committee

The Committee is responsible for determining the remuneration policy relating to the CEO; periodically evaluating the performance of the CEO against the set targets and goals and determining the basis for revising remuneration, benefits and other payments of performance based incentives; determining the remuneration policy relating to Executive and Non-Executive Directors and recommending these to the Board for adoption.

All independent directors receive a fee for attending board meetings and committee meetings. They do not receive any performance or incentive payments. During the year , the Committee reviewed the fees paid to external directors. The Committee also reviewed and recommended for board approval the restructuring of staff ranks/designations and benefits.

The total amount paid as directors' emoluments have been disclosed on page 163.

Meetings

The Committee meets annually. One meeting was held during the year under review. The attendance of members at the meeting is stated on page 79.

Mrs. D P Pieris

Chairperson, Remuneration Committee

Rajagiriya

23rd June 2021

REPORT OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE

Composition

The Related Party Transaction Review Committee was formed by the Board to comply with the related Rules of the Colombo Stock Exchange. The Committee comprises the following members:

Mrs. D P Pieris*	Committee Chairman/Senior Independent Director
P A Wijeratne	Independent Non-Executive Director
B C G De Zylva	Non-Executive Director
K Sundararaj**	Independent Non-Executive Director

**retired w.e.f. 26th June 2021 subsequent to the year under review*

***appointed to the Committee w.e.f. 27th June 2021*

Terms of Reference

The Committee is governed by its Terms of Reference (TOR) which encompass the requirements stipulated under the Code of Best Practice on Related Party Transactions (RPTs) issued by the Securities and Exchange Commission of Sri Lanka; and Section 9 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by the Central Bank of Sri Lanka (CBSL).

Policies and Procedures adopted

On behalf of the Board, the Committee has established a Related Party Transaction Policy consistent with the Company's business model to ensure that all related party transactions are carried out in compliance with the provisions in its TOR, the Directions issued to Finance Companies by CBSL on Lending/Single Borrower Limits and the Sri Lanka Accounting Standards while maintaining fairness and transparency.

The Committee quarterly reviews all recurrent and non recurrent RPTs of the Company. The Company has implemented a system that enables the Company to capture and retrieve data on RPTs. This system generates comprehensive reports for management review and for quarterly review of the Committee reflecting all related party transactions including expenses, income, lending and amounts outstanding.

When reviewing facilities to RPTs, the Committee considers the nature of the transaction, terms, conditions, value and the statement of compliance signed off by the key management personnel of the Company in order to determine whether the transaction proposed will be carried out in accordance with the policy adopted.

Reviewing and approval of RPTs are either at its quarterly meetings with a majority of the members present to form a quorum or by circulation consented to by a majority.

The Committee reviews the policy and procedures on an annual basis or when need arises.

Activities of the Committee

The committee has reviewed quarterly all recurrent and non-recurrent RPTs of the Company and was satisfied that such transactions had been carried out at market rates; And where applicable, the guidelines of the CSE, CBSL and the Sri Lanka Accounting Standards had been complied with in relation to approvals/reporting/disclosure.

The Committee TOR and RPT Policy was last reviewed in February 2020.

During the year, the company did not have any related party transactions which required the approval of the shareholders or immediate market disclosure under the Listing Rules. The related party transactions and details are disclosed in note no. 32 on pages 169 to 170 of the financial statements.

The Group Chief Financial Officer, the Compliance Officer and the Head of Finance are invited for Committee meetings, to ensure on behalf of the Committee and the Board that all related party transactions of the Group and its listed subsidiaries are consistent with the Code.

The activities and views of the Committee have been communicated to the Board of Directors quarterly through verbal briefings, and by tabling the minutes of the Committee's meetings.

A declaration by the Board of Directors as an affirmative statement of the Compliance with the Listing Rules pertaining to related party transactions is given on page 84 of this report

Meetings

Four Committee meetings were held during the year. The attendance of members at meetings is stated on page 79.

Mrs. D P Pieris

Chairperson, Related Party Transaction Review Committee

Rajagiriya

23rd June 2021

REPORT OF THE NOMINATION COMMITTEE

Composition

The Nomination Committee was established to assist the Board in assessing the skills required and recommending director nominees for election to the Board (subject to ratification by the shareholders) and to its sub committees to effectively discharge their duties and responsibilities. The Committee comprises the following membership:

P A Wijeratne	Committee Chairman/Independent Non-Executive Director
Mrs. K U Amarasinghe	Executive Director
F K C P N Dias	Executive Director/ CEO

Terms of Reference

The Board established this Committee voluntarily and its charter defines its purpose including the following duties and responsibilities: assisting the Board in identifying qualified individuals to become Board members and determining the composition of the Board of Directors and its committees; oversight of the evaluation of the Board and its Committees, as well as senior management of the Company, including succession planning; annually review the composition of each sub-committee and present recommendations/ nominations for committee memberships to the Board; maintain records and minutes of meetings and activities of the Committee; perform any other activities consistent with this Charter, and the scope of the Nomination Committee or as deemed necessary and appropriate by the Committee and the Board.

The TOR was last reviewed and revised in May 2020.

Activities of the Committee

During the year the Committee assessed the composition of the Board and its sub committees with the relevant regulations of the CBSL and CSE. The Committee further reviewed the officers identified as key management personnel of the Company.

Meetings

One Committee meeting was held after the year under review and proceedings of this meeting were reported to the Board. The attendance of members at meetings is stated on page 79.

Mr. P A Wijeratne

Chairman, Nomination Committee

Rajagiriya

23rd June 2021

CHIEF EXECUTIVE OFFICER'S AND HEAD OF FINANCE'S RESPONSIBILITY STATEMENT

The financial statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the institute of Chartered accountant of Sri Lanka. The requirements of the Companies Act No.7 of 2007, the Finance Business Act No.42 of 2011 and the Listing Rules of the Colombo Stock Exchange

Accordingly, the company has prepared financial statements which comply with SLFRSs/ LKASs and related interpretations applicable for period ended 31 March 2021, together with the comparative period data as at and for the year ended 31 March 2020, as described in the accounting policies.

We accept responsibility for the integrity and accuracy of these financial statements. Significant accounting policies have been applied consistently. Application of significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with the Audit Committee and the external auditors. Estimate and judgment relating to the financial statements were made on a prudent and reasonable basis, in order to ensure that the financial statements are true and fair. To ensure this, our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the company were consistently followed.

We confirm that to the best of our knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial position, results of operations and cash flows of the company as of, and for, the periods presented in this annual report.

We are responsible for establishing and maintaining internal controls and procedures. We have designed such controls and procedures, or caused such controls and procedures to be designed under our supervision, to ensure that material information relating to the company is made known to us and for safeguarding the company's assets and preventing and detecting fraud and error.

We have evaluated the effectiveness of the company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this annual report. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involves management or other employees.

The financial statements were audited by Messrs. Ernst & Young, Chartered Accountants, the Independent Auditors. The Audit Committee pre - approves the audit and non-audit services provided by Ernst & Young in order to ensure that the provision of such services does not impair Ernst & Young's independence and objectivity. The Audit Committee also reviews the external audit plan and the management letters and follows up on any issues raised during the statutory audit. The Audit Committee also meets with the external and internal auditors to review the effectiveness of the audit.

We confirm that the company has complied with all applicable laws and regulations and guidelines and that there are no material litigations that are pending against the company other than those arising in the normal course of conducting business.

Mr. Buddhika Weeratunga
Head of Finance

Mr. Conrad Dias
Director/Chief Executive Officer

Rajagiriya
23rd June 2021

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors confirm that the Company's financial statements for the year ended 31st March 2021, are prepared and presented in conformity with the requirements of the Sri Lanka Accounting Standards, the Regulations and Directions of the Central Bank of Sri Lanka, the Listing Rules of the Colombo Stock Exchange and the Companies Act No. 07 of 2007. They believe that the financial statements present a true and fair view of the state of the affairs of the Company as at the end of the financial year. The financial statements comprise the statement of financial position as at 31st of March 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended and notes thereto.

The Directors also accept responsibility for the integrity and accuracy of the financial statements presented and confirm that appropriate accounting policies have been selected and applied and reasonable and prudent judgment has been exercised so as to accurately report transactions. The Directors have taken reasonable steps to safeguard the assets of the Company, to prevent, deter and detect fraud, and to ensure the integrity, accuracy and safeguarding of operational and financial records.

The Directors confirm that to the best of their knowledge, all statutory payments due in respect of the Company as at the reporting date have been paid for, or where relevant, provided for.

The External Auditors, Messrs. Ernst & Young, were provided with the opportunity to make appropriate inspections of financial records, minutes and other documents to enable them to form an opinion of the financial statements. The Report of the Auditors is set out on pages 99 to 102.

Mr. Conrad Dias
Director/Chief Executive Officer

Rajagiriya
23rd June 2021

ANCHORED IN VALUE

Financial Statements

FINANCIAL CALENDAR

Financial Calendar 2020/21	
1st Quarter Results 2020/21 released on	Friday, August 14, 2020
2nd Quarter Results 2020/21 released on	Friday, November 13, 2020
3rd Quarter Results 2020/21 released on	Monday, February 15, 2021
4th Quarter Results 2020/21 released on	Monday, May 31, 2021
Annual report for 2020/21 released on	Tuesday, August 31, 2021
20th Annual General Meeting on	Friday, September 24, 2021

Proposed Financial Calendar 2021/22	
1st Quarter Results 2021/22 will be released on	Wednesday, August 11, 2021
2nd Quarter Results 2021/22 will be released on	Monday, November 15, 2021
3rd Quarter Results 2021/22 will be released on	Tuesday, February 15, 2022
4th Quarter Results 2021/22 will be released on	Tuesday, May 31, 2022
21st Annual General Meeting on	Friday, September 30, 2022

INDEPENDENT AUDITOR'S REPORT

Building a better working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

INDEPENDENT AUDITORS' 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.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 our 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 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 Million (Note 7.7.3) and LKR 43,098 Million (Note 7.7.3) respectively net of total allowance for impairment of LKR 13,170 Million (Note 7.7.2). These collectively contributed 61% to the Company's total assets. As described in Note 7.7.2, 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).	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 test-checked the underlying calculations. • In addition to the above, following focused procedures were performed:

Key audit matter	How our audit addressed the key audit matter
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 calculations. • Key areas of significant judgements, 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.	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 responsive 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 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.
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	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 reasonability of management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant

Key audit matter	How our audit addressed the key audit matter
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 on the recognition of interest revenue on loans & receivables and lease rentals receivable & stock out on hire 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 recognised for the period	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 judgements 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 recognised 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.
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 gain of LKR 3,291 Million. The fair value of such property was determined by external valuer engaged by the Company. This was a key audit matter due to: - materiality 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.	Our audit procedures included (among others) the following 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 specialised 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. In addition, we evaluated the adequacy of the related financial statement disclosures in note 11.

Other information included in the 2021 Annual Report

Other information consists of the information included in the Company's 2021 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2021 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 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. If, based 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.

INDEPENDENT AUDITOR'S' REPORT

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 SLAuSs 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 SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. 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.
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.
4. 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.
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.

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.

28 June 2021

Colombo

STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	2021 Rs.	2020 Rs.
ASSETS			
Cash and bank balances	3	13,422,689,919	8,333,560,554
Deposits with banks and other financial institutions		7,203,305,870	17,282,276,685
Investment in government securities and others	4	15,838,454,720	10,790,843,193
Derivative financial instruments	5.1	325,029,200	273,195,187
Financial assets at amortised cost			
Rentals receivable on leased assets	6	43,098,406,893	43,842,380,956
Loans and advances	7	61,466,956,726	87,112,949,131
Factoring receivable	7.6	-	2,998,751,955
Margin trading receivable		83,553,171	1,767,689
Investment securities	8	5,497,999,899	2,958,198,760
Amount due from related companies	9	33,221,629	60,706,213
Other receivables	10	731,691,550	916,599,740
Inventories		271,727,381	2,023,122
Investment properties	11	21,088,740,181	15,963,885,792
Property plant and equipment	12	1,163,218,438	1,351,206,563
Total assets		170,224,995,577	191,888,345,539
LIABILITIES			
Bank overdraft	3	1,861,003,040	1,283,200,605
Interest bearing borrowings	13	16,437,442,429	51,558,593,484
Deposits from customers	14	107,791,136,377	99,261,181,454
Trade payables	15	144,788,204	1,048,944,408
Accruals and other payables	16	4,557,546,581	3,331,643,339
Derivative financial instruments	5.2	-	114,349,000
Amount due to related companies	17	620,861,723	854,197,576
Current tax payable	28.1	857,902,877	960,254,586
Deferred tax liability	28.2	1,733,249,164	1,888,186,465
Employee benefits	18.2	332,531,588	298,141,984
Total liabilities		134,336,461,983	160,598,692,900
SHAREHOLDERS' FUNDS			
Stated capital	19	12,762,500,000	12,762,500,000
Statutory reserve	20.1	3,596,578,755	3,378,281,827
Revaluation Reserve	20.2	328,838,183	241,527,671
Cash flow hedge reserve	20.3	27,607,751	(77,309,605)
Fair value through OCI reserve	20.4	45,445,698	11,956,519
Retained earnings	20.5	19,127,563,207	14,972,696,227
Total equity		35,888,533,594	31,289,652,639
Total liabilities and equity		170,224,995,577	191,888,345,539
Commitments and Contingencies	35	9,332,907,623	31,486,783,304
Net asset value per share		6.84	5.96

These financial statements are prepared in compliance with the requirements of the Companies Act No.07 of 2007.

(Mr.) Buddhika Weeratunga
Head of Finance

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board by:

(Mr.) Conrad Dias
Director / CEO

(Mrs.) K. U. Amarasinghe
Executive Director

The annexed notes to the financial statements on pages 109 through 172 form an integral part of these financial statements.

23rd June 2021
Rajagiriya (Greater Colombo)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March	Note	2021 Rs.	2020 Rs.
Interest income	21	33,761,534,127	38,081,709,115
Interest expense	22	(12,446,790,398)	(19,271,364,492)
Net interest income		21,314,743,729	18,810,344,623
Net other operating income	23	10,298,438,290	4,919,827,568
Direct expenses excluding interest cost	24	(950,854,705)	(1,279,608,370)
Allowance for impairment & write-offs	25	(16,341,362,321)	(7,843,541,357)
Personnel expenses	26.1	(3,156,954,655)	(2,971,773,136)
Depreciation	12	(131,853,680)	(201,533,267)
General & administration expenses		(5,979,227,626)	(6,661,847,141)
Profit from operations	26	5,052,929,032	4,771,868,920
Value added tax on financial services		(556,145,927)	(892,209,763)
Profit before tax		4,496,783,105	3,879,659,157
Income tax (expense) / reversal	28	(130,844,548)	(99,974,970)
Profit for the year		4,365,938,557	3,779,684,187
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability - gain / (loss)	18.2.b	19,845,167	(185,272,197)
Related tax	28	(12,619,816)	50,689,523
		7,225,351	(134,582,674)
Revaluation gain on property, plant and equipment	20.2	96,207,856	-
Related tax	20.2	(8,897,344)	-
		87,310,512	-
Movement in fair value (Equity investments at FVOCI)		10,711,224	12,254,474
Related tax		3,473,447	(1,225,447)
		14,184,672	11,029,027
Total of items that will never be reclassified to profit or loss		108,720,535	(123,553,647)

For the year ended 31 March	Note	2021 Rs.	2020 Rs.
Items that are or may be reclassified to profit or loss			
Movement in fair value through OCI reserve	4.1.3	19,304,507	22,683,918
Movement in hedge reserve	20.3	130,492,506	(53,125,280)
Related tax	20.3	(25,575,150)	14,875,078
		104,917,355	(38,250,201)
Total of items that are or may be reclassified to profit or loss		124,221,863	(15,566,284)
Total other comprehensive income, net of tax		232,942,397	(139,119,931)
Total comprehensive income for the year		4,598,880,954	3,640,564,256
Basic earnings per share	29	0.83	0.77

The annexed notes to the financial statements on pages 109 through 172 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Note	Stated Capital Rs.	Statutory Reserve Rs.	Revaluation Reserve Rs.	Cash flow Hedge Reserve Rs.	Fair Value Through OCI Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
Balance as at 01 April 2019		7,880,000,000	3,189,297,618	241,527,671	(39,059,404)	(21,756,425)	11,516,578,923	22,766,588,383
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	3,779,684,187	3,779,684,187
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss)	18.2 / 28.2	-	-	-	-	-	(134,582,674)	(134,582,674)
Revaluation gain on fair value through OCI investments		-	-	-	-	11,029,027	-	11,029,027
Movement in fair value through OCI reserve	4.1.3	-	-	-	-	22,683,918	-	22,683,918
Net movement of cashflow hedges	20.3 / 28.2	-	-	-	(38,250,201)	-	-	(38,250,201)
		-	-	-	(38,250,201)	33,712,944	(134,582,674)	(139,119,931)
Total comprehensive income for the year		-	-	-	(38,250,201)	33,712,944	3,645,101,513	3,640,564,256
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	188,984,209	-	-		(188,984,209)	-
Shares issued during the year		4,882,500,000	-	-	-		-	4,882,500,000
Total transactions recorded directly in equity		4,882,500,000	188,984,209	-	-	-	(188,984,209)	4,882,500,000
Balance as at 31 March 2020		12,762,500,000	3,378,281,827	241,527,671	(77,309,605)	11,956,519	14,972,696,227	31,289,652,639

	Note	Stated Capital	Statutory Reserve	Revaluation Reserve	Cash flow Hedge Reserve	Fair Value Through OCI Reserve	Retained Earnings	Total Equity
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2020		12,762,500,000	3,378,281,827	241,527,671	(77,309,605)	11,956,519	14,972,696,227	31,289,652,639
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	4,365,938,557	4,365,938,557
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss)	18.2 / 28.2	-	-	-	-	-	7,225,351	7,225,351
Revaluation gain on property, plant and equipment		-	-	87,310,512	-	-	-	87,310,512
Revaluation gain on fair value through OCI investments		-	-	-	-	14,184,672	-	14,184,672
Movement in fair value through OCI reserve	4.1.3	-	-	-	-	19,304,507	-	19,304,507
Net movement of cashflow hedges	20.3 / 28.2	-	-	-	104,917,355	-	-	104,917,355
		-	-	87,310,512	104,917,355	33,489,179	7,225,351	232,942,397
Total comprehensive income for the year		-	-	87,310,512	104,917,355	33,489,179	4,373,163,908	4,598,880,954
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	218,296,928	-	-	-	(218,296,928)	-
Total transactions recorded directly in equity		-	218,296,928	-	-	-	(218,296,928)	-
Balance as at 31 March 2021		12,762,500,000	3,596,578,755	328,838,183	27,607,751	45,445,698	19,127,563,207	35,888,533,594

The annexed notes to the financial statements on pages 109 through 172 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 March	Note	2021 Rs.	2020 Rs.
Cash flows from operating activities			
Profit before income tax expense		4,496,783,105	3,879,659,157
Adjustments for:			
Depreciation	12	131,853,680	201,533,267
(Profit)/ loss on sales of investment property and PPE	23	(298,765,475)	(12,887,348)
Change in fair value of derivatives - forward contracts	23	195,730,991	91,665,503
Provision for fall / (increase) in value of investments	23	(183,575,967)	(624,295,846)
Impairment provision for the year	25	5,909,098,541	1,772,359,246
Change in fair value of investment property	23	(3,291,066,776)	(2,569,499,327)
Provision for defined benefit plans	18.2.a	57,482,706	54,111,511
Investment income		(1,881,378,487)	(2,160,740,058)
Finance costs	22	12,446,790,398	19,271,364,492
Operating profit before working capital changes		17,582,952,716	19,903,270,597
Change in other receivables		(232,533,460)	(87,119,887)
Change in inventories		(269,704,259)	2,788,112
Change in trade and other payables		212,034,167	147,039,798
Change in amounts due to / due from related parties		(205,851,269)	(21,110,076)
Change in lease receivables		(1,616,750,212)	(1,183,858,320)
Change in loans and advances		20,498,634,595	(717,173,492)
Change in factoring receivables		3,910,200,287	1,551,568,103
Change in margin trading advances		(81,785,482)	(1,767,689)
Change in fixed deposits from customers		2,731,057,344	(14,493,690,931)
Change in savings deposits from customers		6,438,578,206	(1,677,976,277)
Cash (used in) / generated from operations		48,966,832,632	3,421,969,937
Finance cost paid on deposits		(10,070,523,876)	(13,225,387,804)
Gratuity paid	18.2	(23,093,102)	(28,302,712)
Income tax paid	28.1	(424,660,905)	(961,260,692)
Net cash from / (used in) operating activities		38,448,554,749	(10,792,981,270)
Cash flows from investing activities			
Acquisition of property, plant & equipment & investment property		(928,434,263)	(997,267,336)
Proceeds from sale of property, plant & equipment & investment property		641,820,465	74,017,500
Purchase of government securities		(14,846,086,394)	(9,210,656,154)
Proceeds from sale of government securities		9,594,334,231	13,253,136,893
Net proceeds from investments in commercial papers		-	3,340,437,916
Net proceeds from investments in term deposits		10,078,970,814	4,354,898,960
Net proceeds from investments securities		(2,345,513,947)	581,931,275
Investment in subsidiaries		-	(364,100,000)
Interest received		1,881,378,487	2,160,740,058
Net cash flows used in investing activities		4,076,469,393	13,193,139,113
Cash flows from financing activities			
Proceeds from interest bearing loans & borrowings		(34,900,228,157)	(9,351,869,376)
Proceeds from issuance of new shares (Right issue)		-	4,882,500,000
Lease rentals paid	13.2	(97,521,906)	(202,739,674)
Finance cost paid on borrowings		(3,015,947,149)	(5,970,731,146)
Net cash flows from / (used in) financing activities		(38,013,697,212)	(10,642,840,196)
Net increase / (decrease) in cash and cash equivalents		4,511,326,930	(8,242,682,354)
Cash and cash equivalents at the beginning of the year		7,050,359,949	15,293,042,303
Cash and cash equivalents at the end of the year (note 3)		11,561,686,879	7,050,359,949

The annexed notes to the financial statements on pages 109 through 172 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

1.1 Reporting Entity

1.1.1 Corporate Information

LOLC Finance PLC ("the Company") is a quoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The registered office of the Company is at No.100/1, Sri Jayewardenepura Mawatha, Rajagiriya.

The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No. 42 of 2011. The Company has obtained registration from the Securities and Exchange Commission, as a Market Intermediary to perform the functions of a Margin Provider under section 19A of the Securities & Exchange Commission Act No.36 of 1987 as amended by Act Nos. 26 of 1991 & 18 of 2003.

1.1.2 Parent entity and Ultimate Parent Company

The Company's immediate parent is LOLC Private Ltd and ultimate parent undertaking and controlling entity is LOLC Holding PLC, which is incorporated in Sri Lanka.

1.1.3 Principal Activities and Nature of Operations

The principal activities of the Company comprised of leasing, loans, margin trading, mobilisation of public deposits and alternate financing.

There were no significant changes in the nature of the principal activities of the Company during the financial period under review.

1.1.4 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards.

1.1.5 Number of Employees

The staff strength of the Company as at 31 March 2021 was 3072 (Mar 2020 – 2901).

1.2 Basis of Preparation

1.2.1 Statement of compliance

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Companies Act, No. 7 of 2007, the Regulation of Finance Business Act No.42 of 2011 and amendments there to.

These Financial Statements include the following components:

- a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the period under review;
- a Statement of Financial Position providing the information on the financial position of the Company as at the period-end;
- a Statement of Changes in Equity depicting all changes in shareholders of Changes in Equity and depicting all changes the Company;
- a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilise those cash flows; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

Details of the company's accounting policies are included in Note 2

1.2.2 Date of authorisation of issue

The Financial Statements were authorised for issue by the Board of Directors on 23 June 2021.

1.2.3 Basis of measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis	Note No.
Derivative financial instruments	Fair value	5
Non-derivative financial instruments at fair value through profit or loss	Fair value	8.1
Available for sale financial assets / fair value through other comprehensive income	Fair value	4.1.2
Investment property	Fair value	11
Land and buildings	Fair value	12
Net defined benefit assets / (liabilities)	Actuarially valued and recognised at the present value	18.2

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

1.2.3 Basis of measurement (Contd.)

No adjustments have been made for inflationary factors affecting the Financial Statements.

The Company presents its statement of financial position in order of liquidity.

1.2.4 Materiality and aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.2.5 Going concern basis of accounting

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

1.2.6 Comparative information

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous period. Comparative information has not been reclassified or restated.

1.3 Functional and Presentation Currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates (the functional currency). These financial statements are presented in Sri Lankan Rupees, the Company's functional and presentation currency.

There was no change in the company's presentation and functional currency during the period under review.

All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

1.4 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in conformity with SLFRSs/ LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimate and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The respective carrying amounts of assets and liabilities are given in the related Notes to the financial statements.

Information about critical judgments, estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

Critical Accounting estimate / judgment	Disclosure reference
	Note
Fair value measurement of financial instruments / investment properties / land and buildings	1.4.1 / 11.1 / 12.1
Financial assets and liability classification	1.4.2
Impairment losses on loans and advances	1.4.3
Impairment losses on available for sale investments	1.4.4
Impairment losses on other assets	1.4.5
Defined benefit obligation	1.4.6
Provisions for liabilities and contingencies	1.4.7

1.4.1 Fair value measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Group CFO.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant judgements used in valuation and issues that arises are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values and the fair value measurement level is included in the following notes:

Note 11 – Investment property;

Note 12 – Property, plant and equipment; and

Note 2.2 & 2.2.4 – Financial instruments;

1.4.2 Financial assets and liability classification into categories

The Company's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets or liabilities into categories, the Company has determined that it meets the description of trading assets and liabilities set out in Note 2.2.1.b. In classifying financial assets as held to maturity, the Company has determined that it has both the positive intention and ability to hold the assets unit their maturity date as required by Note 2.2.1.b

1.4.3 Impairment losses on loans and advances

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided for in the Statement of Profit or Loss and Other Comprehensive Income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance made.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgment on the effect of concentrations of risks and economic data.

The policy on impairment loss on loans and advances is disclosed in more detail in Note 2.2.9.

1.4.4 Impairment losses on available for sale investments

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and advances. The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged decline' in fair value below their cost requires judgment. In making this judgment, the Company evaluates, among other factors, historical price movements and duration and extent to which the fair value of an investment is less than its cost.

The impairment loss on available for sale investments is disclosed in Note 2.2.9.

1.4.5 Impairment losses on other assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the circumstances that necessitate doing so. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

Specific Accounting Policies on impairment of Non-financial assets are discussed in Note 2.6.

1.4.6 Defined benefit obligation

The cost of the defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Refer Note 2.7.3 for the accounting policy and assumptions used.

1.4.7 Provisions for liabilities and contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

Index	Accounting policy
2.1	Foreign currency
2.2	Financial assets and financial liabilities
2.3	Leases
2.4	Investment property
2.5	Property plant and equipment
2.6	Impairment - non-financial assets
2.7	Employee benefits
2.8	Provisions
2.9	Equity movements
2.10	Capital commitments and contingencies
2.11	Events occurring after the reporting date
2.12	Interest income and interest expense
2.13	Fees, commission and other income
2.14	Dividends
2.15	Expenditure recognition
2.16	Income tax expense
2.17	Earnings per share
2.18	Cash flow statements
2.19	Related party transactions
2.20	Operating segments
2.21	Fair value measurement
2.22	New accounting standards issued but not effective as the reporting date.

2.1 Foreign currency transactions

Sri Lankan rupee is the functional currency of the Company. Transactions in foreign currencies are translated into the functional currency of the Company at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of the available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss) are recognised in other comprehensive income.

SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.2 Financial assets and financial liabilities

2.2.1 Non-derivative financial assets

2.2.1.a Initial recognition of financial assets

Date of recognition

The Company initially recognises loans and receivables and deposits with other financial institutions on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets

The classification of financial instruments at initial recognition depends on their cash flow characteristics and business model for managing the instrument. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Financial Reporting Standard – SLFRS 09 on 'Financial Instruments'.

Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the statement of profit or loss 'Day 1' profit or loss on employee below market loans

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or loss when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

2.2.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories:

- amortised cost;
- fair value through other comprehensive income (FVOCI); and
- fair value through profit or loss (FVTPL).

2.2.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity and how cash flows are realised.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test of its classification process. In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Company considers the contractual terms of the instrument.

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

Based on above assessments, subsequent measurement of financial assets are classified as follows.

Amortised cost

Financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition measured at amortised cost using the effective interest method, less any impairment losses.

This includes cash and cash equivalents, deposits with banks and other financial institutions, investments in Standing Deposit Facilities (REPO's), lease receivables, advances and other loans granted, factoring receivables, amount due from related parties and other receivables.

- **Cash and cash equivalents**

  Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

- **Rentals receivable on leased assets**

  When the Company is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised. Amounts receivable under finance leases are included under "Rentals receivable on leased assets". Leasing balances are stated in the statement of financial position after deduction of initial rentals received, unearned lease income and the provision for impairment losses.

- **Loans and advances**

  Advances and other loans to customers comprised of revolving loans and loans with fixed installment Loans to customers are reflected in the Statement of Financial Position at amounts disbursed less repayments and provision for impairment losses.

- **Financial guarantees**

  Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Company in its normal course of the business issues guarantees on behalf of the depositors, holding the deposit as collateral.

Financial assets at fair value through other comprehensive income (FVOCI)

Instruments are measured at FVOCI, if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and interest on principal outstanding. This comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other investments are measured at fair value after initial recognition.

Financial assets at fair value through profit or loss (FVTPL)

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in statement of profit or loss as incurred.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of profit or loss

Financial assets at fair value through profit or loss comprises of quoted equity instruments and unit trusts unless otherwise have been classified as amortised cost.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Company becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the AFS reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss

2.2.2 Non-derivative financial liabilities

Classification and subsequent measurement of financial liabilities

The Company initially recognises non-derivative financial liabilities on the date that they are originated.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals & other payables and amounts due to related parties:

Bank overdrafts

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Deposits and bank borrowings - classified as other financial liabilities carried at amortised cost

Deposits and bank borrowings are the Company's sources of debt funding.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition deposits and bank borrowings are measured at their amortised cost using the effective interest method.

2.2.3 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. Derivatives are recognised as assets when their fair value is positive and as liabilities when their fair value is negative.

The Company designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the cash flows of the respective hedge item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

These hedging relationships are discussed below.

i. Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Company does not have any fair value hedges

ii. Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

iii. Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

The Company does not have any net investment hedges.

2.2.3.a Other non-trading derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of other income.

2.2.4 Reclassification of financial assets and liabilities

As per SLFRS 9, Financial assets are not reclassified subsequent to their initial recognition, except and only in its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

2.2.5 Derecognition of financial assets and financial liabilities

Financial assets

The Company derecognises a financial asset when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either.

(a) The Company has transferred substantially all the risks and rewards of the asset, or

(b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

(i) The consideration received (including any new asset obtained less any new liability assumed) and

(ii) Any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

2.2.6 Modification of financial assets and financial liabilities

Modification of financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses measured using pre modification interest rate. In other cases, it is presented as interest income.

As per the Circular Nos. 4 and 5 of 2020 issued by CBSL dated May 4, 2020 and June 9, 2020 respectively, the Company granted payment deferrals to eligible customers affected by COVID-19, modifying the original contract. In this regard, NBFIs were allowed to charge upto a maximum of 11.5% per annum on the deferred instalments during the moratorium period of equated monthly instalments (EMI) loans. For other loans various types of interest rate concessions were given to the customers. Further, with the view of meeting the challenges faced by businesses and individuals due to the second wave of COVID-19, CBSL directed banks to extend the debt moratorium to such businesses and individuals for a further period of six months commencing from October 01, 2020. Finance Companies were expected to convert the capital and interest falling due during the moratorium period commencing from October 01, 2020 to March 31, 2021, into a term loan. Repayment period of the new loans shall be minimum of two years, however may vary based on the terms and conditions agreed with the borrower. NBFIs were allowed to recover interest at a rate not exceeding the latest auction rate for 364-days Treasury Bills, available by April 01, 2021, plus 5.5 per cent per annum and shall not exceed 11.5% per annum.

So, the Company has made an assessment in this regard and it shows there is more than 4% PV difference across all the category of the loan due to the first moratorium. Further, in our view such difference would be further increased considerable considering the second moratorium offered by CBSL. Further, the loss of other fees that the Company used to charge its customers at the time of a modification and the penal interest also considerable due to moratorium. In the absence of any prescribed guidelines within SLFRS 9, entities need to develop their own policies and methods while performing the quantitative and qualitative evaluation of such modifications. So, based on the business model and the overall lending strategy, any PV loss beyond 3% will be significant to the Company. Therefore, from the date of moratorium started, the interest accrual will be made based on the revised effective interest rate adjusting applicable costs and fees.

Modification of financial liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

2.2.7 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the company's trading activity

2.2.8 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

2.2.9 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Determination of fair value

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models

2.2.10 Impairment

Overview of the expected credit loss (ECL) principles

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).

Stage 2: If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL.

Stage 3: If a financial asset is credit impaired, it is moved to Stage 3 and the Company recognises an allowance for LTECL, with probability of default at 100%. So it is defined as credit impaired and default.

The key judgements and assumption adopted in addressing the requirements of SLFRS 9 are discussed below:

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available. Based on that, management has decided that an exposure to have significantly increased credit risk when contractual payments of a customer are more than 90 days past due and loss to take place after 180 days in accordance with the rebuttable presumption in SLFRS 9.

Individually Significant Impairment Assessment and Loans which are Not Impaired Individually

Company will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Loans with objective evidence of incurred losses are classified as Stage 3. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 1 or Stage 2, based on the above specified criteria to identify whether there have been a significant credit deterioration since origination.

While establishing significant credit deterioration, Company will consider the following criteria:

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet it's obligation

- An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis

As explained above, Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets which belong to stage 3. All assets which belong to stage 1 and 2 will be assessed collectively for Impairment.

Company groups smaller homogeneous exposures based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the Effective Interest Rate (EIR).

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

- Probability of Default (PD): PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- Exposure at Default (EAD): EAD is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise and expected draw downs on committed facilities.
- Loss Given Default (LGD): LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

When estimating ECL, Company considers 3 scenarios (base case, best case and worst case). Each of these scenarios are associated with different loss rates. For all products, Company considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

Company relies on broad range of qualitative/quantitative forward looking information as economic inputs such as the following in its Eco model.

Quantitative inputs	Qualitative inputs
GDP growth	Changes in Lending Policies and Procedure
Inflation	Changes in Bankruptcy and lending related Legislations
Unemployment	Credit Growth
Interest rates	Position of the Portfolio within the Business Cycle

In response to COVID-19 and the Company's expectations of economic impacts, key assumptions used in the Company's calculation of ECL have been revised. As at the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19.

Accordingly, under the collective assessment, customers operating in risk elevated industries including Tourism, Transportation and Construction were assessed for Lifetime ECL. Exposures outstanding from the borrowers operating in these industries have been classified as stage 2 unless such exposures are individually significant and have specifically been identified as stage 1 reflecting forward looking view of the economy in relation to the business.

Further, the Company decided to increase the weightages assigned for worst case scenario while reducing the weightages assigned for base case scenario and best case scenario when assessing the probability weighted forward looking macro-economic indicators along with management overlays to qualitative indicators relating to forward looking macro-economic environment with the objective of capturing the impact of COVID-19 and uncertainties and volatilities in future outlook on the ECL computation as at the reporting date.

2.3 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.3.1 Finance Leases

Finance leases – Company as a lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Finance leases – Company as a lessor

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in "Rentals receivable on leased assets". The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

2.3.2 Operating Leases

Leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased items to the lessee are operating leases

Operating leases – Company as a lessor

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

2.4 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

2.5 Property plant and equipment

2.5.1 Recognition and measurement

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured.

Items of property, plant and equipment are measured at cost/ revaluation less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site at which they are located and capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognised in other income/other expenses in profit or loss.

Cost model

The Company applies the cost model to all property, plant and equipment except freehold land and buildings; and is recorded at cost of purchase together with any incidental expenses thereon less any accumulated depreciation and accumulated impairment losses.

Revaluation model

The Company revalues its land and buildings which are measured at its fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

On revaluation of lands and buildings, any increase in the revaluation amount is credited to the revaluation reserve in shareholder's equity unless it off sets a previous decrease in value of the same asset that was recognised in the statement of profit or loss. A decrease in value is recognised in the statement of profit or loss where it exceeds the increase previously recognised in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal.

2.5.2 Subsequent costs

The cost of replacing a component of an item of property, plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

2.5.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current period are as follows:

Motor vehicles	4-8 years
Buildings	40 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

2.6 Impairment - non-financial assets

The carrying amounts of the company's non-financial assets, other than, deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in the statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), if any, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.7 Employee benefits

2.7.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.7.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

2.7.3 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The Company recognises all actuarial gains and losses / remeasurement component arising from defined benefit plans immediately in other comprehensive income. Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The obligation is not externally funded.

2.8 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

2.9 Equity movements

2.9.1 Ordinary shares

The company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

2.9.2 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's Board of Directors in accordance with the Articles of Association. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

2.9.3 Share issue costs

Share issue related expenses are charged against the retained earnings in the statement of equity.

2.10 Capital commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless they are remote.

2.11 Events occurring after the reporting date

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

The outbreak of COVID-19 has impacted to business and economic activities, and uncertainty in the global and local economy. Subsequent to the outbreak of COVID-19 in Sri Lanka, the company has strictly adhered to the guidelines and directions issued by both the Government and the Central Bank of Sri Lanka (CBSL) when conducting its business operations. Further, the Company has provided reliefs for the affected businesses and individuals in line with the directions issued by the CBSL in addition to its own relief schemes. These relief measures include deferment of repayment terms of credit facilities and offering concessionary rates of interest to eligible loan products (debt moratorium) and waiving off certain fees and charges.

SIGNIFICANT ACCOUNTING POLICIES –RECOGNITION OF INCOME AND EXPENSES

2.12 Interest income and interest expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss includes the interest on financial assets and financial liabilities measured at amortised cost, fair value through other comprehensive Income (FVOCI) and fair value through profit or loss (FVTPL) calculated on an effective interest basis.

2.12.1 Income from leases and term loans

The excess of aggregated contract receivable over the cost of the assets constitutes the total unearned income at the commencement of a contract. The unearned income is recognised as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

2.12.2 Factoring

Revenue is derived from two sources, funding and providing sales ledger related services.

Funding - Discount income relating to factoring transactions is recognised at the end of a given accounting month. In computing this discount, a fixed rate agreed upon at the commencement of the factoring agreement is applied on the daily balance in the client's current account.

Sales Ledger Related Services - A service charge is levied as stipulated in the factoring agreement.

Income is accounted for on an accrual basis and deemed earned on disbursement of advances for invoices factored.

2.13 Fees, commission and other income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees are recognised as the related services are performed.

Collections on contracts written off and interest on overdue rentals are accounted for on cash basis.

2.14 Dividends

Dividend income is recognised when the right to receive income is established.

2.15 Expenditure recognition

Expenses are recognised in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the period.

2.15.1 Value Added Tax (VAT) on financial services

The base for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on the prescribed rate.

The VAT on financial service is recognised as expense in the period it becomes due.

2.15.2 Nation Building Tax on financial services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services.

2.15.3 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2.16 Income tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Note 28 represent the major components of income tax expense to the financial statements.

2.16.1 Current tax expense

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

2.16.2 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The relevant disclosures are given in Note 28.2 to the financial statements.

2.17 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Specific disclosures are included in Note 29.1. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees. The relevant disclosures are given in 29.2 to the financial statements.

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.18 Cash flow statements

The cash flow statement has been prepared using the indirect method and direct method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.19 Related Party Transactions

Transactions with related parties are conducted in the normal course of business. The relevant disclosures are given in Note 32 to the Financial Statements.

2.20 Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Company has three reportable segments, Conventional financial services, Islamic financial services and Factoring, which are the Company's strategic divisions. Those offer different products and services, and are managed separately based on the Company's management and internal reporting structure. For each of the strategic divisions, the Company's Board of Directors reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in Note 34. Performance is measured based on segment profit before tax. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

2.21 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as investment properties.

Fair Value Hierarchy

The company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

Level 1

Inputs that are unadjusted quoted market prices in an active market for identical instruments

When available, the company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;

(a) quoted market in active markets for similar instruments,

(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or

(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparisons with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgment and estimation while reducing uncertainty associated in determining the fair values.

2.22 New accounting standards issued not yet effective as at reporting date

The following new accounting standards/amendments were issued by the Institute of Chartered Accountants in Sri Lanka, which are not yet effective as at 31 March 2021. Accordingly, these accounting standards have not been applied in the preparation of the financial statements for the year ended 31 March 2021.

None of the following new or amended pronouncements are expected to have a material impact on the financial statements of the company in the foreseeable future.

SLFRS 17 - Insurance Contracts

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace IFRS 4 Insurance Contracts (SLFRS 4). SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

SLFRS 17 is effective for annual reporting periods beginning on or after 01 January 2023.

Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 & 2)

The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cashflows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after 01 January 2021.

Amendments to SLFRS 16 - COVID – 19 Related Rent Concessions

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 01 June 2020.

Amendments to SLFRS 3

The amendments update SLFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to SLFRS 3 a requirement that, for obligations within the scope of LKAS 37, an acquirer applies LKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to LKAS 16

In March 2021, the ICASL adopted amendments to LKAS16 - Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to LKAS 37

In March 2021, the ICASL adopted amendments to LKAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments

Amendments to LKAS 1: Classification of Liabilities as Current or Non-current

In March 2021, ICASL adopted amendments to paragraphs 69 to 76 of LKAS 1 which specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively.

2.23 Financial risk management

2.23.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

2.23.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. All the Company level risks are escalated to the parent company IRMC and the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Audit Committee oversees the reports submitted by the Enterprise Risk Management (ERM) and monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced. The Audit Committee is assisted in its oversight role by ERM. ERM undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

2.23.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Company's receivable from customers.

2.23.3.1 Management of credit risk

1) Facilities granted to customers

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit department. Credit department, reporting to the Credit Committee, is responsible for management of the Company's credit risk, including:

1. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Chief Credit Officer, CEO and the Board of Directors as appropriate.
3. Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
4. Monitoring limiting concentrations of exposure to counterparties, geographies and industries
5. Developing and maintaining a risk grading for significant clients in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the associated risks.
6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, and product types.
7. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

2) Allowances for impairment

The Company establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of expected losses in its lease and loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortised cost, a collective loan loss allowance established for groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

3) Write-off policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status. The company generally writes off balances on its past due status reaching 12 months and if no collateral is available.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2021 (March 2020: no collateral held).

The Impact of COVID 19

The sudden shock arisen from the outbreak of the COVID - 19 globally since January 2020 caused massive economic disruption leading to uncertainty in the whole world. Sri Lanka as a country exposed to this risk little late in March 2020 & October 2020 and as an immediate precautionary measure the Government imposed island wide curfew and travel restrictions. Since no access to office was feasible the Company immediately planned to "work from home' and facilitated the key management personnel and the key required personnel to work from home. To ensure the timely payment of Fixed Deposit Interest, the management sought assistance from the Company bankers and provided an uninterrupted service during the curfew period.

As the banking and NBFI sectors are the backbone of any economy, any significant economic downturn will directly affect banks and NBFI. Due to difficult operating conditions, the performance of the banking sector and the NBFIs in particular will be more challenging, affecting the quality of the asset and the recovery of profitability. Relief measures for affected businesses and individuals in line with the directions issued by the CBSL. (The six-month moratorium) are expected to mitigate the impact on individuals and businesses, but will increase non-performing loans by 2020. Further Fitch Ratings, the outlook for the country, banking and NBFI sector in Sri Lanka is negative for 2020. The liquidity position of the financial sector will be affected by the debt moratorium, although this is counteracted to some extent by the lowering of liquidity requirements for financial institutions. The need to strengthen the capital of NBFIs will be felt even more, as it must have the financial capacity to detect crises like this. Stress testing will also be important because of the uncertainty.

The Company has assessed the probable impact stemming from COVID – 19 outbreak and the key assessments are listed below.

- Based on the available information and management's best judgement, it is determined the appropriateness of the Going concern assumptions in preparing Financial Statements for the year ended 31 March 2021.
- Despite the challenging environment of having difficulties in collecting the company dues and the difficulties in getting funding lines from banks and other financial institutions, the Company was able to maintain a stable liquidity position and safeguard the interest of the stakeholders.
- The unutilised Overdraft facilities, the available excess investment and already negotiated funding lines and were used as a cushion to absorb any sudden liquidity shocks.
- A more prudent cost control mechanism was in place which ensured an effective cost structure in the Company.

There is a considerable degree of judgement involved in making the above assessments. The underline assumptions are also subject to certain level of uncertainty and are mostly out of the control of the Company. Hence the actual economic conditions are likely to be different from the anticipated events. The effect of those differences may have significant impact on accounting judgement and estimates included in these Financial Statements.

The Management evaluated the key assumptions used in the above estimates and judgements under probable stress scenarios such as, retention ratio of Fixed Deposits, Deposit renewal ratio, Ratio of Rental Collection and Re-imposing of CBSL liquid asset requirement.

2.23.3.1 Management of credit risk (Contd.)

4) Credit quality by class of financial assets at amortised cost (In Rs'mn)

	Leases		Mortgage Loans		Other Loans and Advances		Margin Trading		Factoring Receivables		Total	
As at 31st March	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Carrying amount	43,098	43,842	1,784	1,768	59,683	85,346	84	2	-	2,999	104,649	133,956
Assets at amortised cost												
Individually impaired - Gross amount	1,221	1,003	288	270	3,945	5,289	-	-	-	-	5,454	6,562
Less : Allowance for impairment	(466)	(541)	(175)	(40)	(1,979)	(2,215)	-	-	-	-	(2,620)	(2,796)
Carrying amount	755	462	113	230	1,966	3,074	-	-	-	-	2,834	3,766
Portfolio subject to collective impairment - Gross amount	45,832	44,433	1,671	1,555	64,779	85,164	84	2	-	3,909	112,366	135,063
Less : Allowance for impairment	(3,489)	(1,053)	-	(17)	(7,061)	(2,892)	-	-	-	(911)	(10,550)	(4,873)
Carrying amount	42,343	43,380	1,671	1,538	57,718	82,272	84	2	-	2,998	101,815	130,190

An estimate made at the time of borrowing / at the time of impairment evaluation, of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below;

(In Rs'mn)	2021	2020
Against individually impaired customers :		
Property	1,898	2,362
Vehicles	936	1,208

(In Rs'mn)	2021	2020
Against Collectively impaired customers :		
Property	56,096	87,406
Others	65,029	93,642

Details of non-financial assets obtained by the Company by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements during the period and held at the end of the period are shown below;

(In Rs'mn)	2021	2020
Property	-	-
Vehicles	936	1,208

Income from individually impaired customers recognised in the statement of profit or loss;

(In Rs'mn)	2021	2020
Leases	-	6
Mortgage Loan	38	43
Other loans & advances	415	571

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. Properties acquired by foreclosure has been considered as investment properties of the Company

Age analysis of facilities considered for collective impairment as at 31 March 2021 (In Rs'mn)

Category	Leases	Mortgage Loans	Other Loans and Advances	Margin Trading	Total
Not due / current	11,717	492	24,319	84	36,612
Overdue :					
Less than 30 days	5,323	143	4,841	-	10,307
31 - 60 days	3,509	19	3,776	-	7,304
61 - 90 days	2,411	23	1,331	-	3,765
91 - 120 days	16,264	179	10,821	-	27,264
121 - 150 days	781	11	1,041	-	1,833
151 - 180 days	478	3	771	-	1,252
above 180 days	5,349	801	17,879	-	24,029
Total	45,832	1,671	64,779	84	112,366

Age analysis of facilities considered for collective impairment as at 31 March 2020 (In Rs'mn)

Category	Leases	Mortgage Loans	Other Loans and Advances	Margin Trading	Factoring Receivables	Total
Not due / current	18,352	313	52,221	2	1,557	72,444
Overdue :						
Less than 30 days	10,104	221	11,156	-	60	21,541
31 - 60 days	7,697	68	6,016	-	25	13,806
61 - 90 days	3,793	61	3,142	-	36	7,032
91 - 120 days	1,607	96	2,918	-	17	4,638
121 - 150 days	713	205	1,823	-	20	2,761
151 - 180 days	609	132	1,543	-	49	2,333
above 180 days	1,558	459	6,345	-	2,146	10,508
Total	44,433	1,555	85,164	2	3,910	135,063

Sensitivity Analysis of Allowance for Impairment Losses as at 31 March 2021 and 31 March 2020.

Sensitivity effect on impairment allowance Increase (In Rs'mn)

Changed criteria	Changed factor	2021	2020
Probability of default (PD)	Increase by 1%	49	16
Loss given default (LGD)	Increase by 10%	1,094	412

2.23.3.1 Management of credit risk (Contd.)

Analysis of total impairment for expected credit losses (In Rs'mn)

As at 31st March 2021	Stage 01	Stage 02	Stage 03	Total
Financial assets at amortised cost				
Rentals receivable on leased as	324	1,604	2,027	3,954
Loans and advances	1,613	2,125	5,478	9,216
Factoring receivable	-	-	-	-
Other financial assets	223	-	-	223
Commitments and Contingencies	-	17	-	17
Total impairment for expected credit losses	2,160	3,746	7,505	13,411

As at 31st March 2020	Stage 01	Stage 02	Stage 03	Total
Financial assets at amortised cost				
Rentals receivable on leased as	377	268	948	1,594
Loans and advances	531	551	4,083	5,164
Factoring receivable	103	59	750	911
Other financial assets	-	-	-	-
Commitments and Contingencies	-	2	-	2
Total impairment for expected credit losses	1,011	880	5,781	7,670

5) **Concentrations of credit risk**

The Company monitors concentrations of credit risk by sector to which the lending was made. The analysis is provided in Note 7.7.1 to the financial statements

2.23.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

2.23.4.1 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements and debt covenants agreed with the fund providers. The treasury manages the liquidity position as per the treasury policies and procedures and regulatory requirements.

The treasury receives information from the business regarding the liquidity profile of the financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of business units are discussed at the ALCO meetings (Asset Liability Committee) and are arranged by the Treasury.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Company relies on deposits from customers and bank borrowings as its primary sources of funding. The deposits from customers and banks largely have shorter maturities. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

With the onset of COVID 19 pandemic in late March and October of this year, the Company introduced more rigour to the processes already in place to manage its liquid assets. While closely monitoring any developments related to the pandemic, it has continued to keep its risk management measures under review to readily respond to changing circumstances. The Company is comfortable with its existing buffer of liquid assets. The actions taken will help to maintain existing liquidity position while mitigating any disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

The maturity analysis of financial liabilities based on undiscounted gross outflow is reflected below **(In Rs'mn)**

	Carrying amounts	Gross nominal outflow / (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
As at 31st March 2021							
Bank overdraft	1,861	1,861	1,861	-	-	-	-
Borrowings	16,437	16,480	10,847	1,080	4,540	7	7
Deposits from customers	107,791	104,358	34,003	52,109	16,096	2,150	-
Trade payables	145	145	145	-	-	-	-
Accruals and other payables	4,245	4,245	4,245	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-
Amount due to related companies	621	621	621	-	-	-	-
Total liabilities	131,101	127,710	51,722	53,189	20,636	2,157	7

	Carrying amounts	Gross nominal outflow / (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
As at 31st March 2020							
Bank overdraft	1,283	1,283	1,283	-	-	-	-
Borrowings	51,559	53,973	37,882	10,210	2,449	3,370	62
Deposits from customers	99,261	101,760	32,896	45,862	18,352	4,647	3
Trade payables	1,049	1,049	1,049	-	-	-	-
Accruals and other payables	2,934	2,934	2,934	-	-	-	-
Derivative liabilities	114	6,656	3,127	3,529	-	-	-
Amount due to related companies	854	854	854	-	-	-	-
Total liabilities	157,055	168,510	80,025	59,602	20,800	8017	65

2.23.3.1 Management of credit risk (Contd.)

The maturity analysis of financial assets based on undiscounted gross inflows / (outflows) is reflected below (In Rs'mn)

	Carrying amounts	Gross nominal outflow / (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
As at 31st March 2021							
Cash and cash equivalents	13,423	13,423	13,423	-	-	-	-
Deposits with banks and other financial institutions	7,203	7,270	4,536	2,734	-	-	-
Investment in government securities	15,838	23,684	971	10,060	7,097	732	4,825
Derivative assets	325	2,844	2,610	233	-	-	-
Financial assets at amortised cost	-	-	-	-	-	-	-
Rentals receivable on leased assets	43,098	64,858	9,891	17,980	31,548	5,431	9
Loans and advances	61,467	79,461	24,542	21,521	24,835	8,054	509
Factoring receivable	-	-	-	-	-	-	-
Margin trading receivables	84	84	84	-	-	-	-
Investment securities	5,498	5,498	4,317	-	-	-	1,181
Amount due from related companies	33	33	33	-	-	-	-
Other receivables	142	142	142	-	-	-	-
	147,112	197,297	60,548	52,528	63,479	14,217	6,524

	Carrying amounts	Gross nominal outflow / (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
As at 31st March 2020							
Cash and cash equivalents	8,334	8,334	8,334	-	-	-	-
Deposits with banks and other financial institutions	17,282	17,433	9,649	7,784	-	-	-
Investment in government securities	10,791	11,220	5,226	5,976	2	16	-
Derivative assets	273	12,902	8,978	3,924	-	-	-
Financial assets at amortised cost							
Rentals receivable on leased assets	43,842	64,366	10,479	17,980	29,699	6,185	23
Loans and advances	87,113	105,703	26,996	31,084	39,214	8,102	307
Factoring receivable	2,999	3,910	1,703	2,207	-	-	-
Margin trading receivables	2	2	2	-	-	-	-
Investment securities	2,958	2,958	1,788	-	-	-	1,170
Amount due from related companies	61	61	61	-	-	-	-
Other receivables	415	415	415	-	-	-	-
	174,070	227,304	73,631	68,955	68,915	14,303	1,500

Contractual Maturities of Commitments & Contingencies

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

(In Rs'mn)

	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
As at 31st March 2021						
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	403					403
Total	403					403
Commitments						
Unutilised loan facilities & letter of credit	6,103					6,103
Allowance for ECL / impairment	17					17
Total	6,120					6,120

	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
As at 31st March 2020						
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	196					196
Total	196					196
Commitments						
Unutilised loan facilities & letter of credit	11,736					11,736
Allowance for ECL / impairment	2					2
Total	11,738					11,738

2.23.5 Market risk

The Company is exposed to the market risk due to changes in market, such as Foreign exchange rates, Interest rate, and equity prices.

Company is exposed to foreign currency risk mainly due to the foreign currency borrowings. The Company manages its exposure to the foreign exchange rates by entering in to forward rate contracts with the banks and placing deposit / maintaining financial assets in the same currency. In this way the Company eliminates substantial exposure on foreign currency risk.

The Company ensures the mix of variable and fixed rate borrowings to manage any exposure due to interest rate movement in the market. These are monitored by the treasury division.

The economic fallout of the COVID-19 pandemic resulted in sharp losses in equity market indexes and subsequent closure of the exchange for trading. However, equities have retraced slightly and management is monitoring the equity price movements.

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows.

Sensitivity analysis as at 31st March 2021 (In Rs'mn)

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.21
Interest earning assets						
Deposits with banks and other financial institutions	4,518	2,685	-	-	-	7,203
Investment in government securities & others	714	7,469	4,265	-	3,391	15,838
Financial assets at amortised cost	-	-	-	-	-	-
Rentals receivable on leased assets	7,080	10,865	21,019	4,126	9	43,098
Loans and advances	19,646	16,438	18,678	6,378	327	61,467
Factoring receivable	-	-	-	-	-	-
Margin trading receivables	84	-	-	-	-	84
Total interest earning assets	32,042	37,457	43,961	10,504	3,727	127,691
Interest bearing liabilities						
Bank overdraft	1,861	-	-	-	-	1,861
Interest bearing borrowings	10,681	1,807	3,937	7	6	16,437
Deposits from customers	42,009	49,502	14,112	2,168	-	107,791
Total interest bearing liabilities	54,551	51,309	18,049	2,175	6	126,090
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(22,509)	(13,852)	25,912	8,329	3,721	1,601
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect	(225)	(139)	259	83	37	
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	225	139	(259)	(83)	(37)	

Sensitivity analysis as at 31st March 2020 (In Rs'mn)

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.20
Interest earning assets						
Deposits with banks and other financial institutions	9,567	7,715	-	-	-	17,282
Investment in government securities & others	5,166	5,611	-	14	-	10,791
Financial assets at amortised cost						
Rentals receivable on leased assets	6,459	11,163	21,015	5,183	22	43,842
Loans and advances	23,777	24,812	31,832	6,554	138	87,113
Factoring receivable	1,703	1,296	-	-	-	2,999
Margin trading receivables	2	-	-	-	-	2
Total interest earning assets	46,674	50,596	52,847	11,752	160	162,029
Interest bearing liabilities						
Bank overdraft	1,283	-	-	-	-	1,283
Interest bearing borrowings	37,687	9,894	1,395	2,525	58	51,559
Deposits from customers	37,673	42,438	15,243	3,905	3	99,261
Total interest bearing liabilities	76,643	52,331	16,638	6,430	61	152,103
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(29,969)	(1,735)	36,208	5,323	99	9,926
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect	(300)	(17)	362	53	1	
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	300	17	(362)	(53)	(1)	

2.23.6 Capital Management

The Company's capital management is performed primarily considering regulatory capital. The Company's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company.

The Company is required to comply with the provisions of the Finance Companies (Capital Funds) Direction No.01 of 2003, Finance Companies (Capital Adequacy Requirements) Direction No.03 of 2018 and Finance Companies (Minimum Core Capital) Direction No.01 of 2011 in respect of regulatory capital.

The Company's regulatory capital consists of tier 1 capital, which includes ordinary share capital, retained earnings and statutory reserves. Other negative reserves are included under prudence basis. Tier II capital includes unsecured subordinated debentures, which is included in the capital base consequent to obtaining the approval of CBSL.

The Company's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Company's regulatory capital under the CBSL guidelines is as follows; **(In Rs'mn)**

Capital element	As at 31.03.2021	As at 31.03.2020
Ordinary share capital	12,762	12,762
Statutory Reserve	3,596	3,378
Retained earnings	19,128	14,963
(-) Investment property revaluation	(8,243)	(4,758)
Other negative reserves	-	(77)
Tier I capital	27,243	26,269
Subordinated debt	1,933	
Revaluation gains	530	
Provisions allowances	1,730	2,787
Tier II capital	4,193	2,787
Total capital	31,436	29,056

2.24 Financial assets and liabilities

2.24.1 Accounting classifications and fair values

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities.

As at 31st March 2021	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
Cash and cash equivalents	-	-	13,423	13,423	13,423	
Deposits with banks & other financial institutions	-	-	7,203	7,203	7,203	
Investment in government securities & others						
- Measured at fair value	-	-	15,118	15,118	14,791	Level 1
- Measured at amortised cost	-	-	720	720	720	
Derivative assets	325	-	-	325	325	Level 2
Investment securities	5,298	199	1	5,498	5,498	Level 1 / 3
Financial assets at amortised cost						
Rentals receivable on leased assets	-	-	43,098	43,098	45,903	Level 2
Loans and advances	-	-	61,551	61,551	60,878	Level 2
Amount due from related companies	-	-	33	33	33	
Other financial assets	-	-	298	298	298	
Total financial assets	5,623	199	141,445	147,267	149,073	
Bank overdraft	-	-	1,861	1,861	1,861	
Interest bearing borrowings	-	-	16,437	16,437	16,884	Level 2
Deposits from customers	-	-	107,791	107,791	109,751	Level 2
Trade payables	-	-	145	145	145	
Accruals and other payables	-	-	4,490	4,490	4,490	
Derivative liabilities	-	-	-	-	-	Level 2
Amount due to related companies	-	-	621	621	621	
Total financial liabilities	-	-	131,345	131,345	133,751	

Note – For carrying amounts which fair value measurement level is not mentioned are approximate to the fair value.

2.24.1 Accounting classifications and fair values (Contd.)

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities.

As at 31st March 2020	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
Cash and cash equivalents	-	-	8,334	8,334	8,334	
Deposits with banks & other financial institutions	-	-	17,282	17,282	17,282	
Investment in government securities & others						
- Measured at fair value	-	9,609	-	9,609	9,609	Level 1
- Measured at amortised cost	-	-	1,182	1,182	1,182	
Derivative assets	273	-	-	273	273	Level 2
Investment securities	2,769	188	1	2,958	2,958	Level 1 / 3
Financial assets at amortised cost						
Rentals receivable on leased assets	-	-	43,842	43,842	45,450	Level 2
Loans and advances	-	-	87,113	87,113	85,874	Level 2
Factoring receivable	-	-	2,999	2,999	2,999	
Margin trading	-	-	2	2	2	
Amount due from related companies	-	-	61	61	61	
Other financial assets	-	-	536	536	536	
Total financial assets	3,042	9,797	161,352	174,191	174,560	
Bank overdraft	-	-	1,283	1,283	1,283	
Interest bearing borrowings	-	-	51,559	51,559	52,512	Level 2
Deposits from customers	-	-	99,261	99,261	99,377	Level 2
Trade payables	-	-	1,049	1,049	1,049	
Accruals and other payables	-	-	3,256	3,256	3,256	
Derivative liabilities	114	-	-	114	114	Level 2
Amount due to related companies		-	854	854	854	
Total financial liabilities	114	-	157,262	157,377	158,446	

Note – For carrying amounts which fair value measurement level is not mentioned are approximate to the fair value.

2.24.2 Valuation technique

Level 2 fair value – market comparison technique

- Derivative assets and liabilities / Forward exchange contracts – fair value is based on broker quotes of similar contracts and the quotes reflect the actual transaction in similar instrument

Level 2 fair value – discounted cash flows

Financial instruments not measured at fair value

For the purpose of disclosing fair value of the financial instruments not measured at fair value (carried at amortised cost) discounted cash flows have been used to derive the fair value.

3. CASH AND CASH EQUIVALENTS

As at 31 March	2021 Rs.	2020 Rs.
3.1 Favourable cash & cash equivalents balance		
Cash in hand and at bank	13,422,689,919	8,333,560,554
3.2 Unfavourable cash & cash equivalent balances		
Bank overdraft	(1,861,003,040)	(1,283,200,605)
Total cash and cash equivalents for the purpose of cash flow statement	11,561,686,879	7,050,359,949

4. INVESTMENT IN GOVERNMENT SECURITIES AND OTHERS

As at 31 March	2021 Rs.	2020 Rs.
Investment In Government Securities		
Financial instruments - at amortised cost (note 4.1.1)	720,085,055	1,182,244,779
Financial instruments - measured at fair value through OCI (note 4.1.2)	15,118,369,665	9,608,598,414
	15,838,454,720	10,790,843,193

4.1 Investment in government securities

As at 31 March	2021		2020	
	Carrying value Rs.	Fair value 2021	Carrying value 2021	Fair value Rs.
4.1.1 Financial instruments - measured at amortised cost				
Investment in Government Standing Deposit Facilities	720,085,055	720,085,055	1,182,244,779	1,182,244,779
4.1.2 Financial instruments - measured at fair value through OCI				
Investment in Treasury Bills	-	-	9,594,334,231	9,594,186,414
Investment in Treasury Bonds	15,341,814,808	14,294,855,235	14,264,183	14,412,000
Allowance for impairment (ECL)	(223,445,144)	(223,445,144)	-	-
	15,118,369,665	14,071,410,092	9,608,598,414	9,608,598,414

4.1.3 Fair value adjustments recognised in other comprehensive income - current year (net of transfers to P&L)

As at 31 March	2021 Rs.	2020 Rs.
Investment in Treasury Bills	19,452,325	21,896,550
Investment in Treasury Bonds	(147,818)	787,368
Net Change in Fair Value	19,304,507	22,683,918
4.1.4 Fair value adjustments recognised in other comprehensive income - cumulative		
Investment in Treasury Bills	-	(19,452,325)
Investment in Treasury Bonds	-	147,818
	-	(19,304,507)

5. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 March	2021 Rs.	2020 Rs.
Net derivative assets / (liabilities)		
Derivative assets (note 5.1)	325,029,200	273,195,187
Derivative liabilities (note 5.2)	-	114,349,000
Net derivative assets / (liabilities)	325,029,200	158,846,187

5.1 Derivative assets

Forward exchange contracts	325,029,200	273,195,187

5.2 Derivative liabilities

Forward exchange contracts	-	114,349,000

5.3 Change in fair value during the year - gain / (loss)

Recognised in profit or loss	195,730,991	91,665,503
Recognised in OCI	29,547,979	(160,582,171)
	225,278,970	(68,916,669)

6. RENTALS RECEIVABLE ON LEASED ASSETS

As at 31 March	2021 Rs.	2020 Rs.
Rentals receivable	69,495,392,564	70,338,132,076
Unearned income	(17,423,862,969)	(18,622,613,639)
Net rentals receivable (note 6.1)	52,071,529,595	51,715,518,437
Deposits received from lessees	(5,018,670,599)	(6,279,409,653)
Allowance for ECL / impairment (note 6.2)	(3,954,452,103)	(1,593,727,828)
	43,098,406,893	43,842,380,956

6.a Analysis of rentals receivable on leased assets on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
As at 31 March 2021				
Rentals receivable on leased assets	22,959,371,851	17,523,176,187	6,570,310,958	47,052,858,996
Impairment for expected credit losses (note 6.b)	(323,812,191)	(1,604,127,397)	(2,026,512,515)	(3,954,452,103)
Net rentals receivable on leased assets	22,635,559,660	15,919,048,789	4,543,798,443	43,098,406,893
As at 31 March 2020				
Rentals receivable on leased assets	39,770,662,583	3,241,046,955	2,424,399,246	45,436,108,784
Impairment for expected credit losses (note 6.b)	(377,284,929)	(268,109,638)	(948,333,260)	(1,593,727,828)
Net rentals receivable on leased assets	39,393,377,653	2,972,937,317	1,476,065,986	43,842,380,956

6.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2020	377,284,929	268,109,638	948,333,260	1,593,727,828
Net charge to profit or loss	(53,472,738)	1,336,017,759	1,078,179,255	2,360,724,276
Balance as at 31 March 2021	323,812,191	1,604,127,397	2,026,512,515	3,954,452,103
Balance as at 01 April 2019	304,027,878	246,151,732	760,234,183	1,310,413,793
Net charge to profit or loss	73,257,051	21,957,907	188,099,077	283,314,035
Balance as at 31 March 2020	377,284,929	268,109,638	948,333,260	1,593,727,828

6.1 Net Rentals Receivable

As at 31 March	2021 Rs.	2020 Rs.
Receivable -more than one year		
Rentals receivable	41,419,405,943	41,975,019,095
Unearned income	(8,346,517,400)	(9,155,281,430)
	33,072,888,543	32,819,737,665
Receivable within one year		
Rentals receivable	25,089,976,182	24,710,639,863
Unearned income	(9,077,345,569)	(9,467,332,209)
	16,012,630,613	15,243,307,654
Overdue		
Rentals receivable	2,986,010,439	3,652,473,118
	52,071,529,595	51,715,518,437

6.2 Allowance for ECL / impairment

As at 31 March	2021 Rs.	2020 Rs.
Balance at the beginning of the year	1,593,727,828	1,310,413,793
Provision / (reversal) for the year	2,360,724,276	283,314,035
Balance at the end of the year	3,954,452,103	1,593,727,828

6.2.1 Individually significant clients - impairment

Balance at the beginning of the year	540,756,922	277,988,899
Provision for the year	(75,206,555)	262,768,023
Balance at the end of the year	465,550,368	540,756,922

6.2.2 Individually non-significant clients - impairment

Balance at the beginning of the year	1,052,970,905	1,032,424,894
Provision for the year	2,435,930,830	20,546,012
Balance at the end of the year	3,488,901,735	1,052,970,905

7. LOANS AND ADVANCES

As at 31 March	2021 Rs.	2020 Rs.
Mortgage Loans (note 7.1)	1,785,291,302	1,731,058,389
Sundry Loans (note 7.2)	48,814,742,050	78,225,283,512
Gold Loan (note 7.3)	9,490,382,659	6,107,254,277
Credit Cards (note 7.4)	1,376,540,715	1,049,352,953
	61,466,956,726	87,112,949,131

7.a Analysis of loans and receivables on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2021				
Loans and advances :				
Mortgage Loans	677,509,401	193,308,656	1,089,461,677	1,960,279,733
Speed Draft	4,981,838,892	2,130,741,394	2,081,493,675	9,194,073,961
Group Loans	7,476,890,460	2,236,400,314	2,193,720,356	11,907,011,130
Sundry Loans	20,441,516,499	8,103,161,541	7,946,057,624	36,490,735,664
Gold Loan	9,452,595,740	-	74,441,741	9,527,037,481
Credit Cards	1,360,544,757	162,105,378	80,803,363	1,603,453,499
Gross loans and advances	44,390,895,749	12,825,717,283	13,465,978,435	70,682,591,468
Impairment for expected credit losses (note 7.b)	(1,612,677,843)	(2,124,934,155)	(5,478,022,744)	(9,215,634,742)
Net loans and advances	42,778,217,907	10,700,783,128	7,987,955,692	61,466,956,726
Balance as at 31 March 2020				
Loans and advances :				
Mortgage Loans	627,623,366	448,082,302	712,636,130	1,788,341,798
Speed Draft	17,161,227,987	1,268,364,608	2,733,574,053	21,163,166,649
Group Loans	3,786,947,403	1,596,475,821	1,050,166,784	6,433,590,008
Sundry Loans	45,086,566,597	3,691,759,257	6,779,482,557	55,557,808,411
Gold Loan	5,879,360,605	167,147,190	170,896,818	6,217,404,613
Credit Cards	1,036,536,406	63,583,818	16,860,399	1,116,980,623
Gross loans and advances	73,578,262,364	7,235,412,997	11,463,616,740	92,277,292,101
Impairment for expected credit losses (note 7.b)	(530,520,480)	(551,143,320)	(4,082,679,170)	(5,164,342,970)
Net loans and advances	73,047,741,884	6,684,269,677	7,380,937,570	87,112,949,131

7.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2020	530,520,480	551,143,320	4,082,679,170	5,164,342,970
Net charge to profit or loss	1,082,157,363	1,573,790,835	1,395,343,573	4,051,291,771
Balance as at 31 March 2021	1,612,677,843	2,124,934,155	5,478,022,744	9,215,634,742
Balance as at 01 April 2019	522,958,836	430,085,508	2,427,985,638	3,381,029,983
Net charge to profit or loss	7,561,643	121,057,812	1,654,693,532	1,783,312,987
Balance as at 31 March 2020	530,520,480	551,143,320	4,082,679,170	5,164,342,970

7.1 Mortgage Loans

As at 31 March	2021 Rs.	2020 Rs.
Rentals receivable	2,661,454,238	2,343,150,354
Unearned income	(701,174,505)	(554,808,556)
Net rentals receivable (note 7.1.1)	1,960,279,733	1,788,341,798
Allowance for ECL / impairment (note 7.1.2)	(174,988,431)	(57,283,409)
	1,785,291,302	1,731,058,389

7.1.1 Net rentals receivable - Mortgage Loans

Receivable -more than one year		
Installments receivable	1,658,413,051	1,273,284,049
Unearned income	(456,643,992)	(306,453,734)
	1,201,769,059	966,830,315
Receivable within one year		
Installments receivable	605,313,436	700,607,376
Unearned income	(244,530,514)	(248,354,822)
	360,782,922	452,252,554
Overdue		
Installments receivable	397,727,751	369,258,929
	1,960,279,733	1,788,341,798

7. LOANS AND ADVANCES (CONTD.)

As at 31 March	2021 Rs.	2020 Rs.
7.1.2 Allowance for ECL / impairment - Mortgage Loans		
Balance at the beginning of the year	57,283,409	63,038,370
Provision / (reversal) for the year	117,705,022	(5,754,961)
Balance at the end of the year	174,988,431	57,283,409
7.1.2.a Individually significant clients - impairment		
Balance at the beginning of the year	39,952,497	41,905,876
Provision / (reversal) for the year	135,035,934	(1,953,380)
Balance at the end of the year	174,988,431	39,952,497
7.1.2.b Individually non-significant clients - impairment		
Balance at the beginning of the year	17,330,912	21,132,494
Provision / (reversal) for the year	(17,330,912)	(3,801,581)
Balance at the end of the year	-	17,330,912

As at 31 March	2021 Rs.	2020 Rs.
7.2 Sundry Loans		
Total receivable	67,901,863,005	96,983,290,997
Unearned income	(10,310,042,250)	(13,828,725,930)
Net receivable (note 7.2.1)	57,591,820,755	83,154,565,067
Allowance for ECL / impairment (note 7.2.2)	(8,777,078,705)	(4,929,281,555)
	48,814,742,050	78,225,283,512
7.2.1 Net receivable - Sundry Loans		
Receivable -more than one year		
Installments receivable	32,297,921,100	48,908,984,050
Unearned income	(5,247,659,068)	(6,038,694,293)
	27,050,262,032	42,870,289,757
Receivable within one year		
Installments receivable	30,435,873,388	40,092,324,111
Unearned income	(5,062,383,182)	(7,790,031,637)
	25,373,490,207	32,302,292,474
Overdue		
Installments receivable	5,168,068,517	7,981,982,836
	57,591,820,755	83,154,565,067

As at 31 March	2021 Rs.	2020 Rs.

7.2.2 Allowance for ECL / impairment - Sundry Loans

Balance at the beginning of the year	4,929,281,555	3,260,039,001
Provision / (reversal) for the year	3,847,797,150	1,669,242,555
Balance at the end of the year	8,777,078,705	4,929,281,555

7.2.2.a Individually significant clients - impairment

Balance at the beginning of the year	2,209,519,108	994,797,394
Provision / (reversal) for the year	(230,057,288)	1,214,721,714
Balance at the end of the year	1,979,461,820	2,209,519,108

7.2.2.b Individually non-significant clients - impairment

Balance at the beginning of the year	2,719,762,447	2,265,241,606
Provision for the year	4,077,854,437	454,520,841
Balance at the end of the year	6,797,616,885	2,719,762,447

7.3 Gold loans

As at 31 March	2021 Rs.	2020 Rs.
Gross amount outstanding at year end	9,527,037,481	6,217,404,613
Allowance for ECL / impairment (note 7.3.1)	(36,654,822)	(110,150,336)
Balance at the end of the year	9,490,382,659	6,107,254,277

7.3.1 Allowance for ECL / impairment

As at 31 March	2021 Rs.	2020 Rs.
Balance at the beginning of the year	110,150,336	48,130,651
Provision / (reversal) for the year	(73,495,514)	62,019,685
Balance at the end of the year	36,654,822	110,150,336

7.3.1.a Individually significant clients - impairment

As at 31 March	2021 Rs.	2020 Rs.
Balance at the beginning of the year	5,284,102	5,284,102
Provision / (reversal) for the year	(5,284,102)	-
Balance at the end of the year	-	5,284,102

7.3.1.b Individually non-significant clients - impairment

As at 31 March	2021 Rs.	2020 Rs.
Balance at the beginning of the year	104,866,234	42,846,549
Provision for the year	(68,211,412)	62,019,685
Balance at the end of the year	36,654,822	104,866,234

7.4 Credit Card

As at 31 March	2021 Rs.	2020 Rs.
Gross amount outstanding at year end	1,603,453,499	1,116,980,623
Allowance for ECL / impairment (note 7.4.1)	(226,912,784)	(67,627,670)
Balance at the end of the year	1,376,540,715	1,049,352,953

7.4.1 Allowance for ECL / impairment

As at 31 March	2021 Rs.	2020 Rs.
Balance at the beginning of the year	67,627,670	9,821,962
Provision / (reversal) for the year	159,285,114	57,805,708
Balance at the end of the year	226,912,784	67,627,670
Individually non-significant clients - impairment		
Balance at the beginning of the year	67,627,670	9,821,962
Provision for the year	159,285,114	57,805,708
Balance at the end of the year	226,912,784	67,627,670

7.5 Margin Trading Receivables

As at 31 March	2021 Rs.	2020 Rs.
Gross amount outstanding at year end	83,553,171	1,767,689
Allowance for ECL / impairment	-	-
Net balance on margin trading	83,553,171	1,767,689

7.6 Factoring Receivables

Gross receivable	-	3,910,200,287
Allowance for ECL / impairment (note 6.5.1)	-	(911,448,332)
	-	2,998,751,955

7.6.a Analysis of factoring receivable on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2021				
Factoring receivable	-	-	-	-
Impairment for expected credit losses (note 7.6.b)	-	-	-	-
Net factoring receivable	-	-	-	-
Balance as at 31 March 2020				
Factoring receivable	1,679,607,109	84,874,349	2,145,718,829	3,910,200,287
Impairment for expected credit losses (note 7.6.b)	(102,904,248)	(58,646,296)	(749,897,789)	(911,448,332)
Net factoring receivable	1,576,702,861	26,228,053	1,395,821,041	2,998,751,955

7.6.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2020	102,904,248	58,646,296	749,897,789	911,448,332
Net charge to profit or loss	(102,904,248)	(58,646,296)	(749,897,789)	(911,448,332)
Balance as at 31 March 2021	-	-	-	-
Balance as at 01 April 2019	269,789,072	35,803,705	902,507,710	1,208,100,488
Net charge to profit or loss	(166,884,824)	22,842,590	(152,609,922)	(296,652,155)
Balance as at 31 March 2020	102,904,248	58,646,296	749,897,789	911,448,332

As at 31 March	2021 Rs.	2020 Rs.
7.6.1 Allowance for ECL / impairment		
Balance at the beginning of the year	911,448,332	1,208,100,488
Provision / (reversal) for the year	(911,448,332)	(296,652,155)
Balance at the end of the year	-	911,448,332
7.6.1.a Individually significant clients - impairment		
Balance at the beginning of the year	-	105,659,657
Provision / (reversal) for the year	-	(105,659,657)
Balance at the end of the year	-	-
7.6.1.b Individually non-significant clients - impairment		
Balance at the beginning of the year	911,448,332	1,102,440,831
Provision for the year	(911,448,332)	(190,992,499)
Balance at the end of the year	-	911,448,332

7.7 Portfolio Analysis

7.7.1 Sectorwise exposure of the lending portfolio - before impairment provision

As at 31 March	2021 Rs.	2020 Rs.
Agriculture	22,900,607,286	23,354,692,993
Manufacturing	9,754,777,265	9,261,980,046
Economics and Social	4,609,662,386	3,034,874,339
Trade	18,625,189,899	25,727,219,110
Factoring	-	5,731,320,258
Margin Trading	83,553,171	1,767,689
Tourism	1,892,189,151	1,755,897,473
Services	18,196,522,192	22,143,805,684
Transportation	19,017,350,889	14,823,649,267
Construction	8,919,295,289	8,349,764,508
Mining and Quarrying	791,226,923	541,892,699
Others	13,028,629,185	26,898,504,796
	117,819,003,635	141,625,368,861

7.7.2 Product wise analysis of portfolio

Lease receivables	44,107,687,952	42,425,588,352
Loans & Advances	63,056,052,081	83,283,212,142
Factoring receivables	-	3,910,200,287
Margin trading receivables	83,553,171	1,767,689
Alternate finance portfolio - Ijarah receivables	2,945,171,044	3,010,520,432
Alternate finance portfolio - Other receivables (Murabaha, Musharakah etc.)	7,626,539,388	8,994,079,959
Gross portfolio	117,819,003,635	141,625,368,861
Less : Allowance for ECL / impairment	(13,170,086,845)	(7,669,519,130)
Net portfolio	104,648,916,790	133,955,849,731

7.7.3 Net portfolio

Rentals receivable on leased assets (note 6)	43,098,406,893	43,842,380,956
Loans and advances (note 7)	61,466,956,726	87,112,949,131
Factoring receivable (note 7.6)	-	2,998,751,955
Margin trading receivable	83,553,171	1,767,689
	104,648,916,790	133,955,849,731

8. INVESTMENT SECURITIES

As at 31 March	2021 Rs.	2020 Rs.
Investment securities measured at amortised cost (note 8.2)	537,175	537,175
Investment securities measured at FVTPL – debt / equity investments (note 8.1 / 8.2.2)	5,298,367,026	2,769,277,111
Investment securities measured at FVOCI – equity investments (note 8.2.3)	199,095,698	188,384,474
	5,497,999,899	2,958,198,760

8.1 Investment securities measured at FVTPL – debt / equity investments

As at 31 March	2021 Rs.	2020 Rs.
Expo Lanka Holdings PLC		
Original cost	1,653,174	18,000,000
Carrying amount at the beginning of the year	2,000,000	4,000,000
Adjustment for change in fair value - recognised in profits	47,967,311	(2,000,000)
Disposal during the year	(45,862,928)	-
Carrying amount at the end of the year	4,104,383	2,000,000
Investment in Unit Trusts		
Original cost	4,100,000,000	1,450,000,000
Carrying amount at the beginning of the year	1,736,603,949	2,090,573,484
Investments during the year	4,100,000,000	-
Adjustment for change in fair value - recognised in profits	76,740,190	227,961,740
Disposal during the year	(1,793,112,687)	(581,931,275)
Carrying amount at the end of the year	4,120,231,452	1,736,603,949
Trading Gold Stock		
Original cost	123,186,237	38,696,675
Carrying amount at the beginning of the year	49,650,736	-
Investments during the year	84,489,562	38,696,674
Adjustment for change in fair value - recognised in profits	58,475,013	10,954,062
Carrying amount at the end of the year	192,615,311	49,650,736
Total investments held for trading	4,316,951,146	1,788,254,685

8.2.1 Investment securities measured at amortised cost

As at 31 March	2021 Rs.	2020 Rs.
Credit Information Bureau Ltd	537,175	537,175

8.2.1.a Analysis of investment securities measured at amortised cost on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2021				
Investment securities measured at amortised cost	537,175	-	-	537,175
Impairment for expected credit losses (note 8.2.1.b)	-	-	-	-
Net Investment securities measured at amortised cost	537,175	-	-	537,175
Balance as at 31 March 2020				
Investment securities measured at amortised cost	537,175	-	-	537,175
Impairment for expected credit losses (note 8.2.1.b)	-	-	-	-
Net Investment securities measured at amortised cost	537,175	-	-	537,175

8.2.1.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2020	-	-	-	-
Net charge to profit or loss	-	-	-	-
Balance as at 31 March 2021	-	-	-	-
Balance as at 01 April 2019	321,616	-	-	321,616
Net charge to profit or loss	(321,616)	-	-	(321,616)
Balance as at 31 March 2020	-	-	-	-

8.2.2 Investment securities measured at FVTPL – equity investments

As at 31 March	2021 Rs.	2020 Rs.
LOLC Myanmar Micro Finance Company Ltd		
Carrying amount at the beginning of the year	981,022,426	229,542,382
Cost of new investments	-	364,100,000
Adjustment for change in fair value - recognised in profit or loss	393,454	387,380,044
Carrying amount at the end of the year	981,415,880	981,022,426

Valuation technique

The fair value measurement for above equity investment has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Residual Income Approach	As at 31st March 2021, value per share was derived based on cost of equity (20.02%), terminal growth (2%), exchange rate (MMK/LKR 0.1424) and forecasted cash flows. As at 31st March 2020, value per share was derived based on cost of equity (17.91%), terminal growth (3%), exchange rate (MMK/LKR 0.1355) and forecasted cash flows.	The estimated fair value would increase (decrease) if: • Cost of equity was lesser / (higher • Terminal growth was higher / (lesser) • Exchange rate was higher / (lesser • Forecasted cashflows were higher / (lesser)

8.2.3 Investment securities measured at FVOCI – equity investments

As at 31 March	2021 Rs.	2020 Rs.
LOLC Asia (Pvt) Ltd		
Carrying amount at the beginning of the year	188,384,474	176,130,000
Adjustment for change in fair value - recognised in OCI	10,711,224	12,254,474
Carrying amount at the end of the year	199,095,698	188,384,474
Total	1,181,048,753	1,169,944,075

9. AMOUNTS DUE FROM RELATED COMPANIES

	Relationship	2021 Rs.	2020 Rs.
Creations Constructions Engineering Pvt Ltd	Fellow subsidiary	1,452,902	1,452,902
Leapstitch Technologies Pvt Ltd	Fellow subsidiary	741,400	-
LOLC GEO Tec Pvt Ltd	Fellow subsidiary	9,600	-
LOLC Asset Holding Co/ LOLC Life Assurance Co.	Fellow subsidiary	10,000	10,000
LOLC Insurance - General Ltd	Fellow subsidiary	19,127,538	51,142,544
LOLC Securities Ltd	Fellow subsidiary	1,375,214	-
Browns Investments	Fellow subsidiary	500,000	-
Eden Hotel Lanka PLC	Fellow subsidiary	6,227	12,023
I Pay (Pvt) Ltd	Fellow subsidiary	-	642,693
Commercial Leasing and Finance PLC	Fellow subsidiary	2,293,346	2,120,595
Green Paradise	Fellow subsidiary	1,236	5,783
Sun & Fun Resorts Ltd.	Fellow subsidiary	2,777	3,205
LOLC Development Finance PLC	Fellow subsidiary	-	5,918
Excel Restaurants (Pvt) Ltd	Fellow subsidiary	278,415	278,415
LOLC Insurance - Life Ltd	Fellow subsidiary	7,402,974	4,850,440
BI Commodities & logistics Pvt Ltd	Fellow subsidiary	-	181,695
LOLC Advance Technologies (Pvt) Ltd	Fellow subsidiary	20,000	-
		33,221,629	60,706,213

10. OTHER RECEIVABLES

As at 31 March	2021 Rs.	2020 Rs.
Financial Assets		
Staff loans	67,165,559	159,094,294
Other receivables	355,445,239	256,342,458
Provision on other receivable	(280,551,998)	(252,727,888)
	142,058,799	162,708,865
Non Financial Assets		
VAT receivable	253,412,014	254,081,057
Prepaid staff cost	28,338,439	120,422,446
Miscellaneous receivables	307,882,298	379,387,373
	589,632,751	753,890,876
Total Other receivables	731,691,550	916,599,740

As per the memorandum of understanding agreement entered for Government Debt Relief Scheme on 8th January 2019, Rs.101,829,309.88 had to be received from Ministry of Finance and out of that Rs.16,971,551.65 received on 18th March 2019, Rs.16,971,551.65 received on 25th September 2019, Rs.16,971,551.65 received on 25th August 2020, Rs.16,971,551.65 received on 23rd October 2020 and Rs.16,971,551.65 received on 31st March 2021. Balance part is included in “Other receivables”.

10. OTHER RECEIVABLES

As at 31 March	2021 Rs.	2020 Rs.
Balance at the beginning of the year	15,963,885,792	11,635,211,000
Additions to Investment Properties from foreclosure of contracts	1,096,066,038	816,753,174
Additions and improvements		
Improvements	27,135,432	83,017,204
Additions	710,586,143	859,405,087
Change in fair value	3,291,066,776	2,569,499,327
Balance at the end of the year	21,088,740,181	15,963,885,792

- Investment Properties includes bare lands and land and buildings acquired by the company from clients who defaulted on accommodations granted and purchased properties. These properties are held by the Company for capital appreciation.
- The company incurred expenses for the improvements of the investment properties and received rent income amounting to Rs.96,760,140 during the current year (2019/20 - Rs.91,725,786) from these properties.
- During the year company has incurred expenses amounting to Rs.17,787,749 for maintenance of the investment property. (2019/20 - Rs.15,320,373)
- Changes in fair values are recognised as gains in profit or loss and included in 'Net other operating income'.

11.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31 December 2020. The fair value has been determine based on valuation perform by Mr. W M Chandrasena, FIV (SL) Marics (UK) Chartered Valuation Surveyor.

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio as of December 2020 ranges from Rs.47,390 to Rs.34,814,815 in the Colombo area and Rs.11,507 to Rs.7,043,950 outside the Colombo area. As of March 2020, property values were ranges from Rs.104,000 to Rs.30,000,000 in the Colombo area and Rs.18,000 to Rs.4,026,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: • Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for year used.	The estimated fair value would increase (decrease) if: • Depreciation rate was lesser / (higher) • Square feet value was higher / (lesser)

12. PROPERTY, PLANT AND EQUIPMENT

Company	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Freehold Motor Vehicles Rs.	Other equipment and software Rs.	Total Rs.
Cost/Valuation						
Balance as at 01 April 2020	141,719,000	117,874,547	670,050,000	1,050,694,286	65,844,416	2,046,182,249
Additions	-	-	-	-	19,195,193	19,195,193
Disposals	-	-	-	(293,696,994)	-	(293,696,994)
Revaluation	38,781,000	48,129,502	-	-	-	86,910,502
Transfers	-	-	(396,135,000)	396,135,000	-	-
Adjustment	-	-	-	5,650,000	(5,670,000)	(20,000)
Balance as at 31 March 2021	180,500,000	166,004,048	273,915,000	1,158,782,292	79,369,609	1,858,570,950
Accumulated Depreciation						
Balance as at 01 April 2020	-	7,598,696	131,404,103	527,717,804	28,255,083	694,975,686
Charge for the year	-	3,323,469	26,671,472	74,042,879	27,815,858	131,853,679
Depreciation on disposals	-	-	-	(122,179,499)	-	(122,179,499)
Revaluation	-	(9,297,354)	-	-	-	(9,297,354)
Transfers	-	-	(38,547,596)	38,547,596	-	-
Balance as at 31 March 2021	-	1,624,811	119,527,979	518,128,780	56,070,941	695,352,512
Carrying Amount						
As at 31 March 2021	180,500,000	164,379,237	154,387,021	640,653,512	23,298,668	1,163,218,438

Company	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Freehold Motor Vehicles Rs.	Other equipment and software Rs.	Total Rs.
Cost/Valuation						
Balance as at 01 April 2019	141,719,000	115,918,640	1,814,240,536	-	12,955,278	2,084,833,454
Additions	-	1,955,906	-	-	52,889,139	54,845,045
Disposals	-	-	-	(93,496,250)	-	(93,496,250)
Adjustment	-	-	(1,144,190,536)	1,144,190,536	-	
Balance as at 31 March 2020	141,719,000	117,874,547	670,050,000	1,050,694,286	65,844,416	2,046,182,249
Accumulated Depreciation						
Balance as at 01 April 2019	-	3,743,850	522,064,667	-	-	525,808,517
Charge for the year	-	3,854,847	65,702,051	103,721,286	28,255,083	201,533,267
Depreciation on disposals	-	-	-	(32,366,098)	-	(32,366,098)
Adjustment	-	-	(456,362,616)	456,362,616	-	-
Balance as at 31 March 2020	-	7,598,696	131,404,103	527,717,804	28,255,083	694,975,686
Carrying Amount						
As at 31 March 2020	141,719,000	110,275,850	538,645,897	522,976,482	37,589,333	1,351,206,563

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles amount to Rs.154,387,021 as at 31 March 2021 (31 March 2020 - Rs.538,645,897) are purchased under finance leases and have been pledged as security for the related finance lease liabilities.

Assets given under operating leases

The motor vehicles of the company represents assets given under operating leases under short term and long term basis.

An analysis of the rentals to be received on such operating leases are as follows.

As at 31 March	2021 Rs.	2020 Rs.
Receivable within one year	84,642,860	209,724,950
Receivable within 1-5 years	9,552,385	92,677,400
Total	94,195,245	302,402,350

Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31 March 2021 and 31 March 2020.

Fully depreciated property, plant and equipment

There were motor vehicles amount to Rs.1,508,000 and office equipment amount to Rs.47,504,368 in property, plant and equipment fully depreciated as at 31 March 2021 and no any property, plant and equipment fully depreciated as at 31 March 2020.

12.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of property, plant and equipment was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31 December 2020.

The fair value measurement for all of the land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio as of December 2020 ranges from Rs.47,390 to Rs.34,814,815 in the Colombo area and Rs.11,507 to Rs.7,043,950 outside the Colombo area. As of March 2020, property values were ranges from Rs.104,000 to Rs.30,000,000 in the Colombo area and Rs.18,000 to Rs.4,026,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: • Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for year used.	The estimated fair value would increase (decrease) if: • Depreciation rate was lesser / (higher) • Square feet value was higher / (lesser)

12.2 The carrying amount of revalued land and buildings if they were carried at cost less depreciation and impairment, would be as follows;

As at 31 March	2021 Rs.	2020 Rs.
Cost	259,593,547	259,593,547
Accumulated depreciation and impairment	(10,922,165)	(7,598,696)
Carrying value	248,671,381	251,994,850

13. INTEREST BEARING BORROWINGS

As at 31 March	2021 Rs.	2020 Rs.
Short-term loans	1,060,000,000	20,963,369,863
Long-term borrowings (note 13.1)	12,109,298,395	27,198,582,182
Finance leases (note 13.2)	23,023,094	111,902,195
Debentures (note 13.3)	2,500,000,000	2,500,000,000
Total borrowings	15,692,321,489	50,773,854,240
Interest payable	745,120,940	784,739,243
Liability recognised in statement of financial position	16,437,442,429	51,558,593,484

13.1 Long-term borrowings

Balance at the beginning of the year	27,198,582,182	35,056,235,627
Loans obtained during the year	1,853,000,000	2,010,948,000
Repaid during the year	(16,942,283,787)	(9,868,601,445)
Balance at the end of the year	12,109,298,395	27,198,582,182
Long-term borrowings - current	10,940,948,395	25,187,634,182
Long-term borrowings - non-current (note 13.1.a)	1,168,350,000	2,010,948,000
	12,109,298,395	27,198,582,182

13.1.a Analysis of non-current portion of long-term borrowings

Repayable within 1-3 years	1,168,350,000	2,010,948,000
Repayable after 3 years	-	-
	1,168,350,000	2,010,948,000

The borrowings includes long term and short term loans which carry interest rates which are variable and are reset on a monthly / quarterly / semi-annually / annual basis. Consequent to the merger with the LOLC Micro Credit Ltd on 29th March 2018 certain micro business related debt covenants were not met in the merged entity (LOLC Finance PLC). As a result loans amounting to Rs.6,120,195,250 has been classified as current even though the contractual maturity is long term. Of this amount Rs.3,104,101,500 has a contractual maturity within 1-3 years and Rs.3,016,093,750 has a maturity after 3 years.

13.2 Finance leases

As at 31 March	2021 Rs.	2020 Rs.
Gross lease rentals payable at the beginning of the year	121,818,537	324,558,211
Lease obtained during the year	-	-
Lease rentals paid during the year	(97,521,906)	(202,739,674)
Gross lease rentals payable at the end of the year	24,296,631	121,818,537
Less: Interest in suspense	(1,273,537)	(9,916,342)
Balance at the end of the year / present value of minimum lease payments	23,023,094	111,902,195

13.2.1 Analysis of finance leases

Repayable within one year (note 13.2.1.a)	23,023,094	88,442,886
Repayable within 1-5 years (note 13.2.1.b)	-	23,459,309
	23,023,094	111,902,195

13.2.1.a Repayable within one year

Gross lease rentals payable	24,296,631	97,078,133
Less: interest in suspense	(1,273,537)	(8,635,247)
	23,023,094	88,442,886

13.2.1.b Repayable within 1-5 years

Gross lease rentals payable	-	24,740,405
Less: interest in suspense	-	(1,281,096)
	-	23,459,309

13.3 Debentures

Balance at the beginning of the year	2,500,000,000	4,950,000,000
Debenture issued during the year (net of transaction cost)	-	2,500,000,000
Debenture redeemed during the year	-	(4,950,000,000)
Balance at the end of the year	2,500,000,000	2,500,000,000

The company issued rated unsecured subordinated redeemable debentures, fifty million (50,000,000) totaling to Rs. 5Bn in 2014-15 and thirty four million (34,110,193) totaling to Rs. 2.5Bn in 2018-19 with a five year maturity duration, incurring transaction costs. These debentures are listed in the Colombo Stock Exchange. The amortisation of the transaction cost is included in the interest payable amount.

14. DEPOSITS FROM CUSTOMERS

As at 31 March	2021 Rs.	2020 Rs.
Customer deposits	105,108,361,141	95,938,725,591
Interest / profit payable		
Interest payable on deposits	2,471,949,127	3,151,746,541
Profits payable to alternate finance deposit holders	210,826,109	170,709,322
	2,682,775,236	3,322,455,863
Deposit liability recognised in statement of financial position	107,791,136,377	99,261,181,454

14.1 Analysis of customer deposits based on nature

Fixed deposits - conventional	80,225,049,271	78,437,724,440
Fixed deposits - alternate finance - Mudharabah	3,241,560,004	2,863,945,728
Fixed deposits - alternate finance - Wakala	7,576,034,386	7,386,706,909
Fixed deposits - foreign currency	1,796,317,339	1,417,999,579
Fixed deposit bonds	4,322,336	5,849,336
Savings deposits - conventional	2,938,364,396	2,459,154,298
Savings deposits - alternate finance	789,855,390	765,275,872
Savings deposits - foreign currency	8,536,858,019	2,602,069,429
Total deposits	105,108,361,141	95,938,725,591

14.2 Deposits based on maturity

Deposits maturing within one year	88,827,775,215	77,349,595,370
Deposits maturing after one year	16,280,585,926	18,589,130,221
	105,108,361,141	95,938,725,591

15. TRADE PAYABLES

As at 31 March	2021 Rs.	2020 Rs.
Creditors for lease equipment and approved facilities to be disbursed	144,788,204	1,048,944,408

16. ACCRUALS AND OTHER PAYABLES

As at 31 March	2021 Rs.	2020 Rs.
Excess payments received from clients	234,761,384	200,418,781
Insurance payable	101,764,731	73,022,970
VAT / other tax payable	61,676,928	22,557,988
Other miscellaneous creditors	3,689,082,259	2,509,663,318
Payable on matured deposits	441,562,699	507,494,934
Stamp duty payable	11,282,360	16,278,165
Allowance for impairment (ECL) - Undrawn credit facilities	17,416,220	2,207,183
	4,557,546,581	3,331,643,339

17. AMOUNTS DUE TO RELATED COMPANIES

	Relationship	2021 Rs.	2020 Rs.
LOLC Holding PLC	Parent	495,464,521	655,110,440
LOLC Factors Ltd	Fellow subsidiary	51,133,300	138,363,674
LOLC Securities Ltd	Fellow subsidiary	-	23,293
Dickwella Resorts (pvt) Ltd	Fellow subsidiary	-	2,118,453
LOLC Information Technology Services Limited	Fellow subsidiary	43,861,815	17,349,436
Brown & Co. Ltd	Fellow subsidiary	4,000,000	4,000,000
LOLC Motors Ltd	Fellow subsidiary	12,248,814	4,549,456
LOLC Development Finance PLC	Fellow subsidiary	177,689	-
LOLC Corporate services Ltd	Fellow subsidiary	605,657	595,000
LOLC Property 1-4	Fellow subsidiary	13,369,927	32,087,824
		620,861,723	854,197,576

18. EMPLOYEE BENEFITS

18.1 Defined contribution plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

As at 31 March	2021 Rs.	2020 Rs.
Employees' Provident Fund		
Employers' contribution	152,704,329	140,302,826
Employees' contribution	101,802,886	93,535,217
Employees' Trust Fund	38,164,717	35,075,699

18.2 Defined benefit plan

Movement in the present value of the defined benefit obligation

As at 31 March	2021 Rs.	2020 Rs.
Defined benefit obligation at the beginning of the year	298,141,984	87,060,988
Adjustments to defined benefit obligation	-	120,857,045
Defined benefit obligation at the beginning of the year - Adjusted	298,141,984	207,918,033
Expense included in Personnel Expenses	77,327,873	54,111,511
Remeasurement Component	(19,845,167)	64,415,152
	57,482,706	118,526,663
Benefits paid	(23,093,102)	(28,302,712)
Defined benefit obligation at end of the year	332,531,588	298,141,984

18.2.a Expense included in Personnel Expenses

	2021 Rs.	2020 Rs.
Current Service Cost	44,532,255	31,240,528
Interest Cost	32,795,618	22,870,983
	77,327,873	54,111,511

As at 31 March	2021 Rs.	2020 Rs.

18.2.b Actuarial gains and losses recognised in other comprehensive income

Cumulative loss at the beginning of the year	196,424,397	11,152,200
(Gain) / loss recognised during the year	(19,845,167)	185,272,197
Cumulative loss at end of the year	176,579,230	196,424,397

Acturial valuation for defined benefit obligation was carried out as at 31 December 2020 by Mr. P.S. Goonatilleke, a Fellow of the Society of Actuaries (USA). The valuation method used by the actuaries to value the obligation is the "Projected Unit Credit Actuarial Cost Method", a method recommended by the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

18.2.c Key assumptions used in the above valuation are as follows:

As at 31 March	2021	2020
Discount Rate	8.00%	10.50%
Salary Increment Rate	6.50%	8.50%
Retirement Age	55	55
Staff Turnover	2.5% - 15.0%	2.5% - 15.0%

The Defined Benefit Plan entitles a retired employee to receive a payment equal to half of the last drawn monthly salary multiplied by the number of completed years of service under the Payment of Gratuity Act No. 12 of 1983. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 Years of service. The obligation is not externally funded.

Current weighted average duration of the defined benefit obligation is 7 years.

Assumptions regarding future mortality are based on published statistics and mortality tables.

18.2.d Sensitivity analysis of the defined benefit obligation

The effect on the defined benefit obligation at the year end, as a result of changes in the actuarial assumptions used, is shown below.

As at 31 March	2021 Rs.	2020 Rs.
The defined benefit obligation under current assumptions	332,531,588	298,141,984
The defined benefit obligation if the discount rate increased by 100 basis points	307,531,582	278,054,266
The defined benefit obligation if the discount rate reduced by 100 basis points	361,065,787	320,979,567
The defined benefit obligation if the salary increment rate increased by 1%	362,210,258	320,690,226
The defined benefit obligation if the salary increment rate reduced by 1%	306,175,782	277,944,693
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(25,000,006)	(20,087,718)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	28,534,199	22,837,583
The change in the defined benefit obligation if the salary increment rate increased by 1%	29,678,670	22,548,242
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(26,355,806)	(20,197,291)

18.2.e Maturity analysis of the payments

The following payments are expected on employee benefit liabilities in future years.

As at 31 March	2021	2020
Within the next 12 months	35,164,212	31,575,365
Between 1 and 2 years	35,248,634	35,574,825
Between 2 and 5 years	143,891,468	122,793,660
Between 5 and 10 years	330,038,215	364,506,991
Total expected payments	544,342,529	554,450,841

19. STATED CAPITAL

As at 31 March	2021		2020	
	Number of shares	Rs.	Number of shares	Rs.
Balance at the beginning of the year	5,250,000,000	12,762,500,000	**4,200,000,000**	7,880,000,000
Issue of shares for cash	-	-	**1,050,000,000**	4,882,500,000
Balance at the end of the year	5,250,000,000	12,762,500,000	**5,250,000,000**	12,762,500,000

Rights, preference and restrictions of classes of capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to have one vote per individual present at meetings of the shareholders or one vote per share in case of a poll. They are entitled to participate in any surplus assets of the Company in winding up. There are no preferences or restrictions on Ordinary Shares.

20. RESERVES

As at 31 March	2021 Rs.	2020 Rs.
Statutory reserve (note 20.1)	3,596,578,755	3,378,281,827
Revaluation reserve (note 20.2)	328,838,183	241,527,671
Cash flow hedge reserve (note 20.3)	27,607,751	(77,309,605)
Fair value reserve (note 20.4)	45,445,698	11,956,519
Retained earnings (note 20.5)	19,127,563,207	14,972,696,227
	23,126,033,594	18,527,152,639

20.1 Statutory reserve

Balance at the beginning of the year	3,378,281,827	3,189,297,618
Transferred during the year	218,296,928	188,984,209
Balance at the end of the year	3,596,578,755	3,378,281,827

The reserve is created according to Direction No.1 of 2003 issued under the Finance Business Act No.42 of 2011. The Company transferred 5% (2019/20 - 5%) of its annual net profit after tax to this reserve in compliance with this direction.

20.2 Revaluation Reserve

As at 31 March	2021 Rs.	2020 Rs.
Balance at the beginning of the year	241,527,671	241,527,671
Transferred during the year	96,207,856	-
Related tax	(8,897,344)	-
Balance at the end of the year	328,838,183	241,527,671

This reserve is created from the excess arising from the revaluation of land and buildings of the company.

20.3 Cash flow hedge reserve

As at 31 March	2021 Rs.	2020 Rs.
Balance at the beginning of the year	(77,309,605)	(39,059,403)
Gain / (loss) arising from cash flow hedge recognised in OCI	130,492,506	(53,125,280)
Related tax - current tax - expense / (reversal) - note 28	(7,091,515)	44,963,008
Related tax - deferred tax - expense / (reversal) - note 28	(18,483,635)	(30,087,930)
Balance at the end of the year	27,607,751	(77,309,605)

The cash flow hedge reserve is maintained to recognise the change in the fair value of, the derivative (forward exchange contract) designated under the hedge relationship and the hedge item (portion of a foreign currency borrowing). The objective of the hedge is to mitigate the risk arising on the movement in foreign exchange rates and the resulting cash flows.

The hedging instrument are forward exchange contracts and there were assets with fair value of Rs. 325,029,200 as at 31 March 2021.

The portion of the foreign currency loan that is subject to hedge accounting is to be settled during the financial years 2020/21 - 2021/22 and the derivative will be rolled over until that date.

The hedge is considered to be effective and is in effect at the reporting date and therefore no reclassification to profit or loss was made.

20.4 Fair Value Reserve

The fair value reserve comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income until such investments are derecognised or impaired.

As at 31 March	2021 Rs.	2020 Rs.
Balance at the beginning of the year	11,956,519	(21,756,425)
Investment in government securities measured at FVOCI	19,304,507	22,683,918
Investment securities measured at FVOCI – equity investments	14,184,672	11,029,027
Balance at the end of the year	45,445,698	11,956,519

20.5 Retained Earnings

Balance at the beginning of the year	14,972,696,227	11,516,578,923
Profit for the year	4,365,938,557	3,779,684,187
Remeasurements of defined benefit liability - gain / (loss)	7,225,351	(134,582,674)
Transfer to statutory reserve fund	(218,296,928)	(188,984,209)
Balance at the end of the year	19,127,563,207	14,972,696,227

21. INTEREST INCOME

As at 31 March	2021 Rs.	2020 Rs.
Interest on leases	11,501,641,597	11,214,521,730
Interest on loans	14,532,083,166	19,511,067,479
Income from factoring portfolio	585,437,376	1,205,421,617
Interest from credit cards	234,662,234	158,753,668
Interest on margin trading	1,193,616	437,865
Income from operating lease and hire	265,091,620	316,297,007
Interest on overdue rentals and others	4,760,046,031	3,514,551,691
Interest income on government securities	1,503,773,383	1,237,378,237
Interest income on term deposits	377,605,104	923,279,821
	33,761,534,127	38,081,709,115

22. INTEREST EXPENSE

As at 31 March	2021 Rs.	2020 Rs.
Interest on fixed deposits	8,216,179,370	12,168,809,615
Interest on savings deposits	190,911,890	174,729,942
Profit distributed to alternate finance deposit holders	948,525,678	875,735,205
Interest on foreign currency deposits	75,226,311	73,820,515
Finance lease interest	8,494,307	23,390,111
Interest on loans & bank overdraft	3,007,452,842	5,954,879,104
	12,446,790,398	19,271,364,492

23. NET OTHER OPERATING INCOME

As at 31 March	2021 Rs.	2020 Rs.
Sundry income	718,876,804	587,004,355
Service charges	3,058,654	17,515,499
Arrangement and documentation fees	270,713,966	394,699,556
Collections from contracts written off	5,035,954,870	844,834,460
Fair value change in investment properties (Note 11)	3,291,066,776	2,569,499,327
Change in fair value of derivatives - forward contracts (note 5.3)	195,730,991	91,665,503
Net exchange loss	251,780,762	(290,674,636)
Adjustment for increase / (decrease) in value of investments (note 8.1 / 8.2.2)	183,575,967	624,295,846
Debenture Interest	-	13,316,702
Interest income from staff loan	36,204,079	54,701,608
Disposal gain / (loss) on shares	12,709,946	-
Disposal gain / (loss) on government securities	229,232,991	82,000
Disposal gain / (loss) on PPE	69,532,484	12,887,348
	10,298,438,290	4,919,827,568

24. DIRECT EXPENSES EXCLUDING INTEREST COST

As at 31 March	2021 Rs.	2020 Rs.
Insurance expenses factored to accommodations	943,170,683	1,202,844,358
VAT on general expenses	7,684,022	76,764,012
	950,854,705	1,279,608,370

25. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS

As at 31 March	2021 Rs.	2020 Rs.
Impairment provision / (reversal) for lease rentals receivable (Note 6.2)	2,360,724,276	283,314,035
Impairment provision / (reversal) for mortgage loan (Note 7.2.2)	117,705,022	(5,754,961)
Impairment provision / (reversal) for receivables from sundry loans (Note 7.3.2)	3,847,797,150	1,669,242,555
Impairment provision / (reversal) for credit card receivables (Note 7.4)	159,285,114	57,805,708
Impairment provision / (reversal) for receivables from Gold loans (Note 7.4.1)	(73,495,514)	62,019,685
Impairment provision / (reversal) for factoring receivables (Note 7.6.1)	(911,448,332)	(296,652,155)
Impairment provision / (reversal) for other financial assets	238,654,181	2,384,380
Impairment provision / (reversal) for insurance receivable	169,876,646	-
Written-off during the year	10,432,263,780	6,071,182,111
	16,341,362,321	7,843,541,357

Comparison between provision for impairment as per SLFRS 09 and Central Bank (CBSL) requirement

As at 31 March	Impairment charge to profit or loss Rs.	Written-off during the year Rs.	Charge to profit or loss net of write-offs Rs.	Provision impact as per CBSL Rs.
Rentals receivable on leased assets	4,831,140,254	2,470,415,979	2,360,724,276	3,900,157,134
Loans and advances	12,013,139,573	7,961,847,801	4,051,291,771	2,835,937,948
Factoring receivable	(911,448,332)	-	(911,448,332)	(996,873,187)
Other financial assets	238,654,181	-	238,654,181	-
Insurance receivable	169,876,646	-	169,876,646	169,876,646
	16,341,362,321	10,432,263,780	5,909,098,541	5,909,098,541

26. PROFIT FROM OPERATIONS

As at 31 March		2021 Rs.	2020 Rs.
Profit from operations is stated after charging all expenses including the following,			
Directors' emoluments		36,150,500	44,071,000
Audit fees and expenses	- Audit Services	3,518,000	2,925,000
	- Audit Related Services	1,187,000	1,120,000
Depreciation on property, plant and equipment		131,853,680	201,533,267

26.1 Personnel expenses

	2021 Rs.	2020 Rs.
- Salaries, wages & other related cost	2,888,757,737	2,742,283,100
- Defined contribution plans - EPF & ETF	190,869,046	175,378,525
- Defined benefit plan cost	77,327,873	54,111,511
	3,156,954,655	2,971,773,136

27. MATURITY OF ASSETS AND LIABILITIES

27.1 An analysis of the total assets of the Company as at the year end based on the remaining year at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.2021 Rs.	Total as at 31.03.2020 Rs.
Cash and cash equivalents	13,422,689,919	-	-	-	-	13,422,689,919	8,333,560,554
Deposits with banks and other financial institutions	4,518,305,745	2,685,000,125	-	-	-	7,203,305,870	17,282,276,685
Investment in government securities	713,732,260	7,468,579,695	4,264,881,360	-	3,391,261,405	15,838,454,720	10,790,843,193
Derivative assets	309,289,200	15,740,000	-	-	-	325,029,200	273,195,187
Financial assets at amortised cost							
Rentals receivable on leased assets	6,511,695,835	11,557,655,590	24,108,981,280	4,865,760,999	8,765,291	47,052,858,996	45,436,108,784
(-) Allowance for ECL / impairment	-	-	-	-	-	(3,954,452,103)	(1,593,727,828)
Loans and advances	23,984,146,822	17,904,361,029	20,912,263,792	7,452,322,461	429,497,364	70,682,591,468	92,277,292,101
(-) Allowance for ECL / impairment	-	-	-	-		(9,215,634,742)	(5,164,342,970)
Factoring receivable	-	-	-	-	-	-	3,910,200,287
(-) Allowance for ECL / impairment	-	-	-	-	-	-	(911,448,332)
Margin trading receivable	83,553,171	-	-	-	-	83,553,171	1,767,689
Investments securities	4,316,951,145	-	-	-	1,181,048,753	5,497,999,899	2,958,198,760
Amount due from related companies	33,221,629	-	-	-	-	33,221,629	60,706,213
Other receivables	398,750,899	270,278,608	43,937,571	18,251,107	473,364	731,691,550	916,599,740
Inventories	-	271,727,381	-	-	-	271,727,381	2,023,122
Investment properties	-	-	21,088,740,181	-	-	21,088,740,181	15,963,885,792
Property plant and equipment	-	-	-	-	1,163,218,438	1,163,218,438	1,351,206,563
Total Assets as at 31 March 2021	54,292,336,626	40,173,342,428	70,418,804,184	12,336,334,568	6,174,264,615	170,224,995,577	191,888,345,539
Total Assets as at 31 March 2020	61,643,958,617	50,737,718,876	71,527,046,742	12,839,961,943	2,809,178,492	191,888,345,539	191,888,345,539

27.2 An analysis of the total liabilities of the Company as at the year end based on the remaining year at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.2021 Rs.	Total as at 31.03.2020 Rs.
Bank overdraft	1,861,003,040	-	-	-	-	1,861,003,040	1,283,200,605
Interest bearing borrowings	10,680,750,798	1,806,978,361	3,936,571,598	6,787,166	6,354,506	16,437,442,429	51,558,593,484
Deposits from customers	42,008,899,878	49,501,650,573	14,112,387,824	2,168,198,102	-	107,791,136,377	99,261,181,454
Trade payables	144,788,204	-	-	-	-	144,788,204	1,048,944,408
Accruals and other payables	2,505,315,494	725,178,436	-	236,864,976	1,090,187,674	4,557,546,581	3,331,643,339
Derivative liabilities	-	-	-	-	-	-	114,349,000
Amount due to related companies	620,861,723	-	-	-	-	620,861,723	854,197,576
Current tax payable	-	857,902,877	-	-	-	857,902,877	960,254,586
Deferred tax liability	-	-	1,733,249,164	-	-	1,733,249,164	1,888,186,465
Employee benefits	-	-	-	332,531,588	-	332,531,588	298,141,984
Stated capital	-	-	-	-	12,762,500,000	12,762,500,000	12,762,500,000
Statutory reserve	-	-	-	-	3,596,578,755	3,596,578,755	3,378,281,827
Revaluation Reserve	-	-	-	-	328,838,183	328,838,183	241,527,671
Cash flow hedge reserve	-	-	-	-	27,607,751	27,607,751	(77,309,605)
Fair value reserve	-	-	-	-	45,445,698	45,445,698	11,956,519
Retained earnings	-	-	-	-	19,127,563,207	19,127,563,207	14,972,696,227
Total Liabilities & Equity as at 31 March 2021	57,821,619,137	52,891,710,247	19,782,208,586	2,744,381,832	36,985,075,774	170,224,995,577	191,888,345,539
Total Liabilities & Equity as at 31 March 2020	80,560,740,539	53,482,251,775	18,526,413,128	6,960,439,938	32,358,500,157	191,888,345,539	191,888,345,539

28. INCOME TAX EXPENSE

The major components of income tax expense for the year ended are as follows:

As at 31 March	2021 Rs.	2020 Rs.
Current tax - recognised in P&L		
Current tax charge	322,309,197	465,185,675
Deferred Tax		
Deferred tax expense / (reversal) (28.2)	(191,464,649)	(365,210,705)
Income tax expense reported in statement of profit or loss	130,844,548	99,974,970
Current tax - expense / (reversal) - recognised in OCI		
Relating to exchange gain recognised in OCI (in hedge reserve)	7,091,515	(44,963,008)
Deferred tax charge / (reversal) recognised in OCI		
Property, plant and equipment	8,897,344	-
Defined benefit plans	12,619,816	(50,689,523)
Fair value change in derivatives recognised in hedge reserve	18,483,635	30,087,930
Investment in LOLC Asia Pvt Ltd	(3,473,447)	1,225,447
	36,527,348	(19,376,146)
Total income tax expense / (reversal) recognised in OCI	43,618,863	(64,339,154)

28.1 Current tax payable

Tax payable at the beginning of the year	960,254,585	1,501,292,609
Current tax expense for the year - recognised in P&L	315,217,682	465,185,675
Current tax expense for the year - recognised in OCI	7,091,515	(44,963,008)
Tax paid during the year	(424,660,905)	(961,260,692)
Tax payable	857,902,877	960,254,585

A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

As at 31 March	2021		2020	
	%	Rs.	%	Rs.
Accounting profit before income tax		4,496,783,105		3,879,659,157
Tax effect at the statutory income tax rate of 24%	24%	1,079,227,945	28%	1,047,507,972
Tax effect of other allowable credits	-70%	(3,131,859,423)	-96%	(3,708,663,071)
Tax effect of non deductible expenses	53%	2,374,940,675	85%	3,291,489,100
Deferred tax adjustment	-4%	(191,464,649)	-14%	(530,359,031)
Income tax expense	3%	130,844,548	3%	99,974,970

28.2 Deferred Taxation

As at 31 March	2021 Rs.	2020 Rs.
Balance at the beginning of the year	1,888,186,465	2,272,773,316
Deferred tax expense / (reversal) - recognised in P&L	(191,464,649)	(365,210,705)
Deferred tax expense / (reversal) - recognised in OCI	36,527,348	(19,376,146)
Balance at the end of the year	1,733,249,164	1,888,186,465

Due to the change in tax rate, deferred tax expense recognised in P&L and OCI decreased by Rs. 150,474,942 and Rs. 732,039 respectively.

Recognised deferred tax assets and liabilities are attributable to the following.

Deferred tax is measured using a tax rate of 24% (2019/20 -28%) on temporary differences.

Deferred tax expense / (reversal)

Deferred tax liability / (asset)	Balance as at 01 April 2020 Rs.	Recognised in P&L - expense / (reversal) Rs.	Recognised in OCI - expense / (reversal) Rs.	Balance as at 31 March 2021 Rs.
Recognised in P&L / Equity (retained earnings)				
Lease receivables	2,245,845,340	(655,568,978)	-	1,590,276,362
Finance lease liability	107,587,413	(76,367,602)	-	31,219,811
Property plant and equipment	126,628,832	19,984,774	-	146,613,606
Investment in unit trust - unrealised	52,334,885	(52,334,885)	-	-
Cost of acquisition of subsidiary (note 28.2.b)	(1,096,683,888)	237,616,566	-	(859,067,322)
Defined benefit plans	(28,480,924)	(8,947,642)	-	(37,428,566)
Forward exchange contracts (net)	16,189,320	15,046,440	-	31,235,760
Investment property	466,408,368	329,106,677	-	795,515,045
Investment in LOLC Myanmar	-	-	-	-
Recognised in OCI				
Available for sale financial assets	3,018,739	-	-	3,018,739
Property plant and equipment	18,576,152	-	8,897,344	27,473,496
Defined benefit plans	(54,998,831)	-	12,619,816	(42,379,015)
Forward exchange contracts (net)	28,287,613	-	18,483,635	46,771,248
Investment in LOLC Asia Pvt Ltd	3,473,447	-	(3,473,447)	-
Net deferred tax liability / (asset)	1,888,186,465	(191,464,649)	36,527,348	1,733,249,164

Deferred tax expense / (reversal)

Deferred tax liability / (asset)	Balance as at 01 April 2019 Rs.	Recognised in P&L - expense / (reversal) Rs.	Recognised in OCI - expense / (reversal) Rs.	Balance as at 31 March 2020 Rs.
Recognised in P&L				
Lease receivables	2,501,449,289	(255,603,949)	-	2,245,845,340
Finance lease liability	215,223,460	(107,636,047)	-	107,587,413
Property plant and equipment	3,945,338	122,683,494	-	126,628,832
Investment in unit trust - unrealised	-	52,334,885	-	52,334,885
Cost of acquisition of subsidiary (note 28.2.b)	(645,811,061)	(450,872,827)	-	(1,096,683,888)
Defined benefit plans	(21,215,049)	(7,265,875)	-	(28,480,924)
Forward exchange contracts (net)	(24,352,099)	40,541,419	-	16,189,320
Investment property	209,458,435	256,949,933	-	466,408,368
Investment in LOLC Myanmar	16,341,738	(16,341,738)	-	-
Recognised in OCI				
Available for sale financial assets	3,018,739	-	-	3,018,739
Property plant and equipment	18,576,152	-	-	18,576,152
Defined benefit plans	(4,309,308)	-	(50,689,523)	(54,998,831)
Forward exchange contracts (net)	(1,800,317)	-	30,087,930	28,287,613
Investment in LOLC Asia Pvt Ltd	2,248,000	-	1,225,447	3,473,447
Net deferred tax liability / (asset)	2,272,773,316	(365,210,705)	(19,376,146)	1,888,186,465

28.2.a Temporary differences

Temporary differences - taxable / (deductible)

As at 31 March	2021 Rs.	2020 Rs.
Recognised in P&L / Equity (retained earnings)		
Lease receivables	6,626,151,509	8,020,876,215
Finance lease liability	130,082,545	384,240,761
Property plant and equipment	610,890,024	452,245,828
Investment in unit trust - unrealised	-	186,910,302
Cost of acquisition of subsidiary	(3,579,447,176)	(3,916,728,172)
Defined benefit plans	(155,952,358)	(101,717,587)
Forward exchange contracts (net)	130,149,000	57,819,000
Investment property	7,955,150,453	4,664,083,680
Recognised in OCI		
Available for sale financial assets	12,578,079	10,781,210
Property plant and equipment	114,472,902	66,343,400
Defined benefit plans	(176,579,230)	(196,424,397)
Forward exchange contracts (net)	194,880,200	101,027,188
Investment in LOLC Asia Pvt Ltd	-	34,734,474
Net taxable / (deductible) temporary difference	11,862,375,948	9,764,191,902

28.2.b Cost of acquisition of subsidiary and unrecognised deferred tax assets

During the year 207/18, the company paid Rs.12,291,200,000 to acquire 100% of LOLC Micro Credit Limited.

Since this was inline with the Central Bank of Sri Lanka's consolidation program, the Company is able to claim the purchase consideration as a qualifying payment in calculating the income tax liability.

During the year Rs.671,477,494 was claimed keeping inline with the requirements of the Inland Revenue Act. The Company expects to claim the remaining amount over the future year based on the profitability of the Company.

On a prudent basis the management has decided to evaluate the recoverability of this claim based on the projected taxable profits for the next 3 years and expects to recover Rs.3,579,447,176 over such year and a deferred tax asset of Rs.859,067,322 was recognised during the year.

The management will annually re-evaluate the recoverability of this claim and adjust the deferred tax asset accordingly.

As at 31 March	2021 Rs.	2020 Rs.
Unrecognised deferred tax asset		
Remaining amount to be claimed at the beginning of the year	8,567,361,793	9,371,201,715
Previous year adjustment	3,018,795	(25,649,798)
Amount claimed during the year	(671,477,494)	(778,190,125)
Remaining amount to be claimed in future years	7,898,903,094	8,567,361,793
Tax rate	24%	28%
Deferred tax asset on remaining amount	1,895,736,742	2,398,861,302
Recognised deferred tax asset	(859,067,322)	(1,096,683,888)
Unrecognised deferred tax asset	1,036,669,420	1,302,177,414

29. EARNINGS PER SHARE

29.1 Basic earnings per share

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the Basic Earnings Per Share computation.

As at 31 March	2021 Rs.	2020 Rs.
Amounts used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	4,365,938,557	3,779,684,187

As at 31 March	2021 No.	2020 No.
Number of ordinary shares used as the denominator:		
Ordinary shares in issue at the beginning of the year	5,250,000,000	4,200,000,000
Effects of new shares issued during the year	-	679,918,033
Weighted average number of ordinary shares in issue applicable to basic earnings per share	5,250,000,000	4,879,918,033
Basic earnings per share (Rs.)	0.83	0.77

29.2 Diluted earnings per share

There were no potential dilution at the year end. Therefore, diluted earnings/ (loss) per share is the same as basic earnings/ (loss) per share shown above.

30. COMPARATIVE FIGURES

Comparative information has been reclassified to conform to the current year presentation, where necessary. No information has been restated.

31. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged Rs.	Carrying Amount Pledged Rs.
Lease portfolio	Short term borrowing	12,878,371,845	16,728,047,005

These financial assets are pledged against the borrowings made. The lender has the right over the lease receivables in the event of non payment.

32. RELATED PARTY DISCLOSURES

32.1 Parent and Ultimate Controlling Party

The Company's immediate parent is LOLC Private Ltd and ultimate parent undertaking and controlling entity is LOLC Holding PLC.

32.2 Transactions with Key Management Personnel (KMPs)

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly the KMP include members of the Board of Directors and identified senior management personnel of the Company and its ultimate Parent Company LOLC Holding PLC. Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Company.

32.2.1 Compensation of KMPs

As at 31 March	2021 Rs.	2020 Rs.
Short term employment benefits	80,403,266	81,015,355
Total	80,403,266	81,015,355

The short term employment benefits include only the directors fees and emoluments paid to Directors & KMPs.
This is also included under Note 26.1.

32.2.2 Transactions, arrangements and agreements involving KMPs, and their close family members (CFMs)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner. The transactions are carried out on an arms length basis. The details of the transactions are as follows :

As at 31 March	2021 Rs.	2020 Rs.
Deposits held with the Company	400,153,442	673,349,785
Interest paid / charged	43,258,097	55,091,045
Interest payable	14,585,989	356,532
Loans granted (excluding Directors)	15,614,635	48,928,815
Capital outstanding on facilities granted to KMPs (excluding Directors)	22,390,080	34,274,663
Accommodation outstanding as a percentage of the Company's Capital Funds	0.07%	0.12%

No impairment losses have been recorded against balances outstanding with KMP and CFM.

32.3 Transactions with related parties

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures, on an arms length basis. Details of related party transactions are reported below. (For information regarding outstanding balances (receivables / payables) at 31 March 2021 and 31 March 2020, refer notes no.10 and 17 accordingly).

	Nature of Transactions	Transaction value 2021 Rs.	Transaction value 2020 Rs.
Parent Company	Net funds granted by the Parent during the year (excluding opening balance)	(159,645,919)	43,639,296
	Reimbursement of expenses	1,075,971,892	2,164,658,024
	Asset hire charges	229,924,735	205,734,877
	Royalty	562,570,272	638,312,958
	Fund transfer interest	172,735,406	55,862,325
Fellow Subsidiaries & Associates	Deposits & other borrowings by the company	73,127,592	51,313,028
	Interest paid/charge	1,446,233	1,498,762
	Interest payable	618,778	783,534
	Investments held by the company	-	1,006,091,357
	Interest income from investment	21,505,272	116,213,033
	IT service fee	403,743,888	275,095,390
	Factoring related transactions	6,996,796,638	436,636,401
	Yard fee	15,000,000	19,200,000
	Services / Maintenance fee	87,814,302	114,775,149
	Loan / lease granted	1,639,064,914	1,705,693,182
	Rental collections	1,232,711,415	600,892,665
	Interest income	419,097,015	621,589,749
	Capital outstanding on facilities granted	1,334,413,520	3,043,429,002
	Rent Income	36,000,000	57,924,000
	Franchise fee income	256,097,307	277,260,586
	Guarantees given / received	-	200,000,000
Other Related Parties	Services / Maintenance fee	784,443,309	162,730,421
	Deposits held with the company	145,335,153	132,115,055
	Interest paid / charge	11,496,185	11,425,951
	Interest payable	2,059,138	92,055
	Rental collections	164,750,296	240,015,025
	Interest income	153,035,378	270,000,000
	Capital outstanding on facilities granted	454,500,000	1,530,000,000
Accommodation outstanding as a percentage of the Company's Capital Funds		5.91%	15.73%

All of the above transactions (including borrowing / lending / investing transactions) with related parties are on arm’s length basis and are on terms that are generic to non-related parties.

33. EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustment to or disclosure in these Financial Statements.

34. OPERATING SEGMENTS

	Operating Segment			
	SME Finance Rs.	Development Finance Rs.	Alternate Finance Rs.	Total Rs.
For the year ended 31 March 2021				
Total revenue - Interest income & other income	22,812,651,913	18,672,232,927	2,575,087,577	44,059,972,417
Inter segmental revenue	-	-	-	-
External revenue	22,812,651,913	18,672,232,927	2,575,087,577	44,059,972,417
Net interest cost	(6,597,915,256)	(4,882,347,613)	(966,527,529)	(12,446,790,398)
Profit before operating expenses	16,214,736,657	13,789,885,314	1,608,560,048	31,613,182,019
Operating expenses	(5,358,239,674)	(3,987,215,280)	(873,435,713)	(10,218,890,666)
Allowance for impairment & write-offs	(6,418,198,424)	(9,698,721,884)	(224,442,013)	(16,341,362,321)
Value added tax on financial services	(443,795,924)	(15,592,223)	(96,757,780)	(556,145,927)
Results from operating activities	3,994,502,634	88,355,928	413,924,542	4,496,783,105
For the year ended 31 March 2020				
Total revenue - Interest income & other income	22,578,956,995	17,718,182,924	2,704,396,764	43,001,536,683
Inter segmental revenue	-	-	-	-
External revenue	22,578,956,995	17,718,182,924	2,704,396,764	43,001,536,683
Net interest cost	(11,475,784,255)	(6,677,302,869)	(1,118,277,368)	(19,271,364,492)
Profit before operating expenses	11,103,172,740	11,040,880,055	1,586,119,396	23,730,172,191
Operating expenses	(6,520,982,260)	(3,794,300,467)	(799,479,187)	(11,114,761,914)
Allowance for impairment & write-offs	(4,944,469,073)	(2,551,191,936)	(347,880,348)	(7,843,541,357)
Value added tax on financial services	(67,593,431)	(704,308,148)	(120,308,184)	(892,209,763)
Results from operating activities	(429,872,024)	3,991,079,504	318,451,677	3,879,659,157
Depreciation				
For the year ended 31 March 2021	85,398,745	46,454,935	-	131,853,680
For the year ended 31 March 2020	142,789,062	58,744,205	-	201,533,267
Capital expenditure - Property Plant and equipment				
For the year ended 31 March 2021	12,432,307	6,762,886	-	19,195,193
For the year ended 31 March 2020	38,858,461	15,986,584	-	54,845,045
As at 31-03-2021				
Total assets	100,156,344,269	54,333,822,097	16,008,560,682	170,224,995,577
Total liabilities	67,150,435,975	54,333,822,097	13,125,935,383	134,336,461,983
As at 31-03-2020				
Total assets	125,111,761,414	51,287,023,196	15,938,371,445	191,888,345,539
Total liabilities	96,426,417,534	51,287,023,196	13,334,062,685	160,598,692,900

35. COMMITMENTS AND CONTINGENCIES

As at 31 March	2021 Rs.	2020 Rs.
35.1 Contingent liabilities		
Guarantees issued to banks and other institutions - backed by deposits	403,443,000	195,702,140
35.2 Commitments		
Forward exchange contracts - (commitment to purchase)	2,843,557,800	19,557,686,750
Unutilised loan facilities	6,103,323,043	11,735,601,597
Allowance for ECL / impairment	(17,416,220)	(2,207,183)
	9,332,907,623	31,486,783,304

On the commitment to purchase the foreign currencies the company will receive USD 2,700,000, EUR 8,840,000, GBP 2,700,000.

INDEPENDENT AUDITORS' REPORT

Building a better working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

BOARD OF DIRECTORS OF LOLC FINANCE PLC

Opinion

We have audited the statement of financial position as at 31 March 2021 and the statement of comprehensive income for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial statements").

In our opinion, the accompanying financial statement of the LOLC Finance PLC's Al-Falaah, Alternate Financial Services Unit ("LOLC Al-Falaah) for the year ended 31 March 2021 is prepared, in all material aspects, in accordance with the accounting polices set forth in pages 178 to 185 of the financial statement.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 our 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.

Basis of Accounting and Restriction on Distribution

We draw attention to the accounting polices set forth in pages 178 to 185 of the financial statement, which describes the basis of accounting. As a result, the financial statements may not be suitable for another purpose. Our audit work has been undertaken so that we might state to the Board of Directors of the LOLC Finance PLC, those matters that we are required to state, in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume the responsibility to anyone other than the addressee, for our audit work, for this report, or for the opinion we have formed. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the financial statement

Management is responsible for the preparation and fair presentation of financial statement in accordance with the accounting polices set forth in pages 178 to 185 of the financial statement, 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 statement, 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.

As part of an audit in accordance with SLAuSs, 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.

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.

28 June 2021
Colombo

STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	2021 Rs.	2020 Rs.
ASSETS			
Cash and bank balances	3	439,517,795	354,051,558
Deposits with banks and other financial institutions		4,985,752,551	3,701,517,029
Murabaha / Musawamah /Wakalah receivables	4	1,526,282,560	3,969,000,585
Diminishing Musharakah receivables	5	5,963,482,689	4,890,275,098
Ijarah rent receivables	6	2,896,107,664	2,944,310,713
Wadiah Gold Loan Advances	7	8,749,465	-
Investment securities	8	105,652,837	2,000,000
Other receivables	9	83,015,121	77,216,459
Total assets		16,008,560,682	15,938,371,442
LIABILITIES			
Placement from banks & other Financial institutions	10	-	1,564,654,093
Deposits from customers	11	11,818,275,889	11,186,637,831
Income tax payable		135,608,003	133,068,826
Accruals and other payables	12	293,205,058	219,773,990
Due to head office	13	878,846,433	229,927,941
Total liabilities		13,125,935,383	13,334,062,681
OWNER'S FUND			
Retained earnings		2,882,625,299	2,604,308,761
Total owners fund		2,882,625,299	2,604,308,761
Total liabilities & owners fund		16,008,560,682	15,938,371,442

I certify that these financial statements have been prepared in accordance with the basis of preparation and notes.

(Mr.) Buddhika Weeratunga
Head of Finance

The Board of Directors is responsible for these special purpose financial statements. Approved and signed for and on behalf of the Board:

(Mr.) Conrad Dias
Director / CEO

(Mrs.) K. U. Amarasinghe
Executive Director

The above Statement of Financial Position should be read in conjunction with accounting policies and notes, which form an integral part of these special purpose financial statements..

The basis of preparation and notes are given in pages 178 through 189.

23rd June 2021
Rajagiriya (Greater Colombo)

Supplementary Financial Information - Al-Falaah, Alternate Financial Services Unit

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March	Note	2021 Rs.	2020 Rs.
Revenue	14	2,403,173,325	2,581,847,264
Profit paid to Mudharabah/Wakalah investors		(948,525,678)	(875,735,205)
Profit paid on other funding arrangement		(18,001,852)	(242,542,163)
Other direct expenses		(74,875,232)	(67,132,228)
		1,361,770,563	1,396,437,667
Non distributable other income / (expenses)	15	171,914,251	122,549,498
Total operating income		1,533,684,814	1,518,987,166
Employee benefits	16	(290,730,620)	(274,334,501)
(Provision)/reversal for credit losses		(224,442,013)	(347,880,348)
Other operating expenses		(507,829,860)	(458,012,456)
Profit from operations	17	510,682,321	438,759,861
Value added tax on financial services		(96,757,780)	(120,308,184)
Profit before taxation		413,924,541	318,451,677
Income tax expense	18	(135,608,003)	(133,068,826)
Profit for the year		278,316,538	185,382,852
Other comprehensive income		-	-
Total comprehensive income		278,316,538	**185,382,852**

The above Statement of Profit or Loss should be read in conjunction with accounting policies and notes, which form an integral part of these special purpose financial statements.

The basis of preparation and notes are given in pages 178 through 189.

CASH FLOW STATEMENT

Year ended 31 March	Note	2021 Rs.	2020 Rs.
Cash Flows From / (Used in) Operating Activities			
		413,924,541	318,451,677
Adjustments for:			
Provision for fall/(Increase) in value of investments		(3,652,837)	2,000,000
Allowance for/(reversal of) doubtful debts		(23,925,940)	48,104,117
Investment income		(148,798,483)	(260,969,689)
Profits attributable to investment made from banks & other Financial institutions		18,001,851	242,542,163
Profits attributable to Mudharabah / Wakalah investors		948,525,678	875,735,205
Operating profit before working capital changes		1,204,074,810	1,225,863,473
Change in other receivables		(5,798,662)	(7,785,005)
Change in trade and other payables		73,431,068	49,550,809
Change in amounts due to head office		648,918,492	(314,001,035)
Change in Ijarah rent receivables		65,349,388	475,875,052
Change in Murabaha / Musawamah receivables		2,524,492,817	(2,850,225,539)
Change in Diminishing Musharakah receivables		(1,156,952,246)	171,557,227
Change in Mudharabah investments from customers		368,431,886	(100,766,052)
Change in Wakalah investments from customers		238,626,653	3,283,619,036
Change in Mudharabah savings deposits from customers		24,579,517	59,556,623
Cash used in Operations		3,985,153,725	1,993,244,589
Profits paid to Mudharabah / Wakalah investors		(948,525,678)	(882,092,077)
Income tax paid		(133,068,826)	(90,250,956)
Net Cash Used in Operating Activities		2,903,559,221	1,020,901,556
Cash Flows from / (Used in) Investing Activities			
Investments in Unit trust		(100,000,000)	-
Net proceeds from Investments in Mudaranah Deposits		(1,284,235,523)	(1,144,443,007)
Profit Received		148,798,483	260,969,689
Net Cash Flows from Investing Activities		(1,235,437,040)	(883,473,318)
Cash Flows from / (Used in) Financing Activities			
Net proceeds from banks & other financial institutions		(1,520,000,000)	(70,331,170)
Profit paid -other instruments		(62,655,945)	(258,306,716)
Net Cash Flows from Financing Activities		(1,582,655,945)	(328,637,886)
Net Increase/(decrease) in cash and cash equivalents		85,466,236	(191,209,648)
Cash and cash equivalents at the beginning of the period		354,051,558	545,261,206
Cash and cash equivalents at the end of the period		439,517,794	354,051,558
Analysis of cash and cash equivalents at the end of the period			
Cash and bank balances		439,517,795	354,051,558
		439,517,795	354,051,558

The above Statement of Profit or Loss should be read in conjunction with accounting policies and notes, which form an integral part of these special purpose financial statements.

The basis of preparation and notes are given in pages 178 through 189.

NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

1. General

LOLC Finance PLC (the "Company") is a quoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No 42 of 2011 (formerly Finance Companies Act, No. 78 of 1988.)

LOLC Finance PLC has set up the Al-Falaah, Alternate Financial Service Unit ("LOLC Al-Falaah") which commenced its operations in February 2008, under Islamic economic jurisprudence. It is housed in the head office premises at No. 100/1 Sri Jayewardenepura Mawatha, Rajagiriya.

1.1 Principal activities and nature of business

The principal activities of the LOLC Al-Falaah comprised of Mudharabah and Wakalah (Profit Sharing investments & savings), Diminishing Musharakah (Partnership Financing), Murabaha (Trade Financing), /Musawamah (Import Financing), Wakalah (Working Capital Financing), Ijarah (Leasing) and Wadi'ah Gold Storage (Gold Loan).

1.2 Basis of Preparation

1.2.1 Statement of compliance

These supplementary financial statements of the LOLC Al-Falaah are prepared on based on the accounting policies explained in Note 2.

The results of LOLC Al-Falaah and the financial position of the LOLC Al-Falaah form part of the financial statements of LOLC Finance PLC which is prepared in accordance with Sri Lanka Accounting Standards. LOLC Finance PLC's primary set of financial statements was authorised for issue by the Board of Directors in accordance with a resolution of the Directors passed on 23 June 2021. Therefore, the isolated financial statements of the LOLC Al-Falaah should be read in conjunction with the LOLC Finance PLC's primary set of financial statements.

These Financial Statements include the following components:

- a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the LOLC Al-Falaah for the year under review;
- a Statement of Financial Position providing the information on the financial position of the LOLC Al-Falaah as at the year-end;
- a Statement of Cash Flows providing the information to the users, on the ability of the LOLC Al-Falaah to generate cash and cash equivalents and the needs of the LOLC Al-Falaah to utilise those cash flows; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

Details of the company's accounting policies are included in Note 2

1.2.2 Basis of Measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis
Non-derivative financial instruments at fair value through profit or loss	Fair value
Investment property	Fair value

No adjustments have been made for inflationary factors affecting the Financial Statements.

The Company presents its statement of financial position broadly in order of liquidity.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

1.2.3 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.2.4 Going Concern

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

1.2.5 Comparative information

The accounting policies have been consistently applied by the LOLC Al-Falaah and are consistent with those used in the previous period. Comparative information has not been reclassified or restated.

1.3 Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the LOLC Al-Falaah operates (the functional currency).

These financial statements are presented in Sri Lankan Rupees, the Company's functional and presentation currency.

There was no change in the company's presentation and functional currency during the year under review.

All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

1.4 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with the described accounting policies requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimate and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The respective carrying amounts of assets and liabilities are given in the related Notes to the financial statements.

Critical Accounting estimate / judgment	Disclosure reference
	Notes
Fair value measurement of financial instruments and investment properties	1.4.1
Impairment losses on loans and advances	1.4.2
Provisions for liabilities and contingencies	1.4.3

1.4.1 Fair Value Measurement

A number of the Company's (LOLC Finance PLC including the LOLC Al-Falaah) accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Group CFO.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant judgements used in valuation and issues that arises are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values and the fair value measurement level is included in the following notes:

1.4.2 Impairment Losses on Loans and Advances

In addition to the provisions made for possible loan losses based on the parameters and directives for specific provisions on loans and advances by the Central Bank of Sri Lanka, the LOLC Al-Falaah reviews its loans and advances portfolio at each reporting date to assess whether a further allowance for impairment should be provided in the statement of profit or loss. The judgements by the management is required in the

NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

estimation of these amounts and such estimations are based on assumptions about a number of factors though actual results may differ, resulting in future changes to the provisions.

1.4.3 Provision for liabilities and contingencies

The LOLC Al-Falaah receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.1 Financial assets and financial liabilities

2.1.1 Non-derivative financial assets

2.1.1.a Initial recognition of financial assets

Date of recognition

The LOLC Al-Falaah initially recognises receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the LOLC Al-Falaah becomes a party to the contractual provisions of the instrument.

Initial measurement of financial Assets

The classification of financial instruments at initial recognition depends on their cash flow characteristics and business model for managing the instrument. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Financial Reporting Standard – SLFRS 09 on 'Financial Instruments'.

Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the statement of profit or loss

2.2.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories: (effective after 1 April 2018)

- amortised cost;
- fair value through other comprehensive income (FVOCI); and
- fair value through profit or loss (FVTPL).

2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

With effect from April 1, 2018, the Company makes an assessment of the objective of a business model in which an asset is held because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- whether management's strategy focuses on earning contractual mark-up revenue, maintaining a particular profit ratio/rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity and how cash flows are realised.

Assessment of whether contractual cash flows are solely payments of principal and mark-up (SPPI test)

The Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test of its classification process. In assessing whether the contractual cash flows are solely payments of principal and mark-up on principal amount outstanding, the Company considers the contractual terms of the instrument.

For the purposes of this assessment,

"principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Profit" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

Based on above assessments, subsequent measurement of financial assets are classified as follows.

Amortised cost

Financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition measured at amortised cost using the effective mark-up method, less any impairment losses.

This includes cash and cash equivalents, deposits with banks and other financial institutions, investments in Standing Deposit Facilities (REPO's), lease receivables, hire purchase receivables, advances and other loans granted, factoring receivables, amount due from related parties and other receivables.

- Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the LOLC Al-Falaah in the management of its short-term commitments.

- Ijarah receivables

The LOLC Finance PLC's LOLC Al-Falaah buys and lease out equipment required by its clients for a fee (Rental). The duration of the lease and value of the rental is agreed in advance. Ownership of the asset will remain with the Company till the end of the lease period. Rent receivables on Ijarah advances reflected in the statement of financial position are the total rent receivables after eliminating unearned income and deducting pre-paid rentals, rental collections and provision for impairment losses.

- Murabaha, Musawamah and Diminishing Musharakah receivables

Murabaha/Musawamah to customers with fixed installments are stated in the statement of financial position net of provision for impairment losses and income, which is not accrued to revenue.

Diminishing Musharakah to customers is reflected in the statement of financial position at amounts disbursed less repayments and provision for doubtful debts.

- Financial guarantees

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Company in its normal course of the business issues guarantees on behalf of the depositors, holding the deposit as collateral.

Financial assets at fair value through other comprehensive income (FVOCI)

Instruments are measured at FVOCI, if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and mark-up on principal outstanding.

This comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other investments are measured at fair value after initial recognition.

Financial assets at fair value through profit or loss (FVTPL)

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in statement of profit or loss as incurred.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of profit or loss

Financial assets at fair value through profit or loss comprises of quoted equity instruments and unit trusts unless otherwise have been classified as amortised cost.

Mark-up income is recognised in profit or loss using the effective mark-up method. Dividend income is recognised in profit or loss when the Company becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the AFS reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss

Amortised cost- Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost.

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, Ijarah receivables, Murabaha, Musawamah and Diminishing Musharakah receivables and other receivables.

NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

- Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the LOLC Al-Falaah in the management of its short-term commitments.

- Ijarah receivables

The LOLC Finance PLC's LOLC Al-Falaah buys and lease out equipment required by its clients for a fee (Rental). The duration of the lease and value of the rental is agreed in advance. Ownership of the asset will remain with the Company till the end of the lease period. Rent receivables on Ijarah advances reflected in the statement of financial position are the total rent receivables after eliminating unearned income and deducting pre-paid rentals, rental collections and provision for impairment losses.

- Murabaha, Musawamah and Diminishing Musharakah receivables

Murabaha/Musawamah to customers with fixed installments are stated in the statement of financial position net of provision for impairment losses and income, which is not accrued to revenue.

Diminishing Musharakah to customers is reflected in the statement of financial position at amounts disbursed less repayments and provision for doubtful debts.

2.1.2 Non-derivative financial liabilities

Classification and Subsequent Measurement of Financial Liabilities

The LOLC Al-Falaah initially recognises non-derivative financial liabilities on the date that they are originated.

The LOLC Al-Falaah classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

Other financial liabilities comprise of Mudharabah deposits, Wakalah deposits, trade payables, accruals & other payables and amounts due to head office.

Profit Payable to the Mudharabah Investors

Profits payable are recognised on accrual basis and are credited to Investors' accounts when the profit is distributed on a monthly basis on or before the 10th of the following month.

2.1.3 Derecognition of financial assets and financial liabilities

Financial assets

The LOLC Al-Falaah derecognises a financial asset when the rights to receive cash flows from the asset have expired or the LOLC Al-Falaah has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either.

(a) The LOLC Al-Falaah has transferred substantially all the risks and rewards of the asset, or

(b) The LOLC Al-Falaah has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

(i) The consideration received (including any new asset obtained less any new liability assumed) and

(ii) Any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The LOLC Al-Falaah derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

2.1.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.1.5 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, plus the cumulative income, minus principal repayments, minus any reduction for impairment.

2.1.6 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Determination of fair value

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models

2.1.7 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the LOLC Al-Falaah on terms that the LOLC Al-Falaah would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the LOLC Al-Falaah, economic conditions that correlate with defaults or the disappearance of an active market for a security.

The LOLC Al-Falaah computes it's impairment on receivables in accordance with Direction No. 03 of 2006 of the Finance Business Act No.42 of 2011 as follows

- Fifty percent (50%) of Ijarah receivables, Murabaha/ Musawamah advances & Diminishing Musharakah advances receivable (net of unearned income) which are in arrears for a period of 06 to 12 months.
- One hundred percent (100%) of Ijarah lease, Murabaha/ Musawamah advances & Diminishing Musharakah advances receivable (net of unearned income) which are in arrears for a period of 12 months and more

Additional specific provisions are made upon management review on the performance of these portfolios.

Balance receivables on any terminated contracts are fully provided.

The values of the following items held as collateral for a particular advance have been deducted in arriving at the above provisions.

- Vehicles that have been repossessed by the Company

Eighty per cent (80%) of the valuation obtained during the preceding six months from a professional valuer approved by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka

- Lands & Buildings

The value of the property on a declining basis based on the age of the facility, in case of a primary mortgage. Such value shall not exceed the value decided by a qualified professional valuer at the time of providing the accommodation.

2.2 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Determining Fair value

An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the company's investment property portfolio annually.

2.3 Employee benefits

2.3.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

2.3.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

2.4 Provisions

A provision is recognised if, as a result of a past event, the LOLC Al-Falaah has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

2.5 Events occurring after the reporting date

Events after the reporting period are those events, favorable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

2.6 Benevolent Loan (Qurd Hassan)

Qurd Hassan is a loan or debt extended which is absolutely free from mark-up or any charges. The borrower is only required to repay the principal amount borrowed, but it may pay an additional amount at its discretion, as a token of appreciation.

The Company extends Qurd Hassan to the LOLC Al-Falaah as and when required and the LOLC Al-Falaah settles those when funds are available.

SIGNIFICANT ACCOUNTING POLICIES –RECOGNITION OF INCOME AND EXPENSES

2.7 Revenue Recognition

2.7.1 Murabaha/Musawamah Income

The profits and losses arising from Murabaha/Musawamah transactions are recognised over the term of the facility, commencing from the month in which the facility is executed.

2.7.2 Ijarah Income

Profits and losses arising from Ijarah assets are recognised over the term of the lease, commencing from the month in which the lease is executed so as to yield a constant periodic rate of return on Ijarah assets.

2.7.3 Diminishing Musharakah Income

Profits and losses arising from Diminishing Musharakah are recognised in the accounting period in which the installments are due.

2.7.4 Profit in Suspense

Profit from advances classified as non-performing is accounted for on cash basis. Income falling due on non-performing advances is credited to profit in suspense account.

2.7.5 Fees and other income

Fees and other income that are integral to the financial asset or liability are included in the measurement of the amortised cost.

Other fees and other income, including account servicing fees are recognised as the related services are performed.

Collections on contracts written off are accounted for on cash basis.

2.7.6 Dividends

Dividend income is recognised when the right to receive income is established.

2.8 Expenditure Recognition

Expenses are recognised in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

Expenses incurred by the LOLC Al-Falaah for which a fee is charged from the customers, has been presented net of the related income.

2.8.1 Value Added Tax (VAT) on financial services

The base for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on the prescribed rate.

The VAT on financial service is recognised as expense in the period it becomes due.

2.8.2 Nation Building Tax on financial services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services.

2.9 Income Tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Inland Revenue. The rate and tax laws used to compute the amount are those that are enacted or substantially enacted as at the statement of financial position date. Accordingly, provisions for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with provisions of Inland Revenue Act No. 10 of 2006 and amendments thereto.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date and any adjustments to tax payable in respect of previous years.

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.10 Cash flow statements

The cash flow statement has been prepared using the indirect method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.11 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as investment properties.

NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

3. CASH AND BANK BALANCES

Year ended 31 March	2021 Rs.	2020 Rs.
Cash & bank balances	439,517,795	354,051,558
	439,517,795	354,051,558

4. MURABAHA / MUSAWAMAH / WAKALAH RECEIVABLES

Instalment receivable	1,671,344,966	4,216,903,917
Unearned income	(130,609,687)	(218,087,080)
Income in suspense	(3,873,408)	(11,761,427)
Provision for credit losses	(10,579,311)	(18,054,824)
	1,526,282,560	3,969,000,585

5. DIMINISHING MUSHARAKAH RECEIVABLES

Instalment receivable	6,077,054,644	4,995,263,122
Income in suspense	(63,976,915)	(65,248,833)
Provision for credit losses	(49,595,040)	(39,739,191)
	5,963,482,689	4,890,275,098

6. IJARAH RECEIVABLES

Rent receivables	3,945,819,677	3,995,430,114
Unearned income	(1,000,648,633)	(984,909,681)
Income in suspense	(13,393,079)	(15,220,576)
Provision for credit losses	(35,670,301)	(50,989,143)
	2,896,107,664	2,944,310,713

7. WADIAH GOLD LOAN ADVANCES

Gross amount outstanding	8,749,465	-
	8,749,465	-

8. INVESTMENT SECURITIES-FVTPL/ HELD FOR TRADING

Expo Lanka Holdings PLC		
Cost (91843 shares)	1,653,174	18,000,000
Carrying amount as at 1st April	2,000,000	4,000,000
Adjustment for change in fair value - recognised in profits	47,967,311	(2,000,000)
Disposal during the period	(45,861,929)	
Carrying amount as at 31st March	4,105,383	2,000,000
Investment in Unit Trusts		
Original cost		-
Carrying amount as at 1st April	-	-
Investments during the year	100,000,000	
Disposal during the year	-	-
Adjustment for change in fair value - recognised in profits	1,547,454	
Carrying amount as at 31st March	101,547,454	-
Total investments held for trading	105,652,837	2,000,000

9. OTHER RECEIVABLES

Year ended 31 March	2021 Rs.	2020 Rs.
Staff car advances	383,273	2,504,465
Insurance premium receivable	34,349,684	37,608,577
Others	48,282,164	37,103,416
	83,015,121	77,216,459

10. PLACEMENT FROM BANKS & OTHER FINANCIAL INSTITUTIONS

Year ended 31 March	2021 Rs.	2020 Rs.
10.1 Long-term borrowings		
Balance at the beginning of the year	1,520,000,000	1,520,000,000
Facility obtained during the year (ICD)	-	-
Repaid during the year	(1,520,000,000)	-
Balance at the end of the year	-	1,520,000,000
Profit Payable	-	44,654,094
	-	1,564,654,094
10.2 Ijarah Sukuk Bond		
Balance at the beginning of the year	-	70,331,170
Sukuk obtained during the year	-	-
Repaid during the year	-	(70,331,170)
Balance at the end of the year	-	-
Profit Payable	-	20,343,779
	-	20,343,779
Liability recognised in statement of financial position	-	1,584,997,873

11. DEPOSITS FROM CUSTOMERS

Customer deposits	11,607,449,780	11,015,928,509
11.1 Analysis of customer deposits based on nature		
Mudharabah investments	3,241,560,004	2,863,945,728
Wakalah investments	7,576,034,386	7,386,706,909
Mudharabah savings	789,855,390	765,275,872
Total deposits	11,607,449,780	11,015,928,509
Profit payable		
Profit payable on Mudharabah investments	48,555,279	57,737,669
Profit payable on Wakalah investments	162,270,830	112,971,653
	210,826,109	170,709,322
Deposit liability recognised in statement of financial position	11,818,275,889	11,186,637,831

NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

12. ACCRUALS AND OTHER PAYABLES

Year ended 31 March	2021 Rs.	2020 Rs.
Trade Payable	84,489,418	34,565,208
Refunds payable	57,341,871	66,348,573
Insurance payable	10,879,134	1,463,845
Al-Falaah charity fund	3,530,141	1,971,082
Other miscellaneous creditors	84,146,213	68,482,566
Other payables	52,818,281	46,942,716
	293,205,058	219,773,990

13. DUE TO HEAD OFFICE

Year ended 31 March	2021 Rs.	2020 Rs.
Current account balance due to head office	878,846,433	229,927,941
	878,846,433	229,927,941

14. REVENUE

Year ended 31 March	2021 Rs.	2020 Rs.
Income from Ijarah receivables	745,034,256	800,049,049
Income from Diminishing Musharakah receivables	930,678,328	966,978,887
Income from Murabaha/Musawamah receivables	498,232,789	479,263,461
Profit on terminations	78,882,014	74,586,178
Income from Mudarabah deposits	148,798,483	260,969,689
Adjustment for change in fair value - recognised in profits- on Unit trust	1,547,455	-
	2,403,173,325	2,581,847,264

15. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)

Year ended 31 March	2021 Rs.	2020 Rs.
Arrangement & documentation Fee	21,636,993	21,027,116
Collection admin fee	65,799,236	65,325,126
Franchise Fee	30,492,480	31,381,233
Sundry income	53,765,183	3,602,458
Takaful commission	220,359	1,213,566
	171,914,251	122,549,498

16. EMPLOYEE BENEFITS

Year ended 31 March	2021 Rs.	2020 Rs.
Salaries & other benefits	290,730,620	274,334,501
	290,730,620	274,334,501

17. PROFIT FROM OPERATION

Year ended 31 March	2021 Rs.	2020 Rs.
Stated after charging		
Advertising	6,786,807	7,562,809
Business promotion expenses	55,658,835	52,038,729

18. INCOME TAX EXPENSE

Year ended 31 March	2021 Rs.	2020 Rs.
Income tax is provided at 28% of the taxable profits computed in accordance with the inland revenue act No 10 of 2006 (and amendments thereto)	135,608,003	133,068,826
	135,608,003	133,068,826

19. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date no circumstances have arisen which would require adjustments to, or disclosure in the financial statements.

STATEMENT OF FINANCIAL POSITION

As at	31.03.2021 Rs'000	31.03.2020 Rs'000	31.03.2019 Rs'000	31.03.2018 Rs'000	31.03.2017 Rs'000	31.03.2016 Rs'000	31.03.2015 Rs'000	31.03.2014 Rs'000	31.03.2013 Rs'000	31.03.2012 Rs'000
ASSETS										
Cash and bank balances	13,422,690	8,333,561	17,535,538	11,323,366	4,924,112	3,497,994	2,975,305	3,236,380	3,061,190	2,100,865
Deposits with banks and other financial institutions	7,203,306	17,282,277	21,637,176	26,346,552	14,161,567	10,206,771	761,095	466,476	414,634	846,457
Investment in government securities	15,838,455	10,790,843	18,150,996	10,871,768	7,853,176	8,397,496	5,900,718	4,936,822	3,378,980	1,442,826
Derivative assets held for risk management	325,029	273,195	568,530	133,541	23,840	98,163	2,740	13,572	1,936	211,713
Financial assets at amortised cost	-			-						
Rentals receivable on leased assets	43,098,407	43,842,381	42,941,837	43,605,124	18,408,733	17,243,862	13,150,376	10,836,503	11,452,172	11,018,808
Loans and advances	61,466,957	87,112,949	88,995,842	97,072,665	55,578,906	53,420,772	36,941,041	28,951,843	25,547,021	21,901,827
Factoring receivable	-	2,998,752	4,253,668	10,638,755	16,524,638	13,598,601	6,200,202	3,279,931	3,198,685	-
Margin trading receivable	83,553	1,768								
Investment securities	5,498,000	2,958,199	2,809,229	1,965,299	324,629	1,083,471	8,843	9,043	7,143	6,200
Amount due from related companies	33,222	63,233	5,569	32,909	224,506	3,271	2,883	5,930	75,649	77,067
Other receivables	731,692	914,073	937,941	1,122,496	1,071,661	694,055	639,352	1,418,033	357,943	576,261
Inventories	271,727	2,023	4,811	9,078	-	-	-	12,080	-	13,629
Real estate stock	-	-	-	-	-	-	-	-	2,598	16,449
Investment properties	21,088,740	15,963,886	11,635,211	6,278,187	906,300	930,200	1,142,800	215,173	71,500	71,500
Property plant and equipment	1,163,218	1,351,207	1,559,025	1,714,491	2,621,022	1,210,407	136,545	50,143	-	-
Total assets	170,224,996	191,888,346	211,035,373	211,114,232	122,623,092	110,385,065	67,861,900	53,431,929	47,569,453	38,283,601
LIABILITIES										
Bank overdraft	1,861,003	1,283,201	2,242,496	4,243,170	2,393,316	1,941,608	2,333,062	1,136,163	2,201,599	989,189
Interest bearing borrowings	16,437,442	51,558,593	61,086,897	70,490,432	24,456,314	35,070,152	11,040,028	823,838	5,981,573	5,042,010
Deposits from customers	107,791,136	99,261,181	115,365,141	110,027,420	80,607,115	60,197,201	41,309,960	42,617,800	32,069,049	25,843,130
Trade payables	144,788	1,048,944	1,161,094	1,593,496	677,878	637,850	645,905	328,986	434,517	211,163
Accruals and other payables	4,557,547	3,331,643	3,072,454	2,388,376	1,620,968	1,018,603	822,441	494,314	685,456	166,034
Derivative liabilities	-	114,349	661,931	482,464	18,978	17,859	57,515	8,104	40,097	-
Amount due to related companies	620,862	854,198	817,644	1,497,000	434,259	996,781	2,453,097	649,310	135,056	806,442
Current tax payable	857,903	960,255	1,501,293	813,718	268,932	309,888	434,426	282,718	178,418	175,447
Deferred tax liability	1,733,249	1,888,186	2,272,773	2,402,219	1,102,058	984,741	761,420	548,718	415,508	318,112
Employee benefits	332,532	298,142	87,061	70,303	17,018	12,249	10,450	8,008	4,550	4,729
Total liabilities	134,336,462	160,598,693	188,268,784	194,008,598	111,596,835	101,186,931	59,868,304	46,897,960	42,145,823	33,556,256
SHAREHOLDER'S FUNDS										
Stated capital	12,762,500	12,762,500	7,880,000	7,880,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Statutory reserve	3,596,579	3,378,282	3,189,298	1,996,724	1,556,439	1,239,075	953,677	879,497	679,438	542,182
Revaluation Reserve	328,838	241,528	241,528	241,528	206,230	-	-	391,850	287,762	157,146
Cash flow hedge reserve	27,608	(77,310)	(39,059)	(6,333)	14,237	22,748	-	-	-	-
Available for sale investment reserve	-	-	-	(7,166)	(115,485)	(160,154)	86,037	109,793	(2,117)	(12,126)
Fair value reserve	45,446	11,957	(21,756)	-	-	-	-	-	-	-
Retained earnings	19,127,563	14,972,696	11,516,579	7,000,882	7,364,836	6,096,465	4,953,882	3,152,829	2,458,547	2,040,144
Total equity	35,888,534	31,289,653	22,766,588	17,105,634	11,026,257	9,198,134	7,993,596	6,533,970	5,423,630	4,727,346
Total liabilities and equity	170,224,996	191,888,346	211,035,373	211,114,232	122,623,092	110,385,065	67,861,900	53,431,929	47,569,453	38,283,601

2012-2021 Statement of Financial Position is prepared based on LKAS/SLFRS. Prior periods are prepared based on SLAS's.

STATEMENT OF PROFIT OR LOSS

Year ended	31.03.2021 Rs'000	31.03.2020 Rs'000	31.03.2019 Rs'000	31.03.2018 Rs'000	31.03.2017 Rs'000	31.03.2016 Rs'000	31.03.2015 Rs'000	31.03.2014 Rs'000	31.03.2013 Rs'000	31.03.2012 Rs'000
Interest income	33,761,534	38,081,709	42,663,318	23,818,183	18,489,741	13,137,597	10,871,227	10,515,811	8,457,606	5,971,895
Interest expense	(12,446,790)	(19,271,364)	(20,891,754)	(13,902,137)	(11,459,273)	(6,499,475)	(4,978,312)	(6,125,280)	(4,950,845)	(2,994,344)
Net interest income	21,314,744	18,810,345	21,771,563	9,916,047	7,030,467	6,638,122	5,892,915	4,390,531	3,506,761	2,977,550
Net other operating income	10,298,438	4,919,828	4,012,257	1,816,619	2,348,653	1,245,509	1,269,831	971,589	496,871	336,063
Direct expenses excluding interest cost	(950,855)	(1,279,608)	(1,522,224)	(1,047,933)	(1,311,408)	(911,717)	(428,892)	(297,539)	(121,899)	(89,569)
Allowance for impairment & write-offs	(16,341,362)	(7,843,541)	(5,700,505)	(3,709,288)	(1,329,042)	(1,568,576)	(1,497,302)	(1,371,346)	(1,237,473)	(72,433)
Personnel expenses	(3,156,955)	(2,971,773)	(3,165,698)	(1,370,493)	(1,424,495)	(1,100,550)	(897,364)	(687,106)	(548,439)	(469,514)
Depreciation	(131,854)	(201,533)	(163,498)	(173,817)	(148,246)	(32,717)	(12,166)	(3,823)	-	-
General & administration expenses	(5,979,228)	(6,661,847)	(6,734,428)	(2,997,554)	(2,624,517)	(1,974,524)	(1,860,447)	(1,390,608)	(970,659)	(811,042)
Profit from operations	5,052,929	4,771,869	8,497,467	2,433,582	2,541,412	2,295,547	2,466,575	1,611,698	1,125,162	1,871,055
Value added tax on financial service	(556,146)	(892,210)	(1,389,654)	(348,841)	(364,835)	(275,891)	(240,226)	(169,274)	(129,822)	(179,921)
Profit before tax	4,496,783	3,879,659	7,107,812	2,084,740	2,176,577	2,019,656	2,226,349	1,442,423	995,340	1,691,134
Income tax (expense) / reversal	(130,845)	(99,975)	(1,144,944)	116,686	(589,759)	(592,663)	(742,767)	(442,124)	(309,060)	(512,125)
Profit for the year	4,365,939	3,779,684	5,962,868	2,201,426	1,586,818	1,426,993	1,483,582	1,000,299	686,280	1,179,009

2012-2021 Profits are determined based on LKAS/SLFRS. Profits prior to that are determined in line with SLAS's.

QUARTERLY STATEMENT OF FINANCIAL POSITION

As at	2020/21				2019/20			
	30-Jun-20	30-Sep-20	31-Dec-20	31-Mar-21	30-Jun-19	30-Sep-19	31-Dec-19	31-Mar-20
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
ASSETS								
Cash and bank balances	7,788,022	16,447,805	13,672,354	13,422,690	25,452,019	22,623,550	21,484,084	8,333,561
Deposits with banks and other financial institutions	9,382,559	2,009,110	4,328,439	7,203,306	20,946,549	16,546,575	16,372,582	17,282,277
Investment in government securities & others	10,951,663	14,234,450	20,115,054	15,838,455	14,084,564	12,732,070	12,702,112	10,790,843
Derivative assets held for risk management	21,512	154,161	398,879	325,029	123,910	48,068	22,265	273,195
Financial assets at amortised cost				-				
Rentals receivable on leased assets	46,302,397	48,256,750	46,599,048	43,098,407	41,905,023	41,873,927	42,363,793	43,842,381
Loans and advances	82,462,125	75,826,561	67,853,643	61,466,957	86,752,008	87,619,213	87,175,063	87,112,949
Factoring receivable	3,118,870	2,635,986	-	-	5,527,591	5,209,288	5,251,320	2,998,752
Margin trading receivable	-	-	-	83,553				1,768
Investment securities	2,513,170	1,500,584	1,597,612	5,498,000	2,882,974	2,672,170	2,349,966	2,958,199
Amount due from related companies	1,002,429	1,205,893	835,926	33,222	1,045,293	1,234,922	1,224,626	914,073
Other receivables	58,542	22,626	35,906	731,692	109,577	31,096	11,597	63,233
Inventories	8,541	7,654	6,669	271,727	5,535	4,930	3,385	2,023
Investment properties	16,250,775	16,343,640	20,260,463	21,088,740	12,204,628	12,707,997	13,286,310	15,963,886
Property plant and equipment	1,160,528	1,129,106	1,191,491	1,163,218	1,516,715	1,419,016	1,395,839	1,351,207
Intangible assets	-				7,722	7,321	6,920	-
Total assets	181,021,132	179,774,325	176,895,484	170,224,996	212,564,107	204,730,142	203,649,863	191,888,346
LIABILITIES								
Bank overdraft	3,489,087	4,454,294	1,289,178	1,861,003	3,637,753	2,955,631	4,890,302	1,283,201
Interest bearing borrowings	41,728,696	32,543,087	24,874,110	16,437,442	55,924,205	48,228,445	51,370,634	51,558,593
Deposits from customers	93,870,859	97,553,070	102,961,659	107,791,136	117,626,631	111,662,565	105,798,986	99,261,181
Trade payables	2,852,400	1,753,864	907,511	144,788	2,253,604	3,793,434	4,950,783	1,048,944
Accruals and other payables	1,606,508	6,942,148	5,927,162	4,557,547	4,136,701	3,362,865	2,747,449	3,331,643
Derivative liabilities held for risk management	126,194	74,511	58,303	-	508,604	633,957	198,180	114,349
Amount due to related companies	2,570,562	1,669,923	2,245,737	620,862	786,038	1,411,811	1,712,771	854,198
Current tax payable	987,734	1,030,410	971,886	857,903	1,806,476	1,779,914	1,013,656	960,255
Deferred tax liability	1,888,186	1,888,186	1,736,365	1,733,249	2,272,773	2,272,773	2,272,773	1,888,186
Employee benefits	301,666	318,914	390,499	332,532	86,514	84,017	82,522	298,142
Total liabilities	149,421,891	148,228,405	141,362,409	134,336,462	189,039,300	176,185,413	175,038,056	160,598,693
SHAREHOLDERS' FUNDS								
Stated capital	12,762,500	12,762,500	12,762,500	12,762,500	7,880,000	12,762,500	12,762,500	12,762,500
Statutory reserve	3,378,282	3,378,282	3,378,282	3,596,579	3,189,298	3,189,298	3,189,298	3,378,282
Revaluation Reserve	241,528	241,528	324,259	328,838	241,528	241,528	241,528	241,528
Cash flow hedge reserve	(31,833)	(20,745)	(74,438)	27,608	(113,514)	(105,529)	(69,047)	(77,310)
Available for sale investment reserve	-				-	-	-	-
Fair value reserve	205,407	31,261	31,261	45,446	18,365	8,856	10,449	11,957
Retained earnings	15,043,357	15,153,095	19,111,210	19,127,563	12,309,131	12,448,076	12,477,079	14,972,696
Total equity	31,599,240	31,545,920	35,533,075	35,888,534	23,524,807	28,544,729	28,611,807	31,289,653
Total liabilities and equity	181,021,132	179,774,325	176,895,484	170,224,996	212,564,107	204,730,142	203,649,863	191,888,346

QUARTERLY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Quarter ended	2020/21					2019/20				
	Quarter Ended				Year Ended	Quarter Ended				Year Ended
	30-Jun-20	30-Sep-20	31-Dec-20	31-Mar-21	31-Mar-21	30-Jun-19	30-Sep-19	31-Dec-19	31-Mar-20	31-Mar-20
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income	8,468,518	9,077,286	8,176,160	8,039,570	33,761,534	9,589,791	9,574,842	9,557,285	9,359,791	38,081,709
Interest expense	(3,751,976)	(3,195,088)	(2,927,237)	(2,572,490)	(12,446,790)	(5,374,337)	(4,888,725)	(4,483,816)	(4,524,487)	(19,271,364)
Net interest income	4,716,542	5,882,198	5,248,923	5,467,081	21,314,744	4,215,454	4,686,117	5,073,470	4,835,304	18,810,344
Net other operating income	3,258,856	1,383,003	4,046,762	1,609,817	10,298,438	260,228	586,702	465,725	3,607,173	4,919,828
Direct expenses excluding interest cost	(179,492)	(368,387)	(152,591)	(250,385)	(950,855)	(184,458)	(282,829)	(359,826)	(452,496)	(1,279,608)
Allowance for impairment & write-offs	(5,700,288)	(4,112,135)	(1,849,136)	(4,679,803)	(16,341,362)	(483,851)	(2,393,156)	(2,652,731)	(2,313,804)	(7,843,541)
Personnel expenses	(587,109)	(825,983)	(990,717)	(753,145)	(3,156,955)	(788,256)	(643,128)	(678,347)	(862,042)	(2,971,773)
Depreciation	(39,815)	(39,172)	(31,030)	(21,837)	(131,854)	(45,231)	(51,441)	(53,484)	(51,377)	(201,533)
General & administration expenses	(1,277,065)	(1,662,093)	(1,442,630)	(1,597,439)	(5,979,228)	(1,476,150)	(1,539,811)	(1,695,541)	(1,950,345)	(6,661,847)
Profit from operations	191,629	257,430	4,829,580	(225,710)	5,052,929	1,497,736	362,454	99,267	2,812,412	4,771,869
Value added tax on financial service	(93,489)	(105,017)	(686,854)	329,214	(556,146)	(380,000)	(190,071)	(55,358)	(266,781)	(892,210)
Profit before tax	98,140	152,413	4,142,726	103,504	4,496,783	1,117,736	172,383	43,909	2,545,631	3,879,659
Income tax (expense) / reversal	(27,479)	(42,676)	(152,442)	91,753	(130,845)	(325,184)	(33,438)	(14,906)	273,553	(99,975)
Profit for the period	70,661	109,737	3,990,284	195,256	4,365,939	792,552	138,945	29,002	2,819,184	3,779,684

INVESTOR INFORMATION

1. MARKET PRICE PER SHARE AS AT 31 MARCH

	2021 Rs.	2020 Rs.
Highest during the year	9.70	4.40
Lowest during the year	3.60	2.20
Last traded as at the end of the year	5.60	2.20

2. COMPOSITION OF SHAREHOLDERS AS AT 31ST MARCH

	2021		2020	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Institutions				
Resident	2,561,286,938	48.79	2,570,748,725	48.97
Non Resident	2,615,667,930	49.82	2,616,308,873	49.83
Individuals				
Resident	72,703,412	1.38	62,829,482	1.20
Non Resident	341,720	0.01	112,920	0.00
Total	5,250,000,000	100	5,250,000,000	100.00

3. DISTRIBUTION OF SHAREHOLDERS AS AT 31 MARCH

Range	2021			2020		
	No. of Shareholders	No. of Shares	% of Shares	No. of Shareholders	No. of Shares	% of Shares
1 - 1,000	1822	679,678	0.01	1,473	538,958	0.01
1,001 - 10,000	1398	6,213,612	0.12	973	4,079,691	0.08
10,001 - 100,000	763	27,527,854	0.52	457	16,754,015	0.31
100,001 - 1,000,000	162	42,202,215	0.81	122	30,988,903	0.60
Over 1,000,000 Shares	16	5,173,376,641	98.54	22	5,197,638,433	99.00
Total		5,250,000,000	100	3047	5,250,000,000	100.00

4. TOP 20 SHAREHOLDERS

	Name of Shareholder	2021		2020	
		No. of Shares	% of Issued Capital	No. of Shares	% of Issued Capital
1	LOLC Private Limited	2,614,934,919	49.81	2,614,934,919	49.81
2	LOLC Holdings PLC	1,622,584,913	30.91	1,622,584,913	30.91
	Hatton National Bank PLC / LOLC Holdings PLC	625,000,000	11.90	625,000,000	11.90
	LOLC Holdings PLC A/C No.02	103,728,649	1.98	103,728,649	1.98
3	Saakya Capital (Private) Ltd	137,455,320	2.62	137,455,320	2.62
4	Satya Capital (Pvt) Ltd	52,000,000	0.99	52,000,000	0.99
5	Dr. R. R. De Silva	4,930,755	0.09	11,371,515	0.22
6	Mr. S. Gobinath	1,800,005	0.03	Nil	Nil
7	Hatton National Bank PLC / Hennasy Geeth Balasuriya	1,600,076	0.03	Nil	Nil
8	Merchant Bank of Sri Lanka & Finance PLC / S. Gobinath	1,600,003	0.03	450,000	0.01
9	Mr R. E. Rambukwella	1,514,000	0.03	2,320,000	0.04
10	Dr. C.D.Rajapakse	1,450,000	0.03	Nil	Nil
11	Citizens Developmnt Business Finance PLC / M. N. Ratnapriya	1,300,000	0.02	Nil	Nil
12	Bansei Securities Capital (Pvt) Ltd / A. Nissanka	1,200,800	0.02	1,300,800	0.02
13	Mr. R. H. Munasinghe	1,200,757	0.02	Nil	Nil
14	Hatton National Bank PLC / Anuja Chamila Jayasinghe	1,076,444	0.02	6	0.00
15	DFCC Bank PLC / Mr. K. S. D. Senaweera	966,850	0.02	638,000	0.01
16	Hatton National Bank PLC / Ravindra Erle Rambukwelle	919,000	0.02	Nil	Nil
17	Hatton National Bank PLC / Sendanayake Arachchige Suranga Prasath Perera	888,275	0.02	Nil	Nil
18	Merchant Bank Of Sri Lanka & Finance PLC / J. A. A. M. Jayasinghe	790,000	0.02	Nil	Nil
19	Dr. A. R. Wikramanayake	790,000	0.02	1,688,500	0.03
20	Mr. C. Yatawara	780,000	0.01	Nil	Nil
	Total shares held by Top 20 Shareholders	5,178,510,766	98.64	5,173,472,622	98.54

5. PUBLIC SHAREHOLDING

	2021 %	2020 %
Public Holding percentage	5.39	5.37
Number of public shareholders	4,154	3,036
Float adjusted market capitalisation	1,585,617,706	619,642,582

The Company is not compliant with the minimum public holding requirement stipulated in the Listing Rule 17.13.1.(b) (Option 1) of the Colombo Stock Exchange. This arose consequent to the rights issue made by the Company in August 2019 where subscription by the public shareholders was less than their entitlement. The Board of Directors is evaluating options available in this regard.

6. STATEMENT OF VALUE ADDED

Year ended 31 March	2021 Rs.	2020 Rs.
Value added		
Income	33,761,534,127	38,081,709,115
Other Income	10,298,438,290	4,919,827,568
Cost of Borrowing	(12,446,790,398)	(19,271,364,492)
General and administration Expenses	(6,930,082,331)	(7,941,455,511)
Allowance for impairment & write-offs	(16,341,362,321)	(7,843,541,357)
	8,341,737,367	7,945,175,323
Distribution of value added		
To Employees	3,156,954,655	2,971,773,136
Remuneration and other benefits	3,156,954,655	2,971,773,136
To Government	686,990,475	992,184,733
Indirect Taxes	556,145,927	892,209,763
Direct Taxes	130,844,548	99,974,970
To Expansion and Growth	4,497,792,237	3,981,217,454
Retained Profits	4,365,938,557	3,779,684,187
Depreciation and amortisation	131,853,680	201,533,267
	8,341,737,367	7,945,175,323

OTHER DISCLOSURES

OTHER DISCLOSURE REQUIRED BY THE RULES OF THE COLOMBO STOCKS EXCHANGE

1. PROPERTY HELD BY THE COMPANY

Location	Property Name	District	Province	Extent		Valuation	Number of building
1	Rathmalana Property	Colombo	Western Province	0A-0R-20P	LKR	99,500,000	1
2	Wattala Property	Colombo	Western Province	0A-0R-9.0P	LKR	21,700,000	-
3	Moratuwa Property	Colombo	Western Province	0A-0R-14.85P	LKR	40,800,000	3
4	Piliyandala Property	Colombo	Western Province	0A-0R-20P	LKR	10,000,000	-
5	Gothatuwa Property	Colombo	Western Province	0A-3R-25P	LKR	81,000,000	-
6	Wickramasinghe Property	Colombo	Western Province	0A-3R-33.83P	LKR	150,000,000	-
7	Shady Grove Property	Colombo	Western Province	0A-0R-35.75P	LKR	515,700,000	1
8	Kosgoda Property	Galle	Southern Province	9A-0R-0P	LKR	134,600,000	-
9	Thalaheena Property	Colombo	Western Province	0A-1R-10.25P	LKR	67,917,000	2
10	Panadura Property	Kaluthara	Western Province	0A-1R-15.55P	LKR	221,025,193	-
11	Horana Property	Kaluthara	Western Province	0A – 3R- 06.83P	LKR	152,000,000	-
12	Badulla Property	Badulla	Uva Province	0A-1R-19.15P	LKR	136,000,000	1
13	Mannar Property	Mannar	Jafana Province	0A-0R-23.5P	LKR	28,000,000	-
14	Mathugama Property	Kaluthara	Western Province	0A – 2R – 26.50P	LKR	223,600,000	1
15	Beruwala Property	Kaluthara	Western Province	0A – 1R – 06.00P	LKR	77,000,000	1
16	Jethawana Property	Colombo	Western Province	0A-2R-18.7P	LKR	727,000,000	1
17	Nawala 2Nd Lane Property	Colombo	Western Province	0A-0R-8.70P	LKR	152,782,865	-
18	Piliyandala Property - Thumbowila	Colombo	Western Province	0A-0R-30.5P	LKR	106,700,000	-
19	Rathnapura Property - Bandaranayakepura	Rathnapura	Sabaragamuwa Province	0A-0R-32.69P	LKR	174,800,000	-
20	Rajagiriya Valuation Unit Property	Colombo	Western Province	0A-1R-12.5P	LKR	603,700,000	-
21	Colombo 14 Grandpass Property	Colombo	Western Province	4A-3R-8.6P	LKR	4,611,466,784	-
22	Colombo 13 Bluemendhal Property	Colombo	Western Province	1A-3R-16.5P	LKR	1,457,000,000	3
23	Kiribathgoda Property	Colombo	Western Province	0A-0R-30.5P	LKR	128,000,000	1
24	Watinapaha Property Pannala	Kurunegala	North Western Province	19A-0R-35.85P	LKR	59,900,000	-
25	Maikkulama Chilaw Property	Chilaw	North Western Province	0A-0R-40P	LKR	130,000,000	-
26	No. 296, Horana Property	Kaluthara	Western Province	0A-0R-10.1P	LKR	25,250,000	-
27	Nawala Factoring Building Property	Colombo	Western Province	0A-2R-13.96P	LKR	690,000,000	1
28	Kaluwamodara, Beruwala Property	Kaluthara	Western Province	0A-1R-22.55P	LKR	96,900,000	-
29	Wellampitiya Yard	Colombo	Western Province	5A-0R-3.11P	LKR	1,003,861,166	-
30	Land & Building - Kotta Road	Colombo	Western Province	0A-0R-10P	LKR	153,000,000	1
31	Telangapatha Wattala Property	Gampaha	Western Province	0A-0R-16.61P	LKR	117,000,000	1
32	Dampe Kesbewa Property	Colombo	Western Province	0A-1R-0P	LKR	22,000,000	-
33	Malabe Property	Colombo	Western Province	0A-0R-12P	LKR	27,900,000	1
34	Battaramulla Land	Colombo	Western Province	OA-OR-38.71P	LKR	116,000,000	-
35	Gamunu Mw, Rajagiriya Property	Colombo	Western Province	0A-0R-30.25P	LKR	74,319,775	-
36	Biyagama No. 41 Property	Gampaha	Western Province	0A-0R-23.70P	LKR	30,000,000	1
37	Gnanendra Mawatha Nawala Property	Colombo	Western Province	0A-1R-4P	LKR	237,700,000	3
38	Yakkala Property	Colombo	Western Province	7A-2R-9.20P	LKR	163,200,000	-
39	Dambulla Property	Matale	Central Province	A0-R0-P35.96	LKR	104,282,960	1

OTHER DISCLOSURES

1. PROPERTY HELD BY THE COMPANY (CONTD.)

Location	Property Name	District	Province	Extent		Valuation	Number of building
40	Waskaduwa Property	Galle	Southern Province	0A-2R-39.50P	LKR	77,000,000	-
41	Kadawatha Property	Gampaha	Western Province	0A-1R-0.3P	LKR	249,800,000	-
42	Battaramulla Rajamalwatta Property	Colombo	Western Province	0A-0R-16.10P	LKR	72,000,000	-
43	Rathnapura Kataliyanpala Property	Rathnapura	Sabaragamuwa Province	0A-0R-15P	LKR	2,400,000	-
44	Gorakana Panadura Property 01	Kaluthara	Western Province	A0-R0-P39.63	LKR	93,600,000	3
45	Gorakana Panadura Property 02	Kaluthara	Western Province	A0-R0-P20	LKR	36,600,000	1
46	Gorakana Panadura Property 03	Kaluthara	Western Province	A0-R01-P07	LKR	32,900,000	-
47	Moratuwa Angulana Property	Colombo	Western Province	A0-R00-P19.84	LKR	32,000,000	1
48	Horana Villa Resident Property	Kaluthara	Western Province	0A-1R-25.73P	LKR	146,000,000	2
49	Matara Property 01	Matara	Southern Province	A0-R2-P11.299	LKR	168,900,000	-
50	Matara Property 02	Matara	Southern Province	A0-R2-P26.30	LKR	196,600,000	-
51	Dambulla Lenadora Property	Matale	Central Province	1A-1R-2P	LKR	24,000,000	-
52	Kahatagahawatta Property	Colombo	Western Province	0A-0R-4.2P	LKR	41,300,000	5
53	Delgahawatta Pannipitiya Property	Colombo	Western Province	0A-0R-32.62P	LKR	137,000,000	-
54	Grandpass Property	Colombo	Western Province	2A-3R-14.50P	LKR	909,300,000	4
55	Pahadamulla Property	Kaluthara	Western Province	A0-R0-20P	LKR	28,000,000	1
56	Yatiyana Property	Colombo	Western Province	0A-0R-9P	LKR	56,700,000	1
57	Mahara Ragama Property	Colombo	Western Province	0A-1R-19.8P	LKR	48,000,000	1
58	Rambaduwala Attanagalla Property	Gampaha	Western Province	0A-0R-30P	LKR	33,000,000	-
59	Malwana Biyagama Property	Gampaha	Western Province	5A-0R-32.67P	LKR	120,131,760	-
60	Kiribathgoda Gemunu Mw Property	Colombo	Western Province	0A-0R-23.30P	LKR	39,000,000	1
61	Merigam Kanda Property	Gampaha	Western Province	0A-3R-4.50P	LKR	16,800,000	-
62	Damugahawatta Property	Colombo	Western Province	0A-1R-0P	LKR	77,000,000	1
63	Ranmuthugala Property	Gampaha	Western Province	0A-0R-37P	LKR	64,500,000	1
64	Eriyagaha Kumbura Property	Colombo	Western Province	0A-0R-20P	LKR	33,000,000	1
65	Madangahawatta Property	Colombo	Western Province	0A-0R-10.77P	LKR	20,000,000	1
66	Thalagahawattha Kolonnawa Property	Colombo	Western Province	A0-R0 -10.62P	LKR	28,600,000	-
67	Abagahawattha Maharagama Property	Colombo	Western Province	0A-0R-12.50P	LKR	20,000,000	-
68	Dickhenapura Horana Property	Kaluthara	Western Province	A0-R0-P28.50	LKR	20,900,000	1
69	Nuwaraeliya Property	Nuwara Eliya	Central Province	0A-0R-10.80P	LKR	16,800,000	1
70	Walgama Property	Colombo	Western Province	0A-2R-34P	LKR	55,000,000	2
71	Kurunegala Property 01	Kurunegala	North Western Province	A0-R3-20.50P	LKR	576,000,000	-
72	Kurunegala Property 02	Kurunegala	North Western Province	A0-0R-10.9P	LKR	40,800,000	-
73	Malawatta Estate	Gampaha	Western Province	0A-2R-5.60P	LKR	60,700,000	-
74	Maradhagahawatta Waragoda Property	Gampaha	Western Province	0A-2R-15P	LKR	85,500,000	-
75	Millagahawaththa Property	Colombo	Western Province	0A-0R-13.1P	LKR	178,000,000	1
76	Potuwilkumbura Property	Gampaha	Western Province	0A– 1R–9.20P	LKR	21,000,000	-

Location	Property Name	District	Province	Extent		Valuation	Number of building
77	Paragahakotuwe Kumbura Property 01	Kurunegala	North Western Province	0A– 0R–12.50P	LKR	40,000,000	-
78	Paragahakotuwe Kumbura Property 02	Kurunegala	North Western Province	0A–0R–23.00P	LKR	73,600,000	-
79	Hettiyana Property	Matara	Southern Province	0A-0R-39P	LKR	115,500,000	1
80	Kotikawatta Mulleriyawa Property	Colombo	Western Province	0A-0R-38.27P	LKR	47,800,000	-
81	Minuwangoda Boragodawatta Property	Gampaha	Western Province	0A-0R-22P	LKR	16,500,000	-
82	Thalangama Kaduwela Property	Colombo	Western Province	0A-0R-29.42P	LKR	102,500,000	1
83	Pattinigewatta Property	Colombo	Western Province	0A-0R-19.85P	LKR	17,800,000	-
84	Erewwala Kesbawa Property	Colombo	Western Province	0A-0R-15P	LKR	9,750,000	-
85	Damparagahawatta Peoperty	Colombo	Western Province	0A-0R-9.7P	LKR	4,850,000	-
86	Korathota Kaduwela Property	Colombo	Western Province	0A-0R-10P	LKR	3,300,000	-
87	Nikakotuwa Estate Property	Matale	Central Province	3A-0R-4P	LKR	29,000,000	-
88	Peliyagoda Property	Colombo	Western Province	0A-0R-15P	LKR	63,000,000	-
89	Dematagoda Property	Colombo	Western Province	0A-0R-11P	LKR	62,000,000	1
90	Udagama Property	Kandy	Central Province	0A-0R-11.83P	LKR	9,000,000	1
91	Pitakotte Property	Colombo	Western Province	0A-0R-25.40P	LKR	45,700,000	-
92	Kotabodawatta Avissavella Property	Colombo	Western Province	0A-1R-38.5P	LKR	9,400,000	-
93	Siriyapulla Mahara Kdawatha Property	Gampaha	Western Province	0A-0R-20.0P	LKR	13,000,000	-
94	Yakkala Bandarawatta Estate	Gampaha	Western Province	0A-1R-14.3P	LKR	43,900,000	1
95	Bogahawatu Kotasa Hapugoda Kadana Property	Gampaha	Western Province	0A-0R-10P	LKR	12,000,000	1
96	Horagala Property	Colombo	Western Province	A1-1R-26.5P	LKR	58,800,000	-
97	Kirigalpotta Property	Matale	Central Province	1A-3R-25.30P	LKR	95,000,000	1
98	Hokandara Arangala Athurugiriya Property	Colombo	Western Province	0A-0R-25P	LKR	67,500,000	1
99	Kesbawa Property	Colombo	Western Province	0A-0R-11.75P	LKR	24,600,000	1
100	Ladhubima Malabe, Athurugiriya Property	Colombo	Western Province	0A-2R-23.25P	LKR	80,000,000	-
101	Bogahawaththa Property	Colombo	Western Province	0A-0R-9.8P	LKR	8,800,000	-
102	Kosgahalanda Property	Colombo	Western Province	0A-0R-19.8P	LKR	51,600,000	1
103	Topuwewatta Property	Kalutara	Western Province	1A-0R-0P	LKR	108,000,000	-
104	Watarappola Rabangewatta Property	Colombo	Western Province	0A-0R-6.13P	LKR	27,000,000	1
105	Karagahamuna Mahara Property	Gampaha	Western Province	0A-0R-38.5P	LKR	42,000,000	1
106	Hokandara Malwattha Property	Colombo	Western Province	0A-0R-10.15P	LKR	21,800,000	1
107	Biyanwala Kadawatha Property	Colombo	Western Province	A0-0R-12.85P	LKR	66,800,000	-
108	Anuradhapura Property	Anuradhapura	North Central	0A-2R-4.17P	LKR	46,400,000	1
109	Kelanimulla Property	Colombo	Western Province	0A-3R-4.7P	LKR	288,000,000	1
110	Udahamulla Village Property	Colombo	Western Province	0A-0R-9.75P	LKR	31,400,000	1
111	Malamulla Property	Kalutara	Western Province	0A-3R-33.40P	LKR	33,000,000	1
112	Rathmalana Galle Rd Property	Colombo	Western Province	0A-0R-9.60P	LKR	38,000,000	-

OTHER DISCLOSURES

1. PROPERTY HELD BY THE COMPANY (CONTD.)

Location	Property Name	District	Province	Extent		Valuation	Number of building
113	Welisara Wattala Property	Gampaha	Western Province	A0-0R-20.5P	LKR	19,400,000	-
114	New Ampara Land	Ampara	Estern Province	-	LKR	9,613,619	-
115	Yattogoda Galigamuwa Property	Kegalle	Sabaragamuwa	0A-1R-32.18P	LKR	36,800,000	1
116	Attanagalla Property	Gampaha	Western Province	0A-0R-10P	LKR	2,000,000	-
117	Ambalanthota Property	Hambantota	Southern Province	0A-0R-17.20P	LKR	52,892,507	-
118	Colombo Pettah Property	Colombo	Western Province	0A-0R-1.62P	LKR	56,400,000	1
119	Pathadumbara Kandy Property	Galle	Southern Province	0A-3R-34.40P	LKR	8,000,000	-
120	Jamburaliya Property	Colombo	Western Province	0A-3R-0P	LKR	37,200,000	-
121	Kademulla Moratuwa Property	Colombo	Western Province	0A-0R-9.72P	LKR	8,200,000	-
122	Sooriyapaluwa Mawatha Kandana Property	Gampaha	Western Province	A0-0R-10.84P	LKR	9,200,000	-
123	Welipillawa Watta Property	Gampaha	Western Province	0A-5R-35.90P	LKR	4,000,000	-
124	Naiwala Property	Gampaha	Western Province	0A-0R-16.25P	LKR	187,000	-
125	Eriyawatiya Kelaniya Property	Colombo	Western Province	0A-0R-20P	LKR	947,800	-
126	Pragathi Mw Kotte Property	Colombo	Western Province	0A-0R-13.99P	LKR	11,800,000	-
127	Thalangama Mitchell Rd Property	Colombo	Western Province	A0-0R-15P	LKR	18,700,000	-
128	Arugambay property	Ampara	Estern Province	5A-2R-15P	LKR	90,000,000	-
129	Pothuwil property	Ampara	Estern Province	12A-3R-18.8P	LKR	82,700,000	-
130	Homagama Property 01	Colombo	Western Province	0A-0R-12.5P	LKR	3,900,000	-
131	Homagama Property 02	Colombo	Western Province	1A-2R-14.86P	LKR	34,000,000	-
132	Habangewatta Property	Colombo	Western Province	0A-0R-09.82P	LKR	34,000,000	1
133	Pugoda Property	Gampaha	Western Province	4A-1R-02.00P	LKR	10,500,000	-
134	Godigamuwa Property	Colombo	Western Province	0A-0R-18.83P	LKR	79,000,000	-
135	Boralasgamuwa Land	Colombo	Western Province	0A-0R-17.00P	LKR	29,000,000	1
136	Timbirigasyaya Wattala Property	Gampaha	Western Province	0A-0R-15.00P	LKR	16,000,000	1
137	Kundasale Property	Kandy	Central Province	0A-2R-31.10P	LKR	36,000,000	-
138	Kandy Property No. 01	Kandy	Central Province	-	LKR	7,559,000	-
139	Coory Mawatha Nawala Property	Colombo	Western Province	1A-0R-03.50P	LKR	697,000,000	1
140	Pinwatta-Panadura Property	Kaluthara	Western Province	0A-0R-21.14P	LKR	54,000,000	1
141	Negambo Road Wattala Property	Gampaha	Western Province	0A-0R-20.07P	LKR	40,500,000	1
142	Kudagama Avissawella Property	Colombo	Western Province	2A-1R-19.55P	LKR	23,000,000	1
143	No 730, Havelock RD , Colombo 06 Property	Colombo	Western Province	0A-0R-29.1P	LKR	459,780,000	-
144	Mukuluduwa property	Colombo	Western Province	0A-2R-12.2P	LKR	113,793,750	1
145	Walana Panadura Property	Kaluthara	Western Province	0A-0R-16.5P	LKR	21,000,000	1
146	Dolahena Road Kandana Property	Gampaha	Western Province	0A-0R-12.5P	LKR	5,000,000	-
147	Katana Property	Gampaha	Western Province	-	LKR	179,000	-
148	Mathugama No 2232 Property	Kaluthara	Western Province	0A-0R-27P	LKR	24,000,000	1
149	Wennappuwa Tile Factory Road Property	Puttalam	North Western Province	0A-1R-31.6P	LKR	25,000,000	1
150	Delwala Property (Meerigama)	Gampaha	Western Province	10A-3R-6P	LKR	105,000,000	-
151	Padeniya Village Property (Dambulla)	Matale	Central Province	0A-1R-17P	LKR	67,000,000	1

Location	Property Name	District	Province	Extent		Valuation	Number of building
152	Biyagama Peragashandiya Property	Gampaha	Western Province	0A-0R-12P	LKR	9,000,000	-
153	Makola Dewala Road Property	Gampaha	Western Province	0A-0R-12P	LKR	14,000,000	1
154	Kaduwela Hewagama Property	Colombo	Western Province	0A-0R-21.4P	LKR	20,000,000	1
155	Ja Ela Kristuraja Property	Gampaha	Western Province	0A-0R-13.25P	LKR	21,000,000	-
156	Aluthwala Property	Gampaha	Western Province	0A-1R-15P	LKR	13,750,000	-
157	Walpola Angoda Property	Colombo	Western Province	0A-0R-19P	LKR	40,000,000	1
158	Trincomalee Property	Trincomalee	Eastern Province	0A-0R-23.5P	LKR	125,000,000	1
159	Dambulla Matale Property	Matale	Central Province	0A-0R-33P	LKR	132,000,000	1
160	Stephen's Road-Rajagiriya Property	Colombo	Western Province	0A-0R-08.15P	LKR	89,000,000	1

2. DEBENTURE INFORMATION

The debt capital of the company comprises of thirty four million (34,110,193) rated unsecured subordinated redeemable debentures issued in July, 2018. These debentures are listed in the Colombo Stock Exchange and ICRA Lanka Ltd rated these debentures as [SL] A-(Stable).

Interest rates of the debentures

Instrument type	Interest frequency (Fixed Rate)	Coupon (% p.a)	Interest yield as at last trade	Yield to maturity of last trade done	Interest rate of comparable Government Security
Type A - 5 Years Tenor	Semi-annually	14.75%	14.75%	14.84%	7.12%
Type B - 5 Years Tenor	At maturity	20.13%	20.13%	20.13%	7.12%

Market prices & issue prices of debentures recorded during the period ended 31st March 2021 are as follows.

Instrument Type	Issue Price	Highest Price	Lowest Price	Last Traded Price	Last Traded Date
Type A - 5 Years Tenor	Rs.100.00	Rs. 101.19	Rs. 101.19	Rs. 101.19	17-Dec-19
Type B - 5 Years Tenor	Rs. 49.83	Not Traded	Not Traded	Not Traded	N/A

Debt security related ratios.

Instrument Type	As at 31.03.2021	As at 31.03.2020
Debt to equity ratio	3.51 times	7.86 times
Quick asset ratio	0.85 times	0.94 times
Interest cover	1.36 times	1.34 times

OTHER DISCLOSURES

3. NON-RECURRENT RELATED PARTY TRANSACTIONS

During the current period there were no non-recurrent related party transactions which exceeds 10% of the equity or 5% of the total assets, whichever is lower, in the company. However detailed related party transactions were disclosed in the note no.32.

4. RECURRENT RELATED PARTY TRANSACTIONS

During the current period there were no recurrent related party transactions exceeds 10% of the gross revenue/income (or equivalent term in the income statement and in the case of group entity consolidated revenue). However detailed related party transactions were disclosed in the note no.32.

All the transactions which are disclosed under note 32 with Related Parties which are recurrent, of revenue or trading nature and which is necessary for day-to-day operations of the company, in the opinion of the Related Party Transactions Review Committee, terms for all these transactions are not favourable to the Related Party than those generally available to the public.

5. SELECTED PERFORMANCE INDICATORS

Regulatory Capital Adequacy		31.03.2021	31.03.2020
Total Tier I Core Capital	Rs. '000	27,242,787	26,265,353
Total Capital Base	Rs. '000	30,905,598	29,061,713
Core capital adequacy ratio		15.88%	13.25%
(Minimum requirement 7%)			
Total capital adequacy ratio		18.01%	14.66%
(Minimum requirement 11%)			

Asset Quality Ratios	31.03.2021	31.03.2020
Net Non-Performing Advances Ratio	1.43%	5.64%

Regulatory Liquidity		31.03.2021	31.03.2020
Available Liquid Assets	Rs. '000	30,353,948	15,796,485
Required Liquid Assets	Rs. '000	7,061,663	11,734,217
Liquid assets to Deposits ratio		28.16%	15.91%

6. SUBORDINATED, UNSECURED, LISTED, REDEEMABLE, RATED DEBENTURES ISSUE (2018/2023) - PROCEEDS UTILISATION AS AT 31ST MARCH 2021 ARE AS FOLLOWS.

Objective as per Prospect	Amount allocated as per prospect in LKR	Proposed date of utilisation	Amount allocated in LKR (a)	% of total proceed	Amount utilised in LKR (b)	% of utilised against allocation (b/a)	Clarification if not fully utilised including where the funds invested (e.g. whether lent to related party/s etc.)
Supporting the general business growth opportunities of the Company	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Reducing the mismatch of maturity periods between assets and liabilities	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Improve the capital Adequacy of the company's balance sheet, by strengthening its Tier II Capital, Subject to the CBSL's approval as mentioned below. Such an increase in the Tier II capital will enable the company to significantly expand its lending portfolio in conformity with the CBSL's capital requirements.	2.5 Billion	From the date of allotment	2.5 Billion	100%	2.5 Billion	100%	N/A

7. RIGHTS ISSUE - PROCEEDS UTILISATION AS AT 31ST MARCH 2021 ARE AS FOLLOWS. (ISSUED ON 16TH MARCH 2018)

Objective As Per Circular	Amount allocated as per circular in Rs.	Proposed date of utilisation as per circular	Amount allocated from proceeds in Rs. (a)	% of total proceeds	Amount utilised in Rs. (b)	% of utilise against allocation (b/a)	Clarification if not fully utilised including where the funds are invested (e.g. whether lent to related party/s etc.)
To comply with CBSL Direction No. 02 of 2006 (Risk Weighted Capital Adequacy Ratio) to facilitate the acquisition and merger of LOLC Micro Credit Ltd.	5.88 Billion	Within Two months from Allotment (26th March 2018)	5.88 Billion	100% by 26th March 2018	5.88 Billion	100%	N/A
To comply with the minimum capital adequacy requirement for every licensed finance company is required to maintain by 1st July 2019, in terms of the of the finance business act direction no. 3 of 2018 dated 6th June 2018	4.88 Billion	Within 15 - 18 month from Allotment	4.88 Billion	100% utilised for portfolio growth & invest in T Bill/ Repo's	4.88 Billion	100%	N/A

BRANCH NETWORK

BRANCHES

Serial No.	Locations
1	Akkaraipattu
2	Akurana
3	Akuressa
4	Ambalangoda
5	Ambalantota
6	Ampara
7	Anuradhapura
8	Aralaganwila
9	Avissawella
10	Badulla
11	Baduraliya
12	Balangoda
13	Batticaloa
14	Bibila
15	Chilaw
16	Chunnakam
17	City Branch
18	Colombo 03 (Kollupitiya)
19	Dambulla
20	Dehiattekandiya
21	Dehiwela
22	Dickwella
23	Digana
24	Divulapitiya
25	Eheliyagoda
26	Elpitiya
27	Embilipitiya
28	Galenbindunuwewa
29	Galewela
30	Galgamuwa
31	Galle
32	Galnewa
33	Gampaha
34	Gampola
35	Ganemulla
36	Grandpass

Serial No.	Locations
37	Hanwella
38	Hatton
39	Hingurakgoda
40	Homagama
41	Horana
42	Horowpathana
43	Ja-ela
44	Jaffna
45	Kaduwela
46	Kalmunai
47	Kalutara
48	Kamburupitiya
49	Kandy
50	Kattankudy
51	Kegalle
52	Kekirawa
53	Keselwatta
54	Kilinochchi
55	Kiribathgoda
56	Kirindiwela
57	Kochchikade
58	Kohuwala
59	Kotahena
60	Kuliyapitiya
61	Kurunegala
62	Maharagama
63	Mahiyanganaya
64	Mannar
65	Maradana
66	Matale
67	Matara
68	Matugama
69	Mawanella
70	Medawachchiya
71	Medirigiriya
72	Moratuwa

Serial No.	Locations
73	Moneragala
74	Morawaka
75	Mount Lavinia
76	Mullaitivu
77	Nawalapitiya
78	Negombo
79	Nelliyadi
80	Neluwa
81	Nikeweratiya
82	Nittambuwa
83	Nuwara Eliya
84	Palaviya
85	Panadura
86	Pelmadulla
87	Pettah
88	Piliyandala
89	Polonnaruwa
90	Rajagiriya - Head Office
91	Rajagiriya [Cotta Road]
92	Ratnapura
93	Ruwanwella
94	Suriyawewa
95	Tangalle
96	Thambuththegama
97	Tissamaharama
98	Trincomalee
99	Udappuwa
100	Valachchenai
101	Vavuniya
102	Walasmulla
103	Warakapola
104	Wattala
105	Wellawatte
106	Wellawaya
107	Wennappuwa

BRANCH NETWORK

OTHER OUTLETS

Serial No.	Locations
1	Aluthgama - Lanka IOC filling Station
2	Anamaduwa
3	Baddegama
4	Bandarawela
5	Borella
6	Bulathsinghala
7	Chenkalady
8	Colombo 06
9	D.S.Senanayake Model Primary School - Anuradhapura
10	Fathima Muslim ladies college - 155,Bandaranayake Mawatha, Colombo 12
11	Giriulla
12	Godakawela
13	Ingiriya
14	Kaluwanchikudy
15	Kantale

Serial No.	Locations
16	Kinniya
17	LOLC Factors - 504, Nawala Road, Rajagiriya
18	Melsiripura
19	Muttur
20	Oddamavadi - IBU
21	Padaviya
22	Padiyathalawa
23	Pilimathalawa - Lanka IOC filling Station
24	Pitiyagedara Primary School - Bemmulla
25	Polonnaruwa Royal College
26	Pothuvil
27	Rikillagaskada
28	Thalawakelle
29	Weligama
30	Welikanda
31	Weliweriya
32	Wilgamuwa

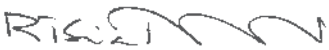
NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT THE 20TH ANNUAL GENERAL MEETING of the Company will be held on Friday, 24th September 2021 at 11:00 am as an on-line audio-visual meeting with arrangements for the on-line meeting platform made at the registered office of the Company at No.100/1, Sri Jayawardenapura Mawatha, Rajagiriya, for the following purposes:

1. To receive and consider the Annual Report and Financial Statements for the year ended 31st March 2021, with the Report of the Auditors thereon.
2. To re-elect as Director Mr. P A Wijeratne, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
3. To re-elect as Director Mr. K Sundararaj, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
4. To re-appoint as Auditors M/s Ernst and Young, Chartered Accountants at a remuneration to be fixed by the Directors.
5. To approve in terms of the Companies (Donations) Act No.26 of 1951, the making of donations by the Directors as determined by them for the current Financial Year and until the next Annual General Meeting of the Company.

By Order of the Board

LOLC Finance PLC



LOLC Corporate Services (Private) Limited
Secretaries

30th August 2021
Rajagiriya (in the greater Colombo)

NOTES

NOTES

FORM OF PROXY

I/We ....

holder of NIC/ Reg. No .... of .... being

a member/members of the LOLC Finance PLC hereby appoint ....

of .... whom failing

Mr. Brindley Chrishantha Gajanayaka de Zylva	of Colombo or failing him
Mr. Francisco Kankanamalage Conrad Prasad Niroshan Dias	of Colombo or failing him
Mrs. Kalsha Upeka Amarasinghe	of Colombo or failing her
Mr. Panamulla Arachchige Wijeratne	of Colombo or failing him
Mr. Kandiah Sundararaj	of Colombo

as my/our proxy to represent me/us and vote on my/our behalf at the Annual General Meeting of the Company to be held as an on-line meeting on Friday, 24th September 2021 at 11:00 am and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid Meeting.

	For	Against
1. To re-elect as Director Mr. P A Wijeratne, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.		
2. To re-elect as Director Mr. K Sundararaj, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.		
3. To re-appoint as Auditors M/s Ernst and Young, Chartered Accountants at a remuneration to be fixed by the Directors.		
4. To approve in terms of the Companies (Donations) Act No.26 of 1951, the making of donations by the Directors as determined by them for the current Financial Year and until the next Annual General Meeting of the Company.		

dated this .... day of .... Two Thousand Twenty One.

....

Signature of Shareholder

(Please delete inappropriate words and refer overleaf for instructions)

FORM OF PROXY

INSTRUCTIONS AS TO COMPLETION

1 Please return the completed Form of Proxy after filling in legibly your full name and address, signing on the space provided and filling in the date of signature.

2 The Proxy shall

a) in the case of an individual, be under the hand of the shareholder or his or her attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.

b) if the shareholder is a company or a corporation, be either under its common seal or under the hand of an officer or attorney authorised by such organisation in that behalf in accordance with its Articles of Association or Constitution.

3 Please indicate with an 'X' how the proxy should vote on each Resolution. If no indication is given, the proxy shall exercise his/her discretion and vote as he/she thinks fit.

4 The completed Form of Proxy should be deposited at the registered office of the Company No: 100/1, Sri Jayawardenapura Mawatha, Rajagiriya or scanned and emailed to corporateservices@lolc.com with the email subject titled "LOFC AGM PROXY" not less than 48 hours before the time appointed for the holding of the Meeting.

CORPORATE INFORMATION

Name of the Company

LOLC Finance PLC

Country of Incorporation

Sri Lanka

Date of Incorporation

13th December 2001

Legal Form

A quoted public company with limited liability

Company Registration No.

PB 244 PQ

Stock Exchange Listing

The ordinary shares of the Company were listed on the Diri Savi Board of the Colombo Stock Exchange on 7th July 2011. The shares are presently on the Second Board due to non compliance with the rules relating to minimum public float.

Credit Rating

ICRA Lanka assigned the company an issuer rating of (SL) A (Stable outlook).

Registered Office and Head Office

No. 100/1, Sri Jayewardenepura Mawatha, Rajagiriya
Tel: 011 5880880
Fax: 011 2865606
Website: https://www.lolcfinance.com/
Swift: LOFCKLC

Directors

B C G de Zylva – Non Executive Chairman

F K C P N Dias – Executive Director/CEO

Mrs K U Amarasinghe – Executive Director

P A Wijeratne – Independent Director

K Sundararaj – Independent Director

Mrs D P Pieris – Senior Independent Director – retired with effect from 26th June 2021

A Nissanka – Non-Executive Director – resigned with effect from 31st December 2020

Secretaries

LOLC Corporate Services (Private) Limited
100/1 Sri Jayawardanapura Mawatha Rajagiriya
Tel: 011 5880356-60

Auditors

Ernst & Young, Chartered Accountants

Lawyers

Julius & Creasy, Attorneys-at-Law

Nithya Partners

Registrars

PW Corporate Secretarial (Private) Ltd
No. 3/17 Kynsey Road, Colombo 8.
Tel: 011 4897733-5

Principal Activities

During the year the principal activities of the Company comprised Finance Business, Finance leasing, Alternate Finance, Micro Finance, Issue of Payment Cards and provision of Advances for Margin Trading in the Colombo Stock Exchange.

Bankers

Nations Trust Bank PLC

Citi Bank N.A.

Commercial Bank of Ceylon PLC

NDB Bank PLC

Bank of Ceylon

Seylan Bank PLC

MCB Bank

Deutsche Bank

Hatton National Bank PLC

Pan Asia Bank PLC

Hong Kong & Shanghai Banking Corporation

Sampath Bank PLC

DFCC Bank

Peoples Bank

Cargills Bank Limited

Union Bank of Colombo PLC

Designed & produced by
emagewise
Printed by Printage (Pvt) Ltd

LOLC
FINANCE