

# ANNUAL REPORT 2019/20



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## 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 engenders 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.

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# AN OUTSTANDING PROFILE



## International Business Magazine Awards

iPay was recognised as the Best Payment Platform, Sri Lanka for 2019 by the International Business Magazine Awards.



## LankaPay Technnovation Awards

LOLC Finance was awarded the Gold Award for Non-Banking Financial Institution of the year for Customer Convenience.



## LankaPay Technnovation Awards

LOLC Finance secured the Overall Gold Award for Excellence in Inter-Bank Payments amongst Non-Banking Financial Institutions.



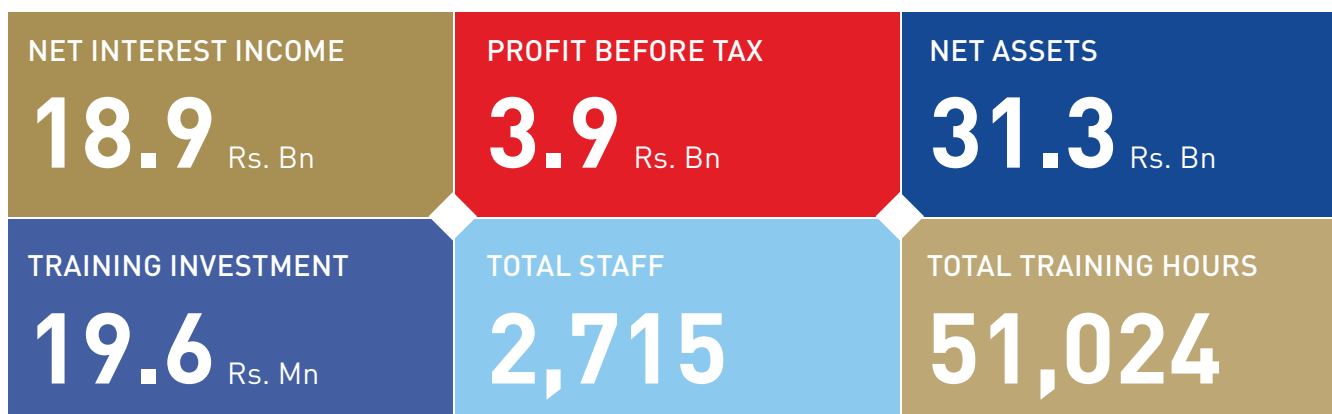
## IFN Best Islamic Bank Sri Lanka Award



## IFN Best Islamic Provider Global Award

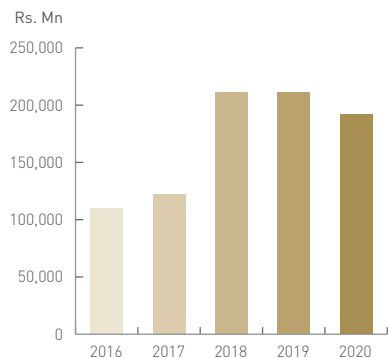
# KEY HIGHLIGHTS OF THE YEAR

|                      |                            |             | 2020   | 2019   |
|----------------------|----------------------------|-------------|--------|--------|
| Financial Highlights | New Executions             | Rs. Million | 72,985 | 87,172 |
|                      | Net Interest Income        | Rs. Million | 18,910 | 21,772 |
|                      | Profit Before Tax          | Rs. Million | 3,880  | 7,108  |
|                      | Profit After Tax           | Rs. Million | 3,780  | 5,963  |
|                      | Net Assets                 | Rs. Million | 31,290 | 22,767 |
|                      | Total Value Added          | Rs. Million | 7,945  | 11,827 |
|                      | Market Capitalisation      | Rs. Million | 11,550 | 13,020 |
|                      | Value Added Per Employee   | Rs. Million | 2.74   | 4.55   |
|                      | Per Share                  |             |        |        |
|                      | Market Value               | Rs.         | 2.20   | 3.10   |
| Social Highlights    | Net Assets                 | Rs.         | 5.96   | 5.42   |
|                      | Earnings                   | Rs.         | 0.77   | 1.42   |
|                      | Total Staff                | Number      | 2,715  | 2,461  |
|                      | Total Training Investment  | Rs. Million | 19.6   | 17     |
|                      | Total Training Hours       | Hours       | 51,024 | 49,125 |
|                      | Number of Female Employees | Number      | 499    | 421    |
|                      | New Recruits               | Number      | 504    | 615    |



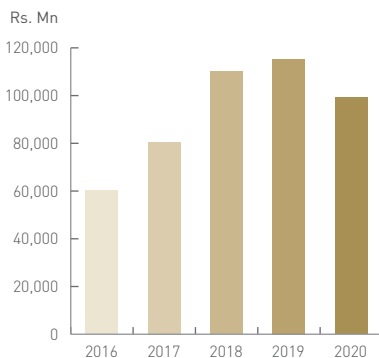
# OPERATIONAL HIGHLIGHTS

## TOTAL ASSETS



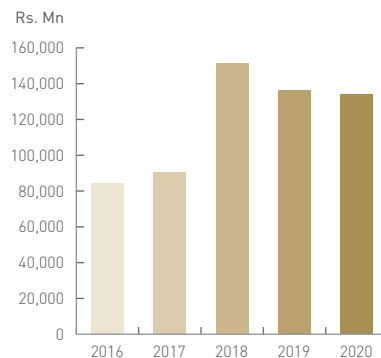
**2020** 191.9 Rs. Bn

## CUSTOMER DEPOSITS



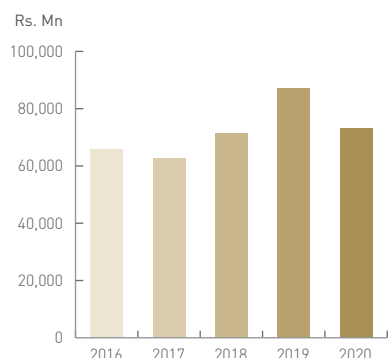
**2020** 99.3 Rs. Bn

## PORTFOLIO



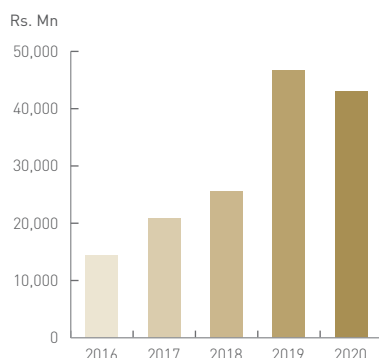
**2020** 134.0 Rs. Bn

## NEW EXECUTIONS



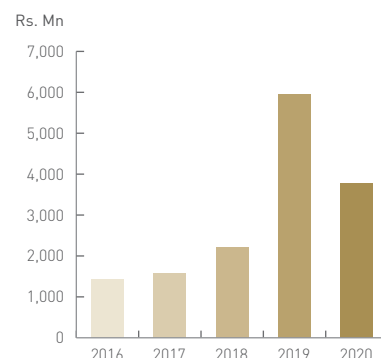
**2020** 73.0 Rs. Bn

## REVENUE



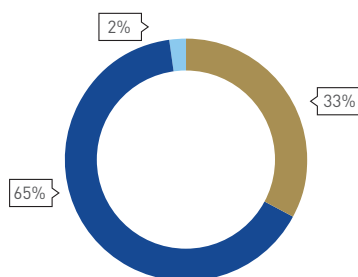
**2020** 43.0 Rs. Bn

## PROFIT AFTER TAX



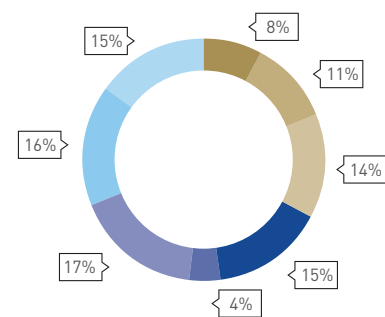
**2020** 3.8 Rs. Bn

## PORTFOLIO COMPOSITION



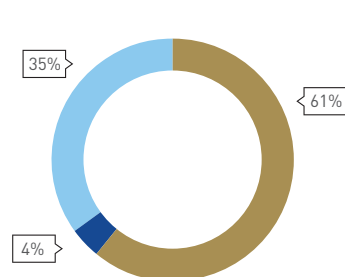
- Rentals receivable on leased assets
- Loans and advances
- Factoring receivable

## REGION-WISE PORTFOLIO



- Central
- Eastern & Uva
- Metro
- North Western, Northern & North Central I & II
- Others
- Southern & Sabaragamuwa
- Western & North Western II
- Western II & Southern II

## FUNDING COMPOSITION



- Fixed Deposits
- Savings Deposits
- Borrowings

# MILESTONES

## 2001

- » Incorporated as LOLC Finance Company Limited, a wholly-owned subsidiary of Lanka ORIX Leasing Co. PLC.

## 2002

- » Licensed as a Registered Finance Company.

## 2003

- » Registered as a Finance Leasing Establishment on 05th June 2003.
- » Commenced commercial operations from No. 79, C.W.W. Kannangara Mawatha, Colombo 07.
- » Changed name to Lanka ORIX Finance Company Limited.
- » Opened two branches in Kandy and Anuradhapura.

## 2004

- » Registered as a Market Intermediary to function as a Margin Provider by the Securities and Exchange Commission.

## 2005

- » Entered into a Refinance Agreement with the Central Bank of Sri Lanka as a Participatory Financial Institution for loans granted to recommence or rehabilitate micro, small and medium enterprises affected by the Tsunami.
- » Opened six branches in Kurunegala, Rajagiriya, Gampaha, Ratnapura, Kochchikade and Kiribathgoda.
- » Entered into a Memorandum of Understanding with Medi-Calls (Private) Limited for a special scheme for the benefit of depositors.

## 2006

- » Obtained approval to operate a Mobile Deposit Mobilisation Unit.

## 2007

- » Opened 13 branches in Kalutara, Nuwara Eliya, Matara, Embilipitiya, Polonnaruwa, Badulla, Galle, Wattala, Colombo 02, Kegalle, Mahiyanganaya, Mount Lavinia and Chilaw.
- » Al-Falaah, the Islamic Business Unit of Lanka ORIX Finance PLC, was launched.
- » Fitch affirmed the BBB+(lka) National Rating assigned for implied long-term unsecured senior debt with a Stable Outlook.
- » Obtained a unique Issuer Identification Number for Payment Cards issued by the Company.
- » Opened a Students Savings Centre at Royal College, Polonnaruwa.
- » Entered into an Agreement with Commercial Bank to issue ATM and Debit Cards and the usage of the Commercial Bank ATM network.

## 2008

- » Conducted a lottery with a house as the prize.
- » Commenced operating savings centres at LIOC fuel distribution points.
- » Obtained approval to engage in Foreign Currency Business including maintenance of Foreign Currency Fixed Deposits and Savings Accounts and engaging in Inward Worker Remittances.
- » Joined Mastercard International to use the Maestro service mark on ATM Cards issued.

- » Fitch assigns rating of A-(lka) with Stable Outlook.
- » Opened a branch in Horana.

## 2009

- » Relocated the branch at Colombo 07 to Wellawatte.
- » Opened six branches in Dambulla, Ampara, Kattankudy, Jaffna, Vavuniya and Batticaloa.
- » Joined SWIFT and assigned Banker Identification Code LOFCLKLC.
- » Fitch Ratings Lanka affirms Rating of A-(lka) with Stable Outlook.

## 2010

- » Entered into a Worker Remittance Agreement with Xpress Money.
- » Opened nine branches in Trincomalee, Elpitiya, Avissawella, Mathugama, Monaragala, Divulapitiya, Nawalapitiya, Kalmunai and Ambalangoda.
- » Joined SEEDS in their project titled 'Leveraging Remittances for Socioeconomic Development in Sri Lanka' to develop special remittance products.
- » Obtained license as a Service Provider of Payment Cards.

## 2011

- » Obtained the license to engage in money changing business.
- » Opened 13 branches in Homagama, Pettah, Kilinochchi, Kohuwala, Hatton, Panadura, Neluwa, Morawaka, Udappuwa, Negombo, Cotta Road Rajagiriya, Dehiwala and Pelmadulla.
- » Entered into a Worker Remittance Agreement with Money Exchange S.A., Spain.



- Obtained a USD Grant from IFAD for the implementation of the project 'Economic Prosperity for Rural Poor' through remittances disbursed via Lanka ORIX Finance.
- Commenced cash collection operations in 65 Isuru Diriya Centres located in Post Offices.
- Entered into a Worker Remittance Agreement with Valutrans S.P.A., Italy.
- 2010 Annual Report of Al-Falaah - the Islamic Business Unit of LOLC Finance, won Bronze at the League of American Communications Professionals (LACP) Vision Awards 2011.

## 2012

- Opened 15 branches in Kekirawa, Jaela, Nikaweratiya, Tissamaharama, Akkaraipattu, Balangoda, Akurana, Aralaganwila, Chunnakam, Nellyadi, Chawakachcheri, Medawachchiya, Dehiattakandiya, Mannar and Mullaitivu.
- Fitch affirms National Long-Term Rating of A-(lka) with Negative Outlook.
- Opened a Student Savings Centre at Fathima Muslim Ladies College, Colombo 12.

## 2013

- New product launch - Speed Draft.
- Al-Falaah was adjudged Runner-up for Best Islamic Leasing Provider (by Asia/MENA/GCC region) and Runner-up for Best Islamic Bank (Country Winner-Sri Lanka) by the Islamic Finance News (IFN) Global Polls Awards held in Kuala Lumpur, Malaysia, February 2014.
- Opened four branches in Ambalantota, Digana, Kuliypitiya and Nittambuwa.

- Al-Falaah Islamic Banking Unit of Lanka ORIX Finance took the Silver award for Islamic Finance (IF) Entity of the Year 2013 at the Sri Lanka Islamic Banking and Finance Industry (SLIBFI) Award, a Merit Award for the Social Upliftment category and Al-Falaah Ladies Business Unit/ Empress Discount Card clinched the Silver award for Islamic Finance Product/Deal of The Year.

- Opened a Student Savings Centre at D S Senanayake Model Primary School - Anuradhapura.
- Al-Falaah Business Unit launched a loyalty Empress Discount Card for its Al-Falaah Ladies accountholders.
- Entered the LMD 100-Sri Lanka's Leading Listed Companies for Financial Year 2012/13.
- Launched our latest product - Lanka ORIX Finance Fixed Deposit Bond.
- Launched Visa ATM and Debit Cards.

## 2014

- Launched our latest value added service - SMS Alerts for Savings accounts transactions.
- ICRA Lanka affirmed issuer rating of (SL) A- and resulted Outlook to Negative.
- Al-Falaah Islamic Business Unit of Lanka ORIX Finance clinched 3rd place as the Best Islamic Bank by Sector - Best Islamic Leasing Provider and was runner-up for the Best Islamic Bank by Country - Indian Sub-Continent / Sri Lanka at IFN Best Banks Poll Global Awards 2014.
- Entered into a Remittance Agreement with Cash Wiz, Australia and DFCC, Lanka Money Transfer.
- Opened six branches in Hingurakgoda, Tambuttegama, Maharagama, Maradana, Kollupitiya and Piliyandala.

- Joined Sri Lanka Interbank Payment System as secondary participant.
- Al-Falaah clinched Gold awards for 'Islamic Finance Entity of the Year 2014 and in the 'Social Upliftment Award (CSR)' category. A further recognition with a Silver award in the category for the 'Rising Islamic Personality of the Year 2014 was also awarded to Ilsam Awfer, a member of the Al-Falaah team.

## 2015

- Launch of a new value added service - ORIX Real Time (internet banking).
- Changed name to LOLC Finance PLC.
- ICRA Lanka affirmed issuer rating of Revised to [SL]A and resulted Stable Outlook.
- The Islamic Business Unit (LOLC Al-Falaah) secured Runners-Up award for Best Islamic Leasing Provider Category (Overall) 2015 at the IFN Best Bank Polls 2015.
- Opened 11 new Branches - Horowpathana, Kaduwela, Baduraliya, Galenbindunuwewa, Homagama, Galnewa, Hanwella, Eheliyagoda, Ruwanwella and Warakapola.
- Relocated Al-Falaah Rajagiriya Office to No. 481, T.B Jayah Mawatha (Darley Road), Colombo 10 and launched the Al-Falaah Corporate Centres in Colombo and Kandy.
- Joined the Common Electronic Fund Transfer switch with LankaPay.

# MILESTONES

## 2016

- » Relocated the Jaffna branch to its very own premises at No.62/40, Stanley Road, Jaffna.
- » The Bandarawela Isuru Diriya Centre relocated to No. 348, Badulla Road, Bandarawela.
- » Anuradhapura branch relocated to its very own premises at No. 242/2, Maithripala Senanayake Mawatha, Anuradhapura.
- » Hatton branch relocated to a new premise at No. 151, Dimbula Road, Hatton.
- » LOLC Real Time, the real-time fund transfer/payment platform of LOLC Finance was officially launched to the public with the commencement of the mass media campaign covering TV, radio, press and digital media.
- » Nellyadi branch relocated to a new premises located at No. 216/1, Jaffna Road, Nellyadi.
- » Al-Falaah secured the IFN Deal of the Year for Sukuk (Alternate option for Securitisation) at the IFN Deals of the Year for 2016 awards ceremony.
- » Al-Falaah, was recognised at the Islamic Finance News, Global Poll, IFN-Best Banks Awards 2016 for the fourth consecutive year. The recognitions received of the two nominated categories are Best Islamic Leasing Provider, Runner Up where LOLC Al-Falaah moved up from 3rd Place in 2015 and maintained the position of Best Islamic Bank Sri Lanka, Runner Up for 2016 as well.
- » Al-Falaah secured two prestigious awards at the Global Banking & Finance Review (GBFR) Awards 2016 - United Kingdom, by being crowned the 'Best Islamic SME Leasing and Finance Company and the Most Innovative Islamic Investment Product (Wakala)' in Sri Lanka for 2016.

## 2017

- » ICRA Lanka affirmed issuer rating of [SL]A and resulted Stable Outlook.
- » LOLC Micro Credit merged with LOLC Finance.
- » Launched the door-step Savings Cash Collection Service.
- » Opened a new branch in Mawanella.
- » Relocated the Dehiattakandiya, Polonnaruwa, Avissawella and Gampaha branches.
- » Closed the Kalmunai Service Centre at 93 Batticaloa Road, Kalmunai.
- » LOLC Finance won three top awards at the 2017 LankaPay Technnovation Awards. LOLC Finance was bestowed with the coveted titles including the Financial Institution of the Year for Customer Convenience, Most Popular Electronic Payment Product and Best Mobile Payment Application of the Year.
- » Al-Falaah was awarded as the Best Islamic Bank in Sri Lanka for 2017 by Islamic Finance News (IFN), Malaysia.
- » Al-Falaah secured two Bronze awards for The Best Leasing Company of the Year and Social Upliftment Award at the Sri Lanka Banking and Financial Institution (SLIBFI) awards 2018.
- » At the 2017 Islamic Finance Forum of South Asia (IFFSA) Awards, Al-Falaah secured the Silver award for the Entity of the Year, Gold for Window/Unit of the Year and Silver for the CSR Project of the Year.
- » iPay was recognised at the Open Group Conference and Awards for Innovation and Excellence, Bangalore, 2018.

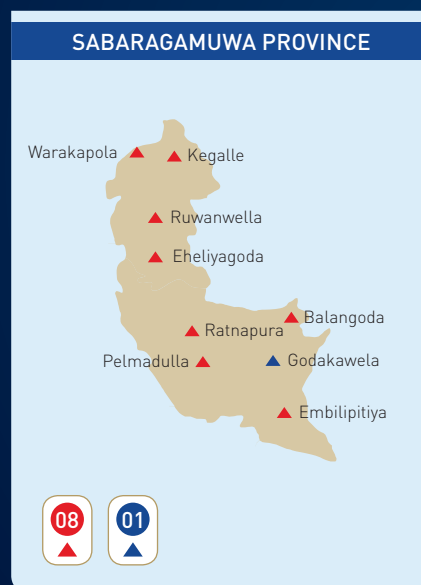
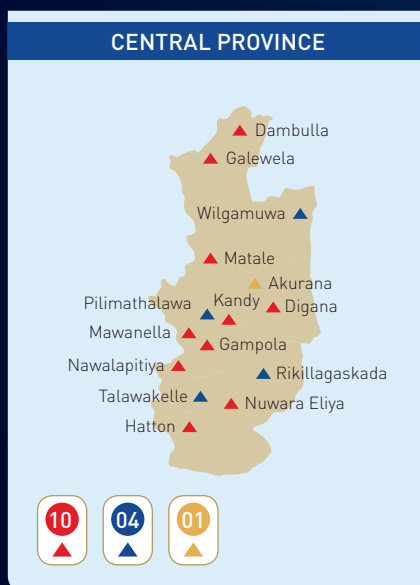
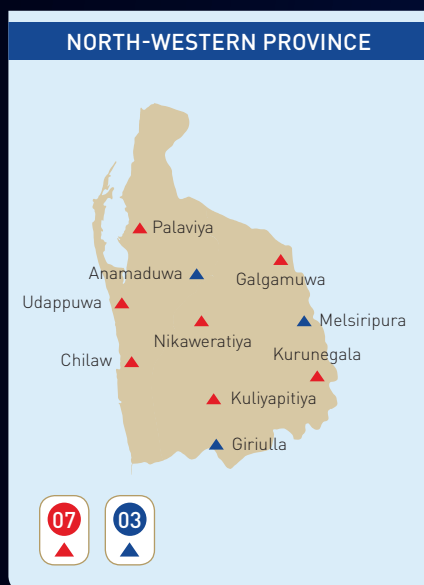
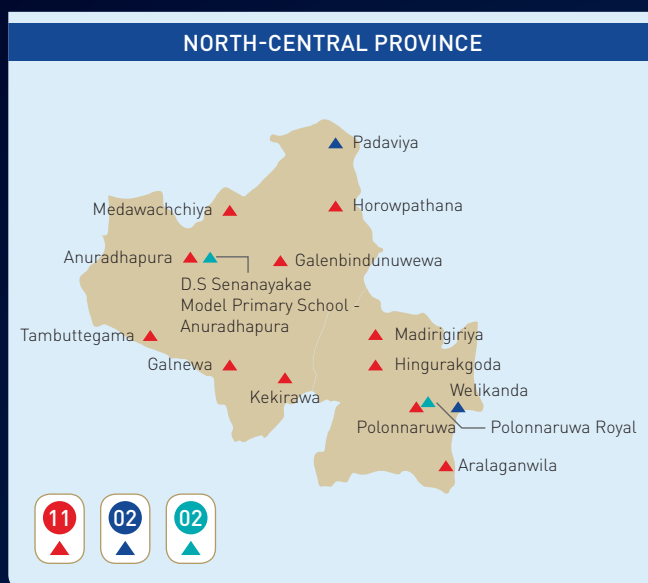
## 2018

- » LOLC Finance Eheliyagoda branch relocated to No.93, Main street Eheliyagoda
- » LOLC Finance Galgamuwa branch was relocated to No.343, Anuradhapura road, Galgamuwa
- » LOLC Finance Grandpass branch relocated to No.339, Grandpass Road, Colombo 14
- » LOLC Finance Kalmunai branch relocated to 299, Akkaraipattu Road, Kalmunai
- » LOLC Finance Mathugama branch relocated to No. 108/1, Kalutara Road, Mathugama
- » The LOLC Finance Kilinochchi branch relocated to the VMS Building, Karadipokku, A9 Road, Kilinochchi
- » The LOLC Finance Thalawakele branch relocated to No. 136, Nuwara-Eliya Road, Thalawakele
- » LOLC Finance Suriyawewa branch relocated to 6737, Main Street, Suriyawewa
- » LOLC Finance Credit Cards launched to the public with the launch of the mass media advertising campaign.
- » LOLC Finance and Mobitel joined hands to offer 'Digital Loans' for the first time ever in Sri Lanka via Mobitel's mCash platform.
- » LOLC Finance won multiple awards at the LankaPay Technnovation Awards 2018. The Company was crowned as the Overall Winner for Excellence in Interbank Payments in the Financial Institutions Category and bagged the Runner-up Award in the same category. LOLC Finance also won the Merit award for the Best Application for Retail Payments.
- » LOLC Finance wins key awards at the SLT Zero One awards including Best Website for LOLC Finance under the Financial Services category.
- » LOLC Al-Falaah secures top-spots at the IFN Best Banks Global Awards 2018.

## 2019

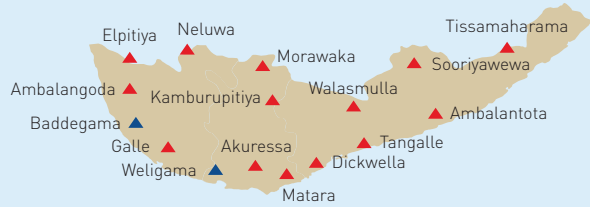
- » At the LankaPay Technnovation Awards 2019 LOLC Finance won multiple awards, namely, the overall Winner for Excellence in Interbank Payments and the Financial Institution of the year for Customer Convenience.
- » LOLC Neluwa Branch relocated to A, City Building, Dellawa Road, Neluwa.  
  
LOLC Mannar Branch relocated to No.134 1/1, Ward No.07, St. Sebastian Street, Mannar.
- » LOLC Medawachchiya Branch relocated to No.78, Kandy Road, Medawachchiya.
- » LOLC Kalutara Branch relocated to No. 538, 538 A, Galle Road, Kalutara.
- » LOLC Embilipitiya Branch relocated to No. 373, Ratnapura Road, Embilipitiya.
- » LOLC Keselwatta Branch relocated to No. 96, Galle road, Sarikkalimulla, Keselwatte, Panadura.
- » LOLC Pelmadulla Branch relocated to No.40/1/11-14, Rakwana Road, Pelmadulla.
- » LOLC Moratuwa Branch newly opened at No. 256, Galle Road, Idama, Moratuwa.
- » LOLC Al-Falaah, The Alternate Financial Services Unit of LOLC Finance was recognised at the Islamic Finance News (IFN) Best Banks Poll 2019 Global Awards as the Winner - Best Islamic Bank in Sri Lanka 2019 for the 3rd consecutive year and was also awarded the Winner for Best Islamic Leasing Provider (Global) 2019 for the 2nd consecutive year.

# BRANCH NETWORK

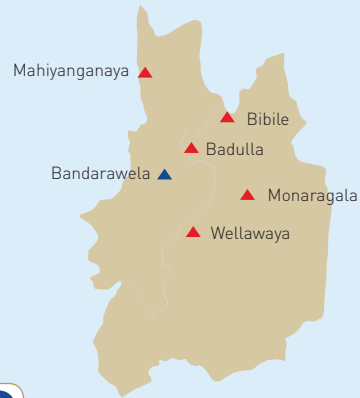


Our commitment to transforming the lives of all Sri Lankans has strengthened and supported our strategies and policies; as we continue to expand our reach in the years to come.

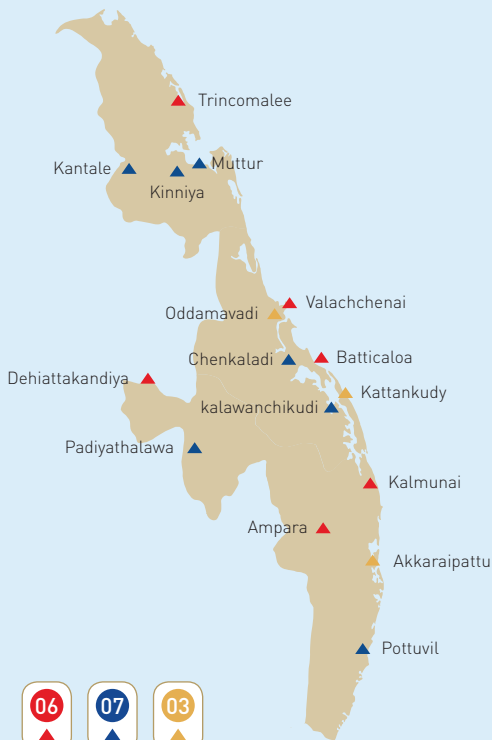
### SOUTHERN PROVINCE



### UVA PROVINCE



### EASTERN PROVINCE



### WESTERN PROVINCE



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

# BOARD OF DIRECTORS



**01 MR. B C G DE ZYLVA**  
Non-Executive Chairman

## Mr. B C G de Zylva

The Chairman of the Boards of LOLC Finance PLC & LOLC (Cambodia) PLC, and the Managing Director of LOLC Myanmar Micro-Finance Company Limited. Prior to joining the LOLC Group, he had served the Non-Bank Financial Services Industry (NBFI) in Sri Lanka in both Licensed Finance Companies and Specialised Leasing Companies holding Board and General Management positions. He counts over 36 years of experience in the NBFI Sector including the Micro Finance Industry in Sri Lanka, Myanmar & Cambodia.

## Mr. F K C P N Dias

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. He is seasoned veteran in Business Management, Information Technology Management, Software Engineering, Project Management, Strategic



**02 MR. F K C P N DIAS**  
Director/CEO

and Investment Planning, Finance Management, Corporate Restructuring and Unit Trust & Fund Management. He has the domain expertise in sectors such as Information Technology, Trading, Banking and Finance, Insurance, Portfolio/ Asset Management and Manufacturing Sectors.

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.

He was the former Group CIO and currently functions as the Chairmen LOLC Technologies Ltd. He is also founding board member Digital Mobility Pvt Ltd popularly known as PickMe. Director ODoc Pvt Ltd again a successful start-up telemedicine platform of and hold other directorships of overseas subsidiary companies.



**03 MRS. K U AMARASINGHE**  
Executive Director

## Mrs. K U Amarasinghe

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. and Ultimate Sports (Pvt) Ltd.

## Mr. A Nissanka

Ashan Nissanka is a Non -Executive Director of LOLC Finance PLC and previously served as the Director / Chief Executive Officer from 2015 - 2018. He also serves on the board of LOLC Philippines Corporation - Philippines, Inter-Asia Development Bank – Philippines, LOLC ASKI Finance Inc. – Philippines, Fina Trust Microfinance Bank – Nigeria and LOLC Finance Zambia Limited – Zambia.

Joined LOLC in 1998 and counts over 27 years of experience in the Banking and Finance sector with expertise in Strategic Marketing Planning, Development and Management of the Retail Channels.





**04 MR. A NISSANKA**  
Non-Executive Director

Ashan holds an MBA from Edith Cowan University, Australia, a Graduate Diploma from Chartered Institute of Marketing – UK (CIM) and a Certified Management Accountant from Institute of Certified Management Accountants Australia. He currently serves as a Council member of the Institute of Certified Management Accountants Australia (CMA- Australia), and a member of Sri Lanka Institute of Marketing (SLIM). He served as a Deputy Chairman/ Director – Financial Ombudsman Sri Lanka, Director - Finance Houses Association of Sri Lanka, Director – Leasing Association of Sri Lanka and a Committee Member – Non Banking Financial Institutions of the Chamber of Commerce, Sri Lanka and relinquished these positions in 2019.

#### **Mrs. D P Pieris**

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



**05 MRS. D P PIERIS**  
Senior Independent Director

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 Code 1995 (as amended) and was a member of the committee appointed to recommend amendments to the Rules for Corporate Governance.

#### **Mr. P A Wijeratne**

Mr. 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.



**06 MR. P A WIJERATNE**  
Independent Director



**07 MR. K SUNDARARAJ**  
Independent Director

#### **Mr. K Sundararaj**

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.

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



**Mr. B C G de Zylva**  
Non-Executive Chairman

## Dear Shareholder,

It gives me great pleasure to present to you the Annual Report and Financial Statements for the year ended 31st March 2020.

## Macro-economic Review

Sri Lanka just concluded one of the most tumultuous years which commenced with the Easter Sunday attack and culminated with the outbreak of the COVID-19 pandemic. The negative impact of the political uncertainty that was prevalent throughout 2019 further exacerbated the situation. Despite these adverse factors, it was heartening to note that the financial system remained resilient without causing major concerns. Understandably, the performance of the financial sector in terms of growth, credit quality and profitability was moderate. Expansion and performance slowed down mainly due to subdued economic activities.

## Financial Sector

The credit quality of financial institutions as reflected by the Non-Performing Loans (NPL) ratio deteriorated during the period under consideration. However, the financial sector exhibited resilience amidst a challenging business

environment which prevailed both globally and in a domestic context. Capital and liquidity were maintained well above the regulatory minimum requirements. Timely and appropriate regulatory and supervisory measures assured the overall stability of the financial system without causing any major concerns during the year.

Going forward, operations of the financial sector will be challenging in terms of risk management. The trend of rising NPL ratios has already become challenging. The conclusion of the moratoria granted to the tourism and Small and Medium Enterprises (SMEs) sectors, will push the NPL ratio and provision requirements upwards. Further, adverse economic impacts of the COVID-19 pandemic will be seen during the coming year. The financial sector remains under immense pressure to provide more relief to adversely affected economic sectors.

## Company Performance

ICRA Lanka Limited, a Group Company of Moody's Investors Service has reaffirmed the Company's issuer rating of [SL]A with stable outlook and issue ratings of [SL]A- with stable outlook for the LKR

5,000 Mn Listed Subordinated Unsecured Redeemable Debenture Programme and the LKR 3,500 Mn (LKR 2,500 Mn issued) Listed Subordinated Unsecured Redeemable Debenture Programme of the Company.

This underscores the Company's leadership position in the non-banking finance market, strongly supported by an experienced management team, commensurate risk management systems and adequate funding profile. However, it should be noted that the weakening in asset quality resulted in the deterioration in the overall earnings profile.

Credit risk is managed by a prudent loan origination policy and effective loan monitoring process, which provides early warning signals and helps in adjusting the loan policies in line with the evolving credit trends. Your Company has a diverse funding profile, with funding from various sources including foreign funding agencies, local banks and public deposits.

The Company's performance was impacted by the subdued macroeconomic conditions which were further accentuated by adverse weather patterns



■ Credit risk is managed by a prudent loan origination policy and effective loan monitoring process, which provides early warning signals and helps in adjusting the loan policies in line with the evolving credit trends. ■■

TOTAL PORTFOLIO

**133.9** Rs. Bn

TOTAL FUNDING BASE

**152.1** Rs. Bn

NEW EXECUTION

**72.9** Rs. Bn

and the government announcement of micro loan waivers in 12 districts. Build-up in the 90-plus days past due has been quite significant, indicating further stress. Portfolio growth was curtailed to consolidate the portfolio and concentrate on collections. Focus has been strengthened on recoveries, with additional steps such as appointing a special taskforce to negotiate with NPA customers and curtailing unsecured loans.

During the year ended 31st March 2020, LOFC reported a net profit of LKR 3.78 Bn on a total asset base of LKR 192 Bn as compared to a net profit of LKR 5.96 Bn on a total asset base of LKR 211 Bn in the previous financial year.

#### Appreciation

I take this opportunity to welcome Mr. Conrad Dias who took over the reins of Your Company as Director/CEO during the last quarter of the financial year. I express confidence in his management style in steering the company through this perfect storm.

A big thank you to my colleagues on the Board for their guidance and leadership; Senior Management and Staff who have taken up the challenges in their stride, the Senior Management and staff of the LOLC Group of Companies for the continuous support.

In conclusion, I wish to thank the shareholders, depositors and all other stakeholders for the trust and confidence placed in the Company and look forward to your continued support in the years ahead.



**Mr. B C G de Zylva**  
Non-Executive Chairman

# DIRECTOR/CEO REVIEW



**Mr. F K C P N Dias**  
Director/CEO

I am pleased to place before you the Annual Report and Audited Financial Statements of LOLC Finance PLC for the financial year ended 31st March 2020. The year 2019/20 proved to be eventful and will be considered as one of the most turbulent in the decade for Sri Lanka's economy.

## Macro-Economic Conditions

At the very beginning of the financial year, the country experienced the Easter Sunday attacks that devastated the country and impacted many businesses and industries, the ripple effects of which were felt through the year.

During Q2, the country experienced political instability that virtually crippled government operations for more than two months, having a domino effect on the economy. The political uncertainty that led to the early presidential election being called in November 2019 further delayed the formulation of the country's national annual budget and financial policy. The country's political climate showed some stability with a strong presidential command at the helm and planned general election in early April 2020.

However, the global COVID-19 pandemic that led to the lockdown of the entire country for several months starting from the latter part of Q4 virtually impacted the country's entire economic activity. Against this calamitous backdrop, the country's economic activities and business sentiments were affected, resulting in poor deposit or lending growth and rise in Non-Performing Loans (NPLs) in the industry.

## Company Operations

Amidst the economic, political and social setbacks that impacted all industries and especially the financial services sector throughout the year, the company followed a strategy of consolidation of activities with a focus on curtailment of business, especially in affected industries and businesses while growing selected business lines to maximise returns.

Further, the company focused on re-engineering its business processes to improve customer service, improve efficiency and maximise returns while adopting technology with a 'digital first' strategy. A re-engineering project was started in the Q3 and some of

the identified quick fixes were made despite disruption in full execution of the changes due to COVID-19. Further fin-tech adoption with re-engineering of the processors will continue during this financial year and beyond.

During the year under review, we relocated seven branches to extend better convenience and customer service. We expanded our footprint in the Western Province with the opening of one new branch. Meanwhile, the branch network that was offering the Gold Loan service was extended from 58 to 75 during the year with a view to taking the product to a larger customer base.

## Financial Performance

The company's financial performance marginally declined during the year under review due to the weak economic conditions and the impact on businesses post the April 2019 attacks, which resulted in lower business volume growth. However, the company recorded a total income of Rs. 38.18 Bn, which is a marginal decline compared with the previous year and a Net interest income of Rs. 18.91 Bn recorded for the year ended

“ During the year under consideration, we also recorded tremendous growth in the digital platform, iPay with an unprecedented level of transactions and volume growth in every aspect. The transaction volume grew by 681% with the registered merchant growth at 303% and a user registration growth of 241%. ”

#### NET INTEREST INCOME

**18.9** Rs. Bn

#### PROFIT BEFORE TAX

**3.9** Rs. Bn

#### TOTAL ASSETS

**191.9** Rs. Bn

31st March 2020. The company recorded a Profit before tax of Rs. 3.9 Bn, which is a reduction compared to the previous year. Despite lower business growth, LOLC Finance remained as the highest asset-based company by far in the industry with a total asset value of Rs. 191.89 Bn.

I am delighted to say that the company continued to draw recognition by winning many accolades across many fronts throughout the year. At the 2019 Technnovation Awards, LOLC Finance was bestowed with the coveted titles, 'Financial Institution of the Year for Customer Convenience' and 'Overall Award for Excellence in Interbank Payments' and 'Best Application for Retail Payments'.

Meanwhile, LOLC Finance's Alternate Finance arm, Al-Falaah bagged some of the topmost awards at the IFN Best Banks Global Awards, namely, the 'Best Islamic Leasing Provider' in the International category and 'Best Islamic Bank in Sri Lanka' for the second successive year, competing against global industry giants.

During the year under consideration, we also recorded tremendous growth in the digital platform, iPay with an unprecedented level of transactions and volume growth in every aspect. The transaction volume grew by 681% with the registered merchant growth at 303% and a user registration growth of 241%. The growth indicates that we are leading the level of digital transformation of our customers and we are confident that we can be in the top of the hype cycle of the digital adoption.

#### Business Segmental Performance and Highlights

##### Alternate Finance

Worldwide, new forms of alternate finance models are evolving, driven through technology and shared economy and peer-to-peer financing models. We continued developing a fully-fledged product offering through the alternate finance unit under the brand umbrella of Al-Falaah. Although the events of year under review were not conducive for alternate financing models that we currently practice, we aim to drive this segment and grow the portfolio further, expanding the scope of alternate

finance beyond the current brand. The assets book of the portfolio grew by 22% and the deposit book grew by 41% amidst the April 2019 turmoil. Further, the business unit managed a lower NPL ratio of less than 5% against double digit NPLs in the industry.

##### Microfinance

The effects of the disruption in the microfinance industry in 2018 due to political intervention were still being felt in the year under review. The rise of Non-Performing Loans (NPLs) in the industry influenced the company's risk appetite as it cut back lending to the segment. Nevertheless, the strong customer relationships harboured by the company ensured we continued to support the micro customers and continued focused lending to long-standing customers with the second and third loan cycles. We strongly believe that despite political interference, this segment needs to be served by handholding, enabling them to come to the formal banking system or else they fall prey to informal lenders at high interest rates. Despite many setbacks in the segment, the company's

## DIRECTOR/CEO REVIEW

focus on supporting the rural economy and the micro entrepreneurs renders it the highest financier of the three-wheelers for the year, financing 34,965 three-wheelers and extending loans to over 2,500 customers for rural housing.

Most finance companies engaged in grassroots lending have withdrawn from the market due to lending rate ceilings and the challenges faced due to many other influences, but we remain steadfast by the side of micro customers. We believe rural and micro-entrepreneurs are incubators for great businesses in the future and have the capacity to scale up their enterprises over time.

### Credit Cards

LOLC Finance ended the financial year as the highest issuer of credit cards in Q4 in the Non-Banking Financial Institution (NBFI) sector with over 11% of the card issuance. The credit card portfolio surpassed the Rs. 1 Billion mark in the year under consideration and LOLC Finance, as a young card issuing company, became the first in the NBFI sector. Card issuance has grown 193% compared with the last financial year and income from the portfolio also increased by a significant amount with increased customer base and card utilisation.

Our focus remained on issuance of the cards to the bottom of the pyramid which is 90% of our customer base and to first-time credit card users to infuse greater convenience and flexibility in management of their finances while fulfilling their aspirations for a better standard of living. One of the key highlights achieved is not rapid card issuance but that we secured a license for payment card acquiring and became the first financial services company to be given the license. We are yet to commence the operation as the license was granted in April 2020.

### Deposits

We also observed a reduction in the deposits mobilisation with interest rates being revised with an intention of the lower interest rate regime and NBFI sector deposit rates showing a marginal difference compared with that of commercial banks. While the entire industry saw reduction in new deposit, we at LOLC Finance continued our efforts to maintain our deposit book and focus to sustain granular deposit customers from the bottom of the pyramid.

A slight decline in deposits was seen in the industry during the year due to the interest rate gap between banks and finance companies narrowing sharply which naturally spurred a shift to alternate investments and bank deposits. However, by the end of the year, rates of finance companies rose, and an inflow of customers was seen once again. As a reputed and responsible finance company, necessary action was taken to service clients during the lockdown period - servicing them not only to withdraw their funds at necessary times but also facilitating them to invest with us. A new product was launched during the year under review - LOLC Real-time Corporate Online, a business solution for all corporates to facilitate hassle-free payments.

### Future Outlook

It is difficult to predict when we will see the end of the global pandemic, so our strategy remains to focus and leverage on emerging opportunities in the new normal. With the conclusion of a successful general election that has brought political stability to the country and the government's broad vision of developing the rural economy, I am optimistic about the opportunities that the Banking and the NBFI sector would have in developing the country. We believe that micro and rural community development is key to the country's development.

Therefore, we will continue our focus on rural and micro, small and medium entrepreneurs, enabling them to be in the formal banking sector. Further, our short to mid-term focus is managing NPLs and recovery of dues while having a modest growth in the loan book.

During and post the COVID-19 pandemic, we observed customers switching to and adopting digital technologies for many services including financial services. With our strategic focus on adopting more and more fin-tech to our business and digitally transforming our organisation, we are committed to invest in digital technologies. We will aggressively move in driving iPay as the digital platform beyond payments and as a solution to financial needs of micro and small enterprises.

We are hopeful that a stable government post-parliamentary election will see a certain degree of political and economic stability that will reverse adverse trends in the next couple of years, which will help our businesses to stride forward, supported by stable monetary and fiscal policies.

### Appreciation

I wish to thank the Chairman and Board of Directors for the confidence placed in me to carry out the duties as the new CEO of the largest NBFI. I assure all stakeholders that I will do my best with unconditional commitment and service to take the organisation to new heights, especially to propel it into the forefront of digital in the coming years.

I take this opportunity to appreciate all staff members of the company who contributed despite multiple calamities and dedicated themselves to achieve the performance presented in this annual report. Special appreciation goes to the outgoing CEO, Mr. Ravi Tissera, who steered the company during the most

eventful year in this decade, providing valuable leadership. I wish him all the very best in his career and future endeavours.

I also wish to thank our valued depositors, multinational funding agencies, banks as well as the customers who were with us during turbulent times and continue to be with us. I would like to thank the Governor of the Central Bank of Sri Lanka and officials who supported us during the year, especially staff of the Non-Banking Supervision division.

I would be failing in my duties if I didn't mention our important shareholders, investors and other stakeholders for trusting us and standing with us - and I sincerely hope they will remain part of our success in the coming year.



**Mr. F K C P N Dias**  
Director/CEO

# MANAGEMENT DISCUSSION & ANALYSIS



## REVIEW OF OPERATIONS

### Deposits

Expanding the deposit base through fixed deposits and savings was prioritised during the year under review. The uncertain state of the economy through the year resulted in customers opting for more short term fixed deposits which also made customer retention a challenge for the industry. As the company in the country, LOLC Finance enjoys best-in-class ratings and a solid brand reputation which ensured customer retention was sustained at high levels. The Easter Sunday attacks in April 2019 and the COVID-19 outbreak towards the end of the year combined created an economic crisis which impacted all sectors of the economy. The entire industry was challenged by the frequent fluctuation.

Although an improvement in economic activity and greater business confidence was seen after the presidential election in late 2019, the upward trend was cut short by the global pandemic in early 2020. As a reputed and responsible finance company necessary actions were taken to service clients during the lockdown period not only to withdraw their funds when required but also servicing them to invest with the company.

Despite the challenges, LOLC Finance continued to service its customers with the savings cash collections facility where appointed field collection agents visit the customer's doorstep to collect cash, thereby providing the customer with the ultimate convenience of depositing cash into their savings account without having to visit the branch. Another initiative was the decision to encourage all new Lending customers to maintain an active savings account with LOLC Finance. A number of internal process improvements were also made simultaneously in order to enhance overall efficiency and service delivery for all customers.

■ Despite the challenges, LOLC Finance continued to service its customers with the savings cash collections facility where appointed field collection agents visit the customer's doorstep to collect cash, thereby providing the customer with the ultimate convenience of depositing cash into their savings account without having to visit the branch. ■

In order to facilitate customers at this time, new products were launched, such as LOLC Real-time corporate online which is a business solution for all corporates for hassle-free payments. Certain services were also enhanced such as account opening documentation now reduced to one single document and SMS and email notification for a paperless experience under the new normal of social distancing and contactless transactions.

As the largest and most trusted finance company in Sri Lanka, LOLC Finance is appreciated for its visionary approach to empowering people at the grassroots. During the year under review, the company won the following awards at the LankaPay Technnovation Awards 2019:

- Gold Award for Non-Banking Financial Institution for Customer Convenience.
- Overall Award for Excellence in Interbank Payment among Non Banking Financial Institution.

### Lending

The 2019/20 financial year posed multiple challenges for the lending operation during the year. The LOLC Group's lending business is primarily managed by its subsidiary, LOLC Finance PLC.

The challenging year started off with the April 2019 attacks which caused overall business activity to be affected adversely until June-end. The impact was the sharpest in the company's general and alternate financing segment, as trading activity, which is the main line of business amongst these customers, was severely impacted.

In addition, vehicle imports in general declined and imports of unregistered and/or brand new vehicles too kept dropping as per registrations recorded by the Registrar of Motor Vehicles, which is a direct indicator of the negative impact on the leasing side of the business. As a direct consequence, the company could not run any lucrative campaigns in partnership with vehicle importers or dealers during the first half of the year. However, several such campaigns were held in the second half of 2019/20. The company adopted a conservative lending approach in view of the rising tensions in the aftermath of the April attacks.

Despite these obstacles, there was a silver lining in the Gold loan category. The revamped Gold loan operation was able to achieve the ambitious target of Rs. 2 Bn by 31st March 2020, within the first nine months itself. An additional



Rs. 1 bn growth was achieved by 20th March just at the time when lockdown was imposed in Sri Lanka. As a result, the Gold loans operations ended with the year under review with a portfolio of Rs. 5.8 Bn. This sterling performance reflects the company's prowess and expertise in driving the revamped Gold loans product in the market.

Speed draft remains the main component of lending to SMEs but during the year under review this product was revamped to better align with industry requirements and to meet customer expectations. This product now offers added features tailor-made for customers with working capital requirements. However, the results of the changes made didn't materialise to the anticipated level during the financial year, mainly due to the decrease in business due to April attack and the prevailing pandemic situation. In fact, throughput came down by 5% in Q1 as SMEs were adversely affected. Fortunately, agro-based SMEs were unaffected as after three poor seasons, the sector achieved a bumper harvest in 2019/20 and cash in hand as a result.

The focus during the year was on maintaining quality, cleansing of the book and managing Non-Performing Loan (NPL) portfolios. NPLs rose by 13% but sanitisation of book helped and the company shed bad credit which was giving negative results.

The branch network was expanded with the inauguration of a new branch in Moratuwa in October 2019, although four more branches were approved, which will be implemented when macro conditions improve in the country. Several other projects due to be implemented during the year under consideration were put on hold due to unfavourable conditions.

Looking ahead, we plan to further strengthen our Gold loans offering by expanding it to the entire branch network. The reason for entering into this business segment was because gold prices had reached historic highs due to decline in global oil prices, which made it a lucrative prospect.

Taking forward our vision to infuse technology into every aspect of company operations, a process-driven financial solution system with more automation and digital interface is being considered to achieve minimal customer interaction. This system would give customers greater control over the process and the benefit of a paperless environment where everything is digitally scanned. The ongoing Business Process Re-engineering (BPR) exercise will allow for digital on-boarding and automated digital branches. These advanced technology measures will improve efficiency and profitability, while reducing the intermediary processes.

The impact of COVID-19 is expected to further affect operations - with almost 140,000 customers requesting for moratoriums until September 2020, which could be extended further if economic rebound is not seen. The adverse impact on profitability would be immense for the sector, but as the largest financial institution in the country, LOLC Finance will be able to surmount the impact. Although microfinance customers and their granular deposits form the bulk of customers, the effect will still be significantly felt by the company. Already, customers who usually never opt for moratoriums are requesting for reschedules and/or restructure of loans. Our aim remains to safeguard depositor wealth and loans receivables, which is why the company is entertaining requests to help them tide over the crisis posed by the pandemic and a weak economy.

## Microfinance

LOLC Finance's dominant presence in the Microfinance sector is attributable to its vision of enhancing income levels of its micro customers to help improve their standard of living and future prospects. The company has partnered grassroots customers to help them explore additional income generating avenues, offered technical advice to enhance productivity and facilitated secure market linkages to strengthen the value chain to support them to take advantage of emerging opportunities. As the premier finance company in the microfinance segment, LOLC Finance offers two main product lines, namely, micro leases against assets and micro loans (including micro group loans); and housing development loans and business loans for individuals.

Further adapting to evolving market realities, LOLC Finance has established itself as the leader in second-hand financing within a short period of time due to restrictions on importation of vehicles and the Loan-to-Value (LTV) ruling. The LTV rule has discouraged purchase of new vehicles, thereby opening up opportunities in second-hand financing. The company also accelerated asset-backed lending in 2018/19 with a portfolio of Rs. 29 Bn which grew to Rs. 30 Bn in 2019/20.

LOLC Finance has remained as one of the main pillars of support for micro customers in the sector as many financial institutions engaged in grassroots lending withdrew from the market as a result of the damage caused due to the debt relief programme introduced by the government in 2018, which triggered high Non Performing Loans (NPLs) in the industry. As a result of the spill over effects of the debt relief programme, the company's initial micro loan portfolio of Rs. 29 Bn has dipped to Rs. 28 Bn in the year under

# MANAGEMENT DISCUSSION & ANALYSIS

## REVIEW OF OPERATIONS

review and caused deterioration in the asset quality of the entire microfinance sector. In order to maintain low NPLs, LOLC Finance established a dedicated micro recoveries team for asset-backed and non-asset backed loans, during the year under review. The recoveries team members are evaluated on a performance-linked system which is delivering high productivity and recovery yields. Against industry standards, the company was able to minimise any further adverse impact through its focused recoveries strategy.

Despite these volatile market conditions, the company sustained its partnerships with micro loan customers in the belief that this segment has the potential to be valuable incubators for organic business growth in the country, eventually scaling up their business to qualify for higher loan amounts. LOLC Finance is empowering customers in this segment through training programmes to increase their income generating capacities, financial management skills and book-keeping knowledge, and to increase productivity. The company has successfully sustained such value-adding activities despite the turbulent operating environment.

On the whole, micro customers remained largely untouched by the economic slowdown that was witnessed during the year under review, with many agriculture related businesses performing well. LOLC Finance enjoys a strong presence in financing of agricultural implements and aims to further carve out a greater share in this segment in line with the government's renewed thrust on prioritising the agricultural sector.

The future growth strategy for the Microfinance segment is to enhance income avenues for customers. LOLC Finance has plans to set up a centre

of excellence for Microfinance which will offer training programmes and a platform for trade fairs, competitions and networking for its micro customers, while providing a link to external e-commerce platforms to showcase products and services. A catalogue has been published with business details of LOLC Finance's customer base so that they can connect directly with buyers.

LOLC Finance believes Microfinance is a powerful instrument for the underserved that empowers them to build assets, increase their income and reduce their vulnerability to economic stress.

### Recoveries

The Recoveries operation has perhaps faced some of its biggest challenges in the past two years. Although Recoveries in the preceding year was a colossal challenge due to rising NPLs industry-wide, the year under review too has proved even more so, due to the Easter Sunday attacks in April 2019, which badly affected SME by the ensuing violence.

The industry was already reeling from the government moratoriums in 2018 which had skewed the market as even regular repayments were halted in hopes of waivers from the government. The after-effects of that event are still being felt in the period under consideration.

Historically, the highest collection is always in the month of March, the financial year-end, but that too was affected this year due to the outbreak of COVID-19. Nevertheless, the Recoveries unit continued to work tirelessly on improving recoveries. The new call centres were upgraded to fully-fledged status during the year so as to support the recoveries' effort. Staff underwent regular training to enhance their customer relationship skills while teams were also

strengthened in the interim. We will also be placing greater emphasis on mobile recoveries as a way to offer customer convenience and to reduce operational costs.

Post-COVID-19, the government has asked finance companies to grant moratoriums to SME and Microfinance customers, which will adversely impact the company's profitability in 2020/21 coupled with the fact that many sectors which our customers are engaged are adversely impacted by COVID-19. Finance companies are also prohibited from repossessing vehicles till September 2020 which is yet another constraint for finance companies. Needless to say, recoveries will be a key priority in the foreseeable future.

### LOLC Al-Falaah

LOLC Al-Falaah remains at the forefront of the Alternate Financial Services industry in the country. It has successfully grown its stakeholder base while diversifying its portfolio to include customers from all walks of life and from all communities. Its innovative and customised product portfolio addresses both business and socio-economic requirements of diverse market segments, whilst meeting the specialised needs of individuals. Its portfolio offers products such as profit sharing investment & savings accounts, leasing, trade financing, import financing, property & project financing and working capital financing solutions under alternate concepts to conventional modes of finance. Customers can conveniently access these products and services via dedicated windows within LOLC Finance's extensive network of over 100 branches and service centres island-wide, including dedicated Al-Falaah centres across the country.



Although LOLC AL-Falaah was gearing up for strategic growth and expansion in 2019/20, the unfortunate events that ensued during the period under review disrupted normal business activity. A large proportion of the company's customer base is engaged in trading and tourism related businesses, two sectors which felt the spill-over of the tragic incidents in April 2019, the presidential election later on in 2019, and the outbreak of COVID-19 at the tail end of the financial year. However, its customers who were engaged in agriculture related and export-oriented businesses remained relatively unaffected, lending balance to the company's asset book. The prudent credit guidelines adhered to by the company as a whole and also AL-Falaah's alternate financial services model and the nature of its products by principle are structured to absorb any downturn.

LOLC AL-Falaah's strong credentials as a reliable and a compliant entity with the backing of the LOLC Group gave the depositors extra comfort during times of crises and aptly no major outflow of deposits was seen as is usually the case in times of economic or political volatility, when depositors tend to withdraw savings and deposits. In fact, almost immediately after the tragic events of April 2019, the month of May onwards witnessed a positive inflow of investments which reiterates the trust that the investors and community place in the company. It is evident that LOLC AL-Falaah's deposit portfolio grew significantly during the year under review from Rs. 7.9 billion to Rs. 11.1 billion, a 41% growth in comparison with 2018/19 with Rs.875 Mn profits being paid to depositors, reflecting a significant growth despite a high pressure banking and finance environment. As a result, the company managed to sustain a favourable balance of deposit portfolio vs asset portfolio through the year under review.

In terms of the Assets book, there was a growth from Rs. 9.6 billion to Rs. 11.8 billion, a growth of 22% in comparison to last financial year. All in all, on assessing the turmoil in the industry during the year under review, the Company managed to come out strongly, recording a significant profit.

On another positive note, with Non-Performing Loans (NPLs) expected to rise against this weak economic backdrop, the Company accelerated its recovery effort to conclude the year with relatively low NPLs in comparison to the industry, restricting its NPL ratio to 4.72%, which is far below the rest of the financial services industry and even banks.

Profitability witnessed a slight dip, from Rs. 452 million to Rs. 318 million. Although there is a value-wise drop in profitability, some of the main causes were lower policy rates, significant deposit base growth during the year and prudent investment in overheads, especially in the areas of infusing technology, digitisation, training and also expanding the recoveries effort.

In line with LOLC AL-Falaah's corporate social responsibility commitment, its alternate financing business model ensures it reaches out to the community, offering reliable access to funds whilst also fulfilling its portfolio cleansing responsibility. During 2019/20, the company allocated over Rs.22 Mn for new and on-going charity projects which encompass medical care, education and social upliftment.

As the year progressed, business recovery was swift for LOLC AL-Falaah, because in an uncertain economic environment, alternate financing offered by the company proved to be a more viable and safer option. Over the years, LOLC AL-

Falaah has invested substantial resources to educate people on its alternate financing products and services, which are not relegated to any one community and in fact are a sustainable choice for people who want true financial security.

LOLC AL-Falaah's deliberations in the alternate financial services sphere have not only delivered quantifiable results, but also qualitative outcomes by winning the trust of the community at large, which is reflected in winning the 'Best Islamic Bank in Sri Lanka' for the 3rd consecutive year and also the 'Best Leasing Company Globally' by IFN's Best Banks polls 2019 for the 2nd consecutive year. Moreover, for the 13th consecutive year, the company held an annual compliance audit of the financial services unit which was concluded successfully.

### Looking Ahead

The Company has brought about technological improvements during the year under review such as compliance monitoring reports, customer communication tools, communication and automation of savings statements and so on. It is also in the process of introducing an e-platform for cost-effective and real-time notifications as well as e-learning for staff. LOLC AL-Falaah's website was also revamped during the year with a more user-friendly outlook for customers to quickly access product and service information. The website has been updated in compliance with Central Bank of Sri Lanka's new guidelines.

Although the future of alternate financing and specifically LOLC AL-Falaah's products and services hold much promise, the outbreak of the COVID-19 pandemic and resulting lockdown has impacted the economy adversely. Nevertheless, the Company will continue to strive to build on its successful performance in 2019/20 to

# MANAGEMENT DISCUSSION & ANALYSIS

## REVIEW OF OPERATIONS

launch the Gold-Storage facility which is also an indirect alternative for the popular Gold Loans and pawning offerings in the market. This product was developed keeping in mind the urgent needs of the lower income micro segment. LOLC Al-Falaah remains ahead of the curve in terms of market leadership, innovation and compliance.

### Credit Cards - LOLC Finance PLC

During the period under review, the credit card portfolio surpassed Rupees One Billion within a short period of a year-and-a-half with card issuance growing by as much as 193% while the portfolio recorded a 195% growth despite macro-economic challenges caused due to the April 2019 attacks. Our contribution of 11% to the industry in card issuance during the 1st quarter of 2020 was a highlight. This growth was a remarkable achievement considering that the business acquisitions were carried out by existing internal resources of the company. In addition, strategic collaboration and partnerships were forged with the view to enhance new business opportunities and value addition for cardholders. Going ahead, LOLC plans to introduce co-branded credit cards by partnering group companies and other reputed entities. Steps are already being taken to introduce more payments and collection channels to make infuse convenience for cardholders. Empowered with the payment card acquiring license now in our armoury, we are geared and fully focussed to create a digitally enhanced payment eco-system, facilitating financial inclusion to the bottom layer of the pyramid while gaining a reputation as a true disruptor in the traditional credit card business.

Currently LOLC Finance issues 4 main card types, namely Pulse, Gold, Platinum

and World. Within these, there are sub-categories based on existing client types, professions and other identified customer segments to best suit requirements. These verticals allow us to closely monitor the performance and behavioural factors for future product developments and differentiations.

LOLC credit cards come with an added Cardholder Protector Insurance Policy as an optional benefit with a nominal annual premium, which secures the cardholder liability in case of demise or permanent disability due to accident/illness, thus allowing the cardholder to use the card freely without being apprehensive on any burden to his/her family or dependants. 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.

A dedicated 24X7 Customer Care unit was established to respond to customer queries and to educate customers on how to use credit wisely whilst enjoying the benefits to the fullest. The team similarly counsel customers from the time of canvassing a credit card, during credit evaluation process and throughout the cardholder's life-cycle. All correspondence is trilingual.

Whilst initiatives were taken to increase issuance, efforts were made to improve customer satisfaction through regular training of Call Centre staff and via periodic quality assurance/monitoring as the Call Centre plays a key role in the card business for both existing and potential customers. Training programmes were organised and carried out targeting both front line and operational staff of the branch network with focus on product

information, process and procedures, superlative service levels, and sales and marketing techniques to make LOLC credit cards stand apart.

Understanding the needs and wants of various customer segments, new card products were introduced during the year. Furthermore, special offers and promotions were organised with regional-level merchant partnerships to offer maximum financial benefits to the cardholder to drive customer loyalty. LOLC ventured into the credit card business in September 2018 with the aim of enhancing the value added services offered to its existing customers and the financial inclusion of people in all corners of the country where the awareness of credit cards is minimal, yet the opportunities are immense.



## FINANCIAL REVIEW

### Overview

As a leader in the Non-Banking Financial Institution (NBFI) sector, LOLC Finance PLC (LOFC) concluded yet another successful financial amidst many challenges and in the operating environment. 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 service of the Company.

The financial year under review posed challenges in terms of the economic environment, with increasing pressure on credit quality. This resulted in significant pressure on the profit margins. To arrest the situation, the management took steps to focus on collections and improving credit quality rather than on portfolio growth. The Company strengthened its credit controls with the implementation of fintech solutions, focussing more on asset backed lending. Strong customer confidence in the Company was proven through the continued inflow of deposits. This assisted the Company to change its borrowings mix by reducing 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.

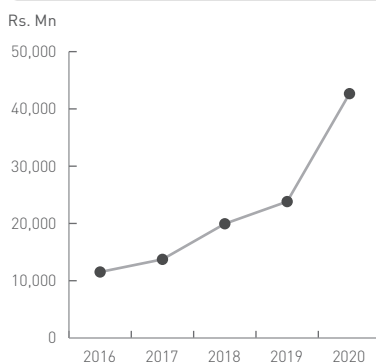
### Interest Income

LOFC reported Rs. 38 Bn interest income during the year, down by 11% compared

■ The financial year under review posed challenges in terms of the economic environment, with increasing pressure on credit quality. This resulted in significant pressure on the profit margins. To arrest the situation, the management took steps to focus on collections and improving credit quality rather than on portfolio growth. ■

to the previous year, due to the reduction in portfolio growth. 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



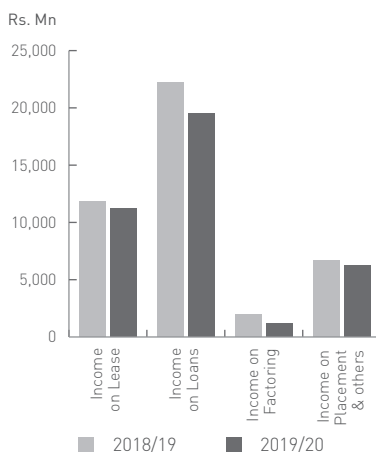
Interest income from leases constituted 29% (2018/19 - 28%) of the total interest income and showed a decrease of 5% at Rs. 11.2Bn. Interest income from loans was the biggest revenue generator (51% form interest income) for the Company, at Rs. 19.5Bn, however, showing a negative growth of 12% compared to last financial year.

Factoring income showed a decrease of 39% 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 8% during the financial year. Majority (74%) of the portfolio is funded through customer deposits with 69% of the interest expense being attributed to customer deposits. The interest on conventional deposits declined by 4% and the profit share cost on Alternate finance deposits declined by 16% keeping in line with the decline in the deposit base. The interest on borrowings showed a decrease of 14% compared to the last financial year.

#### INTEREST INCOME COMPARISON (2018/19 & 2019/20)

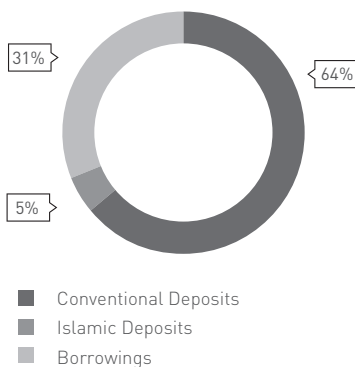


# MANAGEMENT DISCUSSION & ANALYSIS

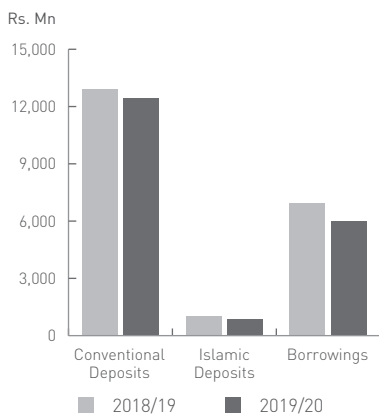
## FINANCIAL REVIEW

### Net Interest Income, Other operating income and Expenses

#### INTEREST EXPENSES COMPOSITION 2018/19



#### INTEREST EXPENSE COMPARISON (2017/18 & 2018/19)



The decline in interest income together with the borrowing costs resulted in a decrease in net interest income by 13% to Rs. 19Bn. This was a decrease of Rs. 3Bn net interest income (NII) compared to the comparative period.

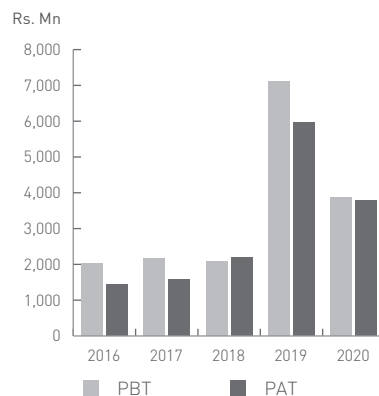
Other operating income increased by 20% reaching Rs. 4.8Bn compared to Rs. 4Bn reported in the previous financial year. This was primarily because of the increase in fair value of investment properties and investment securities.

Total overheads of the Company decreased by 4%, a result of adapting an efficient cost control mechanism over the financial year and the Company was able to maintain the overhead margin at same level as in previous year.

### Profitability

The Company managed the external shocks well and recorded Rs.3,780 Mn profit after tax (PAT) for the financial year. As a result of the negative growth in PAT and increase in equity in 2019/20, Return on Assets (ROA) and Return on Equity (ROE) reduced to 1.88% and 13.98% respectively, as against 2.83% and 29.91% reported in the previous year.

#### PROFITABILITY



### Asset Base

Despite the challenging economic conditions in the country, Company was able to maintain the total assets at a stable level, a Rs. 192Bn as at the end of the year. The lending portfolio constituted 70% of the total assets and stood at Rs.134Bn. Investments in government securities & deposits with banks and other financial institutions were Rs. 28Bn, constituted 15% of the total assets. Investment properties (IP) grew by 37% and stood at Rs. 16Bn and represents 8% of total assets.

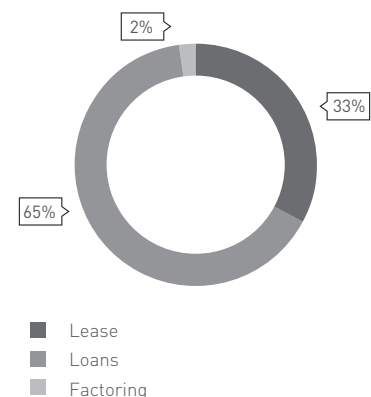
### Lending Portfolio

Due to the slowdown of credit growth during the year, lending portfolio stood at Rs. 134Bn at the year-end with a 2% decline. This was a result of the management decision to focus on collections vs new executions for all major lending products classes.

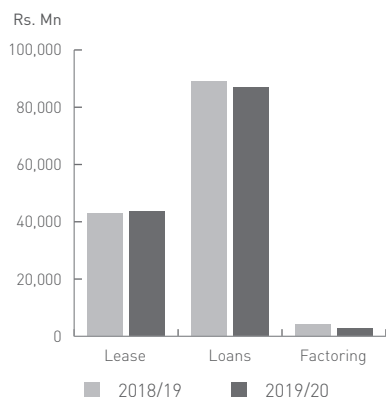
The major part of the portfolio (65%) constituted of loans, which includes revolving, term and mortgage loans. Leases were the second largest product constituting 33% of the portfolio and factoring business showed a decline to 2% of the portfolio. Credit card portfolio is one of the high yielding products which was introduced 2 years back, increased by Rs. 738Mn during the current period.

The gross Islamic product portfolio stood at Rs.11.8Bn and remained at 9% of the total lending portfolio,

#### LENDING PORTFOLIO



#### COMPARISON OF MAIN COMPONENT IN LENDING PORTFOLIO (2018/19 & 2019/20)



#### Funding – Deposits and Borrowings

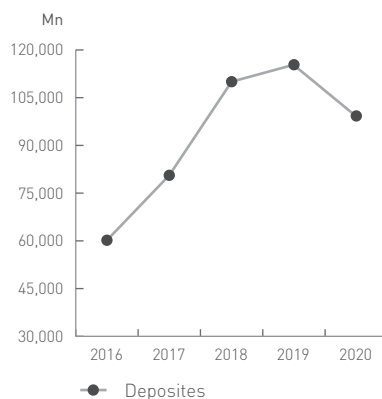
LOFC customer deposits remained at a strong level Rs. 99Bn. CBSL continued reduce the maximum deposit rate throughout the year. As a result, the deposit base decreased by Rs. 16Bn (14% decline). However, the Company retained the title of the largest deposit taking institution in the NBFI sector.

Conventional fixed deposits remained as the Company's primary source of funding, recorded a decline of 18% from 96Bn (2018/19) to Rs. 78Bn. However, deposits from the Alternate business unit slightly increased to Rs. 11Bn and foreign currency deposits decreased to Rs. 4Bn 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 with zero exposure.

During the year, the Company effectively managed the operating cashflows and settled its short-term and long-term borrowings. As a result, the borrowing base reduced by 16% and stood at Rs. 52Bn at end of the financial year.

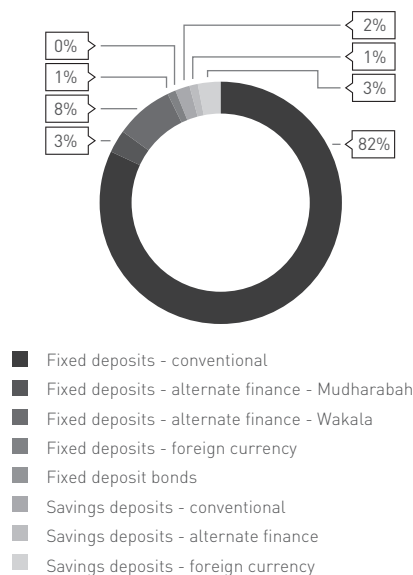
Customer deposits constituted 66% (Up from 2019's 65%) of the total borrowings

#### MOVEMENT OF DEPOSIT BASE IN CONSECUTIVE FIVE YEARS



and the balance 34% (down from 35% last year) was from bank and other borrowings.

#### DEPOSIT COMPOSITION 2019/2020



#### Regulatory ratios

##### Capital Adequacy Ratio (CAR)

Retained profits and the rights issue improved the core capital of the company. The Tier I / Core capital adequacy ratio of the Company was 13.25 % (2018/19 - 10.22%) and the total Capital Adequacy Ratio reached 14.66 % (2018/19- 12.34%), well above the regulatory required limit.

#### Capital Funds to Deposit Ratio

As a result of the infusion of capital, the capital funds to deposits ratio improved to 29.27% as of March 31, 2020 compared to 21.56% a year ago. The ratio was significantly higher than the required minimum of 10%.

#### Liquid assets

The liquid assets of the Company stood at Rs. 15.8Bn which was well above the required minimum amount of Rs. 11.7Bn. 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, recorded the highest industry-wide non-performing (NPL) rate after 2015, caused by Easter Sunday attacked, COVID-19 pandemic, unfavourable weather conditions, unstable political environment and slowing down of economic activities in 2019. However, the Company was able to maintain the NPL level below the industry averages.

In conclusion, the Company is hoping for economic stability in post-election era 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 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.

# MANAGEMENT DISCUSSION & ANALYSIS



## MANUFACTURED CAPITAL

### Customer Relationship Management

Customer Relationship Management (CRM) has always been a key component of LOLC's marketing strategy and as much as we strive to increase our market share by acquiring new customers, we focus on retaining our existing customers by building loyalty. It is important to have an effective CRM strategy, which fosters and increases customer loyalty, as this together with a strategic customer acquisition strategy will increase Customer Profitability. We look at selling our products to our customers, providing after-sales service in line with the customer requirement, better understanding our customer needs and building and strengthening the relationship we have with our customers. We have different product offerings in the Group, which have been attuned to suit the needs of the different customer segments as we understand the profile of each segment and what their key requirements are. We look at adding true value to the different customer segments we serve, based on their financial profile as one strategy does not gel well with all these customer categories. It is important to understand that 'One strategy does not fit all'. We serve the grassroot level microfinance customers who do not have a sophisticated business model; the SME customers who maintain their finances more methodically and also the corporate customers who have a structured approach to business and demand the highest standard of service. Through our CRM strategy, we are able to focus on all these diverse customer profiles and serve them accordingly, in order to achieve a high level of customer satisfaction.

We set up a Central Contact Centre (CCC) under the CRM unit a few years ago with the objective of enhancing customer experience and gaining a greater share


of the customer's wallet. We wanted to become a 'One-stop-shop' for all our customers' financial needs. Through the Contact Centre we look at up-selling and cross-selling all our products to our customer base in accordance with their profile and also look at providing them with a more satisfying omnichannel experience 24x7. Today, financial institutions have leveraged on digital technology, thereby enabling customers to do their transactions via multiple channels and the contact centre plays a pivotal role to ensure that we provide a uniform service in all these channels. The customer may originate the transaction in a branch, at an ATM, online or from their smartphone and will want a seamless service where when they get in touch with the central contact centre. The agent they speak to will already be aware of the current status of the customer's transaction and wouldn't have to obtain the details all over again.

We have introduced some of the more sophisticated financial services products to customers at the bottom end of the economic spectrum and it becomes necessary for us to give them a thorough understanding of the features and functioning of the product if it is to be patronised widely by them. This was one of our primary tasks during the year under review as we were looking

at creating new markets for these products which were not part of their financial take-up up until then. We look at financially empowering our customers and expanding the horizons of the economy, which is part of our business ethic. Furthermore, customers are becoming more and more demanding in terms of seeking convenience and we have to tweak our business model/ infrastructure to enhance 'customer convenience'. As part of our initiative of embracing virtual banking, we introduced the digital payment mobile app 'iPay' to our customers, enabled online banking for customers and extended the services of the Customer Call Centre to offer 24-hour assistance to them. It is exciting and encouraging to note that customers of a simpler profile from the lower strata of the financial pyramid are patronising these digital payment gateways and enjoying the benefits of advanced fintech. We are working on more products that will afford greater customer convenience and will be available to our customers shortly and financially empower them.

We offer 24-hour assistance to our customers for all financial services products and during the year under review we experienced a high volume of activity in relation to credit cards, iPay - the mobile payment platform, business promotions, customer detail verification, etc.

“ We look at selling our products to our customers, providing after-sales service in line with the customer requirement, better understanding our customer needs and building and strengthening the relationship we have with our customers. ”



During the height of the COVID -19 pandemic, when the branches had to remain closed due to social distancing restrictions, the Central Contact Centre functioned throughout and it was business as usual as our team of agents were able to work from home 24x7 and provide a seamless service. We were quite well placed to work from home during the pandemic and support our business, as we had focused on carrying out our operations from a remote location away from office in case the need arises as part of our business continuity plan.

The challenge we face constantly is to recruit agents who have a suitable multifaceted profile: tech-savvy, possess good interpersonal skills and are good at sales negotiation. We will continue to enhance our service offering at the Central Contact Centre in order to increase our presence in virtual banking.



# MANAGEMENT DISCUSSION & ANALYSIS



## INTELLECTUAL CAPITAL

### Information Technology (IT) Systems

Innovative IT solutions continue to differentiate LOLC Finance from the rest of the industry. The company has at its disposal three verticals, namely, Group ICT Shared Services, Digitisation Services and Partnered Solutions. The IT Shared Services play a critical role as providers of efficient and effective IT solutions to all business sectors of the LOLC Group, which encompasses Financial Services, Insurance, Plantation, Healthcare, Hospitality & Leisure and Manufacturing and Trading. LOLC Finance has gained impressive momentum with regard to greater automation, digitalisation and adoption of advanced emerging technologies to facilitate customers and streamline operations for greater efficiency and lower cost of operations. Through the year the company pursued a 'data first' strategy with greater emphasis on Business Intelligence.

### Review of Operations

The recent Business Process Reengineering BPR embarked on promises to be a transformative initiative because once it has been completed, it will bring about a sea-change in the group's back-office operations, infusing efficiency and would eliminate of repetitive tasks. Suitable investments have been made in robotic automation which lead to efficiency improvements and cost savings and which can be operated with less human interaction especially on aspects such as accounts and bank reconciliation which used to be time-consuming tasks earlier. The first phase of the BPR exercise is Mobile Technology adoption which is purely based on mobile and cloud. The 'mobile first' strategy is part of the first phase with most of the reengineering using mobile technology, especially amongst the field force who can work remotely from anywhere for whom advanced mobile technology will be a game-changer. Furthermore, based on the requirements of group businesses,

LOLC Finance has gained impressive momentum with regard to greater automation, digitalisation and adoption of advanced emerging technologies to facilitate customers and streamline operations for greater efficiency and lower cost of operations. Through the year the company pursued a 'data first' strategy with greater emphasis on Business Intelligence.

the BPR will also facilitate the back-office processes. The rolling out of the entire BPR strategy is expected to take approximately two years. With the first phase now complete, we expect the two phases to be completed by end-2020.

The group's adoption of latest technologies is evidenced by the preparedness of group companies when COVID-19 struck, as LOLC was one of most prepared companies to enable work from home from day one. Further, call centres were operated through work from home, a long term strategy that we had already worked out while preparing contingency plans in case disaster struck.

### iPay

LOLC's unique fin-tech initiative – iPay – an online payment platform is gaining traction amongst LOLC and non-LOLC customers, sparking even greater adoption during the lockdown period as merchants and customers both sought a reliable online payment partner. Almost 80% of iPay customers are non-LOLC customers. iPay became the No. 1 most downloaded app on LankaPay's platform.

Plans are being drawn up to infuse more features into iPay that enable customers to click a button to fulfil their insurance premiums and even for the three-wheeler customer base of the micro finance business unit to pay their dues and avail of mobile reload etc. iPay aims to become second nature for consumers and to

encourage them to use it to make every aspect of their lives easier.

### Other initiatives

As part of the new initiatives the Phase I of the Anti-Money Laundering package was launched successfully, which is developed in-house to suit the business requirements. It is cloud-based, cost effective and tailor-made system ideal for financial institutes compared to the expensive off the shelf packages. A credit score based digital lending solution was developed during the year under review while new technologies such as Machine Learning and Algorithms were adapted to provide more accurate, futuristic customer evaluations in terms of maintaining healthy lending portfolio.

One of the prime focus areas going ahead is becoming paperless and towards this one of the key developments is efficient and fast file approvals which address inherited issues of transferring manual files. As a part of a blue chip conglomerate, LOLC Technologies is focused on disruptive innovation and has heavily invested in disruptive technologies, the best example being the core banking revamping project called FusionX. Presently, a cloud enabled, data first, mobile-enabled and micro service based architectural product is being developed. Through the year under review, LOLC Finance sustained a culture of innovation in product design, delivery and IT systems.





## HUMAN CAPITAL

### Our Philosophy

Human Resources (HR) plays the role of a strategic partner in building LOLC Finance's business by maximising the value creation through human capital and aligning it with company values, strategies and the needs of all stakeholders. A unique centralised HR management framework, which relies on the HR Business partnering concept, enables effective management of an extensive and diversified group of employees spread across the branch network in Sri Lanka, offering an array of financial products and services. As a company fully embracing digitalisation in all parts of the business, HR, through total process automation, is providing valuable insights to the business which helps take it to greater heights.

### Upholding Human Rights & Equality

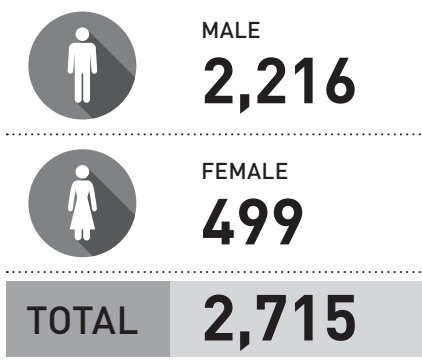
LOLC Finance respects internationally recognised Human Rights as established in the Universal Declaration on Human Rights and the International Labour Organisation's Core Conventions. The company does not promote forced or compulsory labour and does not use child labour in any of its operations. The company fully respects all applicable laws establishing a minimum age for employment, in order to support the effective abolition of child labour worldwide. It has zero tolerance for any form of unacceptable treatment of workers.

We encourage diversity, for we recognise that a diverse mix of backgrounds check, skills and experiences drives new ideas, products, and services and provide us with a sustained competitive advantage. LOLC Finance values the diversity of the extensive staff cadre which reflects the diverse ethnic and socio-economic backgrounds of Sri Lanka

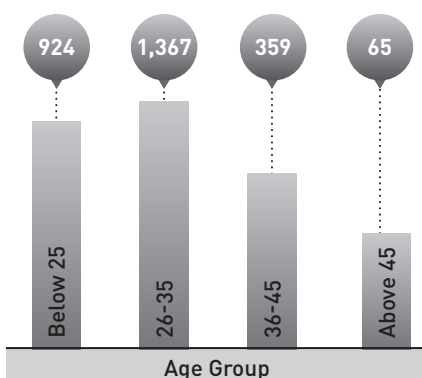
■ A unique centralised HR management framework, which relies on the HR Business partnering concept, enables effective management of an extensive and diversified group of employees spread across the branch network in Sri Lanka, offering an array of financial products and services. ■■

and has ensured the welfare of these diverse groups within the organisation by maintaining policies and procedures regarding the same. Gender equality and policies on sexual harassment guarantee that female employees across the group feel secure in the workplace.

### GENDER ANALYSIS



### AGE ANALYSIS



### SERVICE ANALYSIS

|               |               |       |
|---------------|---------------|-------|
| Service Group | Less 2 Years  | 839   |
|               | 2-5 Years     | 1,074 |
|               | 6-10 Years    | 516   |
|               | Over 10 years | 286   |



LOLC Finance is an equal opportunity employer, with all employees treated equally in hiring, training, promotions, staff benefits, rewards and recognition. Further, each employee is provided benefits without discrimination based on ethnicity, gender, religion, age or disability. Differently-abled employees also form a part of the permanent workforce and are given special training to help them integrate into their work environment. Additionally, we evaluate and address the specific infrastructural and support requirements of our differently-abled personnel to facilitate their integration into our corporate work ethic.

# MANAGEMENT DISCUSSION & ANALYSIS

## HUMAN CAPITAL

A fully operational grievance handling policy ensures all staff concerns and grievances are independently handled and addressed thus assuring employees the peace of mind to be fully productive in their job roles.

### 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. Our 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.

### Succession Planning

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 Group HR strategy, a talent pipeline of experienced and capable employees that are prepared and ready to assume leadership roles are identified and developed. We believe that our employees

are motivated and engaged when they can see a career path for their continuous growth and development. 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.

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.

### Training and Development

LOLC Finance has adopted the LOLC Groups' 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. Group HR strategy also focuses on including the employees from overseas ventures to be part of the overall talent mapping and leadership training plan of the Group to ensure the strengthening of the overseas talent pool.

### Employee Well-being

LOLC Finance is one of the very few corporates offering unlimited OPD facilities for all staff members and a wide array of other related benefits such as critical illness cover, paid leave for special ailments, financial assistance through

### TRAINING & DEVELOPMENT



**2,173**

NO. OF ASSOCIATES TRAINED



**6,378**

MAN-DAYS



**LKR19.6Mn**

INVESTMENT

dedicated company funds for prolonged sickness etc. Employee well-being and safety is an ongoing priority for the group. The available club membership benefit is widely hailed by employees and gives them the opportunity to maintain fitness and pursue a healthy lifestyle.

### 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.

## LOLC FINANCE TRAINING SUMMARY

| Quarter | No. of Training Programmes | No. of Associates Trained | Man-days | Investment (LKR) |
|---------|----------------------------|---------------------------|----------|------------------|
| Q1      | 38                         | 850                       | 1,133    | 2,953,006        |
| Q2      | 57                         | 1,467                     | 2,787    | 12,851,327       |
| Q3      | 54                         | 1,027                     | 1,710    | 2,794,538        |
| Q4      | 28                         | 504                       | 748      | 1,071,013        |

| Type of Training | No. of Training Programs | No. of Associates Trained | Man-days | Investment (LKR) | Absenteeisms |
|------------------|--------------------------|---------------------------|----------|------------------|--------------|
| Leadership       | 22                       | 155                       | 1,121    | 9,076,465        | 18           |
| Technical        | 115                      | 1,883                     | 3,648    | 5,763,165        | 412          |
| Professional     | 33                       | 774                       | 1,609    | 4,830,255        | 221          |

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.

### Employee Engagement Activities in 2019/20

- Annual Pirith Ceremony - The chanting of Pirith took place at the LOLC Head Office. This was graced by a 'Pahan Pooja' by staff members of the LOLC Group.
- LOLC Winter Wonderland 2019 took place at Excelworld on and featured a Kiddies Party for children of employees of LOLC Group.
- Christmas Carols conducted by staff members of LOLC Group and a Musical Show showcasing a leading band and superstars who performed on the occasion.

- Champion's Trophy 2020 Big Match between LOLC and CLC - A historic cricket encounter between LOLC and CLC organised for the first time. The exciting event took place at Thurstan College Grounds and is set to become an annual feature.

# MANAGEMENT DISCUSSION & ANALYSIS



## SOCIAL AND RELATIONSHIP CAPITAL

LOLC Finance's relationships with its customers, suppliers and the wider community are critical for long-term sustainable operations. With the aim of creating value for these stakeholders, the company invests in various systems and processes to deepen engagement further. Its portfolio of products and services supports stakeholders' development and growth and promotes responsible financial habits.

### CUSTOMER

LOLC Finance sustains dialogue with customers through a large variety of channels to deliver customer needs, gather feedback and design customised products and services.

#### Product Responsibility

Securing the financial future of customers is the salient aim which the company achieves by offering a product portfolio that caters to needs of customers from all walks of life. LOLC Finance is the first to respond to market needs to enable customers to uplift their living standards through responsible financial conduct and products that always place the customer interest at the forefront. Moreover, the company ensures staff is adequately trained to understand that they must encourage customers to only select products which are suitable for their needs and ensure they are cognisant of risks if any.

#### Reaching Customers

LOLC Finance's branch network covers 25 districts and has expanded to 139 branches across the country to ensure its services are available with ease. Digital technology solutions are forming a critical pillar on which it is strengthening its customer outreach. 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 has gained 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.

#### Customer Engagement

Customer engagement is a measure of LOLC Finance's interaction with customers across all touchpoints throughout the life-cycle of the relationship and across a variety of channels to build a one-to-one connection so that they see the company as a financial partner invested in their future. 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.

■ ■ Securing the financial future of customers is the salient aim which the company achieves by offering a product portfolio that caters to needs of customers from all walks of life. LOLC Finance is the first to respond to market needs to enable customers to uplift their living standards through responsible financial conduct and products that always place the customer interest at the forefront. ■ ■

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.

#### Responsible Marketing

LOLC Finance's robust reputation and widespread customer base is a testimonial to its responsible marketing practices which are strictly underpinned by the highest ethical standards. From the stage of devising products right through the entire life-cycle we ensure that all aspects of the product or service is clearly labelled and explained to customers. While the company's efforts reflect best practices in marketing, LOLC Finance is also enhancing its digital marketing tools for greater transparency and efficiency.

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. Customers are treated fairly and transparently at all times to build loyalty and to deliver our promise.

## Customer Engagement

An agile and cutting-edge customer engagement strategy is critical when it comes to attracting and retaining 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. The Company is in full compliance with the directives issued 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.

## Respecting Customer Privacy

Privacy has become a critical requirement to earn and maintain the trust of customers and at LOLC Finance emphasis is placed on upholding 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

Our enduring relationships with our suppliers and business partners help us maintain the high quality standards we stand by and help us make competitive offers to customers. 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.

### Economic Development

The Sri Lankan economy is witnessing a transformation as it advances into a Middle Income Country bracket and at LOLC Finance we believe we can provide the required expertise to help people at the grassroots to simultaneously uplift their status. The company's leasing and microfinance units provide a range of financing solutions to offer support to SMEs and micro entrepreneurs across the country, enabling them to improve their livelihoods and thereby contribute towards the socioeconomic development of their local economy. The company's lending

products and services support SMEs and micro entrepreneurs across a wide range of industries, including agriculture, construction and tourism, sectors which are crucial for the nation's economic growth.

### Promoting Financial Inclusion

Serving the unbanked and under-banked sections at the grassroots, one of LOLC Finance's key objectives 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 Smart collect programme rolled out in mid-2018 is one such initiative launched with the aim of promulgating the savings culture among the rural population. Smart collect is a simple solution that is designed to offer the customer a doorstep collection service and the guarantee of immediate credit to their respective savings account. The LOLC Finance officer visiting the customer at his/her doorstep will accept the cash, which will be credited instantly to the customer's savings account through a point-of-sale machine. The account holder then receives an instant SMS alert confirming the fund transfer.

### Corporate Social Responsibility

Reaching out with compassion to support the community in which it operates is ingrained in LOLC Finance. The year under review witnessed a several catastrophes which spurred the company to accelerate its positive impact on society through some targeted initiatives:

The LOLC Group has always been fueled by the values and commitment towards uplifting the lives and livelihoods of the

# MANAGEMENT DISCUSSION & ANALYSIS

## SOCIAL AND RELATIONSHIP CAPITAL

communities it is part of. The outbreak of the COVID-19 pandemic 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. LOLC believes that there is no better time than this to collaborate and support each other to curb the spread of the coronavirus whilst weathering the tough times together.

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 Yatra and Manusath Derana to drive its humanitarian efforts. Assistance was extended to religious places, elders and childrens homes as well as government hospitals located in various parts of the country and the Ministry of Defence. The relief efforts involve providing the most urgently-needed safety equipment and supplies to government hospitals including the IDH Hospital, Homagama Base Hospital, Maharagama Apeksha Hospital, Colombo, Kandy, Karapitiya, Anuradhapura, Negombo, Jaffna and Kurunegala National Hospitals, Iranawila Air Force Hospital, the Ministry of Defence as well as a few quarantine centres. The safety equipment and supplies include protective kits, surgical masks, hand sanitizers, mattresses and pillows, protective helmets, footbath units and washing powder. Essential dry ration packs were distributed to temples, churches and other religious places as well as elders and childrens homes located in areas that are most effected by COVID-19. These distribution efforts were accompanied by LOLC staff and vehicles in a safe manner.

In addition, LOLC Finance branches also conducted their own CSR activities at the branch level, contributing to the local communities they serve and operate in.

LOLC Finance assisted the Sri Lanka Navy, which is playing a vital role in the fight against the COVID-19, by donating 1,000 Microgard 2000 coveralls or full body suits. The donation was handed over through the Manusath Derana relief programme which LOLC was partnering. The body suits, which were handed over to the Sri Lanka Navy Commander at the Navy Head Quarters, provide both protection and comfort with exceptional liquid and particulate protection. Over 200 Navy personnel were infected by the COVID-19 in the Welisara Naval Complex which houses nearly 4,000 naval personnel. The Navy base was completely locked down following the identification of a large number of COVID-19 infected personnel. Close contacts of the infected personnel were also directed to PCR tests, on a priority list and those who tested positive for COVID-19 were sent to hospitals for treatment by the Navy. Some Naval officers who were on leave also contracted the infection. It is during this challenging time that LOLC stepped forward to assist the Navy and the Navy personnel who are helping to fight the COVID-19 battle in the frontline, throughout the nation.





## NATURAL CAPITAL

Natural capital is the stock of renewable and non-renewable natural resources that combine to yield a flow of benefits to people. As a leading responsible financial services institution, LOLC Finance's positive impact on the environment far outweighs any minimal impact it may have since it is not engaged in any production or manufacturing activity. 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

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. 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. 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 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.

■ ■ 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 initiatives have led to a significant reduction in the paper used on a daily basis. ■ ■

### 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 initiatives have led to a significant reduction in the paper used on a daily basis.

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.

# 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.

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 September 2019.

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.

The external auditor's certification on the effectiveness of the Internal Control Mechanisms in respect of the audited financial statements released has been published in this Annual Report.

The Directors confirm that no significant deviations have been observed by the External Auditors and that the Company has not engaged in any activity that contravenes any applicable law or regulation. To the best of the knowledge of the Directors the Company has been in compliance with all prudential requirements, regulations and laws.

# 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. | Risk Score  | Risk Score  |
|---------------|---|---|
| <b>2</b>      | <b>The Responsibilities of the Board of Directors</b>   |   |
| 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;                          | <p><b>Complied with</b></p> <p>Board approved vision, mission and corporate values have been established and communicated throughout the company.</p>   |
| 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; | <p><b>Complied with</b></p> <p>The Company has formulated a three year Strategic Plan covering 2021-2023 which has been approved by the Board.</p> <p>This strategy has taken into account the related risks including the volatility of the economic/political/social conditions in which it operates which could cause disruptions in achieving its objectives.</p>   |
| c.            | identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;   | <p><b>Complied with</b></p> <p>The Board has delegated this function to its Sub-Committee, the Integrated Risk Management Committee (IRMC).</p> <p>The Board has approved an annual plan submitted by Enterprise Risk Management Division (ERM) which covers risk management.</p> <p>In line with the Risk Policy ERM reports are submitted to the IRMC which then reviews the risk and agrees on appropriate mitigation methods.</p> <p>Furthermore, minutes of the quarterly IRMC meetings are tabled at Board Meetings for review and guidance.</p> <p>Risk Management Reports on Liquidity and Maturity of Deposits are submitted to the Board on a monthly basis.</p>  |
| d.            | approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;   | <p><b>Complied with</b></p> <p>A Board approved Stakeholder Communication Policy which covers all stakeholders is in place.</p>   |
| e.            | reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;  | <p><b>Complied with</b></p> <p>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:</p> <ol style="list-style-type: none"> <li>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.</li> </ol> <p>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.</p> |

| Direction No. | Risk Score   | Risk Score  |
|---------------|--|---|
|               |  | <p>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.</p> <p>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.</p> <p>Where there is a breach of authority, such issues are escalated to the Board through the Board Audit Committee.</p> <p>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.</p> <p>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.</p> <p>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.</p> |
| f.            | <p>identifying and designating Key Management Personnel, who are in a position to:</p> <p>(i) influence policy;</p> <p>(ii) direct activities; and</p> <p>(iii) exercise control over business activities, operations and risk management;</p> | <p><b>Complied with</b></p> <p>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 is reviewed by the Board as and when necessary.</p>   |
| g.            | <p>defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel;</p>  | <p><b>Complied with</b></p> <p>Articles 76-78 of the Company's Articles of Association define the powers and duties of the Board of Directors.</p> <p>Further the responsibilities of the Board have been defined and approved.</p> <p>The areas of authority and responsibilities of the Key Management Personnel defined in individual job descriptions have been approved by the Board.</p>  |

# CORPORATE GOVERNANCE

| Direction No. | Risk Score  | Risk Score  |
|---------------|---|---|
| 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;   | <p><b>Complied with</b></p> <p>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.</p> <p>Delegated authority given to KMPs is reviewed periodically by the Board to ensure that they remain relevant to the needs of the company.</p>  |
| i.            | <p>periodically assessing the effectiveness of its governance practices, including:</p> <p>(i) the selection, nomination and election of Directors and appointment of Key Management Personnel;</p> <p>(ii) the management of conflicts of interests; and</p> <p>(iii) the determination of weaknesses and implementation of changes where necessary;</p> | <p><b>Complied with</b></p> <p>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.</p> <p>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.</p> <p>A Nomination Committee has been appointed to assist the Board in identifying qualified individuals as potential directors.</p> <p>KMPs are selected and recruited in terms of the HR policy of the Company.</p> <p>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.</p> <p>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.</p> |
| j.            | ensuring that the finance company has an appropriate succession plan for key management personnel;  | <p><b>Complied with</b></p> <p>The Company has a succession plan approved by the Board.</p>   |
| k.            | meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;   | <p><b>Complied with</b></p> <p>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.</p>  |
| l.            | understanding the regulatory environment;   | <p><b>Complied with</b></p> <p>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.</p>  |



| Direction No. | Risk Score   | Risk Score   |
|---------------|--|--|
|               |  | <p>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.</p> <p>A monthly confirmation is provided by the Head of Finance of statutory payments made such as VAT, VAT on financial services, WHT on FD's and savings interest, EPF, ETF, PAYE and Stamp duty.</p>   |
| m.            | exercising due diligence in the hiring and oversight of External Auditors.   | <p><b>Complied with</b></p> <p>The Board Audit Committee is responsible for the hiring and overseeing of external auditors.</p> <p>Article 122 of the Company's Articles of Association lays down a process for appointing of external auditors at the AGM.</p> <p>The Audit Committee has recommended that the auditors be re-appointed for 2019/2020</p> <p>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.</p> |
| 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.   | <p><b>Complied with</b></p> <p>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.</p>   |
| 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. | <p><b>Complied with</b></p> <p>A Board-approved detailed procedure has been established to obtain independent professional advice when necessary.</p>  |
| 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.  | <p><b>Complied with</b></p> <p>Article 79 of the Company's Articles of Association requires an interested Director to disclose his/her interest at Board meetings.</p> <p>Article 83 requires such a Director to abstain from voting on any Board resolution. He/she will not to be counted in the quorum.</p> <p>In addition, a Board approved procedure is established to manage conflicts of interest of the Board members.</p>   |

# CORPORATE GOVERNANCE

| Direction No. | Risk Score  | Risk Score  |
|---------------|---|---|
| 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.   | <p><b>Complied with</b></p> <p>The Board approved policy on the Role of the Board defines its responsibilities and the matters which are specifically reserved to it for approval.</p> <p>Additionally a Board-approved Terms of Reference have been established for Executive and Non-Executive Directors, including Independent Directors.</p> <p>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.</p> <p>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.</p> |
| 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. | <p><b>Will comply with if the need arises.</b></p> <p>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.</p>   |
| 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.   | <p><b>Complied with</b></p> <p>This report serves the said requirement.</p>   |
| 2.8           | The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.   | <p><b>Complied with</b></p> <p>The Directors carry out a self evaluation annually and records are in the custody of the Company Secretaries.</p>  |
| <b>3</b>      | <b>Meetings of the Board</b>  |   |
| 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.  | <p><b>Complied with</b></p> <p>The Board met 13 times during the year. The monthly meeting scheduled in March was held in early April. Please see page 65 for further details.</p> <p>Approvals obtained through the circulation of resolutions (44) were subsequently tabled at the following board meeting.</p>   |
| 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.  | <p><b>Complied with</b></p> <p>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.</p>  |

| Direction No. | Risk Score  | Risk Score  |
|---------------|---|---|
| 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.  | <p><b>Complied with</b></p> <p>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.</p> <p>Date of the next meeting is agreed by all the members of the Board as a practice.</p> <p>Reasonable notice has been given for all other Board meetings.</p> |
| 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. | <p><b>Complied with</b></p> <p>All the members have attended two-thirds or more of the meetings during the year. Please refer page 65 for further details.</p>  |
| 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.  | <p><b>Complied with</b></p> <p>LOLC Corporate Services (Pvt) Ltd has been appointed as Company Secretaries of the Company.</p>  |
| 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.   | <p><b>Complied with</b></p> <p>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.</p>  |
| 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.  | <p><b>Complied with</b></p> <p>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.</p>  |
| 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.  | <p><b>Complied with</b></p>   |

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| Direction No. | Risk Score  | Risk Score   |
|---------------|---|--|
| 3.9           | <p>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:</p> <ul style="list-style-type: none"> <li>(a) a summary of data and information used by the Board in its deliberations;</li> <li>(b) the matters considered by the Board;</li> <li>(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;</li> <li>(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;</li> <li>(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</li> <li>(f) the decisions and board resolutions.</li> </ul> | <p><b>Complied with</b></p> <p>Proceedings of meetings are recorded in minutes covering the given criteria.</p>  |
| <b>4</b>      | <b>Composition of the Board</b>   |  |
| 4.1           | The number of Directors on the Board shall not be less than five and not more than 13.  | <p><b>Complied with</b></p> <p>The Board comprised seven members as at 31st March 2020.</p>  |
| 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.   | <p><b>Complied with</b></p>  |
| 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.   | <p><b>Complied with</b></p> <p>Board comprised three Executive Directors (including the Director/ CEO), and four Non-Executive Directors of whom three were Independent.</p> |

| Direction No. | Risk Score  | Risk Score   |
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| 4.4           | <p>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:</p> <ul style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>c) has been employed by the finance company during the two year period immediately preceding the appointment as Director;</li> <li>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.</li> <li>e) represents a shareholder, debtor, or such other similar stakeholder of the finance company;</li> <li>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:</li> <li>(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</li> <li>(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</li> <li>(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.</li> </ul> | <p><b>Complied with</b></p> <p>The Board comprised three Independent Directors as at 31st March 2020.</p> <p>Mrs. D P Pieris, Senior Independent Director</p> <p>Mr. P A Wijeratne, Independent Non-Executive Director</p> <p>Mr. K Sundaraj, Independent Non-Executive Director (Appointed on 23rd July 2019)</p> |

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| Direction No. | Risk Score  | Risk Score  |
|---------------|---|---|
| 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.   | <b>Complied with</b><br>Directors' profiles are provided on pages 12 to 13.   |
| 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.  | <b>Complied with</b><br>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.<br><br>The quorum had been maintained at all Board meetings held during the financial year 2019/2020.<br><br>Details of attendance at meetings are provided on pages 65 to 66.   |
| 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. | <b>Complied with</b><br>The Directors during the year under review were:<br>1. Mr. B C G de Zylva - Non Executive-Chairman<br>2. Mr. F K C P N Dias - Executive Director/CEO-appointed with effect from 01st March 2020<br>3. Mrs. K U Amarasinghe - Executive Director<br>4. Mr. A Nissanka - Non-Executive Director -re-designated with effect from 28th April 2020<br>5. Mrs. D P Pieris -Senior Independent Director<br>6. Mr. P A Wijeratne - Independent Director<br>7. Mr. K Sundararaj - Independent Director - appointed with effect from 23rd July 2019<br>8. Mr. R D Tissera - Deputy Chairman/ CEO - resigned with effect from 28th February 2020<br><br>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.   | <b>Complied with</b><br>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.<br><br>The Company's Articles 70-74 address the general procedure for appointment and removal of Directors to the Board.<br><br>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.   |



| Direction No. | Risk Score  | Risk Score  |
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| 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.   | <p><b>Complied with</b></p> <p>Article 70 of the Company's Articles of Association provides that Directors appointed shall be subject to election by shareholders at the first AGM.</p> <p>Mr. F K C P N Dias who was appointed during the financial year will retire in terms of Article 70 of the Articles of Association of the Company and being eligible offer himself for re-election at the AGM.</p>   |
| 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. | <p><b>Complied with</b></p> <p>Directors' resignation and the reason for such resignation are duly informed to the Central Bank of Sri Lanka (CBSL) and Colombo Stock Exchange (CSE).</p> <p>The Board announces such situations to the shareholders through its Annual Report.</p> <p>Changes to the directorate during the year (resignation of Mr. R D Tissera and the appointment of Mr. F K C P N Dias) were announced to the shareholders via CSE disclosure after receiving approval from the Central Bank of Sri Lanka.</p> |
| <b>5</b>      | <b>Criteria to assess the fitness and propriety of directors</b>  |   |
| 5.1           | <p>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.</p> <p>(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)</p>   | <p><b>Complied with</b></p> <p>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.</p> <p>During the year under review the age of the current Directors were within the period permitted under this direction.</p>  |
| 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.   | <p><b>Complied with</b></p> <p>No Director holds directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies.</p>  |
| <b>6</b>      | <b>Delegation of Functions</b>  |   |
| 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.   | <p><b>Complied with</b></p> <p>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.</p> <p>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.</p>   |

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| 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.  | <p><b>Complied with</b></p> <p>The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Company.</p> <p>A process to review the delegation process has been approved by the Board.</p>  |
| <b>7</b>      | <b>The Chairman and the Chief Executive Officer</b>  |  |
| 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.  | <p><b>Complied with</b></p> <p>Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.</p>  |
| 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.         | <p><b>Complied with</b></p> <p>Mr. B C G De Zylva, Non-Executive Director was appointed as the Chairman, on 24th April 2018.</p> <p>Mrs. D P Pieris was appointed as the Senior Independent Director on 3rd July 2017.</p>   |
| 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. | <p><b>Complied with</b></p> <p>The Company as a practice discloses relationships in the Annual Corporate Governance Report.</p> <p>There is no financial, business, family or other relationship between the Chairman and the Director/CEO.</p> <p>There is no financial, business, family or other material relationship between any other members of the Board.</p> <p>A process has been developed for Directors to disclose any relationships between the Chairman and the CEO and or between any other Board members.</p> |
| 7.4           | <p>The Chairman shall:</p> <p>(a) provide leadership to the Board;</p> <p>(b) ensure that the Board works effectively and discharges its responsibilities; and</p> <p>(c) ensure that all key issues are discussed by the Board in a timely manner.</p>  | <p><b>Complied with</b></p>  |
| 7.5           | <p>The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting.</p> <p>The Chairman may delegate the function of preparing the agenda to the Company Secretary.</p>   | <p><b>Complied with</b></p> <p>The Chairman has delegated this function to the Company Secretaries.</p> <p>This has been included in the 'Policy on Board's relationship with the Company Secretary' approved by the Board.</p>  |

| Direction No. | Risk Score  | Risk Score  |
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| 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.  | <p><b>Complied with</b></p> <p>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.</p> <p>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.</p> |
| 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   |
| 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.  | <p><b>Complied with</b></p> <p>The Company's self-evaluation process assesses the contribution of Non-Executive Directors.</p>  |
| 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.  | <p><b>Complied with</b></p> <p>The Chairman does not engage in activities involving direct supervision of key management personnel.</p>   |
| 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.  | <p><b>Complied with</b></p> <p>A Board approved communication policy covers this aspect.</p> <p>The Annual General Meeting of the Company is the main forum at which the Chairman including the Board maintains effective communication with shareholders.</p> <p>Periodic announcements made to the Colombo Stock Exchange also contribute towards this purpose.</p>                 |
| 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   |
| <b>8</b>      | <b>Board appointed Committees</b>   |   |
| 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. | <p><b>Complied with</b></p> <p>The Company has established an Audit Committee and an Integrated Risk Management Committee.</p> <p>Reports of these committees have been submitted to the main Board for their review.</p> <p>Please refer the reports on pages 76 to 77.</p>  |

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| 8.2           | Audit Committee   | Please refer page 76 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.  | <p>Mr. K Sundararaj, Independent Non-Executive Director, was appointed as the Chairman of the Audit Committee on 28th May 2020.</p> <p>Mr. 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.</p> |
| b.            | The Board members appointed to the committee shall be Non-Executive Directors.  | <p><b>Complied with</b></p> <p>The Committee consists of Independent Non-Executive Directors. The members of the Committee are:</p> <ol style="list-style-type: none"> <li>1. Mr. K Sundararaj</li> <li>2. Mr. P A Wijeratne</li> <li>3. Mrs. D P Pieris</li> </ol>  |
| c.            | <p>The committee shall make recommendations on matters in connection with:</p> <ol style="list-style-type: none"> <li>(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</li> <li>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</li> <li>(iii) the application of the relevant accounting standards; and</li> <li>(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.</li> </ol> | <p><b>Complied with</b></p> <p>A formal agenda for Audit Committee meetings including items prescribed by the direction is followed for the conduct of Audit Committee meetings.</p> <p>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.</p>   |
| 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.   | <p><b>Complied with</b></p> <p>The External Auditors are independent as they report direct to the Audit Committee of the Board.</p> <p>Further, the Auditors' Engagement Letter is evidence of the External Auditors' independence, and that the audit is carried out in accordance with SLAuS.</p>  |

| Direction No. | Risk Score  | Risk Score   |
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| e.            | <p>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:</p> <ul style="list-style-type: none"> <li>(i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services;</li> <li>(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</li> <li>(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.</li> </ul> | <p><b>Complied with</b></p> <p>The Board has approved a specific procedure for the engagement of the External Auditors for providing non-audit services.</p> |
| f.            | <p>The committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including:</p> <ul style="list-style-type: none"> <li>(i) an assessment of the finance company's compliance with directions issued under the act and the management's internal controls over financial reporting;</li> <li>(ii) the preparation of Financial Statements in accordance with relevant accounting principles and reporting obligations; and</li> <li>(iii) the coordination between auditors where more than one auditor is involved.</li> </ul>  | <p><b>Complied with</b></p>  |

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| Direction No. | Risk Score  | Risk Score   |
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| g.            | <p>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:</p> <ul style="list-style-type: none"> <li>(i) major judgemental areas;</li> <li>(ii) any changes in accounting policies and practices;</li> <li>(iii) significant adjustments arising from the audit;</li> <li>(iv) the going concern assumption; and</li> <li>(v) the compliance with relevant accounting standards and other legal requirements.</li> </ul>                                       | <p><b>Complied with</b></p> <p>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.</p>   |
| h.            | <p>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</p>  | <p><b>Complied with</b></p> <p>Of the five 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.</p>   |
| i.            | <p>The Committee shall review the External Auditors' management letter and the management's response thereto.</p>   | <p><b>Complied with</b></p>  |
| j.            | <p>The Committee shall take the following steps with regard to the internal audit function of the finance company:</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(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;</li> <li>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</li> <li>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</li> </ul> | <p><b>Complied with</b></p> <p>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.</p> <p>The Audit Plan for 2019/2020 was tabled by the Head of Internal Audit and had been approved by the Board as recommended by the Audit Committee.</p> <p>An overall assessment of performance of the senior staff members and the Head of Internal Audit for the year 2019/2020 has been carried out by the Committee.</p> <p>No such situation has arisen during the year.</p> |



| Direction No. | Risk Score   | Risk Score   |
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|               | <p>(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;</p> <p>(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;</p> | <p>No such situation has arisen during the year.</p> <p>The Committee is satisfied that the internal audit function is performed with independence, impartiality and proficiency.</p> <p>The internal auditor reports direct to the Board Audit Committee.</p> |
| k.            | The committee shall consider the major findings of internal investigations and management's responses thereto;   | <b>Complied with</b>   |
| 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.  | <b>Complied with</b><br>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: <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its terms of reference;</li> <li>(ii) the resources which it needs to do so;</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>  | <b>Complied with</b><br>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.   | <b>Complied with</b><br>During the year 2019/2020 the Committee has held five 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, <ul style="list-style-type: none"> <li>(i) details of the activities of the audit committee;</li> <li>(ii) the number of audit committee meetings held in the year; and</li> <li>(iii) details of attendance of each individual member at such meetings.</li> </ul>   | <b>Complied with</b><br>Please refer pages 65 and 76.  |

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| 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   |
| 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. | <p>Complied with</p> <p>A whistle-blowing hotline has been publicised to all employees.</p> <p>The related policy is periodically reviewed and strengthened to cover the method of reporting any matters investigated to the Board Audit Committee.</p>   |
| 8.3           | Integrated Risk Management Committee   | Please refer page 77 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.   | <p>Complied with</p> <p>The Integrated Risk Management Committee comprises:</p> <p>Mr. P A Wijeratne - Committee Chairman/ Independent Director</p> <p>Mrs. D P Pieris - Senior Independent Director</p> <p>Mr. C Dias - Executive Director/CEO</p> <p>Mr. G Weerakoon-DGM - Enterprise Risk Management</p> <p>Mr. B Weeratunga - Head of Finance</p> <p>Mr. I Ariyawansa-AGM - Credit Risk Management</p> <p>Mr. S Samarasekera-AGM - Credit Risk Management</p> <p>Mr. J Gunathileka - Compliance Officer</p> <p>Mr. S Kalidasa - Head of Treasury</p> <p>Mr. C Jayanath - Head of Recoveries</p> <p>Mr. M Warnakula - Chief Operating Officer</p> <p>Mrs. R Weerasekara - Head of Liability Management</p> <p>Mr. P Siriwardena - CIO FS</p> <p>Mr. H Thilakaratne - DGM Digital Platforms</p> <p>Mr. C Jagoda - DGM Micro</p> |
| 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.  | <p>Complied with</p> <p>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.</p>  |

| Direction No. | Risk Score   | Risk Score   |
|---------------|--|--|
|               |  | 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 and Stress Testing.   |
| 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. | <p><b>Complied with</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The Committee also reviewed the facilities approved by the Credit Committee and changes that had been made to credit policies and delegated authority limits.</p> <p>The overall evaluation of both these Committees were carried out subsequent to the year under review.</p> |
| 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.                | <p><b>Complied with</b></p> <p>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.</p> <p>The Company deployed stress testing methodologies to assess the parameters set for identified key risk indicators and deviations were reported to the Committee quarterly.</p> <p>This process will be subject to continuous improvement and strengthening.</p>  |

# CORPORATE GOVERNANCE

| Direction No. | Risk Score  | Risk Score   |
|---------------|---|--|
| e.            | The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.   | <b>Complied with</b><br>Four meetings were held during the financial year 2019/2020.   |
| 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.   | <b>Complied with</b><br>Specific risks and limits are identified by the IRMC and decisions are taken collectively.<br><br>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.   | <b>Complied with</b><br>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.<br><br>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. | <b>Complied with</b><br>A compliance unit has been established to carry out compliance responsibilities of the entity.<br><br>A dedicated compliance officer in the capacity of a key management personnel has been appointed to head the compliance function.<br><br>A monthly compliance sign-off is obtained from all business unit heads on regulatory requirements relating to their respective areas of responsibility.<br><br>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.<br><br>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. |
| <b>9</b>      | <b>Related party transactions</b>   |  |
| 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.  |  |

| Direction No. | Risk Score   | Risk Score   |
|---------------|--|--|
| 9.2           | <p>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:</p> <ul style="list-style-type: none"> <li>a) A subsidiary of the finance company;</li> <li>b) Any associate company of the finance company;</li> <li>c) A Director of the finance company;</li> <li>d) A key management personnel of the finance company;</li> <li>e) A relative of a Director or a key management personnel of the finance company;</li> <li>f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company;</li> <li>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.</li> </ul> | <p><b>Complied with</b></p> <p>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.</p> <p>Transactions with related parties are made with the sanction of the Board subject to such transactions being in the normal course of business.</p> <p>Further, Directors are individually requested to declare their transactions with the company at each Board meeting and in the annual declaration.</p> <p>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.</p> |
| 9.3           | <p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> <li>a) Granting accommodation,</li> <li>b) Creating liabilities to the finance company in the form of deposits, borrowings and investments,</li> <li>c) providing financial or non-financial services to the finance company or obtaining those services from the finance company,</li> <li>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.</li> </ul>  | <p><b>Complied with</b></p> <p>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 &amp; Exchange Commission of Sri Lanka.</p> <p>The Committee comprises the following membership:</p> <p>Mrs. D P Pieris – Senior Independent Director/Committee Chairman</p> <p>Mr. P A Wijeratne – Independent Director</p> <p>Mr. B C G de Zylva – Non Executive Director</p>   |
| 9.4           | <p>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:</p> <ul style="list-style-type: none"> <li>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.</li> </ul>   | <p><b>Complied with</b></p> <p>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.</p> <p>The Company will further strengthen the favourable treatment monitoring mechanism by implementing an online system.</p>   |

# CORPORATE GOVERNANCE

| Direction No. | Risk Score  | Risk Score  |
|---------------|---|---|
|               | <ul style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>d) Providing or obtaining services to or from a related party without a proper evaluation procedure;</li> <li>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.</li> </ul> |   |
| <b>9</b>      | <b>Disclosures</b>  |   |
| 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.   | <p><b>Complied with</b></p> <p>The Financial Statements are prepared in accordance with the new Sri Lanka Accounting Standards (SLFRSs/LKASs) and the formats prescribed by the regulators.</p> <p>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.</p> |
| 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.  | <p><b>Complied with</b></p> <p>Please refer the Directors' Report on pages 70 to 73.</p>  |
| 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.   | <p><b>Complied with</b></p> <p>Please refer the Directors' Statement on Internal Controls Over Financial Reporting on page 74.</p>  |
| 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.  | <p><b>Complied with</b></p> <p>The Company has obtained a certification from M/s Ernst &amp; Young, Chartered Accountants on the effectiveness of the internal controls over financial reporting.</p> <p>Please refer page 75 of the report.</p>  |

| Direction No.         | Risk Score   | Risk Score   |              |                   |                |                   |          |                    |                       |                   |
|-----------------------|--|--|--------------|-------------------|----------------|-------------------|----------|--------------------|-----------------------|-------------------|
| d.                    | Details of Directors, including names, transactions with the finance company.  | <b>Complied with</b><br>Directors' names and details are given in pages 12 to 13.<br><br>Transactions with Directors during the year are as follows: <table><tr><td>Remuneration</td><td>Rs. 44,071,000.00</td></tr><tr><td>Accommodations</td><td>Nil</td></tr><tr><td>Deposits</td><td>Rs. 222,566,915.36</td></tr><tr><td>Interest for the year</td><td>Rs. 20,771,762.55</td></tr></table>                 | Remuneration | Rs. 44,071,000.00 | Accommodations | Nil               | Deposits | Rs. 222,566,915.36 | Interest for the year | Rs. 20,771,762.55 |
| Remuneration          | Rs. 44,071,000.00  |  |              |                   |                |                   |          |                    |                       |                   |
| Accommodations        | Nil  |  |              |                   |                |                   |          |                    |                       |                   |
| Deposits              | Rs. 222,566,915.36   |  |              |                   |                |                   |          |                    |                       |                   |
| Interest for the year | Rs. 20,771,762.55  |  |              |                   |                |                   |          |                    |                       |                   |
| e.                    | Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after January 1, 2010.  | <b>Complied with</b><br>Fees/Remuneration paid amounted to Rs. 44,071,000.00.  |              |                   |                |                   |          |                    |                       |                   |
| 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.   | <b>Complied with</b><br>Net accommodations granted to each category of related parties as a percentage of capital funds of the Company at the year end is disclosed on page 154 (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.  | <b>Complied with</b> <table><tr><td>Remuneration</td><td>Rs. 81,015,355.00</td></tr><tr><td>Accommodations</td><td>Rs. 48,928,815.36</td></tr><tr><td>Deposits</td><td>Rs. 673,349,785.32</td></tr><tr><td>Interest for the year</td><td>Rs. 55,091,044.69</td></tr></table>   | Remuneration | Rs. 81,015,355.00 | Accommodations | Rs. 48,928,815.36 | Deposits | Rs. 673,349,785.32 | Interest for the year | Rs. 55,091,044.69 |
| Remuneration          | Rs. 81,015,355.00  |  |              |                   |                |                   |          |                    |                       |                   |
| Accommodations        | Rs. 48,928,815.36  |  |              |                   |                |                   |          |                    |                       |                   |
| Deposits              | Rs. 673,349,785.32   |  |              |                   |                |                   |          |                    |                       |                   |
| Interest for the year | Rs. 55,091,044.69  |  |              |                   |                |                   |          |                    |                       |                   |
| 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.  | <b>Complied with</b><br>Status of compliance with prudential requirements, regulations and laws are in the Directors' report set out in pages 70 to 73.  |              |                   |                |                   |          |                    |                       |                   |
| 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. | <b>Complied with</b><br>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.  | <b>Complied with</b><br>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.<br><br>However its publication has not been permitted by the Auditors as there is no clear guideline issued by the CBSL |              |                   |                |                   |          |                    |                       |                   |



# CORPORATE GOVERNANCE

| Direction No. | Rules of the Colombo Stock Exchange   | LOLC Finance's Level of Compliance  |
|---------------|---|---|
| 7.10          | <b>Corporate Governance</b><br>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.<br><br>For further details please refer the Directors' Report on pages 70 to 73. |
| 7.10.1        | <b>Non-Executive Directors</b><br>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.  | <b>Complied with</b><br>As at 31st March 2020 the Board comprised seven directors, of whom four were Non-Executive Directors.   |
| 7.10.2        | <b>Independent Directors</b><br>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. | <b>Complied with</b><br>As at 31st March 2020 the Board comprised three Independent Directors from whom signed declarations of independence were obtained.  |
| 7.10.3-4      | <b>Disclosures Relating to Directors</b><br>Annual determination as to the independence or non-independence of each Non-Executive Director.   | <b>Complied with</b>  |
| 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 70.   |
| 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.   |
| 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.  |

| Direction No. | Rules of the Colombo Stock Exchange   | LOLC Finance's Level of Compliance   |
|---------------|---|--|
| 7.10.5        | <b>Remuneration Committee</b>   | Complied with  |
| a.            | <b>Composition</b><br>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 2020 the Committee comprised two Independent Non-Executive Directors.   |
| b.            | <b>Functions</b><br>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.            | <b>Disclosure in the Annual Report</b><br>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.<br>The Committee is guided by the Board approved Remuneration Policy.<br>The aggregate remuneration paid to executive and non executive directors is disclosed in the Directors Report on page 70. |
| 7.10.6        | <b>Audit Committee</b>  | Complied with  |
| a.            | <b>Composition</b><br>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 2020 the Committee comprised three Independent Non-Executive Directors.   |
| b.            | <b>Functions</b><br>Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a Listed Entity, in accordance with Sri Lanka Accounting Standards.<br><br>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.<br><br>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.<br><br>Assessment of the independence and performance of the Entity's external auditors.<br><br>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 | The Committee is guided by a Board approved Audit Committee Charter which includes the functions of those listed here.   |

# CORPORATE GOVERNANCE

| Direction No.   | Rules of the Colombo Stock Exchange  | LOLC Finance's Level of compliance  |
|-----------------|--|---|
| c.              | <p><b>Disclosure in the Annual Report</b></p> <p>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.</p> <p>The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the annual report.</p> <p>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.</p>  | <p>The Committee comprises Independent Non-Executive Directors Mr. K Sundararaj, Mr. P A Wijeratne and Mrs. D P Pieris, while Mr. Sundararaj serves as the Committee Chairman.</p> <p>The Committee has made this determination.</p> <p>Please refer the Committee report on page 76.</p>   |
| 7.13.1<br>(b)   | <p><b>Minimum Public Holding Requirement</b></p> <p>Disclosure in terms of rule 7.13.02 of the Listing Rules of the Colombo Stock Exchange ("CSE")</p>   | <p><b>Not Complied</b></p> <p>The Company is not complaint with the Minimum Public Holding Requirement stipulated by the CSE Rule 7.13.1 (b) as at end March 2020:</p> <p>Float Adjusted Market Capitalisation was Rs. 620,466,000/-;</p> <p>The public Holding percentage was 5.37%;</p> <p>The number of Public Shareholders were 3,037;</p> <p>Subject to requisite regulatory approvals, the Board of Directors propose to list debt securities and remove all equity securities, to ensure that the Company is not in violation of the Listing Rules while complying with the directions of the Central Bank of Sri Lanka.</p> |
| 9.2.2-<br>9.2.4 | <p><b>Related Party Transactions Review Committee</b></p> <p>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.</p>  | <p><b>Complied with</b></p> <p>As at 31st March 2020, the Committee comprised two Independent Non-Executive Directors, one of whom serves as the Committee Chairman and one Non-Executive director.</p> <p>A Separate Committee (independent of the parent entity) has been established by the Company.</p> <p>Functions of the Committee and details of meetings held are included in the Committee Report on Page 79.</p>   |
| 9.3.3           | <p><b>Disclosure in the Annual Report</b></p> <p>a) Non-recurrent Related Party Transactions if aggregated value exceeds 10% of the equity or 5% of Total assets whichever is lower</p> <p>b) Recurrent Related Party Transactions – if Aggregated value exceeds 10% gross income as in the latest audited accounts</p> <p>c) The Annual Report shall contain a Report of the Related Party Transactions Review Committee in the prescribed manner.</p> <p>d) A declaration by the Board of Directors as an affirmative statement of the compliance with the rules pertaining to related party transactions:</p> | <p>During the current period there were no non-recurrent related party transactions which qualify for the requirement.</p> <p>During the current period there were no recurrent related party transactions which qualify for the requirement.</p> <p>Please refer Committee Report on page 79</p> <p>Please refer the Directors Report on pages 70 to 73.</p>   |

## Member Attendance at Meetings

### Board Meetings

| Name of the Director                       | EX | NEX | IN | NI | Date of appointment | Meeting Dates |            |            |            |            |            |            |            |            |            |            |            |             | Total |
|--|----|-----|----|----|---------------------|---------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------|
|  |    |     |    |    |                     | 24/04/2019    | 29/05/2019 | 26/06/2019 | 30/07/2019 | 28/08/2019 | 25/09/2019 | 16/10/2019 | 30/10/2019 | 27/11/2019 | 12/12/2019 | 24/01/2020 | 24/02/2020 | 02/04/2020* |       |
| Mr. B C G De Zylva                         |    | ✓   |    | ✓  | 23.04.2018          | ✓             | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓           | 13    |
| Mr. F K C P N Dias<br>(A.W.E.F 01.03.2020) | ✓  |     |    | ✓  | 01.03.2020          | -             | -          | -          | -          | -          | -          | -          | -          | -          | -          | ABI        | ABI        | ✓           | 01    |
| Mr. A Nissanka                             | ✓  |     |    | ✓  | 15.10.2015          | x             | ✓          | ✓          | x          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓           | 11    |
| Mrs. K U Amarasinghe                       | ✓  |     |    | ✓  | 05.03.2003          | ✓             | ✓          | ✓          | ✓          | ✓          | x          | ✓          | ✓          | ✓          | ✓          | ✓          | x          | ✓           | 11    |
| Mrs. D P Pieris                            |    | ✓   | ✓  |    | 27.06.2012          | ✓             | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓           | 13    |
| Mr. P A Wijeratne                          |    | ✓   | ✓  |    | 26.05.2017          | ✓             | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓           | 13    |
| Mr. K Sundararaj<br>(A.W.E.F. 23.07.2019)  |    | ✓   | ✓  |    | 23.07.2019          | -             | -          | -          | x          | ✓          | ✓          | ✓          | ✓          | x          | ✓          | ✓          | ✓          | ✓           | 08    |
| Mr. R D Tissera<br>(R.W.E.F 28.02.2020)    | ✓  |     |    | ✓  | 23.04.2018          | ✓             | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | -           | 12    |

\*March Board Meeting was rescheduled and held online due to COVID -19 lockdown

IN Independent Director  
NI Non-Independent Director  
EX Executive Director  
NEX Non-Executive Director  
ABI Attended by Invitation

### Audit Committee Meetings

| Name of the Director   | Meeting Dates |            |             |            |            | Total |
|--|---------------|------------|-------------|------------|------------|-------|
|  | 23/05/2019*   | 24/07/2019 | 25/09/2019* | 23/10/2019 | 12/02/2020 | 05    |
| Mr. P A Wijeratne  | ✓             | ✓          | ✓           | ✓          | ✓          | 05    |
| Mrs. D P Pieris  | ✓             | ✓          | x           | ✓          | ✓          | 04    |
| Mr. K Sundararaj<br>(A.W.E.F 23.07.2019)                       | -             | x          | ✓           | ✓          | ✓          | 03    |
| <b>By Invitation</b>   |               |            |             |            |            |       |
| Mr. R D Tissera<br>(Deputy Chairman/ CEO - R.W.E.F 28.02.2020) | ✓             | ✓          | ✓           | ✓          | ✓          | 05    |
| Mr. F K C P N Dias<br>(Director/ CEO A.W.E.F 01.03.2020)       | -             | -          | -           | -          | ABI        | -     |
| Mr. B Weeratunga<br>(Head of Finance)                          | ✓             | ✓          | ✓           | ✓          | ✓          | 05    |

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

ABI Attended by Invitation

# CORPORATE GOVERNANCE

## Integrated Risk Management Committee Meetings

| Name of the Director                    | Meeting Dates |            |            |            | Total |
|---|---------------|------------|------------|------------|-------|
|   | 22/05/2019    | 28/08/2019 | 20/11/2019 | 11/03/2020 | 04    |
| Mrs. D P Pieris                         | ✓             | ✓          | ✓          | ✓          | 04    |
| Mr. P A Wijeratne                       | ✓             | ✓          | ✓          | ✓          | 04    |
| Mr. F K C P N Dias (A.W.E.F 01.03.2020) | -             | -          | -          | ✓          | 01    |
| Mr. G Weerakoon                         | ✓             | ✓          | ✓          | ✓          | 04    |
| Mr. B Weeratunga                        | x             | ✓          | ✓          | ✓          | 03    |
| Mr. S Kalidasa                          | ✓             | x          | x          | x          | 01    |
| Mr. M Warnakula                         | ABI           | ABI        | ABI        | ABI        | -     |
| Mrs. R Weerasekera                      | ABI           | -          | ABI        | ABI        | -     |
| Mr. P Siriwardena                       | -             | ABI        | -          | ABI        | -     |
| Mr. J Gunathilake (A.W.E.F 01.02.2020)  | -             | -          | -          | ✓          | 01    |
| Mr. C Jayanath                          | ✓             | ✓          | ✓          | x          | 03    |
| Mr. I Ariyawansa                        | ✓             | ✓          | ✓          | x          | 03    |
| Mr. S Samarasekera                      | ✓             | ✓          | ✓          | ✓          | 04    |
| Mr. H Thilakaratne                      | -             | ABI        | ABI        | -          | -     |
| Mr. C Jagoda                            | ABI           | ABI        | ABI        | ABI        | -     |

### Former Members

|                  |   |   |   |   |    |
|------------------|---|---|---|---|----|
| Mr. R D Tissera  | ✓ | ✓ | ✓ | ✓ | 04 |
| Mr. A Nissanka   | ✓ | ✓ | x | x | 02 |
| Mrs. D Mahawatte | ✓ | ✓ | ✓ | - | 03 |

ABI Attended by Invitation

## Related Party Transactions Review Committee Meetings

| Name of the Director | Meeting Dates |            |            |            | Total |
|----------------------|---------------|------------|------------|------------|-------|
|                      | 23/05/2019    | 24/07/2019 | 23/10/2019 | 12/02/2020 | 04    |
| Mrs. D P Pieris      | ✓             | ✓          | ✓          | ✓          | 04    |
| Mr. P A Wijeratne    | ✓             | ✓          | ✓          | ✓          | 04    |
| Mr. B C G De Zylva   | -             | -          | -          | ✓          | 01    |

### Former Members

|                      |   |   |   |   |    |
|----------------------|---|---|---|---|----|
| Mr. R D Tissera      | ✓ | ✓ | ✓ | ✓ | 04 |
| Mrs. K U Amarasinghe | ✓ | ✓ | x | - | 02 |
| Mr. A Nissanka       | ✓ | ✓ | x | - | 02 |

## Nomination Committee Meetings

| Name of the Director | Meeting Dates | Total |
|----------------------|---------------|-------|
|                      | 05/05/2020    | 04    |
| Mr. P A Wijeratne    | ✓             | 01    |
| Mr. F K C P N Dias   | ✓             | 01    |
| Mrs. K U Amarasinghe | x             | 0     |

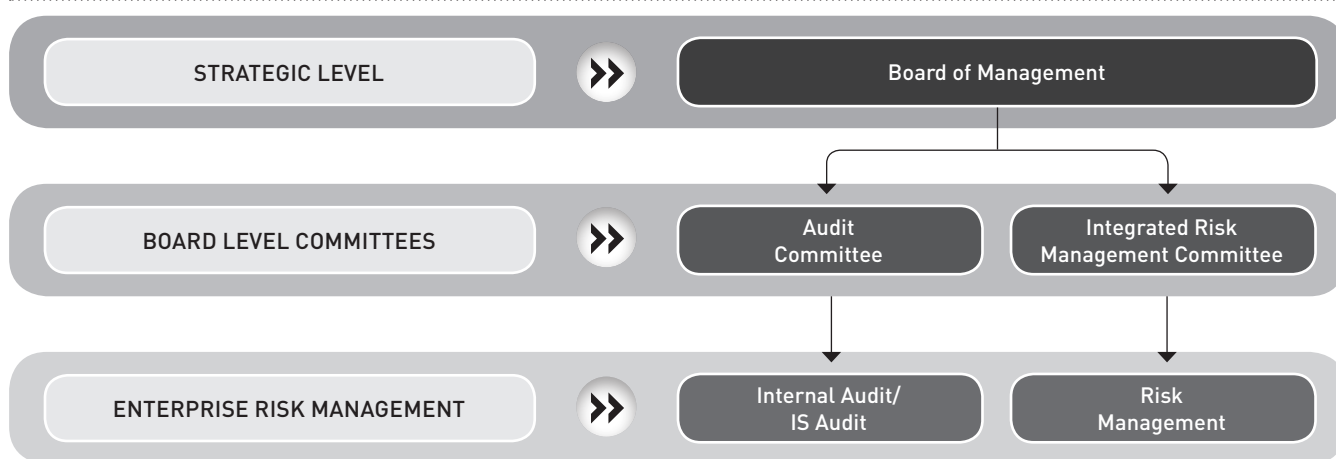
# ENTERPRISE RISK MANAGEMENT

## Enterprise Risk Management

Success of Risk Management mainly depend on the risk governance structures in place and the risk culture within the organisation. LOLC Finance PLC (LOFC) being the flagship finance company of the LOLC group is the trend setter for the other finance sector companies in the LOLC group in risk management. we are constantly open for innovative ideas to make our processes better and stronger. The risk governance structures at LOFC

are unique and agile. In addition, being receptive to the operating environment and timely access to information plays a major role in effective risk management practices. Having considered the aforesaid LOFC risk management frame work is a combination of Risk Management, internal audit & compliance functions. Risk management and internal audit operate under the umbrella of Enterprise Risk Management (ERM) while compliance function work separately.

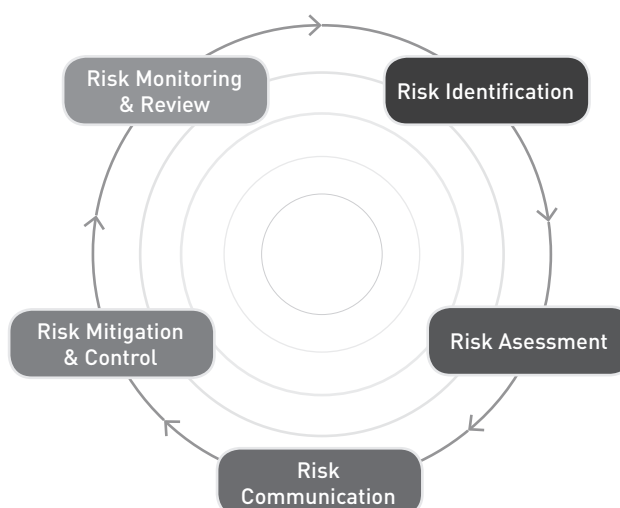
The synergy between risk and internal audit is one of the critical success factors as risk is forward looking while internal audit focuses on the reliability and effectiveness of the risk mitigation controls/internal controls. This approach allows both functions to optimise its resources and inter feeding of critical information, which is vital to have a reasonable assurance that the risk management processes are effective, reliable and consistent.



The leadership or the tone at the top is a critical success factor for any successful initiative and risk management is no exception. At LOFC, the enterprise risk management is given total independence and separation from the executive management control by having its reporting line to chairmen of two independent board committees, thus the internal audit reports to the board audit committee on audit related matters while the risk management reports to the integrated risk management committee. These committees supervise and monitor the progress of matters related the enterprise risk management which ensures that board level concerns are adequately addressed and operational level risk information are escalated up to the board level without any hindrance or filtering.

## Risk Management Process

The Risk identification, Assessment, Control and Review are a cyclic process and risk communication, current and reliable information flow, both inward and outward is a pre-requisite for reliable risk management output. Hence both the risk management and internal audit functions are given unrestricted access to information and is enshrined in the culture of the organisation.



# ENTERPRISE RISK MANAGEMENT

It is said that “The biggest risk in risk management is not identification of a risk” therefore risk for LOFC is defined as “Anything which hinders the achievement of our strategic and tactical objectives.” this scope enables us to identify even small risks. In practice we have a two-way approach for risk identification. This happens at the two ends of the spectrum of a process, by the process owners and independently by the risk management function. All risk owners are required to submit risk related information to ERM department within their scope of operations and in addition are encouraged to report any foreseeable risk. This initiative allows any employee to analyse any operation or initiative from an angle of risk. The enterprise risk department does its own analysis from data available and via scanning of the operating environment. To ensure that a comprehensive risk identification process is carried out all new product development or process formulations are channelled through ERM for their opinion.

All risk information received and collected by ERM are analysed in order to ascertain the probability and impact of the identified risks and acted based upon on the severity. New product and process formulations too are analysed for a wide spectrum of inherent risks which ranges from legal, technological, process, feasibility, regulatory, compliance and money laundering.

Risk information reaching the risk owners and relevant management personal in a timely manner is vital for taking rectification action and initiating required risk mitigation action. The board of management is appraised of the risks on a monthly basis and IRMC meetings are held on a quarterly basis unless otherwise a situation arises that IRMC should meet to discuss an emerging material risk. Organisational level risks related to anti money laundering (AML) and Countering Terrorist Financing (CFT) are analysed on a quarterly basis and reported to

IRMC while the risks arising out of new products and process developments are appraised to the board of management as and when such developments are undertaken. Other than the scheduled reporting any emerging risks which are perceived as material are informed to the organisation’s executive management (CEO and relevant process owners) as and when they are identified by way of risk escalation reports. In addition, the IRMC evaluates annually the functions of the Assets and Liability Committee (ALCO) and the Credit Committee (CC) thus bringing under the purview of IRMC a comprehensive risk management mechanism to ensure the reliability, consistency and the adequacy of the risk management initiatives of LOFC

The primary responsibility of maintaining adequate level of risk response is entrusted to the risk owners and ERM department plays an independent analysts’ role in recommending / proposing risk mitigation action and available internal controls. The risk custodians evaluate these recommendations and in consultation with the management authorities implement all feasible risk mitigation initiatives in order to minimise the risks. The synergy of having the internal audit under the umbrella of the enterprise risk management frame work is visible here as the proposed control information is captured by internal audit and is incorporated in their audit reviews for test of controls and the feedback information is seamlessly shared with the risk function to ascertain the effectiveness of the risk controls.

The Key risk indicators(KRI) pertaining to Credit, Market and operational risks are identified and risk appetites are set by the board of management by way of tolerance limits. These limits among additional risk parameters are monitored by ERM on a regular basis while the Key risk indicators, its values and behaviour trends are reported to the board and IRMC

while any adverse movements observed in other risk indicators are analysed and if material are reported to the relevant stakeholders for necessary action.

Enterprise Risk Management is a cyclic process and it undergoes continuous changes to reflect the everchanging risks environment. We are committed to improve our risk management practices and one critical requirement of such a continuous quality improvement practice is to upgrade skills and knowledge of the staff. We regularly conduct training sessions for ERM division staff both inhouse and with external facilities.

## Internal Audit

Annual planning for internal audits take place in consideration of the risks faced by branches, processes, departments or service delivery channels. The annual plan presented and approved by the audit committee form the basis of the audit operations for the year. Progress of audit activities are monitored monthly at ERM level and quarterly at audit committee level.

General audits conducted include, Credit Audits, Regional reviews, Process level, Department level, Branch level, IS system audits, field audits for micro finance operations & special assignments. The branches are currently audited on an annual cycle while the dedicated micro operation centers are audited on a semi annual cycle. Audit findings are discussed with the management and rectification actions are taken. Any audit query which is time critical is escalated to the management at the point of audit itself by way of an Audit Information Escalation while the same is also noted in the final report.

Summary findings are tabled at the audit committee. All audits are subjected to a follow up mechanism at two levels. All branches are required to give a sign off on rectification of audit findings and are reviewed at the time of the following



audit, while the other audit queries are followed up by the auditors for successful rectification. In addition, decisions taken at the audit committee are separately followed up and a feedback on the status is given at the subsequent audit committee meeting. Thus, ensuring all audit issues are resolved.

An inherent draw back in audits is that it is time lagged, sample based and contains historical data. In order to reduce the time lagged nature of the audits, We have successfully implemented a continuous auditing mechanism, where critical audit exceptions detected are incorporated in to a continuous review which is operating at predefined intervals ranging from day +1 to monthly depending on the criticality of the exceptions monitored. Due to the database level data extraction tools used, the entire audit universe is reviewed rather than a sample. This initiative has improved the response time for both, audit detections and audit query rectifications.

ERM department is the custodian of both the Corporate whistle blower hotline and the customer feedback line (operational in addition to the general complaint line). The corporate whistle blower line facilitates and encourages employee reporting of suspicious and irregular activities while the customer feedback hotline allows customers an alternate grievance handling mechanism if their complaints are not handled satisfactorily by the operational staff. All information received via these lines are followed up until resolution.

### The Future

The COVID 19 pandemic at the latter part of the year under review was an acid test for risk management practices globally and it opened up new opportunities as well. However, the full impact will be felt next year and it make us more determined to improve and strengthen our practices to ensure smooth operations during turbulent times.

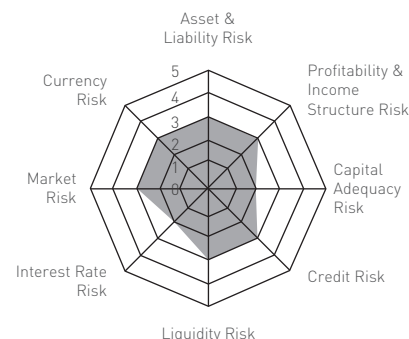
Our vision in risk management “Building an organisational Culture where Protection, Assurance, Reliability, Accountability, Transparency and Confidentiality are treasured and lasting values “is enshrined in all our activities and a conscious effort is made to enhance the awareness of risk and response at all levels of staff. Enterprise risk management department engages in conducting training and awareness sessions for staff at induction level and later at more specific operational level training programmes to cultivate the appropriate risk culture among the rank and file of the organisation.

### Risk Profile

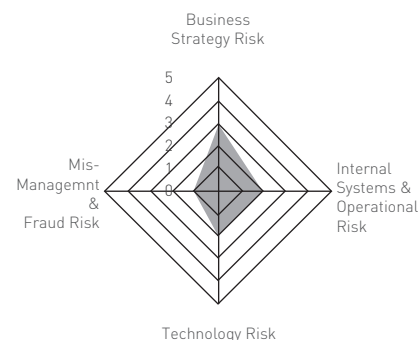
The following is based on the perceived risk and is a high level categorisation used only for the illustration purposes of this report.

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

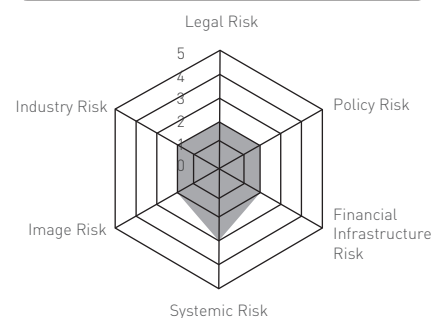
### FINANCIAL RISK



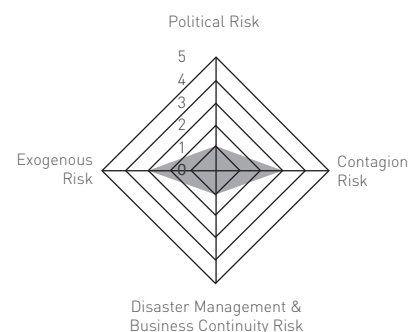
### OPERATIONAL RISK



### BUSINESS RISK



### EVENT 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 2020.

## 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. | Mr. B C G De Zylva   | Chairman, Non-Executive Director |
| 2. | Mr. F K C P N Dias<br>(Appointed with effect from 01st March 2020) | Executive Director/CEO           |
| 3. | Mrs. K U Amarasinghe   | Executive Director               |
| 4. | A Nissanka<br>(Re-designated with effect from 28th April 2020)     | Non-Executive Director           |
| 5. | Mrs. D P Pieris  | Senior Independent Director      |
| 6. | Mr. P A Wijeratne  | Independent Director             |
| 7. | Mr. K Sundararaj<br>(appointed with effect from 23rd July 2019)    | Independent Director             |
| 8. | Mr. R D Tissera<br>(Resigned with effect from 28th February 2020)  | Deputy Chairman/CEO              |

The Board welcomes Mr. Conrad Dias, who was appointed as the Director/ CEO of the Company.

Pursuant to the amalgamation of LOLC Micro Credit Limited with the Company Mr. R D Tissera joined the Board as an Executive Director and in February 2019 was appointed as the Deputy Chairman and CEO of the Company. Having served the LOLC Group for 26 years he resigned from the services of the Company with effect from 28th February 2020 to take up an overseas assignment. The Board places on record its sincere appreciation for the invaluable contribution made by Mr. Tissera during his tenure towards the development of the Company.

## Recommendations for re-election of Directors

Mr. F K C P N Dias who was appointed to the Board on 01st March 2020 retire in terms of Article 70 of the Articles of Association of the Company and being eligible offer himself for re-election.

In terms of Article 75 of the Articles of Association of the Company Mr. B C G de Zylva and Mrs. K U Amarasinghe 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 73.

## Directors' Remuneration

The Company paid Rs. 44,071,000/- as Directors' remuneration for the financial year ended 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 78.

### Directors' Shareholding

| Directors' Name         | As at<br>31.03.2020 | As at<br>31.03.2019 |
|-------------------------|---------------------|---------------------|
| 1. Mr. B C G De Zylva   | Nil                 | Nil                 |
| 2. Mr. F K C P N Dias   | 400,000             | 2,000,000           |
| 3. Mrs. K U Amarasinghe | Nil                 | Nil                 |
| 4. Mr. A Nissanka       | 1,300,800           | 1,300,800           |
| 5. Mrs. D P Pieris      | Nil                 | Nil                 |
| 6. Mr. P A Wijeratne    | 5,000               | 5,000               |
| 7. Mr. K Sundararaj     | Nil                 | Nil                 |

### 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 184.

### Meetings of the Board of Directors

Twelve scheduled monthly meetings and one special meeting were held during the year. A schedule of Directors Attendance at Board Meetings and Sub Committee Meetings has been included on pages 65 to 66.

### 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 38 to 66.

### 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 76 to 80.

### 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 64 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.

# REPORT OF THE BOARD OF DIRECTORS

Having evaluated available options, the Board of Directors propose to list debt securities instead of equity securities subject to requisite regulatory approvals, to ensure that the Company is not in violation of the Listing Rules of the CSE while complying with requirements of the CBSL.

## 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 85 to 94.

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 95 to 157.

## 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 154 to 155.

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.

## 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 2020/2021 at a fee to be decided by the Board.

The auditors' remuneration for the year ended 31st March 2020 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 of its subsidiaries nor do they have any interest in contracts with the Company or any of its subsidiaries. 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.

## 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 Friday, 27th November 2020 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



**Mr. Brindley de Zylva**  
Chairman



**Mr. Conrad Dias**  
Director/ CEO

29th June 2020  
Rajagiriya

## Directors' Declarations

|                      |  |
|----------------------|--|
| Mr. B C G De Zylva   | <p><b>Chairman:</b><br/>LOLC Finance PLC<br/>LOLC (Cambodia) PLC<br/>Browns Machinery (Cambodia) Co. Ltd<br/>Serendib Microinsurance PLC</p> <p><b>Managing Director:</b><br/>LOLC Myanmar Micro-Finance Company Limited</p>   |
| Mr. F K C P N Dias   | <p><b>Chairman:</b><br/>LOLC Technology Services Ltd<br/>LOLC Technologies Ltd</p> <p><b>Director/CEO:</b><br/>LOLC Finance PLC</p> <p><b>Director:</b><br/>I Pay Global FZC<br/>Fusion X Global FZC<br/>Digital Mobility Solutions Lanka (Pvt) Ltd<br/>I Pay (Private) Limited<br/>oDoc (Private) Limited<br/>LOLC Finance Zambia Limited<br/>LOLC Holdings PLC</p> |
| Mrs. K U Amarasinghe | <p><b>Director:</b><br/>LOLC Holdings PLC<br/>LOLC Finance PLC<br/>LOLC Life Assurance Limited<br/>Palm Garden Hotels PLC<br/>Eden Hotel Lanka PLC<br/>Brown &amp; Co. PLC<br/>Browns Investments PLC<br/>Riverina Resorts (Pvt) Ltd<br/>Browns Holdings Ltd<br/>Green Paradise (Pvt) Ltd<br/>Danya Capital (Pvt) Ltd<br/>Ultimate Sports (Pvt) Ltd</p>              |
| Mr. A Nissanka       | <p><b>Director:</b><br/>LOLC Finance PLC<br/>LOLC Philippine Corporation<br/>LOLC Philippines Capital Holdings Corporation<br/>LOLC Finance Zambia Limited<br/>Inter-Asia Development Bank – Philippines<br/>LOLC ASKI Finance Inc. – Philippines<br/>Fina Trust Microfinance Bank – Nigeria</p>   |
| Mrs. D P Pieris      | <p><b>Chairperson:</b><br/>PW Corporate Secretarial (Pvt) Ltd.</p> <p><b>Director:</b><br/>Asia Asset Finance PLC<br/>Sithijaya Fund Ltd<br/>Asian Centre for Lease Education<br/>Associated Electrical Corporation Ltd<br/>Abans Electricals PLC<br/>LOLC Finance PLC<br/>MTN Corporate Consultants (Pvt) Ltd</p>   |
| Mr. P A Wijeratne    | <p><b>Director:</b><br/>LOLC Finance PLC</p>   |
| Mr. K Sundararaj     | <p><b>Director:</b><br/>LOLC Finance PLC</p>   |

# 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 frame work 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 in to 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 disclosure 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

29th June 2020

# 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 Directors' 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 ("Statement") included in the annual report for the year ended 31 March 2020.

### 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 behaviour.

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.

29th June 2020  
Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulanganiwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited



# 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.

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

\*[appointed as Committee Chairman w.e.f. 28th May 2020 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 (2018/19) 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.

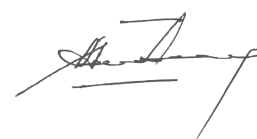
The Board/ Audit Committee has determined that the External Auditors are in fact independent as:

- 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.

## Meetings

The Committee meets quarterly and additional meetings are held as and when a need arises. Five meetings were held during the year and the members' attendance at Audit Committee meetings is provided on page 65. 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.



**Mr. K Sundararaj**  
Chairman, Audit Committee

Rajagiriya  
29th June 2020

# 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:

|                    |  |
|--------------------|--|
| Mr. P A Wijeratne* | Committee Chairman/ Independent Non-Executive Director |
| Mrs. D P Pieris    | Senior Independent Director                            |
| Mr. F K C P N Dias | Executive Director/CEO                                 |
| Mr. G Weerakoon    | DGM- Enterprise Risk Management                        |
| Mr. B Weeratunga   | Head of Finance  |
| Mr. S Kalidasa     | Head of Treasury                                       |
| Mr. M Warnakula    | Chief Operating Officer                                |
| Mrs R Weerasekera  | Head of Liability Management                           |
| Mr. P Siriwardena  | CIO FS   |
| Mr. J Gunathileka  | Compliance Officer                                     |
| Mr. C Jayanath     | Head of Recoveries                                     |
| Mr. I Ariyawansa   | AGM Credit   |
| Mr. S Samarasekera | AGM Credit   |
| Mr. H Thilakaratne | DGM Digital Platforms                                  |
| Mr. C Jagoda       | DGM Micro  |

\*[appointed as Chairman w.e.f. 28th May 2020 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 66.



**Mr. P A Wijeratne**  
Chairman, Integrated Risk Management Committee

Rajagiriya  
29th June 2020

# REPORT OF THE REMUNERATION COMMITTEE

## Composition

The Remuneration Committee was established to assist the Board in evaluating and recommending remuneration for Board Members. The Committee comprises two Independent Directors.

|                   |  |
|-------------------|--|
| Mrs. D P Pieris   | Committee Chairman/Senior Independent Director |
| Mr. P A Wijeratne | Independent Non-Executive Director             |

## 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

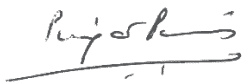
The Committee is responsible for determining the remuneration policy relating to the CEO; periodically evaluating the performance of the CEO against the set targets and goals and determining the basis for revising remuneration, benefits and other payments of performance based incentives; determining 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.

The total amount paid as directors' emoluments have been disclosed on page 146.

## Meetings

The Committee meets annually. However, due to the lockdown during the COVID -19 pandemic the meeting scheduled for March 2020 was not held.



**Mrs. D P Pieris**

Chairperson, Remuneration Committee

Rajagiriya  
29th June 2020

# 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 |
| Mr. P A Wijeratne  | Independent Non-Executive Director             |
| Mr. B C G De Zylva | Non-Executive Director                         |

## 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 these policies 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. In February 2020, the Committee has reviewed and revised the Committee TOR and RPT Policy.

The aggregate value of the Non-recurrent related party transactions did not exceed 10% of the equity or 5% of the total assets of the Company during the year requiring disclosure in terms of Section 9.3.2 (a) of the Listing Rules of the CSE.

The aggregate value of the recurrent related party transactions did not exceed 10% of the gross revenue/ income of the Company during the year requiring disclosure in terms of Section 9.3.2 (b) of the Listing Rules of the CSE.

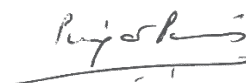
The Group Chief Financial Officer, the Compliance Officer and the Head of Finance are invited for Committee meetings, to ensure on behalf of the Committee and the Board that all related party transactions of the Group and its listed subsidiaries are consistent with the Code.

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 72 of this report

## Meetings

Four Committee meetings were held during the year. The attendance of members at meetings is stated on page 66.



**Mrs. D P Pieris**  
Chairperson, Related Party Transaction Review Committee

Rajagiriya  
29th June 2020

# 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:

|                      |   |
|----------------------|---|
| Mr. P A Wijeratne    | Committee Chairman/Independent Non-Executive Director   |
| Mrs. K U Amarasinghe | Executive Director  |
| Mr. F K C P N Dias   | Executive Director/ CEO<br>(appointed w.e.f. 28th May 2020 subsequent to the year under review) |

## 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 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 gaps identified were then rectified by the Board subsequent to the year end.

## Meetings

One Committee meeting was held after the year under review (postponed from March due to the COVID -19 lockdown) and proceedings of this meeting were reported to the Board. The attendance of members at meetings is stated on page 66.



**Mr. P A Wijeratne**  
Chairman, Nomination Committee

Rajagiriya  
29th June 2020

# 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 Accountants 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 2020, together with the comparative period data as at and for the year ended 31 March 2019, 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  
29th June 2020

# DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors confirm that the Company's financial statements for the year ended 31st March 2019, 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 2020, 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 85 to 88.



**Mr. Conrad Dias**  
Director/Chief Executive Officer

Rajagiriya  
29th June 2020



# FINANCIAL STATEMENTS

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# FINANCIAL CALENDAR

## Financial Calendar 2019/20

|   |                              |
|---|------------------------------|
| 1st Quarter Results 2019/20 released on | Thursday, August 15, 2019    |
| 2nd Quarter Results 2019/20 released on | Friday, November 15, 2019    |
| 3rd Quarter Results 2019/20 released on | Friday, February 14, 2020    |
| 4th Quarter Results 2019/20 released on | Tuesday, June 30, 2020       |
| Annual report for 2019/20 released on   | Wednesday, November 04, 2020 |
| 19th Annual General Meeting on          | Friday, November 27, 2020    |

## Proposed Financial Calendar 2020/21

|   |                           |
|---|---------------------------|
| 1st Quarter Results 2020/21 will be released on | Friday, August 14, 2020   |
| 2nd Quarter Results 2020/21 will be released on | Friday, November 13, 2020 |
| 3rd Quarter Results 2020/21 will be released on | Monday, February 15, 2021 |
| 4th Quarter Results 2020/21 will be released on | Friday, May 29, 2021      |
| 20th Annual General Meeting on                  | Wednesday, June 30, 2021  |

# INDEPENDENT AUDITOR'S 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 AUDITOR'S REPORT TO THE SHAREHOLDERS OF LOLC FINANCE PLC

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of LOLC Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2020, and the statement of Profit or loss and other 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. [Set out pages 89 to 157]

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Company as at 31 March 2020, 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 the auditors's 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 KAM   |
|--|---|
| <p><b>Allowance for impairment rentals receivables on leased assets, loans and advances, factoring receivable and margin trading receivable.</b></p> <p>We considered the impairment allowance for rentals receivables on leased assets, loans and advances, factoring receivable and margin trading receivable as a key audit matter.</p> | <p>To assess the reasonableness of the allowance for impairment, our audit procedures focused on assessing the reasonability of allowance for impairment, included the following procedures:</p> <ul style="list-style-type: none"> <li>➤ We evaluated the design effectiveness of key internal controls over estimation of impairment for Lease, Loan and other receivable, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management.</li> <li>➤ We test-checked the underlying calculations and data used in such calculations.</li> <li>➤ In addition to the above, following focused procedures were performed:</li> </ul> |

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulanganiwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

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## INDEPENDENT AUDITOR'S REPORT



| Key Audit Matter  | How our audit addressed the KAM   |
|---|---|
| <p>Significant judgments and assumptions were used by the management to determine the impairment allowance and complex calculations were involved in its estimation. Also Probable impacts of COVID -19 outbreak on the economically impacted customers and related government relief measures on the key assumptions, the higher level of estimation uncertainty involved, and materiality of the amounts reported in the Company's financial statements, underpinned our basis for considering it as a Key Audit Matter.</p> <p>As at 31 March 2020, 70% of its total assets of the Company consisted of for rentals receivables on leased assets, loans and advances, factoring receivable and margin trading receivable amounting to LKR. 133,955,849,731 and (Note 6,7 and 7.6), net of impairment allowance of LKR. 1,772,359,246 (Note 25).</p> <p>The Note 2.3.9 of the financial statements describes the basis of impairment allowance and assumptions used by the management in its calculation.</p> | <p>For those individually assessed for impairment:</p> <ul style="list-style-type: none"> <li>➤ We assessed the main criteria used by the management for determining whether an impairment event had occurred;</li> <li>➤ Where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held;</li> <li>➤ We compared the actual recoveries against previously estimated amounts of future recoveries;</li> <li>➤ We also assessed the impact of overarching economic condition in Sri Lanka and government relief package on future cash flows.</li> </ul> <p>For those collectively assessed for impairment:</p> <ul style="list-style-type: none"> <li>➤ We tested the completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT systems;</li> <li>➤ We also considered the reasonableness of macro-economic factors used by comparing them with publicly available data and information sources. Our considerations included assessing the appropriateness of the weightages assigned to possible economic scenarios;</li> <li>➤ We also assessed the management application of temporary practical expedients issued by CA Sri Lanka in relation to ECL computation.</li> <li>➤ We assessed the adequacy of the related financial statement disclosures as set out in note(s) 6 and 7 of the</li> </ul> |

| Key Audit Matter   | How our audit addressed the key audit matter   |
|--|--|
| <p><b>Valuation of Investment Properties</b></p> <p>The Company applies the fair value model for its investment properties as stated in Note 11 to the financial statements. The Company uses valuations carried out by third party valuers to ascertain fair value of these properties.</p> <p>The valuation of Investment Property was significant to our audit due to the multiple locations in which these properties are held and the use of significant assumptions such as perch price and per square foot price as disclosed in note 11.1 to the financial statements. Any variation in the assumptions used for the valuation of the property could have a material impact on the financial statements.</p> | <p>We read the professional valuer's report and understood the key estimates made and the approach taken by the valuer in determining the valuation of each property.</p> <p>We also assessed the qualifications and expertise of the valuers and reviewed the terms of their engagement with the Company to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work.</p> <p>We involved our internal specialised resources to review the valuation reports for the selected properties and assessed whether the valuation approach and methods used are in accordance with the established standards for valuation of the properties and suitable for use in determining the fair value for the purpose of assessment of fair value gain/loss and disclosure of fair value in the financial statements. Our internal specialised resources also assessed the assumptions used by the third-party valuers in the valuation process.</p> <p>We also assessed the adequacy of the disclosures included in the financial statements regarding the key assumptions which have the highest effect in the determination of the fair value of properties as disclosed in note 11.1.</p> |

| Key Audit Matter   | How our audit addressed the key audit matter  |
|--|---|
| <p><b>Management's assessment of possible effects of Covid 19 outbreak on the nature and extent of risks arising from financial instruments and related disclosures.</b></p> <p>Management has assessed the possible impacts of the evolving COVID-19 outbreak on, nature and extent of risks arising from financial instruments and related financial statements disclosures are made considering the best available information up to the date of assessment, as more fully described in Note 2.22.3.1 of the financial statements.</p> <p>We considered such management's assessment and related disclosures as a key audit matter, considering nature of business and use of significant management judgments and estimates considering future events and circumstances.</p> | <p>Our audit procedures included the following;</p> <ul style="list-style-type: none"> <li>➤ We gained an understanding of Management's assessment of the possible impacts of the COVID-19 outbreak on the nature and extent of risks arising from financial instruments and developing related disclosures of the Company.</li> <li>➤ We assessed the adequacy of qualitative disclosures made, in note 2.22.3.1 to the financial statements focusing on credit risk and liquidity risk in the light of the objective of SLFRS 7.</li> <li>➤ In relation to significant judgments and estimates underpinning such disclosures, we assessed the reasonableness of those key assumptions considering related market information and internal decisions made by the Company.</li> </ul> |

#### Other information included in the Company's 2020 Annual Report

Other information consists of the information included in the Company's 2020 Annual Report, other than the financial statements and our auditor's report thereon. The Management is responsible for the other information. The Company's 2020 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

#### Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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:

# INDEPENDENT AUDITOR'S REPORT



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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may 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.

29th June 2020  
Colombo

# STATEMENT OF FINANCIAL POSITION

| As at 31 March                                       | Notes | 2020<br>Rs.            | 2019<br>Rs.            |
|--|-------|------------------------|------------------------|
| <b>ASSETS</b>  |       |                        |                        |
| Cash and bank balances                               | 3     | 8,333,560,554          | 17,535,538,362         |
| Deposits with banks and other financial institutions |       | 17,282,276,685         | 21,637,175,645         |
| Investment in government securities and others       | 4     | 10,790,843,192         | 18,150,995,929         |
| Derivative financial instruments                     | 5.1   | 273,195,187            | 568,529,646            |
| Financial assets at amortised cost                   |       |                        |                        |
| Rentals receivable on leased assets                  | 6     | 43,842,380,956         | 42,941,836,671         |
| Loans and advances                                   | 7     | 87,112,949,131         | 88,995,841,800         |
| Factoring receivable                                 | 7.6   | 2,998,751,955          | 4,253,667,902          |
| Margin trading receivable                            |       | 1,767,689              | -                      |
| Investment securities                                | 8     | 2,958,198,760          | 2,809,229,143          |
| Amount due from related companies                    | 9     | 63,232,847             | 5,569,291              |
| Other receivables                                    | 10    | 914,073,106            | 937,941,234            |
| Inventories  |       | 2,023,122              | 4,811,234              |
| Investment properties                                | 11    | 15,963,885,792         | 11,635,211,000         |
| Property plant and equipment                         | 12    | 1,351,206,563          | 1,559,024,937          |
| <b>Total assets</b>                                  |       | <b>191,888,345,539</b> | <b>211,035,372,794</b> |
| <b>LIABILITIES</b>                                   |       |                        |                        |
| Bank overdraft                                       | 3     | 1,283,200,605          | 2,242,496,059          |
| Interest bearing borrowings                          | 13    | 51,558,593,483         | 61,086,897,073         |
| Deposits from customers                              | 14    | 99,261,181,454         | 115,365,141,189        |
| Trade payables                                       | 15    | 1,048,944,408          | 1,161,094,413          |
| Accruals and other payables                          | 16    | 3,331,643,339          | 3,072,453,537          |
| Derivative financial instruments                     | 5.2   | 114,349,000            | 661,931,132            |
| Amount due to related companies                      | 17    | 854,197,576            | 817,644,096            |
| Current tax payable                                  | 28.1  | 960,254,586            | 1,501,292,609          |
| Deferred tax liability                               | 28.2  | 1,888,186,465          | 2,272,773,316          |
| Employee benefits                                    | 18.2  | 298,141,984            | 87,060,988             |
| <b>Total liabilities</b>                             |       | <b>160,598,692,900</b> | <b>188,268,784,411</b> |
| <b>SHAREHOLDERS' FUNDS</b>                           |       |                        |                        |
| Stated capital                                       | 19    | 12,762,500,000         | 7,880,000,000          |
| Statutory reserve                                    | 20.1  | 3,378,281,827          | 3,189,297,618          |
| Revaluation Reserve                                  | 20.2  | 241,527,671            | 241,527,671            |
| Cash flow hedge reserve                              | 20.3  | (77,309,605)           | (39,059,403)           |
| Fair value through OCI reserve                       | 20.4  | 11,956,519             | (21,756,425)           |
| Retained earnings                                    | 20.5  | 14,972,696,227         | 11,516,578,923         |
| <b>Total equity</b>                                  |       | <b>31,289,652,639</b>  | <b>22,766,588,383</b>  |
| <b>Total liabilities and equity</b>                  |       | <b>191,888,345,539</b> | <b>211,035,372,794</b> |
| <b>Commitments and Contingencies</b>                 | 35    | <b>31,486,783,304</b>  | <b>32,255,970,261</b>  |
| <b>Net asset value per share</b>                     |       | <b>5.96</b>            | <b>5.42</b>            |

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



**Mr. Ashan Nissanka**  
Director

The annexed notes to the financial statements on pages 95 through 157 form an integral part of these financial statements.

29th June 2020

Rajagiriya (Greater Colombo)



# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| Year ended 31 March   | Notes  | 2020<br>Rs.           | 2019<br>Rs.           |
|---|--------|-----------------------|-----------------------|
| Interest income   | 21     | 38,181,097,854        | 42,663,317,527        |
| Interest expense  | 22     | (19,271,364,492)      | (20,891,754,206)      |
| <b>Net interest income</b>  |        | <b>18,909,733,362</b> | <b>21,771,563,321</b> |
| Net other operating income  | 23     | 4,820,438,829         | 4,012,257,390         |
| Direct expenses excluding interest cost                                 | 24     | (1,279,608,370)       | (1,522,224,334)       |
| Allowance for impairment & write-offs                                   | 25     | (7,843,541,357)       | (5,700,505,481)       |
| Personnel expenses  | 26.1   | (2,971,773,136)       | (3,165,698,139)       |
| Depreciation  | 12     | (201,533,267)         | (163,498,091)         |
| General & administration expenses                                       |        | (6,661,847,141)       | (6,734,427,896)       |
| <b>Profit from operations</b>   | 26     | <b>4,771,868,920</b>  | <b>8,497,466,770</b>  |
| Value added tax on financial services                                   |        | (892,209,763)         | (1,389,654,429)       |
| <b>Profit before tax</b>  |        | <b>3,879,659,157</b>  | <b>7,107,812,341</b>  |
| Income tax (expense) / reversal   | 28     | (99,974,970)          | (1,144,944,314)       |
| <b>Profit for the year</b>  |        | <b>3,779,684,187</b>  | <b>5,962,868,027</b>  |
| <b>Other comprehensive income</b>                                       |        |                       |                       |
| <b>Items that will never be reclassified to profit or loss</b>          |        |                       |                       |
| Remeasurements of defined benefit liability - gain / (loss)             | 18.2.b | (185,272,197)         | (4,097,431)           |
| Related tax   | 28.2   | 50,689,523            | 1,147,281             |
|   |        | (134,582,674)         | (2,950,150)           |
| Movement in fair value (Equity investments at FVOCI)                    |        | 12,254,474            | 22,480,000            |
| Related tax   |        | (1,225,447)           | (2,248,000)           |
|   |        | 11,029,027            | 20,232,000            |
| <b>Total of items that will never be reclassified to profit or loss</b> |        | <b>(123,553,647)</b>  | <b>17,281,850</b>     |

| Year ended 31 March   | Notes | 2020<br>Rs.   | 2019<br>Rs.   |
|---|-------|---------------|---------------|
| <b>Items that are or may be reclassified to profit or loss</b>          |       |               |               |
| Movement in fair value through OCI reserve                              | 4.1.3 | 22,683,918    | (34,822,051)  |
| Movement in hedge reserve   | 20.3  | (53,125,280)  | (45,453,148)  |
| Related tax   | 20.3  | 14,875,078    | 12,726,882    |
|   |       | (38,250,202)  | (32,726,267)  |
| <b>Total of items that are or may be reclassified to profit or loss</b> |       | (15,566,284)  | (67,548,317)  |
| <b>Total other comprehensive income, net of tax</b>                     |       | (139,119,931) | (50,266,468)  |
| <b>Total comprehensive income for the year</b>                          |       | 3,640,564,255 | 5,912,601,559 |
| Basic earnings per share  | 29    | 0.77          | 1.42          |

The annexed notes to the financial statements on pages 95 through 157 form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

|   | Notes       | 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 1 April 2018  |             | 7,880,000,000  | 1,996,724,011     | 241,527,671         | (6,333,136)             | (7,166,375)                    | 6,749,234,654     | 16,853,986,825 |
| <b>Total comprehensive income for the year</b>  |             |                |                   |                     |                         |                                |                   |                |
| Profit for the year   |             | -              | -                 | -                   | -                       | -                              | 5,962,868,027     | 5,962,868,027  |
| <b>Other comprehensive income, net of income tax</b>  |             |                |                   |                     |                         |                                |                   |                |
| Remeasurements of defined benefit liability - gain / (loss)   | 18.2 / 28.2 | -              | -                 | -                   | -                       | -                              | (2,950,150)       | (2,950,150)    |
| Revaluation gain on fair value through OCI investments  |             | -              | -                 | -                   | -                       | 20,232,000                     | -                 | 20,232,000     |
| Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income | 4.1.3       | -              | -                 | -                   | -                       | (34,822,050)                   | -                 | (34,822,050)   |
| <b>Net movement of cashflow hedges</b>  | 20.3 / 28.2 | -              | -                 | -                   | (32,726,267)            | -                              | -                 | (32,726,267)   |
| <b>Total comprehensive income for the year</b>  |             | -              | -                 | -                   | (32,726,267)            | (14,590,050)                   | (2,950,150)       | (50,266,467)   |
| <b>Transactions recorded directly in equity</b>   |             |                |                   |                     |                         |                                |                   |                |
| Transfer to Statutory Reserve Fund  |             | -              | 1,192,573,605     | -                   | -                       | -                              | (1,192,573,605)   | -              |
| <b>Total transactions recorded directly in equity</b>   |             | -              | 1,192,573,605     | -                   | -                       | -                              | (1,192,573,605)   | -              |
| Balance as at 31 March 2019   |             | 7,880,000,000  | 3,189,297,617     | 241,527,671         | (39,059,403)            | (21,756,425)                   | 11,516,578,923    | 22,766,588,383 |

|   | Notes       | 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.            |
| <b>Balance as at 01 April 2019</b>  |             | 7,880,000,000  | 3,189,297,617     | 241,527,671         | (39,059,403)            | (21,756,425)                   | 11,516,578,923    | 22,766,588,383 |
| <b>Total comprehensive income for the year</b>  |             |                |                   |                     |                         |                                |                   |                |
| Profit for the year   |             | -              | -                 | -                   | -                       | -                              | 3,779,684,187     | 3,779,684,187  |
| <b>Other comprehensive income, net of income tax</b>  |             |                |                   |                     |                         |                                |                   |                |
| 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     |
| Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income | 4.1.3       | -              | -                 | -                   | -                       | 22,683,918                     | -                 | 22,683,918     |
| Net movement of cashflow hedges   | 20.3 / 28.2 | -              | -                 | -                   | (38,250,202)            | -                              | -                 | (38,250,202)   |
| <b>Total comprehensive income for the year</b>  |             | -              | -                 | -                   | (38,250,202)            | 33,712,944                     | (134,582,674)     | (139,119,931)  |
|   |             | -              | -                 | -                   | (38,250,202)            | 33,712,944                     | 3,645,101,513     | 3,640,564,255  |
| <b>Transactions recorded directly in equity</b>   |             |                |                   |                     |                         |                                |                   |                |
| Transfer to Statutory Reserve Fund  |             | -              | 188,984,209       | -                   | -                       | -                              | (188,984,209)     | -              |
| Shares issued during the year   |             | 4,882,500,000  | -                 | -                   | -                       | -                              | -                 | 4,882,500,000  |
| <b>Total transactions recorded directly in equity</b>   |             | 4,882,500,000  | 188,984,209       | -                   | -                       | -                              | (188,984,209)     | 4,882,500,000  |
| <b>Balance as at 31 March 2020</b>  |             | 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 |

The annexed notes to the financial statements on pages 95 through 157 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

| Year ended 31 March  | Notes  | 2020<br>Rs.             | 2019<br>Rs.             |
|--|--------|-------------------------|-------------------------|
| <b>Cash flows from operating activities</b>                        |        |                         |                         |
| Profit before income tax expense                                   |        | 3,879,659,157           | 7,107,812,341           |
| Adjustments for:   |        |                         |                         |
| Depreciation   | 12     | 201,533,267             | 163,498,091             |
| (Profit)/ loss on sales of investment property and PPE             | 23     | [12,887,348]            | [7,241,139]             |
| Change in fair value of derivatives - forward contracts            | 23     | 91,665,503              | 106,833,729             |
| Provision for fall / (increase) in value of investments            | 23     | [624,295,846]           | [106,701,983]           |
| Impairment provision for the period                                | 25     | 1,772,359,246           | 1,375,203,724           |
| Provision/(Reversal) for payables to clients                       | 23     | -                       | [37,368,136]            |
| Change in fair value of investment property                        | 23     | [2,569,499,327]         | [2,094,584,353]         |
| Provision for defined benefit plans                                | 18.2.a | 54,111,511              | 19,303,613              |
| Investment income  |        | [2,160,740,058]         | [2,333,529,276]         |
| Finance costs  | 22     | 19,271,364,492          | 20,891,754,206          |
| <b>Operating profit before working capital changes</b>             |        | <b>19,903,270,597</b>   | <b>25,084,980,817</b>   |
| Change in other receivables  |        | [87,119,887]            | [28,590,046]            |
| Change in inventories  |        | 2,788,112               | 4,266,676               |
| Change in trade and other payables                                 |        | 147,039,798             | 294,989,124             |
| Change in amounts due to / due from related parties                |        | [21,110,076]            | [651,264,303]           |
| Change in factoring receivables                                    |        | 1,551,568,103           | 5,936,217,894           |
| Change in lease receivables  |        | [1,183,858,320]         | 107,450,033             |
| Change in loans and advances                                       |        | [717,173,492]           | 4,769,816,501           |
| Change in margin trading advances                                  |        | [1,767,689]             | 175,570,117             |
| Change in fixed deposits from customers                            |        | [14,493,690,931]        | 5,421,966,720           |
| Change in savings deposits from customers                          |        | [1,677,976,277]         | 132,196,309             |
| <b>Cash (used in) / generated from operations</b>                  |        | <b>3,421,969,937</b>    | <b>41,247,599,841</b>   |
| Finance cost paid on deposits                                      |        | [13,225,387,804]        | [14,148,202,102]        |
| Gratuity paid  | 18.2   | [28,302,712]            | [6,643,354]             |
| Income tax paid  | 28.1   | [961,260,692]           | [435,575,329]           |
| <b>Net cash from / (used in) operating activities</b>              |        | <b>[10,792,981,270]</b> | <b>26,657,179,055</b>   |
| <b>Cash flows from investing activities</b>                        |        |                         |                         |
| Acquisition of property, plant & equipment & investment property   |        | [997,267,336]           | [883,129,982]           |
| Net proceeds from investments in term deposits                     |        | 4,354,898,960           | 4,709,375,906           |
| Net proceeds from investments in government securities             |        | 7,382,918,655           | [7,314,049,640]         |
| Net proceeds from investments in Debenture                         |        | -                       | [308,151,484]           |
| Investment in subsidiaries   |        | [364,100,000]           | -                       |
| Interest received  |        | 2,160,740,058           | 2,333,529,276           |
| Proceeds from sale of investment property / PPE                    |        | 74,017,500              | 16,617,500              |
| Net proceeds from investments in Unit trust                        |        | 581,931,275             | [239,913,490]           |
| <b>Net cash flows used in investing activities</b>                 |        | <b>13,193,139,113</b>   | <b>[1,685,721,915]</b>  |
| <b>Cash flows from financing activities</b>                        |        |                         |                         |
| Proceeds from interest bearing loans & borrowings                  |        | [9,351,869,376]         | [11,921,054,502]        |
| Proceeds from issuance of new shares (Right issue)                 |        | 4,882,500,000           | -                       |
| Proceeds from issue of debentures                                  | 13.3   | -                       | 2,500,000,000           |
| Lease rentals paid   | 13.2   | [202,739,674]           | [269,944,262]           |
| Finance cost paid on borrowings                                    |        | [5,970,731,146]         | [7,067,612,478]         |
| <b>Net cash flows from / (used in) financing activities</b>        |        | <b>[10,642,840,196]</b> | <b>[16,758,611,242]</b> |
| <b>Net increase / (decrease) in cash and cash equivalents</b>      |        | <b>[8,242,682,354]</b>  | <b>8,212,845,847</b>    |
| <b>Cash and cash equivalents at the beginning of the period</b>    |        | <b>15,293,042,303</b>   | <b>7,080,196,456</b>    |
| <b>Cash and cash equivalents at the end of the period (note 3)</b> |        | <b>7,050,359,948</b>    | <b>15,293,042,303</b>   |

The annexed notes to the financial statements on pages 95 through 157 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 Jaywardenepura 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 year 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 2020 was 2,901 (2019- 2,602).

### 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 year under review;
- a Statement of Financial Position providing the information on the financial position of the Company as at the year-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 29 June 2020.

#### 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.

# NOTES TO THE FINANCIAL STATEMENTS

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 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 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 until 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 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                     |

### 2.1 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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

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.

### **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.

# NOTES TO THE FINANCIAL STATEMENTS

## ➤ 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

### 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

## NOTES TO THE FINANCIAL STATEMENTS

- (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 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

### 2.2.7 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.

### 2.2.8 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

### 2.2.9 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 its 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    |

## 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.



# NOTES TO THE FINANCIAL STATEMENTS

## 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 year 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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

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.

## **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 year.

#### **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 year, 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.

# NOTES TO THE FINANCIAL STATEMENTS

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 Financial risk management

### 2.22.1 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.

### 2.22.2 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.

### 2.22.3 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.

### 2.22.3.1 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 2020 (2019: 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 and as an immediate precautionary measure the Government imposed island wide curfew. 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



## NOTES TO THE FINANCIAL STATEMENTS

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 2020.
- 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.

### Credit Risk - Impairment Provision as per ECL for financial assets

The Company considered the Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustment (EFA) computed as at February 29, 2020, in order to estimate the Expected Credit Loss (ECL) as at March 31, 2020, due to uncertainty and lack of sufficient information to make any adjustments to capture the potential impact of COVID 19 based on the "COVID - 19 Pandemic: Guidance Notes on the Implications on Financial Reporting" issued by the institute of chartered accountants of Sri Lanka has provided reporting guidelines.

#### 4) Credit quality by class of financial assets at amortised cost

| (Rs'mn)   | Leases  |         | Mortgage Loans |       | Other Loans and Advances |         | Margin Trading |      | Factoring Receivables |         | Total   |         |
|---|---------|---------|----------------|-------|--------------------------|---------|----------------|------|-----------------------|---------|---------|---------|
|   | 2020    | 2019    | 2020           | 2019  | 2020                     | 2019    | 2020           | 2019 | 2020                  | 2019    | 2020    | 2019    |
| Carrying amount                                     | 43,842  | 42,942  | 1,768          | 1,471 | 85,343                   | 87,646  | 2              | -    | 2,999                 | 4,254   | 133,953 | 136,313 |
| <b>Assets at amortised cost</b>                     |         |         |                |       |                          |         |                |      |                       |         |         |         |
| Individually impaired - Gross amount                | 1,003   | 873     | 270            | 90    | 5,286                    | 2,353   | -              | -    | -                     | 306     | 6,559   | 3,622   |
| Less : Allowance for impairment                     | (541)   | (278)   | (40)           | (42)  | (2,215)                  | (1,000) | -              | -    | -                     | (106)   | (2,796) | (1,426) |
| Carrying amount                                     | 462     | 595     | 230            | 48    | 3,071                    | 1,353   | -              | -    | -                     | 200     | 3,763   | 2,196   |
| <b>Portfolio subject to collective impairment -</b> |         |         |                |       |                          |         |                |      |                       |         |         |         |
| Gross amount  | 44,433  | 43,380  | 1,555          | 1,444 | 85,164                   | 88,615  | 2              | -    | 3,909                 | 5,156   | 135,063 | 138,595 |
| Less : Allowance for impairment                     | (1,053) | (1,033) | (17)           | (21)  | (2,892)                  | (2,322) | -              | -    | (911)                 | (1,102) | (4,873) | (4,478) |
| Carrying amount                                     | 43,380  | 42,347  | 1,538          | 1,423 | 82,272                   | 86,293  | 2              | -    | 2,998                 | 4,054   | 130,190 | 134,117 |



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)                                       | 2020  | 2019  |
|--|-------|-------|
| <b>Against individually impaired customers :</b> |       |       |
| Property   | 2,362 | 891   |
| Vehicles   | 1,208 | 1,105 |

| (In Rs'mn)                                       | 2020   | 2019   |
|--|--------|--------|
| <b>Against Collectively impaired customers :</b> |        |        |
| Vehicles   | 87,406 | 84,826 |
| Others   | 93,642 | 83,214 |

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 year ended 31 March are shown below;

| (In Rs'mn)                                       | 2020  | 2019  |
|--|-------|-------|
| <b>Against Collectively impaired customers :</b> |       |       |
| Property   | -     | -     |
| Vehicles   | 1,208 | 1,105 |

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

| (In Rs'mn)                                       | 2020 | 2019 |
|--|------|------|
| <b>Against Collectively impaired customers :</b> |      |      |
| Leases   | 6    | 5    |
| Mortgage Loan                                    | 43   | 2    |
| Other loans & advances                           | 571  | 172  |

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 2020

| Category          | Leases        | Mortgage<br>Loans | Other Loans<br>and<br>Advances | Margin<br>Trading | Factoring<br>Receivables | Total          |
|-------------------|---------------|-------------------|--------------------------------|-------------------|--------------------------|----------------|
| (Rs'mn)           |               |                   |                                |                   |                          |                |
| Not due / current | 18,352        | 313               | 52,221                         | 2                 | 1,557                    | 72,444         |
| <b>Overdue :</b>  |               |                   |                                |                   |                          |                |
| 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         |
| <b>Total</b>      | <b>44,433</b> | <b>1,555</b>      | <b>85,164</b>                  | <b>2</b>          | <b>3,910</b>             | <b>135,063</b> |

## NOTES TO THE FINANCIAL STATEMENTS

Age analysis of facilities considered for collective impairment as at 31 March 2019.

| Category<br>(Rs'mn) | Leases        | Mortgage<br>Loans | Other Loans<br>and<br>Advances | Factoring<br>Receivables | Total          |
|---------------------|---------------|-------------------|--------------------------------|--------------------------|----------------|
| Not due / current   | 18,966        | 286               | 57,357                         | 2,671                    | 79,280         |
| <b>Overdue :</b>    |               |                   |                                |                          |                |
| Less than 30 days   | 10,307        | 408               | 11,739                         | 875                      | 23,329         |
| 31 - 60 days        | 6,774         | 214               | 6,552                          | 151                      | 13,691         |
| 61 - 90 days        | 3,230         | 78                | 3,288                          | 40                       | 6,636          |
| 91 - 120 days       | 1,278         | 49                | 1,706                          | 43                       | 3,076          |
| 121 - 150 days      | 877           | 17                | 2,173                          | 32                       | 3,099          |
| 151 - 180 days      | 439           | 34                | 1,251                          | 43                       | 1,767          |
| above 180 days      | 1,509         | 358               | 4,549                          | 1,301                    | 7,717          |
| <b>Total</b>        | <b>43,380</b> | <b>1,444</b>      | <b>88,615</b>                  | <b>5,156</b>             | <b>138,595</b> |

Sensitivity Analysis of Allowance for Impairment Losses as at 31 March 2020 and 31 March 2019.

### Sensitivity effect on impairment allowance Increase

| (Rs'mn)                     | Changed factor  | 2020 | 2019 |
|-----------------------------|-----------------|------|------|
| Probability of default (PD) | Increase by 1%  | 16   | 17   |
| Loss given default (LGD)    | Increase by 10% | 412  | 356  |

### Analysis of total impairment for expected credit losses

As at 31st March 2020

| (Rs'mn)  | Stage 01     | Stage 02   | Stage 03     | Total        |
|--|--------------|------------|--------------|--------------|
| Financial assets at amortised cost                 |              |            |              |              |
| Rentals receivable on leased assets                | 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            |
| <b>Total impairment for expected credit losses</b> | <b>1,011</b> | <b>880</b> | <b>5,781</b> | <b>7,670</b> |

As at 31st March 2019

| (Rs'mn)  | Stage 01     | Stage 02   | Stage 03     | Total        |
|--|--------------|------------|--------------|--------------|
| Financial assets at amortised cost                 |              |            |              |              |
| Rentals receivable on leased assets                | 304          | 246        | 760          | 1,310        |
| Loans and advances                                 | 523          | 430        | 2,428        | 3,381        |
| Factoring receivable                               | 270          | 36         | 903          | 1,208        |
| Other financial assets                             | 0            | -          | -            | 0            |
| Commitments and Contingencies                      | -            | 4          | -            | 4            |
| <b>Total impairment for expected credit losses</b> | <b>1,097</b> | <b>716</b> | <b>4,091</b> | <b>5,903</b> |

### 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

## 2.22.4 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.

### 2.22.4.1 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 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.

| (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 |
|---------------------------------|------------------|----------------------------------|----------------|----------------|---------------|--------------|-------------------|
| <b>As at 31st March 2020</b>    |                  |                                  |                |                |               |              |                   |
| 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            | -              | -             | -            | -                 |
| <b>Total liabilities</b>        | <b>157,055</b>   | <b>168,510</b>                   | <b>80,025</b>  | <b>59,602</b>  | <b>20,800</b> | <b>8017</b>  | <b>65</b>         |

### As at 31st March 2019

|                                 |                |                |               |               |               |               |          |
|---------------------------------|----------------|----------------|---------------|---------------|---------------|---------------|----------|
| Bank overdraft                  | 2,242          | 2,242          | 2,242         | -             | -             | -             | -        |
| Borrowings                      | 61,087         | 66,302         | 44,231        | 15,599        | 1,759         | 4,714         | -        |
| Deposits from customers         | 115,365        | 121,559        | 26,759        | 66,209        | 20,863        | 7,728         | -        |
| Trade payables                  | 1,161          | 1,161          | 1,161         | -             | -             | -             | -        |
| Accruals and other payables     | 3,069          | 3,069          | 3,069         | -             | -             | -             | -        |
| Derivative liabilities          | 662            | 10,093         | 5,338         | 4,755         | -             | -             | -        |
| Amount due to related companies | 818            | 818            | 818           | -             | -             | -             | -        |
| <b>Total liabilities</b>        | <b>184,404</b> | <b>205,244</b> | <b>83,618</b> | <b>86,563</b> | <b>22,622</b> | <b>12,441</b> | <b>-</b> |

## NOTES TO THE FINANCIAL STATEMENTS

The maturity analysis of financial assets based on undiscounted gross inflows / (outflows) is reflected below.

| (Rs'mn)  | Carrying<br>amounts | Gross<br>nominal<br>outflow/<br>(inflow) | Up to 3<br>Months | 3 to 12<br>Months | 1 to 3<br>Years | 3 to 5<br>Years | More than<br>5 Years |
|--|---------------------|--|-------------------|-------------------|-----------------|-----------------|----------------------|
| <b>As at 31st March 2020</b>                         |                     |  |                   |                   |                 |                 |                      |
| 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                    | 63                  | 63                                       | 63                | -                 | -               | -               | -                    |
| Other receivables                                    | 415                 | 415                                      | 415               | -                 | -               | -               | -                    |
|  | 174,073             | 227,306                                  | 73,632            | 68,955            | 68,915          | 14,304          | 1,500                |

### As at 31st March 2019

|  |         |         |        |        |        |        |     |
|--|---------|---------|--------|--------|--------|--------|-----|
| Cash and cash equivalents                            | 17,536  | 17,536  | 17,536 | -      | -      | -      | -   |
| Deposits with banks and other financial institutions | 21,637  | 21,828  | 9,646  | 12,182 | -      | -      | -   |
| Investment in government securities                  | 18,151  | 18,502  | 15,017 | 3,466  | 2      | 17     | -   |
| Derivative assets                                    | 569     | 11,295  | 8,359  | 2,937  | -      | -      | -   |
| Financial assets at amortised cost                   |         |         |        |        |        |        |     |
| Rentals receivable on leased assets                  | 42,942  | 60,857  | 9,376  | 18,127 | 28,237 | 5,010  | 107 |
| Loans and advances                                   | 88,992  | 108,326 | 19,863 | 30,184 | 46,932 | 10,855 | 493 |
| Factoring receivable                                 | 4,254   | 4,254   | 4,254  | -      | -      | -      | -   |
| Investment securities                                | 2,810   | 3,030   | 2,810  | -      | -      | -      | 220 |
| Amount due from related companies                    | 6       | 6       | 6      | -      | -      | -      | -   |
| Other receivables                                    | 938     | 939     | 939    | -      | -      | -      | -   |
|  | 197,835 | 246,572 | 87,806 | 66,895 | 75,171 | 15,882 | 820 |

### 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.

#### As at 31-3-2020 (In Rs'Mn)

| Item   | On demand | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total  |
|--|-----------|-----------------|-------------|-----------|--------------|--------|
| <b>Contingent liabilities</b>  |           |                 |             |           |              |        |
| Guarantees issued to banks and other institutions - backed by deposits held with the company | 196       | -               | -           | -         | -            | 196    |
| <b>Total</b>   | 196       | -               | -           | -         | -            | 196    |
| <b>Commitments</b>   |           |                 |             |           |              |        |
| Unutilised loan facilities & letter of credit  | 11,736    | -               | -           | -         | -            | 11,736 |
| (-) Allowance for ECL / impairment   | (2)       | -               | -           | -         | -            | (2)    |
| <b>Total</b>   | 11,734    | -               | -           | -         | -            | 11,734 |

#### As at 31-3-2019 (In Rs'Mn)

| Item   | On demand | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total  |
|--|-----------|-----------------|-------------|-----------|--------------|--------|
| <b>Contingent liabilities</b>  |           |                 |             |           |              |        |
| Guarantees issued to banks and other institutions - backed by deposits held with the company | 270       | -               | -           | -         | -            | 270    |
| <b>Total</b>   | 270       | -               | -           | -         | -            | 270    |
| <b>Commitments</b>   |           |                 |             |           |              |        |
| Unutilised loan facilities & letter of credit  | 11,077    | -               | -           | -         | -            | 11,077 |
| (-) Allowance for ECL / impairment   | (4)       | -               | -           | -         | -            | (4)    |
| <b>Total</b>   | 11,073    | -               | -           | -         | -            | 11,073 |

## NOTES TO THE FINANCIAL STATEMENTS

### 2.22.5 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 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 |
|--|----------------|----------------|---------------|---------------|-------------------|----------------------|
| <b>Interest earning assets</b>   |                |                |               |               |                   |                      |
| 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                    |
| <b>Total interest earning assets</b>   | <b>46,674</b>  | <b>50,596</b>  | <b>52,847</b> | <b>11,752</b> | <b>160</b>        | <b>162,029</b>       |
| <b>Interest bearing liabilities</b>  |                |                |               |               |                   |                      |
| 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               |
| <b>Total interest bearing liabilities</b>  | <b>76,643</b>  | <b>52,331</b>  | <b>16,638</b> | <b>6,430</b>  | <b>61</b>         | <b>152,103</b>       |
| 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)               | -                    |

**Sensitivity analysis as at 31st March 2019 (In Rs' Mn)**

| Item   | Up to 3<br>Months | 3 to 12<br>Months | 1 to 3<br>Years | 3 to 5<br>Years | More than<br>5 Years | Total as at<br>31.03.19 |
|--|-------------------|-------------------|-----------------|-----------------|----------------------|-------------------------|
| <b>Interest earning assets</b>   |                   |                   |                 |                 |                      |                         |
| Deposits with banks and other financial institutions   | 9,588             | 12,049            | -               | -               | -                    | 21,637                  |
| Investment in government securities & others   | 14,950            | 3,188             | -               | 13              | -                    | 18,151                  |
| Financial assets at amortised cost   |                   |                   |                 |                 |                      |                         |
| Rentals receivable on leased assets  | 6,472             | 11,601            | 20,741          | 4,236           | 97                   | 43,147                  |
| Loans and advances   | 15,782            | 23,642            | 39,404          | 9,294           | 345                  | 88,468                  |
| Factoring receivable   | 6,670             | -                 | -               | -               | -                    | 6,670                   |
| <b>Total interest earning assets</b>   | <b>53,462</b>     | <b>50,480</b>     | <b>60,145</b>   | <b>13,543</b>   | <b>442</b>           | <b>178,073</b>          |
| <b>Interest bearing liabilities</b>  |                   |                   |                 |                 |                      |                         |
| Bank overdraft   | 2,242             | -                 | -               | -               | -                    | 2,242                   |
| Interest bearing borrowings  | 43,610            | 14,057            | 780             | 2,639           | -                    | 61,087                  |
| Deposits from customers  | 32,703            | 59,276            | 16,911          | 6,475           | -                    | 115,365                 |
| <b>Total interest bearing liabilities</b>  | <b>78,556</b>     | <b>73,333</b>     | <b>17,691</b>   | <b>9,114</b>    | <b>-</b>             | <b>178,695</b>          |
| Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)                           | (25,094)          | (22,853)          | 42,454          | 4,429           | 442                  | (622)                   |
| Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect | (251)             | (229)             | 425             | 44              | 4                    | -                       |
| Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect | 251               | 229               | (425)           | (44)            | (4)                  | -                       |

**2.22.6 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.

## NOTES TO THE FINANCIAL STATEMENTS

The Company's regulatory capital under the CBSL guidelines is as follows;

| Capital element<br>(Rs'mn)          | As at<br>31.03.2020 | As at<br>31.03.2019 |
|-------------------------------------|---------------------|---------------------|
| Ordinary share capital              | 12,763              | 7,880               |
| Statutory Reserve                   | 3,378               | 3,189               |
| Retained earnings                   | 14,963              | 11,517              |
| (-) Investment property revaluation | (4,758)             | (2,188)             |
| Other negative reserves             | (77)                | (61)                |
| <b>Tier I capital</b>               | <b>26,269</b>       | <b>20,640</b>       |
| Subordinated debt                   | 2,787               | 4,232               |
| <b>Tier II capital</b>              | <b>2,787</b>        | <b>4,232</b>        |
| <b>Total capital</b>                | <b>29,056</b>       | <b>24,872</b>       |

### 2.23 Financial assets and liabilities

#### 2.23.1 Accounting classifications and fair values

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities.

| (Rs'mn)  | Fair value<br>through profit<br>or loss | Fair value<br>through other<br>comprehensive<br>income | Amortised cost<br>/ Not measured<br>at fair value | Total Carrying<br>amount | Fair value     | Fair value<br>measurement<br>level |
|--|---|--|---|--------------------------|----------------|------------------------------------|
| As at 31st March 2020                              |   |  |   |                          |                |                                    |
| 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                            |
| <b>Investment securities</b>                       | <b>2,769</b>                            | <b>188</b>   | <b>1</b>  | <b>2,958</b>             | <b>2,958</b>   | <b>Level 1 / 3</b>                 |
| 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                  | -                                       | -  | 63  | 63                       | 63             |                                    |
| Other financial assets                             | -                                       | -  | 536   | 536                      | 536            |                                    |
| <b>Total financial assets</b>                      | <b>3,042</b>                            | <b>9,797</b>   | <b>161,354</b>                                    | <b>174,193</b>           | <b>174,562</b> |                                    |
| 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            |                                    |
| <b>Total financial liabilities</b>                 | <b>114</b>                              | <b>-</b>   | <b>157,262</b>                                    | <b>157,377</b>           | <b>158,446</b> |                                    |

Note – For carrying amounts which fair value measurement level is not mentioned are approximate to the fair value.



| (Rs'mn)  | Fair value<br>through profit<br>or loss | Fair value<br>through other<br>comprehensive<br>income | Amortised<br>cost / Not<br>measured<br>at fair value | Total Carrying<br>amount | Fair value     | Fair value<br>measurement<br>level |
|--|---|--|--|--------------------------|----------------|------------------------------------|
| As at 31st March 2019                              |   |  |  |                          |                |                                    |
| Cash and cash equivalents                          | -                                       | -  | 17,536   | 17,536                   | 17,536         |                                    |
| Deposits with banks & other financial institutions | -                                       | -  | 21,637   | 21,637                   | 21,637         |                                    |
| Investment in government securities & others       |   |  |  |                          |                |                                    |
| - Measured at fair value                           | -                                       | 6,577  | -  | 6,577                    | 6,577          | Level 1                            |
| - Measured at amortised cost                       | -                                       | -  | 12,574   | 12,574                   | 12,574         |                                    |
| Derivative assets                                  | 569                                     | -  | -  | 569                      | 569            | Level 2                            |
| Investment securities                              | 2,324                                   | 176  | 309  | 2,809                    | 2,809          | Level 1 / 3                        |
| Financial assets at amortised cost                 |   |  |  |                          |                |                                    |
| Rentals receivable on leased assets                | -                                       | -  | 42,942   | 42,942                   | 44,556         | Level 2                            |
| Loans and advances                                 | -                                       | -  | 88,996   | 88,996                   | 90,663         | Level 2                            |
| Factoring receivable                               | -                                       | -  | 4,254  | 4,254                    | 4,254          |                                    |
| Amount due from related companies                  | -                                       | -  | 6  | 6                        | 6              |                                    |
| Other financial assets                             | -                                       | -  | 418  | 418                      | 418            |                                    |
| <b>Total financial assets</b>                      | <b>2,893</b>                            | <b>6,753</b>   | <b>188,672</b>                                       | <b>198,318</b>           | <b>201,599</b> |                                    |
| Bank overdraft                                     | -                                       | -  | 2,242  | 2,242                    | 2,242          |                                    |
| Interest bearing borrowings                        | -                                       | -  | 61,087   | 61,087                   | 61,250         | Level 2                            |
| Deposits from customers                            | -                                       | -  | 115,365  | 115,365                  | 115,964        | Level 2                            |
| Trade payables                                     | -                                       | -  | 1,161  | 1,161                    | 1,161          |                                    |
| Accruals and other payables                        | -                                       | -  | 2,958  | 2,958                    | 2,958          |                                    |
| Derivative liabilities                             | 662                                     | -  | -  | 662                      | 662            | Level 2                            |
| Amount due to related companies                    | -                                       | -  | 818  | 818                      | 818            |                                    |
| <b>Total financial liabilities</b>                 | <b>662</b>                              | <b>-</b>   | <b>183,631</b>                                       | <b>184,293</b>           | <b>185,055</b> |                                    |

Note – For carrying amounts which fair value measurement level is not mentioned are approximate to the fair value.

## 2.23.2 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 3. CASH AND CASH EQUIVALENTS

| As at 31st March   | 2020<br>Rs.     | 2019<br>Rs.     |
|--|-----------------|-----------------|
| <b>3.1 Favourable cash &amp; cash equivalents balance</b>              |                 |                 |
| Cash in hand and at bank   | 8,333,560,554   | 17,535,538,362  |
| <b>3.2 Unfavourable cash &amp; cash equivalent balances</b>            |                 |                 |
| Bank overdraft   | (1,283,200,605) | (2,242,496,059) |
| Total cash and cash equivalents for the purpose of cash flow statement | 7,050,359,949   | 15,293,042,303  |

### 4. INVESTMENT IN GOVERNMENT SECURITIES AND OTHERS

| As at 31st March  | 2020<br>Rs.    | 2019<br>Rs.    |
|---|----------------|----------------|
| <b>Investment In Government Securities</b>                              |                |                |
| Financial instruments - at amortised cost (note 4.1.1)                  | 1,182,244,779  | 8,233,594,359  |
| Financial instruments - measured at fair value through OCI (note 4.1.2) | 9,608,598,413  | 6,576,963,654  |
|   | 10,790,843,192 | 14,810,558,013 |
| <b>Other Investments</b>  |                |                |
| Investments in commercial papers - at amortised cost (note 4.2)         | -              | 3,340,437,916  |
|   | 10,790,843,192 | 18,150,995,929 |

#### 4.1 Investment in Government Securities

| As at 31st March  | 2020                  |                   | 2019                  |                   |
|---|-----------------------|-------------------|-----------------------|-------------------|
|   | Carrying value<br>Rs. | Fair value<br>Rs. | Carrying value<br>Rs. | Fair value<br>Rs. |
| <b>4.1.1 Financial instruments - measured at amortised cost</b>         |                       |                   |                       |                   |
| Investment in Government Standing Deposit Facilities                    | 1,182,244,779         | 1,182,244,779     | 8,233,594,359         | 8,233,594,359     |
| <b>4.1.2 Financial instruments - measured at fair value through OCI</b> |                       |                   |                       |                   |
| Investment in Treasury Bills  | 9,191,351,647         | 9,191,351,647     | 6,347,898,131         | 6,347,898,131     |
| Investment in Treasury Bonds  | 417,246,767           | 417,246,767       | 229,065,523           | 229,065,523       |
|   | 9,608,598,413         | 9,608,598,413     | 6,576,963,654         | 6,576,963,654     |

#### 4.1.3 Fair value adjustments recognised in other comprehensive income - current period (net of transfers to P&L)

| As at 31st March             | 2020<br>Rs. | 2019<br>Rs.  |
|------------------------------|-------------|--------------|
| Investment in Treasury Bills | 21,896,550  | (19,247,666) |
| Investment in Treasury Bonds | 787,368     | (15,574,385) |
| Net Change in Fair Value     | 22,683,918  | (34,822,051) |
| Total recognised in OCI      | 22,683,918  | (34,822,051) |

#### 4.1.4 Fair value adjustments recognised in other comprehensive income - cumulative

| As at 31st March             | 2020<br>Rs.  | 2019<br>Rs.  |
|------------------------------|--------------|--------------|
| Investment in Treasury Bills | (19,452,325) | (41,348,875) |
| Investment in Treasury Bonds | 147,818      | (639,550)    |
|                              | (19,304,507) | (41,988,425) |

#### 4.2 Investments classified as loans and receivables - carried at amortised cost

| As at 31st March                | 2020                  |                   | 2019                  |                   |
|---------------------------------|-----------------------|-------------------|-----------------------|-------------------|
|                                 | Carrying value<br>Rs. | Fair value<br>Rs. | Carrying value<br>Rs. | Fair value<br>Rs. |
| Investment in commercial papers | -                     | -                 | 3,340,437,916         | 3,340,437,916     |

### 5. DERIVATIVE FINANCIAL INSTRUMENTS

| As at 31st March   | 2020<br>Rs.   | 2019<br>Rs.   |
|--|---------------|---------------|
| <b>Net derivative assets / (liabilities)</b>                     |               |               |
| Derivative assets (note 5.1)                                     | 273,195,187   | 568,529,646   |
| Derivative liabilities (note 5.2)                                | 114,349,000   | 661,931,132   |
| Net derivative assets / (liabilities)                            | 158,846,187   | (93,401,486)  |
| <b>5.1 Derivative assets</b>                                     |               |               |
| Forward exchange contracts                                       | 273,195,187   | 568,529,646   |
| <b>5.2 Derivative liabilities</b>                                |               |               |
| Forward exchange contracts                                       | 114,349,000   | 661,931,132   |
| <b>5.3 Change in fair value during the period - gain/ (loss)</b> |               |               |
| Recognised in profit or loss                                     | 91,665,503    | 106,833,729   |
| Recognised in OCI  | (160,582,171) | (362,355,644) |
|  | (68,916,669)  | (255,521,915) |

### 6. RENTALS RECEIVABLE ON LEASED ASSETS

| As at 31st March                          | 2020<br>Rs.      | 2019<br>Rs.      |
|---|------------------|------------------|
| Rentals receivable                        | 70,338,132,076   | 67,776,807,308   |
| Unearned income                           | (18,622,613,639) | (16,607,445,447) |
| Net rentals receivable (note 6.1)         | 51,715,518,437   | 51,169,361,861   |
| Deposits received from lessees            | (6,279,409,653)  | (6,917,111,397)  |
| Allowance for ECL / impairment (note 6.2) | (1,593,727,828)  | (1,310,413,793)  |
|   | 43,842,380,956   | 42,941,836,671   |

## NOTES TO THE FINANCIAL STATEMENTS

### 6.a Analysis of rentals receivable on leased assets on Exposure to Credit Risk

| As at 31 March 2020                              | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs.    |
|--|-----------------|-----------------|-----------------|-----------------|
| 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

| As at 31st March             | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs.  |
|------------------------------|-----------------|-----------------|-----------------|---------------|
| 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 |
| Balance as at 01 April 2018  | 406,051,576     | 243,564,855     | 566,464,148     | 1,216,080,580 |
| Net charge to profit or loss | (102,023,698)   | 2,586,877       | 193,770,035     | 94,333,213    |
| Balance as at 31 March 2019  | 304,027,878     | 246,151,732     | 760,234,183     | 1,310,413,793 |

### 6.1 Net Rentals Receivable

| As at 31st March               | 2020<br>Rs.     | 2019<br>Rs.     |
|--------------------------------|-----------------|-----------------|
| Receivable -more than one year |                 |                 |
| Rentals receivable             | 41,975,019,095  | 40,274,071,606  |
| Unearned income                | (9,155,281,430) | (7,484,539,400) |
|                                | 32,819,737,665  | 32,789,532,206  |
| Receivable within one year     |                 |                 |
| Rentals receivable             | 24,710,639,863  | 24,974,692,645  |
| Unearned income                | (9,467,332,209) | (9,122,906,047) |
|                                | 15,243,307,654  | 15,851,786,598  |
| Overdue                        |                 |                 |
| Rentals receivable             | 3,652,473,118   | 2,528,043,057   |
|                                | 51,715,518,437  | 51,169,361,861  |

## 6.2 Allowance for ECL / impairment

| As at 31st March                      | 2020<br>Rs.   | 2019<br>Rs.   |
|---------------------------------------|---------------|---------------|
| Balance as at 1st of April            | 1,310,413,793 | 754,576,684   |
| Impact of adopting SLFRS 9            | -             | 461,503,900   |
| Balance as at 1st of April - Adjusted | 1,310,413,793 | 1,216,080,585 |
| Provision / (reversal) for the year   | 283,314,035   | 94,333,208    |
| Balance as at 31st March              | 1,593,727,828 | 1,310,413,793 |

### 6.2.1 Individually significant clients - impairment

|                                       |             |               |
|---------------------------------------|-------------|---------------|
| Balance as at 1st of April            | 277,988,899 | 580,821,511   |
| Impact of adopting SLFRS 9            | -           | (246,035,989) |
| Balance as at 1st of April - Adjusted | 277,988,899 | 334,785,522   |
| Provision for the year                | 262,768,023 | (56,796,623)  |
| Balance as at 31st March              | 540,756,922 | 277,988,899   |

### 6.2.2 Individually non-significant clients - impairment

|                                       |               |               |
|---------------------------------------|---------------|---------------|
| Balance as at 1st of April            | 1,032,424,894 | 173,755,173   |
| Impact of adopting SLFRS 9            | -             | 707,539,889   |
| Balance as at 1st of April - Adjusted | 1,032,424,894 | 881,295,063   |
| Provision for the year                | 20,546,012    | 151,129,831   |
| Balance as at 31st March              | 1,052,970,905 | 1,032,424,894 |

## 7. LOANS AND ADVANCES

| As at 31st March          | 2020<br>Rs.    | 2019<br>Rs.    |
|---------------------------|----------------|----------------|
| Mortgage Loans (note 7.1) | 1,731,058,389  | 1,469,225,854  |
| Sundry Loans (note 7.2)   | 78,225,283,512 | 84,062,288,877 |
| Gold Loan (note 7.3)      | 6,107,254,277  | 3,095,548,677  |
| Credit Cards (note 7.4)   | 1,049,352,953  | 368,778,391    |
|                           | 87,112,949,131 | 88,995,841,800 |

## NOTES TO THE FINANCIAL STATEMENTS

### 7.a Analysis of loans and receivables on Exposure to Credit Risk

| Balance as at 31 March 2020                      | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs.    |
|--|-----------------|-----------------|-----------------|-----------------|
| 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  |

| Balance as at 31 March 2019                      | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs.    |
|--|-----------------|-----------------|-----------------|-----------------|
| Loans and advances :                             |                 |                 |                 |                 |
| Mortgage Loans                                   | 985,064,716     | 99,877,509      | 447,321,998     | 1,532,264,224   |
| Speed Draft                                      | 24,410,883,705  | 1,448,779,099   | 1,112,041,114   | 26,971,703,918  |
| Group Loans                                      | 14,098,647,662  | 1,358,448,195   | 876,153,748     | 16,333,249,604  |
| Sundry Loans                                     | 37,613,831,631  | 2,704,135,394   | 3,699,407,331   | 44,017,374,356  |
| Gold Loan  | 2,979,517,918   | 94,342,538      | 69,818,872      | 3,143,679,328   |
| Credit Cards                                     | 377,132,780     | 1,378,359       | 89,214          | 378,600,353     |
| Gross loans and advances                         | 80,465,078,412  | 5,706,961,094   | 6,204,832,276   | 92,376,871,783  |
| Impairment for expected credit losses (note 7.b) | (522,958,836)   | (430,085,508)   | (2,427,985,638) | (3,381,029,983) |
| Net loans and advances                           | 79,942,119,576  | 5,276,875,586   | 3,776,846,638   | 88,995,841,800  |

### 7.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

| As at 31st March             | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs.  |
|------------------------------|-----------------|-----------------|-----------------|---------------|
| 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 |
| Balance as at 01 April 2018  | 499,679,783     | 195,299,091     | 1,856,004,720   | 2,550,983,594 |
| Net charge to profit or loss | 23,279,054      | 234,786,417     | 571,980,918     | 830,046,389   |
| Balance as at 31 March 2019  | 522,958,836     | 430,085,508     | 2,427,985,638   | 3,381,029,983 |

## 7.1 Mortgage Loans

| As at 31st March   | 2020<br>Rs.   | 2019<br>Rs.   |
|--|---------------|---------------|
| Rentals receivable   | 2,343,150,354 | 2,072,075,294 |
| Unearned income  | (554,808,556) | (539,811,070) |
| Net rentals receivable (note 7.1.1)                              | 1,788,341,798 | 1,532,264,224 |
| Allowance for ECL / impairment (note 7.1.2)                      | (57,283,409)  | (63,038,370)  |
|  | 1,731,058,389 | 1,469,225,854 |
| <b>7.1.1 Net rentals receivable - Mortgage Loans</b>             |               |               |
| <b>Receivable -more than one year</b>                            |               |               |
| Installments receivable  | 1,273,284,049 | 1,247,147,632 |
| Unearned income  | (306,453,734) | (304,552,902) |
|  | 966,830,315   | 942,594,730   |
| <b>Receivable within one year</b>                                |               |               |
| Installments receivable  | 700,607,376   | 590,363,058   |
| Unearned income  | (248,354,822) | (235,258,168) |
|  | 452,252,554   | 355,104,890   |
| <b>Overdue</b>   |               |               |
| Installments receivable  | 369,258,929   | 234,564,603   |
|  | 1,788,341,798 | 1,532,264,224 |
| <b>7.1.2 Allowance for ECL / impairment - Mortgage Loans</b>     |               |               |
| Balance as at 1st of April                                       | 63,038,370    | 23,403,131    |
| Impact of adopting SLFRS 9                                       | -             | 49,338,632    |
| Balance as at 1st of April - Adjusted                            | 63,038,370    | 72,741,763    |
| Provision / (reversal) for the year                              | (5,754,961)   | (9,703,393)   |
| Balance as at 31st March   | 57,283,409    | 63,038,370    |
| <b>7.1.2.a Individually significant clients - impairment</b>     |               |               |
| Balance as at 1st of April                                       | 41,905,876    | -             |
| Provision / (reversal) for the year                              | (1,953,380)   | 41,905,876    |
| Balance as at 31st March   | 39,952,497    | 41,905,876    |
| <b>7.1.2.b Individually non-significant clients - impairment</b> |               |               |
| Balance as at 1st of April                                       | 21,132,494    | 23,403,131    |
| Impact of adopting SLFRS 9                                       | -             | 49,338,632    |
| Balance as at 1st of April - Adjusted                            | 21,132,494    | 72,741,763    |
| Provision / (reversal) for the year                              | (3,801,581)   | (51,609,270)  |
| Balance as at 31st March   | 17,330,912    | 21,132,494    |

## NOTES TO THE FINANCIAL STATEMENTS

### 7.2 Sundry Loans

| As at 31st March                            | 2020<br>Rs.      | 2019<br>Rs.      |
|---|------------------|------------------|
| Total receivable                            | 96,983,290,997   | 102,613,321,375  |
| Unearned income                             | (13,828,725,930) | (15,290,993,497) |
| Net receivable (note 7.2.1)                 | 83,154,565,067   | 87,322,327,878   |
| Allowance for ECL / impairment (note 7.2.2) | (4,929,281,555)  | (3,260,039,001)  |
|   | 78,225,283,512   | 84,062,288,877   |
| <b>7.2.1 Net receivable - Sundry Loans</b>  |                  |                  |
| Receivable -more than one year              |                  |                  |
| Installments receivable                     | 48,908,984,050   | 56,913,990,368   |
| Unearned income                             | (6,038,694,293)  | (6,784,460,179)  |
|   | 42,870,289,757   | 50,129,530,189   |
| Receivable within one year                  |                  |                  |
| Installments receivable                     | 40,092,324,111   | 40,473,600,692   |
| Unearned income                             | (7,790,031,637)  | (8,506,533,318)  |
|   | 32,302,292,474   | 31,967,067,374   |
| Overdue                                     |                  |                  |
| Installments receivable                     | 7,981,982,836    | 5,225,730,315    |
|   | 83,154,565,067   | 87,322,327,878   |

### 7.2.2 Allowance for ECL / impairment - Sundry Loans

| As at 31st March                      | 2020<br>Rs.   | 2019<br>Rs.   |
|---------------------------------------|---------------|---------------|
| Balance as at 1st of April            | 3,260,039,001 | 2,753,757,417 |
| Impact of adopting SLFRS 9            | -             | (295,773,568) |
| Balance as at 1st of April - Adjusted | 3,260,039,001 | 2,457,983,849 |
| Provision / (reversal) for the year   | 1,669,242,555 | 802,055,151   |
| Balance as at 31st March              | 4,929,281,555 | 3,260,039,001 |

#### 7.2.2.a Individually significant clients - impairment

| As at 31st March                      | 2020<br>Rs.   | 2019<br>Rs.   |
|---------------------------------------|---------------|---------------|
| Balance as at 1st of April            | 994,797,394   | 1,465,346,615 |
| Impact of adopting SLFRS 9            | -             | (496,232,992) |
| Balance as at 1st of April - Adjusted | 994,797,394   | 969,113,623   |
| Provision / (reversal) for the year   | 1,214,721,714 | 25,683,771    |
| Balance as at 31st March              | 2,209,519,108 | 994,797,394   |



### 7.2.2.b Individually non-significant clients - impairment

| As at 31st March                      | 2020<br>Rs.   | 2019<br>Rs.   |
|---------------------------------------|---------------|---------------|
| Balance as at 1st of April            | 2,265,241,606 | 1,288,410,802 |
| Impact of adopting SLFRS 9            | -             | 200,459,424   |
| Balance as at 1st of April - Adjusted | 2,265,241,606 | 1,488,870,226 |
| Provision for the year                | 454,520,841   | 776,371,380   |
| Balance as at 31st March              | 2,719,762,447 | 2,265,241,606 |

### 7.3 Gold loans

| As at 31st March                            | 2020<br>Rs.   | 2019<br>Rs.   |
|---|---------------|---------------|
| Gross amount outstanding at year end        | 6,217,404,613 | 3,143,679,328 |
| Allowance for ECL / impairment (note 7.3.1) | (110,150,336) | (48,130,651)  |
| Balance as at 31st March                    | 6,107,254,277 | 3,095,548,677 |

#### 7.3.1 Allowance for ECL / impairment

| As at 31st March                      | 2020<br>Rs. | 2019<br>Rs. |
|---------------------------------------|-------------|-------------|
| Balance as at 1st of April            | 48,130,651  | 22,658,465  |
| Impact of adopting SLFRS 9            | -           | (2,400,485) |
| Balance as at 1st of April - Adjusted | 48,130,651  | 20,257,980  |
| Provision / (reversal) for the year   | 62,019,685  | 27,872,671  |
| Balance as at 31st March              | 110,150,336 | 48,130,651  |

#### 7.3.1.a Individually significant clients - impairment

| As at 31st March                    | 2020<br>Rs. | 2019<br>Rs. |
|-------------------------------------|-------------|-------------|
| Balance as at 1st of April          | 5,284,102   | 5,284,102   |
| Provision / (reversal) for the year | -           | -           |
| Balance as at 31st March            | 5,284,102   | 5,284,102   |

#### 7.3.1.b Individually non-significant clients - impairment

|                                       |             |             |
|---------------------------------------|-------------|-------------|
| Balance as at 1st of April            | 42,846,549  | 17,374,363  |
| Impact of adopting SLFRS 9            | -           | (2,400,485) |
| Balance as at 1st of April - Adjusted | 42,846,549  | 14,973,877  |
| Provision for the year                | 62,019,685  | 27,872,671  |
| Balance as at 31st March              | 104,866,234 | 42,846,549  |

## NOTES TO THE FINANCIAL STATEMENTS

### 7. LOANS AND ADVANCES (CONTD.)

#### 7.4 Credit Card

| As at 31st March                            | 2020<br>Rs.   | 2019<br>Rs. |
|---|---------------|-------------|
| Gross amount outstanding at year end        | 1,116,980,623 | 378,600,353 |
| Allowance for ECL / impairment (note 7.4.1) | (67,627,670)  | (9,821,962) |
| Balance as at 31st March                    | 1,049,352,953 | 368,778,391 |

#### 7.4.1 Allowance for ECL / impairment

| As at 31st March                                  | 2020<br>Rs. | 2019<br>Rs. |
|---|-------------|-------------|
| Balance as at 1st of April                        | 9,821,962   | -           |
| Provision / (reversal) for the year               | 57,805,708  | 9,821,962   |
| Balance as at 31st March                          | 67,627,670  | 9,821,962   |
| Individually non-significant clients - impairment |             |             |
| Balance as at 1st of April                        | 9,821,962   | -           |
| Provision for the year                            | 57,805,708  | 9,821,962   |
| Balance as at 31st March                          | 67,627,670  | 9,821,962   |

#### 7.5 Margin Trading Receivables

| As at 31st March                     | 2020<br>Rs. | 2019<br>Rs. |
|--------------------------------------|-------------|-------------|
| Gross amount outstanding at year end | 1,767,689   | -           |
| Allowance for ECL / impairment       | -           | -           |
| Net balance on margin trading        | 1,767,689   | -           |

#### 7.6 Factoring Receivables

|   |               |                 |
|---|---------------|-----------------|
| Gross receivable                            | 3,910,200,287 | 5,461,768,390   |
| Allowance for ECL / impairment (note 6.5.1) | (911,448,332) | (1,208,100,488) |
|   | 2,998,751,955 | 4,253,667,902   |

#### 7.6.a Analysis of factoring receivable on Exposure to Credit Risk

| As at 31st March 2019                              | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs.    |
|--|-----------------|-----------------|-----------------|-----------------|
| 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   |
| Balance as at 31 March 2019                        |                 |                 |                 |                 |
| Factoring receivable                               | 3,736,224,832   | 118,476,630     | 1,607,066,928   | 5,461,768,390   |
| Impairment for expected credit losses (note 7.6.b) | (269,789,072)   | (35,803,705)    | (902,507,710)   | (1,208,100,488) |
| Net factoring receivable                           | 3,466,435,760   | 82,672,925      | 704,559,218     | 4,253,667,902   |

### 7.6.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

| As at 31st March 2019        | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs.  |
|------------------------------|-----------------|-----------------|-----------------|---------------|
| 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   |
| Balance as at 01 April 2018  | 159,929,899     | 280,404,932     | 402,671,582     | 843,006,413   |
| Net charge to profit or loss | 109,859,173     | (244,601,227)   | 499,836,128     | 365,094,075   |
| Balance as at 31 March 2019  | 269,789,072     | 35,803,705      | 902,507,710     | 1,208,100,488 |

### 7.6.1 Allowance for ECL / impairment

| As at 31st March                      | 2020<br>Rs.   | 2019<br>Rs.   |
|---------------------------------------|---------------|---------------|
| Balance as at 1st of April            | 1,208,100,488 | 759,231,341   |
| Impact of adopting SLFRS 9            | -             | 83,775,072    |
| Balance as at 1st of April - Adjusted | 1,208,100,488 | 843,006,413   |
| Provision / (reversal) for the year   | (296,652,155) | 365,094,075   |
| Balance as at 31st March              | 911,448,332   | 1,208,100,488 |

#### 7.6.1.a Individually significant clients - impairment

|                                     |               |               |
|-------------------------------------|---------------|---------------|
| Balance as at 1st of April          | 105,659,657   | 306,067,774   |
| Provision / (reversal) for the year | (105,659,657) | (200,408,117) |
| Balance as at 31st March            | -             | 105,659,657   |

#### 7.6.1.b Individually non-significant clients - impairment

|                                       |               |               |
|---------------------------------------|---------------|---------------|
| Balance as at 1st of April            | 1,102,440,831 | 453,163,567   |
| Impact of adopting SLFRS 9            | -             | 83,775,072    |
| Balance as at 1st of April - Adjusted | 1,102,440,831 | 536,938,639   |
| Provision for the year                | (190,992,499) | 565,502,192   |
| Balance as at 31st March              | 911,448,332   | 1,102,440,831 |

## 7.7 Portfolio Analysis

### 7.7.1 Sectorwise exposure of the lending portfolio - before impairment provision

| As at 31st March     | 2020<br>Rs.     | 2019<br>Rs.     |
|----------------------|-----------------|-----------------|
| Agriculture          | 23,354,692,993  | 21,672,402,941  |
| Manufacturing        | 9,261,980,046   | 7,987,920,749   |
| Economics and Social | 3,034,874,339   | 1,517,021,621   |
| Trade                | 25,727,219,110  | 24,267,917,881  |
| Factoring            | 5,731,320,258   | 5,461,768,390   |
| Margin Trading       | 1,767,689       | -               |
| Tourism              | 1,755,897,473   | 1,622,932,704   |
| Services             | 22,143,805,684  | 24,556,930,853  |
| Transportation       | 14,823,649,267  | 11,232,919,160  |
| Construction         | 8,349,764,508   | 7,350,894,574   |
| Mining and Quarrying | 541,892,699     | 472,782,577     |
| Others               | 26,898,504,796  | 35,947,399,186  |
|                      | 141,625,368,861 | 142,090,890,637 |

## NOTES TO THE FINANCIAL STATEMENTS

### 7.7.2 Product wise analysis of portfolio

| As at 31st March  | 2020<br>Rs.     | 2019<br>Rs.     |
|---|-----------------|-----------------|
| Lease receivables   | 42,425,588,352  | 40,770,406,810  |
| Loans & Advances  | 83,283,212,142  | 86,093,407,586  |
| Factoring receivables   | 3,910,200,287   | 5,461,768,390   |
| Margin trading receivables  | 1,767,689       | -               |
| Alternate finance portfolio - Ijarah receivables                            | 3,010,520,432   | 3,481,843,654   |
| Alternate finance portfolio - Other receivables (Murabaha, Musharakah etc.) | 8,994,079,959   | 6,283,464,197   |
| Gross portfolio   | 141,625,368,861 | 142,090,890,637 |
| Less : Allowance for ECL / impairment                                       | (7,669,519,130) | (5,899,544,264) |
| Net portfolio   | 133,955,849,731 | 136,191,346,373 |

### 7.7.3 Net portfolio

| As at 31st March                             | 2020<br>Rs.     | 2019<br>Rs.     |
|--|-----------------|-----------------|
| Rentals receivable on leased assets (note 6) | 43,842,380,956  | 42,941,836,671  |
| Loans and advances (note 7)                  | 87,112,949,131  | 88,995,841,800  |
| Factoring receivable (note 7.6)              | 2,998,751,955   | 4,253,667,902   |
| Margin trading receivable                    | 1,767,689       | -               |
|  | 133,955,849,731 | 136,191,346,373 |

## 8. INVESTMENT SECURITIES

| As at 31st March   | 2020<br>Rs.   | 2019<br>Rs.   |
|--|---------------|---------------|
| Investment securities measured at amortised cost (note 8.2)                            | 537,175       | 308,983,277   |
| Investment securities measured at FVTPL – debt / equity investments (note 8.1 / 8.2.2) | 2,769,277,111 | 2,324,115,866 |
| Investment securities measured at FVOCI – equity investments (note 8.2.3)              | 188,384,474   | 176,130,000   |
|  | 2,958,198,760 | 2,809,229,143 |

### 8.1 Investment securities measured at FVTPL – debt / equity investments

| As at 31st March  | 2020<br>Rs.          | 2019<br>Rs.          |
|---|----------------------|----------------------|
| <b>Expo Lanka Holdings PLC</b>                                |                      |                      |
| Original cost   | 18,000,000           | 18,000,000           |
| Carrying amount as at 1st April                               | 4,000,000            | 4,900,000            |
| Adjustment for change in fair value - recognised in profits   | (2,000,000)          | (900,000)            |
| Carrying amount as at 31st March                              | 2,000,000            | 4,000,000            |
| <b>Investment in Unit Trusts</b>                              |                      |                      |
| Original cost   | 1,450,000,000        | 1,980,000,000        |
| Carrying amount as at 1st April                               | 2,090,573,484        | 1,740,086,516        |
| Investments during the year                                   | -                    | 1,980,000,000        |
| Disposal during the year                                      | (581,931,275)        | (1,763,135,980)      |
| Adjustment for change in fair value - recognised in profits   | 227,961,740          | 133,622,948          |
| Carrying amount as at 31st March                              | 1,736,603,949        | 2,090,573,484        |
| <b>Trading Gold Stock</b>                                     |                      |                      |
| Original cost   | 38,696,675           | -                    |
| Carrying amount as at 1st April                               | -                    | -                    |
| Investments during the year                                   | 38,696,674           | -                    |
| Adjustment for change in fair value - recognised in profits   | 10,954,062           | -                    |
| Carrying amount as at 31st March                              | 49,650,736           | -                    |
| <b>Total investments held for trading</b>                     | <b>1,788,254,685</b> | <b>2,094,573,484</b> |
| <b>8.2.1 Investment securities measured at amortised cost</b> |                      |                      |
| Credit Information Bureau Ltd                                 | 537,175              | 537,175              |
| Investment in Debentures                                      | -                    | 308,767,718          |
| Impairment for expected credit losses (Note 8.2.1.a)          | -                    | (321,616)            |
|   | <b>537,175</b>       | <b>308,983,277</b>   |

#### 8.2.1.a Analysis of investment securities measured at amortised cost on Exposure to Credit Risk

|  | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs. |
|--|-----------------|-----------------|-----------------|--------------|
| <b>Balance as at 31 March 2020</b>                   |                 |                 |                 |              |
| 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      |
| <b>Balance as at 31 March 2019</b>                   |                 |                 |                 |              |
| Investment securities measured at amortised cost     | 309,304,893     | -               | -               | 309,304,893  |
| Impairment for expected credit losses (note 8.2.1.b) | (321,616)       | -               | -               | (321,616)    |
| Net Investment securities measured at amortised cost | 308,983,277     | -               | -               | 308,983,277  |

## NOTES TO THE FINANCIAL STATEMENTS

### 8. INVESTMENT SECURITIES (CONTD.)

#### 8.2.1.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

|                              | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs. |
|------------------------------|-----------------|-----------------|-----------------|--------------|
| 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  | -               | -               | -               | -            |
| Balance as at 01 April 2018  | -               | -               | -               | -            |
| Net charge to profit or loss | 321,616         | -               | -               | 321,616      |
| Balance as at 31 March 2019  | 321,616         | -               | -               | 321,616      |

#### 8.2.2 Investment securities measured at FVTPL – equity investments

| As at 31st March   | 2020<br>Rs. | 2019<br>Rs. |
|--|-------------|-------------|
| <b>LOLC Myanmar Micro Finance Company Ltd</b>                      |             |             |
| Carrying amount as at 1st April                                    | 229,542,382 | 66,125,000  |
| Impact of adopting SLFRS 9   | -           | 167,005,111 |
| Carrying amount as at 1st April - Adjusted                         | 229,542,382 | 233,130,111 |
| Cost of new investments  | 364,100,000 | -           |
| Adjustment for change in fair value - recognised in profit or loss | 387,380,044 | (3,587,729) |
| Carrying amount as at 31st March                                   | 981,022,426 | 229,542,382 |

#### 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 | 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. | <p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>➤ Cost of equity was lesser / (higher)</li> <li>➤ Terminal growth was higher / (lesser)</li> <li>➤ Exchange rate was higher / (lesser)</li> <li>➤ Forecasted cashflows were higher /(lesser)"</li> </ul> |

#### 8.2.3 Investment securities measured at FVOCI – equity investments

| As at 31st March  | 2020<br>Rs.          | 2019<br>Rs.        |
|---|----------------------|--------------------|
| <b>LOLC Asia (Pvt) Ltd</b>                              |                      |                    |
| Carrying amount as at 1st April                         | 176,130,000          | 153,650,000        |
| Adjustment for change in fair value - recognised in OCI | 12,254,474           | 22,480,000         |
| Carrying amount as at 31st March                        | 188,384,474          | 176,130,000        |
| <b>Total</b>  | <b>1,169,944,075</b> | <b>406,209,557</b> |

## 9. AMOUNTS DUE FROM RELATED COMPANIES

| As at 31st March                               | Relationship      | 2020<br>Rs. | 2019<br>Rs. |
|--|-------------------|-------------|-------------|
| Creations Constructions Engineering Pvt Ltd    | Fellow subsidiary | 1,452,902   | -           |
| LOLC Asset Holding Co/ LOLC Life Assurance Co. | Fellow subsidiary | 10,000      | -           |
| LOLC Insurance - General Ltd                   | Fellow subsidiary | 51,142,544  | -           |
| LOLC Securities Ltd                            | Fellow subsidiary | -           | 6,707       |
| Eden Hotel Lanka PLC                           | Fellow subsidiary | 12,023      | 158,431     |
| I Pay (Pvt) Ltd                                | Fellow subsidiary | 642,693     | 350,168     |
| Commercial Leasing and Finance PLC             | Fellow subsidiary | 2,120,595   | 2,369,595   |
| Sports Club AC                                 | Fellow subsidiary | 2,526,634   | -           |
| LOLC Micro Investment Ltd                      | Fellow subsidiary | -           | 271,680     |
| Green Paradise                                 | Fellow subsidiary | 5,783       | 23,249      |
| Sun & Fun Resorts Ltd.                         | Fellow subsidiary | 3,205       | 94,811      |
| LOLC Development Finance PLC                   | Fellow subsidiary | 5,918       | 197,140     |
| Millenium Development (pvt) Ltd                | Fellow subsidiary | -           | 744,476     |
| Excel Restaurants (Pvt) Ltd                    | Fellow subsidiary | 278,415     | 1,353,034   |
| LOLC Insurance - Life Ltd                      | Fellow subsidiary | 4,850,440   | -           |
| BI Commodities & logistics Pvt Ltd             | Fellow subsidiary | 181,695     | -           |
|  |                   | 63,232,847  | 5,569,291   |

## 10. OTHER RECEIVABLES

| As at 31st March               | 2020<br>Rs.        | 2019<br>Rs.        |
|--------------------------------|--------------------|--------------------|
| <b>Financial Assets</b>        |                    |                    |
| Staff loans                    | 159,094,294        | 299,161,642        |
| Other receivables              | 256,342,458        | 584,096,086        |
| Provision on other receivable  | (252,727,888)      | (508,589,694)      |
|                                | 162,708,865        | 374,668,034        |
| <b>Non Financial Assets</b>    |                    |                    |
| VAT receivable                 | 254,081,057        | 193,579,655        |
| WHT recoverable                | -                  | 78,480,935         |
| Prepaid staff cost             | 120,422,446        | 247,256,636        |
| Miscellaneous receivables      | 376,860,739        | 43,955,973         |
|                                | 751,364,242        | 563,273,200        |
| <b>Total Other receivables</b> | <b>914,073,106</b> | <b>937,941,234</b> |

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 and Rs.16,971,551.65 received on 25th September 2019. Balance part is included in "Other receivables".



# NOTES TO THE FINANCIAL STATEMENTS

## 11. INVESTMENT PROPERTIES

| As at 31st March   | 2020<br>Rs.    | 2019<br>Rs.    |
|--|----------------|----------------|
| Balance as at 1st April  | 11,635,211,000 | 6,278,187,226  |
| Additions to Investment Properties from foreclosure of contracts | 816,753,174    | 2,425,017,357  |
| Additions and improvements                                       |                |                |
| Improvements   | 83,017,204     | 50,000,796     |
| Additions  | 859,405,087    | 803,255,268    |
| Disposals  | -              | (15,834,000)   |
| Change in fair value   | 2,569,499,327  | 2,094,584,353  |
| Balance as at 31st March   | 15,963,885,792 | 11,635,211,000 |

- 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 and rental purposes.
- The company incurred expenses for the improvements of the investment properties and received rent income amounting to Rs.91,725,786 during the current financial year (2018/19 - Rs.92,490,264) from these properties.
- During the financial year company has incurred expenses amounting to Rs.15,320,373 for maintenance of the investment property. (2018/19 - Rs.2,792,055)
- 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 March 2020. The fair value has been determined based on valuation performed 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 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:<br>➤ Per perch value was higher / (lesser)  |
| Depreciated replacement cost method   | Value per square feet determined based on similar properties value and depreciated for period used.  | The estimated fair value would increase (decrease) if:<br>➤ Depreciation rate was lesser / (higher)<br>➤ Square feet value was higher / (lesser) |

| Company                     | Land        | Building    | Leasehold<br>Motor<br>Vehicles | Freehold<br>Motor<br>Vehicles | Other<br>equipment<br>and software | Total         |
|-----------------------------|-------------|-------------|--------------------------------|-------------------------------|------------------------------------|---------------|
|                             | Rs.         | Rs.         | Rs.                            | Rs.                           | Rs.                                | Rs.           |
| <b>Cost/Valuation</b>       |             |             |                                |                               |                                    |               |
| 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 |
|---------------------|-------------|-------------|-------------|-------------|------------|---------------|

| Company | Land | Building | Leasehold<br>Motor Vehicles | Other<br>equipment | Total |
|---------|------|----------|-----------------------------|--------------------|-------|
|         | Rs.  | Rs.      | Rs.                         | Rs.                | Rs.   |

#### Cost/Valuation

|                             |             |             |               |            |               |
|-----------------------------|-------------|-------------|---------------|------------|---------------|
| Balance as at 01 April 2018 | 141,719,000 | 99,000,000  | 1,843,736,965 | -          | 2,084,455,965 |
| Additions                   | -           | 16,918,640  | -             | 12,955,278 | 29,873,918    |
| Disposals                   | -           | -           | (29,496,429)  | -          | (29,496,429)  |
| Balance as at 31 March 2019 | 141,719,000 | 115,918,640 | 1,814,240,536 | 12,955,278 | 2,084,833,454 |

#### Accumulated Depreciation

|                             |   |           |             |   |             |
|-----------------------------|---|-----------|-------------|---|-------------|
| Balance as at 01 April 2018 | - | 1,258,569 | 368,705,925 | - | 369,964,494 |
| Charge for the year         | - | 2,485,281 | 161,012,810 | - | 163,498,091 |
| Depreciation on disposals   | - | -         | (7,654,068) | - | (7,654,068) |
| Balance as at 31 March 2019 | - | 3,743,850 | 522,064,667 | - | 525,808,517 |

#### Carrying Amount

|                     |             |             |               |            |               |
|---------------------|-------------|-------------|---------------|------------|---------------|
| As at 31 March 2019 | 141,719,000 | 112,174,791 | 1,292,175,869 | 12,955,278 | 1,559,024,937 |
|---------------------|-------------|-------------|---------------|------------|---------------|

## NOTES TO THE FINANCIAL STATEMENTS

### 12. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

#### Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles amounting to Rs.538,645,897 as at 31 March 2020 (2019 - Rs.1,292,175,869) 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 31st March            | 2020<br>Rs.        | 2019<br>Rs.        |
|-----------------------------|--------------------|--------------------|
| Receivable within one year  | 209,724,950        | 291,922,375        |
| Receivable within 1-5 years | 92,677,400         | 339,829,100        |
| Receivable after 5 years    | -                  | -                  |
| <b>Total</b>                | <b>302,402,350</b> | <b>631,751,475</b> |

#### Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31 March 2020 and 31 March 2019.

#### Fully depreciated property, plant and equipment

There were motor vehicles amount to Rs.1,935,940 in property, plant and equipment fully depreciated as at 31 March 2020 and no any property, plant and equipment fully depreciated as at 31 March 2019.

### 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 March 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<br>- 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 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:<br>➤ Per perch value was higher / (lesser)  |
| Depreciated replacement cost method  | Value per square feet determined based on similar properties value and depreciated for period used.  | The estimated fair value would increase (decrease) if:<br>➤ Depreciation rate was lesser / (higher)<br>➤ 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 31st March                        | 2020<br>Rs. | 2019<br>Rs. |
|---|-------------|-------------|
| Cost                                    | 259,593,547 | 257,637,640 |
| Accumulated depreciation and impairment | [7,598,696] | [3,743,850] |
| Carrying value                          | 251,994,850 | 253,893,791 |

### 13. INTEREST BEARING BORROWINGS

| As at 31st March   | 2020<br>Rs.           | 2019<br>Rs.           |
|--|-----------------------|-----------------------|
| Short-term loans   | 20,963,369,863        | 17,488,818,258        |
| Long-term borrowings (note 13.1)                               | 27,198,582,182        | 35,056,235,627        |
| Finance leases (note 13.2)                                     | 111,902,195           | 291,251,902           |
| Debentures (note 13.3)   | 2,500,000,000         | 7,450,000,000         |
| <b>Total borrowings</b>  | <b>50,773,854,240</b> | <b>60,286,305,787</b> |
| Interest payable   | 784,739,243           | 800,591,285           |
| <b>Liability recognised in statement of financial position</b> | <b>51,558,593,483</b> | <b>61,086,897,073</b> |

#### 13.1 Long-term borrowings

|  |                 |                 |
|--|-----------------|-----------------|
| Balance at the beginning of the year             | 35,056,235,627  | 44,804,489,476  |
| Loans obtained during the year                   | 2,010,948,000   | -               |
| Repaid during the year                           | [9,868,601,445] | [9,748,253,849] |
| Balance at the end of the year                   | 27,198,582,182  | 35,056,235,627  |
| Long-term borrowings - current                   | 25,187,634,182  | 34,889,835,627  |
| Long-term borrowings - non-current (note 13.1.a) | 2,010,948,000   | 166,400,000     |
|  | 27,198,582,182  | 35,056,235,627  |

#### 13.1.a Analysis of non-current portion of long-term borrowings

|                            |               |             |
|----------------------------|---------------|-------------|
| Repayable within 1-3 years | 2,010,948,000 | 166,400,000 |
| Repayable after 3 years    | -             | -           |
|                            | 2,010,948,000 | 166,400,000 |

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.7,808,368,519 has been classified as current even though the contractual maturity is long term. Of this amount Rs.6,300,282,581 has a contractual maturity within 1-3 years and Rs.1,508,085,938 has a maturity after 3 years.

## NOTES TO THE FINANCIAL STATEMENTS

### 13.2 Finance leases

| As at 31st March   | 2020<br>Rs.     | 2019<br>Rs.   |
|--|-----------------|---------------|
| Gross lease rentals payable as at 1 April                                | 324,558,211     | 643,167,083   |
| Lease obtained during the year   | -               | -             |
| Lease rentals paid during the year                                       | (202,739,674)   | (318,608,872) |
| Gross lease rentals payable as at 31 March                               | 121,818,537     | 324,558,211   |
| Less: Interest in suspense   | (9,916,342)     | (33,306,309)  |
| Balance at the end of the year / present value of minimum lease payments | 111,902,195     | 291,251,902   |
| <b>13.2.1 Analysis of finance leases</b>                                 |                 |               |
| Repayable within one year (note 13.2.1.a)                                | 88,442,886      | 179,826,441   |
| Repayable within 1-5 years (note 13.2.1.b)                               | 23,459,309      | 111,425,461   |
|  | 111,902,195     | 291,251,902   |
| <b>13.2.1.a Repayable within one year</b>                                |                 |               |
| Gross lease rentals payable  | 97,078,133      | 203,216,407   |
| Less: interest in suspense   | (8,635,247)     | (23,389,967)  |
|  | 88,442,886      | 179,826,441   |
| <b>13.2.1.b Repayable within 1-5 years</b>                               |                 |               |
| Gross lease rentals payable  | 24,740,405      | 121,341,803   |
| Less: interest in suspense   | (1,281,096)     | (9,916,342)   |
|  | 23,459,309      | 111,425,461   |
| <b>13.3 Debentures</b>   |                 |               |
| Balance at the beginning of the year                                     | 4,950,000,000   | 4,950,000,000 |
| Debenture issued during the year (net of transaction cost)               | 2,500,000,000   | 2,500,000,000 |
| Debenture redeemed during the year                                       | (4,950,000,000) | -             |
| Balance at the end of the year   | 2,500,000,000   | 7,450,000,000 |

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 31st March  | 2020<br>Rs.           | 2019<br>Rs.            |
|---|-----------------------|------------------------|
| Customer deposits   | 95,938,725,591        | 112,110,392,799        |
| Interest / profit payable                                       |                       |                        |
| Interest payable on deposits                                    | 3,151,746,541         | 3,077,343,549          |
| Profits payable to alternate finance deposit holders            | 170,709,322           | 177,404,841            |
|   | 3,322,455,863         | 3,254,748,390          |
| Deposit liability recognised in statement of financial position | 99,261,181,454        | 115,365,141,189        |
| <b>14.1 Analysis of customer deposits based on nature</b>       |                       |                        |
| Fixed deposits - conventional                                   | 78,437,724,440        | 96,101,566,232         |
| Fixed deposits - alternate finance - Mudharabah                 | 2,863,945,728         | 2,964,713,514          |
| Fixed deposits - alternate finance - Wakala                     | 7,386,706,909         | 4,013,487,873          |
| Fixed deposits - foreign currency                               | 1,417,999,579         | 1,400,653,404          |
| Fixed deposit bonds   | 5,849,336             | 125,495,900            |
| Savings deposits - conventional                                 | 2,459,154,298         | 1,748,212,890          |
| Savings deposits - alternate finance                            | 765,275,872           | 705,719,249            |
| Savings deposits - foreign currency                             | 2,602,069,429         | 5,050,543,737          |
| <b>Total deposits</b>   | <b>95,938,725,591</b> | <b>112,110,392,799</b> |
| <b>14.2 Deposits based on maturity</b>                          |                       |                        |
| Deposits maturing within one year                               | 77,349,595,370        | 89,270,928,959         |
| Deposits maturing after one year                                | 18,589,130,221        | 22,839,463,840         |
|   | 95,938,725,591        | 112,110,392,799        |

#### 15. TRADE PAYABLES

| As at 31st March  | 2020<br>Rs.   | 2019<br>Rs.   |
|---|---------------|---------------|
| Creditors for lease equipment and approved facilities to be disbursed | 1,048,944,408 | 1,161,094,413 |

#### 16. ACCRUALS AND OTHER PAYABLES

| As at 31st March   | 2020<br>Rs.   | 2019<br>Rs.   |
|--|---------------|---------------|
| Excess payments received from clients                      | 200,418,781   | 239,775,732   |
| Insurance payable  | 73,022,970    | 51,725,604    |
| VAT / other tax payable                                    | 22,557,988    | 5,638,110     |
| Other miscellaneous creditors                              | 2,509,663,318 | 2,497,673,937 |
| Payable on matured deposits                                | 507,494,934   | 259,423,451   |
| Stamp duty payable   | 16,278,165    | 14,612,260    |
| Allowance for impairment (ECL) - Undrawn credit facilities | 2,207,183     | 3,604,443     |
|  | 3,331,643,339 | 3,072,453,537 |

## NOTES TO THE FINANCIAL STATEMENTS

### 17. AMOUNTS DUE TO RELATED COMPANIES

| As at 31st March                             | Relationship      | 2020<br>Rs. | 2019<br>Rs. |
|--|-------------------|-------------|-------------|
| LOLC Holding PLC                             | Parent            | 655,110,440 | 698,749,736 |
| LOLC Factors Ltd                             | Fellow subsidiary | 138,363,674 | 87,084,337  |
| LOLC Securities Ltd                          | Fellow subsidiary | 23,293      | -           |
| Dickwella Resorts (pvt) Ltd                  | Fellow subsidiary | 2,118,453   | -           |
| LOLC Information Technology Services Limited | Fellow subsidiary | 17,349,436  | 17,576,095  |
| Brown & Co. Ltd                              | Fellow subsidiary | 4,000,000   | -           |
| LOLC Motors Ltd                              | Fellow subsidiary | 4,549,456   | 5,784,600   |
| LOLC Corporate services Ltd                  | Fellow subsidiary | 595,000     | 560,719     |
| LOLC Insurance - General Ltd                 | Fellow subsidiary | -           | 5,099,463   |
| LOLC Insurance - Life Ltd                    | Fellow subsidiary | -           | 2,789,146   |
| LOLC Property 1-4                            | Fellow subsidiary | 32,087,824  | -           |
|  |                   | 854,197,576 | 817,644,096 |

### 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 31st March          | 2020<br>Rs. | 2019<br>Rs. |
|---------------------------|-------------|-------------|
| Employees' Provident Fund |             |             |
| Employers' contribution   | 140,302,826 | 125,756,190 |
| Employees' contribution   | 93,535,217  | 83,837,460  |
| Employees' Trust Fund     | 35,075,699  | 31,440,648  |

#### 18.2 Defined benefit plan

##### Movement in the present value of the defined benefit obligation

| As at 31st March                                     | 2020<br>Rs.  | 2019<br>Rs. |
|--|--------------|-------------|
| Defined benefit obligation as of 01 April            | 87,060,988   | 70,303,298  |
| Adjustments to defined benefit obligation            | 120,857,045  | -           |
| Defined benefit obligation as of 01 April - Adjusted | 207,918,033  | 70,303,298  |
| Expense included in Personnel Expenses               | 54,111,511   | 19,303,613  |
| Remeasurement Component                              | 64,415,152   | 4,097,431   |
|  | 118,526,663  | 23,401,044  |
| Benefits paid  | (28,302,712) | (6,643,354) |
| Defined benefit obligation as at 31st March          | 298,141,984  | 87,060,988  |



**18.2.a Expense included in Personnel Expenses**

| As at 31st March     | 2020<br>Rs. | 2019<br>Rs. |
|----------------------|-------------|-------------|
| Current Service Cost | 31,240,528  | 11,570,251  |
| Interest Cost        | 22,870,983  | 7,733,362   |
|                      | 54,111,511  | 19,303,613  |

**18.2.b Actuarial gains and losses recognised in other comprehensive income**

|  |             |            |
|--|-------------|------------|
| Cumulative loss as at 1st April            | 11,152,200  | 7,054,769  |
| (Gain) / loss recognised during the period | 185,272,197 | 4,097,431  |
| Cumulative loss as at 31st March           | 196,424,397 | 11,152,200 |

Actuarial valuation for defined benefit obligation was carried out as at 31 March 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 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 31st March      | 2020<br>Rs.  | 2019<br>Rs.  |
|-----------------------|--------------|--------------|
| Discount Rate         | 10.50%       | 11.00%       |
| Salary Increment Rate | 8.50%        | 9.00%        |
| 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. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 Years of service.

Assumptions regarding future mortality are based on published statistics and mortality tables.  
The plan is not externally funded.

## NOTES TO THE FINANCIAL STATEMENTS

### 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 31st March  | 2020<br>Rs.  | 2019<br>Rs.  |
|---|--------------|--------------|
| The defined benefit obligation under current assumptions  | 298,141,984  | 87,060,988   |
| The defined benefit obligation if the discount rate increased by 100 basis points               | 278,054,266  | 76,202,623   |
| The defined benefit obligation if the discount rate reduced by 100 basis points                 | 320,979,567  | 94,156,926   |
| The defined benefit obligation if the salary increment rate increased by 1%                     | 320,690,226  | 95,144,966   |
| The defined benefit obligation if the salary increment rate reduced by 1%                       | 277,944,693  | 75,297,073   |
| The change in the defined benefit obligation if the discount rate increased by 100 basis points | (20,087,718) | (10,858,365) |
| The change in the defined benefit obligation if the discount rate reduced by 100 basis points   | 22,837,583   | 7,095,938    |
| The change in the defined benefit obligation if the salary increment rate increased by 1%       | 22,548,242   | 8,083,978    |
| The change in the defined benefit obligation if the salary increment rate reduced by 1%         | (20,197,291) | (11,763,915) |

### 18.2.e Maturity analysis of the payments

The following payments are expected on employee benefit liabilities in future years

| As at 31st March          | 2020<br>Rs. | 2019<br>Rs. |
|---------------------------|-------------|-------------|
| Within the next 12 months | 31,575,365  | 10,793,304  |
| Between 1 and 2 years     | 35,574,825  | 14,402,320  |
| Between 2 and 5 years     | 122,793,660 | 59,523,588  |
| Between 5 and 10 years    | 364,506,991 | 161,730,019 |
| Total expected payments   | 554,450,841 | 246,449,231 |

## 19. STATED CAPITAL

| As at 31st March                     | 2020                |                | 2019                |               |
|--------------------------------------|---------------------|----------------|---------------------|---------------|
|                                      | Number of<br>shares | Rs.            | Number of<br>shares | Rs.           |
| Balance at the beginning of the year | 4,200,000,000       | 7,880,000,000  | 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 | 4,200,000,000       | 7,880,000,000 |

### 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 31st March                    | 2020<br>Rs.    | 2019<br>Rs.    |
|-------------------------------------|----------------|----------------|
| Statutory reserve (note 20.1)       | 3,378,281,827  | 3,189,297,618  |
| Revaluation reserve (note 20.2)     | 241,527,671    | 241,527,671    |
| Cash flow hedge reserve (note 20.3) | (77,309,605)   | (39,059,403)   |
| Fair value reserve (note 20.4)      | 11,956,519     | (21,756,425)   |
| Retained earnings (note 20.5)       | 14,972,696,227 | 11,516,578,924 |
|                                     | 18,527,152,639 | 14,886,588,384 |

### 20.1 Statutory reserve

|                                      |               |               |
|--------------------------------------|---------------|---------------|
| Balance at the beginning of the year | 3,189,297,618 | 1,996,724,011 |
| Transferred during the year          | 188,984,209   | 1,192,573,607 |
| Balance at the end of the year       | 3,378,281,827 | 3,189,297,618 |

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% (2018/19 - 20%) of its annual net profit after tax to this reserve in compliance with this direction.

### 20.2 Revaluation Reserve

| As at 31st March                     | 2020<br>Rs. | 2019<br>Rs. |
|--------------------------------------|-------------|-------------|
| Balance at the beginning of the year | 241,527,671 | 241,527,671 |
| Transferred during the year          | -           | -           |
| Related tax                          | -           | -           |
| Balance at the end of the year       | 241,527,671 | 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 31st March   | 2020<br>Rs.  | 2019<br>Rs.  |
|--|--------------|--------------|
| Balance at the beginning of the year                         | (39,059,403) | (6,333,137)  |
| Gain / (loss) arising from cash flow hedge recognised in OCI | (53,125,280) | (45,453,148) |
| Related tax - current tax - expense / (reversal) - note 28   | 44,963,008   | 101,459,580  |
| Related tax - deferred tax - expense / (reversal) - note 28  | (30,087,930) | (88,732,699) |
| Balance at the end of the year                               | (77,309,605) | (39,059,403) |

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 as at 31st March 2020, there were assets with fair value of Rs.273,195,187 and liabilities with fair value of Rs.114,349,000.

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 20.4 Available for Sale Investment Reserve

| As at 31st March                     | 2020<br>Rs. | 2019<br>Rs. |
|--------------------------------------|-------------|-------------|
| Balance at the beginning of the year | -           | (7,166,375) |
| Transfer to fair value reserve       | -           | 7,166,375   |
| Balance at the end of the year       | -           | -           |

As per the requirement of SLFRS 9, previous available-for-sale financial assets are reclassified under fair value through other comprehensive income (FVOCI) and the subsequent fair value changes are recognised under fair value reserve.

#### 20.4.1 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 31st March   | 2020<br>Rs.  | 2019<br>Rs.  |
|--|--------------|--------------|
| Balance at the beginning of the year                         | (21,756,425) | -            |
| Transfer from available for sale investment reserve          | -            | (7,166,375)  |
| Investment in government securities measured at FVOCI        | 22,683,918   | (34,822,051) |
| Investment securities measured at FVOCI – equity investments | 11,029,027   | 20,232,000   |
| Balance at the end of the year                               | 11,956,519   | (21,756,425) |

### 20.5 Retained Earnings

|   |                |                 |
|---|----------------|-----------------|
| Balance at the beginning of the year                        | 11,516,578,923 | 7,000,881,585   |
| Impact of adopting SLFRS 9                                  | -              | (251,646,932)   |
| Balance at the beginning of the year - Adjusted             | 11,516,578,923 | 6,749,234,653   |
| Profit for the year   | 3,779,684,187  | 5,962,868,027   |
| Remeasurements of defined benefit liability - gain / (loss) | (134,582,674)  | (2,950,150)     |
| Transfer to statutory reserve fund                          | (188,984,209)  | (1,192,573,607) |
| Balance at the end of the year                              | 14,972,696,227 | 11,516,578,923  |

## 21. INTEREST INCOME

| As at 31st March  | 2020<br>Rs.    | 2019<br>Rs.    |
|---|----------------|----------------|
| Interest on leases  | 11,214,521,730 | 11,833,210,544 |
| Interest on loans   | 19,511,067,479 | 22,207,594,243 |
| Income from factoring portfolio                           | 1,205,421,617  | 1,987,154,976  |
| Interest from credit cards                                | 258,060,407    | 35,371,063     |
| Interest on margin trading                                | 437,865        | 43,014,961     |
| Income from operating lease and hire                      | 316,297,007    | 377,553,766    |
| Interest on overdue rentals and others                    | 3,514,551,691  | 3,845,888,698  |
| Interest income and capital gain on government securities | 1,237,460,237  | 1,168,220,109  |
| Interest income on term deposits                          | 923,279,821    | 1,165,309,167  |
|   | 38,181,097,854 | 42,663,317,527 |

## 22. INTEREST EXPENSE

| As at 31st March  | 2020<br>Rs.    | 2019<br>Rs.    |
|---|----------------|----------------|
| Interest on fixed deposits                              | 12,168,809,615 | 12,589,774,985 |
| Interest on savings deposits                            | 174,729,942    | 146,319,000    |
| Profit distributed to alternate finance deposit holders | 875,735,205    | 1,040,064,747  |
| Interest on foreign currency deposits                   | 73,820,515     | 155,601,431    |
| Finance lease interest                                  | 23,390,111     | 48,664,611     |
| Interest on loans & bank overdraft                      | 5,954,879,104  | 6,911,329,432  |
|   | 19,271,364,492 | 20,891,754,206 |

## 23. NET OTHER OPERATING INCOME

| As at 31st March  | 2020<br>Rs.   | 2019<br>Rs.   |
|---|---------------|---------------|
| Sundry income   | 487,085,963   | 460,194,746   |
| Service charges   | 17,515,499    | 6,366,999     |
| Arrangement and documentation fees  | 394,699,556   | 334,888,827   |
| Collections from contracts written off  | 844,834,460   | 806,877,283   |
| Fair value change in investment properties (Note 11)                            | 2,569,499,327 | 2,094,584,353 |
| Change in fair value of derivatives - forward contracts (note 5.3)              | 91,665,503    | 106,833,729   |
| Net exchange loss   | (290,674,636) | (68,352,960)  |
| Provision/(Reversal) for payables to clients                                    | -             | 37,368,136    |
| Adjustment for increase / (decrease) in value of investments (note 8.1 / 8.2.2) | 624,295,846   | 129,135,220   |
| Dividend income   | 611,653       | 480,000       |
| Debenture Interest  | 13,316,702    | 616,234       |
| Interest income from staff loan   | 54,701,608    | 96,023,684    |
| Disposal gain / (loss) on investment property                                   | -             | 2,166,000     |
| Disposal gain / (loss) on PPE   | 12,887,348    | 5,075,139     |
|   | 4,820,438,829 | 4,012,257,390 |

## 24. DIRECT EXPENSES EXCLUDING INTEREST COST

| As at 31st March                              | 2020<br>Rs.   | 2019<br>Rs.   |
|---|---------------|---------------|
| Insurance expenses factored to accommodations | 1,202,844,358 | 1,116,788,501 |
| VAT on general expenses                       | 76,764,012    | 405,435,833   |
|   | 1,279,608,370 | 1,522,224,334 |

## NOTES TO THE FINANCIAL STATEMENTS

### 25. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS

| As at 31st March   | 2020<br>Rs.   | 2019<br>Rs.   |
|--|---------------|---------------|
| Impairment provision / (reversal) for lease rentals receivable (Note 6.2)        | 283,314,035   | 94,333,208    |
| Impairment provision / (reversal) for mortgage loan (Note 7.2.2)                 | [5,754,961]   | [9,703,393]   |
| Impairment provision / (reversal) for receivables from sundry loans (Note 7.3.2) | 1,669,242,555 | 802,055,151   |
| Impairment provision / (reversal) for credit card receivables (Note 7.4)         | 57,805,708    | 9,821,962     |
| Impairment provision / (reversal) for receivables from Gold loans (Note 7.4.1)   | 62,019,685    | 27,872,671    |
| Impairment provision / (reversal) for factoring receivables (Note 7.6.1)         | [296,652,155] | 365,094,075   |
| Impairment provision / (reversal) for other financial assets                     | 2,384,380     | 2,068,223     |
| Impairment provision / (reversal) for insurance receivable                       | -             | 83,661,826    |
| Written-off during the year  | 6,071,182,111 | 4,325,301,757 |
|  | 7,843,541,357 | 5,700,505,481 |

#### Comparison between provision for impairment as per SLFRS 09 and Central Bank (CBSL) requirement

| Year ended 31 March,                | Impairment<br>charge to profit<br>or loss<br>Rs. | Written-off<br>during the year<br>Rs. | Charge to profit<br>or loss net of<br>write-offs<br>Rs. | Provision<br>impact as<br>per CBSL<br>Rs. |
|-------------------------------------|--|---------------------------------------|---|---|
| Rentals receivable on leased assets | 2,801,652,682                                    | 2,518,338,647                         | 283,314,035   | 112,804,168                               |
| Loans and advances                  | 5,336,156,451                                    | 3,552,843,464                         | 1,783,312,987   | 1,547,739,485                             |
| Factoring receivable                | [296,652,155]                                    | -                                     | [296,652,155]   | 107,712,337                               |
| Other financial assets              | 2,384,380  | -                                     | 2,384,380   | -   |
|                                     | 7,843,541,357                                    | 6,071,182,111                         | 1,772,359,246   | 1,768,255,990                             |

### 26. PROFIT FROM OPERATIONS

| Year ended 31 March   | 2020<br>Rs.   | 2019<br>Rs.   |
|---|---------------|---------------|
| Profit from operations is stated after charging all expenses including the following, |               |               |
| Directors' emoluments   | 44,071,000    | 51,277,290    |
| Audit fees and expenses - Audit Services  | 2,925,000     | 2,800,000     |
| - Audit Related Services  | 1,120,000     | 1,075,000     |
| - Non Audit Services  | Nil           | Nil           |
| Depreciation on property, plant and equipment   | 201,533,267   | 163,498,091   |
| <b>26.1 Personnel expenses</b>  |               |               |
| Salaries, wages & other related cost  | 2,742,283,100 | 2,989,197,688 |
| Defined contribution plans - EPF & ETF  | 175,378,525   | 157,196,838   |
| Defined benefit plan cost   | 54,111,511    | 19,303,613    |
|   | 2,971,773,136 | 3,165,698,139 |

## 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 period at the reporting date to the respective contractual maturity dates is given below:

| As at 31st March  | Up to 3<br>Months<br>Rs. | 3 to 12<br>Months<br>Rs. | 1 to 3<br>Years<br>Rs. | 3 to 5<br>Years<br>Rs. | More than<br>5 Years<br>Rs. | Total as at<br>31.03.20<br>Rs. | Total as at<br>31.03.19<br>Rs. |
|---|--------------------------|--------------------------|------------------------|------------------------|-----------------------------|--------------------------------|--------------------------------|
| Cash and cash equivalents                               | 8,333,560,554            | -                        | -                      | -                      | -                           | 8,333,560,554                  | 17,535,538,362                 |
| Deposits with banks and other<br>financial institutions | 9,567,312,809            | 7,714,963,876            | -                      | -                      | -                           | 17,282,276,685                 | 21,637,175,646                 |
| Investment in government<br>securities                  | 5,165,685,402            | 5,610,745,790            | -                      | 14,412,000             | -                           | 10,790,843,192                 | 18,150,995,929                 |
| Derivative assets                                       | 166,551,187              | 106,644,000              | -                      | -                      | -                           | 273,195,187                    | 568,529,646                    |
| Financial assets at amortised cost                      |                          |                          |                        |                        |                             |                                |                                |
| Rentals receivable on leased<br>assets                  | 6,912,108,155            | 11,292,203,078           | 21,816,209,648         | 5,393,913,980          | 21,673,922                  | 45,436,108,784                 | 44,252,250,464                 |
| (-) Allowance for ECL /<br>impairment                   | -                        | -                        | -                      | -                      | -                           | (1,593,727,828)                | (1,310,413,793)                |
| Loans and advances                                      | 25,414,085,632           | 25,633,928,907           | 33,647,945,799         | 7,335,799,150          | 245,532,613                 | 92,277,292,101                 | 92,376,871,783                 |
| (-) Allowance for ECL /<br>impairment                   | -                        | -                        | -                      | -                      | -                           | (5,164,342,970)                | (3,381,029,983)                |
| Factoring receivable                                    | 3,910,200,287            | -                        | -                      | -                      | -                           | 3,910,200,287                  | 5,461,768,390                  |
| (-) Allowance for ECL /<br>impairment                   | -                        | -                        | -                      | -                      | -                           | (911,448,332)                  | (1,208,100,488)                |
| Margin trading receivable                               | 1,767,689                | -                        | -                      | -                      | -                           | 1,767,689                      | -                              |
| Investments securities                                  | 1,788,254,685            | -                        | -                      | -                      | 1,169,944,075               | 2,958,198,760                  | 2,809,229,143                  |
| Amount due from related<br>companies                    | 63,232,847               | -                        | -                      | -                      | -                           | 63,232,847                     | 5,569,291                      |
| Other receivables                                       | 321,199,369              | 377,210,102              | 99,005,503             | 95,836,814             | 20,821,318                  | 914,073,106                    | 937,941,239                    |
| Inventories   | -                        | 2,023,122                | -                      | -                      | -                           | 2,023,122                      | 4,811,234                      |
| Investment properties                                   | -                        | -                        | 15,963,885,792         | -                      | -                           | 15,963,885,792                 | 11,635,210,995                 |
| Property plant and equipment                            | -                        | -                        | -                      | -                      | 1,351,206,563               | 1,351,206,563                  | 1,559,024,937                  |
| <b>Total Assets as at 31 March 2020</b>                 | <b>61,643,958,617</b>    | <b>50,737,718,876</b>    | <b>71,527,046,742</b>  | <b>12,839,961,943</b>  | <b>2,809,178,492</b>        | <b>191,888,345,539</b>         |                                |
| <b>Total Assets as at 31 March 2019</b>                 | <b>74,109,680,176</b>    | <b>51,851,615,919</b>    | <b>73,783,555,154</b>  | <b>14,460,785,550</b>  | <b>2,729,280,259</b>        | <b>211,035,372,795</b>         | <b>211,035,372,795</b>         |

## NOTES TO THE FINANCIAL STATEMENTS

### 27. MATURITY OF ASSETS AND LIABILITIES (CONTD.)

**27.2** An analysis of the total liabilities of the Company as at the year end based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

| As at 31st March                                  | Up to 3<br>Months<br>Rs. | 3 to 12<br>Months<br>Rs. | 1 to 3<br>Years<br>Rs. | 3 to 5<br>Years<br>Rs. | More than<br>5 Years<br>Rs. | Total as at<br>31.03.20<br>Rs. | Total as at<br>31.03.19<br>Rs. |
|---|--------------------------|--------------------------|------------------------|------------------------|-----------------------------|--------------------------------|--------------------------------|
| Bank overdraft                                    | 1,283,200,605            | -                        | -                      | -                      | -                           | 1,283,200,605                  | 2,242,496,059                  |
| Interest bearing borrowings                       | 37,686,848,751           | 9,893,791,499            | 1,394,788,387          | 2,524,933,232          | 58,231,614                  | 51,558,593,483                 | 61,086,897,072                 |
| Deposits from customers                           | 37,672,805,337           | 42,437,508,731           | 15,243,438,276         | 3,904,579,110          | 2,850,000                   | 99,261,181,454                 | 115,365,141,189                |
| Trade payables                                    | 1,048,944,408            | -                        | -                      | -                      | -                           | 1,048,944,408                  | 1,161,094,413                  |
| Accruals and other payables                       | 1,951,264,362            | 139,827,459              | -                      | 232,785,613            | 1,007,765,904               | 3,331,643,339                  | 3,072,453,537                  |
| Derivative liabilities                            | 63,479,500               | 50,869,500               | -                      | -                      | -                           | 114,349,000                    | 661,931,132                    |
| Amount due to related companies                   | 854,197,576              | -                        | -                      | -                      | -                           | 854,197,576                    | 817,644,096                    |
| Current tax payable                               | -                        | 960,254,586              | -                      | -                      | -                           | 960,254,586                    | 1,501,292,610                  |
| Deferred tax liability                            | -                        | -                        | 1,888,186,465          | -                      | -                           | 1,888,186,465                  | 2,272,773,316                  |
| Employee benefits                                 | -                        | -                        | -                      | 298,141,984            | -                           | 298,141,984                    | 87,060,988                     |
| Stated capital                                    | -                        | -                        | -                      | -                      | 12,762,500,000              | 12,762,500,000                 | 7,880,000,000                  |
| Statutory reserve                                 | -                        | -                        | -                      | -                      | 3,378,281,827               | 3,378,281,827                  | 3,189,297,618                  |
| Revaluation Reserve                               | -                        | -                        | -                      | -                      | 241,527,671                 | 241,527,671                    | 241,527,671                    |
| Cash flow hedge reserve                           | -                        | -                        | -                      | -                      | (77,309,605)                | (77,309,605)                   | (39,059,404)                   |
| Fair value reserve                                | -                        | -                        | -                      | -                      | 11,956,519                  | 11,956,519                     | (21,756,426)                   |
| Retained earnings                                 | -                        | -                        | -                      | -                      | 14,972,696,227              | 14,972,696,227                 | 11,516,578,924                 |
| Total Liabilities & Equity<br>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                |                                |
| Total Liabilities & Equity<br>as at 31 March 2019 | 83,019,736,574           | 75,929,845,572           | 20,054,981,305         | 9,264,220,962          | 22,766,588,383              | 211,035,372,795                | 211,035,372,795                |



## 28. INCOME TAX EXPENSE

The major components of income tax expense for the year ended 31 March are as follows:

| As at 31st March  | 2020<br>Rs.         | 2019<br>Rs.          |
|---|---------------------|----------------------|
| <b>Current tax - recognised in P&amp;L</b>                          |                     |                      |
| Current tax charge  | 465,185,675         | 1,224,609,252        |
| Under / (over) provision of current taxes in respect of prior years | -                   | -                    |
|   | 465,185,675         | 1,224,609,252        |
| <b>Deferred Tax</b>   |                     |                      |
| Deferred tax expense / (reversal) [28.2]                            | (365,210,705)       | (79,664,939)         |
| <b>Income tax expense reported in statement of profit or loss</b>   | <b>99,974,970</b>   | <b>1,144,944,314</b> |
| <b>Current tax - expense / (reversal) - recognised in OCI</b>       |                     |                      |
| Relating to exchange gain recognised in OCI (in hedge reserve)      | (44,963,008)        | (101,459,580)        |
| <b>Deferred tax charge / (reversal) recognised in OCI</b>           |                     |                      |
| Defined benefit plans   | (50,689,523)        | (1,147,281)          |
| Fair value change in derivatives recognised in hedge reserve        | 30,087,930          | 88,732,699           |
| Investment in LOLC Asia Pvt Ltd                                     | 1,225,447           | 2,248,000            |
|   | (19,376,146)        | 89,833,418           |
| <b>Total income tax expense / (reversal) recognised in OCI</b>      | <b>(64,339,154)</b> | <b>(11,626,162)</b>  |
| <b>28.1 Current tax payable</b>                                     |                     |                      |
| Tax payable as at 1st April   | 1,501,292,609       | 813,718,266          |
| Current tax expense for the year - recognised in P&L                | 465,185,675         | 1,224,609,252        |
| Current tax expense for the year - recognised in OCI                | (44,963,008)        | (101,459,580)        |
| Tax paid during the year  | (961,260,692)       | (435,575,329)        |
| <b>Tax payable as at 31st March</b>                                 | <b>960,254,586</b>  | <b>1,501,292,609</b> |

A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

| As at 31st March                                   | 2020      |                   | 2019       |                      |
|--|-----------|-------------------|------------|----------------------|
|  | %         | Rs.               | %          | Rs.                  |
| <b>Accounting profit before income tax</b>         |           | 3,879,659,157     |            | 7,107,812,341        |
| Tax effect at the statutory income tax rate of 28% | 28%       | 1,047,507,972     | 28%        | 1,990,187,455        |
| Tax effect of other allowable credits              | -96%      | (3,708,663,071)   | -105%      | (7,486,185,586)      |
| Tax effect of non deductible expenses              | 85%       | 3,291,489,100     | 93%        | 6,619,147,802        |
| Deferred tax adjustment                            | -14%      | (530,359,031)     | 0%         | 21,794,642           |
| Tax benefit on acquisition of subsidiary           | 0%        | -                 | 0%         | -                    |
| Under / (over) provision in the previous years     | 0%        | -                 | 0%         | -                    |
| <b>Income tax expense</b>                          | <b>3%</b> | <b>99,974,970</b> | <b>16%</b> | <b>1,144,944,313</b> |

## NOTES TO THE FINANCIAL STATEMENTS

### 28. INCOME TAX EXPENSE (CONTD.)

#### 28.2 Deferred Taxation

| As at 31st March                                      | 2020<br>Rs.   | 2019<br>Rs.   |
|---|---------------|---------------|
| Balance as at 1st April                               | 2,272,773,316 | 2,402,219,247 |
| Impact on adoption of SLFRS 9                         | -             | (139,614,410) |
| Deferred tax expense / (reversal) - recognised in P&L | (365,210,705) | (79,664,939)  |
| Deferred tax expense / (reversal) - recognised in OCI | (19,376,146)  | 89,833,418    |
| Balance as at 31st March                              | 1,888,186,465 | 2,272,773,316 |

Recognised deferred tax assets and liabilities are attributable to the following

Deferred tax is measured using a tax rate of 28% (2018/19 -28%) on temporary differences

#### Deferred tax expense / (reversal)

| Deferred tax liability / (asset)                          | Balance as at<br>01 April 2019<br>Rs. | Recognised in<br>P&L - expense /<br>(reversal)<br>Rs. | Recognised in<br>OCI - expense /<br>(reversal)<br>Rs. | Balance as at 31<br>March 2020<br>Rs. |
|---|---------------------------------------|---|---|---------------------------------------|
| <b>Recognised in P&amp;L / Equity (retained earnings)</b> |                                       |   |   |                                       |
| 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)  | -   | -                                     |
| <b>Recognised in OCI</b>                                  |                                       |   |   |                                       |
| 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                             |
| <b>Net deferred tax liability / (asset)</b>               | <b>2,272,773,316</b>                  | <b>(365,210,705)</b>                                  | <b>(19,376,146)</b>                                   | <b>1,888,186,465</b>                  |

**Deferred tax expense / (reversal)**

| Deferred tax liability / (asset)                   | Balance as 1st<br>April 2018 | Addition on<br>acquisition of<br>subsidiary | Recognised in<br>P&L - expense /<br>(reversal) | Recognised in<br>OCI - expense /<br>(reversal) | Balance as 31st<br>March 2019 |
|--|------------------------------|---|--|--|-------------------------------|
|  | Rs.                          | Rs.   | Rs.  | Rs.  | Rs.                           |
| <b>Recognised in P&amp;L</b>                       |                              |   |  |  |                               |
| Lease receivables                                  | 3,183,173,949                | (156,314,921)                               | (525,409,739)                                  | -  | 2,501,449,289                 |
| Finance lease liability                            | 160,396,942                  | -   | 54,826,517                                     | -  | 215,223,460                   |
| Property plant and equipment                       | 7,338,748                    | -   | (3,393,410)                                    | -  | 3,945,338                     |
| Tax losses   | (201,511,124)                | -   | 201,511,124                                    | -  | -                             |
| Cost of acquisition of subsidiary (note<br>28.2.b) | (651,390,739)                | -   | 5,579,677                                      | -  | (645,811,061)                 |
| Defined benefit plans                              | (16,522,896)                 | -   | (4,692,153)                                    | -  | (21,215,049)                  |
| Forward exchange contracts (net)                   | (7,165,481)                  | -   | (17,186,618)                                   | -  | (24,352,099)                  |
| Investment property                                | -                            | -   | 209,458,435                                    | -  | 209,458,435                   |
| Investment in LOLC Myanmar                         | -                            | 16,700,511                                  | (358,773)                                      | -  | 16,341,738                    |
| <b>Recognised in OCI</b>                           |                              |   |  |  |                               |
| Available for sale financial assets                | 3,018,739                    | -   | -  | -  | 3,018,739                     |
| Property plant and equipment                       | 18,576,152                   | -   | -  | -  | 18,576,152                    |
| Defined benefit plans                              | (3,162,027)                  | -   | -  | (1,147,281)                                    | (4,309,308)                   |
| Forward exchange contracts (net)                   | (90,533,016)                 | -   | -  | 88,732,699                                     | (1,800,317)                   |
| Investment in LOLC Asia Pvt Ltd                    | -                            | -   | -  | 2,248,000                                      | 2,248,000                     |
| <b>Net deferred tax liability / (asset)</b>        | <b>2,402,219,247</b>         | <b>(139,614,410)</b>                        | <b>(79,664,939)</b>                            | <b>89,833,418</b>                              | <b>2,272,773,316</b>          |

## NOTES TO THE FINANCIAL STATEMENTS

### 28. INCOME TAX EXPENSE (CONTD.)

#### 28.2.a Temporary differences

| Temporary differences - taxable / (deductible)            | As at 31st<br>March 2020<br>Rs. | As at 31st<br>March 2019<br>Rs. |
|---|---------------------------------|---------------------------------|
| <b>Recognised in P&amp;L / Equity (retained earnings)</b> |                                 |                                 |
| Lease receivables   | 8,020,876,215                   | 8,933,747,461                   |
| Finance lease liability                                   | 384,240,761                     | 768,655,213                     |
| Property plant and equipment                              | 452,245,828                     | 14,090,491                      |
| Tax losses  | 186,910,302                     | -                               |
| Cost of acquisition of subsidiary                         | (3,916,728,172)                 | (2,306,468,076)                 |
| Defined benefit plans                                     | (101,717,587)                   | (75,768,034)                    |
| Forward exchange contracts (net)                          | 57,819,000                      | (86,971,782)                    |
| Investment property                                       | 4,664,083,680                   | 2,094,584,353                   |
| Investment in LOLC Myanmar                                | -                               | 163,417,381                     |
| <b>Recognised in OCI</b>                                  |                                 |                                 |
| Available for sale financial assets                       | 10,781,210                      | 10,781,210                      |
| Property plant and equipment                              | 66,343,400                      | 66,343,400                      |
| Defined benefit plans                                     | (196,424,397)                   | (15,390,385)                    |
| Forward exchange contracts (net)                          | 101,027,188                     | (6,429,704)                     |
| Investment in LOLC Asia Pvt Ltd                           | 34,734,474                      | 22,480,000                      |
| <b>Net taxable / (deductible) temporary difference</b>    | <b>9,764,191,902</b>            | <b>9,583,071,529</b>            |

#### 28.2.b Cost of acquisition of subsidiary and unrecognised deferred tax assets

During the year 2017/18, 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.778,190,125 was claimed keeping inline with the requirements of the Inland Revenue Act. The Company expects to claim the remaining amount over the future period 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.3,916,728,172 over such period and a deferred tax asset of Rs.1,096,683,888 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 31st March                                  | 2020<br>Rs.          | 2019<br>Rs.          |
|---|----------------------|----------------------|
| <b>Unrecognised differed tax asset</b>            |                      |                      |
| Remaining amount to be claimed as at 1st of April | 9,371,201,715        | 11,991,200,000       |
| Previous year adjustment                          | (25,649,798)         | (614,373,871)        |
| Amount claimed during the year                    | (778,190,125)        | (2,005,624,414)      |
| Remaining amount to be claimed in future years    | 8,567,361,793        | 9,371,201,715        |
| Tax rate  | 28%                  | 28%                  |
| Deferred tax asset on remaining amount            | 2,398,861,302        | 2,623,936,480        |
| Recognised deferred tax asset                     | (1,096,683,888)      | (645,811,061)        |
| <b>Unrecognised deferred tax asset</b>            | <b>1,302,177,414</b> | <b>1,978,125,419</b> |

## 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 31st March   | 2020<br>Rs.   | 2019<br>Rs.   |
|--|---------------|---------------|
| Amounts used as the numerator:   |               |               |
| Profit attributable to ordinary shareholders for basic earnings per share                  | 3,779,684,187 | 5,962,868,027 |
|  |               |               |
| As at 31st March   | 2020<br>Rs.   | 2019<br>Rs.   |
| Number of ordinary shares used as the denominator:   |               |               |
| Ordinary shares in issue at the beginning of the year                                      | 4,200,000,000 | 4,200,000,000 |
| Effects of new shares issued during the period   | 679,918,033   | -             |
| Weighted average number of ordinary shares in issue applicable to basic earnings per share | 4,879,918,033 | 4,200,000,000 |
|  |               |               |
| Basic earnings per share (Rs.)   | 0.77          | 1.42          |

### 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 period's 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<br>Pledged<br>2020<br>Rs. | Carrying Amount<br>Pledged<br>2019<br>Rs. |
|------------------|----------------------|---|---|
| Lease portfolio  | Short term borrowing | 16,728,047,005                            | 25,015,466,845                            |

These financial assets are pledged against the borrowings made. The lender has the right over the lease receivables in the event of non payment.

## NOTES TO THE FINANCIAL STATEMENTS

### 32. RELATED PARTY DISCLOSURES

#### 32.1 Parent and Ultimate Controlling Party

The Company's immediate and ultimate controlling party 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 31st March               | 2020<br>Rs.       | 2019<br>Rs.       |
|--------------------------------|-------------------|-------------------|
| Short term employment benefits | 81,015,355        | 97,497,301        |
| <b>Total</b>                   | <b>81,015,355</b> | <b>97,497,301</b> |

The short term employment benefits include only the directors fees and emoluments paid to Directors & KMPs.

##### 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 31st March   | 2020<br>Rs. | 2019<br>Rs. |
|--|-------------|-------------|
| Deposits held with the Company   | 673,349,785 | 831,639,658 |
| Interest paid / charged  | 55,091,045  | 92,492,763  |
| Interest payable   | 356,532     | 43,589,874  |
| Loans granted (excluding Directors)                                      | 48,928,815  | 42,349,079  |
| Capital outstanding on facilities granted to KMPs (excluding Directors)  | 34,274,663  | 58,033,025  |
| Accommodation outstanding as a percentage of the Company's Capital Funds | 0.12%       | 0.23%       |

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 2020 and 2019, refer notes no.10 and 17 accordingly).

| Relationship   | Nature of Transactions  | Transaction value 2020<br>RS. | Transaction value 2019<br>RS. |
|--|---|-------------------------------|-------------------------------|
| Parent Company   | Net funds granted by the Parent during the year (excluding opening balance) | 43,639,296                    | 380,502,399                   |
|  | Reimbursement of expenses   | 2,164,658,024                 | 2,232,590,298                 |
|  | Asset hire charges  | 205,734,877                   | 201,216,322                   |
|  | Treasury management fee   | -                             | 546,517,294                   |
|  | Royalty   | 638,312,958                   | 644,617,458                   |
|  | Fund transfer interest  | 55,862,325                    | 40,356,041                    |
| Fellow Subsidiaries & Associates   | Deposits & other borrowings by the company                                  | 51,313,028                    | 149,723,735                   |
|  | Interest paid/charge  | 1,498,762                     | 28,645,652                    |
|  | Interest payable  | 783,534                       | 5,912,087                     |
|  | Investments held by the company   | 1,006,091,357                 | 984,612,151                   |
|  | Interest income from investment   | 116,213,033                   | 164,669,680                   |
|  | IT service fee  | 275,095,390                   | 183,717,087                   |
|  | Yard fee  | 19,200,000                    | 22,200,000                    |
|  | Supply of leased vehicles   | 114,775,149                   | 1,624,913,418                 |
|  | Loan / lease granted  | 1,705,693,182                 | 974,681,193                   |
|  | Rental collections  | 600,892,665                   | 387,457,540                   |
|  | Interest income   | 621,589,749                   | 329,594,777                   |
|  | Capital outstanding on facilities granted                                   | 3,043,429,002                 | 2,278,590,180                 |
|  | Rent Income   | 57,924,000                    | 71,688,693                    |
|  | Franchise fee income  | 277,260,586                   | 288,349,644                   |
|  | Supply of leased vehicles   | 162,730,421                   | 134,121,450                   |
| Other Related Companies/Affiliates                                       | Deposits held with the company  | 132,115,055                   | 253,902,325                   |
|  | Rental collections  | 240,015,025                   | 10,227,832                    |
|  | Interest income   | 270,000,000                   | 10,198,946                    |
|  | Capital outstanding on facilities granted                                   | 1,530,000,000                 | 46,344,129                    |
|  | Deposits held with the company  | 132,115,055                   | 294,892,074                   |
| Other Related Organisations  | Interest paid/charge  | 11,425,951                    | 37,897,296                    |
|  | Interest payable  | 92,055                        | 26,679,464                    |
| Accommodation outstanding as a percentage of the Company's Capital Funds |   | 15.73%                        | 9.35%                         |

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 34. OPERATING SEGMENTS

|   | Operating Segment                     |                                    |                       |                        |                       |
|---|---------------------------------------|------------------------------------|-----------------------|------------------------|-----------------------|
|   | Conventional<br>Financial<br>Services | Alternate<br>Financial<br>Services | Factoring<br>Business | Others/<br>Adjustments | Total                 |
|   | Rs.                                   | Rs.                                | Rs.                   | Rs.                    | Rs.                   |
| <b>For the year ended 31 March 2020</b>                   |                                       |                                    |                       |                        |                       |
| Total revenue - Interest income & other income            | 39,076,309,919                        | 2,704,396,764                      | 1,220,830,000         | -                      | 43,001,536,683        |
| Inter segmental revenue                                   | -                                     | -                                  | -                     | -                      | -                     |
| <b>External revenue</b>                                   | <b>39,076,309,919</b>                 | <b>2,704,396,764</b>               | <b>1,220,830,000</b>  | <b>-</b>               | <b>43,001,536,683</b> |
| Net interest cost   | (17,426,488,281)                      | (1,118,277,368)                    | (726,598,843)         | -                      | (19,271,364,492)      |
| <b>Profit before operating expenses</b>                   | <b>21,649,821,638</b>                 | <b>1,586,119,396</b>               | <b>494,231,157</b>    | <b>-</b>               | <b>23,730,172,191</b> |
| Operating expenses  | (10,315,282,727)                      | (799,479,187)                      | -                     | -                      | (11,114,761,914)      |
| Allowance for impairment & write-offs                     | (6,292,313,165)                       | (347,880,348)                      | (1,203,347,844)       | -                      | (7,843,541,357)       |
| Value added tax on financial services                     | (784,972,973)                         | (107,236,790)                      | -                     | -                      | (892,209,763)         |
| <b>Results from operating activities</b>                  | <b>4,257,252,773</b>                  | <b>331,523,071</b>                 | <b>(709,116,687)</b>  | <b>-</b>               | <b>3,879,659,157</b>  |
| <b>For the year ended 31 March 2019</b>                   |                                       |                                    |                       |                        |                       |
| Total revenue - Interest income & other income            | 22,039,998,968                        | 2,792,224,416                      | 1,989,126,046         | -                      | 46,675,574,917        |
| Inter segmental revenue                                   | -                                     | -                                  | -                     | -                      | -                     |
| <b>External revenue</b>                                   | <b>22,039,998,968</b>                 | <b>2,792,224,416</b>               | <b>1,989,126,046</b>  | <b>-</b>               | <b>46,675,574,917</b> |
| Net interest cost   | (11,561,536,426)                      | (1,276,993,394)                    | (719,185,120)         | -                      | (20,891,754,206)      |
| <b>Profit before operating expenses</b>                   | <b>10,478,462,542</b>                 | <b>1,515,231,022</b>               | <b>1,269,940,926</b>  | <b>-</b>               | <b>25,783,820,711</b> |
| Operating expenses  | (6,110,658,594)                       | (587,955,454)                      | -                     | -                      | (11,585,848,460)      |
| Allowance for impairment & write-offs                     | (2,043,553,514)                       | (342,838,258)                      | (1,095,468,945)       | -                      | (5,700,505,481)       |
| Value added tax on financial services                     | (400,763,834)                         | (132,005,514)                      | (29,660,237)          | -                      | (1,389,654,429)       |
| <b>Results from operating activities</b>                  | <b>1,923,486,601</b>                  | <b>452,431,796</b>                 | <b>144,811,744</b>    | <b>-</b>               | <b>7,107,812,341</b>  |
| <b>Depreciation</b>                                       |                                       |                                    |                       |                        |                       |
| For the year ended 31 March 2020                          | 201,533,267                           | -                                  | -                     | -                      | 201,533,267           |
| For the year ended 31 March 2019                          | (163,498,091)                         | -                                  | -                     | -                      | (163,498,091)         |
| <b>Capital expenditure - Property Plant and equipment</b> |                                       |                                    |                       |                        |                       |
| For the year ended 31 March 2020                          | 54,845,045                            | -                                  | -                     | -                      | 54,845,045            |
| For the year ended 31 March 2019                          | 29,873,918                            | -                                  | -                     | -                      | 29,873,918            |
| <b>As at 31-03-2020</b>                                   |                                       |                                    |                       |                        |                       |
| Total assets  | 173,165,371,385                       | 15,997,953,670                     | 2,998,751,955         | (273,731,471)          | 191,888,345,539       |
| Total liabilities   | 144,540,032,288                       | 13,333,640,128                     | 2,998,751,955         | (273,731,471)          | 160,598,692,900       |
| <b>As at 31-03-2019</b>                                   |                                       |                                    |                       |                        |                       |
| Total assets  | 194,405,851,473                       | 12,824,663,935                     | 4,253,667,902         | (448,810,515)          | 211,035,372,794       |
| Total liabilities   | 174,058,188,998                       | 10,405,738,026                     | 4,253,667,902         | (448,810,515)          | 188,268,784,411       |



### 35. COMMITMENTS AND CONTINGENCIES

| As at 31st March   | 2020<br>Rs.    | 2019<br>Rs.    |
|--|----------------|----------------|
| <b>35.1 Contingent liabilities</b>                                     |                |                |
| Guarantees issued to banks and other institutions - backed by deposits | 195,702,140    | 269,837,501    |
| <b>35.2 Commitments</b>  |                |                |
| Forward exchange contracts - (commitment to purchase)                  | 19,557,686,750 | 20,912,968,668 |
| Unutilised loan facilities   | 11,735,601,597 | 11,076,768,535 |
| Allowance for ECL / impairment   | (2,207,183)    | (3,604,443)    |
|  | 31,486,783,304 | 32,255,970,261 |

On the commitment to purchase the foreign currencies the company will receive USD 67,518,750, EUR 27,100,000, GBP 2,700,000, AUD 4,500,000.

# STATEMENT OF FINANCIAL POSITION

| As at 31 March                                       | Notes | 2020<br>Rs.           | 2019<br>Rs.           |
|--|-------|-----------------------|-----------------------|
| <b>ASSETS</b>  |       |                       |                       |
| Cash and bank balances                               | 3     | 354,051,558           | 545,261,206           |
| Deposits with banks and other financial institutions |       | 3,701,517,029         | 2,557,074,022         |
| Murabaha / Musawamah /Wakalah receivables            | 4     | 3,969,000,585         | 1,207,014,756         |
| Diminishing Musharakah receivables                   | 5     | 4,890,275,098         | 4,997,402,551         |
| Ijarah rent receivables                              | 6     | 2,944,310,713         | 3,444,479,946         |
| Investment securities                                | 7     | 2,000,000             | 4,000,000             |
| Other receivables                                    | 8     | 77,216,459            | 68,968,890            |
| <b>Total assets</b>                                  |       | <b>15,938,371,442</b> | <b>12,824,201,371</b> |
| <b>LIABILITIES</b>                                   |       |                       |                       |
| Placement from banks & other Financial institutions  | 10    | 1,564,654,093         | 1,650,749,817         |
| Deposits from customers                              | 11    | 11,186,637,831        | 7,950,585,096         |
| Income tax payable                                   |       | 133,068,826           | 90,250,955            |
| Accruals and other payables                          | 12    | 219,773,990           | 169,760,617           |
| Due to head office                                   | 13    | 229,927,941           | 543,928,976           |
| <b>Total liabilities</b>                             |       | <b>13,334,062,681</b> | <b>10,405,275,462</b> |
| <b>OWNER'S FUND</b>                                  |       |                       |                       |
| Retained earnings                                    |       | 2,604,308,761         | 2,418,925,909         |
| <b>Total owners fund</b>                             |       | <b>2,604,308,761</b>  | <b>2,418,925,909</b>  |
| <b>Total liabilities &amp; owners fund</b>           |       | <b>15,938,371,442</b> | <b>12,824,201,371</b> |

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 161 through 171.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| Year ended 31 March                         | Notes | 2020<br>Rs.          | 2019<br>Rs.          |
|---|-------|----------------------|----------------------|
| Revenue                                     | 13    | 2,581,847,264        | 2,659,273,184        |
| Profit paid to Mudharabah/Wakalah investors |       | (875,735,205)        | (1,039,785,457)      |
| Profit paid on other funding arrangement    |       | (242,542,163)        | (237,207,937)        |
| Other direct expenses                       |       | (67,132,228)         | (107,254,965)        |
|   |       | 1,396,437,667        | 1,275,024,825        |
| Non distributable other income / [expenses] | 14    | 36,197,257           | 39,966,642           |
| <b>Total operating income</b>               |       | <b>1,432,634,924</b> | <b>1,314,991,467</b> |
| Employee benefits                           | 15    | (274,334,501)        | (196,326,951)        |
| [Provision]/reversal for credit losses      |       | (347,880,348)        | (342,838,258)        |
| Other operating expenses                    |       | (371,660,214)        | (191,388,949)        |
| <b>Profit from operations</b>               | 16    | <b>438,759,861</b>   | <b>584,437,309</b>   |
| Value added tax on financial services       |       | (120,308,184)        | (132,005,514)        |
| <b>Profit before taxation</b>               |       | <b>318,451,677</b>   | <b>452,431,796</b>   |
| Income tax expense                          | 17    | (133,068,826)        | (90,250,955)         |
| <b>Profit for the year</b>                  |       | <b>185,382,852</b>   | <b>362,180,841</b>   |
| Other comprehensive income                  |       | -                    | -                    |
| <b>Total comprehensive income</b>           |       | <b>185,382,852</b>   | <b>362,180,841</b>   |

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 161 through 171.

# CASH FLOW STATEMENT

| Year ended 31 March   | 2020<br>Rs.          | 2019<br>Rs.          |
|---|----------------------|----------------------|
| <b>Cash Flows From / (Used in) Operating Activities</b>                           |                      |                      |
| Net Profit before Income Tax Expense  | 318,451,677          | 452,431,796          |
| Adjustments for:  |                      |                      |
| Provision for fall/(Increase) in value of investments                             | 2,000,000            | (6,723,337)          |
| Allowance for/(reversal of) doubtful debts  | 48,104,117           | (53,147,386)         |
| Investment income   | (260,969,689)        | (277,236,905)        |
| Profits attributable to investment made from banks & other Financial institutions | 242,542,163          | 237,207,936          |
| Profits attributable to Mudharabah / Wakalah investors                            | 875,735,205          | 1,039,785,457        |
| <b>Operating profit before working capital changes</b>                            | <b>1,225,863,473</b> | <b>1,392,317,561</b> |
| Change in other receivables   | (7,785,005)          | 2,700,752            |
| Change in trade and other payables  | 49,550,809           | (46,065,584)         |
| Change in amounts due to head office  | (314,001,035)        | 395,103,207          |
| Change in Ijarah rent receivables   | 475,875,052          | (323,728,607)        |
| Change in Murabaha / Musawamah receivables  | (2,850,225,539)      | 1,577,959,566        |
| Change in Diminishing Musharakah receivables                                      | 171,557,227          | 242,466,436          |
| Change in Mudharabah investments from customers                                   | (100,766,052)        | (905,896,202)        |
| Change in Wakalah investments from customers                                      | 3,283,619,036        | (1,270,503,484)      |
| Change in Mudharabah savings deposits from customers                              | 59,556,623           | (154,843,014)        |
| <b>Cash used in Operations</b>  | <b>1,993,244,589</b> | <b>909,510,629</b>   |
| Profits paid to Mudharabah / Wakalah investors                                    | (882,092,077)        | (1,034,536,405)      |
| Income tax paid   | (90,250,956)         | (128,848,957)        |
| <b>Net Cash Used in Operating Activities</b>                                      | <b>1,020,901,556</b> | <b>(253,874,733)</b> |
| <b>Cash Flows from / (Used in) Investing Activities</b>                           |                      |                      |
| Investments in Unit trust   | -                    | 402,132,460          |
| Net proceeds from Investments in Mudaranah Deposits                               | (1,144,443,007)      | (6,534,567)          |
| Profit Received   | 260,969,689          | 277,236,905          |
| <b>Net Cash Flows from Investing Activities</b>                                   | <b>(883,473,318)</b> | <b>672,834,799</b>   |
| <b>Cash Flows from / (Used in) Financing Activities</b>                           |                      |                      |
| Net proceeds from banks & other financial institutions                            | (70,331,170)         | (176,502,263)        |
| Profit paid -other instruments  | (258,306,716)        | (225,125,676)        |
| <b>Net Cash Flows from Financing Activities</b>                                   | <b>(328,637,886)</b> | <b>(401,627,939)</b> |
| <b>Net Increase/(decrease) in cash and cash equivalents</b>                       | <b>(191,209,648)</b> | <b>17,332,124</b>    |
| <b>Cash and cash equivalents at the beginning of the period</b>                   | <b>545,261,206</b>   | <b>527,929,082</b>   |
| <b>Cash and cash equivalents at the end of the period</b>                         | <b>354,051,558</b>   | <b>545,261,206</b>   |
| <b>Analysis of cash and cash equivalents at the end of the period</b>             |                      |                      |
| Cash and bank balances  | 354,051,558          | 545,261,206          |
|   | <b>354,051,558</b>   | <b>545,261,206</b>   |

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 161 through 171.

# 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) and Ijarah (Leasing).

## 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 29 June 2020.

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.

### 1.2.2 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.

### 1.2.3 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.

## NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

### 1.2.4 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 |
|---|----------------------|
|   | Note                 |
| 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 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

## NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

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.

### ➤ 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.

## NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

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 its 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.

### 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, 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.

## **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.

## NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

### 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.

| Year ended 31 March   | 2020<br>Rs.   | 2019<br>Rs.     |
|---|---------------|-----------------|
| <b>3. CASH AND BANK BALANCES</b>                            |               |                 |
| Cash & bank balances  | 354,051,558   | 545,261,206     |
|   | 354,051,558   | 545,261,206     |
| <b>4. MURABAHA / MUSAWAMAH / WAKALA RECEIVABLES</b>         |               |                 |
| Instalment receivable                                       | 4,216,903,917 | 1,414,268,184   |
| Unearned income   | (218,087,080) | (190,516,162)   |
| Income in suspense  | (11,761,427)  | (4,524,682)     |
| Provision for credit losses                                 | (18,054,824)  | (12,212,584)    |
|   | 3,969,000,585 | 1,207,014,756   |
| <b>5. DIMINISHING MUSHARAKA RECEIVABLES</b>                 |               |                 |
| Instalment receivable                                       | 4,995,263,122 | 5,091,659,624   |
| Income in suspense  | (65,248,833)  | (52,653,570)    |
| Provision for credit losses                                 | (39,739,191)  | (41,603,503)    |
|   | 4,890,275,098 | 4,997,402,551   |
| <b>6. IJARAH RECEIVABLES</b>                                |               |                 |
| Rent receivables  | 3,995,430,114 | 4,738,325,532   |
| Unearned income   | (984,909,681) | (1,251,930,048) |
| Income in suspense  | (15,220,576)  | (10,351,073)    |
| Provision for credit losses                                 | (50,989,143)  | (31,564,465)    |
|   | 2,944,310,713 | 3,444,479,946   |
| <b>7. INVESTMENT SECURITIES-FVTPL/ HELD FOR TRADING</b>     |               |                 |
| <b>Expo Lanka Holdings PLC</b>                              |               |                 |
| Cost (1,000,000 shares)                                     | 18,000,000    | 18,000,000      |
| Carrying amount as at 1st April                             | 4,000,000     | 4,900,000       |
| Adjustment for change in fair value - recognised in profits | (2,000,000)   | (900,000)       |
| Carrying amount as at 31st March                            | 2,000,000     | 4,000,000       |
| <b>Investment in Unit Trusts</b>                            |               |                 |
| Original cost   | -             | 335,000,000     |
| Carrying amount as at 1st April                             | -             | 394,509,123     |
| Investments during the year                                 | -             | -               |
| Disposal during the year                                    | -             | (402,132,460)   |
| Adjustment for change in fair value - recognised in profits | -             | 7,623,337       |
| Carrying amount as at 31st March                            | -             | -               |
| Total investments held for trading                          | 2,000,000     | 4,000,000       |

## NOTES TO THE SUPPLEMENTARY FINANCE INFORMATION

| Year ended 31 March  | 2020<br>Rs.    | 2019<br>Rs.   |
|--|----------------|---------------|
| <b>8. OTHER RECEIVABLES</b>  |                |               |
| Staff car advances   | 2,504,465      | 2,637,364     |
| Insurance premium receivable                                       | 37,608,577     | 22,692,334    |
| WHT receivable   | -              | 18,481,862    |
| Others   | 37,103,416     | 25,157,330    |
|  | 77,216,459     | 68,968,890    |
| <b>9. INVESTMENT PROPERTIES</b>                                    |                |               |
| Balance as at 1st April  | -              | 22,500,000    |
| Additions to Investment Properties from foreclosure of contracts   | -              | -             |
| Change in fair value   | -              | -             |
| Disposal during the year   | -              | (22,500,000)  |
| Balance as at 31 March   | -              | -             |
| <b>10. PLACEMENT FROM BANKS &amp; OTHER FINANCIAL INSTITUTIONS</b> |                |               |
| <b>10.1 Long-term borrowings</b>                                   |                |               |
| 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   | -              | -             |
| Balance at the end of the year                                     | 1,520,000,000  | 1,520,000,000 |
| Profit Payable   | 44,654,094     | 40,074,868    |
|  | 1,564,654,094  | 1,560,074,868 |
| <b>10.2 Ijarah Sukuk Bond</b>                                      |                |               |
| Balance at the beginning of the year                               | 70,331,170     | 228,789,442   |
| Sukuk obtained during the year                                     | -              | -             |
| Repaid during the year   | (70,331,170)   | (158,458,273) |
| Balance at the end of the year                                     | (0)            | 70,331,170    |
| Profit Payable   | -              | 20,343,779    |
|  | (0)            | 90,674,949    |
| Liability recognised in statement of financial position            | 1,564,654,093  | 1,650,749,817 |
| <b>11. DEPOSITS FROM CUSTOMERS</b>                                 |                |               |
| Customer deposits  | 11,015,928,509 | 7,683,920,636 |
| <b>11.1 Analysis of customer deposits based on nature</b>          |                |               |
| Mudharabah investments   | 2,863,945,728  | 2,964,713,514 |
| Wakalah investments  | 7,386,706,909  | 4,013,487,873 |
| Mudharabah savings   | 765,275,872    | 705,719,249   |
| Total deposits   | 11,015,928,509 | 7,683,920,636 |
| Profit payable   |                |               |
| Profit payable on Mudharabah investments                           | 57,737,669     | 77,597,840    |
| Profit payable on Wakalah investments                              | 112,971,653    | 189,066,620   |
|  | 170,709,322    | 266,664,460   |
| Deposit liability recognised in statement of financial position    | 11,186,637,831 | 7,950,585,096 |

| Year ended 31 March  | 2020<br>Rs.   | 2019<br>Rs.   |
|--|---------------|---------------|
| <b>12. ACCRUALS AND OTHER PAYABLES</b>   |               |               |
| Trade Payable  | 34,565,208    | 47,320,959    |
| Refunds payable  | 66,348,573    | 45,352,220    |
| Insurance payable  | 1,463,845     | 2,248,450     |
| Al-Falaah charity fund   | 1,971,082     | (462,564)     |
| Other miscellaneous creditors  | 68,482,566    | 56,427,842    |
| WHT payable  | -             | 2,553,933     |
| Other payables   | 46,942,716    | 16,319,777    |
|  | 219,773,990   | 169,760,617   |
| <b>13. DUE TO HEAD OFFICE</b>  |               |               |
| Current account balance due to head office   | 229,927,941   | 543,928,976   |
|  | 229,927,941   | 543,928,976   |
| <b>14. REVENUE</b>   |               |               |
| Income from Ijarah receivables   | 800,049,049   | 832,883,542   |
| Income from Diminishing Musharakah receivables   | 966,978,887   | 1,092,693,258 |
| Income from Murabaha/Musawamah receivables   | 479,263,461   | 376,373,071   |
| Profit on terminations   | 74,586,178    | 73,363,072    |
| Income from Mudarabah deposits   | 260,969,689   | 277,236,905   |
| Profit on Unit trust   | -             | 6,723,337     |
|  | 2,581,847,264 | 2,659,273,185 |
| <b>15. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)</b>   |               |               |
| Takaful commission   | 1,213,566     | 1,206,977     |
| Franchise Fee  | 31,381,233    | 34,035,515    |
| sundry income  | 3,602,458     | 4,724,149     |
|  | 36,197,257    | 39,966,642    |
| <b>16. EMPLOYEE BENEFITS</b>   |               |               |
| Salaries & other benefits  | 274,334,501   | 196,326,951   |
|  | 274,334,501   | 196,326,951   |
| <b>17. PROFIT FROM OPERATION</b>   |               |               |
| Stated after charging  |               |               |
| Advertising  | 7,562,809     | 3,496,923     |
| Business promotion expenses  | 52,038,729    | 56,216,264    |
| <b>18. INCOME TAX EXPENSE</b>  |               |               |
| 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) | 133,068,826   | 90,250,955    |
|  | 133,068,826   | 90,250,955    |

#### 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.



# Financial Information for Last Ten Years

## STATEMENT OF FINANCIAL POSITION

| As at  | 31.03.2020         | 31.03.2019         | 31.03.2018         | 31.03.2017         | 31.03.2016         | 31.03.2015        | 31.03.2014        | 31.03.2013        | 31.03.2012        | 31.03.2011        |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|  | Rs'000             | Rs'000             | Rs'000             | Rs'000             | Rs'000             | Rs'000            | Rs'000            | Rs'000            | Rs'000            | Rs'000            |
| <b>ASSETS</b>  |                    |                    |                    |                    |                    |                   |                   |                   |                   |                   |
| Cash and bank balances                               | 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         | 812,035           |
| Deposits with banks and other financial institutions | 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                  | 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         | 2,136,000         |
| Derivative assets held for risk management           | 273,195            | 568,530            | 133,541            | 23,840             | 98,163             | 2,740             | 13,572            | 1,936             | 211,713           | 19,560            |
| Financial assets at amortised cost                   |                    |                    |                    |                    |                    |                   |                   |                   |                   |                   |
| Rentals receivable on leased assets                  | 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        | 4,332,440         |
| Loans and advances                                   | 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        | 16,442,827        |
| 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                            | 1,768              |                    |                    |                    |                    |                   |                   |                   |                   |                   |
| Investment securities                                | 2,958,199          | 2,809,229          | 1,965,299          | 324,629            | 1,083,471          | 8,843             | 9,043             | 7,143             | 6,200             | 18,000            |
| Amount due from related companies                    | 63,233             | 5,569              | 32,909             | 224,506            | 3,271              | 2,883             | 5,930             | 75,649            | 77,067            | 150,867           |
| Other receivables                                    | 914,073            | 937,941            | 1,122,496          | 1,071,661          | 694,055            | 639,352           | 1,418,033         | 357,943           | 576,261           | 322,055           |
| Inventories  | 2,023              | 4,811              | 9,078              | -                  | -                  | -                 | 12,080            | -                 | 13,629            | -                 |
| Real estate stock                                    | -                  | -                  | -                  | -                  | -                  | -                 | -                 | 2,598             | 16,449            | 16,262            |
| Investment properties                                | 15,963,886         | 11,635,211         | 6,278,187          | 906,300            | 930,200            | 1,142,800         | 215,173           | 71,500            | 71,500            | 71,500            |
| Property plant and equipment                         | 1,351,207          | 1,559,025          | 1,714,491          | 2,621,022          | 1,210,407          | 136,545           | 50,143            | -                 | -                 | -                 |
| <b>Total assets</b>                                  | <b>191,888,346</b> | <b>211,035,373</b> | <b>211,114,232</b> | <b>122,623,092</b> | <b>110,385,065</b> | <b>67,861,900</b> | <b>53,431,929</b> | <b>47,569,453</b> | <b>38,283,601</b> | <b>24,321,546</b> |
| <b>LIABILITIES</b>                                   |                    |                    |                    |                    |                    |                   |                   |                   |                   |                   |
| Bank overdraft                                       | 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           | 501,515           |
| Interest bearing borrowings                          | 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         | 627,024           |
| Deposits from customers                              | 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        | 17,899,089        |
| Trade payables                                       | 1,048,944          | 1,161,094          | 1,593,496          | 677,878            | 637,850            | 645,905           | 328,986           | 434,517           | 211,163           | 685,144           |
| Accruals and other payables                          | 3,331,643          | 3,072,454          | 2,388,376          | 1,620,968          | 1,018,603          | 822,441           | 494,314           | 685,456           | 166,034           | 114,229           |
| Derivative liabilities                               | 114,349            | 661,931            | 482,464            | 18,978             | 17,859             | 57,515            | 8,104             | 40,097            | -                 | 7,597             |
| Amount due to related companies                      | 854,198            | 817,644            | 1,497,000          | 434,259            | 996,781            | 2,453,097         | 649,310           | 135,056           | 806,442           | 734,560           |
| Current tax payable                                  | 960,255            | 1,501,293          | 813,718            | 268,932            | 309,888            | 434,426           | 282,718           | 178,418           | 175,447           | 72,999            |
| Deferred tax liability                               | 1,888,186          | 2,272,773          | 2,402,219          | 1,102,058          | 984,741            | 761,420           | 548,718           | 415,508           | 318,112           | 115,014           |
| Employee benefits                                    | 298,142            | 87,061             | 70,303             | 17,018             | 12,249             | 10,450            | 8,008             | 4,550             | 4,729             | 2,881             |
| <b>Total liabilities</b>                             | <b>160,598,693</b> | <b>188,268,784</b> | <b>194,008,598</b> | <b>111,596,835</b> | <b>101,186,931</b> | <b>59,868,304</b> | <b>46,897,960</b> | <b>42,145,823</b> | <b>33,556,256</b> | <b>20,760,052</b> |
| <b>SHAREHOLDER'S FUNDS</b>                           |                    |                    |                    |                    |                    |                   |                   |                   |                   |                   |
| Stated capital                                       | 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         | 2,000,000         |
| Statutory reserve                                    | 3,378,282          | 3,189,298          | 1,996,724          | 1,556,439          | 1,239,075          | 953,677           | 879,497           | 679,438           | 542,182           | 293,024           |
| Revaluation Reserve                                  | 241,528            | 241,528            | 241,528            | 206,230            | -                  | -                 | 391,850           | 287,762           | 157,146           | 39,539            |
| Cash flow hedge reserve                              | [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                                   | 11,957             | [21,756]           | -                  | -                  | -                  | -                 | -                 | -                 | -                 | -                 |
| Retained earnings                                    | 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         | 1,228,931         |
| <b>Total equity</b>                                  | <b>31,289,653</b>  | <b>22,766,588</b>  | <b>17,105,634</b>  | <b>11,026,257</b>  | <b>9,198,134</b>   | <b>7,993,596</b>  | <b>6,533,970</b>  | <b>5,423,630</b>  | <b>4,727,346</b>  | <b>3,561,494</b>  |
| <b>Total liabilities and equity</b>                  | <b>191,888,346</b> | <b>211,035,373</b> | <b>211,114,232</b> | <b>122,623,092</b> | <b>110,385,065</b> | <b>67,861,900</b> | <b>53,431,929</b> | <b>47,569,453</b> | <b>38,283,601</b> | <b>24,321,546</b> |

2011-2020 Statement of Financial Position is prepared based on LKAS/SLFRS. Prior periods are prepared based on SLAS's.



# STATEMENT OF PROFIT OR LOSS

| As at                                   | 31.03.2020       | 31.03.2019       | 31.03.2018       | 31.03.2017       | 31.03.2016       | 31.03.2015       | 31.03.2014       | 31.03.2013       | 31.03.2012       | 31.03.2011       |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|   | Rs '000          | Rs '000          | Rs '000          | Rs '000          | Rs '000          | Rs '000          | Rs '000          | Rs '000          | Rs '000          | Rs '000          |
| Interest income                         | 38,181,098       | 42,663,318       | 23,818,183       | 18,489,741       | 13,137,597       | 10,871,227       | 10,515,811       | 8,457,606        | 5,971,895        | 3,113,150        |
| Interest expense                        | (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)      | (1,760,124)      |
| Net interest income                     | 18,909,733       | 21,771,563       | 9,916,047        | 7,030,467        | 6,638,122        | 5,892,915        | 4,390,531        | 3,506,761        | 2,977,550        | 1,353,026        |
| Net other operating income              | 4,820,439        | 4,012,257        | 1,816,619        | 2,348,653        | 1,245,509        | 1,269,831        | 971,589          | 496,871          | 336,063          | 1,504,257        |
| Direct expenses excluding interest cost | (1,279,608)      | (1,522,224)      | (1,047,933)      | (1,311,408)      | (911,717)        | (428,892)        | (297,539)        | (121,899)        | (89,569)         | (97,481)         |
| Allowance for impairment & write-offs   | (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)         | (155,634)        |
| Personnel expenses                      | (2,971,773)      | (3,165,698)      | (1,370,493)      | (1,424,495)      | (1,100,550)      | (897,364)        | (687,106)        | (548,439)        | (469,514)        | (309,594)        |
| Depreciation                            | (201,533)        | (163,498)        | (173,817)        | (148,246)        | (32,717)         | (12,166)         | (3,823)          | -                | -                | (2,048)          |
| General & administration expenses       | (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)        | (666,374)        |
| <b>Profit from operations</b>           | <b>4,771,869</b> | <b>8,497,467</b> | <b>2,433,582</b> | <b>2,541,412</b> | <b>2,295,547</b> | <b>2,466,575</b> | <b>1,611,698</b> | <b>1,125,162</b> | <b>1,871,055</b> | <b>1,626,151</b> |
| Value added tax on financial service    | (892,210)        | (1,389,654)      | (348,841)        | (364,835)        | (275,891)        | (240,226)        | (169,274)        | (129,822)        | (179,921)        | (137,285)        |
| <b>Profit before tax</b>                | <b>3,879,659</b> | <b>7,107,812</b> | <b>2,084,740</b> | <b>2,176,577</b> | <b>2,019,656</b> | <b>2,226,349</b> | <b>1,442,423</b> | <b>995,340</b>   | <b>1,691,134</b> | <b>1,488,866</b> |
| Income tax (expense) / reversal         | (99,975)         | (1,144,944)      | 116,686          | (589,759)        | (592,663)        | (742,767)        | (442,124)        | (309,060)        | (512,125)        | (242,773)        |
| <b>Profit for the year</b>              | <b>3,779,684</b> | <b>5,962,868</b> | <b>2,201,426</b> | <b>1,586,818</b> | <b>1,426,993</b> | <b>1,483,582</b> | <b>1,000,299</b> | <b>686,280</b>   | <b>1,179,009</b> | <b>1,246,093</b> |

2012-2020 Profits are determined based on LKAS/SLFRS. Profits prior to that are determined in line with SLAS's.

# QUARTERLY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|   | 2019/20       |             |             |             |              |             | 2018/19       |             |             |              |           |           |
|---|---------------|-------------|-------------|-------------|--------------|-------------|---------------|-------------|-------------|--------------|-----------|-----------|
|   | Quarter ended |             |             | Year ended  |              |             | Quarter ended |             |             | Year ended   |           |           |
|   | 30-Jun-19     | 30-Sep-19   | 31-Dec-19   | 31-Mar-20   | 31-Mar-20    | 31-Mar-20   | 30-Jun-18     | 30-Sep-18   | 31-Dec-18   | 31-Mar-19    | 31-Mar-19 | 31-Mar-19 |
| For the year ended                      | Rs '000       | Rs '000     | Rs '000     | Rs '000     | Rs '000      | Rs '000     | Rs '000       | Rs '000     | Rs '000     | Rs '000      | Rs '000   | Rs '000   |
| Interest income                         | 9,589,791     | 9,574,842   | 9,557,285   | 9,459,180   | 38,181,098   | 10,668,429  | 10,792,035    | 8,931,899   | 12,270,954  | 42,663,318   |           |           |
| Interest expense                        | (5,374,337)   | (4,888,725) | (4,483,816) | (4,524,487) | (19,271,364) | (5,098,632) | (5,283,594)   | (5,296,208) | (5,213,319) | (20,891,754) |           |           |
| <b>Net interest income</b>              | 4,215,454     | 4,686,117   | 5,073,470   | 4,934,693   | 18,909,733   | 5,569,797   | 5,508,441     | 3,635,691   | 7,057,635   | 21,771,563   |           |           |
| Net other operating income              | 260,228       | 586,702     | 465,725     | 3,507,784   | 4,820,439    | 468,828     | 449,048       | 2,223,408   | 870,974     | 4,012,257    |           |           |
| Direct expenses excluding interest cost | (184,458)     | (282,829)   | (359,826)   | (452,496)   | (1,279,608)  | (497,792)   | (527,906)     | (290,322)   | (206,205)   | (1,522,224)  |           |           |
| Allowance for impairment & write-offs   | (483,851)     | (2,393,156) | (2,652,731) | (2,313,804) | (7,843,541)  | (1,835,046) | (1,477,831)   | (2,189,854) | (197,774)   | (5,700,505)  |           |           |
| Personnel expenses                      | (788,256)     | (643,128)   | (678,347)   | (862,042)   | (2,971,773)  | (851,753)   | (843,011)     | (877,076)   | (593,858)   | (3,165,698)  |           |           |
| Depreciation                            | (45,231)      | (51,441)    | (53,484)    | (51,377)    | (201,533)    | (41,008)    | (38,342)      | (41,135)    | (43,012)    | (163,498)    |           |           |
| General & administration expenses       | (1,476,150)   | (1,539,811) | (1,695,541) | (1,950,345) | (6,661,847)  | (1,522,190) | (1,596,838)   | (1,756,951) | (1,858,448) | (6,734,428)  |           |           |
| <b>Profit from operations</b>           | 1,497,736     | 362,454     | 99,267      | 2,812,412   | 4,771,869    | 1,290,834   | 1,473,561     | 703,760     | 5,029,312   | 8,497,467    |           |           |
| Value added tax on financial service    | (380,000)     | (190,071)   | (55,358)    | (266,781)   | (892,210)    | (108,756)   | (241,825)     | (261,135)   | (777,938)   | (1,389,654)  |           |           |
| <b>Profit before tax</b>                | 1,117,736     | 172,383     | 43,909      | 2,545,631   | 3,879,659    | 1,182,078   | 1,231,735     | 442,625     | 4,251,374   | 7,107,812    |           |           |
| Income tax (expense) / reversal         | (325,184)     | (33,438)    | (14,906)    | 273,553     | (99,975)     | (330,982)   | (402,204)     | (105,173)   | (306,585)   | (1,144,944)  |           |           |
| <b>Profit for the year</b>              | 792,552       | 138,945     | 29,002      | 2,819,184   | 3,779,684    | 851,096     | 829,530       | 337,451     | 3,944,789   | 5,962,868    |           |           |

# QUARTERLY STATEMENT OF FINANCIAL POSITION

| For the year ended                                   | 2019/20            |                    |                    |                    | 2018/19            |                    |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|  | 30-Jun-19          | 30-Sep-19          | 31-Dec-19          | 31-Mar-20          | 30-Jun-18          | 30-Sep-18          | 31-Dec-18          | 31-Mar-19          |
|  | Rs '000            | Rs '000            | Rs '000            | Rs '000            | Rs '000            | Rs '000            | Rs '000            | Rs '000            |
| <b>ASSETS</b>  |                    |                    |                    |                    |                    |                    |                    |                    |
| Cash and bank balances                               | 25,452,019         | 22,623,550         | 21,484,084         | 8,333,561          | 13,969,383         | 19,239,248         | 18,543,375         | 17,535,538         |
| Deposits with banks and other financial institutions | 20,946,549         | 16,546,575         | 16,372,582         | 17,282,277         | 24,947,697         | 21,513,859         | 21,319,605         | 21,637,176         |
| Investment in government securities & others         | 14,084,564         | 12,732,070         | 12,702,112         | 10,790,843         | 11,193,706         | 14,272,693         | 12,331,566         | 18,150,996         |
| Derivative assets held for risk management           | 123,910            | 48,068             | 22,265             | 273,195            | 1,117              | 918,005            | 1,923,252          | 568,530            |
| Financial assets at amortised cost                   |                    |                    |                    |                    |                    |                    |                    |                    |
| Rentals receivable on leased assets                  | 41,905,023         | 41,873,927         | 42,363,793         | 43,842,381         | 44,323,658         | 45,695,055         | 45,670,852         | 42,941,837         |
| Loans and advances                                   | 86,752,008         | 87,619,213         | 87,175,063         | 87,112,949         | 99,062,768         | 98,390,209         | 94,506,282         | 88,995,842         |
| Factoring receivable                                 | 5,527,591          | 5,209,288          | 5,251,320          | 2,998,752          | 8,952,959          | 8,032,509          | 7,288,633          | 4,253,668          |
| Margin trading receivable                            |                    |                    |                    | 1,768              |                    |                    |                    |                    |
| Investment securities                                | 2,882,974          | 2,672,170          | 2,349,966          | 2,958,199          | 384,907            | 1,869,009          | 1,915,619          | 2,809,229          |
| Amount due from related companies                    | 1,045,293          | 1,234,922          | 1,224,626          | 63,233             | 51,858             | 58,899             | 105,079            | 5,569              |
| Other receivables                                    | 109,577            | 31,096             | 11,597             | 914,073            | 1,197,391          | 1,235,203          | 1,152,054          | 937,941            |
| Inventories  | 5,535              | 4,930              | 3,385              | 2,023              | 9,078              | 8,223              | 6,445              | 4,811              |
| Investment properties                                | 12,204,628         | 12,707,997         | 13,286,310         | 15,963,886         | 6,369,961          | 6,447,836          | 6,604,701          | 11,635,211         |
| Property plant and equipment                         | 1,516,715          | 1,419,016          | 1,395,839          | 1,351,207          | 1,680,777          | 1,628,902          | 1,589,056          | 1,559,025          |
| Intangible assets                                    | 7,722              | 7,321              | 6,920              | -                  |                    |                    |                    |                    |
| <b>Total assets</b>                                  | <b>212,564,107</b> | <b>204,730,142</b> | <b>203,649,863</b> | <b>191,888,346</b> | <b>212,145,262</b> | <b>219,309,649</b> | <b>212,956,520</b> | <b>211,035,373</b> |
| <b>LIABILITIES</b>                                   |                    |                    |                    |                    |                    |                    |                    |                    |
| Bank overdraft                                       | 3,637,753          | 2,955,631          | 4,890,302          | 1,283,201          | 6,662,009          | 3,251,444          | 1,725,911          | 2,242,496          |
| Interest bearing borrowings                          | 55,924,205         | 48,228,445         | 51,370,634         | 51,558,593         | 61,924,228         | 66,220,152         | 66,071,812         | 61,086,897         |
| Deposits from customers                              | 117,626,631        | 111,662,565        | 105,798,986        | 99,261,181         | 114,394,620        | 120,886,873        | 116,289,533        | 115,365,141        |
| Trade payables                                       | 2,253,604          | 3,793,434          | 4,950,783          | 1,048,944          | 2,831,818          | 2,066,933          | 2,080,959          | 1,161,094          |
| Accruals and other payables                          | 4,136,701          | 3,362,865          | 2,747,449          | 3,331,643          | 3,060,571          | 3,064,200          | 2,791,157          | 3,072,454          |
| Derivative liabilities held for risk management      | 508,604            | 633,957            | 198,180            | 114,349            | 562,978            | 30,741             | 3,511              | 661,931            |
| Amount due to related companies                      | 786,038            | 1,411,811          | 1,712,771          | 854,198            | 787,057            | 641,659            | 546,445            | 817,644            |
| Current tax payable                                  | 1,806,476          | 1,779,914          | 1,013,656          | 960,255            | 1,141,099          | 1,478,436          | 1,437,228          | 1,501,293          |
| Deferred tax liability                               | 2,272,773          | 2,272,773          | 2,272,773          | 1,888,186          | 2,402,219          | 2,402,219          | 2,402,219          | 2,272,773          |
| Employee benefits                                    | 86,514             | 84,017             | 82,522             | 298,142            | 69,377             | 67,310             | 64,606             | 87,061             |
| <b>Total liabilities</b>                             | <b>189,039,300</b> | <b>176,185,413</b> | <b>175,038,056</b> | <b>160,598,693</b> | <b>193,835,976</b> | <b>200,109,968</b> | <b>193,413,381</b> | <b>188,268,784</b> |
| <b>SHAREHOLDERS' FUNDS</b>                           |                    |                    |                    |                    |                    |                    |                    |                    |
| Stated capital                                       | 7,880,000          | 12,762,500         | 12,762,500         | 12,762,500         | 7,880,000          | 7,880,000          | 7,880,000          | 7,880,000          |
| Statutory reserve                                    | 3,189,298          | 3,189,298          | 3,189,298          | 3,378,282          | 1,996,724          | 1,996,724          | 1,996,724          | 3,189,298          |
| Revaluation Reserve                                  | 241,528            | 241,528            | 241,528            | 241,528            | 241,528            | 241,528            | 241,528            | 241,528            |
| Cash flow hedge reserve                              | (113,514)          | (105,529)          | (69,047)           | (77,310)           | (53,518)           | 18,534             | 6,416              | (39,059)           |
| Available for sale investment reserve                | -                  | -                  | -                  | -                  | (23,404)           | (22,112)           | (63,270)           | -                  |
| Fair value reserve                                   | 18,365             | 8,856              | 10,449             | 11,957             | -                  | -                  | -                  | (21,756)           |
| Retained earnings                                    | 12,309,131         | 12,448,076         | 12,477,079         | 14,972,696         | 8,267,957          | 9,085,007          | 9,481,741          | 11,516,579         |
| <b>Total equity</b>                                  | <b>23,524,807</b>  | <b>28,544,729</b>  | <b>28,611,807</b>  | <b>31,289,653</b>  | <b>18,309,286</b>  | <b>19,199,681</b>  | <b>19,543,139</b>  | <b>22,766,588</b>  |
| <b>Total liabilities and equity</b>                  | <b>212,564,107</b> | <b>204,730,142</b> | <b>203,649,863</b> | <b>191,888,346</b> | <b>212,145,262</b> | <b>219,309,649</b> | <b>212,956,520</b> | <b>211,035,373</b> |

# INVESTOR INFORMATION

## 1. Market Price per Share as at 31 March

|                                       | 2020<br>Rs. | 2019<br>Rs. |
|---------------------------------------|-------------|-------------|
| Highest during the year               | 4.40        | 4.20        |
| Lowest during the year                | 2.20        | 3.00        |
| Last traded as at the end of the year | 2.20        | 3.10        |

## 2. Composition of Shareholders as at 31 March

|              | 2020                 |               | 2019                 |               |
|--------------|----------------------|---------------|----------------------|---------------|
|              | No. of Shares        | % of Shares   | No. of Shares        | % of Shares   |
| Institutions |                      |               |                      |               |
| Resident     | 2,570,748,725        | 48.97         | 4,146,895,292        | 98.74         |
| Non Resident | 2,616,308,873        | 49.83         | 1,455,000            | 0.03          |
| Individuals  |                      |               |                      |               |
| Resident     | 62,829,482           | 1.20          | 49,156,792           | 1.17          |
| Non Resident | 112,920              | 0.00          | 2,492,916            | 0.06          |
| <b>Total</b> | <b>5,250,000,000</b> | <b>100.00</b> | <b>4,200,000,000</b> | <b>100.00</b> |

## 3. Distribution of Shareholders as at 31 March

| Range                 | 2020                |                      |               | 2019                |                      |               |
|-----------------------|---------------------|----------------------|---------------|---------------------|----------------------|---------------|
|                       | No. of Shareholders | No. of Shares        | % of Shares   | No. of Shareholders | No. of Shares        | % of Shares   |
| 1 - 1,000             | 1,473               | 538,958              | 0.01          | 1,383               | 521,559              | 0.01          |
| 1,001 - 10,000        | 973                 | 4,079,691            | 0.08          | 861                 | 3,551,453            | 0.08          |
| 10,001 - 100,000      | 457                 | 16,754,015           | 0.32          | 356                 | 13,118,372           | 0.31          |
| 100,001 - 1,000,000   | 122                 | 30,988,903           | 0.59          | 93                  | 26,474,838           | 0.64          |
| Over 1,000,000 Shares | 22                  | 5,197,638,433        | 99.00         | 18                  | 4,156,333,778        | 98.96         |
| <b>Total</b>          | <b>3,047</b>        | <b>5,250,000,000</b> | <b>100.00</b> | <b>2,711</b>        | <b>4,200,000,000</b> | <b>100.00</b> |

#### 4. Top 20 Shareholders

| Name of Shareholder   | 2020          |       | 2019          |       |
|---|---------------|-------|---------------|-------|
|   | No. of Shares | %     | No. of Shares | %     |
| 1 LOLC Private Limited                                      | 2,614,934,919 | 49.81 | Nil           | Nil   |
| 2 Hatton National Bank PLC/LOLC Holdings PLC                | 625,000,000   | 11.90 | 2,624,448,000 | 62.49 |
| LOLC Holdings PLC   | 1,622,584,913 | 30.91 | 1,160,473,531 | 27.63 |
| LOLC Holdings PLC A/C No. 02                                | 103,728,649   | 1.98  | 135,000,000   | 3.21  |
| 3 Saakya Capital (Pvt) Ltd                                  | 137,455,320   | 2.62  | 137,455,320   | 3.27  |
| 4 Satya Capital (Pvt) Ltd                                   | 52,000,000    | 0.99  | 52,000,000    | 1.24  |
| 5 Dr R.R.De Silva   | 11,371,515    | 0.22  | 11,371,515    | 0.27  |
| 6 Capital Trust Holdings Ltd                                | 6,005,963     | 0.11  | 4,660,441     | 0.11  |
| 7 National Savings Bank                                     | 3,628,769     | 0.07  | 4,540,195     | 0.11  |
| 8 Hatton National Bank PLC- Astrue Alpha Fund               | 3,408,918     | 0.06  | 3,463,945     | 0.08  |
| 9 Mr R.E.Rambukwella  | 2,320,000     | 0.04  | 1,127,443     | 0.03  |
| 10 Mr S. Vasudevan & Mrs V. Saraswathi                      | 2,058,694     | 0.04  | Nil           | Nil   |
| 11 Dr A. R. Wikramanayake                                   | 1,688,500     | 0.03  | 1,688,500     | 0.04  |
| 12 Mr P. Tillakaratne                                       | 1,671,000     | 0.03  | 282,087       | 0.01  |
| 13 Commercial Bank of Ceylon PLC/ S.V. Somasunderam         | 1,500,000     | 0.03  | 1,500,000     | 0.04  |
| 14 Mr L.A.J.F.Morais  | 1,301,128     | 0.02  | 1,236,128     | 0.03  |
| 15 Bansei Securities Capital (Pvt) Ltd/ A.Nissaka           | 1,300,800     | 0.02  | 1,300,800     | 0.03  |
| 16 Hatton National Bank PLC/ Capital Trust Holdings Limited | 1,252,141     | 0.02  | 1,307,300     | 0.03  |
| 17 Merchant Bank of Sri Lanka & Finance PLC/S.M.D.N.P.Banda | 1,150,000     | 0.02  | Nil           | Nil   |
| 18 Hatton National Bank PLC/ S.R.Nadaraj Kumar              | 1,114,204     | 0.02  | 977,776       | 0.02  |
| 19 Mr G.Wickremasinghe                                      | 1,100,000     | 0.02  | 600,000       | 0.01  |
| 20 Mr J.N. Weerakoon  | 1,063,000     | 0.02  | Nil           | Nil   |
|   | 5,197,638,433 | 99.00 | 4,143,432,981 | 98.65 |

#### 5. Public Shareholding

|                                      | 31st March 2020 | 31st March 2019 |
|--------------------------------------|-----------------|-----------------|
|                                      | %               | %               |
| Public Holding percentage            | 5.37            | 6.63            |
| Number of public shareholders        | 3,036           | 2,701           |
| Float adjusted market capitalisation | 619,642,582     | 862,908,309     |

The Company is not compliant with the minimum public holding requirement stipulated in the Listing Rule 07.13.1.(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 pursuing requisite regulatory approvals, to list debt securities and remove all equity securities, to ensure compliance with both the Listing Rules of the Colombo Stock Exchange and the directions of the Central Bank of Sri Lanka.

## INVESTOR INFORMATION

### 6) STATEMENT OF VALUE ADDED

#### Regulatory Capital Adequacy

|                                       | 2019/20<br>Rs.   | 2018/19<br>Rs.   |
|---------------------------------------|------------------|------------------|
| <b>Value added</b>                    |                  |                  |
| Income                                | 38,181,097,854   | 42,663,317,527   |
| Other Income                          | 4,820,438,829    | 4,012,257,390    |
| Cost of Borrowing                     | (19,271,364,492) | (20,891,754,206) |
| General and administration Expenses   | (7,941,455,511)  | (8,256,652,230)  |
| Allowance for impairment & write-offs | (7,843,541,357)  | (5,700,505,481)  |
|                                       | 7,945,175,323    | 11,826,663,000   |
| <b>Distribution of value added</b>    |                  |                  |
| <b>To Employees</b>                   | 2,971,773,136    | 3,165,698,139    |
| Remuneration and other benefits       | 2,971,773,136    | 3,165,698,139    |
| <b>To Government</b>                  | 992,184,733      | 2,534,598,743    |
| Indirect Taxes                        | 892,209,763      | 1,389,654,429    |
| Direct Taxes                          | 99,974,970       | 1,144,944,314    |
| <b>To Expansion and Growth</b>        | 3,981,217,454    | 6,126,366,118    |
| Retained Profits                      | 3,779,684,187    | 5,962,868,027    |
| Depreciation and amortisation         | 201,533,267      | 163,498,091      |
|                                       | 7,945,175,323    | 11,826,663,000   |

# OTHER DISCLOSURES

## 1) PROPERTY HELD BY THE COMPANY

|    | Property Name                                  | District   | Province               | Extent        | Valuation<br>Rs. | Number of<br>Buildings |
|----|--|------------|------------------------|---------------|------------------|------------------------|
| 1  | Rathmalana Property                            | Colombo    | Western Province       | 0A-0R-20P     | 93,000,000       | 1                      |
| 2  | Wattala Property                               | Colombo    | Western Province       | 0A-0R-9P      | 20,000,000       | -                      |
| 3  | Moratuwa Property                              | Colombo    | Western Province       | 0A-0R-14.85P  | 37,000,000       | 3                      |
| 4  | Piliyandala Property                           | Colombo    | Western Province       | 0A-0R-20P     | 8,000,000        | -                      |
| 5  | Gothatuwa Property                             | Colombo    | Western Province       | 0A-3R-37.05P  | 71,000,000       | -                      |
| 6  | Wickramasinghe Property                        | Colombo    | Western Province       | 0A-3R-33.83P  | 176,000,000      | -                      |
| 7  | Shady Grove Property                           | Colombo    | Western Province       | 0A-3R-35.75P  | 492,000,000      | 1                      |
| 8  | Kosgoda Property                               | Galle      | Southern Province      | 9A-2R-23P     | 200,000,000      | -                      |
| 9  | Thalaheena Property                            | Colombo    | Western Province       | 1A-2R-18P     | 62,860,000       | 2                      |
| 10 | Panadura Property                              | Kaluthara  | Western Province       | 0A-1R-16.10P  | 188,000,000      | -                      |
| 11 | Horana Property                                | Kaluthara  | Western Province       | 0A-3R- 06.83P | 145,000,000      | -                      |
| 12 | Badulla Property                               | badulla    | Uva Province           | 0A-1R-19.15P  | 133,000,000      | 1                      |
| 13 | Mannar Property                                | Mannar     | Jafana Province        | 0A-0R-23.50P  | 23,500,000       | -                      |
| 14 | Mathugama Property                             | Kaluthara  | Western Province       | 0A-2R-26.5P   | 213,000,000      | 1                      |
| 15 | Beruwala Property                              | Kaluthara  | Western Province       | 0A-1R-22.55P  | 76,000,000       | 1                      |
| 16 | Jethawana Property                             | Colombo    | Western Province       | 0A-2R-18.70P  | 697,000,000      | 1                      |
| 17 | Nawala 2Nd Lane Property                       | Colombo    | Western Province       | 0A-0R-8.70P   | 140,000,000      | -                      |
| 18 | Piliyandala Property - Thumbowila              | Colombo    | Western Province       | 0A-0R-30.50P  | 91,500,000       | -                      |
| 19 | Rathnapura Property - Bandaranayakepura        | Rathnapura | Sabaragamuwa Province  | 0A-0R-32.69P  | 168,000,000      | -                      |
| 20 | Rajagiriya Land (Valuation Unit)               | Colombo    | Western Province       | 0A-1R-12.50P  | 577,500,000      | -                      |
| 21 | Colombo 14 - Grandpass - Vincent Perera Mw     | Colombo    | Western Province       | 4A-3R-8.60P   | 2,882,000,000    | -                      |
| 22 | Colombo 13 - Bluemendhal - Cyril C Perera Mw   | Colombo    | Western Province       | 1A-3R-16.50P  | 823,000,000      | 3                      |
| 23 | Kiribathgoda Property                          | Colombo    | Western Province       | 0A-0R-30.50P  | 109,000,000      | 1                      |
| 24 | Watinapaha Property Pannala                    | Kurunegala | North Western Province | 19A-0R-35.85P | 57,000,000       |                        |
| 25 | Ebert Silva Property Chilaw                    | Chilaw     | North Western Province | 0A-0R-40P     | 120,000,000      | -                      |
| 26 | No-296,Horana Property                         | Kaluthara  | Western Province       | 0A-0R-10.1P   | 25,250,000       | -                      |
| 27 | Nawala (Factoring Building) Property           | Colombo    | Western Province       | 0A-2R-13.96P  | 644,000,000      | 1                      |
| 28 | No 72 Galle Road ,Kaluwamodara,Beruwala        | Kaluthara  | Western Province       | 0A-1R-6P      | 94,000,000       | -                      |
| 29 | Wellampitiya Yard                              | Colombo    | Western Province       | 5A-0R-3.11P   | 963,000,000      | -                      |
| 30 | Land & Building - Kotta Road                   | Colombo    | Western Province       | 0A-0R-10P     | 144,500,000      | 1                      |
| 31 | Investment Property Wattala                    | Gampaha    | Western Province       | 0A-0R-16.61P  | 97,000,000       | 1                      |
| 32 | Investment Property Dampe - Kesbewa            | Colombo    | Western Province       | 0A-1R-0P      | 21,000,000       | -                      |
| 33 | Malabe Property                                | Colombo    | Western Province       | 0A-0R-12P     | 27,300,000       | 1                      |
| 34 | Battaramulla Land                              | Colombo    | Western Province       | 0A-0R-38.71P  | 105,000,000      | -                      |
| 35 | Ip Gamunu Mw, Rajagiriya                       | Colombo    | Western Province       | 0A-0R-30.25P  | 65,000,000       | -                      |
| 36 | Investment Property Biyagama                   | Gampaha    | Western Province       | 0A-0R-23.70P  | 29,000,000       | 1                      |
| 37 | Gnanendra Mawatha Property ? Nawala            | Colombo    | Western Province       | 0A-1R-4P      | 231,000,000      | 3                      |
| 38 | Yakkala Property (Plan - 4897)                 | Colombo    | Western Province       | 7A-2R-9.20P   | 157,000,000      | -                      |
| 39 | Dambulla Property                              | Mathale    | Central Province       | A0-R0-P35.96  | 100,000,000      | 1                      |
| 40 | Waskaduwa Property                             | Galle      | Southern Province      | 0A-2R-39.50P  | 71,700,000       | -                      |
| 41 | Kadawatha Property                             | Gampaha    | Western Province       | 0A-1R-0.3P    | 242,000,000      | -                      |
| 42 | Battaramulla Property (Plan -8248)             | Colombo    | Western Province       | 0A-0R-16.10P  | 72,000,000       | -                      |
| 43 | Rathnapura Property -Kataliyanpala             | Rathnapura | Sabaragamuwa Province  | 0A-0R-15P     | 2,250,000        | -                      |
| 44 | Panadura Property<br>-No.224,Gorakana,Panadura | Kaluthara  | Western Province       | A0-R0-P39.63  | 89,000,000       | 3                      |



## OTHER DISCLOSURES

|    | Property Name                                       | District     | Province               | Extent        | Valuation<br>Rs. | Number of<br>Buildings |
|----|---|--------------|------------------------|---------------|------------------|------------------------|
| 45 | Panadura Property<br>-No.222,Gorakana,Panadura      | Kaluthara    | Western Province       | A0-R0-P20     | 34,500,000       | 1                      |
| 46 | Panadura Property-<br>No.12/4,Gorakana,Panadura     | Kaluthara    | Western Province       | A0-R01-P07    | 31,500,000       | -                      |
| 47 | Moratuwa Property -No,24,1St Lane,Angulana          | Colombo      | Western Province       | A0-R00-P19.84 | 28,000,000       | 1                      |
| 48 | Horana Property-Villa Resident                      | Kaluthara    | Western Province       | 0A-1R-25.73P  | 139,750,000      | 2                      |
| 49 | Matara Property -Deed 1285                          | Matara       | Southern Province      | A0-R2-P11.299 | 164,000,000      | -                      |
| 50 | Matara Property -Deed 1285                          | Matara       | Southern Province      | A0-R2-P26.30  | 191,000,000      | -                      |
| 51 | Excellent Property - Deed No 37                     | Mathale      | Central Province       | 1A-1R-2P      | 20,000,000       | -                      |
| 52 | Kahatagahawatta Property -Deed 131                  | Colombo      | Western Province       | 0A-0R-4.2P    | 40,000,000       | 5                      |
| 53 | Delgahawatta Pannipitiya Property -Deed 105         | Colombo      | Western Province       | 0A-0R-32.62P  | 130,000,000      | -                      |
| 54 | Grandpass Property- Deed 220                        | Colombo      | Western Province       | 2A-3R-14.50P  | 909,000,000      | 4                      |
| 55 | Pahadamulla Property -Deed 997                      | Kaluthara    | Western Province       | A0-R0-20P     | 26,000,000       | 1                      |
| 56 | Yatiana Property -Deed No.4783                      | Colombo      | Western Province       | 0A-0R-9P      | 55,000,000       | 1                      |
| 57 | Mahara Property -Deed No.7179B                      | Colombo      | Western Province       | A0-R1-19.8P   | 35,000,000       | 1                      |
| 58 | Property Malwana No -68/2014                        | Gampaha      | Western Province       | 0A-0R-30P     | 31,500,000       | -                      |
| 59 | Malwana -Sun Power Construction Property            | Gampaha      | Western Province       | 5A-0R-35.27P  | 108,000,000      | -                      |
| 60 | Property Kiribathgoda                               | Colombo      | Western Province       | 0A-0R-23.30P  | 36,500,000       | 1                      |
| 61 | Merigam Kanda Property                              | Gampaha      | Western Province       | 0A-3R-4.50P   | 13,000,000       | -                      |
| 62 | Damugahawatta Property                              | Colombo      | Western Province       | 0A-1R-0P      | 75,000,000       | 1                      |
| 63 | Ranmuthugala Property 37.P                          | Gampaha      | Western Province       | 0A-0R-37P     | 57,000,000       | 1                      |
| 64 | Eriyagaha Kumbura Property 20-P                     | Colombo      | Western Province       | 0A-0R-20P     | 32,000,000       | 1                      |
| 65 | Madangahawatta Property 16.77P                      | Colombo      | Western Province       | 0A-0R-10.77P  | 19,300,000       | 1                      |
| 66 | Thalagahawaththa Kolonnawa Property                 | Colombo      | Western Province       | A0-R0 -10.62P | 26,500,000       | -                      |
| 67 | Abagahawaththa Maharagama Property 12.5P            | Colombo      | Western Province       | 0A-0R-12.50P  | 18,000,000       | -                      |
| 68 | Horana Property 28.5P                               | Kaluthara    | Western Province       | A0-R0-P28.50  | 20,500,000       | 1                      |
| 69 | Nuwaraeliya Property 10.8P                          | Nuwara Eliya | Central Province       | 0A-0R-10.80P  | 15,800,000       | 1                      |
| 70 | Walgama Property                                    | Colombo      | Western Province       | 0A-1R-37P     | 51,000,000       | 2                      |
| 71 | Kurunegala Property -Plan No:8248                   | Kurunegala   | North Western Province | A0-R3-20.50P  | 565,700,000      | -                      |
| 72 | Kurunegala Property -Plan No:8248                   | Kurunegala   | North Western Province | A0-R0-10.90P  | 38,000,000       | -                      |
| 73 | Malawatta Estate -Deed 1283                         | Gampaha      | Western Province       | 0A-2R-5.60P   | 60,000,000       | -                      |
| 74 | Maradhagahawatta Waragoda Property -Plan<br>No:1068 | Gampaha      | Western Province       | 0A-2R-12.54P  | 83,000,000       | -                      |
| 75 | Millagahawaththa Property                           | Colombo      | Western Province       | 0A-0R-15.60P  | 170,000,000      | 1                      |
| 76 | Potuwlkumbura -Deed No.1957                         | Gampaha      | Western Province       | 0A- 1R-9.20P  | 20,000,000       | -                      |
| 77 | Paragahakotuwe Kumbura Property{368}                | Kurunegala   | North Western Province | 0A-3R-20.50P  | 31,000,000       | -                      |
| 78 | Paragahakotuwe Kumbura Property{367}                | Kurunegala   | North Western Province | 0A-0R-23.00P  | 73,500,000       | -                      |
| 79 | Hettiyana Property{Matara}                          | Matara       | Southern Province      | 0A-0R-39P     | 112,500,000      | 1                      |
| 80 | Thalahena Property {787}                            | Colombo      | Western Province       | 0A-0R-38.27P  | 46,000,000       | -                      |
| 81 | Minuwangoda Property{Boragodawatta}                 | Gampaha      | Western Province       | 0A-0R-22P     | 16,000,000       | -                      |
| 82 | Thalangama Property {2041}                          | Colombo      | Western Province       | 0A-0R-26.92P  | 94,000,000       | 1                      |
| 83 | Pattinigewatta Property                             | Colombo      | Western Province       | 0A-0R-20P     | 16,800,000       | -                      |
| 84 | Erewwala Property{Kesbawa}                          | Colombo      | Western Province       | 0A-0R-15P     | 9,000,000        | -                      |
| 85 | Damparagahawatta Peoperty                           | Colombo      | Western Province       | 0A-0R-9.2P    | 4,850,000        | -                      |
| 86 | Korathota Property{Kaduwela}                        | Colombo      | Western Province       | 0A-0R-10P     | 3,250,000        | -                      |
| 87 | Nikakotuwa Estate Property                          | Matale       | Central Province       | 3A-0R-4P      | 29,000,000       | -                      |
| 88 | Peliyagoda Property                                 | Colombo      | Western Province       | 0A-0R-15P     | 60,000,000       | -                      |



| Property Name  | District     | Province          | Extent       | Valuation<br>Rs. | Number of<br>Buildings |
|--|--------------|-------------------|--------------|------------------|------------------------|
| 89 Dematagoda Property                                   | Colombo      | Western Province  | 0A-0R-11P    | 60,000,000       | 1                      |
| 90 Udagama Property                                      | Kandy        | Central Province  | 0A-0R-11.63P | 8,500,000        | 1                      |
| 91 Pitakotte Property                                    | Colombo      | Western Province  | 0A-0R-25.40P | 44,500,000       | -                      |
| 92 Kotabodawatta avissavalle Property D267               | Colombo      | Western Province  | 0A-1R-38.5P  | 8,600,000        | -                      |
| 93 Siriyapulla, mahara, kadawatha                        | Gampaha      | Western Province  | 0A-0R-20.0P  | 12,000,000       | -                      |
| 94 Bandarawatta Estate (Yakkala)                         | Gampaha      | Western Province  | 0A-1R-14.3P  | 43,000,000       | 2                      |
| 95 bogahawatu kotasa Hapugoda Kadana                     | Gampaha      | Western Province  | 0A-0R-10P    | 10,750,000       | 1                      |
| 96 Horagala Property                                     | Colombo      | Western Province  | A1-1R-26.5P  | 56,500,000       | -                      |
| 97 Kirigalpotta Property                                 | Matale       | Central Province  | 1A-3R-25.30P | 92,000,000       | 2                      |
| 98 Hokandara Property-Arangala / Athurugiriya            | Colombo      | Western Province  | 0A-0R-10.15P | 60,000,000       | 2                      |
| 99 Kesbawa Property Monarch Ltd                          | Colombo      | Western Province  | 0A-0R-11.75P | 23,500,000       | 1                      |
| 100 Ladhuma Property-malabe athurugiriya                 | Colombo      | Western Province  | 0A-2R-23.25P | 70,000,000       | -                      |
| 101 Bogahawaththa Property-Sharmila Amidon               | Colombo      | Western Province  | 0A-0R-9.8P   | 8,000,000        | -                      |
| 102 Kosgahalanda Property (Rag Priyani)                  | Colombo      | Western Province  | 0A-0R-19.80P | 40,000,000       | 1                      |
| 103 Topuwewatta Property- Rickey Skylark(Pvt) Ltd        | Kalutara     | Western Province  | 1A-0R-36.20P | 108,000,000      | -                      |
| 104 watarappola .Rabangewatta Property Guadian           | Colombo      | Western Province  | 0A-0R-6.13P  | 24,000,000       | 1                      |
| 105 Kadawatha Property-S.D.D. Gunawardena                | Gampaha      | Western Province  | 0A-0R-39P    | 40,000,000       | 1                      |
| 106 Malwattha Property-hokandara-sanduma lanka           | Colombo      | Western Province  | 0A-0R-10.15P | 18,000,000       | 1                      |
| 107 Kadawatha Property (No 348)                          | Colombo      | Western Province  | A0-0R-12.85P | 64,000,000       | -                      |
| 108 Anuradhapura Property (W.H.Hettiarachchi)            | Anuradhapura | North Central     | 0A-2R-4.17P  | 45,000,000       | 1                      |
| 109 Kelanimulla Property M/S Hanco Investment            | Colombo      | Western Province  | 0A-2R-38.10P | 277,000,000      | 1                      |
| 110 Udamulla Village Property (Zabir)                    | Colombo      | Western Province  | 0A-0R-9.75P  | 28,500,000       | 1                      |
| 111 Malamulla Property RLD Wasantha Kumar Property       | Kalutara     | Western Province  | 0A-3R-33.40P | 28,500,000       | 1                      |
| 112 Rathmalana Gnanasiri Abeywickrama Property           | Colombo      | Western Province  | 0A-0R-9.60P  | 37,000,000       | -                      |
| 113 Welisara Property Blue mountain properties (Pvt) Ltd | Gampaha      | Western Province  | A0-0R-20.6P  | 18,000,000       | -                      |
| 114 B B C P Perea New Ampara Land                        | Ampara       | Eastern Province  | -            | 9,271,755        | -                      |
| 115 Galigamuwa P.P.N. Perera Property                    | Kegalle      | Sabaragamuwa      | 0A-1R-32.18P | 35,000,000       | 1                      |
| 116 C R S R Trading Attanagalla Property                 | Gampaha      | Western Province  | 0A-0R-10P    | 2,000,000        | -                      |
| 117 Ambalanthota A Muthumala Property                    | Hambantota   | Southern Province | 0A-0R-17.20P | 50,000,000       | -                      |
| 118 H.B.M. Zulfiquir property (Colombo)                  | Colombo      | Western Province  | 0A-0R-1.62P  | 52,500,000       | 1                      |
| 119 Pathadumbara Kandy land Ex(Pvt)Ltd Property          | Galle        | Southern Province | 0A-3R-34.40P | 7,700,000        | -                      |
| 120 Walawage Nishantha Kumara Jamburaliya Property       | Colombo      | Western Province  | 0A-3R-0P     | 36,000,000       | -                      |
| 121 N S C International Pvt (Ltd) Moratuwa Property      | Colombo      | Western Province  | 0A-0R-9.72P  | 7,750,000        | -                      |
| 122 No 114/21, Sooriyapaluwa, Mawatha, Kandana           | Gampaha      | Western Province  | A0-0R-10.84P | 9,000,000        | -                      |
| 123 Welipillawa Watta Property                           | Gampaha      | Western Province  | 0A-0R-33.70P | 119,000          | -                      |
| 124 Gorakagahalanda Property                             | Colombo      | Western Province  | 0A-1R-9.25P  | 835,000          | -                      |
| 125 Ihala karagahamuna Property                          | Colombo      | Western Province  | A0-R-19.25P  | 1,499,513        | -                      |
| 126 C R S R Trading Naiwala Property                     | Gampaha      | Western Province  | 0A-0R-16.25P | 187,000          | -                      |
| 127 Sanguine garment Property (H D jagath Jayasundara)   | Colombo      | Western Province  | 0A-0R-20P    | 947,800          | -                      |
| 128 Woodlands Property                                   | Colombo      | Western Province  | A0-0R-10.00P | 1,915,725        | 1                      |

## OTHER DISCLOSURES

### 2) DEBENTURE INFORMATION

The debt capital of the company comprises of fifty million (50,000,000) rated unsecured subordinated redeemable debentures issued in January, 2015. These debentures are listed in the Colombo Stock Exchange. ICRA Lanka Ltd upgraded the credit rating of the above debentures to [SL]A- with stable outlook from [SL]BBB+ with stable outlook during the financial year 2015/16 and reaffirmed during this financial year as [SL]A-(Stable).

In addition, 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).

#### Interest rates of the debentures

| Instrument type        | Interest frequency<br>(Fixed Rate) | Coupon<br>(% p.a) | Interest yield<br>as at last trade | Yield to maturity<br>of last<br>trade done | Interest rate<br>of comparable<br>Government<br>Security |
|------------------------|------------------------------------|-------------------|------------------------------------|--|--|
| Type A - 5 Years Tenor | Quarterly                          | 9.00%             | 9.91%                              | 11.43%                                     | 9.70%  |
| Type B - 5 Years Tenor | Semi Annually                      | 9.10%             | 9.10%                              | 9.10%                                      | 9.70%  |
| Type C - 5 Years Tenor | Annually                           | 9.25%             | 9.25%                              | 9.25%                                      | 9.70%  |
| Type A - 5 Years Tenor | Semi-annually                      | 14.75%            | 14.75%                             | 14.84%                                     | 9.70%  |
| Type B - 5 Years Tenor | At maturity                        | 20.13%            | 20.13%                             | 20.13%                                     | 9.70%  |

#### Market prices & issue prices of debentures recorded during the period ended 31st March 2020 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   | Not Traded    | Not Traded   | Not Traded        | N/A              |
| Type B - 5 Years Tenor | Rs.100.00   | Not Traded    | Not Traded   | Not Traded        | N/A              |
| Type C - 5 Years Tenor | Rs.100.00   | Not Traded    | Not Traded   | Not Traded        | N/A              |
| 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<br>31.03.2020 | As at<br>31.03.2019 |
|----------------------|---------------------|---------------------|
| Debt to equity ratio | 4.86 times          | 7.86 times          |
| Quick asset ratio    | 0.84 times          | 0.94 times          |
| Interest cover       | 1.2 times           | 1.34 times          |

### 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.

## 5) SELECTED PERFORMANCE INDICATORS

### Regulatory Capital Adequacy

|   |          | 31.03.2020 | 31.03.2019 |
|---|----------|------------|------------|
| Total Tier I Core Capital                                 | Rs. '000 | 26,265,353 | 20,337,020 |
| Total Capital Base  | Rs. '000 | 29,061,713 | 24,568,596 |
| Core capital adequacy ratio<br>(Minimum requirement 7%)   |          | 13.25%     | 10.22%     |
| Total capital adequacy ratio<br>(Minimum requirement 11%) |          | 14.66%     | 12.34%     |

### Asset Quality Ratios

|                                   |  | 31.03.2020 | 31.03.2019 |
|-----------------------------------|--|------------|------------|
| Net Non-Performing Advances Ratio |  | 5.48%      | 2.66%      |

### Regulatory Liquidity

|                                 |          | 31.03.2020 | 31.03.2019 |
|---------------------------------|----------|------------|------------|
| Available Liquid Assets         | Rs. '000 | 15,796,485 | 29,743,825 |
| Required Liquid Assets          | Rs. '000 | 11,734,217 | 13,504,784 |
| Liquid assets to Deposits ratio |          | 15.91%     | 25.78%     |

## OTHER DISCLOSURES

### 6) SUBORDINATED, UNSECURED, LISTED, REDEEMABLE, RATED DEBENTURES ISSUE (2018/2023) - PROCEEDS UTILISATION AS AT 31ST MARCH 2020 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 2020 ARE AS FOLLOWS. (ISSUED ON 16TH MARCH 2018).

| Objective as per Prospect  | 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

| Serial No | Branches                 | Service Centres  | Service Station Savings Centre | Savings Centres                                    |
|-----------|--------------------------|------------------|--------------------------------|--|
| 1         | Akkaraipattu             | Anamaduwa        | Aluthgama                      | D.S.Senanayake Model Primary School - Anuradhapura |
| 2         | Akurana                  | Bandarawela      | Pilimathalawa                  | Fathima Girls School - 155                         |
| 3         | Akuressa                 | Baddegama        |                                | Bandaranayake Mawatha, Colombo 12                  |
| 4         | Ambalangoda              | Borella          |                                | LOLC Factors - 504, Nawala Road, Rajagiriya        |
| 5         | Ambalantota              | Bulathsinghala   |                                | Pitiyagedara Primary School - Bemmulla             |
| 6         | Ampara                   | Chenkalady       |                                | Polonnaruwa Royal College - Polonnaruwa            |
| 7         | Anuradhapura             | Colombo 06       |                                |  |
| 8         | Aralaganwila             | Giriulla         |                                |  |
| 9         | Avissawella              | Godakawela       |                                |  |
| 10        | Badulla                  | Ingiriya         |                                |  |
| 11        | Baduraliya               | Kantale          |                                |  |
| 12        | Balangoda                | Kinniya          |                                |  |
| 13        | Batticaloa               | Kaluwanchikudy   |                                |  |
| 14        | Bibila                   | Melsiripura      |                                |  |
| 15        | Chilaw                   | Muttur           |                                |  |
| 16        | Chunnamakam              | Oddamavadi - IBU |                                |  |
| 17        | City Branch              | Padaviya         |                                |  |
| 18        | Colombo 03 (Kollupitiya) | Padiyathalawa    |                                |  |
| 19        | Dambulla                 | Pothuvil         |                                |  |
| 20        | Dehiattekandiya          | Rikillagaskada   |                                |  |
| 21        | Dehiwela                 | Thalawakelle     |                                |  |
| 22        | Dickwella                | Weligama         |                                |  |
| 23        | Digana                   | Welikanda        |                                |  |
| 24        | Divulapitiya             | Weliweriya       |                                |  |
| 25        | Eheliyagoda              | Wilgamuwa        |                                |  |
| 26        | Elpitiya                 |                  |                                |  |
| 27        | Embilipitiya             |                  |                                |  |
| 28        | Galenbindunuwewa         |                  |                                |  |
| 29        | Galewela                 |                  |                                |  |
| 30        | Galgamuwa                |                  |                                |  |
| 31        | Galle                    |                  |                                |  |
| 32        | Galnewa                  |                  |                                |  |
| 33        | Gampaha                  |                  |                                |  |
| 34        | Gampola                  |                  |                                |  |
| 35        | Ganemulla                |                  |                                |  |
| 36        | Grandpass                |                  |                                |  |
| 37        | Hanwella                 |                  |                                |  |
| 38        | Hatton                   |                  |                                |  |
| 39        | Hingurakgoda             |                  |                                |  |
| 40        | Homagama                 |                  |                                |  |
| 41        | Horana                   |                  |                                |  |
| 42        | Horowpathana             |                  |                                |  |
| 43        | Ja-ela                   |                  |                                |  |
| 44        | Jaffna                   |                  |                                |  |
| 45        | Kaduwell                 |                  |                                |  |
| 46        | Kalmunai                 |                  |                                |  |
| 47        | Kalutara                 |                  |                                |  |
| 48        | Kamburupitiya            |                  |                                |  |
| 49        | Kandy                    |                  |                                |  |
| 50        | Kattankudy               |                  |                                |  |
| 51        | Kegalle                  |                  |                                |  |

## BRANCH NETWORK

| Serial No | Branches                 | Service Centres | Service Station Savings Centre | Savings Centres |
|-----------|--------------------------|-----------------|--------------------------------|-----------------|
| 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                 |                 |                                |                 |
| 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               |                 |                                |                 |

# NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT THE 19TH ANNUAL GENERAL MEETING of the Company will be held on Friday, 27th November 2020 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 the following purposes:

1. To receive and consider the Annual Report and Financial Statements for the year ended 31st March 2020, with the Report of the Auditors thereon.
2. To re-elect as Director Mr. F K C P N Dias, who retires in terms of Article 70 of the Articles of Association of the Company.
3. To re-elect as Director Mrs. K U Amarasinghe, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
4. To re-elect as Director Mr. B C G de Zylva, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
5. To re-appoint as Auditors M/s Ernst and Young, Chartered Accountants at a remuneration to be fixed by the Directors.
6. 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

04th November 2020  
Rajagiriya (in the greater Colombo)

## NOTES







# FORM OF PROXY

I/We .....  
holder of NIC/ Reg. No ..... of ..... being  
a member/members of the above named Company 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. Ashan Nissanka                                      | of Colombo or failing him |
| Mrs. Dayangani Priyanthi Pieris                         | 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, 27th November 2020 at 11.00 a.m. 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. F K C P N Dias, who retires in terms of Article 70 of the Articles of Association of the Company.   | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To re-elect as Director Mrs. K U Amarasinghe, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.   | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To re-elect as Director Mr. B C G de Zylva, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.   | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To re-appoint as Auditors M/s Ernst and Young, Chartered Accountants at a remuneration to be fixed by the Directors.  | <input type="checkbox"/> | <input type="checkbox"/> |
| 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. | <input type="checkbox"/> | <input type="checkbox"/> |

dated this ..... day of ..... Two Thousand Twenty.

.....

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

Mr B C G de Zylva - Non Executive Chairman

Mr F K C P N Dias - Executive Director/ CEO-appointed with effect from 01st March 2020

Mrs K U Amarasinghe - Executive Director

Mr A Nissanka - Non-Executive Director -re-designated with effect from 28th April 2020

Mrs D P Pieris -Senior Independent Director

Mr P A Wijeratne - Independent Director

Mr K Sundararaj - Independent Director

Mr R D Tissera - Deputy Chairman/ CEO – resigned with effect from 28th February 2020

## Secretaries

LOLC Corporate Services (Private) Limited  
100/1 Sri Jayawardanapura Mawatha  
Rajagiriya

Tel: 011 5880354/7 - 0115 880880 (general)

## 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, Islamic Finance, Micro Finance, Golds Loans, 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

