LOLC DEVELOPMENT FINANCE PLC
(Formerly known as BRAC Lanka Finance PLC)

LOLC DEVELOPMENT FINANCE

FINANCIAL STATEMENTS

For The Year Ended 31st March 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the Year Ended 31st March		
	2019 Rs. '000 (Audited)	2018 Rs. '000 (Audited)	Variance %
Interest income	4,088,552	4,270,904	-4%
Interest expense	(1,338,866)	(1,464,274)	-9%
Net interest income	**2,749,686**	**2,806,630**	**-2%**
Other operating income (net)	181,549	225,572	-20%
Total operating income	**2,931,235**	**3,032,201**	**-3%**
(Impairment) / reversal of impairment for loans and other losses			
Individual impairment	-	79,938	-100%
Collective impairment	(468,044)	(246,204)	90%
Written off	(427,590)	(341,323)	25%
Net operating income	**2,035,602**	**2,524,613**	**-19%**
Personnel expenses	(908,092)	(795,669)	14%
Other expenses	(1,161,319)	(966,271)	20%
Operating profit/(loss) before value added tax (VAT)	**(33,809)**	**762,672**	**-104%**
VAT on financial services	(105,785)	(191,950)	-45%
Profit/(loss) before tax	**(139,594)**	**570,722**	**-124%**
Tax expenses	(14,025)	(209,035)	-93%
Profit/(loss) for the period	**(153,619)**	**361,686**	**-142%**
Other Comprehensive Income			
Actuarial gain/(losses) on defined benefit plan	14,959	1,248	1099%
Net change in fair value of FVOCI financial assets	(23,685)	26,822	-188%
Income tax recognised in other comprehensive income	(4,188)	(349)	1100%
Total Other Comprehensive Income	**(12,915)**	**27,720**	**-147%**
Total Comprehensive Income	**(166,534)**	**389,406**	**-143%**
Earnings per share on profit			
Basic earnings per ordinary share (Rs.)	**(0.65)**	**1.60**	

Figures in brackets indicate deductions

STATEMENT OF FINANCIAL POSITION

	As at 31st March	
	2019 Rs. '000 (Audited)	2018 Rs. '000 (Audited)
Assets		
Cash and cash equivalents	177,521	260,495
Investment in term deposits	1,217,996	1,165,073
Loans and receivables - Leases	1,641,797	578,956
Loans and receivables - Hire purchase	867	12,506
Loans and receivables - Others	9,491,310	12,937,845
Financial investments - FVOCI	921,181	1,208,163
Property, plant and equipment	147,740	188,546
Inventories	34,247	-
Other assets	206,569	142,097
Total assets	**13,839,228**	**16,493,681**
Liabilities		
Bank overdrafts	94,669	116,587
Due to customers	2,900,340	5,674,050
Other borrowings	7,985,523	4,982,230
Current tax liabilities	27,700	169,696
Deferred tax liabilities	5,384	32,288
Amount due to related companies	52,742	2,516,882
Other liabilities	213,837	176,290
Total liabilities	**11,280,195**	**13,668,023**
Equity		
Stated capital	1,493,088	1,493,088
Statutory reserve fund	103,732	103,732
Retained earnings	961,428	1,204,367
Other reserves	785	24,471
Total equity	**2,559,033**	**2,825,658**
Total equity and liabilities	**13,839,228**	**16,493,681**

STATEMENT OF CHANGERS IN EQUITY

	For the Year Ended 31st March				
	Capital Reserves			Revenue Reserves	
	Stated Capital Rs '000	Reserve Fund Rs '000	Fair Value Reserve on FVOCI Rs '000	Retained Earnings Rs '000	Total Equity Rs '000
Balance as at 1 April 2017	**171,180**	**85,648**	**(2,351)**	**869,384**	**1,123,861**
Total Comprehensive income for the year					
Profit for the Year	-	-	-	361,686	361,686
Other Comprehensive Income / (Expense)					
Acturial gain on defined benefit obligation	-	-	-	1,248	1,248
Deferred Tax effect on defined benefit obligation	-	-	-	(349)	(349)
Net change in fair value of available-for-sale financial assets	-	-	26,822	-	26,822
Total Other Comprehensive Income for the Year	-	-	26,822	899	27,721
Total comprehensive income for the year	-	-	26,822	362,585	389,407
Transactions with Owners directly recorded in the Equity					
Right Issue	1,321,907	-	-		1,321,907
Contributions by and Distributions to Owners					
Dividends paid during the Period	-	-	-	(9,518)	(9,518)
Total transactions recorded directly in equity	1,321,907	-	-	(9,518)	1,312,389
Other Movements in Equity					-
Transfer to reserve fund	-	18,084	-	(18,084)	-
Total transactions recorded directly in equity	-	18,084	-	(18,084)	-
Balance as at 31 March 2018	1,493,088	103,732	24,471	1,204,367	2,825,657
Balance as at 1 April 2018	**1,493,088**	**103,732**	**24,471**	**1,204,367**	**2,825,657**
Total Comprehensive Income for the Year					
Profit for the Year	-	-	-	(153,619)	(153,619)
Impact of adoption of SLFRS 9					
Recognition of SLFRS 9 ECLs including those measured at FVOCI	-	-	-	(139,014)	(139,014)
Deferred tax on transitional adjustments	-	-	-	38,924	38,924
Total change in equity due to adopting SLFRS 9 and SLFRS 15	-	-	-	**(100,090)**	**(100,090)**
Other Comprehensive Income / (Expense)					
Actuarial gains on defined benefit obligation	-	-	-	14,959	14,959
Deferred Tax effect on defined benefit obligation	-	-	-	(4,188)	(4,188)
Net change in fair value of FVOCI financial assets	-	-	(23,685)	-	(23,685)
Total Other Comprehensive Income for the Year	-	-	**(23,685)**	**10,770**	**(12,915)**
Total Comprehensive Income for the Year	-	-	**(23,685)**	**(242,940)**	**(266,625)**
Balance as at 31 March 2019	**1,493,088**	**103,732**	**785**	**961,428**	**2,559,033**

Figures in brackets indicate deductions

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of LOLC Development Finance PLC
Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of LOLC Development Finance PLC ("the Company"), which comprise the statement of financial position as at March 31, 2019, and the income statement, 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 and other explanatory information as set out on pages 1 to 42

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at March 31, 2019, 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 our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1 **Impairment of Receivable on Lease and Hire- Purchase, and Loans and Receivables and transition with the adoption of SLFRS 9 – "Financial Instruments"**

The Company has Receivable on Hire-Purchase and Loans amounting to Rs. 1,643 Mn and Receivable on Loans and receivables amounting to Rs. 9,491 Mn. As at 31st March 2019 (Note 21 and 22) to the financial statements respectively) Note 45.1 these financial statements provides the impact on transition to SLFRS 9 - "Financial Instruments" on retained earnings as at 1 April 2018.

Risk Description
Given the complexity of SLFRS 9 and its expected pervasive impact on the financial sector we focused on the company disclosure of the expected impact of measuring credit losses on Loans and Advances and the significant judgment exercised by the company. The company's model to calculate Expected Credit Loss (ECL) are inherently complex and judgment is applied in determining the correct construct of the model. There are also a number of key assumptions made by the Company in applying the requirements of SLFRS 9 in the models including forward looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgments over the use of data inputs required.
As permitted by the transitional provision of SLFRS 9, the impact of adopting SLFRS 9 is considered as an adjustment to equity as at 1 April 2018 (Day One), without restating the comparative information.
We have identified the Impairment of Receivable on Loans and Hire- Purchases, and Loans and transition with the adoption of SLFRS 9 – "Financial Instruments" as a key audit matter because of its significance to the financial statements and application new accounting policies, impairment model, including transition option elections is inherently complex and which are subject to estimation uncertainty and management bias.
Our Response:
Our audit procedures included:

- Assessment of the methodology inherent within the impairment models against the requirements of SLFRS 9;
- Challenging the key assumptions in the ECL models, including staging PD and LGD and evaluating the reasonableness of Management's key judgments and estimates;
- Testing the accuracy and completeness of the data inputs to the systems and ECL models and challenging the economic information used within, and weightings applied to, forward looking scenarios;
- Recalculation of ECL on sample basis, by using the key assumptions used in the models, such as PD and LGD;
- Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development;
- Evaluating the appropriateness of the transition approach and practical expedients applied;
- Evaluating the appropriateness of the accounting policies based on the requirements of the new accounting standards, our business understanding and industry practice;
- Challenging the key assumptions and evaluating the reasonableness of management's key judgments and estimates made in preparing the transition adjustments;
- Assessing the adequacy of disclosures made in the financial statements in compliance with relevant accounting standards requirements;
- Involved our internal specialists to assist in performing audit procedures.

Other Information
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The 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 do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matters to those charged with governance.

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:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may 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, so 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 2599.

Chartered Accountants
Colombo, Sri Lanka
20 June 2019

M.R. Mihular FCA P.Y.S. Perera FCA G.P. Jayatilaka FCA
T.J.S. Rajakarier FCA W.N.J.C. Perera FCA Ms. S. Joseph FCA
Ms. S.S.B. Jayasekara ACA W.K.D.C. Abeysekara FCA S.T.D.L. Perera FCA
B.A.J.C. Kamalasena FCA B.A.D.B. Rajapaksa FCA Ms. B.E.D.T.N. Rodrigo FCA
R.H. Rajan FCA A.N.M. Shamrath ACA Ms. C.T.M.R. Perera ACA
Principals - K.S.J. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Gooneratne ACA

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperation ("KPMG International"), a Swiss entity.

SELECTED PERFORMANCE INDICATORS (AS PER REGULATORY REPORTING)

Item	As at 31.03.2019	As at 31.03.2018
Regulatory Capital Adequacy		
Core Capital (Tier 1 Capital), RS.'000	2,558,248	2,801,187
Total Capital Base. Rs '000	2,735,544	2,979,474
Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum requirement, 6%)	14.18%	19.89%
Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum requirement, 10%)	15.16%	21.15%
Capital Funds to Deposit Liabilities Ratio (Minimum requirement, 10%)	88.23%	49.80%
Assets Quality (Quality of Loan Portfolio)		
Gross Non-Performing Accommodations, Rs.'000	901,193	227,488
Gross Non-Performing Accommodations Ratio, %	7.44%	1.64%
Net-non performing Accommodations Ratio, %	0.00%	0.00%
Profitability (%)		
Interest Margin	20.72%	17.65%
Return on Assets (before tax)	-1.01%	3.46%
Return on Equity (after Tax)	-6.00%	18.32%
Regulatory Liquidity (Rs. '000)		
Required minimum amount of Liquid Assets	640,700	1,165,437
Available amount of Liquid Assets	1,131,796	1,350,804
Required minimum amount of Government Securities	906,733	803,745
Available amount of Government Securities	921,170	1,195,880
Memorandum information		
Number of employees	958	970
Number of branches	16	16
Number of service centers	60	60

Comparative information:

Comparative information has not been reclassified or restated.

ICRA Lanka reffirms the issuer and issue ratings of LOLC Development Finance PLC A-(Stable).

CERTIFICATION :

We, the undersigned, being the Directors of LOLC Development Finance PLC and the Assistant Manager Finance of LOLC Development Finance PLC certify jointly, that:

(a) The above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka;

(b) The information contained in these statements have been extracted from the unaudited financial statements of the Licensed Finance Company unless indicated as audited.

(sgd)	(sgd)	(sgd)
(Mr) Rohana Kumara	(Mr) R.D. Tissera	(Mr) Gayan Herath
Director/Chief Executive Officer	Director	Assisstant Manager - Finance

20 June 2019
Colombo.