

# LOLC DEVELOPMENT FINANCE PLC FINANCIAL STATEMENTS

For The Period Ended 31<sup>st</sup> March 2021

INCOME STATEMENT - FOR THE YEAR ENDED 31ST MARCH		
	2021 Rs. '000 (Audited)	2020 Rs. '000 (Audited)
Interest income	4,437,824	4,236,776
Interest expense	(1,580,200)	(1,583,915)
<b>Net interest income</b>	<b>2,857,624</b>	<b>2,652,861</b>
Other operating income	291,895	274,706
<b>Total operating income</b>	<b>3,149,519</b>	<b>2,927,567</b>
<b>Impairment for loans and other losses</b>	-	-
Individual impairment	-	-
Collective impairment	(1,004,747)	(583,672)
<b>Net operating income</b>	<b>2,144,771</b>	<b>2,343,895</b>
Personnel expenses	(772,592)	(794,789)
Depreciation and amortization	(101,072)	(108,232)
Other expenses	(863,535)	(1,035,669)
<b>Operating profit before Value Added Tax (VAT) NBT and DRL</b>	<b>407,573</b>	<b>405,206</b>
VAT on financial services, NBT and DRL	(146,789)	(228,737)
<b>Profit before tax</b>	<b>260,784</b>	<b>176,469</b>
Tax expenses	(105,317)	(67,096)
<b>Profit for the year</b>	<b>155,467</b>	<b>109,373</b>
<b>Other comprehensive income ,net of tax</b>	-	-
Actuarial gains and losses on defined benefit plans	838	(7,368)
Net Change in fair value of available for sale finance assets	(4,215)	(1,160)
Income tax recognised in other comprehensive income	(201)	2,063
<b>Other comprehensive income for the period, net of taxes</b>	<b>(3,578)</b>	<b>(6,465)</b>
<b>Total comprehensive income for the period</b>	<b>151,888</b>	<b>102,907</b>
<b>Basic earnings per ordinary share (Rs.)</b>	<b>0.65</b>	<b>0.46</b>

Figures in brackets indicate deductions

STATEMENT OF FINANCIAL POSITION		
	As at 31.03.2021 (Audited)	As at 31.03.2020 (Audited)
<b>Assets</b>		
Cash and cash equivalents	224,926	194,123
Placements with banks	496,853	1,264,965
Securities purchased under resale agreements	501,063	296,065
Financial assets measured at fair value through other comprehensive income	240,026	659,192
Financial assets at amortised cost/ lease rental receivables and hire purchases	6,570,779	4,071,839
Financial assets at amortised cost/ loans and receivables	9,669,600	11,178,945
Amount due from related companies	6,157	5,614
Other receivables	543,508	369,634
Inventory	15,547	16,053
Deferred tax assets	22,667	3,021
Right to Use Asset	187,501	212,010
Investment properties	33,500	28,000
Property, plant and equipment	74,857	119,247
<b>Total assets</b>	<b>18,586,984</b>	<b>18,418,708</b>
<b>Liabilities</b>		
Due to banks	117,422	53,480
Financial liabilities at amortised cost/Due to customers	5,236,409	2,577,391
Interest bearing loans and borrowings	9,133,658	10,011,670
Current tax liabilities	195,091	91,367
Amounts due to related companies	492,983	2,649,566
Obligation on lease liability	211,930	227,287
Accrued charges and other payables	342,410	108,217
Employee benefits	43,252	37,789
<b>Total liabilities</b>	<b>15,773,155</b>	<b>15,756,767</b>
<b>Equity</b>		
Statutory reserve	1,493,088	1,493,088
Other reserves	112,374	108,826
Retained earnings	1,208,367	1,060,027
<b>Equity attributable to shareholders of the Company</b>	<b>2,813,829</b>	<b>2,661,941</b>
<b>Total equity and liabilities</b>	<b>18,586,984</b>	<b>18,418,708</b>
<b>Net assets value per ordinary share (Rs.)</b>	<b>11.83</b>	<b>11.19</b>

Figures in brackets indicate deductions

SELECTED PERFORMANCE INDICATORS		
Item	As at 31.03.2021	As at 31.03.2020
<b>Regulatory Capital Adequacy</b>		
Core Capital (Tier 1 Capital), RS.'000	2,818,419	2,662,316
Total Capital Base.Rs '000	2,997,658	2,840,354
Core Capital Adequacy Ratio,as % of Risk Weighted Assets (Minimum requirement,6.5%)	11.97%	11.23%
Total Capital Adequacy Ratio,as % of Risk Weighted Assets (Minimum requirement ,10.5%)	12.73%	11.98%
Capital Funds to Deposit Liabilities Ratio (Minimum requirement,10%)	53.73%	96.82%
<b>Assets Quality(Quality of Loan Portfolio)</b>		
Gross Non-Performing Accommodations,RS.'000	1,818,379	1,306,230
Gross Non-Performing Accommodations Ratio,%	10.27%	8.02%
Net-non performing Accommodations Ratio,%	2.25%	1.81%
Net-non performing loans to Core capital Ratio, %	12.96%	10.35%
Provision coverage Ratio, %	80.90%	78.86%
<b>Profitability(%)</b>		
Net Interest Margin	16.35%	18.90%
Return on Assets(before tax)	1.40%	0.68%
Return on Equity (after Tax)	5.53%	4.19%
Cost to Income Ratio	55.16%	66.22%
<b>Regulatory Liquidity (Rs. '000)</b>		
Required minimum amount of Liquid Assets	477,534	959,457
Available amount of Liquid Assets	938,334	1,051,486
Available Liquid Assets to Required Liquid Assets, % (Minimum 100%)	196.50%	91.25%
Liquid Assets to External Funds, %	6.53%	8.35%
Required minimum amount of Government Securities	658,754	858,390
Available amount of Government Securities	741,078	955,246
<b>Memorandum information</b>		
Number of employees	828	918
Number of branches	45	31
Number of service centers	19	35
External Credit Rating	A- (Stable)	A- (Stable)

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 31st March 2021, 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 in the financial statements.

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

##### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in 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 rental receivables on leases, hire purchases, loans and advances

(Refer to note 4.2.7 of significant accounting policies and explanatory notes 12, 23 and 24 to the financial statements).

##### Risk Description

As disclosed in Notes 23 and 24 to the financial statements, the Company has recorded impairment provision of Rs. 433 Mn relating to rental receivable on leases and hire purchases and Rs. 572 Mn relating to loans and advances for the year ended 31st March 2021.

The determination of provision for impairment allowances using the expected credit loss model is subject to number of key parameters, key assumptions and judgments, including the identification of loss stages, forward-looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgments over the use of data inputs required. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR).

Management judgement is involved in the selection of those parameters and the application of assumptions. Additionally, the COVID-19 pandemic has led the Company to use assumptions regarding the economic outlook becoming more uncertain which, combined with varying government responses, increases the level of judgements required by the Company in calculating the ECL.

Impairment of rental receivables on leases and hire purchases, loans and advances was considered to be a key audit matter owing to the significance of the amount, inherent uncertainty and management judgements involved in the estimation of the impairment provision.

Our audit procedures included:

- Evaluating the appropriateness of the accounting policies and methodology applied based on the requirements of SLFRS 9 with our business understanding and industry practices.
- Assessed the effectiveness of the set criteria for the identification of "risk elevated industries" and independently calculated the stages of loans based on the set criteria. In addition, we assessed the reasonableness of the approach related to COVID-19 payment relief customers (debt moratorium).
- Assessing the appropriateness of impairment provision by considering the estimation uncertainties by management pursuant to the COVID 19 outbreak in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model.
- Evaluating the appropriateness and testing the mathematical accuracy of the estimation of provision for impairment.
- Evaluating the completeness, accuracy and relevance of data used for the calculation of impairment provision.
- Assessing the adequacy and appropriateness of disclosures made in the financial statements with reference to the requirements of relevant accounting standards.

##### 2.IT systems and controls over financial reporting

##### Risk Description

The Company's key financial accounting and reporting processes are highly dependent on the automated controls over the Company's information systems. Automated accounting procedures and IT environment controls, which include IT governance, controls over programme development and changes, access to programmes and data and IT operations, are required to be designed and to operate effectively to ensure accurate financial reporting.

System calculations including interest calculations and interfaces between business management systems and accounting systems are the significant areas which could result in the financial records being materially misstated.

We identified IT systems and controls over financial reporting as a key audit matter because the Company's financial accounting and reporting systems are fundamentally reliant on complex IT systems and control processes which are driven by significant transaction volumes caused by the size of the customer base.

We used our KPMG IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included:

- assessing the design, implementation and operating effectiveness of key internal controls over the continued integrity of all major IT systems fundamental to dealing with the financial data, particularly financial reporting;
- examining the framework of governance over the Company's IT organisation and the controls over programme development and changes, access to programmes and data and IT operations, including compensating controls where required;
- evaluating the design, implementation and operating effectiveness of the significant accounts related IT process controls by assessing the operating effectiveness of IT application controls, assessing the operating effectiveness of certain automated controls and system calculations which are relevant to the Company's compliance activities;
- assessing the availability and stability of key operating systems, taking into consideration the rapid development of business types and transactions volumes as well as IT projects that have a significant impact on business continuity;
- testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access rights;
- testing preventative controls designed to enforce segregation of duties between users within particular systems.

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

##### 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 auditors' report.

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

##### 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, 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 3029.

Chartered Accountants  
Colombo, Sri Lanka  
28th June 2021

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Principals - S.R.J. Perera FGA(UK), LLB, Attorney-at-Law, H.S. Goonewardena ACA

We, the undersigned, being the Director/Chief Executive Officer, Head of finance and the Compliance Officer 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 audited financial statements of the Licensed Finance Company.

(sgd) (sgd)

28 June 2021 Mr. Rohana Kumara Mr. Gayan Herath  
Colombo. Director/Chief Executive Officer Senior Manager - Finance/  
Compliance Officer

### LOLC DEVELOPMENT FINANCE PLC

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