

LOLC DEVELOPMENT FINANCE PLC FINANCIAL STATEMENTS

For The Period Ended 31st March 2022

INCOME STATEMENT - FOR THE YEAR ENDED 31ST MARCH

	2022 Rs. '000 (Audited)	2021 Rs. '000 (Audited)
Interest income	5,168,886	4,437,824
Interest expense	(1,383,061)	(1,580,200)
Net interest income	3,785,824	2,857,624
Other operating income	424,988	291,895
Total operating income	4,210,812	3,149,519
Impairment for loans and other losses		
Individual impairment	-	-
Collective impairment	(1,443,668)	(1,004,747)
Net operating income	2,767,145	2,144,771
Personnel expenses	(846,606)	(772,592)
Depreciation and amortization	(98,730)	(101,072)
Other expenses	(1,043,872)	(863,535)
Operating profit before Value Added Tax (VAT) NBT and DRL	777,935	407,573
VAT on financial services, NBT and DRL	(215,681)	(146,789)
Profit before tax	562,254	260,784
Tax expenses	(173,864)	(105,317)
Profit for the year	388,391	155,467
Other comprehensive income, net of tax		
Actuarial gains and losses on defined benefit obligation	(3,511)	838
Deferred tax impact on other comprehensive income	843	(201)
Net change in revaluation surplus of property, plant & equipment	9,838	-
Deferred tax impact on revaluation surplus	(2,361)	-
Net gains/(losses) on investments in financial assets at fair value through other comprehensive income	(50,897)	(4,215)
Other comprehensive income for the period, net of taxes	(46,089)	(3,579)
Total comprehensive income for the period	342,302	151,888
Basic earnings per ordinary share (Rs.)	1.63	0.65

Figures in brackets indicate deductions

STATEMENT OF FINANCIAL POSITION

	As at 31.03.2022 (Audited)	As at 31.03.2021 (Audited)
Assets		
Cash and cash equivalents	252,360	224,926
Placements with banks	-	496,853
Securities purchased under resale agreements	401,036	501,063
Financial assets measured at fair value through other comprehensive income/ financial investments - Available for sale	734,585	240,026
Financial assets at amortised cost/ lease rental receivables and hire purchases	11,637,826	6,570,779
Financial assets at amortised cost/ loans and receivables	7,692,920	9,669,600
Amount due from related companies	8,096	6,157
Other receivables	809,888	543,508
Inventory	10,532	15,547
Deferred tax assets	43,342	22,667
Right to Use Asset	200,335	187,501
Investment properties	40,000	33,500
Property, plant and equipment	91,983	74,857
Total assets	21,922,901	18,586,984
Liabilities		
Due to banks	212,412	117,422
Financial liabilities at amortised cost/Due to customers	7,028,728	5,236,409
Interest bearing loans and borrowings	10,193,174	9,133,658
Current tax liabilities	227,723	195,091
Amounts due to related companies	425,782	492,983
Obligation on lease liability	231,894	211,930
Accrued charges and other payables	393,054	342,409
Employee benefits	54,003	43,252
Total liabilities	18,766,770	15,773,155
Equity		
Stated capital	1,493,088	1,493,088
Other reserves	88,373	112,374
Retained earnings	1,574,670	1,208,367
Equity attributable to shareholders of the Company	3,156,131	2,813,829
Total equity and liabilities	21,922,901	18,586,984
Net assets value per ordinary share (Rs.)	13.26	11.83

Figures in brackets indicate deductions

SELECTED PERFORMANCE INDICATORS

Item	As at 31.03.2022	As at 31.03.2021
Regulatory Capital Adequacy		
Core Capital (Tier 1 Capital), RS.'000	3,148,800	2,818,419
Total Capital Base, Rs.'000	3,391,428	2,997,658
Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum requirement 7%)	11.53%	11.97%
Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum requirement 11%)	12.42%	12.73%
Capital Funds to Deposit Liabilities Ratio (Minimum requirement 10%)	44.90%	53.73%
Assets Quality(Quality of Loan Portfolio)		
Gross Non-Performing Accommodations, Rs.'000	2,946,962	1,818,379
Gross Non-Performing Accommodations Ratio, %	13.58%	10.27%
Net-non performing Accommodations Ratio, %	3.17%	2.25%
Net-non performing loans to Core capital Ratio, %	19.44%	12.96%
Provision coverage Ratio, %	80.52%	80.90%
Profitability(%)		
Net Interest Margin	19.95%	16.35%
Return on Assets(before tax)	2.56%	1.40%
Return on Equity (after Tax)	12.31%	5.53%
Cost to Income Ratio	47.24%	55.16%
Regulatory Liquidity (Rs. '000)		
Required minimum amount of Liquid Assets	957,937	477,534
Available amount of Liquid Assets	1,351,971	938,334
Available Liquid Assets to Required Liquid Assets, (Minimum 100%)	141.13%	196.50%
Liquid Assets to External Funds,	7.85%	6.53%
Required minimum amount of Government Securities	1,108,918	658,754
Available amount of Government Securities	1,135,621	741,078
Memorandum information		
Number of employees	841	828
Number of branches	64	45
Number of service centers	-	14
External Credit Rating	A- (Stable)	A- (Stable)



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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 2022, 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 on pages 6 to 70 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (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. Allowance for impairment of rental receivables on leases, 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 allowance for impairment losses of Rs. 96 Mn relating to rental receivable on leases and Rs. 1,348 Mn relating to loans and advances for the year ended 31st March 2022.

The determination of allowance for impairment losses 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 prevailing uncertain and volatile macro-economic environment in the country 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.

Allowance for 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.
- Assessing the appropriateness of impairment provision by considering the estimation uncertainties by management pursuant to the prevailing uncertain economic crisis 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.

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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 present 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
29th June 2022

M.R. Mithul FCA	P.Y.S. Perera FCA	C.P. Jayatilaka FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	V.K.D.C. Abeyaratne FCA	S.T.D.L. Perera FCA
G.A.U. Kanararatne FCA	R.M.D.B. Rajagasinghe FCA	Ms. B.K.D.T.M. Rodrigo FCA
R.H. Rajan FCA	M.N.M. Shamsel ACA	Ms. C.T.K.N. Perera ACA
Principals - S.R.J. Perera FCMA(UK), LL.B. Attorney-at-Law, H.S. Goonewardene ACA		

We, the undersigned, being the Director/Chief Executive Officer, Senior Manager - 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.

29 June 2022
Colombo.

(sgd)
Mr. Rohana Kumara
Director/Chief Executive Officer

(sgd)
Mr. Gayan Herath
Senior Manager - Finance/
Compliance Officer

LOLC DEVELOPMENT FINANCE PLC

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