LOLC DEVELOPMENT FINANCE PLC

FINANCIAL STATEMENTS

LOLC DEVELOPMENT FINANCE

For The Year Ended 31st March 2020

INCOME STATEMENT - FOR THE YEAR ENDED 31st MARCH

	2020 Rs. '000	2019 Rs. '000
Interest income	4,236,776	4,088,552
Interest expense	(1,583,915)	(1,338,866)
Net interest income	**2,652,861**	**2,749,686**
Other operating income	274,705	181,549
Total operating income	**2,927,566**	**2,931,235**
Impairment for loans and other losses		
Individual impairment	-	-
Collective impairment	(583,672)	(895,633)
Net operating income	**2,343,895**	**2,035,601**
Personnel expenses	(794,789)	(908,092)
Depreciation and amortization	(108,232)	(63,721)
Other expenses	(1,035,668)	(1,097,598)
Operating profit before Value Added Tax (VAT) NBT and DRL	**405,205**	**(33,810)**
VAT on financial services, NBT and DRL	(228,737)	105,785
Profit before tax	176,469	(139,595)
Tax expenses	(67,096)	(14,025)
Profit for the year	**109,373**	**(153,620)**
Other comprehensive income ,net of tax		
Actuarial gains and losses on defined benefit plans	(7,368)	14,959
Net Gains / Losses on investment in financial assets at fair value through other comprehensive income	(1,160)	(23,685)
Income tax recognised in other comprehensive income	2,063	(4,188)
Other comprehensive income for the period, net of taxes	**(6,465)**	**(12,915)**
Total comprehensive income for the period	**102,907**	**(166,535)**
Basic earnings per ordinary share (Rs.)	**0.46**	**(0.65)**

Figures in brackets indicate deductions

STATEMENT OF FINANCIAL POSITION

	As at 31.03.2020 Rs. '000	As at 31.03.2019 Rs. '000
Assets		
Cash and cash equivalents	194,123	177,521
Placements with banks	1,264,965	1,217,996
Securities purchased under resale agreements	296,065	363,213
Financial assets measured at fair value through other comprehensive income	659,192	557,968
Financial assets at amortised cost/ lease rental receivables and hire purchases	4,071,839	1,664,525
Financial assets at amortised cost/ loans and receivables	11,178,945	9,491,310
Amount due from related companies	5,614	5,094
Other receivables	369,634	201,475
Inventory	16,053	12,386
Deferred tax assets	3,021	-
Right to Use Asset	212,010	-
Investment properties	28,000	-
Property, plant and equipment	119,247	147,740
Total assets	**18,418,707**	**13,839,228**
Liabilities		
Due to banks	53,480	94,669
Financial liabilities at amortised cost/Due to customers	2,577,391	2,900,340
Interest bearing loans and borrowings	10,011,670	7,985,523
Current tax liabilities	91,367	27,700
Amounts due to related companies	2,649,566	52,742
Obiligation on lease liability	227,287	-
Accrued charges and other payables	108,217	189,864
Employee benefits	37,789	23,973
Deferred tax liabilities	-	5,384
Total liabilities	**15,756,766**	**11,280,195**
Equity		
Stated capital	1,493,088	1,493,088
Other reserves	108,826	104,518
Retained earnings	1,060,027	961,428
Equity attributable to shareholders of the Company	**2,661,941**	**2,559,033**
Total equity and liabilities	**18,418,707**	**13,839,228**
Net assets value per ordinary share (Rs.)	**11.19**	**10.75**

KPMG

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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 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.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31st 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 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.

Impairment of rental receivables on leases and hire purchases, loans and advances

Risk Description

The Company has recorded impairment provision of Rs. 310 Mn relating to rental receivable on leases and hire purchases and Rs. 719 Mn relating to loans and advances as at 31st March 2020.

The determination of provision for impairment allowances using the expected credit loss model is subject to a 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. In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Companies internal credit risk management strategy. Management judgement is involved in the selection of those parameters and the application of assumptions. Additionally, the COVID-19 outbreak increases the credit risk and significantly affects the macro economic forecasts and key assumptions and judgment referred to above.

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 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.
- Assessing the appropriateness of 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. In particular, we challenged management's assessment of the likelihood of a server economic downturn caused by the COVID-19 at the reporting date with reference to the reasonable and supportable information available to management at that date.
- 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 and transition adjustments.
- Evaluating the appropriateness of disclosures made in the financial statements with reference to the requirements of SLFRS 9.

Management's assessment of the Company's ability to continue as going concern

The financial statements have been prepared on a going concern basis. In adopting the going concern basis of preparation of the financial statements, the directors have reviewed the Company's cash flow projections for the next 12 months, prepared by the management. Following the spread of global pandemic COVID 19 in the country, the Company was facing implications including, temporary restrictions in the level of business operations and may have potential implications due to delays in settlements and credit risk.

The Financial Statements describes the impact of COVID-19 outbreak to the current year financial statements and the preliminary assessment carried out by the Board of Directors on the potential future implications of COVID-19 outbreak on the Company's future prospects, performance and liquidity.

We identified the assessment of going concern as a key audit matter because the management's assessment referred to above involves consideration of future events and circumstances which are inherently uncertain, and effect of those uncertainties may significantly impact the resulting accounting estimates. Therefore, the assessment requires the exercise of significant management judgement in assessing future cash inflows and outflows which could be subject to potential management bias.

Our audit procedures included;

- Obtaining the Company's cash flow projections covering a period of not less than twelve months from the reporting period end date and challenging those key assumptions used in preparing the projections.
- Evaluating the sensitivity of the projected available cash by considering downside scenarios together with reasonably plausible changes to the key assumptions and considering whether there were any indicators of management bias in the selection of the assumptions.
- Inspecting the availability of credit facility arrangements for the Company's and assessing the implication of these on the Company's liquidity;
- Assessing disclosures in the financial statements in relation to the going concern basis of accounting with reference to the requirements of the prevailing accounting standards.

IT systems and controls over financial reporting

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 own 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 require
- 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 businesses 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 right
- testing preventative controls designed to enforce segregation of duties between users within particular systems

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.

KPMG
Chartered Accountants
Colombo, Sri Lanka
30th June 2020

SELECTED PERFORMANCE INDICATORS

Item	As at 31.03.2020	As at 31.03.2019
Regulatory Capital Adequacy		
Core Capital (Tier 1 Capital), RS.'000	2,662,315	2,558,248
Total Capital Base.Rs '000	2,840,353	2,735,544
Core Capital Adequacy Ratio,as % of Risk Weighted Assets	11.23%	14.18%
(Minimum requirement ,5%)		
Total Capital Adequacy Ratio,as % of Risk Weighted Assets	11.98%	15.16%
(Minimum requirement ,10.5%)		
Capital Funds to Deposit Liabilities Ratio	96.82%	88.23%
(Minimum requirement,10%)		
Assets Quality(Quality of Loan Portfolio)		
Gross Non-Performing Accommodations,Rs.'000	1,306,230	901,193
Gross Non-Performing Accommodations Ratio,%	8.02%	7.44%
Net-non performing Accommodations Ratio,%	1.81%	0%
Profitability(%)	18.90%	20.72%
Interest Margin	0.68%	-1.01%
Return on Assets(before tax)	4.19%	-6.00%
Return on Equity (after Tax)		
Regulatory Liquidity (Rs. '000)		
Required minimum amount of Liquid Assets	959,457	640,700
Available amount of Liquid Assets	1,051,486	1,131,796
Required minimum amount of Government Securities	858,390	906,733
Available amount of Government Securities	955,246	921,170
Memorandum information		
Number of employees	918	958
Number of branches	31	16
Number of service centres	35	60

We,the undersigned,being the Chief Executive Officer and Head of finance of LOLC Development Finance PLC certify jointly that:

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

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

LOLC DEVELOPMENT FINANCE PLC
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30 June 2020
Colombo.

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

(sgd)
(Mr) Gayan Herath
Assistant Manager - Finance