

LOLC Finance PLC

FINANCIAL STATEMENTS



For The Year Ended 31st March 2023

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 March	
	31 Mar 2023 (Audited) Rs '000	31 Mar 2022 (Audited) Rs '000
Interest income	69,027,129	30,569,863
Interest expense	(36,124,596)	(8,979,992)
Net interest income	32,902,533	21,589,871
Net other operating income	12,767,703	11,522,272
Total Income	45,670,236	33,112,143
Operating Expenses		
Direct expenses excluding interest cost	(879,932)	(863,534)
Personnel expenses	(6,057,681)	(3,564,803)
Directors' emoluments	(38,365)	(40,914)
Depreciation	(734,220)	(207,248)
General & administration expenses	(11,250,859)	(5,863,750)
Profit from operations before provision for taxation and possible losses	26,709,178	22,571,894
Allowance for impairment & write-offs	(6,396,890)	(2,991,760)
Operating profit after provision for possible losses	20,312,288	19,580,135
Taxes on financial services	(4,023,911)	(1,837,501)
Profit from operating activities	16,288,378	17,742,634
Share of profit / (loss) of equity accounted investee	(895,111)	-
Profit before income tax expense	15,393,267	17,742,634
Income tax (expense) / reversal	-	(792,048)
Profit after taxation	15,393,267	16,950,585
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Remeasurements of defined benefit liability - gain / (loss)	51,711	24,422
Related tax	(28,785)	(5,861)
	22,926	18,561
Revaluation gain on property, plant and equipment	-	1,495,420
Related tax	(258,444)	(318,626)
	(258,444)	1,176,794
Movement in fair value (Equity investments at FVOCI)	12,376	95,307
Related tax	-	-
	12,376	95,307
Total of items that will never be reclassified to profit or loss	(223,142)	1,290,662
Items that are or may be reclassified to profit or loss		
Movement in fair value through OCI reserve	175,481	-
Related tax	3,019	-
	178,499	-
Movement in hedge reserve	155,895	(119,317)
Related tax	(31,179)	8,007
	124,716	(111,309)
Total of items that are or may be reclassified to profit or loss	303,215	(111,309)
Total other comprehensive income, net of tax	80,074	1,179,353
Total comprehensive income for the year	15,473,340	18,129,938
Basic earnings per share	0.72	3.23

Figures in brackets indicate deductions

STATEMENT OF FINANCIAL POSITION

As at	31 Mar 2023 (Audited) Rs '000	31 Mar 2022 (Audited) Rs '000
ASSETS		
Cash and bank balances	16,484,822	12,282,960
Deposits with banks and other financial institutions	2,493,925	8,885,611
Investment in government securities and others	31,452,712	23,841,483
Derivative financial instruments	64,428	3,450,266
Financial assets at amortised cost :		
Rentals receivable on leased assets	62,066,670	56,960,215
Loans and advances	184,501,588	149,849,871
Investment securities	4,732,581	6,288,566
Investment in associate	564,085	1,833,661
Amount due from related companies	57,161	47,382
Other receivables	5,477,987	1,084,330
Inventories	146,135	428,032
Investment properties	41,252,661	38,287,958
Property plant and equipment	11,552,982	8,326,735
Total Assets	360,847,738	311,567,068
LIABILITIES		
Bank overdraft	8,783,895	5,675,768
Interest bearing borrowings	31,429,414	44,309,903
Deposits from customers	201,270,901	159,252,382
Trade payables	258,736	1,141,928
Accruals and other payables	10,890,336	7,835,593
Derivative financial instruments	11,635	13,176
Amount due to related companies	1,069,238	3,719,368
Current tax payable	2,681,710	2,525,556
Deferred tax liability	2,990,837	2,974,781
Employee benefits	652,807	565,709
Total Liabilities	260,039,510	228,014,165
SHAREHOLDERS' FUNDS		
Stated capital	306,993,806	211,581,448
Statutory reserve	5,213,771	4,444,108
Revaluation reserve	1,247,188	1,505,632
Cash flow hedge reserve	41,014	(83,702)
Fair value through OCI reserve	331,629	140,753
Regulatory loss allowance reserve	3,233,928	-
Merger reserve	(262,914,890)	(169,284,517)
Retained earnings	46,661,781	35,249,180
Total equity	100,808,228	83,552,903
Total liabilities and equity	360,847,738	311,567,068
Commitments and Contingencies	31,665,622	22,863,999
Net asset value per share	3.05	4.34

Figures in brackets indicate deductions

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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
eysi@lk.ey.com
ey.com

APAG/WDPL/TP
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 2023, and the statement of profit or loss and 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 31 March 2023, 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 (SLAUS). 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 our 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.

Key areas of significant judgment, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following:

- Management overlays to incorporate the current economic condition.
- The incorporation of forward-looking information such that expected cashflows reflect current and anticipated future external factors evaluated under different economic scenarios and the probability weighting determined for each of these scenarios.

Key areas of significant judgment, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following:

- We assessed the alignment of the Company's provision for credit impairment with the underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report.
- We evaluated the internal controls over estimation of credit impairment, which included assessing the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management.
- We checked the completeness, accuracy and classification of the credit impairment provision with particular focus on current economic condition. Such evaluations were carried out by agreeing details to relevant source documents and accounting records of the Company.
- In addition to the above, following procedures were performed:
 - For Lease receivables, Loans & advances assessed on an individual basis for impairment:
 - We evaluated the reasonableness of credit quality assessment.
 - We checked the arithmetical accuracy of the underlying individual impairment calculations.
 - We evaluated the reasonableness of key inputs used in provision for credit impairment including the management's estimates of future cashflows, debt maturities, status of recovery actions of collateral in forecasting the value and timing of cashflows.
 - For Lease receivables, Loans & advances assessed on a collective basis for impairment:
 - We tested key inputs as disclosed in note 2.2.4 and the calculations used in the provision for credit impairment.
 - We assessed whether judgments used in assumptions and estimates made by the management when estimating future cashflows, in the underlying methodology and management overlays were reasonable for assessment included portfolio segmentation, elevated risk industries, evaluating the reasonableness of forward-looking information, different economic scenarios and probability weighting assigned to each of those scenarios.
 - We assessed the adequacy of the related financial statement disclosures set out in notes 6 & 7.

Key audit matter

Information Technology (IT) systems and internal controls over financial reporting

Company's financial reporting process is significantly reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets.

Accordingly, IT systems and related internal controls over financial reporting were considered a key audit matter.

Our audit procedures included the following:

- We obtained an understanding of the internal control environment of the processes and checked relevant controls relating to financial reporting and related disclosures.
- We involved our internal specialised resources to check and evaluate the design and operating effectiveness of IT systems and related controls, including those related to user access and change management.
- We also obtained a high-level understanding, primarily through inquiry, of the cyber-security risks affecting the company and the actions taken to address these risks.
- We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of general ledger reconciliations.

Key audit matter

How our audit addressed the key audit matter

Provision for credit impairment on financial assets carried at amortised cost

In addressing the adequacy of the provision for credit impairment on financial assets carried at amortised cost, our audit procedures included the following key procedures:

As at 31 March 2023, provision for credit impairment on financial assets carried at amortised cost net of impairment allowances amounted to LKR 247.8m and is disclosed in notes 6 & 7.

This was a key audit matter due to the materiality of the reported provision for credit impairment which involved complex calculations, degree of judgments, significance of assumptions and level of estimation uncertainty associated with estimating future cashflows management expects to receive from such financial assets.

Our audit procedures included the following:

- We assessed the alignment of the Company's provision for credit impairment with the underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report.
- We evaluated the internal controls over estimation of credit impairment, which included assessing the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management.
- We checked the completeness, accuracy and classification of the credit impairment provision with particular focus on current economic condition. Such evaluations were carried out by agreeing details to relevant source documents and accounting records of the Company.
- In addition to the above, following procedures were performed:
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 - We assessed whether judgments used in assumptions and estimates made by the management when estimating future cashflows, in the underlying methodology and management overlays were reasonable for assessment included portfolio segmentation, elevated risk industries, evaluating the reasonableness of forward-looking information, different economic scenarios and probability weighting assigned to each of those scenarios.
 - We assessed the adequacy of the related financial statement disclosures set out in notes 6 & 7.

Key audit matter

Information Technology (IT) systems and internal controls over financial reporting

Our audit procedures included the following:

- We obtained an understanding of the internal control environment of the processes and checked relevant controls relating to financial reporting and related disclosures.
- We involved our internal specialised resources to check and evaluate the design and operating effectiveness of IT systems and related controls, including those related to user access and change management.
- We also obtained a high-level understanding, primarily through inquiry, of the cyber-security risks affecting the company and the actions taken to address these risks.
- We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of general ledger reconciliations.

Other information included in the Company's 2023 Annual Report

Other information consists of the information included in the Company's 2023 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2023 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 objective is 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 SLAUS 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 SLAUS, 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 1697.

29 June 2023
Colombo

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R I Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H I Fonseka FCA, D N Gunaraja ACA ACMA, A P A Gunawardena FCA FCMA, A Herath FCA FCMA, D K Hulangimawwa FCA FCMA LLB (London), Ms. G S Manjuringa FCA, A A J R Perera ACA ACMA, Ms. P V K S Rajawansa FCA FCMA, N M Sulaيمان ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons) MIS MS-IT, G B Goudfard ACMA, D L B Karunathilaka ACMA, Ms. P S Paranasivane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCA

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SELECTED PERFORMANCE INDICATORS

Item	31 Mar 2023		31 Mar 2022	
	Actual	Required	Actual	Required
Regulatory Capital Adequacy (%)				
Tier 1 Capital Adequacy Ratio	21.20%	10.00%	20.49%	8.00%
Total Capital Adequacy Ratio	21.71%	14.00%	20.71%	12.00%
Capital Ratio to Deposit Liabilities Ratio	38.01%	10.00%	41.23%	10.00%
Assets Quality (Quality of Loan Portfolio) (%)				
Gross Non-Performing Loans Ratio	14.58%		6.69%	
Net Non-Performing Loans Ratio	9.65%		2.30%	
Net Non-Performing Loans to Core Capital Ratio	32.71%		8.00%	
Provision Coverage Ratio	31.65%		65.59%	
Profitability (%)				
Net Interest Margin	12.68%		13.13%	
Return on Assets (before tax)	3.83%		9.24%	
Return on Equity (after Tax)	14.29%		33.62%	
Cost to Income ratio	43.55%		31.83%	
Liquidity (%)				
Available Liquid Assets to required liquid assets (Minimum 100%)	127.64%		180.19%	
Liquid Assets to external funds	12.26%		18.82%	
Memorandum information				
Number of branches	265		220	
External Credit rating	(SL) A (Stable outlook)		(SL) A (Stable outlook)	
Regulatory penalties imposed last 6 months				
Amount (Rs.Mn)	-		-	
Regulatory Deposit Restrictions				
Cap on total deposits (Rs. Mn)	-		-	
Downsizing of deposits - per month / quarter / year (Rs. Mn)	-		-	
Freezing of deposits	-		-	
Regulatory Borrowing Restrictions				
Cap on total borrowings (Rs. Mn)	-		-	
Downsizing of borrowings-per month/ quarter/ year (Rs. Mn)	-		-	
Freezing of borrowings	-		-	
Regulatory Lending Restrictions				
Cap on total lending portfolio (Rs. Mn)	-		-	
Downsizing of lending portfolio-per month/ quarter/ year (Rs. Mn)	-		-	
Restriction on granting new credit facilities and/or extending the terms of existing credit facilities	-		-	
Any Other Regulatory Restrictions				
Please specify	-		-	

Note: Selected key performance indicators, basic earnings per share and net asset value per share, for the current financial year have been calculated based on the performance of the combined entity.

Lanka Rating Agency assigned the company and issuer rating of [SL]A (Stable outlook).

CERTIFICATION :

We, the undersigned, being the Chief Executive Officer, the Head of Finance and the Compliance Officer of LOLC 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 (CBSL)

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

(sgd)	(sgd)	(sgd)
Mr. Krishan Thilakarathne Director /CEO	Mr. Buddhika Weerataunga Head of Finance	Mr. Jithendra Gunatilleka Compliance Officer

29 June-2023
Rajagiriya (Greater Colombo)

LOLC Finance PLC

No. 100/1 Sri Jayawardenepura Mawatha, Rajagiriya, Sri Lanka.

Tel: 011 5715555 Fax: 011 2865606 E-mail: info@lolcfinance.com Web: www.lolcfinance.com