

LOLC Finance PLC FINANCIAL STATEMENTS



For The Year Ended 31st March 2024

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 March	
	31 Mar 2024 (Audited) Rs '000	31 Mar 2023 (Audited) Rs '000
Interest income	75,005,901	69,039,674
Interest expense	(37,019,230)	(36,124,596)
Net interest income	37,986,671	32,915,079
Net other operating income	13,460,940	9,982,265
Total Income	51,447,612	42,897,344
Operating Expenses		
Direct expenses excluding interest cost	(1,020,318)	(879,932)
Personnel expenses	(6,886,450)	(6,057,681)
Directors' emoluments	(20,654)	(38,365)
Depreciation	(1,186,106)	(734,220)
General & administration expenses	(12,698,002)	(11,250,859)
Profit from operations before provision for taxation and possible losses	29,636,082	23,936,286
Allowance for impairment & write-offs	(4,656,710)	(3,623,998)
Operating profit after provision for possible losses	24,979,372	20,312,288
Value added tax on financial services	(3,465,810)	(4,023,911)
Profit from operating activities	21,513,562	16,288,378
Share of profit / (loss) of equity accounted investee	33,934	(895,111)
Profit before income tax expense	21,547,495	15,393,267
Income tax (expense) / reversal	-	-
Profit after taxation	21,547,495	15,393,267
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Remeasurements of defined benefit liability - gain / (loss)	27,396	51,711
Related tax	(8,219)	(28,785)
	19,177	22,926
Revaluation gain on property, plant and equipment	-	-
Related tax	-	(258,444)
	-	(258,444)
Movement in fair value (Equity investments at FVOCI)	(29,429)	12,376
Related tax	-	-
	(29,429)	12,376
Total of items that will never be reclassified to profit or loss	(10,252)	(223,142)
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
Related tax	-	(31,179)
	-	124,716
Total of items that are or may be reclassified to profit or loss	-	303,215
Total other comprehensive income, net of tax	(10,252)	80,074
Total comprehensive income for the year	21,537,243	15,473,340
Basic earnings per share	0.65	0.72

Figures in brackets indicate deductions



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PNS/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 statements of financial position as at 31 March 2024, statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2024, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

Key audit matter	How our audit addressed the key audit matter
Allowances for Expected Credit Losses of Financial Assets Allowances for expected credit losses of financial assets arising from loans and advances of LKR 250Bn (Note 6 & 7) is determined by the management based on the accounting policies described in Note 2.2.10. This was a key audit matter due to: • The involvement of significant management judgements, assumptions and level of estimation uncertainty associated in management's expectation of future cash flows to recover such financial assets; and • The materiality of the reported amount of allowance of expected credit losses and use of complex calculations in its determination. Key areas of significant judgements, assumptions and estimates used by management included: assumed future occurrence of events and/or transactions and forward-looking macroeconomic scenarios and their associated weightings, which are subject to inherently heightened level of estimation uncertainty.	In addressing the adequacy of the allowances for expected credit losses of financial assets, our audit procedures included the following key procedures: • Assessed the alignment of the Company's allowances for expected credit losses computations and underlying methodology including responses to economic conditions with its accounting policies, based on the best available information up to the date of our report. • Evaluated the design, implementation and operating effectiveness of controls over estimation of expected credit losses, which included assessing the level of oversight, review and approval of allowances for expected credit losses, policies and procedures by the Board and the management. • Checked the completeness, accuracy and reasonableness of the underlying data used in the expected credit loss computations by cross checking to relevant source documents and accounting records of the Company. • Evaluated the reasonableness of credit quality assessments and related stage classifications. • Assessed the reasonableness of the judgements, assumptions and estimates used by the Management in assumed future occurrence of events and/or transactions including the value and the timing of cash flow forecasts, status of recovery actions of the collateral, forward-looking macroeconomic scenarios and their associated weightings. • Assessed the adequacy of the related financial statement disclosures set out in notes 6 & 7.
Information Technology (IT) systems related internal controls over financial reporting Company's financial reporting process is significantly reliant on multiple IT systems and related 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 related internal controls over financial reporting were considered a key audit matter.	Our audit procedures included the following key procedures: • Obtained an understanding of the internal control environment of the relevant significant processes and tested key controls relating to financial reporting and related disclosures. • Involved our internal specialized resources and: - Obtained and understood IT Governance Structure of the Company - Identified, evaluated and tested the design and operating effectiveness of IT systems related internal controls over financial reporting, relating to user access and change management. - Obtained a high-level understanding of the cybersecurity risks relevant to the Company and the actions taken to address these risks primarily through inquiries related to processes and controls implemented to address cyber security risks. • Tested source data of the reports used to generate disclosures for accuracy and completeness.
Assessment of fair value of land and buildings in Investment Properties Investment Properties include land and buildings carried at fair value. The fair value of land and buildings were determined by external valuers engaged by the Company. This was a key audit matter due to: • The materiality of the reported fair value of land and buildings which amounted to Rs. 4B of the reporting 13% of the Company's total assets as of the reporting date; and • The degree of assumptions, judgements and estimation uncertainties associated with fair valuation of land and buildings using the market approach. Key areas of significant judgements, estimates and assumptions used in assessing the fair value of land and buildings, as disclosed in Notes 2.4 and 12 to the financial statements, included judgements involved in ascertaining the appropriate valuation techniques and estimates such as: - Estimate of per perch value of the land - Estimate of the per square foot value of the buildings	Our audit procedures included the following key procedures: • Assessed the competence, capability and objectivity of the external valuers engaged by the Company. • Read the external valuer's report and understood the key estimates made and the valuation approaches taken by the valuer in determining the valuation of each property. • Assessed the reasonableness of significant assumptions, judgements and estimates made by the valuer such as per perch value and per square foot value as relevant in assessing the fair value of each property. We also assessed the adequacy of the disclosures made in notes 2.4 and 12 to the financial statements.

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Partners: D K Hulangamuwa FCA FCMA LLB (London), A P A Gunasekera FCA FCMA, Ms. Y A De Silva FCA, Ms. G G S Manatunga FCA, W K B S P Fernando FCA FCMA, B E Wijesuriya FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, N M Sulaiman ACA ACMA, Ms. L K H Fonseka FCA, Ms. P V K N Sajewani FCA, A J R Perera FCA ACMA, N Y R L Fernando ACA, D N Gamage ACA ACMA, C A Yalagala ACA ACMA

Principals: T P M Ruberu FCMA FCA MBA (USJ-SL), G B Goudian ACA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), D L B Karunathilaka ACA, W S J De Silva BSc (Hons) - MIS Msc - IT, V Shakhthivel B.Com (Sp)

A member firm of Ernst & Young Global Limited

Other information included in the Company's 2024 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2024 annual report, but does not include the financial statements and our auditor's report thereon. The Company's 2024 annual report is expected to be made available 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 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 SLAAS 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 SLAAS, we exercise professional judgment and maintain professional scepticism 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 internal controls of the Company.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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 relevant ethical requirements 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, actions taken to eliminate threats or safeguards applied.

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 2965.

27 June 2024
Colombo

STATEMENT OF FINANCIAL POSITION

As at	31 Mar 2024 (Audited) Rs '000	31 Mar 2023 (Audited) Rs '000
ASSETS		
Cash and bank balances	11,486,914	16,484,822
Deposits with banks and other financial institutions	4,060,475	2,493,925
Investment in government securities and others	30,079,990	31,452,712
Derivative financial instruments	-	64,428
Financial assets at amortised cost :		
Rentals receivable on leased assets	61,348,491	62,066,670
Loans and advances	188,293,271	184,501,588
Investment securities	17,723,177	4,732,581
Investment in associate	249,943	564,085
Amount due from related companies	111,146	57,161
Other receivables	3,403,197	5,477,987
Inventories	39,664	146,135
Investment properties	48,313,343	41,252,661
Property plant and equipment	12,362,617	11,552,982
Total Assets	377,472,229	360,847,738
LIABILITIES		
Bank overdraft	5,017,647	8,783,895
Interest bearing borrowings	20,912,613	31,429,414
Deposits from customers	206,368,226	201,270,901
Trade payables	102,869	258,736
Accruals and other payables	16,001,594	10,890,336
Derivative financial instruments	-	11,635
Amount due to related companies	332,082	1,069,238
Current tax payable	2,681,710	2,681,710
Deferred tax liability	2,999,055	2,990,837
Employee benefits	710,961	652,807
Total Liabilities	255,126,758	260,039,510
SHAREHOLDERS' FUNDS		
Stated capital	306,993,806	306,993,806
Statutory reserve	6,291,146	5,213,771
Revaluation reserve	1,247,188	1,247,188
Cash flow hedge reserve	41,014	41,014
Fair value through OCI reserve	302,200	331,629
Regulatory loss allowance reserve	6,816,124	3,231,500
Merger reserve	(262,914,890)	(262,914,890)
Retained earnings	63,568,884	46,664,209
Total equity	122,345,471	100,808,228
Total liabilities and equity	377,472,229	360,847,738
Commitments and Contingencies	30,512,446	31,665,622
Net asset value per share	3.70	3.05

Figures in brackets indicate deductions

SELECTED PERFORMANCE INDICATORS

Item	31 Mar 2024		31 Mar 2023	
	Actual	Required	Actual	Required
Regulatory Capital Adequacy (%)				
Tier 1 Capital Adequacy Ratio	23.01%	10.00%	21.20%	10.00%
Total Capital Adequacy Ratio	23.00%	14.00%	21.71%	14.00%
Capital Funds to Deposit Liabilities Ratio	42.17%	10.00%	38.01%	10.00%
Assets Quality (Quality of Loan Portfolio) (%)				
Gross Non-Performing Loans Ratio	13.86%	-	14.58%	-
Net Non-Performing Loans Ratio	10.48%	-	9.65%	-
Net Non-Performing Loans to Core Capital Ratio	31.12%	-	32.71%	-
Provision Coverage Ratio	24.38%	-	31.65%	-
Profitability(%)				
Net Interest Margin	12.99%	-	12.68%	-
Return on Assets (before tax)	5.84%	-	3.83%	-
Return on Equity (after Tax)	19.31%	-	14.29%	-
Cost to Income ratio	42.37%	-	43.55%	-
Liquidity (%)				
Available Liquid Assets to required liquid assets (Minimum 100%)	182.24%	-	127.64%	-
Liquid Assets to external funds	17.50%	-	12.26%	-
Memorandum information				
Number of branches	212	-	265	-
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: With effect from 1st April 2023, criteria for classification of credit facilities as non-performing loans has been changed from 120 days past due to 90 days past due.

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:

- The above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka (CBSL)
- The information contained in these statements have been extracted from the audited financial statements of the Company.

(sgd)

Mr. Krishan Thilakarathne
Director /CEO

(sgd)

Mr. Buddhika Weeraratna
Head of Finance

(sgd)

Mr. Jithendra Gunatilleka
Compliance Officer

27 June-2024
Rajagiriya (Greater Colombo)

LOLC Finance PLC

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

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