ANNUAL REPORT 2021/22

LOLC FINANCE

Contents

LOLC FINANCE

ANNUAL REPORT
2021/22

Performance Highlights

		2022	2021
Key Highlights of the Year			
New Executions	Rs. Million	79,516	49,967
Net Interest Income	Rs. Million	21,590	21,315
Profit Before Tax	Rs. Million	17,743	4,497
Profit After Tax	Rs. Million	16,951	4,366
Net Assets	Rs. Million	83,553	35,889
Total Value Added	Rs. Million	23,352	8,342
Market Capitalisation	Rs. Million	273,369	29,400
Value Added Per Employee	Rs. Million	4.89	2.77
Per Share			
Market Value	Rs.	14.2	5.60
Net Assets	Rs.	4.34	6.84
Earnings	Rs.	3.23	0.83
Total Staff	Number	4,771	3,013
Total Training Investment	Rs. Million	2.96	0.36
Total Training Hours	Hours	26,807	11,800
Number of Female Employees	Number	930	504
New Recruits	Number	693	283

Rs. 21.6 Bn
Net Interest Income

Rs. 17.7 Bn
Profit Before Tax

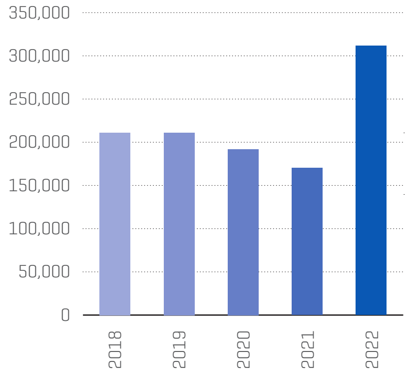
Rs. 83.6 Bn
Net Assets

Rs. 2.96 Mn
Training Investment

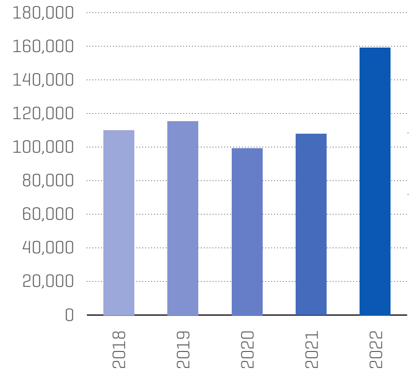
4,771
Total Staff

26,807
Total Training Hours

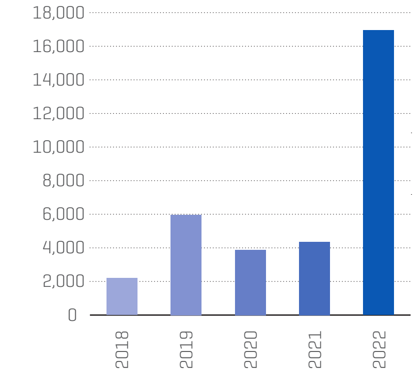
Total Assets
Rs. Million



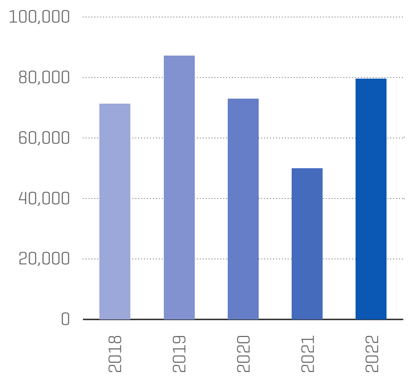
Customer Deposits
Rs. Million



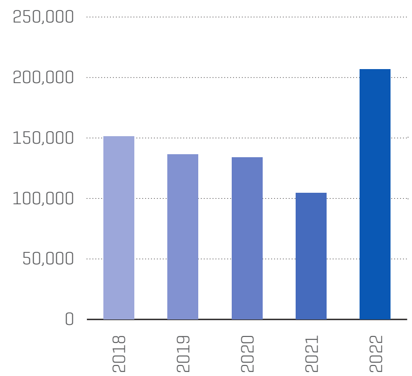
Profit After Tax
Rs. Million



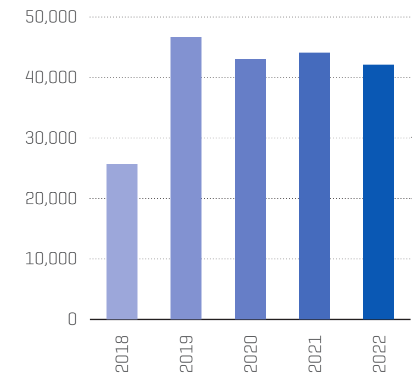
Executions
Rs. Million



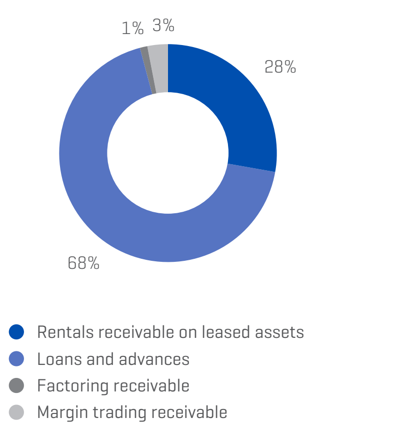
Portfolio
Rs. Million



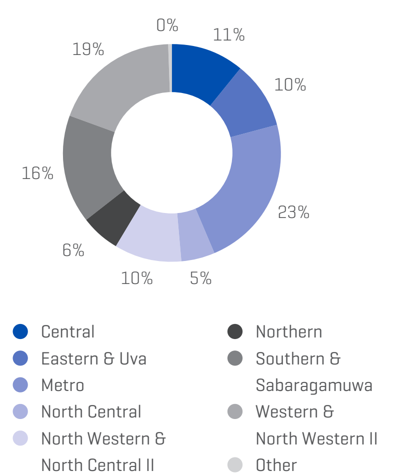
Revenue
Rs. Million



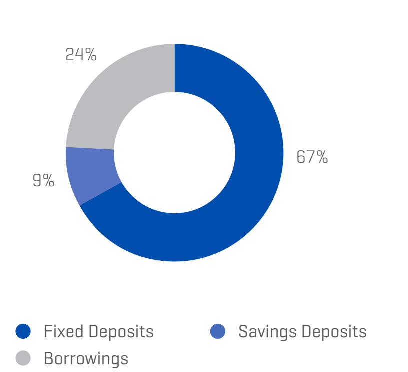
Portfolio Composition



Region wise Portfolio



Funding composition



DESPITE THE ECONOMY CONTRACTING IN THE FOURTH QUARTER OF THE FINANCIAL YEAR UNDER REVIEW, LOLC FINANCE DELIVERED A RESOUNDING FINANCIAL PERFORMANCE, WELL ABOVE THE MARKET AND PEERS IN THE INDUSTRY.

Dear Shareholder,

I am pleased to present to you the Annual Report and Financial Statements for the year ended 31st March 2022. Surmounting the challenges in the industry and wider economy, LOLC Finance PLC successfully merged with its Group Company, Commercial Leasing & Finance PLC, making LOLC Finance the largest NBFI in the country.

The successful implementation of the merger towards the end of the last quarter of the 2021/22 financial year is all the more commendable as it took place amidst an unprecedented economic crisis in the country.

MACRO-ECONOMIC REVIEW

The Sri Lankan economy recovered in 2021from the pandemic induced contraction in 2020, although it remained fragile due to the shocks created by the pandemic and other headwinds that emanated from the global and domestic fronts. Given the weak nature of the economy, the Central Bank engaged in monetary policy easing for ample liquidity provision to the markets while adopting several external sector and financial sector policies. Meanwhile, vulnerability became pronounced in the second half of 2021/2022, with price stability being challenged due to the combined impact of global and local supply driven causes as well as the build-up of excessive demand pressures on prices, primarily caused by the lagged impact of extraordinary monetary accommodation, including unprecedented monetary financing.

Moreover, the external sector remained on the brink of a precarious state since late 2021 due to the mounting Balance of Payments (BOP) pressures reflected in the meagre level of official reserves, amidst significant debt servicing obligations along with the dire need to finance essential imports at a time when the domestic foreign exchange market remained largely illiquid. Calamities in the power and energy sector, acute shortages of essentials and raw materials, and the spillover effects of these on the economy disrupted economic activity towards the last quarter.

NBFI INDUSTRY PERFORMANCE

The sector improved considerably during 2021, especially in terms of credit growth and profitability. Total assets of the sector amounted to Rs. 1,487.7 billion as of end 2021, representing 5.6% of the assets of Sri Lanka's financial system. Despite certain institutions encountering difficulties to meet the regulatory requirements at an individual level, the sector remained stable with capital and liquidity maintained at healthy levels above the minimum regulatory requirements. The asset base of the sector increased by 6.1% (by Rs. 86 billion) to Rs. 1,487.7 billion in 2021 compared to the 2.2% contraction observed in 2020. The sector continued to remain resilient with capital maintained above the minimum regulatory requirement during the year. The capital base improved to Rs. 251.6 billion by end 2021 compared to Rs. 218.9 billion recorded by end 2020, with the infusion of new capital by several LFCs to meet regulatory requirements of Rs. 2 billion by 01 January 2021 and Rs. 2.5 billion by 01 January 2022. The implementation of the Financial Sector Consolidation Masterplan of the Central Bank was aimed to build a strong and stable sector in the medium term.

COMPANY PERFORMANCE

As the role model for the Non-Banking Financial Sector Consolidation Plan announced by the Central Bank of Sri Lanka (CBSL), the merger of LOLC Finance and Commercial Leasing & Finance (CLC) PLC which took place in March 2022 has catapulted LOLC Finance PLC to an unparalleled scale to drive growth and expansion in the future.

Despite the economy contracting in the fourth quarter of the financial year under review, LOLC Finance delivered a resounding financial performance, well above the market and peers in the industry. In fact, the financial services industry remained stable during the year and played an anchoring role for the economy. As a company, LOLC Finance recorded the historic profitability across various KPIs including profitability, portfolio size, deposit base and the asset base while demonstrating a sharp improvement in NPLs.

CLC, which was the fourth-largest in the industry, also ended up recording the highest profitability even before the merger. The merged entity has given rise to the largest balance sheet and the largest lending book, the largest deposit base and the largest granular deposit base in the industry which holds great promise for stakeholders going ahead considering the equity of Rs. 83.6 Bn. The real benefits of the merger will be felt only in the coming financial years. The initial merger was smooth with the main business units amalgamating and operations moving ahead smoothly into the 2022/23 financial year.

OUR DIGITAL PLATFORMS HELPED CUSTOMERS DURING THE PANDEMIC TO INTERACT WITH THE ORGANISATION AS WELL AS COMPLETE TRANSACTIONS DESPITE THE FACT THAT COUNTRY WAS IN LOCKDOWN MODE.

Total Lending Portfolio

Rs. 206.8 Bn

Equity

Rs. 83.6 Bn

DIGITAL TRANSFORMATION

The entity achieved several milestones for its digital payment platform, iPay, which has captured the fin-tech landscape faster than any local financial service provider in the industry. LOLC Finance has risen to be the pioneer in the most innovative digital transformation in Sri Lanka.

In 2022, LOLC Finance was bestowed with the Gold titles for: NBFI of the Year for Financial Inclusivity, NBFI of the Year for Excellence in Customer Convenience, Financial Institution of the Year for Best Digital Payment Strategy, Best Mobile Application for Retail Payments Via Just Pay (Banks and NBFI), Overall Award Excellence in Inter-Bank Digital Payments (NBFI) and a Merit Award for the Most Popular Digital Payment Product (Banks and NBFI-Mobile Payment App). Apart from that, there are several other awards at which the company won during the year including the globally recognised.

LOLC Finance authenticated its continuing excellence in the non-banking financial sector by being felicitated with two awards for the Most Innovative Financial Services Brand, Sri Lanka 2021 and the Most Trusted Financial Services Brand, Sri Lanka 2021 at the Ninth Edition of the Global Brand Awards 2021.

Further, at the 2021 Next 100 Global Awards, LOLC Finance was named the Finance Company for Credit Cards. The Next 100 Global Companies list recognises companies at the forefront whose strategies, achievements, dedication, and leadership of those who demonstrate outstanding achievement and are committed to delivering the products clients need and the results clients want, act as a catalyst for the industry.

PRODUCT INNOVATION

During the period under review, LOLC Finance launched many innovative digital based products including "Swairee", the first dedicated credit card for working women in Sri Lanka. In the financial services sector, digital is the future, and so we are elevating our dynamic digital transformation journey to new heights, including digitalising the organisation's business processes and launching more technology driven products for increasing efficiency.

Our digital platforms helped customers during the pandemic to interact with the organisation as well as complete transactions despite the fact that country was in lockdown mode.

We are also directing efforts to human capital development with human resource training, one of the important parts in the organisation's success. The Company continued to look after staff through the COVID-19 pandemic and, of course, granted bonuses and ensured there were no pay cuts.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)

At the Board level, the crucial pillar is strong governance. We are one of the largest companies that have established a unit for sustainability while infusing sustainable financing into our DNA, which resulted in several sustainability projects in renewable energy and reforestation.

FUTURE OUTLOOK

From a country perspective, we are in one of the most challenging periods in our history and we are going to face the most challenging period ahead.

As a company we are highly confident that given our leadership and the experienced board, we can sail through these times just like we have done in the past to achieving objectives through strategic direction. Despite the predictions for economic contractions, we will climb to greater heights.

ACKNOWLEDGEMENTS

I would like to thank the outgoing Chairman of LOLC Finance, Brindley de Silva, for his inspiring leadership and also wish to thank the Directors of both LOLC Finance and CLC who are stepping down to facilitate the merger. We value the trust placed in us by our shareholders, depositors and all other stakeholders as we build on our strengths.

F K C P N Dias

Chairman

PROPELLED AHEAD BY ITS POWERFUL SYNERGIES, THE COMBINED ENTITY DELIVERED A COLOSSAL PRO FORMA PROFIT BEFORE TAX (PBT) OF RS. 25.8 BN AND PROFIT AFTER TAX (PAT) OF RS. 23.7 BN AS AT 31ST MARCH 2022, WHICH PLACES LOLC FINANCE PLC AMONGST THE HIGHEST VALUE-CREATING INSTITUTIONS IN THE COUNTRY.

The financial year 2021/22 was a landmark one on many fronts as the merger of LOLC Finance PLC with Commercial Leasing & Finance (CLC) PLC, another subsidiary of LOLC Group, transformed LOLC Finance into the largest Non-Banking Financial Institution (NBFI) in Sri Lanka. Following this merger, LOLC Finance now accounts for 20% share of the entire NBFI industry, reflecting boundless potential for growth and expansion. The year under review was extremely successful for LOLC Finance, considering the combined financials of the three entities in light of its merger with CLC, which in turn acquired Sinhaputra Finance in the early part of the year.

EXCEPTIONAL PERFORMANCE

Propelled ahead by its powerful synergies, the combined entity delivered a colossal pro forma Profit Before Tax (PBT) of Rs. 25.8 Bn and Profit After Tax (PAT) of Rs. 23.7 Bn as at 31st March 2022, which places LOLC Finance PLC amongst the highest value-creating institutions in the country. This marks the first time an NBFI has crossed the Rs. 20 Bn mark in Sri Lanka, thus positioning it on par with top banks in Sri Lanka. Continuing its stellar financial performance, the entity's Non-Performing Loan ratio too was significantly lower than the industry average at 6.71%.

STRONG SYNERGIES

LOLC Finance is looking upon this merger as a step forward for the NBFI industry as a whole because it further reflects the stability and resilience of the financial services sector. CLC was acquired by LOLC in 2008 and has since been one of the top performing finance companies. At the time of its merger this year, CLC was the fourth-largest NBFI with a portfolio of Rs. 87 Bn and 75 branches. Therefore, the merger between these two top companies made LOLC Finance the largest NBFI in the industry. Common synergies in terms of management, branch footprint, business model and market penetration were created as a result of the merger.

LOLC Finance has been predominantly strong in terms of deposits, SME finance, lending, microfinance and Islamic Finance, while CLC had a substantial market share in the segments of light trucks, auto finance, 3-wheeler financing, and factoring. The merger has thus created the largest financier to the agricultural sector, the largest Islamic Finance operator, the number one micro financier and the largest SME sector financier, amongst many other market leadership positions.

Furthermore, these combined strengths will create opportunities for devising further digital products and synergies, processes and distribution together with a total merged footprint of 210 locations in Sri Lanka. The combined entity has Rs. 311 Bn in assets together with a total capital of over Rs. 83.6Bn, carving out a new path-breaking trend for NBFIs, where they can be on par with the largest banks in the country.

FUTURE OUTLOOK

It is no secret that Sri Lanka is facing an economic crisis which concerns all industries, including the financial services and banking sector. The high inflation and negative GDP growth in 2022 will challenge people's ability to repay existing debt and the ability to raise debt, equity and capital, and hinder the savings habits and expansion of business, thereby directly impacting the profitability of the NBFI sector. Yet, the financial services industry needs to be resilient and respond with timely and effective strategies in order to survive and prosper.

Financial services are the backbone of economic revival. NBFIs play a critical role in this endeavour to create financial inclusion and financing of MSME clients in addition to financing the distribution of hi-tech products at the lowest possible cost. Innovative financial products offerings are thus essential for this sector.

LOLC Finance, which holds 20% of the industry assets portfolio, is a key driver of the NBFI industry in terms of business. Therefore, our integration in terms of digitalised products and services, lending and recovery strategies, and new products will create significant momentum for the industry.

AT LOLC FINANCE, WE CLEARLY UNDERSTAND OUR ROLE IN CREATING GREATER INVESTOR CONFIDENCE WITHIN THE INDUSTRY AT THIS CRITICAL JUNCTURE FOR THE SRI LANKAN ECONOMY, WHILE PROVIDING NECESSARY FINANCING TO CRUCIAL SECTORS SUCH AS AGRICULTURE, EXPORTS, MANUFACTURING AND INDUSTRIES, WHICH WILL BE THE LIFELINE OF A RESURGENT SRI LANKA.

Total Assets

Rs. 311.6 Bn

Total Footprint

210 Branches

Further, adherence to governance standards establishes new benchmarks for the entire NBFI industry. Coupled with a digital platform for deploying products and services, the Company's potential for expansion is limitless.

At LOLC Finance, we clearly understand our role in creating greater investor confidence within the industry at this critical juncture for the Sri Lankan economy, while providing necessary financing to crucial sectors such as agriculture, exports, manufacturing and industries, which will be the lifeline of a resurgent Sri Lanka. The Company's core mission to create further financial inclusion amongst sectors of other populations deprived of financial services will be upheld at all times. The scale of operations and potential for LOLC Finance to leverage on its strengths to drive significant change in the MSME sector is immense.

APPRECIATION

I wish to thank the Chairman and Board of Directors of the LOLC Finance PLC and CLC for their visionary guidance and support and wonderful effort. Key decisions taken at the Board and shareholder level based on a long term view has placed LOLC Finance on a strong footing. The senior management and the entire team of employees including the newly-merged LOLC Finance have been extremely understanding and cooperative of the changes across the organisation as it works for their benefit.

I would also like to thank our valued depositors, multinational funding agencies, banks, as well as customers, the Governor of the Central Bank of Sri Lanka and officials. Our valuable shareholders, investors and other stakeholders remain a pillar of support in our ambitious journey.

D M D K Thilakaratne

Director/CEO

Board of Directors

MR. F K C P N DIAS

Chairman/ Non-Executive Director

Mr. Conrad Dias was appointed to the Board on 01st March 2020. He holds Masters in Business Administration (MBA) from University of Leicester UK, Fellow Member of Chartered Management Accountants UK (FCMA), Chartered Global Management Accountant (CGMA -USA). He is also a Fellow of Certified Management Accountant of Sri Lanka (FCMA) and British Computer Society (FBCS).

His experience spans over close to 3 decades and as a visionary thought leader in business technology and his C-Level experience spans over 20+ years.

Fintech enthusiast who innovated many financial technology products and solution and he is the Founder of iPay a revolutionary platform beyond payments and Founder of OYES another fintech platform that making everyday a payday.

His thought leadership on technology and contribution in the field of ICT to the industry, society and in LOLC Group was recognised by many local and international awards including prestige's Computer Society of Sri Lanka CIO of the year 2016. He was also award and Chartered Management Institute of Sri Lanka Professional Excellence Award 2017. Further he was inducted to Global CIO Hall of Fame 2020 of IDG CIO100 and only Sri Lankan to get this accolade.

MR. D M D K THILAKARATNE

Executive Director/ CEO

Mr. Krishan Thilakaratne was the Director/CEO of Commercial Leasing and Finance PLC and a Member of the Senior Management Team of LOLC PLC.

Mr. Thilakaratne is a Board member of Seylan Bank PLC and Commercial Insurance Brokers. Mr. Thilakaratne further serves in the boards of LOLC Myanmar Micro Finance Company Ltd and Faso S Micro Deposit Organisation in Tajikistan. He is also the Director of LOLC Central Asia covering the markets and investments in Kyrgyzstan, Kazakhstan, Tajikistan and Uzbekistan.

He was a board member of Credit Information Bureau of Sri Lanka (CRIB), Prasac Micro Finance Institution Ltd Cambodia and the past Chairman of the Finance Houses Association of Sri Lanka (FHASL), the Apex body for Non-Bank Financial Institutions (NBFIs) in Sri Lanka.

He is a member of Chartered institute of Management Accountants (CIMA) UK and a Member of the Associateship of Institute of Bankers of Sri Lanka (AIB). He has followed Strategic Leadership training programme in Micro Finance at Harvard Business school USA and counts over 25 years of experience in Management, Credit, Channel Management, Marketing, Factoring, Portfolio Management and Islamic Finance. He conceptualised and Introduced Islamic Finance to LOLC Group in 2007 and is a Guest Speaker at International Islamic Finance Forums.

MRS. K U AMARASINGHE

Executive Director

Mrs. Kalsha Amarasinghe holds an Honours Degree in Economics and has an outstanding vision for investments. She serves on the Boards of subsidiaries of Browns Group of Companies and LOLC Holdings PLC.

Key appointments: Director – LOLC Holdings PLC, LOLC Finance PLC, LOLC Life Assurance Limited, LOLC Serendib (Pvt) Ltd, Palm Garden Hotels PLC, Eden Hotel Lanka PLC, Brown & Co. PLC, Browns Investments PLC, Riverina Resorts (Pvt) Ltd, Browns Holdings Ltd, Green Paradise (Pvt) Ltd, Danya Capital (Pvt) Ltd, Sanctuary Resorts Lanka (Private) Limited, Serendib Hotels PLC, Hotel Sigiriya PLC, Serendib Leisure Management Limited, Dolphin Hotels PLC, Frontier Capital Lanka (Pvt) Ltd, Ultimate Sports (Pvt) Ltd and Kammala Hoteliers (Pvt) Ltd.

MR. B C G DE ZYLVA

Non-Executive Director

Mr. Brindley de Zylva serves as Non-Executive Director of LOLC Finance PLC and Chairman of LOLC (Cambodia) PLC, Managing Director of LOLC Myanmar Micro-Finance Company Limited and Director of both Serendib Microinsurance PLC and Browns Machinery in Cambodia. He joined the LOLC Group in 2003 and counts over 37 years' experience in the Non-Bank Financial Services Industry (NBFI) covering Licensed Finance Companies, Specialised Leasing Companies and Micro Finance in Sri Lanka, Myanmar and Cambodia.

MR. P A WIJERATNE

Senior Independent Director

Mr. P A Wijeratne has over twenty years of experience in Accounting, Financial reporting, Investment of internal funds, Foreign loan disbursements and repayments, Auditing, Public debt management and Administration as an ex Officio of the Central Bank of Sri Lanka. He has joined CBSL in 1991 and has worked in the Finance, Public Debt Management and Internal Audit departments till his retirement in year 2016.

He holds a BA degree in Economics (Special Field – Commerce) from University of Kelaniya and a postgraduate Diploma in Accounting and Financial Economics. He has read for his MSc in Accounting and Financial Economics at the University of Essex, UK.

MR. K SUNDARARAJ

Independent Director

Mr. Kandiah Sundararaj counts over 28 years experience in Accounting, Auditing and Tax consulting. He started his career as a Chartered Accountant in 1998 and is currently serving as the Tax Partner in M/s Amerasekera and Company, Chartered Accountants.

Mr. Sundararaj is a fellow member of the Institute of Chartered Accountants of Sri Lanka and holds a Master of Business Administration in Finance from the University of Colombo.

MANAGEMENT DISCUSSION AND ANALYSIS

UNDERSTATING THE NEEDS OF OUR VALUED STAKEHOLDERS BETTER, TO BUILD AND TO STRENGTHEN OUR RELATIONSHIPS.

Review of Operations

DURING THE FINANCIAL YEAR UNDER REVIEW, LOFC MERGED WITH ITS SISTER COMPANY, COMMERCIAL LEASING & FINANCE PLC (CLC), SECURING ITS POSITION AS THE LARGEST NBFI IN SRI LANKA AND STRENGTHENING INVESTOR CONFIDENCE IN THE FINANCIAL SERVICES SECTOR DESPITE THE UNPRECEDENTED ECONOMIC DOWNTURN IN SRI LANKA. THE COMPANY CONTINUED TO REAP BENEFITS FROM ITS FAR-REACHING BRANCH NETWORK ESTABLISHED OVER THE YEARS AND CONSOLIDATED ITS NO. 1 POSITION IN THE SECTOR IN TERMS OF TOTAL ASSETS AND CUSTOMER DEPOSITS.

OPERATING ENVIRONMENT

The Sri Lankan economy recovered in 2021 from the pandemic induced contraction in 2020, albeit with several deeply-entrenched structural problems and vulnerabilities inherited over several decades coming to the forefront, thereby resulting in unprecedented socio-political tensions in early 2022. The economy was already in a fragile state, lacking the necessary buffers to withstand shocks when it was hit by the COVID-19 pandemic and other multifaceted headwinds that emanated from the global and domestic fronts. The relaxed macroeconomic policy package unveiled by the Central Bank and the Government helped the economic recovery in 2021 from the historical contraction recorded in 2020, while also helping cushion the impact of the pandemic on a broader segment of the stakeholders.

Both public and private sectors enjoyed the comfort of low cost funds for working capital and investment that helped them stay afloat during this difficult time and kept industries viable, even witnessing some growth, which in turn ensured uninterrupted provision of public services, utilities and goods and services to the public as well as other essential supply chains.

Price stability, which was the strongest pillar for macroeconomic stability over the last decade or so was challenged since the second half of 2021 due to the combined impact of global and local supply driven causes, as well as the build-up of excessive demand pressures on prices, primarily caused by the lagged impact of extraordinary monetary accommodation, including unprecedented monetary financing that became required due to the lack of fiscal space.

Moreover, the external sector remained on the brink of a precarious state since late 2021 due to the mounting Balance of Payments (BOP) pressures reflected in the meagre level of official reserves, amidst significant debt servicing obligations along with the dire need to finance essential imports at a time when the domestic foreign exchange market remained largely illiquid.

Calamities in the power and energy sector, acute shortages of essentials and raw materials and the spillover effects of these on every nook and cranny of the economy could disrupt economic activity excessively unless resolved urgently.

As a result, the Central Bank took swift measures in early April 2022 to preempt further deterioration of macroeconomic stability and to restore price stability through a significant tightening of monetary policy, among others. Recent events experienced in Sri Lanka reveal how macroeconomic stability, social cohesion and political stability are intertwined and how the effect of one aspect could spillover to another.

Licensed Finance Companies (LFC) and Specialised Leasing Companies (SLC) Sector

Performance of the LFCs and SLCs sector improved considerably during 2022, especially in terms of credit growth and profitability. Total assets of the sector amounted to Rs. 1,589.84 Bn as of end of 31st March 2022. Despite certain institutions encountering difficulties to meet the regulatory requirements at an individual level, the sector remained stable with capital and liquidity maintained at healthy levels above the minimum regulatory requirements. Further, a number of measures were introduced to provide LFCs and SLCs with flexibility to support the businesses and individuals affected by the outbreak of the COVID-19 pandemic.

The asset base of the sector increased by 14% (by Rs. 199 Bn) to Rs. 1,590 Bn in 31-03- 2022-1, compared to the 3% contraction observed in 2021. The sector expansion was mainly driven by the growth in the loans and advances portfolio. Loans and advances accounted for 76.29 % of the total assets of the sector. Accordingly, the loans and advances provided by the LFCs and SLCs sector increased by 14.32 (Rs. 152 Bn) to Rs. 1,213 billion in 2022 compared to the contraction of 4.23 % in 2021. The investment portfolio of the LFCs and SLCs sector comprises investments in equities, corporate debt instruments, Government securities and investment properties. The deposits increased by 5.88 % (Rs. 44.51 Bn) to Rs. 801.67 Bn while borrowings increased by 27.71% (Rs. 80.47 Bn) to Rs. 370.83 9 Bn during the year. The net interest income of the sector significantly increased by 11.54 % (Rs. 13.27 Bn) in 2022, reaching Rs. 128.25 Bn.

The sector continued to remain resilient with capital maintained above the minimum regulatory requirement during the year. The capital base improved to Rs. 265.84 Bn by end 2022 compared to Rs. 218.70 Bn recorded by end 2021, with the infusion of new capital by several LFCs to meet regulatory requirements of Rs. 2 Bn by 1 January 2021 and Rs. 2.5 Bn by 1 January 2022.

LENDING

LOLC Finance's Lending operation delivered an exceptional performance in spite of various pandemic induced challenges and economic uncertainties faced through the year under review. Pre-empting the timely business needs of the customers and preparing them for upcoming challenges by responding and supporting them with customised solutions resulted in the Company closing the 2021/22 financial year with an excellent performance.

The SME lending portfolio grew by 24.11% (LOFC stand-alone) in 2021/22. Total portfolio as at end March 2022 was Rs. 128.98Bn (LOFC stand-alone), recording a growth of 11.17Bn (LOFC stand-alone) or 9.48% (LOFC stand-alone).

The sector with the highest Non Performing Loans (NPLs) was the Construction & Agriculture, Tourism and Import & Export sectors as they were most impacted by the economic crisis, devaluation of the rupee against the dollar and lack of fuel and power in the country. The footprint grew to 133 with a total customer base of 399,836 LOFC stand-alone customers.

The main challenge was to identify the correct market segments to lend to and to restructure the existing SME portfolio with the actual cash flows and business movement of the clients, considering the affected market segments and industries. The focus during the year was on sustaining a high quality loan book and managing Non Performing Loan (NPL) portfolios. The Lending team had to ensure that the collections ratios were up to the expected level parallel to the NPL management of the SME portfolio.

Deriving the accurate exposure and Loan-To-Value (LTV) due to artificial value created in the market and asset appreciation (especially in motor vehicles) as a result of import restrictions, continued throughout the year. Frequent lockdowns resulted in many businesses and facilities coming to a standstill. Fortunately, since the agricultural sector was able to function through the year, the Company aggressively marketed its financing and refinancing products and services to agri-based SMEs. This segment proved to be fruitful for the Lending business during the year as the demand for leasing and refinancing for agri-equipment rose due to an increase in agricultural activities.

LOLC Finance made accurate and timely market predictions and responded with agility by curtailing lending to some segments while supporting the existing base to overcome difficulties by offering various flexible options. The latter half of 2022 saw frequent policy changes and the Company likewise complied swiftly. Internal exposure guidelines were strictly followed, concentrating mostly on assets with high resalable value and demand when funding. Credit guidelines were strictly followed with the adoption of selective lending methodology as our strategy.

The Company's core activities of general and alternate financing segment were severely impacted as a result of the economic downturn and import restrictions that prevailed almost through the year, exacerbated by lockdowns and mobility restrictions.

Moreover, the total ban on vehicle imports saw a drastic drop in unregistered and/or brand new vehicles and indicated a sharp contraction in the vehicle leasing business. Pre-empting the negative trend, the Lending operation shifted focus to registered/pre-owned vehicles, which were witnessing sharp prices hikes. As the first-mover in this segment during the year, the Company managed to corner a substantial share of the market while also expanding leasing services to benefit price sensitive customers.

In its second year, the Company's Gold Loans portfolio achieved significant growth as a result of LOLC Finance's trusted credentials and highest advances in the industry. Its efficient Gold Loans operation offers a wide branch network, well-trained staff and high priority for customer privacy. Transparency of transactions is always ensured and high security is offered for gold along with free life insurance cover and after sales service. The Gold Loans team managed to penetrate new areas in the country during the lockdowns to gain new customers.

One of the pillars of success for the Lending operation is the digitalised products and services due to the iPay platform, which enables customers to service interest on gold loans digitally, from the safety and comfort of their homes. The enhanced digitalisation process also facilitated Speed draft, a key product for the SME customer base. As a result, SMEs and MSMEs could route their transactions through the iPay platform without the need to visit branches.

Through the year, the Company complied with the moratoriums announced by the regulator, going the extra mile to reschedule and restructure customer loans after evaluating their asset quality and cash flows to better suit their repayment capabilities. This strategy also helped accelerate collections and deposit mobilisation. The strong recovery effort by the team helped bring down NPLs from 12.61% (LOFC Stand-alone) to 6.53% (LOFC Stand-alone) in 2021/22.

The Lending operation is committed to support affected customers while leveraging on social media platforms to enable more people to access its services. The business unit will upgrade efficiency and enhance training to improve quality of aftersales service across its branch network.

DEPOSITS

The Deposit base of the merged entity reached Rs. 159 Bn at the end of the financial year which was an increase of 48% compared to the previous year despite the record low interest rates in the market. The most important factor in this growth was the convenience offered to customers by continuing with an uninterrupted and reliable signature service through the most challenging periods in the 2021/22 financial year.

In order to overcome challenges, the Company implemented innovative methods and practices to connect with customers despite travel restrictions. Achieving deposit growth amidst this complex economic climate reflects the strong brand acceptance and reputation enjoyed by LOLC Finance in the market. This brand equity has been further enhanced with the merger of Commercial Leasing & Finance (CLC) with LOLC Finance, which has catapulted LOLC Finance into the largest Non Banking Financial Institution (NBFI) in the country, with an asset base of Rs. 311.6 Bn, which puts it on par with some large banks, offering an insight into the brand equity and scale of the merged entity today.

Essentially, the Deposits team mitigated challenges by leveraging on the Company's digitalisation strategy to make customers feel financially secure and enjoy the convenience of completing their financial transactions from the comfort of their homes and offices with no additional fees. A technology-focused company, LOLC Finance leveraged strongly on digital platforms by offering digital products such as Digital Savings to customers via its iPay platform, without human intervention. By offering speed, convenience and the ability to conduct financial transactions remotely without even visiting a branch, the Deposits team managed to record impressive deposit mobilisation against a backdrop of weak economic growth.

Our forte is the service we offer our client in the midst of the turmoil and we won the hearts of our customers simply by helping them to carry out day-to-day uninterrupted services, even providing door-to-door services to enhance convenience. This is reflected by the bouquet of awards won by LOLC Finance in 2021/22.

LOLC Finance was bestowed with the Gold titles for NBFI of the Year for Financial Inclusivity, NBFI of the Year for Excellence in Customer Convenience, Financial Institution of the Year for Best Digital Payment Strategy, Best Mobile Application for Retail Payments Via Just Pay (Banks and NBFI), Overall Award Excellence in Inter-Bank Digital Payments (NBFI) and a Merit Award for the Most Popular Digital Payment Product (Banks and NBFI-Mobile Payment App). LOLC Finance authenticated its continuing excellence in the NBFI sector by being felicitated with two awards for the 'Most Innovative Financial Services Brand, Sri Lanka 2021' and the 'Most Trusted Financial Services Brand, Sri Lanka 2021' at the Ninth Edition of the Global Brand Awards 2021.

Being awarded for financial inclusivity, excellence in customer convenience and best digital strategy reflects the efforts taken to fulfil customer needs. LOLC Finance's branch network grew from 110 at the beginning of the year to 210 by year-end due to the amalgamation of CLC's branch network, offering it unprecedented reach across the country. This strength will be leveraged upon going ahead for deposit mobilisation.

The 24/7 call centre for fixed deposits and savings is another step in engendering trust in the Company and to support customers when they need it. The physical presence of the Company coupled with its digital platforms offer exciting potential for growth and expansion as it already has the largest customer base in the NBFI industry.

One highlight of the year in the collections strategy was restarting former CLC's cash collection process which enhanced recoveries. The Daily Cash Collections practice was restarted during the pandemic to promote savings and inculcate the savings habit and will be rolled out to more regions. The team of liability sales managers visit customers and update the financial transactions in real time on their tabs and issue a receipt for customers on the spot. One overarching endeavour is to always promote and inculcate the savings habit amongst customers.

Overall, the Deposits team recorded an exceptional year and is now building a strategy to leverage on the trust and confidence in the Company by customers and the industry with the merger of these two sturdy finance companies.

MICROFINANCE

As the leading player in the microfinance sector in Sri Lanka, LOLC Finance offers sustainable microfinance products and services that have a positive impact on lives and livelihoods of thousands of customers at the grassroots level, a segment the Company believes will scale up to become the engine of growth for the national economy. LOLC Finance focuses on three main customer segments, namely, micro and small scale entrepreneurs, the agricultural community and women. Committed to fulfilling the aspirations of these key segments, the Company's loans and leases help them generate employment, uplift income levels and empower women to become financially independent.

In the year under review, LOLC Finance continued to support its customers at the bottom of the pyramid through its microfinance products including small ticket leases for acquisition of income generating assets like three-wheelers, light trucks, motorcycles, tractors, agri equipment and small ticket loans catering to business and housing needs of micro entrepreneurs, women and farmers.

The Company disbursed Rs. 29.12 Bn to a base of 81,839 customers, bringing the total portfolio under the microfinance business unit to Rs. 63.90 Bn in 2021/22, with an active customer base of 278,549. Considering the challenges faced by many due to the COVID-19 pandemic and the resulting online education, LOFC introduced a loan facility for purchase of laptop and tablet computers targeting parents, teachers, school and university students, who were unable to afford outright purchase.

In its continuous efforts to develop knowledge and empower micro entrepreneurs, LOLC Finance entered into a Memorandum of Understanding (MoU) with the Post Graduate Institute of Management (PIM) to provide required trainings for selected customers under this arrangement. The Company empowers its microfinance customers with technical skills, marketing knowledge, financial management, digital literacy and connects them with potential buyers on its digital iPay platform.

The future strategy for the Microfinance segment is to focus on asset-backed products and micro leases, with a special focus on financing leases for three-wheelers, motorcycles, light trucks, tractors and agri equipment.

LOLC AL-FALAAH

LOLC Al-Falaah dominates the alternate financial services segment in Sri Lanka. As a Strategic Business Unit (SBU) of LOLC Finance PLC (LOFC), Sri Lanka's largest Non-Banking Financial Institution (NBFI), LOLC Al-Falaah, has a strong brand identity and brand acceptance in the alternate financial market space.

LOLC Al-Falaah performed strongly in 2021/22 to record an impressive Finance portfolio growth of over 48% reaching Rs. 15.67 Bn from its previous year's book of Rs. 10.57 Bn while sustaining a Deposits portfolio of Rs. 11.81 Bn. The SBU succeeded in effective management of the asset and liability book while growing the assets portfolio and sustaining and drawing in new deposits. Whilst Revenue earnings reached Rs. 2.47 Bn, LOLC Al-Falaah achieved a 36% increase in Profit before Tax of Rs. 150 Mn from Rs. 413.92 Mn in the previous year to Rs. 564 Mn in the year under review.

The SBU's low Non Performing Loan (NPL) levels of 3.14% against an industry average of finance companies of over 9.11% in the year under review, or for that matter even compared to the NPL ratio in the banking sector during the comparable period, is a significant benchmark achievement in the industry of banking and finance.

Committed to safeguarding investors, LOLC Al-Falaah distributed Profits to Depositors amounting to Rs. 735 Mn, demonstrating a strong stature despite the volatile economic conditions during the year. Return on Equity too showed positive growth amidst volatile economic and industry conditions. Given the profit-sharing methodology of the business model, the Assets and Liability portfolios were suitably managed with an ideal and sustainable balance under the difficult economic circumstances to offer optimum returns to all stakeholders.

Striving to educate a broader section of the potential clientele, awareness programmes were carried out by LOLC Al-Falaah's Operations/Compliance Unit with a focus on developing knowledge amongst the community at large in addition to opinion leaders and the young scholars (senior and student) segment for over 300 participants by the Scholar Supervisory Board members and the LOLC Al-Falaah in-house scholar advisors.

Ensuring sustainable communities is a priority for LOLC Al-Falaah and it has disbursed funding across health, education and social upliftment projects. During the year under review, a sum of approximately Rs. 14,631 Mn was distributed amongst beneficiaries, exceeding over 1,300 from its Charity Fund for new and on-going CSR projects as opposed to Rs. 12 Mn in the previous year.

As Sri Lanka's most awarded and trusted Alternate Financial services brand, LOLC Al-Falaah was bestowed with more recognition in the year under review. During 2021/22, LOLC Al-Falaah was awarded the Best Islamic Leasing Provider (Global) for the 3rd Year consecutively by Islamic Finance News (IFN) Global Awards, Dubai. LOLC Al-Falaah was recognised yet again at the 2021 Islamic Finance Forum South Asia (IFFSA) Awards, where it was bestowed with the Islamic Leasing Company of the year 2021 - Gold; Islamic Banking Window of the Year 2021 – Gold; and Islamic Entity of the Year 2021 – Silver. At the Sri Lanka Islamic Banking & Finance Industry (SLIBFI Awards), LOLC Al-Falaah was awarded Islamic Leasing Company of the year 2021 - Gold; Islamic Banking Window of the Year 2021 – Gold; and Islamic Entity of the Year 2021 – Silver.

With the strategic merger of LOLC Finance and Commercial Leasing & Finance (CLC) at the financial year-end, portfolios of the Islamic Business Division of CLC were absorbed to LOLC Al-Falaah. The merged entity increased the Finance portfolio to reach Rs. 23.45 Bn which consists of an Ijarah Leasing portfolio of Rs. 4.52 Bn (56% Growth YOY), Murabaha Trade Finance Portfolio of Rs. 174.20 Mn 35% Growth YOY), Diminishing Musharakah Property & Project Finance portfolio of Rs.16.65 Bn (64% Growth YOY), Wakalah Working Capital Finance portfolio of Rs. 1.94 Bn (39% Growth YOY) and Deposits portfolio reaching Rs. 12.57 Bn from Rs. 11.82 Bn (5% Growth YOY) - making LOLC Al-Falaah the largest alternate financial services provider in Sri Lanka's NBFI segment. At the close of financial year-end, Retained Earnings were recorded as Rs. 6.65 Bn, reflecting 38% growth in comparison with the previous year's Rs. 2,883 Mn.

LOLC Al-Falaah is reaching new pinnacles within the industry, with its widened customer confidence, trust and appreciation in catering to both SME and MSME segments as well as to the bottom of the pyramid MICRO segment alike, where its' Wadi'ah Gold Storage Facility, an alternate option for conventional Gold-Loans and Pawning cash-advance portfolio, stood at Rs. 183.73 Mn by financial year-end.

A part of LOLC Al-Falaah hereon, CLC Islamic Finance too received the following accolades at the 2021 Islamic Finance Forum South Asia (IFFSA) Awards Sri Lanka: Islamic Leasing Company of the year 2021 - Silver; another Silver at the 2021 Sri Lanka Islamic Banking & Finance Industry (SLIBFI Awards) for Islamic Leasing Company of the year; and a Bronze for Islamic Banking Window of the Year 2021.

LOLC Al-Falaah has demonstrated its resilience in challenging times and ability to perform strongly in stringent conditions, and this year as well the Company earned a sound financial performance.

Going ahead, LOLC Al-Falaah will remain focused on offering solutions to customers to address their urgent financial needs. Further, processes will be fully automated for end-to-end digitalisation at customers' doorsteps with the backing of parent LOLC Finance's fintech capabilities.

CREDIT CARDS

In the financial year under review, the Credit Cards unit successfully doubled its portfolio to Rs. 2.6 Bn, which reflects a 67.67% growth over the previous year. An Operational Profit of Rs. 200 Mn was achieved for the year under review, marking an impressive 157.68% growth. One of the key factors for this impressive performance was the Company's continued investment in upgrading credit card features and adopting the latest digital technologies to offer value additions. Overall, it was a successful year for the Credit Cards unit and the amalgamation of LOLC Finance and Commercial Leasing and Finance (CLC) PLC will further consolidate the combined base of credit card customers. LOLC Finance issued as many as 28,321 credit cards to customers during 2021/22.

A vital success factor during the year under review was that the Company continued to ensure value addition to cardholders through some unique offerings which sought to alleviate the financial burden placed on customers due to the pandemic and the subsequent economic crisis. LOLC Finance launched the SAVI Consumer loan in 2021 and an instant loan facility for Government servants with SAVI credit cards, which offers them a credit line to support their families. The SAVI credit card product was launched targeting State sector employees and pensioners with the view of empowering the segment, enabling them to enjoy convenience and an improved lifestyle. The online credit card application, which was launched in the previous year as an online application or a QR scan, witnessed rapid adoption.

Considering the various benefits of the credit cards, SAVI was recognised as the Best New Credit Card in Sri Lanka for 2021 by Global Banking and Finance Review. LOLC Finance PLC was also named as The Finance Company for credit cards in 2021 at the 2021 Next 100 Global Awards. SAVI credit cards went on to co-sponsor the 'Voice of Colombo' Grand Finale a popular Musical Reality TV Programme organised and telecasted on ITN.

LOLC Finance also launched the first-ever co-branded credit card between two financial service institutions in 2021 to further enhance its reach to diversified segments. Empowering women through its products, the Company enhanced its value offering to the segment by launching the SWAIREE VISA Credit Card, the first-ever credit card in the industry with various value-added features and benefits targeting the 'career women'. Armed with the intention of fostering a virtuous cycle, Swairee initiated a scheme by donating a percentage of all Swairee cardholder's monthly spending to a "Women Empowerment Fund".

Currently LOLC Finance issues four main card types, namely Pulse, Gold, Platinum and World. Within these, there are subcategories based on existing client types, professions and other identified customer segments to best suit requirements. LOLC MasterCard and Visa are embedded with an EMV Chip, ensuring the cardholder of maximum data security and safeguarding financial interest. The credit cards are NFC enabled, assuring convenience and ease to the cardholder when transacting.

LOLC Finance continues to partner with some of the country's leading retail and lifestyle outlets to offer valuable discounts and offers to its credit cardholders in its mission to support and promote cashless transactions to all segments of the society.

Call Centre Operations

The Credit Card Call Centre plays a vital role in offering superior customer care to cardholders. As a trilingual Call Centre for both existing and potential customers, staff ensures they satisfy all customer queries swiftly while also canvasing for new customers. The Call Centre especially played a vital role during the pandemic period when it was not possible for staff to visit customers due to travel restrictions. Highly-skilled and professional call centre staff ensure customers can access any information they seek for a more personalised touch.

RECOVERIES

During the year under review, the Recoveries unit recorded one of its best years despite the unprecedented challenges posed by external factors, while maintaining an industry-best Non-Performing Loan (NPL) ratio of less than 7%. As a result of the contraction in the loan book, provisioning was reduced during the year. The appreciation in the prices of second-hand vehicles and other assets due to the import ban encouraged customers who were defaulting to pay a certain amount so that they could retain their assets.

The strong and robust performance by the recoveries team was further strengthened with the induction of the use of digital channels such as iPay for customers to complete financial transactions in the event they could not visit branches. The call centre operations helped by remaining connected with customers and encouraging them to fulfil their debt repayments on schedule. An effective debt monitoring mechanism also aided the team to follow up on bad debts in a timely manner. Overall, the recoveries team maintained a positive and dynamic approach and supported customers with debt restructuring as required.

Recoveries will continue to be a challenge going ahead considering the weak economic outlook for 2022, while remaining resilient and confident of improving its performance over the year under review by maintaining its strong relationships with customers.

CUSTOMER RELATIONSHIP MANAGEMENT

Customer relationship management is of utmost importance in today's financial services industry as it provides the organisation a clear edge over competition. It helps businesses build a relationship with customers, which in turn generates loyalty and customer retention. Along with the pandemic, the world accelerated its customer service journey into digitalisation in order to overcome the challenges related to face-to-face customer service. While most organisations were not ready to go along this route, LOLC Finance hit the ground running and managed to fulfill customer needs.

During the period under review, more customers accessed the Company's services at the Central Contact Centre, when they couldn't get in touch with their particular branch (due to a closure related to the pandemic) and it became our challenge to serve these customer requirements. Having already focused on providing remote operations, the central contact centre was well versed in providing this service. Our team was able to work from home efficiently and provide the same quality of service they would while working from the office.

A special emphasis was placed on empowering customers and making their day-to-day transactions easier and pandemic proof, by introducing them to e-commerce, through credit cards and digital payments via iPay. Along with the advent into e-commerce, customer interactions increased. This led to customers demanding real-time support. For a customer-centric business, digital transformation plays an especially important role in terms of the contact centre. Expectations continue to rise as customers seek real-time, personalised and efficient support to solve their issues through the channel that is most convenient for them.

Today's customers have financial information on their mobile devices - from prequalifying for a loan via a smartphone to exploring credit card options on a laptop, to enabling a digital payment gateway on mobiles, customers have fully embraced the convenience that the digital age has brought to the financial services industry. This makes customer retention more challenging as customers tend to tap different organisations for different needs. Thus, LOLC Finance offers a differentiated customer experience by embracing industry-best technology. With a view to gaining a competitive advantage over other players, LOLC Finance will continue to adopt latest technologies that offer returns on investment.

GROUP INFORMATION TECHNOLOGY

Despite the challenges faced during the year, the team forged ahead with the following initiatives. The LOLC Group, through its centralised, shared IT services provider, LOLC Technology Services Ltd (LOLC Tech), continues to be at the forefront of technology innovation. The team holds extensive experience in handling both cloud-based and on-premise solutions - supporting the LOLC Group to be a truly global conglomerate, with IT functions in Cambodia, Myanmar, Pakistan, Zambia, Philippines, Indonesia, Nigeria, Sierra Leone, Malawi and Zimbabwe being supported remotely.

Business Intelligence (BI) & Data Analytics

LOLC Tech provides various analytical and data science project implementations within the LOLC Group. The solutions consist of Machine Learning (ML) based data analytics projects across different business domains within the group such as Lending, Savings, Fixed Deposit, Gold Loan, Credit Card, iPay, Micro Finance, Insurance, Trading and Leisure.

LOLC Micro Finance Bank Pakistan

LOLC Tech has provided a digital lending platform to PAKOMAN Micro Finance to facilitate its marketing officers to carry out customer on-boarding and credit appraisal on customer premises. This platform has introduced a transparent and efficient loan processing system into PAKOMAN Micro Finance and improved customer satisfaction while providing fast service levels.

Smart ME Solution

Smart ME (SME) is the mobile platform specially designed for the local SME business unit. It has been developed to facilitate the marketing officers to perform their operations from the field while creating customer convenience and fast service. In addition, it eliminates most of the manual processes and supports its continued operation effectively during the post pandemic period and the economic crisis of the country. One of its RPA (Robotic Process Automation) case studies submitted for SLASSCOM's DIGITAL GENESIS - Sri Lanka's largest Intelligent automation conference - has been recognised as a Runner-Up case study under the Banking and Finance category.

Data Centre

Sinhaputhra Finance PLC's merger with Commercial Leasing & Finance PLC (CLC) was addressed smoothly as per Central Bank guidelines, with systems being merged and the resource requirement of the project carried out by the existing data centre. Currently, we are in the process of merging CLC with LOLC Finance by supporting CBSL's initiative and the strategic decision of the LOLC Group. The technical team devised a solution for connecting users to remotely run the system, thereby holding off investments of PC replacements and upgrades during the economic crisis with zero disruption.

Information Security & Compliance

The LOLC Group, being an ISO 27001, 9000 & 20000 compliant entity, took the initiative to implement, improve and evolve the security of the organisation's critical information. Thus, Information Security & Governance (INFOSEC) was established to improve and enhance the organisation's security posture and compliance. Some industry-first security measures pioneered by INFOSEC were adopted by other banking and financial institutions much later. INFOSEC is facilitating LOLC finance's cloud journey by ensuring relevant controls are applied and regulatory requirements are met.

The LOLC Group is compliant with the Payment Card Industry Data Security Standards (PCIDSS). All payment card-related information is stored in accordance with the PCIDSS guidelines and other globally practiced security measures. Some of the important infrastructure security aspect controls include Vendor Remote Access Management, Privilege Access Management, Vulnerability management, Extended Detection & Response (XDR), Secure Access Service Edge (SASE) and Attack Surface Management (ASM).

iPay

iPay is currently the number one payment platform in terms of number of transactions and customer acquisitions. According to LankaClear, iPay has been continuously in the number one position for JustPay related transactions through the entire 12 months in 2021. With an architecture that allows easy integration with any system, iPay is a simple, easy-to-use, real-time FinTech platform beyond payments. With LOLC Finance operating as its merchant acquiring partner, iPay is acclaimed internationally as a mobile app that has been developed on advanced software architecture. The app includes a host of features designed to securely integrate the customer and merchant ecosystem, making it a true Fintech application. iPay was conceptualised as an ecosystem rather than a mere payment platform.

iPay witnessed rapid adoption due to the pandemic as customers accelerated use of online transactions. The app was downloaded 180,515 times in the year under review which reflects user growth of 175% over the previous year. Customers can now open digital savings account, digital fixed deposits and credit card payment acceptance via iPay without having to visit any LOLC branches. The new Digital Fixed deposits product through iPay has built a base over Rs. 160 Mn within a short period, during the financial year under review.

iPay experienced phenomenal growth in 2021/22 with its customer base adapting iPay as their choice for digital transactions. Its transaction volumes grew by 5.5 Mn, which marks a growth of 250%, which is a testimonial to the adoption of iPay as the preferred lifestyle app amongst FinTech apps available in the market. Transaction value also grew to Rs.32.8 Bn, which reflects a growth of 430%.

Strengthening its partnerships with leading merchants around the country, iPay aims to further develop its business applications for its merchant base by extending a superior digital experience and an easy on-boarding process. Its cumulative merchant count amounts to 45,000 presently. iPay was appointed as official LankaQR acquiring partner of PickMe at the LankaQR nationwide rollout campaign.

During the year under review, scheduled payment option was introduced where iPay users could enable direct debit from their savings accounts/cards to make fund transfers or bill payments while Digital Speed drafts were also added. iPay has enabled the option to link any Master & Visa credit /debit card and to make transactions. Furthermore, iPay has introduced "Internet Payment Gateway" and "Pay by link" options for merchants to receive payments.

Further, users' daily transaction limit was increased up to Rs.1.5 Mn to facilitate them to complete their transactions smoothly. Users were also given the option to upgrade their user account to business account (iPay Merchant) via the user app. As part of its sustainability commitment, iPay conducted a webinar for teachers to educate them on digital payments.

As a pioneering payment ecosystem, iPay is the most highly awarded Fintech app and during the year under review it won the Gold Award for Best Mobile Application for Retail payments via JustPay (Banks and Non – Bank Financial Institutions); and the Merit Award for Most Popular Digital payment product (Banks and Non – Bank Financial Institutions - Mobile payment app) at the LankaPay Technnovation Awards 2022 which is considered the highest recognition for Digital payment platforms in Sri Lanka.

Further, the iPay app was awarded at the World Business Outlook Awards 2022 as the Winner of the Best Digital Finance Solution Provider - Sri Lanka 2022 and Most Innovative Non-banking Finance Solutions Provider - Sri Lanka 2022. At the 2021 edition of the awards, the app was adjudged the Winner in the Best Digital Payment Solution Provider - Sri Lanka 2021 category.

iPay was also bestowed the Winner status at the International Business Magazine Awards 2021 for the Most Innovative Digital Payment Solutions Provider - Sri Lanka 2021 and the Best Mobile App for Retail Payments - Sri Lanka 2021.

LOLC FINANCE

HR Report

The most important task during the year under review was to manage the human capital element in the laudable merger between Sinhaputra Finance PLC, Commercial Leasing & Finance (CLC) and LOLC Finance. The combined entity, LOLC Finance, now has close to 4900 employees from three different cultures, which makes bringing them on to one platform and mindset a mammoth task.

The mapping of systems, processes and roles has been done and the process of reviewing employee benefits etc., is underway to align the expectations of employees across all the merged entities for a positive outcome. Successful mergers are often possible because people issues are handled in a methodical manner and expectations of all employees are met. How an organisation deals with its employees before, during and after the transaction can have a determinative impact on the success of the transaction

One of the key aspects of a successful merger will be encouraging a strong relationship between teams and senior management which focuses on cascading the values and culture, which will be embedded in LOLC Finance as the largest NBFI in the country. Many activities to nurture team building, relationships, networking and communications objectives and plans have been drawn up and are in the process of being implemented. Mergers pose significant challenges and the HR team of the merged organisations has to consider all implications, integrating HR practices and company cultures, and managing talent decisions.

The year brought with it challenges faced in the management of human capital from the previous year due to several waves of the COVID-19 pandemic and lockdowns in 2021, with staff having to work from home. The health and safety of employees remains the foremost priority and the Company continued to empower teams with the required technology tools to work remotely. Despite the lockdowns during the year, the Company sustained online staff recreation activities to encourage fellowship and engagement.

Succession Planning

Strengthening of the leadership pipeline through succession planning has been key to the success of LOLC Finance. As a part of the overall HR strategy, a talent pipeline of experienced and capable employees who have been groomed and prepared to assume higher leadership roles are identified and continuously developed. As a merged entity there is a need to develop strong leadership as part of succession planning to manage the employee base of almost 4900 and the diverse products and services portfolio.

Training & Development

LOLC Finance invests heavily in the training and development of its employees whilst creating a conducive and supportive workplace. Online training sessions became the norm and employees from the merged companies received intensive training on product benefits to enhance their knowledge in addition to soft skills related trainings. Internal resources who are experts in their fields shared their knowledge in order to multi-skill employees so that they can be easily rotated across various roles within the company. During the year, leadership development trainings were prioritised, including comprehensive branch manager training, leadership training for LOLC Finance staff and a comprehensive management development programme. One of the key focus areas was to create a leadership pipeline.

The HR department ensured a full calendar of training programmes for all staff cadres.

Employee Wellbeing

In terms of employee welfare, the Company supported staff by ensuring their remuneration levels were sustained through the challenging period along with additional incentives. Counsellors were made available for staff who felt stressed by the current stressful conditions and educational materials were shared from time to time to allay their worries.

A fully operational grievance handling policy is also in place to address staff concerns, with grievances being handled independently.

Flexible work arrangements continued to accommodate lifestyle changes needed to cope with the energy crisis. Transport facilities were also arranged for staff members along with other initiatives to ensure the maximum engagement moving forward. As part of the Company's strategic plan, the digitalisation process will continue to strive towards a paperless operation.

Rewards and Recognition

The Company's approach is based on rewarding each employee who makes a strong positive contribution to its overall performance in line with the required culture and mindset. LOLC Finance offers a unique reward and recognition framework that consists of performance-based incentives and bonuses, schemes to boost employee morale and so on. The performance evaluation mechanism facilitates a transparent employee reward and recognition process. In addition, LOLC Finance participates in annual salary surveys to ensure its remuneration framework remains in line with industry benchmarks at all times.

Financial Review

OVERVIEW

LOLC Finance PLC (LOFC), the industry pioneer in the Non-Banking Financial Institution (NBFI) sector, has delivered a resilient but strong performance despite the challenging operating environment, recovering from the negative economic effects of the pandemic while continuing to expand and transform. During the financial year under review, LOFC merged with its sister company, Commercial Leasing & Finance PLC (CLC), securing its position as the largest NBFI in Sri Lanka and strengthening investor confidence in the financial services sector despite the unprecedented economic downturn in Sri Lanka.

The Company continued to reap benefits from its far-reaching branch network established over the years and consolidated its No. 1 position in the sector in terms of total assets and customer deposits. This position was strengthened by the strong confidence placed by the valued customers in the LOLC brand and the superior customer services of the Company. Total assets of the Company as at 31st March 2022 stand at Rs. 311.6 Bn, clearly dominating the NBFI sector while maintaining healthy levels in key risk management performance indicators including capital, capital adequacy and business performance, thus strengthening investor confidence.

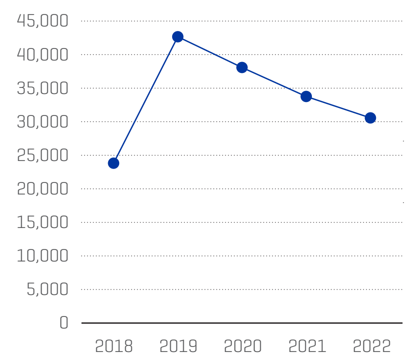
To overcome the challenges posed by the pandemic and the negative economic conditions prevailing in the country, the management took proactive steps to prioritise collections and to improve credit quality over portfolio growth. The Company strengthened its credit controls with the implementation of fintech solutions, focusing on asset-backed lending. Despite the drop in interest rates, strong customer confidence in the Company resulted in a steady inflow of deposits. This assisted the Company to shift its borrowings book from bank borrowings to granular retail customer deposits. These strategies helped the Company to maintain a diversified book while achieving a level of healthy profits. A detailed analysis of the financial performance is provided in this financial review.

INTEREST INCOME

LOFC reported Rs. 30.57 Bn as interest income, down by 9% compared with the previous year due to the lower growth in the portfolio resulting from the prolonged economic downturn following the spread of COVID-19. The position of the Company over the last five years in terms of interest income is as follows:

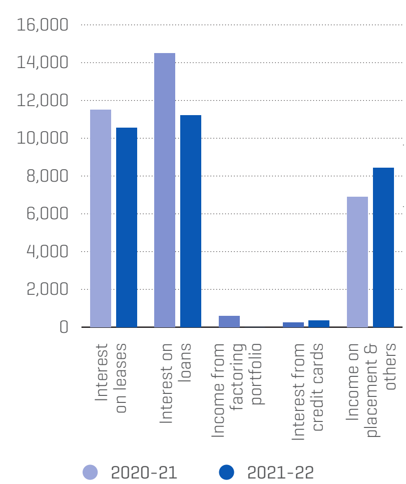
Movement of Interest Income in last Consecutive Five Years

Rs. Million



Interest Income Comparision 2020-21 & 2021-22

Rs. Million



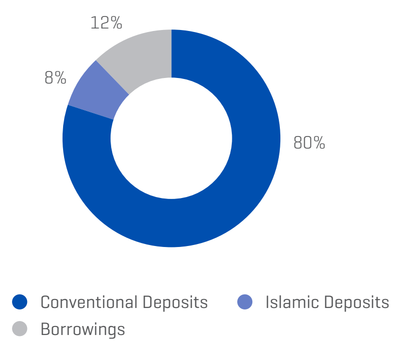
Interest income from leases constituted 35% (2020/21-34%) of the total interest income and showed a decrease of 8% to Rs. 11.55 Bn. Interest income from loans was the biggest revenue generator (37%) for the Company at Rs. 11.22 Bn, however showing a negative growth of 23% compared to the last financial year which is in line with the declining portfolio.

Interest income on government securities increased by 41% compared to the previous year while income from operating leases increased by 16%.

INTEREST EXPENSES

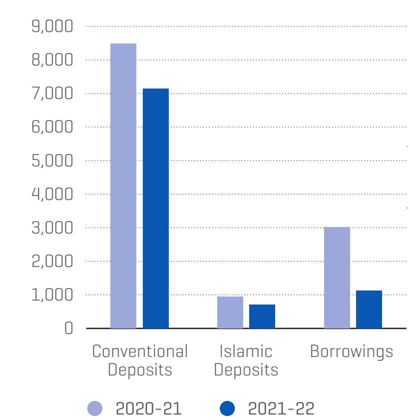
Total interest expense declined by 28%, resulting from the sliding interest rate ceiling on deposits and debt instruments as published by the Central Bank of Sri Lanka. Majority of the portfolio is funded through customer deposits, with 80% of the interest expense being attributed to these deposits. The interest on conventional deposits and profit share cost on alternative finance deposits have declined by 16% and 25% respectively. The overall interest costs on borrowings showed a decrease of 63% compared to the last financial year due to the low-cost borrowings from banks and other funding institutions.

Interest Expense Composition 2021-22



Interest Expense Comparision (2020-21 & 2021-22)

Rs. Million



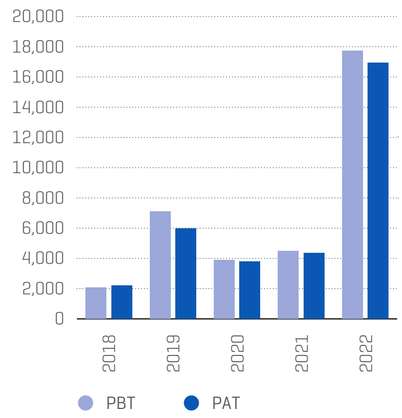
NET INTEREST INCOME, OTHER OPERATING INCOME AND EXPENSES

The decline in interest income was Rs. 3.19 Bn (9%) compared with the corresponding period in the previous year. The decline was primarily due to the reduction in interest rates and moratoriums granted to customers in compliance with the directions issued by the Central Bank of Sri Lanka (CBSL). Moreover, the decline in the interest income was also due to the reduction in the lease portfolio resulting from the restrictions imposed on importation of motor vehicles. In contrast, interest expense reduced by Rs. 3.467 Bn, which was 28% less than the previous year. Despite the decrease in the lending portfolio prompting a reduction in interest income, the overall net interest income increased marginally by Rs. 275 Mn, a 1.29% growth due to decrease in the overall borrowings resulting from the steep drop in the interest rates, reducing the overall borrowing costs of deposits. Other operating income increased by 11.88%, reaching Rs. 11.52 Bn compared to Rs. 10.3 Bn reported in the previous year. This was primarily due to the increase in fair value of investment properties, derivatives - forward contracts, investment securities and the robust collections efforts made during the current financial year. Total overheads of the Company increased marginally by 3% as the Company acted decisively to put in place efficient cost management mechanisms throughout the organisation.

PROFITABILITY

The Company has delivered strong Profit After Tax (PAT) of Rs. 16.95 Bn for the financial year, placing LOFC among the highest value-creating institutions in the nation despite the difficulties of slow economic growth and asset quality deterioration as a result of the pandemic. Return on Assets (ROA) and Return on Equity (ROE) were 7.04% and 28% respectively, as against 2.41% and13% reported in the previous year.

Profitability
Rs. Million



ASSET BASE

With the merger with Commercial Leasing & Finance PLC (CLC), the total assets base of LOFC increased to Rs. 311.6 Bn compared to Rs. 170 Bn in the previous financial year. The Company's total assets include cash and cash equivalents, lending portfolio, investments in Government securities and deposits, investments in properties, other receivables and fixed assets. The lending portfolio made up 66% of the total assets and was worth Rs. 207 Bn, up from Rs. 105 Bn the year before mainly as a result of the inclusion of CLC's lending portfolio following the merger. Investments in Government securities and deposits with banks and other financial institutions reached Rs. 27 Bn, 11% of the total assets. Investment Properties (IP) of the merged entity stood at Rs. 38 Bn, representing 12% of total assets. Investment property prices appreciated, leading to higher valuations, thus strengthening the Balance Sheet of the Company.

LENDING PORTFOLIO

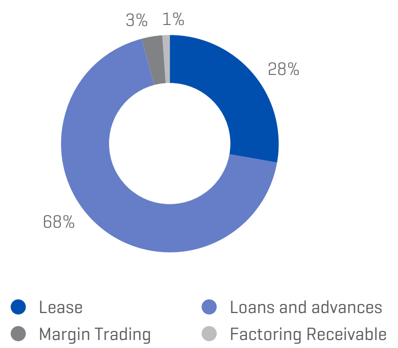
The Lending portfolio increased to Rs. 206.81 Bn following the merger. The major part of the portfolio (68%) consists of loans, including mortgage loans, sundry loans, gold loans and credit cards. These loans were mainly financed for both working capital and consumption requirements of various customers. Credit card portfolio, one of the high yielding products introduced four years ago, increased by Rs. 890 Mn, which was a 65% increase during the current year.

The Gold loan portfolio showed remarkable progress during the current financial year, increasing by Rs. 6 Bn, a 63% increase against the previous finance year. The Company accelerated its Gold loan portfolio significantly to capitalise on the competitive advantage of the gold loans business, a 100% secure loan facility.

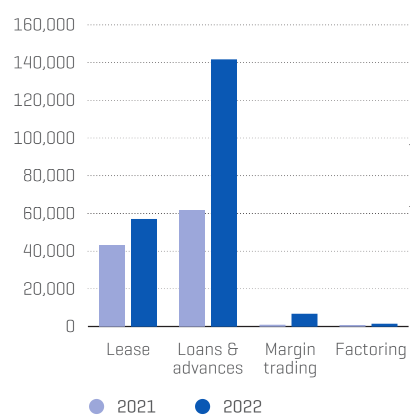
Leases, which include all types of vehicle and equipment, represented 18% of the total lending portfolio. Strategies were adopted to capitalise on market opportunities to maintain the portfolio at satisfactory levels despite the external challenges. As a result, we were able to maintain the portfolio at same levels with only a marginal drop in comparison to the previous financial year.

The Alternative Financial Services portfolio at Rs. 23.45 Bn, remained at 11% of the total lending portfolio.

Lending Portfolio



Comparison of Main Component in Lending Portfolio (2021-22 & 2020-21)
Rs. Million



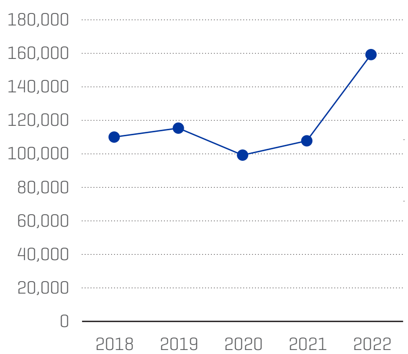
FUNDING – DEPOSITS AND BORROWINGS

The Deposit base reached Rs. 159 Bn at the end of the financial year which was a 48% increase compared to the previous year despite the record low interest rates in the market. Although CBSL continued to reduce the maximum deposit rate throughout the year, the steady performance of the Company and its strong history attracted new depositors to the company. The Company retained the title of the largest deposit-taking institution in the NBFI sector.

Conventional deposits remained the Company's primary source of funding, recording an increase of 48% from Rs. 83 Bn (2020/21) to Rs. 123 Bn following the merger. Also, deposits from the alternative business unit increased to Rs. 12.04 Bn which was a 4% increase in comparison to previous financial year, while foreign currency deposits increased significantly to Rs. 16.1 Bn, reflecting a 56% increase during the year. The risk of exchange rate fluctuations is effectively managed via forward exchange rate contracts and back-to-back deposits entered into by the Company, resulting in zero exposure.

Movement of Interest Income in last Consecutive Five Years

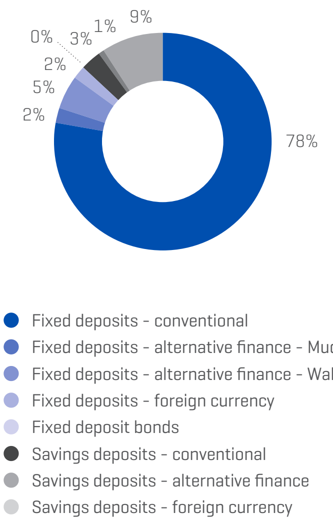
Rs. Million



Other borrowings have dramatically increased from Rs. 19 Bn to Rs. 53.7 Bn, mostly as a result of the transfer of CLC's borrowings after the merger. These borrowings comprise of short-term loans, long-term loans, finance leases and debentures.

Customer deposits constituted 76% (down from 85% in 2021) of the total borrowings and the balance 24% (up from 15% in 2021) was from banks and other borrowings.

Deposit Composition 2021-2022



REGULATORY RATIOS

Capital Adequacy Ratio (CAR)

Licensed Finance Companies are required to maintain minimum core capital adequacy ratio (Tier 1) of 8% and total capital adequacy ratio (Tier II) of 12% as per the Finance Business Act Direction No. 3 of 2018. Retained profits strengthened the capital adequacy requirements of the Company. The Tier I / Core Capital Adequacy Ratio was 20.49% (2020/21-15.88%) and the total Capital Adequacy Ratio (Tier II)reached 20.71% (2020/21- 18.01%), well above the regulatory required limit.

Capital Funds to Deposit Ratio

The capital funds to deposits ratio improved to 40.76% as of 31 March 2022, compared to the comparative period (29.19%). The ratio was significantly higher than the required minimum level of 10% imposed by Central Bank of Sri Lanka.

Liquid Assets

Required minimum liquid assets remain at 10% of time deposits, 15% of savings deposits and 10% of outstanding borrowings, excluding secured borrowings and unsecured foreign currency borrowings as per the Finance Business Act Direction No. 07 of 2020. The liquid assets of the Company stood at Rs. 39.24 Bn which was well above the required minimum amount of Rs. 19.81Bn. The liquid assets are maintained in government securities and deposits with banks and other financial institutions, thus optimising returns to the Company.

Non-Performing Loans and Advances (NPL)

While the industry-wide Non-Performing Loan (NPL) ratio was 9.11% at the end of the financial year, the Company's NPL ratio decreased from 12.61% to 6.71 %, strengthening the credit quality of the portfolio which was at a challenging level at the beginning of the year.

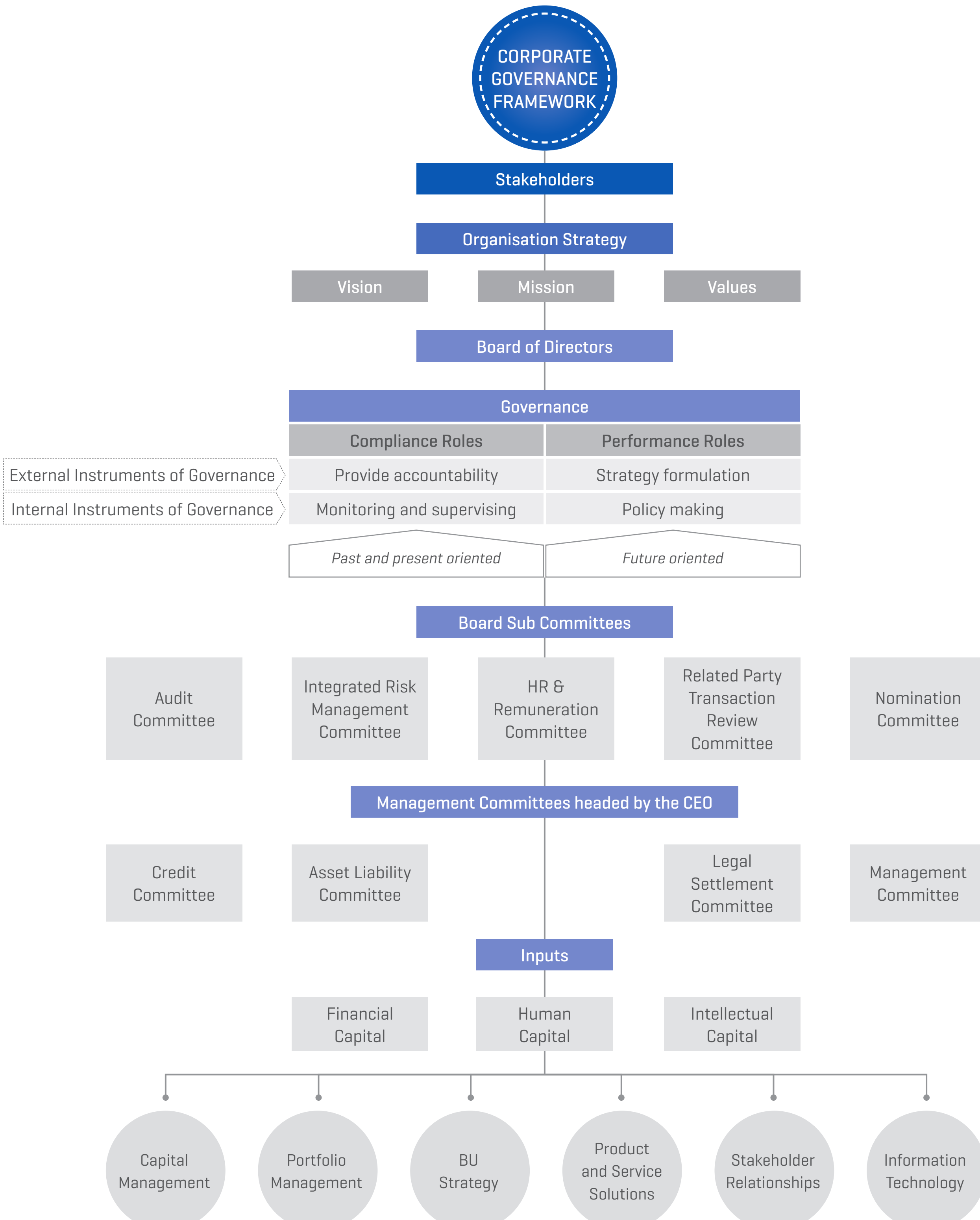
LOFC's sustainable strategy has been to leverage on its unique business model with advanced technology platforms to power business growth and profitability. As the largest NBFI in the country, LOFC is uniquely positioned to drive economic growth by financing grassroots businesses to expand while supporting the nation's trading and export communities to seize opportunities for growth and diversification.

As the country faces unprecedented economic challenges due to depleting external dollar reserves and rising political instability, the Company is proactively taking steps to safeguard its balance sheet and strengthening credit policies and collections, while expanding the deposit base. The Company's future-focused strategy goals and the initiatives it has put in place to improve credit quality will guarantee moderate growth over the coming years, with robust growth in the medium and long term.

STEWARDSHIP

OUR COMMITMENT TO GOOD GOVERNANCE AND TRANSPARENCY HAS ENABLED US TO GROW STRONGER, AND CONTINUE TO EXPAND IN THE YEARS TO COME.

Corporate Governance



Your Company continued to maintain high standards of corporate governance and ethical business conduct across all aspects of its operations and decision- making processes during the year under review.

FRAMEWORK

The governance framework of LOLC Finance ensures alignment of its business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board Sub-Committees and Management.

INSTRUMENTS OF GOVERNANCE

The corporate governance framework of LOLC Finance encompassing external and internal instruments of governance, enables the Board to provide assurance to investors that they have discharged their duties responsibly. The Board of Directors of LOLC Finance and staff at all levels consider it their duty and responsibility to act in the best interests of the Company.

It is this strong set of values that has facilitated the trust that our stakeholders have continued to place on the core values underlying our corporate activities.

The external instruments of governance at LOLC Finance include the Companies Act, No. 7 of 2007, the Finance Business Act, No. 42 of 2011, the Finance Leasing Act, No. 56 of 2000, the Foreign Exchange Act, No. 12 of 2017, the Payment and Settlement Systems Act, No. 28 of 2005, the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 including rules and directions issued to Finance Companies from time to time by the Monetary Board of the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange. The internal instruments of governance include the Articles of Association, the Role of the Board, Board approved policies, procedures, and processes for internal controls and anti- money laundering.

Policies and procedures have been established taking into consideration governance principles that define the structure and responsibility of the Board to ensure legal and regulatory compliance, to protect stakeholder interests, to manage risk and enhance the integrity of financial reporting. A whistle- blowing policy has been introduced and the number of the related 'hotline' has been shared with all employees. This was done to enhance accountability, so that deliberate deviations from controls and/ or processes and procedures could be highlighted by any employee and thus addressed promptly.

BOARD OF DIRECTORS

The Board is responsible for the stewardship of the Company and the Directors ensure good governance at Board level and below on the basis of sound principles that provide the framework of how the business is conducted.

The members of the Board consist of persons with multiple industrial/ professional backgrounds in which they have achieved eminence, who contribute effectively to decisions made by the Board to guide LOLC Finance towards achieving its objectives. In accordance with best practices, the offices of Chairman and Chief Executive Officer are separate and the Chairman is a Non-Executive Director. This ensures a balance of power and enhances accountability. To bring in a greater element of independence the Board appointed Mr P A Wijeratne as the Senior Independent Director (SID).

The Appointment of Directors are subject to Central Bank approval with subsequent approval taken from the shareholders (for re-election) at an Annual General Meeting (AGM). At these meetings, an opportunity is given to all shareholders (public and nonpublic) to approve or to reject such appointments. Resolutions on new appointments/ re-appointment are communicated to the shareholders through the "Notice of the Annual General Meeting", with due prior notice.

MONITORING AND EVALUATION BY THE BOARD

LOLC Finance has in place a number of Board Sub-Committees to fulfil regulatory requirements and for better governance of its activities. These committees meet periodically to deliberate on matters falling within their respective charters/terms of reference and their recommendations are duly communicated to the main Board.

The following mechanisms are in place for the Board to oversee the accomplishment of the targets in the business plan: review the performance of LOLC Finance at monthly Board meetings; seeking recommendations through Board appointed Sub-Committees on governance, including compliance with internal controls, human resources, risk management, credit and IT; review of statutory and other compliances through a monthly paper on compliance submitted to the Board covering the operations of LOLC Finance.

The corporate governance philosophy of LOLC Finance is within a framework of compliance and conformance, which has been established at all levels through a strong set of corporate values and a written Code of Conduct. All employees are required to embrace this philosophy in the performance of their official duties and in other situations that could affect the Company's image.

SKILLS AND PERFORMANCE OF THE BOARD

The updating of the skills and knowledge of all Directors are achieved by updates on proposed/new regulations, industry best practices, market trends and changes in the macro environment. It is also facilitated by providing them access to external and internal auditors, access to other external professional advisory services and the Company Secretaries, keeping them fully briefed on important developments in the business activities of the Group and by periodic reports on performance, and opportunities to meet Senior Management.

As required by the Finance Companies Corporate Governance Direction No.05 of 2021, the Board enhanced the scope of its annual performance assessment framework. Apart from the self evaluation undertaken by each director, evaluation of performance of board members including the CEO by the Chairman, Chairman's performance by non-executive directors' as well as board sub committee evaluation by respective committee members have been established commencing March 2022. These evaluations are subsequently tabled at a Board meeting for review and to address areas that require improvement. Related records are maintained by the Company Secretaries.

ENGAGEMENT WITH SHAREHOLDERS

The shareholders of LOLC Finance have multiple ways of engaging with the Board: the Annual General Meetings which are the main forum at which the Board maintains effective communication with its shareholders on matters which are relevant and of concern to the general membership such as the performance and their return on investment of LOLC Finance; access to the Board and the Company Secretaries; written correspondence from the Company Secretaries to inform shareholders of relevant matters; the website of LOLC Finance which is accessible by all stakeholders and the general public; and disclosures disseminated through the Colombo Stock Exchange including interim reporting.

ENGAGEMENT WITH EMPLOYEES

LOLC Finance recognises that employee involvement is a critical pre-requisite towards ensuring the effectiveness of the corporate governance system and therefore attaches great importance to employee communications and employee awareness of key events and significant developments. The necessity of sincere and regular communication in gaining employee commitment to organisational goals and values are stressed extensively and intensively through various communiques issued periodically by the Directors' Office. LOLC Finance follows an open-door policy for its employees at all levels. Regular dialogue is also maintained on work related issues as well as on matters pertaining to general interest that affect employees and their families.

In terms of engaging with the employees, the key channels used by the Board include the Executive Director/CEO who is an employee director and the main link between the Board and the rest of the employees; and the Board members and Board sub committees who conduct effective dialogue with the members of the Management on matters of strategic direction.

AVOIDING CONFLICTS OF INTEREST

The Governance structure at LOLC Finance ensures that the Directors take all necessary steps to avoid conflicts of interest in their activities with, and commitments to other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, such matters are disclosed and discussed at Board meetings, where Independent Directors who have no material interest in the transaction are present.

EXTERNAL AUDIT

M/s Ernst & Young, Chartered Accountants were re-appointed as External Auditors of the Company by the shareholders at the Annual General Meeting held in September 2021.

Their services were also engaged to seek: a) an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board; and b) the Company's level of adherence to the internal controls on financial reporting.

The external auditor's certification on the effectiveness of the Internal Control Mechanisms in respect of the audited financial statements released has been published in this Annual Report.

The Directors confirm that no significant deviations have been observed by the External Auditors and that the Company has not engaged in any activity that contravenes any applicable law or regulation. To the best of the knowledge of the Directors the Company has been in compliance with all prudential requirements, regulations and laws.

The extent of compliance as required by the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and the Listing Rules of the Colombo Stock Exchange and subsequent amendments thereto:

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
2	**The Responsibilities of the Board of Directors**	
2.1	**The Board of Directors shall strengthen the safety and soundness of the finance company by:**	
a.	approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;	**Complied with** Board approved vision, mission and corporate values have been established and communicated throughout the company. The Company has developed a policy on Code of Conduct and Ethics for directors and employees, in line with strategic objectives & corporate values of the company.
b.	approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years;	**Complied with** The Company has formulated a three year Strategic Plan covering 2022-2025 which has been approved by the Board. This strategy has taken into account the related risks including the volatility of the economic/political/social conditions in which it operates which could cause disruptions in achieving its objectives.
c.	identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	**Complied with** The Board has delegated this function to its Sub-Committee, the Integrated Risk Management Committee (IRMC). The Board has approved an annual plan submitted by Enterprise Risk Management Division (ERM) which covers risk management. In line with the Risk Policy ERM reports are submitted to the IRMC which then reviews the risk and agrees on appropriate mitigation methods. Monthly risk reports are tabled at Board Meetings by ERM in order to highlight emergent risks. Furthermore, minutes of the quarterly IRMC meetings are tabled at Board Meetings for review and guidance. Risk Management Reports on Liquidity and Maturity of Deposits are submitted to the Board by the Treasurer on a monthly basis.
d.	approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	**Complied with** A Board approved Stakeholder Communication Policy which covers all stakeholders is in place. This was reviewed and revised on 30.03.2021.
e.	reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	**Complied with** The key processes that have been established by the Board to review the adequacy and integrity of the Company's Internal Controls and Management Information Systems, include the following: 1. The Board Audit Committee and the Board Integrated Risk Management Committee ensures that the Company's controls and risks are being appropriately managed and actions proposed for mitigation of risks. These two committees facilitate an ongoing process for identifying, evaluating and managing significant risks faced by the Company, including enhancing the system to cater to changes in the business and regulatory environment.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
		2. The CEO through the Heads of Departments ensure that approved business strategies are implemented and that agreed policies and procedures on risk/ internal control are implemented and adhered to. The Heads of Departments are therefore accountable and responsible for their respective areas of operation, including the accuracy of information presented to the Management/ Board, and managing risk in their day- to-day activities through established processes and controls. In addition the Internal Audit ensures that staff adheres to such processes and controls. Where there is a breach of authority, such issues are escalated to the Board through the Board Audit Committee. 3. The Internal Audit performs a comprehensive exercise that entails reviewing of all aspects of Management Information Systems including operational and regulatory risks. Product- wise MIS reviews have been periodically carried out by the Internal Audit. The Internal Audit also provides an independent assurance that the Company's risk management, governance and internal control processes are operating effectively and fit for purpose. The Board is of the view that the system of internal controls and management information systems in place are sound and adequate to provide reasonable assurance regarding the reliability of management information and financial reporting.
f.	identifying and designating Key Management Personnel, who are in a position to: (i) influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	**Complied with** Board members including the CEO, heads of core functions and BUs have been identified and designated as Key Responsible Persons (KRPs) by the Board as defined in the Sri Lanka Accounting Standards. This is reviewed by the Board as and when necessary.
g.	defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel;	**Complied with** Articles 76-78 of the Company's Articles of Association define the powers and duties of the Board of Directors. Further the responsibilities of the Board have been defined and approved. The areas of authority and responsibilities of the KRPs defined in individual job descriptions have been approved by the Board.
h.	ensuring that there is appropriate oversight of the affairs of the finance company by Key Management Personnel, that is consistent with the finance company's policy;	**Complied with** The Company has a policy on oversight of the affairs of the Company by KRPs including a process to review the delegation process approved by the Board. Delegated authority given to KRPs is reviewed periodically by the Board to ensure that they remain relevant to the needs of the company.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
i.	periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of Directors and appointment of Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	**Complied with** The Company has a Board approved procedure for appointment of Directors. Election of Directors is effected in accordance with the requirements of the directions issued by the Central Bank of Sri Lanka and the Companies Act, No. 07 of 2007. Directors are selected and nominated to the Board for skills and experience in order to bring about an objective judgment on issues of strategy, performance and resources. Effectiveness of this process is ascertained by their contribution at board meetings in their respective fields. A Nomination Committee has been appointed to assist the Board in identifying qualified individuals as potential directors. KRPs are selected and recruited in terms of the HR policy of the Company. Articles 79-87 of the Company's Articles of Association address the management of conflicts of interest of directors. A procedure for managing Board conflicts has been further approved by the Board. Conflicts of interest are managed on a monthly basis where Directors disclose their interests in other companies. KRPs declare their interests annually. Annual assessments of Directors were tabled subsequent to the financial year end, to determine any weaknesses of the above process and to implement changes where necessary.
j.	ensuring that the finance company has an appropriate succession plan for key management personnel;	**Complied with** The Company has a succession plan approved by the Board. This requires further review to reflect changes to staff structures/KRPs consequent to the merger with Commercial Leasing and Finance PLC.
k.	meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	**Complied with** KRPs are called in by the members of the Board during Board and Board Committee meetings when the need arises to explain matters relating to their area of functions.
l.	understanding the regulatory environment;	**Complied with** As a practice, the Company Secretaries includes an agenda item in monthly Board meetings tabling correspondence with regulators which enable the Directors to understand the regulatory environment, concerns and changes and make appropriate decisions. A monthly Compliance Report is also tabled at Board meetings. This report includes details of weekly, monthly, and annual returns duly submitted to the CBSL and the requirements of all the directions issued by the Monetary Board and the Company's current position with regard to each direction. A monthly confirmation is provided by the Head of Finance of statutory payments made such as VAT, VAT on financial services, EPF, ETF, PAYE and Stamp duty.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
m.	exercising due diligence in the hiring and oversight of External Auditors.	**Complied with** The Board Audit Committee is responsible for the hiring and overseeing of external auditors. Article 122 of the Company's Articles of Association lays down a process for appointing of external auditors at the AGM. The Audit Committee has recommended that the auditors be re-appointed for 2021/2022. The Audit Committee is governed by a Board approved Audit Charter/TOR. Reviews are carried out to the Charter as and when necessary to ensure relevance. No reviews were carried out during the year under review.
2.2	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with paragraph 7 of this Direction.	**Complied with** The Board has appointed the Chairman and CEO. Functions and responsibilities of the Chairman and the CEO have been defined and approved by the Board.
2.3	There shall be a procedure determined by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) to discharge the duties to the finance company.	**Complied with** A Board-approved detailed procedure has been established to obtain independent professional advice when necessary.
2.4	A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	**Complied with** Article 79 of the Company's Articles of Association requires an interested Director to disclose his/her interest at Board meetings. Article 83 requires such a Director to abstain from voting on any Board resolution. He/she will not to be counted in the quorum. In addition, a Board approved procedure is established to manage conflicts of interest of the Board members.
2.5	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	**Complied with** The Board approved policy on the Role of the Board defines its responsibilities and the matters which are specifically reserved to it for approval. Additionally a Board-approved Terms of Reference have been established for Executive and Non-Executive Directors, including Independent Directors. The Board has put in place systems and controls to facilitate the effective discharge of Board functions. Pre-set agenda of meetings ensure the direction and control of the Company is firmly under Board control and authority. The agenda of the monthly Board meetings includes reports on performance and on compliance with relevant regulations. This enables the Board to ensure that the company performs at an optimal level, while being fully compliant.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
2.6	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	**Will comply with if the need arises.** The Board has implemented a procedure to alert them of any such event - in that, based on an assurance provided by the Head of Finance, the Compliance Officer reports in the monthly compliance statement that the Company could remain a going concern.
2.7	The Board shall include in the finance company's Annual Report, an annual Corporate Governance report setting out the compliance with this Direction.	**Complied with** This report serves the said requirement.
2.8	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	**Complied with** The Directors carry out a self evaluation annually and records are in the custody of the Company Secretaries.
3	**Meetings of the Board**	
3.1	The Board shall meet at least 12 times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	**Complied with** The Board met 12 times during the year. Please see page 50 for further details. Approvals obtained through the circulation of resolutions (62) were subsequently tabled at the following board meeting.
3.2	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	**Complied with** A Board approved Policy on Board's relationship with the Company Secretary is in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
3.3	A notice of at least seven days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	**Complied with** A schedule of all meetings for the coming year is circulated to all Directors at the end of December or beginning of January. At the beginning of each month, a reminder of all meetings during that month is also sent out. In addition, notices are sent out seven days prior to the meeting. All these enable any Director to seek to include matters in the Agenda. Date of the next meeting is agreed by all the members of the Board as a practice. Reasonable notice has been given for all other Board meetings.
3.4	A Director who has not attended at least two- thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an alternate director shall, however, be acceptable as attendance.	**Complied with** All the members have attended two-thirds or more of the meetings during the year. Please refer page 50 for further details.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
3.5	The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and Shareholder meetings and to carry out other functions specified in the statutes and other regulations.	**Complied with** LOLC Corporate Services (Pvt) Ltd has been appointed as Company Secretaries of the Company.
3.6	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a board meeting, the Company Secretary shall be responsible for carrying out such function.	**Complied with** The Board approved policy on Board's relationship with the Company Secretary provides for the Chairman to delegate to the Company Secretary the preparation of the agenda for Board meetings.
3.7	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	**Complied with** The Board approved policy on Board's relationship with the Company Secretary provides that all Directors shall have access to the advice/services of the Company Secretary.
3.8	The Company Secretary shall maintain the minutes of board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	**Complied with**
3.9	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Finance Company is exposed and an overview of the Risk Management measures adopted; and (f) the decisions and board resolutions.	**Complied with** Proceedings of meetings are recorded in minutes covering the given criteria.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
4	**Composition of the Board**	
4.1	The number of Directors on the Board shall not be less than five and not more than 13.	**Complied with** The Board comprised six (6) members up to 26.06.2021 and reduced to five (5) thereafter upon retirement of a member which is within the range stipulated in the Direction. The Board comprised six members as at 31st March 2022 with the appointment of Mr. D M D K Thilakaratne.
4.2	The total period of service of a Director other than a director who holds the position of Chief Executive Officer or executive Director shall not exceed nine years. The total period in office of a Non-Executive Director shall be inclusive of the total period of service served by such Director up to the date of this Direction.	**Complied with** Mrs. D P Pieris retired having completed nine years on 26th June 2021.
4.3	Subject to the transitional period an employee of a finance company may be appointed, elected or nominated as a Director of the finance company (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the company.	**Complied with** Board comprised two Executive Directors (including the Director/CEO), and four Non-Executive Directors of whom two were Independent.
4.4	Subject to the transitional period the number of independent Non-Executive Directors of the Board shall be at least one-fourth of the total numbers of directors. A Non-Executive Director shall not be considered independent if such Director: a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company; b) has or had during the period of two years immediately preceding his appointment as Director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the Capital funds of the finance company as shown in its last audited balance sheet; c) has been employed by the finance company during the two year period immediately preceding the appointment as Director;	**Complied with** The Board comprised three (03) Independent, Non-Executive Directors up to 26th June 2021 and two (02) thereafter, which complies with the direction requirement. Mr. P A Wijeratne, Senior Independent Director Mr. K Sundaraj, Independent Non-Executive Director

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
	d) has a relative, who is a Director or Chief Executive Officer or a Key Management Personnel or holds shares exceeding 10% of the paid up Capital of the finance company or exceeding 12.5% of the paid up capital of another finance company. e) represents a shareholder, debtor, or such other similar stakeholder of the finance company; f) is an employee or a Director or has a shareholding of 10% or more of the paid up Capital in a company or business organisation: (i) which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or (ii) in which any of the other Directors of the finance company is employed or is a Director or holds shares exceeding 10% of the Capital funds as shown in its last audited balance sheet of the finance company; or (iii) in which any of the other Directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the Capital funds, as shown in its last audited balance sheet of the Finance Company.	
4.5	In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non- Executive Director.	Will comply when a need arises
4.6	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	**Complied with** Directors' profiles are provided on page 8.
4.7	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one half of the number of Directors that constitute the quorum at such meeting are Non-Executive Directors.	**Complied with** The Company's Articles of Association (Article 98) provide that a quorum for a meeting is a majority provided that half of such quorum is Non-Executive. The quorum had been maintained at all Board meetings held during the financial year 2021/2022. Details of attendance at meetings are provided on pages 50 to 51.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
4.8	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the finance company. The finance company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report which shall be an integral part of its Annual Report.	**Complied with** The Directors during the year under review were: 1. F K C P N Dias - Chairman, Non-Executive Director 2. D M D K Thilakaratne - Executive Director/CEO 3. Mrs. K U Amarasinghe – Executive Director 4. B C G de Zylva – Non-Executive Director 5. P A Wijeratne - Senior Independent Director 6. K Sundararaj – Independent Director 7. Mrs. D P Pieris –Senior Independent Director (statutory retirement from the Board with effect from 26.06.2021) The Directors' profiles are given on page 8.
4.9	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	**Complied with** The Board has formed a Nomination Committee for this purpose and there is a Board approved procedure for the Board members to select and appoint new Directors to the Board. The Company's Articles 70-74 address the general procedure for appointment and removal of Directors to the Board. Furthermore the Company adheres to the Finance Companies (Fitness and Propriety of Directors and Officers performing Executive Functions) Direction No. 3 of 2011 when appointing new directors.
4.10	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	**Complied with** Article 70 of the Company's Articles of Association provides that Directors appointed shall be subject to election by shareholders at the first AGM.
4.11	If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	**Complied with** Directors' resignation and the reason for such resignation are duly informed to the Central Bank of Sri Lanka (CBSL) and Colombo Stock Exchange (CSE). The Board announces such situations to the shareholders through its Annual Report.
5	**Criteria to assess the fitness and propriety of directors**	
5.1	Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a finance company. (As amended by Direction No. 05 of 2020, Existing directors who attain 70 years of age on after 18/06/2020 shall continue in office subject to section 4.2 of this direction and the prior approval of the Monetary Board)	**Complied with** The Board of Directors have been assessed as fit and proper in terms of Section 3 (3) of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011. During the year under review the age of the current Directors were within the period permitted under this direction.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
5.2	A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies/ societies/bodies corporate, including associate companies and subsidiaries of the finance company.	**Complied with** No Director holds directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies.
6.	**Delegation of Functions**	
6.1	The Board shall not delegate any matters to a Board committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	**Complied with** Article 77 of the Company's Articles of Association empowers the Board to delegate its powers to a Committee of Directors or to a Director or employee upon such terms and conditions and with such restrictions as the Board may think fit. The Board has established a procedure under which powers have been delegated to the Director/CEO as sanctioned by the Company's Articles of Association.
6.2	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Finance Company.	**Complied with** The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Company. A process to review the delegation process has been approved by the Board.
7.	**The Chairman and the Chief Executive Officer**	
7.1	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the one and the same person.	**Complied with** Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.
7.2	The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	**Complied with** F K C P N Dias, Non-Executive Director was appointed as the Chairman, w.e.f 31st March 2022. Upon the pending retirement of Mrs. D P Peiris, the Board approved the re-designation of Mr. P A Wijeratne as the next Senior Independent Director on 23rd June 2021 and he was appointed as the Senior Independent Director on 23rd August 2021 on receiving CBSL approval.
7.3	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	**Complied with** The Company as a practice discloses relationships in the Annual Corporate Governance Report. There is no financial, business, family or other relationship between the Chairman and the Director/CEO. There is no financial, business, family or other material relationship between any other members of the Board. A process has been developed for Directors to disclose any relationships between the Chairman and the CEO and or between any other Board members.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
7.4	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.	**Complied with** The Chairman is responsible to lead, direct and manage the Board to ensure that it operates effectively and fully discharges its legal & regulatory requirements.
7.5	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	**Complied with** The Chairman has delegated this function to the Company Secretaries. This has been included in the 'Policy on Board's relationship with the Company Secretary' approved by the Board.
7.6	The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	**Complied with** The Chairman ensures that all Directors are properly briefed on issues arising at Board Meetings by submission of the agenda and Board papers with sufficient time prior to meetings. Further, minutes of previous month's Board meeting are distributed to the Board members and tabled at the next Board meeting for review and approval.
7.7	The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	**Complied with** The Chairman invites all directors to contribute to the deliberations of the Board in all its decision making.
7.8	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	**Complied with** The Company's self-evaluation process assesses the contribution of Non-Executive Directors.
7.9	Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	**Complied with** The Chairman does not engage in activities involving direct supervision of key management personnel.
7.10	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	**Complied with** A Board approved communication policy covers this aspect. The Annual General Meeting of the Company is the main forum at which the Chairman including the Board maintains effective communication with shareholders. Periodic announcements made to the Colombo Stock Exchange also contribute towards this purpose.
7.11	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.	**Complied with**

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
8.	**Board appointed Committees**	
8.1	Every Finance Company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.	**Complied with** The Company has established an Audit Committee and an Integrated Risk Management Committee. Reports of these committees have been submitted to the main Board for their review. Please refer the reports on pages 60 to 64.
8.2	Audit Committee	Please refer page 60 for the Committee Report.
a.	The Chairman of the committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	K Sundararaj, Independent Non-Executive Director, was appointed as the Chairman of the Audit Committee on 28th May 2020. Mr. Sundararaj counts over 28 years experience in Accounting, Auditing and Tax consulting. He started his career as a Chartered Accountant in 1998 and is currently serving as the Tax Partner in M/s Amerasekera and Company, Chartered Accountants. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka and holds a Master of Business Administration in Finance from the University of Colombo.
b.	The Board members appointed to the committee shall be Non-Executive Directors.	**Complied with** The Committee consists of Non-Executive Directors a majority of whom are independent. The members of the Committee are: 1. K Sundararaj – Committee Chairman/Independent Non-Executive Director 2. P A Wijeratne - Senior Independent Director 3. B C G de Zylva - Non-Executive Director (appointed w.e.f.31.03.2022)
c.	The committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	**Complied with** A formal agenda for Audit Committee meetings including items prescribed by the direction is followed for the conduct of Audit Committee meetings. The implementation of CBSL guidelines and relevant accounting standards; and the evaluation of the service period, fees and rotation of External Auditors are carried out by the Audit Committee in consultation with the Head of Finance.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
d.	The committee shall review and monitor the External Auditors' independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	**Complied with** The External Auditors are independent as they report direct to the Audit Committee of the Board. Further, the Auditors' Engagement Letter is evidence of the External Auditors' independence, and that the audit is carried out in accordance with SLAuS.
e.	The committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditors' independence or objectivity. When assessing the External Auditors' independence or objectivity in relation to the provision of non-audit services, the committee shall consider: (i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the External Auditor.	**Complied with** The Board has approved a specific procedure for the engagement of the External Auditors for providing non-audit services.
f.	The committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the finance company's compliance with directions issued under the act and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements in accordance with relevant accounting principles and reporting obligations; and (iii) the coordination between auditors where more than one auditor is involved.	**Complied with**

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
g.	The Committee shall review the financial information of the Finance Company, in order to monitor the integrity of the financial statements of the finance company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's Annual Report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	**Complied with** The Committee has a process to review financial information of the Company when the quarterly and annual audited Financial Statements and the reports including accounting policies and changes to policies, significant assumptions/ judgements prepared for disclosure are presented to the Committee.
h.	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary	**Complied with** Of the nine meetings held during the year, the Committee met the external auditors at four meetings and on three occasions the auditors met the Committee in the absence of the executive management.
i.	The Committee shall review the External Auditors' management letter and the management's response thereto.	**Complied with**
j.	The Committee shall take the following steps with regard to the internal audit function of the finance company:	**Complied with**
	(i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	The Committee has considered the scope of the internal audit function and noted the adequacy of resources and that necessary authority had been allocated to carry out its work.
	(ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	The Audit Plan for 2021/2022 was tabled by the Head of Internal Audit and had been approved by the Board as recommended by the Audit Committee.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
	(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	An overall assessment of performance of the senior staff members and the Head of Internal Audit for the year 2021/2022 has been carried out by the Committee.
	(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	During the year under review a new Head of Internal Audit was appointed with the approval of the CBSL.
	(v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	No such situation has arisen during the year.
	(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	The Committee is satisfied that the internal audit function is performed with independence, impartiality and proficiency. The internal auditor reports direct to the Board Audit Committee.
k.	The committee shall consider the major findings of internal investigations and management's responses thereto;	**Complied with**
l.	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the committee shall meet with the External Auditors without the Executive Directors being present.	**Complied with** The Committee has had three meetings with the External Auditors in the absence of the Executive Directors and the management.
m.	The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	**Complied with** The Board approved Terms of Reference of the Audit Committee ensures that it has the authority for points i to iv as required by the direction.
n.	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	**Complied with** During the year 2021/2022 the Committee has held nine meetings and conclusions of such meetings have been recorded by the Company Secretary in the Minutes of the relevant meetings.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
o.	The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings.	**Complied with** Please refer the Audit Committee Report on page 60.
p.	The secretary to the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	**Complied with**
q.	The Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the External Auditor.	**Complied with** A whistle-blowing hotline has been publicised to all employees. The related policy is periodically reviewed and strengthened to cover the method of reporting any matters investigated to the Board Audit Committee.
8.3	Integrated Risk Management Committee	Please refer page 61 for the Committee Report.
a.	The Committee shall consist of at least one Non-Executive Director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	**Complied with** The Integrated Risk Management Committee comprises: 1. P A Wijeratne - Committee Chairman/ Senior Independent Director 2. K Sundararaj - Independent Director 3. B C G de Zylva - Non-Executive Director
b.	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	**Complied with** As delegated by the Committee the Head of Risk Management assesses risks which have been identified by heads of divisions on a monthly basis and reported to the Board; while a detailed assessment of risks with mitigants are submitted quarterly to the Committee. The ERM Department has established risk indicators under different risk categories which are monitored by a QPR system under the following categories: Liquidity Risk, Operational Risk, Strategic Risk, Credit Risk, Business Risk, Profitability Risk, Technology Risks, Compliance Risk, Reputational Risk and Stress Testing.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
c.	The Committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	**Complied with** During the year the Committee monitored the activities of the ALCO through direct reports and minutes of ALCO meetings which are tabled at the quarterly IRMC meetings. Matters reported by the ALCO include: Funding Gap analysed through Maturity Gap Analysis, Foreign Currency Position, Inter- company Exposures, Cost of funds, Investments and Borrowings. The lending rates are also periodically reviewed by the ALCO in line with regulatory requirements and market trends. Credit facilities are approved based on rates decided by the ALCO within the delegated authority limits. Treasury dealer limits have already been established and approved by the Board. Furthermore the treasury management system implemented enables the monitoring of Limit for total Net Open Position (NOP) USD/LKR intraday and overnight limits; Limits for Total Net Open Position of other currencies; Aggregate Gap Limits (AGL); Loss limits for FX operations; Loss Limits on Marking to Market (MtM) and counter party limits. At the financial year end, the Committee reviewed the adequacy and effectiveness of the ALCO against its terms of reference and addressed areas that required improvement. The Committee also reviewed the facilities approved by the Credit Committee and changes that had been made to credit policies and delegated authority limits. The overall evaluation of both these Committees were carried out subsequent to the year under review.
d.	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.	**Complied with** Decisions taken at Committee Meetings are followed up by the Head of Risk Management . All reported risks are constantly monitored and remedial corrective action is taken if an adverse movement of the risk is evident. The Company deployed stress testing methodologies to assess the parameters set for identified key risk indicators and deviations were reported to the Committee quarterly. This process is subject to continuous improvement and strengthening.
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	**Complied with** Four meetings were held during the financial year 2021/2022.
f.	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	**Complied with** Specific risks and limits are identified by the IRMC and decisions are taken collectively. Moreover a formal documented disciplinary action procedure involving Internal Audit and HR is in place.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
g.	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	**Complied with** The Head of Risk Management submits a summary report to the Members of the Board within seven days after the Committee meeting. This includes the risks discussed at IRMC meeting, mitigation actions proposed by ERM and the responses received from the risk owners. Further, approved Committee minutes are tabled at the subsequent Board meeting seeking the Board's views and specific direction.
h.	The Committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	**Complied with** A compliance unit has been established to carry out compliance responsibilities of the entity. A dedicated compliance officer in the capacity of a KRP has been appointed to head the compliance function. A monthly compliance sign-off is obtained from all business unit heads on regulatory requirements relating to their respective areas of responsibility. The Compliance Officer reports on the status of compliance to the Board and the Integrated Risk Management Committee on a monthly and quarterly basis respectively. Monitoring compliance with internal controls and approved policies on all areas of business operations are carried out under the supervision of the Head of Internal Audit.
9.	**Related party transactions**	
9.1	The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.	
9.2	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: a) A subsidiary of the finance company; b) Any associate company of the finance company; c) A Director of the finance company; d) A key management personnel of the finance company; e) A relative of a Director or a key management personnel of the finance company; f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company; g) A concern in which a Director of the finance company or a relative of a Director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.	**Complied with** A Board-approved process is in place to ensure that the Company does not engage in related party transactions as stipulated in this direction and to enable Directors to take measures to avoid a conflict of interest. Transactions with related parties are made with the sanction of the Board subject to such transactions being in the normal course of business. Further, Directors are individually requested to declare their transactions with the company at each Board meeting and in the annual declaration. A Board-approved procedure is in place to ensure that the Directors and the CEO make relevant disclosures in a timely manner, in the event they make an acquisition or disposal of shares in the entity, to facilitate making an announcement to the CSE within five market days upon such acquisition or disposal.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
9.3	The transactions with a related party that are covered in this Direction shall be the following: a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, c) providing financial or non-financial services to the finance company or obtaining those services from the finance company, d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.	**Complied with** The Board has appointed a Related Party Transaction Review Committee . The Committee comprises the following membership: 1. P A Wijeratne – Committee Chairman/ Senior Independent Director 2. K Sundararaj - Independent Director 3. B C G de Zylva – Non Executive Director
9.4	The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, "more favourable treatment" shall mean: a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of five years or more. b) Charging of a lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty; c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extends beyond the terms granted in the normal course of business with unrelated parties;	**Complied with** The Company has implemented a system that enables the Company to capture and retrieve data on RPTs. This system generates comprehensive reports for management review and for quarterly review of the Committee reflecting all related party transactions including expenses, income, lending and amounts outstanding. The Company will further strengthen the favourable treatment monitoring mechanism by implementing an online system.

Direction No.	Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's level of compliance
	d) Providing or obtaining services to or from a related party without a proper evaluation procedure; e) Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.	
10.	**Disclosures**	
10.1	The Board shall ensure that: (a) annual audited Financial Statements and periodical Financial Statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	**Complied with** The Financial Statements are prepared in accordance with the new Sri Lanka Accounting Standards (SLFRSs/LKASs) and the formats prescribed by the regulators. Annual Financial Statements are disclosed in the annual report; biannual (unaudited) financial statements are published in newspapers in all three languages and the quarterly statements are posted on CSE website.
10.2	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
a.	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	**Complied with** Please refer the Directors' Report on pages 54 to 57.
b.	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements has been done in accordance with relevant accounting principles and regulatory requirements.	**Complied with** Please refer the Directors' Statement on Internal Controls Over Financial Reporting on page 58.
c.	The External Auditors' certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31, 2010.	**Complied with** The Company has obtained a certification from M/s Ernst & Young, Chartered Accountants on the effectiveness of the internal controls over financial reporting. Please refer page 59 of the report.

<table>
<tr><th>Direction No.</th><th>Finance Companies Corporate Governance Direction No. 3 of 2008</th><th>LOFC’s level of compliance</th></tr>
<tr><td>d.</td><td>Details of Directors, including names, transactions with the finance company.</td><td>Complied with
Directors’ names and details are given in page 8. Transactions with Directors during the year are as follows:
Remuneration: Rs. 40,913,600.00
Accommodations: Nil
Deposits: Rs. 262,366,642.00
Interest for the year: Rs. 3,965,254.00</td></tr>
<tr><td>e.</td><td>Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after January 1, 2010.</td><td>Complied with
Fees/Remuneration paid amounted to Rs. 40,913,600.00</td></tr>
<tr><td>f.</td><td>Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company’s capital funds.</td><td>Complied with
Net accommodations granted to each category of related parties as a percentage of capital funds of the Company at the year end is disclosed on page 143 (note 33.2).</td></tr>
<tr><td>g.</td><td>The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.</td><td>Complied with
Remuneration: Rs. 117,818,470.00
Accommodations: Rs. 67,431,302.00
Deposits: Rs. 45,458,944.00
Interest for the year: Rs. 3,787,226</td></tr>
<tr><td>h.</td><td>A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non- compliances.</td><td>Complied with
Status of compliance with prudential requirements, regulations and laws are in the Directors’ report set out in pages 54 to 57.</td></tr>
<tr><td>i.</td><td>A statement of the regulatory and supervisory concerns on lapses in the finance company’s risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.</td><td>Complied with
There were no significant supervisory concerns/lapses
in the Company’s risk management and compliance with this direction to be directed by the Monetary Board to be disclosed to the public.</td></tr>
<tr><td>j.</td><td>The External Auditors’ certification of the compliance with the Act and rules and directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011.</td><td>Complied with
The Company has engaged the services of the External Auditors to assess the Company’s level of compliance with the Finance Companies Corporate Governance Direction No. 03 of 2008 issued by the Monetary Board and has obtained a report on factual findings.
However its publication has not been permitted by the Auditors as there is no clear guideline issued by the CBSL.</td></tr>
</table>

Section No.	Listing Rules of the Colombo Stock Exchange	LOFC's level of compliance
7.10	**Corporate Governance** Statement confirming that as at the date of the Annual Report that the Company is in compliance with these rules.	The Company is in compliance with the listing rules of the Colombo Stock Exchange, except for the requirements relating to Minimum Public Float. For further details please refer the Directors' Report on pages 54 to 57.
7.10.1	**Non-Executive Directors** The Board of Directors of a listed entity shall include at least: two Non-Executive Directors; or such number of Non-Executive Directors equivalent to one-third of the total number of Directors whichever is higher.	**Complied with** As at 31st March 2022 the Board comprised six directors, of whom four were Non-Executive Directors.
7.10.2 a.	**Independent Directors** Where the Constitution of the Board of Directors includes only two Non-Executive Directors in terms of 7.10.1, both such Non-Executive Directors shall be independent. In all other instances two or 1/3rd of the Non-Executive Directors appointed to the Board, whichever is higher shall be independent.	**Complied with** As at 31st March 2022 the Board comprised two Independent Directors from whom signed declarations of independence were obtained.
b.	The Board shall require each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.	The four Non-Executive Directors have submitted their declarations for the financial year ended 31/3/2022.
7.10.3 a.	**Directors disclosures** Names of the Independent Directors should be disclosed in the Annual Report.	**Complied with** The Company's Independent Directors are: Mr. P A Wijeratne Mr. K Sundararaj
b.	The Board shall make a determination annually as to the independence or non-independence of each director.	Declarations of Independence/non-independence from the four directors were assessed by the Board.
c.	In addition to disclosures relating to the independence of a director set out above, the board shall publish in its annual report a brief resume of each director on its board which includes information on the nature of his/her expertise in relevant functional areas.	Please refer Directors' profiles on page 8.
d.	Upon appointment of a new director to its board, the Entity shall forthwith provide to the Exchange a brief resume of such director for dissemination to the public. Such resume shall include information on the matters itemised in paragraphs (a), (b) and (c) above.	The Company complies with this requirement, in the event a new Director is appointed to the Board.
7.10.4	**Criteria for defining independence** Requirements for meeting the criteria to be an independent director.	Based on the criteria required, the Board has determined the independence of the two directors named above in accordance with the Rules of the Colombo Stock Exchange.

Section No.	Listing Rules of the Colombo Stock Exchange	LOFC's level of compliance
7.10.5	**HR & Remuneration Committee**	**Complied with**
a.	**Composition** The remuneration committee shall comprise; - of a minimum of two independent non-executive directors (in instances where an Entity has only two directors on its Board); or - of non-executive directors a majority of whom shall be independent, whichever shall be higher. One non-executive shall be appointed as Chairman of the committee by the board of directors.	As at 31st March 2022 the Committee comprised two Independent Non-Executive Directors and one Non-Executive Director. One Independent Non Executive Director serves as the Committee Chairman.
b.	**Functions** The Remuneration Committee shall recommend the remuneration payable to the executive directors and Chief Executive Officer of the Listed Entity and/or equivalent position thereof, to the board of the Listed Entity which will make the final determination upon consideration of such recommendations.	The committee periodically reviews Board Remuneration and makes recommendations to the Board.
c.	**Disclosure in the Annual Report** The annual report should set out the names of directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non- executive directors.	The Committee comprises Mr. P A Wijeratne, Mr. K Sundararaj, Mr F K C P N Dias, while Mr Wijeratne serves as the Committee Chairman. The Committee is guided by the Board approved Remuneration Policy. The aggregate remuneration paid to executive and non executive directors is disclosed in the Directors Report on
7.10.6	**Audit Committee**	**Complied with**
a.	**Composition** The audit committee shall comprise; - of a minimum of two independent non-executive directors (in instances where the Entity has only two directors on its board); or - of non-executive directors a majority of whom shall be independent, whichever shall be higher. One non-executive shall be appointed as Chairman of the committee by the board of directors.	As at 31st March 2022 the Committee comprised two Independent Non-Executive Directors and one Non Executive Director.
	The Chairman or one member of the committee should be a Member of a recognised professional accounting body.	The Audit Committee Chairman/ Independent Non-Executive Director, Mr. K Sundararaj is a Member of a recognised professional accounting body.

Section No.	Listing Rules of the Colombo Stock Exchange	LOFC's level of compliance
b.	**Functions** Shall include, (i) Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a Listed Entity, in accordance with Sri Lanka Accounting Standards. (ii) Overseeing of the Entity's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. (iii) Overseeing the processes to ensure that the Entity's internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards. (iv) Assessment of the independence and performance of the Entity's external auditors. (v) To make recommendations to the board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.	The Committee is guided by a Board approved Audit Committee Charter which includes the functions of those listed here.
c.	**Disclosure in the Annual Report** The names of the directors (or persons in the parent company's committee in the case of a group company) comprising the audit committee should be disclosed in the annual report.	The Committee comprises Mr. K Sundararaj, Mr. P A Wijeratne and Mr B C G de Zylva, while Mr. Sundararaj serves as the Committee Chairman.
	The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the annual report.	The Committee has made this determination.
	The annual report shall contain a report by the audit committee, setting out the manner of compliance by the Entity in relation to the above, during the period to which the annual report relates.	Please refer the Committee report on page 60.

Section No.	Listing Rules of the Colombo Stock Exchange	LOFC's level of compliance
7.13.1 (b)	**Minimum Public Holding Requirement** Disclosure in terms of rule 7.13.02 of the Listing Rules of the Colombo Stock Exchange ("CSE")	**Not Complied** The Company is not complaint with the Minimum Public Holding Requirement stipulated by the CSE Rule 7.14.1.i (b) as at end of March 2022: Float Adjusted Market Capitalisation was Rs.13,969,655,708.20; The public Holding percentage was 5.11%; The number of Public Shareholders were 22,726; The Company is exploring possibilities of complying with the Listing Rules of the Colombo Stock Exchange.
9.2.2-9.2.4	**Related Party Transactions Review Committee** The Committee should comprise a combination of Non-Executive Directors and Independent Non-Executive Directors. The composition of the Committee may also include Executive Directors, at the option of the Listed Entity. One Independent Non-Executive Director shall be appointed as Chairman of the Committee.	**Complied with** As at 31st March 2022, the Committee comprised two Independent Non-Executive Directors (one of whom is the Committee Chair) and one Non Executive Director. A Separate Committee (independent of the parent entity) has been established by the Company. Functions of the Committee and details of meetings held are included in the Committee Report on Page 63.
9.3.3	**Disclosure in the Annual Report** a) Non-recurrent Related Party Transactions if aggregated value exceeds 10% of the equity or 5% of Total assets whichever is lower	During the Financial year the Company entered in to a non-recurrent related party transaction exceeding 10% of the equity and 5% of the total assets of the Company. The details of the transaction are follows: » Name of the Related Party: Commercial Leasing and Finance PLC » Relationship: Group Company » Value of the Related Party Transactions entered into during the financial year: Rs. 198,818,947,542 » Value of Related Party Transactions as a % of Equity and as a % of Total Assets: 238% of Equity and 64% of Total Assets » Terms and Conditions of the Related Party Transaction: Transaction cost of the merger » The rationale for entering into the transaction: CBSL Masterplan for Consolidation of Non-Bank Financial Institutions (NBFIs)
	b) Recurrent Related Party Transactions – if Aggregated value exceeds 10% gross income as in the latest audited accounts	During the current period there were no recurrent related party transactions which qualify for the requirement.
	c) The Annual Report shall contain a Report of the Related Party Transactions Review Committee in the prescribed manner.	Please refer Committee Report on page 63.
	d) A declaration by the Board of Directors as an affirmative statement of the compliance with the rules pertaining to related party transactions:	Please refer the Directors Report on pages 54 to 57.

MEMBER ATTENDANCE AT MEETINGS

Board Meetings

Name of the Director	Independent	Non-Independent	Executive	Non-Executive	Date of Appointment	28/04/2021	28/05/2021**	23/06/2021**	28/07/2021**	11/08/2021**	29/09/2021**	27/10/2021**	24/11/2021	15/12/2021	26/01/2022	23/02/2022	23/03/2022	Total 12
F K C P N Dias (Re-designated as Chairman, Non-Executive Director w.e.f 31.03.2022)		✓		✓	01/03/2020	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
Mrs. K U Amarasinghe			✓		05/03/2003	✓*	✓	✓	✓	✓	✓	✓	✓	-	✓	✓	✓	11
B C G de Zylva (Re-designated as Non-Executive Director w.e.f 31.03.2022)		✓		✓	23/04/2018	✓*	✓	✓	✓	✓	✓	✓	✓	✓	✓*	✓*	✓*	12
P A Wijeratne	✓			✓	26/05/2017	✓	✓	✓	✓	✓	✓	✓	-	✓*	✓	✓	✓	11
K Sundararaj	✓			✓	23/07/2019	✓	✓	✓	✓	✓	✓	✓	✓*	✓	✓*	✓*	✓*	12
Mrs. D P Pieris (Retired W.E.F 26.06.2021)	✓			✓	27/06/2012	✓*	✓	✓	-	-	-	-	-	-	-	-	-	03
D M D K Thilakaratne			✓		31/03/2022	-	-	-	-	-	-	-	-	-	-	-	-	N/A

*Participated online via Microsoft Teams

** Microsoft Teams online meetings

Audit Committee Meetings

Name of the Committee Member	Meeting Dates									Total 09
	06.04.2021*	28.05.2021	23.06.2021	11.08.2021	29.09.2021*	08.11.2021	09.02.2022	14.02.2022	16.03.2022*	
P A Wijeratne	✓	✓	✓	✓	✓	✓	✓	✓	✓	09
K Sundararaj	✓	✓	✓	✓	✓	✓	✓	✓	✓	09
B C G de Zylva (a.w.e.f 31.03.2022)	ABI	ABI	ABI	ABI	ABI	ABI	-	ABI	ABI	08
Mrs. D P Pieris (Retired w.e.f 26.06.2021)	-	✓	✓	-	-	-	-	-	-	02
By Invitation										
F K C P N Dias (held the position of Director/CEO until 30.03.2022)	✓	✓	✓	✓	✓	✓	✓	✓	✓	09
B Weeratunga (Head of Finance)	✓	✓	✓	✓	✓	✓	✓	✓	✓	09

*Meetings where the External Auditors met the members of the Audit Committee

Integrated Risk Management Committee Meetings

Name of Committee Member	Meeting Dates				Total
	23/06/2021	18/08/2021	17/11/2021	16/03/2022	04
P A Wijeratne	✓	✓	✓	✓	04
F K C P N Dias (held the position as a Committee Member until 30.03.2022)	✓	✓	✓	✓	04
K Sundararaj (a.w.e.f 31.03.2022)	ABI	ABI	ABI	ABI	04
B C G de Zylva (a.w.e.f 31.03.2022)	ABI	ABI	ABI	ABI	04
Mrs D P Pieris (Retired w.e.f 26.06.2021)	✓	-	-	-	01

Related Party Transactions Review Committee Meetings

Name of Committee Member	Meeting Dates				Total
	28/05/2021	11/08/2021	08/11/2021	14/02/2022	04
P A Wijeratne	✓	✓	✓	✓	04
K Sundararaj	✓	✓	✓	✓	04
B C G de Zylva	✓	✓	✓	✓	04
Mrs D P Pieris (Retired w.e.f 26.06.2021)	✓	-	-	-	01

HR & Remuneration Committee Meetings

Name of Committee Member	Meeting Date	Total
	23/03/2022	01
P A Wijeratne	✓	01
K Sundararaj	✓	01
F K C P N Dias (a.w.e.f 31.03.2022)	ABI	01

Nomination Committee Meetings

Name of Committee Member	Meeting Date	Total
	23/03/2022	01
P A Wijeratne	✓	01
K Sundararaj (a.w.e.f 31.03.2022)	✓	01
F K C P N Dias	✓	01

ABI – attended by invitation

Enterprise Risk Management

The macroeconomic conditions have turned out to be increasingly vulnerable and the company was exposed to a variety of risks which are integral to the financial industry. Import restrictions on certain items, currency depreciation, rising food and fuel prices, scarcity of foreign currency, downgrading of sovereign rating and inflation are few among the factors that created an uncertain environment. Unprecedented challenges in the operating environment compelled the Company to strengthen the risk management framework with best practices and the Company managed to continue its growth momentum amidst the challenging economic environment in the country.

Risk management is a process of identification, measurement, monitoring and reporting the associated risks. The well-developed risk management policies and risk management tools were instrumental in taking proactive measures when managing the risks against strategic objectives of the Company. The risk management framework was regularly reviewed to ensure the relevance and applicability to the increasing volatile environment.

RISK GOVERNANCE STRUCTURE

The IRM (Integrated Risk Management) framework is designed based on an approach of three lines of defence and it is accompanied by specifically defined responsibilities and accountabilities in order to manage the risk effectively.

Board of Directors		
First Line of defence	Second Line of defence	Third Line of defence
» The process owners	» Risk Management » Compliance	» Internal Audit

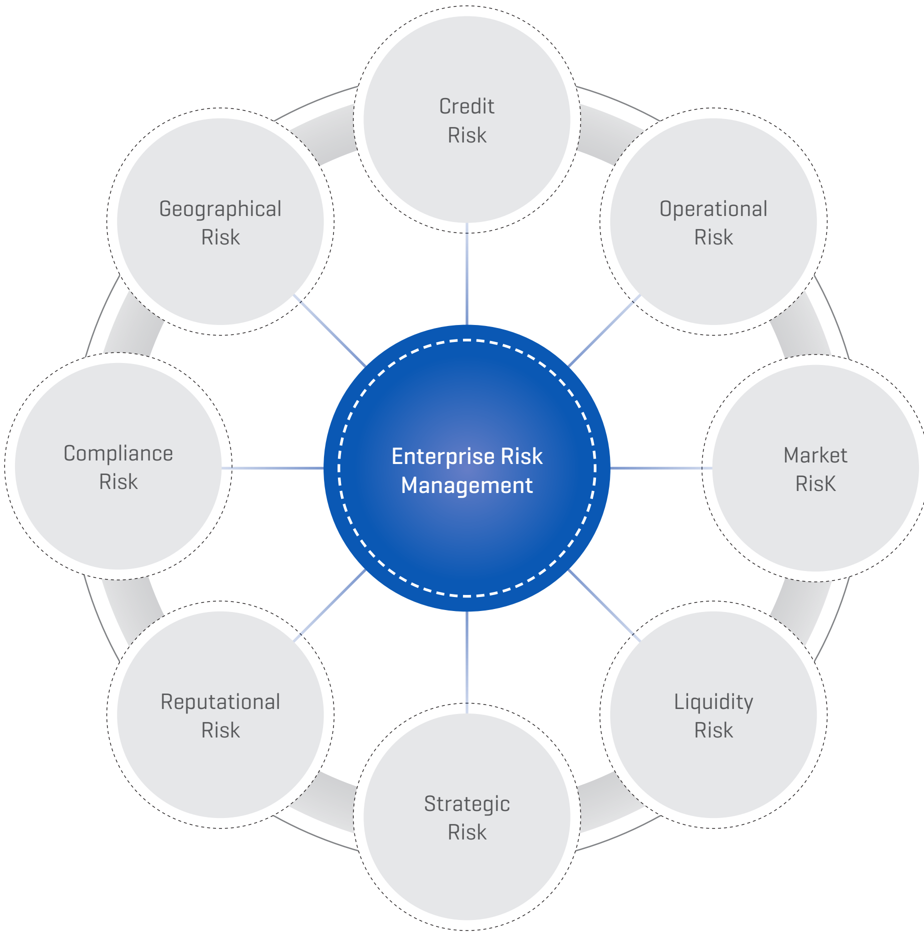
The first line of defence is the business operations where the associated risk has to be controlled. The second line being risk management; assist the first line by developing a framework for management of risk, establishing the risk appetite and providing direction. The third line assures that first and second lines of defence are functioning properly by carrying out internal audits on a periodic basis.

APPROACH TO RISK MANAGEMENT

The Integrated Risk Management Committee (IRMC) supports the Board in discharging its risk management functions and articulating the overall risk appetite. The risk-related polices and procedures approved by the Board give a clear directions to all operational divisions on executing their duties. The IRMC meets quarterly and are responsible for managing risks and compliance in accordance with laws, regulations and risk related policies. The main functions and responsibilities of the IRMC are included in the charter of the IRMC approved by the Board of Directors.

The impact of external and internal risk drivers are monitored and assessed in a proactive manner while strengthening the risk management functions to navigate towards strategic goals of the Company. The committee always recommends corrective actions to mitigate impact of such risks. The early identification of problematic loans, robust recovery strategies and continuous efforts of offering tailor made solutions to customers assist to reduce the default ratio significantly while maintaining a healthy credit portfolio in the Company.

The appropriate KRIs (Key Risk Indicators) pertaining to credit, market and operational risks are identified with risk tolerance limits which is benchmarked with the industry and monitored by the Risk Management Department. The KRI dash board and loss distribution are analysed and presented at the IRMC to identify the implications of material risks. The outcomes are reported to relevant stakeholders with recommendations for necessary action as applicable.



Investments in digitalisation indicated a significant increase to serve the customer base with innovative digital products and services during the year. The IT Risk and Audit teams conducted risk assessment covering all IT related risks including cybersecurity risk with the increasing digitalisation environment. Several executive committees including ALCO and Credit Committee are also engaged in managing risk prudently.

Risk appetite is the amount of risk that the Company is willing to accept when achieving its strategic goals. The risk appetite of the Company is set to safeguard the financial stability of the Company and ensured that the Company operates at an acceptable risk profile with the resources available. Any deviations to the risk appetite are assessed and controls are recommended in order to maintain within an acceptable level of risks.

The level of capital which is required to operate in alignment with the risk appetite was maintained at desired levels.

Stress testing is an integral part of risk management framework and planning of capital, liquidity which assist to quantify unexpected or adverse risk events on significant exposures. Stress testing are carried out at various frequencies focusing on adverse stress scenarios and outcomes are carefully analysed and presented at the IRMC. This leads to understand the level of risks, quantify the impact and to take proactive decisions to mitigate such risks and to develop contingency plans while ensuring that the capital is sufficient to sustain the losses.

The BCP [Business Continuity Plan] and DRP [Disaster Recovery Plan] ensure that the continuation of functions in the event of a disaster such as disruptions to data transfer, natural disasters, terrorist attacks and pandemics, ensuring operational resilience. The preparedness of the BCP is tested in a variety of scenarios to identify gaps in the procedures which need further improvements and BCP was updated with changes accordingly. The well-developed BCP is a guarantee on the continuation of resilient operations and effects of disruptions in services are minimum in order to maintain customer trust and confidence in the Company.

The strong risk management culture inculcated within the Company contribute in managing operations efficiently within predetermined risk appetite, optimising profitability and navigating the Company towards strategic direction.

Report of the Board of Directors

The Directors of LOLC Finance PLC (LOFC) have pleasure in presenting their Annual Report together with the Audited Financial Statements for the year ended 31st March 2022.

PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

LOFC is a Licensed Finance Company in terms of the Finance Business Act No. 42 of 2011. The Company is also a registered finance leasing establishment in terms of the Finance Leasing Act No. 56 of 2000.

During the year the principal activities of the Company comprised Finance Business, Finance leasing, Islamic Finance, issue of Payment Cards, Micro Finance Loans, Gold Loans and provision of Advances for Margin Trading in the Colombo Stock Exchange.

MARKETS SERVED

The Company operates in all provinces of Sri Lanka with the largest concentration of branches being in Western and North Central Provinces.

DIRECTORATE

The Board of Directors for the year under review comprise the following:

1. F K C P N Dias*	Chairman, Non-Executive Director
2. D M D K Thilakaratne**	Executive Director/CEO
3. Mrs. K U Amarasinghe	Executive Director
4. B C G De Zylva***	Non-Executive Director
5. P A Wijeratne	Senior Independent Director
6. K Sundararaj	Independent Director
7. Mrs. D P Pieris (statutory retirement from the Board with effect from 26.06.2021)	Senior Independent Director

* Held the position of Director/CEO up to 30th March 2022 and re-designated as Chairman upon completion of the amalgamation with Commercial Leasing and Finance PLC on 31.03.2022.

** Appointed as Director/CEO on 31.03.2022 upon completion of the amalgamation with Commercial Leasing and Finance PLC on 31.03.2022.

*** Held the position of Chairman until 30.03.2022 and re-designated as Non-Executive Director upon completion of the amalgamation with Commercial Leasing and Finance PLC on 31.03.2022.

The Board places on record its gratitude to Mrs Priyanthi Pieris for her contribution towards the deliberations of the Board and its subcommittees on legal, regulatory and governance aspects.

The Board welcomes Mr Krishan Thilakaratne and looks forward to navigating the Company through tough times and pushing boundaries of service excellence under his dynamic leadership.

RECOMMENDATIONS FOR RE-ELECTION OF DIRECTORS

Mr Don Manuwelge Don Krishan Thilakaratne who was appointed to the Board on 31st March 2022 retires in terms of Article 70 of the Articles of Association of the Company and being eligible offer himself for re-election.

In terms of Article 75 of the Articles of Association of the Company Mrs Kalsha Upeka Amarasinghe and Mr Brindley Chrishantha Gajanayake De Zylva retire by rotation and being eligible seek re-election as directors.

The Board recommends their re-election. The approval of the Central bank of Sri Lanka will be sought for the re-election of these directors.

DIRECTORS INTERESTS IN CONTRACTS

The Directors have made the declarations required by the Companies Act No. 7 of 2007. These have been noted by the Board, recorded in the Minutes and entered into the Interest Register which is maintained by the Company.

Lists of companies on which these Directors serve are included in page 57.

DIRECTORS' REMUNERATION

The Company paid Rs. 40,913,600/- as Directors' remuneration for the financial year ended 31st March 2022 (Rs.36,150,500/- for 31st March 2021.)

The Company has a Board approved Remuneration Policy. This policy stipulates that remuneration should be linked to competence and contribution, while serving to incentivise and motivate. This policy has been taken into account when determining remuneration for both staff and directors.

The report of the Remuneration Committee is on page 62.

DIRECTORS' SHAREHOLDING

Directors Name		As at 31.03.2022	As at 31.03.2021
1	F K C P N Dias	Nil	400,000
2	D M D K Thilakaratne	Nil	N/A
3	Mrs. K U Amarasinghe	Nil	Nil
4	B C G De Zylva	Nil	Nil
5	P A Wijeratne	455,998	5,000
6	K Sundararaj	Nil	Nil

CAPITAL STRUCTURE

The Stated Capital of the Company is Rs.211,581,448,000/- divided into 19,251,334,334 shares.

The debt capital of the company comprises rated unsecured subordinated redeemable debentures thirty four million (34,110,193) issued in July 2018 and fifty million (50,000,000) issued in September 2020. These debentures are listed in the Colombo Stock Exchange and ICRA Lanka Ltd rated these debentures as [SL]A-(Stable).

The details of the Debentures in issue as at 31st March 2022 are set out in Note 14.3 to the Financial Statements on page 130. Details of utilisation of proceeds from debenture issues are disclosed in the other disclosures to the financial statements on page 180.

MEETINGS OF THE BOARD OF DIRECTORS

Twelve scheduled monthly meetings were held during the year. A schedule of Directors Attendance at Board Meetings and Sub Committee Meetings has been included on pages 50 to 51.

CORPORATE GOVERNANCE

LOLC Finance PLC is governed by the requirements of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 as at 31.03.2022, the new Corporate Governance Direction No. 05 of 2021 dated 31.12.2021 with transitional provisions applicable from 01.07.2022 to 01.07.2024 and the Listing Rules of the Colombo Stock Exchange including any subsequent amendments thereto.

The manner in which the Company ensures adherence with the above requirements has been disclosed on pages 22 to 51.

BOARD SUB COMMITTEES

In compliance with regulatory guidelines and also with best practices, the Board has formed the following sub committees:

- Audit Committee
- Integrated Risk Management Committee
- HR & Remuneration Committee
- Related Party Transaction Review Committee
- Nomination Committee

These Committees assist the Board with its role of oversight of the Company's performance and conformance. Minutes of the meetings of these Committees are tabled at the next Board meeting, enabling the Board to benefit from the focused review of these Committees on the areas and issues within their purview. These subcommittees have met quarterly or as and when necessary.

The reports of these Committees can be found on pages 60 to 64.

MANAGEMENT COMMITTEES

The Company has the following management level Committees to manage matters relating to credit, liquidity, collections and operational level planning and risk management:

- Credit Committee
- Asset Liability Committee
- Legal Settlement Committee
- Management Committee

COMPLIANCE WITH LAWS AND REGULATIONS

The Company has not engaged in any activity that contravenes any applicable law or regulation, and to the best of the knowledge of the Directors the Company has been in compliance with all prudential requirements, regulations and laws.

The Company is compliant with the Listing Rules of the Colombo Stock Exchange (CSE) with the exception of the requirements relating to the Public Float under rule 7.14.1.i.b. Please refer page 49. for further details.

INDUSTRIAL RELATIONS

Human Capital Strategies of the Company are based on respected HR practices to attract and retain right people. Policies are in place to develop and motivate the workforce for current and future business needs of the Company.

Disciplinary matters are dealt according to the board approved policies in compliance with labour regulations. There was no occurrence of any issue detrimental to the harmonious industrial relations of the Company during the year under review which required disclosure under Rule 7.6 (Vii) of the Listing Rules of the CSE.

SCHOLAR SUPERVISORY BOARD

As the Company offers Alternate Financial Services, from its dedicated Strategic Business Unit (SBU) under product brand Al-Falaah, the Board has installed a dedicated Scholar Supervisory Board (SSB) for monitoring of the business's conceptual and operational compliance. The SSB reviews all Alternate Finance products offered, and periodically audits the processes, thereby providing comfort to customers of the product standards, and further strengthening the Board's control.

Two of the three member SSB are based in Sri Lanka and the remaining member is an internationally renowned scholar based in South Africa. Members of the panel are acclaimed experts in the Islamic Banking & Finance industry. Whilst being academically and professionally qualified in respective standards, two of the members are conferred with the 'Certified Shari'ah Advisor & Auditor' accreditation by the Accounting & Auditing Organisation for Islamic Financial Institutes (AAOIFI) of Bahrain, which is the accepted body for standards of Alternate Financial Services practitioners globally.

Currently Alternate Financial Services are offered through the standard LOFC Channel network of over 219 locations which also include dedicated Al-Falaah service desks within.

FINANCIAL STATEMENTS & AUDITOR'S REPORT AND DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and the auditors report are given on pages 69 to 78.

The Directors are responsible for the preparation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view that the financials have been prepared in accordance with the requirements of the Sri Lanka Accounting Standards, the Companies Act No. 7 of 2007, the Finance Business Act No. 42 of 2011 and all relevant directions of the Central Bank of Sri Lanka.

SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the financial statements and any changes thereof where applicable have been included in the Notes to the financial statements on pages 79 to 149.

TRANSACTIONS WITH RELATED PARTIES

In terms of LKAS 24, the Directors have disclosed transactions which are classified as related party transactions under Note 33 on pages 143 to 145.

The Board confirms that the Company has not engaged in transactions with any related party in a manner that would grant such party more favourable treatment than that offered to other clients of the Company.

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2022.

GOING CONCERN

The Directors believe that the Company is in a position to continue its operations in the foreseeable future. Accordingly, the financial statements are prepared on the basis that the Company is a going concern.

STATUTORY PAYMENTS

For the year under review, all known statutory payments have been made and all retirement gratuities have been provided for. Further, all management fees and payments to related parties for the year under review have been reflected in the accounts.

AUDITORS

M/s Ernst and Young, Independent Auditors of the Company retire and offer themselves for re-appointment. As advised by the Audit Committee, the Board recommends their re-appointment for the year 2022/2023 at a fee to be decided by the Board.

The auditors' remuneration for the year ended 31st March 2022 is disclosed in Note 27 to the financial statements.

Their services were also engaged to seek:

a) an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board; and

b) the Company's level of adherence to the internal controls on financial reporting.

The report of the Auditors is given on pages 69 to 72.

INTERNAL CONTROLS

The Enterprise Risk Management Division regularly reviews all aspects of operations, including controls, and compliance with relevant regulations. These reports are taken up for discussion by the Audit Committee or the Integrated Risk Management Committee as appropriate.

The Board could also seek the support of the external auditors to review and advise on any improvements needed to existing controls.

AMALGAMATION BETWEEN THE COMPANY AND COMMERCIAL LEASING & FINANCE PLC

In accordance with the CBSL Master Plan for Consolidation of Non-Bank Financial Institutions, having completed the amalgamation of Sinhaputhra Finance PLC with Commercial Leasing and Finance PLC on 21st day of March, 2022, the amalgamation of Commercial Leasing and Finance PLC with the Company, LOLC Finance PLC was completed effective from 31st day of March, 2022 in accordance with requisite regulatory and statutory approvals. The Company, being the surviving entity, therefore succeeds to all the property, rights, powers, privileges, liabilities and obligations of each of the amalgamating companies.

Please refer Note 37 for further details.

ASSOCIATE COMPANIES

Consequent to the amalgamation with Commercial Leasing and Finance PLC, the Company holds the following associate investments:

LOLC DEVELOPMENT FINANCE PLC

The Company holds 44.34% of the issued share capital of LOLC Development Finance PLC (LODF) as at 31st March 2022. LODF caters to the lowest end of the micro lending segment in the country. LODF has presently enhanced its micro portfolio to include individual customised solutions such as SME loans, home improvement loans and leasing.

COMMERCIAL INSURANCE BROKERS (PRIVATE) LIMITED

The Company holds 40% of the equity of Commercial Insurance Brokers (Private) Limited (CIB). Mr D M D K Thilakaratne and Mr N Weerapana have been nominated to its Board by the Company. During the past 33 years CIB has been engaged in the business of life and general insurance. It is one of the premier insurance broking firms in the country.

LOLC MYANMAR MICRO-FINANCE COMPANY LTD

The Company holds 25.4% shareholding in LOLC Myanmar Micro-Finance Company Limited (LMML) the Group's greenfield lending operation considered to be among the top 10 MFI's in Myanmar.

LOLC EGYPT MICROFINANCE COMPANY LTD

The Company holds 25% shareholding in LOLC Egypt Microfinance Company Ltd. The entity is now known as 'LOLC El-Oula Microfinance Egypt' (LOLC EMFE).

EVENTS AFTER THE REPORTING DATE

Except for matters disclosed in Note 34 of the Financial Statements, no circumstances have arisen since the reporting date that would require disclosure.

ANNUAL GENERAL MEETING

Annual General Meeting of the Company will be held on Friday, 30th September 2022 at 10.30 a.m. as an on-line audio-visual meeting with arrangements for the on-line meeting platform made at the registered office of the Company at No.100/1, Sri Jayawardenapura Mawatha, Rajagiriya.

For and on behalf of the Board of Directors of LOLC Finance PLC

D M D K Thilakaratne
Director/ CEO

F K C P N Dias
Chairman

LOLC Corporate Services (Private) Limited
Secretaries

29th June 2022
Rajagiriya

DIRECTORS' DECLARATIONS

Name of the Director	Directorates as at 31.03.2022
Mr F K C P N Dias	Sanasa Development Bank PLC LOLC Technology Services Ltd LOLC Technologies Ltd Digital Mobility Solutions Lanka (Pvt) Ltd oDoc (Private) Limited LOLC Finance Zambia Limited LOLC Holdings PLC LOLC Finance PLC I Pay Global FZC Fusion X Global FZC LOLC ASKI Finance Inc. LOLC Private Ltd LOLC Inter Asia Development Bank LOLC Myanmar Microfinance Company Limited Fina Trust Microfinance Bank Limited – Nigeria LOLC Cambodia PLC
Mr D M D K Thilakaratne	Seylan Bank PLC LOLC Finance PLC Commercial Factors (Private) Limited Commercial Insurance Brokers (Pvt) Ltd LOLC Myanmar Micro Finance Company Limited LOLC Central Asia Private Limited
Mrs K U Amarasinghe	LOLC Holdings PLC LOLC Finance PLC LOLC Life Assurance Limited LOLC Serendib (Pvt) Ltd Palm Garden Hotels PLC Eden Hotel Lanka PLC Brown & Co. PLC Browns Investments PLC Riverina Resorts (Pvt) Ltd Browns Holdings Ltd Green Paradise (Pvt) Ltd Danya Capital (Pvt) Ltd Sanctuary Resorts Lanka (Private) Limited Serendib Hotels PLC Hotel Sigiriya PLC Serendib Leisure Management Limited Dolphin Hotels PLC Frontier Capital Lanka (Pvt) Ltd Ultimate Sports (Pvt) Ltd Kammala Hoteliers (Pvt) Ltd
Mr B C G De Zylva	LOLC Myanmar Micro-Finance Company Limited LOLC (Cambodia) PLC Browns Machinery (Cambodia) Co. Ltd LOLC Finance PLC Serendib Microinsurance PLC
Mr P A Wijeratne	LOLC Finance PLC
Mr K Sundararaj	LOLC Finance PLC

Directors' Statement on Internal Control over Financial Reporting

RESPONSIBILITY

In line with the section 10(2)(b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the Internal Control over Financial Reporting in place at LOLC Finance PLC. ("the Company").

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of Internal Control over Financial Reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board.

The Board is of the view that the system of Internal Control over Financial Reporting in place, is adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company is continuously improving the processes and procedures in line with the industry best practices and regulatory reporting requirements. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of design and effectiveness on an on-going basis. Progressive improvements on the control framework covering processes relating to investment balances and reconciliations related to asset balances are being made. The matters addressed by the External Auditor's in this respect, will be taken into consideration and appropriate steps will be taken to incorporate same, where applicable.

The Company adopts Sri Lanka Accounting Standard comprising LKAS and SLFRS and progressive improvements on processes to comply with requirements of recognition, measurement, classification and discourse are being made whilst further strengthening of process will take in its financial reporting and management information.

Board has given due consideration for the adoption of SLFRS 9 "Financial Instruments" which was applicable for financial reporting period beginning from 1st April 2018. The Board will continually take steps to strengthen the process and controls around management information systems and information required for validation and compliance in line with SLFRS 9.

CONFIRMATION

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting.

By order of the Board,

Mr. Conrad Dias
Chairman/Non-Executive Director

Mr. Krishan Thilakaratne
Director/Chief Executive Officer

29th June 2022

Independent Assurance Report

Building a better
working world

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
eysl@lk.ey.com
ey.com

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF LOLC FINANCE PLC

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of LOLC Finance PLC (the "Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") included in the annual report for the year ended 31 March 2022.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008/ section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction no. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities and compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of the Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

29th June 2022

Colombo

Report of the Audit Committee

COMPOSITION

The Audit Committee was established for the purpose of assisting the Board in fulfilling their responsibilities relating to financial governance. The Committee comprises three Non Executive Directors, two of whom are independent.

K Sundararaj	Committee Chairman/ Independent Non-Executive Director
P A Wijeratne	Senior Independent Director
B C G de Zylva*	Non-Executive Director

*appointed to the Committee w.e.f. 31st March 2022

TERMS OF REFERENCE

The Audit Committee is governed by the Audit Charter which defines its terms of reference. The composition and scope of the committee meets the requirements set out in the Finance Companies Corporate Governance Direction No. 3 of 2008 and the Listing Rules of the Colombo Stock Exchange.

The Charter was last reviewed in January 2019. The Committee has been mandated to ensure that a sound Financial Reporting System is established by: reviewing the appropriateness of procedures in place for the identification, evaluation and management of business risks; ensuring that internal controls relating to all areas of operations, including Human Resources and IT enhance good governance while not impeding business; seeking assurance that agreed control systems are in place, are operating efficiently and are regularly monitored; ensuring that appropriate controls are put in place prior to the implementation of significant business changes, facilitating monitoring of the changes; reviewing internal and external audit functions; and ensuring compliance with applicable laws, regulations, listing rules and established policies of the Company.

ACTIVITIES OF THE COMMITTEE

During the year under review the Committee reviewed interim and annual Financial Statements prior to publication, checked and recommended changes in accounting policies, significant estimates and judgments made by the management, compliance with relevant accounting standards/regulatory requirements, and issues arising from internal and external audit.

Effectiveness of the Company's internal controls was evaluated through reports provided by the management, and by the Internal and External Auditors. The Committee is satisfied that an effective system of internal control is in place to provide the assurance on safeguarding the assets and the integrity of financial reporting. On behalf of the Audit Committee, the Internal Auditor performs a comprehensive exercise that entails reviewing of all aspects of MIS including operational and regulatory risks. The Company's level of compliance of the Corporate Governance Direction was assessed by the External Auditors.

The Committee addressed the External Auditors' findings reported in the Management Letter relating to the previous financial year's (2020/21) audit.

The Committee reviewed the independence and objectivity of the External Auditors, M/s Ernst & Young, Chartered Accountants and has received a declaration confirming that they do not have any relationship or interest in the Company as required by the Companies Act, No. 7 of 2007.

The Audit Committee has determined that the External Auditors are in fact independent as: they are not engaged in providing any non-audit services to the Company; and the fees charged for audit assignments are not significant to impair their judgment/ independence.

In accordance with good governance initiatives, audit partner rotation is practiced and the need for auditor rotation is considered every 7 years. The Audit Committee has recommended to the Board and the shareholders the reappointment of the External Auditors.

MEETINGS

The Committee meets quarterly and additional meetings are held as and when a need arises. 09 meetings were held during the year and the members' attendance at Audit Committee meetings is provided on page 50. The CEO and the Head of Finance are invited to these meetings. Minutes of such meetings which include details of matters discussed are reported regularly at Board meetings. The audit partner was invited to attend four meetings and on three instances, the auditors were able to meet with the Audit Committee members without the presence of other directors and members of the management.

Mr. K Sundararaj
Chairman, Audit Committee

Rajagiriya
29th June 2022

Report of the Integrated Risk Management Committee

COMPOSITION

The Integrated Risk Management Committee (IRMC) was established to assist the Board in performing its oversight function in relation to different types of risk faced by the Company in its business operations and ensures adequacy and effectiveness of the risk management framework of the Company. The Committee comprises the following members:

P A Wijeratne	Committee Chairman/ Senior Independent Director
K Sundararaj*	Independent Non-Executive Director
B C G de Zylva*	Non-Executive Director

*appointed to the Committee w.e.f. 31st March 2022

TERMS OF REFERENCE

The IRMC is governed by its Terms of Reference which includes the provisions of Section 8 (3) of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board of the Central Bank of Sri Lanka. The TOR was reviewed and strengthened in October 2019.

The composition and the scope of work of the Committee are in conformity with the provisions of the aforesaid Direction.

ACTIVITIES OF THE COMMITTEE

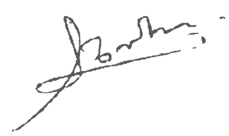
Credit, Operational, Market, Liquidity, Compliance, Technology and Reputational Risks are monitored by divisional heads and reported to ERM on a monthly basis. The Head of Risk Management in turn performs an independent and selective scrutiny of relevant matters and issues summarised reports monthly to the Board, as well as quarterly reports to the Committee with recommendations for concurrence and/or specific directions in order to ensure that the risks are managed appropriately.

As delegated by the Committee the Head of Risk Management further submits a risk assessment report to the Board, subsequent to each meeting within a week of each meeting, stating the risk mitigation actions adopted. The Committee works closely with the key responsible persons and the Board in fulfilling its duties in risk management.

During the year the Committee: reviewed actual results computed monthly against pre-approved risk indicators and took prompt corrective strategies to mitigate the effects of the specific risk; reviewed business continuity and disaster recovery plans; reviewed the effectiveness of the compliance function to assess the Company's compliance with laws, regulatory guidelines, internal controls and approved policies in all areas of business operations, established an annual compliance plan; and reviewed the adequacy and effectiveness of management committees such as Assets & Liability Committee and the Credit Committee.

MEETINGS

During the year the Committee met four times on a quarterly basis. The attendance of members at meetings is stated on page 51. Proceedings of meetings are also tabled at a subsequent meeting of the Board.



Mr. P A Wijeratne

Chairman, Integrated Risk Management Committee

Rajagiriya

29th June 2022

Report of the Remuneration Committee

COMPOSITION

The Remuneration Committee was established to assist the Board in evaluating and recommending remuneration for Board Members. The Committee comprises the following Members:

P A Wijeratne	Committee Chairman/ Senior Independent Director
K Sundararaj	Independent Non-Executive Director
F K C P N Dias *	Non-Executive Director

*appointed to the Committee w.e.f. 31st March 2022

TERMS OF REFERENCE

The Remuneration Committee is governed by a Board approved Remuneration Policy which has vested it with powers to evaluate, assess and recommend to the Board for approval any fee, remuneration and ex gratia to be paid out to its Directors including the Chief Executive Officer based on: the need of the Company to be competitive; the need to attract, motivate and retain talent; and the need to encourage and reward high levels of performance and achievement of corporate goals and objectives.

The Remuneration Policy was last reviewed and approved in November 2019.

The composition and scope of the Committee meets the requirements set out in the Listing Rules of the Colombo Stock Exchange and the new Corporate Governance Direction for Finance Companies issued by the Central Bank of Sri Lanka .

ACTIVITIES OF THE COMMITTEE

The Committee is responsible for determining the remuneration policy relating to the CEO; periodically evaluating the performance of the CEO against the set targets and goals and determining the basis for revising remuneration, benefits and other payments of performance based incentives; determining the remuneration policy relating to Executive and Non-Executive Directors and recommending these to the Board for adoption.

All independent directors receive a fee for attending Board meetings and Committee meetings. They do not receive any performance or incentive payments. During the year, the Committee reviewed and revised its Terms of Reference in accordance with the requirements of the Central Bank of Sri Lanka and recommended for board approval the restructuring of staff benefits and designations consequent to the amalgamation with Commercial Leasing & Finance PLC.

The total amount paid as directors' emoluments have been disclosed on page 137.

MEETINGS

The Committee meets annually. One meeting was held during the year under review. The attendance of members at the meeting is stated on page 51. Proceedings of this meeting were also tabled at a subsequent meeting of the Board.

Mr. P A Wijeratne
Chairman, Remuneration Committee

Rajagiriya
29th June 2022

Report of the Related Party Transaction Review Committee

COMPOSITION

The Related Party Transaction Review Committee was formed by the Board to comply with the related Rules of the Colombo Stock Exchange. The Committee comprises the following members:

P A Wijeratne	Committee Chairman/ Senior Independent Director
K Sundararaj	Independent Non-Executive Director
B C G De Zylva	Non-Executive Director

TERMS OF REFERENCE

The Committee is governed by its Terms of Reference (TOR) which encompass the requirements stipulated under the Code of Best Practice on Related Party Transactions (RPTs) issued by the Securities and Exchange Commission of Sri Lanka; and Section 9 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by the Central Bank of Sri Lanka (CBSL). The TOR was last reviewed in February 2020.

POLICIES AND PROCEDURES ADOPTED

On behalf of the Board, the Committee has established a Related Party Transaction Policy consistent with the Company's business model to ensure that all related party transactions are carried out in compliance with the provisions in its TOR, the Directions issued to Finance Companies by CBSL on Lending/Single Borrower Limits and the Sri Lanka Accounting Standards while maintaining fairness and transparency. This Policy was last reviewed in August 2022.

The Committee quarterly reviews all recurrent and non recurrent RPTs of the Company. The Company has implemented a system that enables the Company to capture and retrieve data on RPTs. This system generates comprehensive reports for management review and for quarterly review of the Committee reflecting all related party transactions including expenses, income, lending and amounts outstanding.

When reviewing facilities to RPTs, the Committee considers the nature of the transaction, terms, conditions, value and the statement of compliance signed off by the key responsible persons of the Company in order to determine whether the transaction proposed will be carried out in accordance with the policy adopted.

Reviewing and approval of RPTs are either at its quarterly meetings with a majority of the members present to form a quorum or by circulation consented to by a majority.

The Committee reviews the policy and procedures on an annual basis or when need arises.

ACTIVITIES OF THE COMMITTEE

During the year the Committee has reviewed the list of individuals and entities identified as related parties of the Company, reviewed quarterly all recurrent and non-recurrent RPTs of the Company and was satisfied that such transactions had been carried out at market rates; and where applicable, the guidelines of the CSE, CBSL and the Sri Lanka Accounting Standards had been complied with in relation to approvals/reporting/disclosure.

During the year under review, having obtained the requisite approvals, the Company entered into a non-recurrent related party transaction valued at Rs. 198,818,947,542/-, exceeding 10% of the equity and 5% of the total assets on 31st March 2022 being the cost of amalgamation with Commercial Leasing & Finance PLC in line with the CBSL Masterplan for Consolidation of the NBFI Sector.

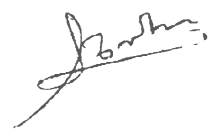
The aggregate value of recurrent related party transactions did not exceed 10% of the gross revenue/ income of the Company during the year under review requiring disclosure.

The Compliance Officer, the Head of Finance, the Head of Credit, the Head of Treasury and the Group Chief Financial Officer are invited for Committee meetings, to ensure on behalf of the Committee and the Board that all related party transactions of the Group and its listed subsidiaries are consistent with the Code.

A declaration by the Board of Directors as an affirmative statement of the Compliance with the Listing Rules pertaining to related party transactions is given on page 55 of this report.

MEETINGS

Four Committee meetings were held during the year. The attendance of members at meetings is stated on page 51. The activities and views of the Committee have been communicated to the Board of Directors quarterly through verbal briefings, and by tabling the minutes of the Committee's meetings.



Mr. P A Wijeratne

Chairman, Related Party Transaction Review Committee

Rajagiriya

29th June 2022

Report of the Nomination Committee

COMPOSITION

The Nomination Committee was established to assist the Board in assessing the skills required and recommending director nominees for election to the Board (subject to ratification by the shareholders) and to its sub committees to effectively discharge their duties and responsibilities. The Committee comprises the following membership:

P A Wijeratne	Committee Chairman/ Senior Independent Director
K Sundararaj*	Independent Non-Executive Director
F K C P N Dias	Non-Executive Director

*appointed to the Committee w.e.f. 31st March 2022

TERMS OF REFERENCE

The Board established this Committee voluntarily and its charter defines its purpose including the following duties and responsibilities: assisting the Board in identifying qualified individuals to become Board members and determining the composition of the Board of Directors and its committees; oversight of the evaluation of the Board and its Committees, as well as senior management of the Company, including succession planning; annually review the composition of each sub-committee and present recommendations/nominations for committee memberships to the Board; maintain records and minutes of meetings and activities of the Committee; perform any other activities consistent with this Charter, and the scope of the Nomination Committee or as deemed necessary and appropriate by the Committee and the Board.

ACTIVITIES OF THE COMMITTEE

In March 2022, the Committee reviewed and revised it Terms of Reference in accordance with the new Corporate Governance Direction No. 5 for 2021 of the Central Bank of Sri Lanka for Finance Companies released on 31.12.2021; assessed / revised the composition of the Board and its sub committees with the said regulations of the CBSL as well as CSE; and reviewed further the officers identified as key responsible persons of the Company.

MEETINGS

One Committee meeting was held for the year under review and proceedings of this meeting were reported to the Board. The attendance of members at meetings is stated on page 51.

Mr. P A Wijeratne
Chairman, Nomination Committee

Rajagiriya
29th June 2022

Chief Executive Officer's and Head of Finance's Responsibility Statement

The financial statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the institute of Chartered accountant of Sri Lanka. The requirements of the Companies Act No.7 of 2007, the Finance Business Act No.42 of 2011 and the Listing Rules of the Colombo Stock Exchange

Accordingly, the company has prepared financial statements which comply with SLFRSs/ LKASs and related interpretations applicable for period ended 31 March 2022, together with the comparative period data as at and for the year ended 31 March 2021, as described in the accounting policies.

We accept responsibility for the integrity and accuracy of these financial statements. Significant accounting policies have been applied consistently. Application of significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with the Audit Committee and the external auditors. Estimate and judgment relating to the financial statements were made on a prudent and reasonable basis, in order to ensure that the financial statements are true and fair. To ensure this, our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the company were consistently followed.

We confirm that to the best of our knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial position, results of operations and cash flows of the company as of, and for, the periods presented in this annual report.

We are responsible for establishing and maintaining internal controls and procedures. We have designed such controls and procedures, or caused such controls and procedures to be designed under our supervision, to ensure that material information relating to the company is made known to us and for safeguarding the company's assets and preventing and detecting fraud and error.

We have evaluated the effectiveness of the company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this annual report. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involves management or other employees.

The financial statements were audited by Messrs. Ernst & Young, Chartered Accountants, the Independent Auditors. The Audit Committee pre - approves the audit and non-audit services provided by Ernst & Young in order to ensure that the provision of such services does not impair Ernst & Young's independence and objectivity. The Audit Committee also reviews the external audit plan and the management letters and follows up on any issues raised during the statutory audit. The Audit Committee also meets with the external and internal auditors to review the effectiveness of the audit.

We confirm that the company has complied with all applicable laws and regulations and guidelines and that there are no material litigations that are pending against the company other than those arising in the normal course of conducting business.

Mr. Buddhika Weeratunga
Head of Finance

Mr. Krishan Thilakaratne
Director/Chief Executive Officer

Rajagiriya
29th June 2022

Directors' Responsibility for Financial Reporting

The Directors confirm that the Company's financial statements for the year ended 31st March 2022, are prepared and presented in conformity with the requirements of the Sri Lanka Accounting Standards, the Regulations and Directions of the Central Bank of Sri Lanka, the Listing Rules of the Colombo Stock Exchange and the Companies Act No. 07 of 2007. They believe that the financial statements present a true and fair view of the state of the affairs of the Company as at the end of the financial year. The financial statements comprise the statement of financial position as at 31st of March 2022, the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended and notes thereto.

The Directors also accept responsibility for the integrity and accuracy of the financial statements presented and confirm that appropriate accounting policies have been selected and applied and reasonable and prudent judgment has been exercised so as to accurately report transactions. The Directors have taken reasonable steps to safeguard the assets of the Company, to prevent, deter and detect fraud, and to ensure the integrity, accuracy and safeguarding of operational and financial records.

The Directors confirm that to the best of their knowledge, all statutory payments due in respect of the Company as at the reporting date have been paid for, or where relevant, provided for.

The External Auditors, Messrs. Ernst & Young, were provided with the opportunity to make appropriate inspections of financial records, minutes and other documents to enable them to form an opinion of the financial statements. The Report of the Auditors is set out on pages 69 to 72.

Mr. Krishan Thilakaratne
Director/Chief Executive Officer

Rajagiriya
29th June 2022

FINANCIAL INFORMATION

OUR PASSION FOR LEADING-EDGE SOLUTIONS GUIDES US TO DELIVER EXCELLENCE IN FINANCIAL PRODUCTS AND SERVICES, THUS CREATING LASTING VALUE IN ALL THAT WE CHOOSE TO DO.

Financial Calendar

Financial Calendar 2021/22	
1st Quarter Results 2021/22 will be released on	Friday, August 13, 2021
2nd Quarter Results 2021/22 will be released on	Monday, November 15, 2021
3rd Quarter Results 2021/22 will be released on	Tuesday, February 15, 2022
4th Quarter Results 2021/22 will be released on	Tuesday, May 31, 2022
Annual report for 2021/22 released on	Wednesday, August 31, 2022
21st Annual General Meeting on	Friday, September 30, 2022

Proposed Financial Calendar 2022/23	
1st Quarter Results 2022/23 will be released on	Wednesday, August 10, 2022
2nd Quarter Results 2022/23 will be released on	Tuesday, November 15, 2022
3rd Quarter Results 2022/23 will be released on	Wednesday, February 15, 2023
4th Quarter Results 2022/23 will be released on	Wednesday, May 31, 2023
Annual report for 2022/23 released on	Thursday, August 31, 2023
22nd Annual General Meeting on	Friday, September 29, 2023

Independent Auditor's Report

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
eysl@lk.ey.com
ey.com

INDEPENDENT AUDITORS' 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 2022, 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 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 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.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment allowances for financial assets carried at amortised cost Impairment allowances for financial assets carried at amortised cost as stated in Note 4, 6, 7 & 26 respectively is in accordance with the accounting policies described in Note 1.4 & 2.3.	Our audit procedures included amongst others the following: » We assessed the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management » We evaluated the design, implementation and operating effectiveness of internal controls over estimation of the impairment allowances, including testing of related system controls » We checked the completeness, accuracy and classification of the underlying data used in the computation of impairment allowances by agreeing details to relevant source documents and accounting records of the Company

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Key audit matter	How our audit addressed the key audit matter
Impairment allowances for financial assets carried at amortised cost is a key audit matter due to: » materiality of the reported allowance which involved complex calculations; and » significant judgements used in assumptions and estimates made by the management as reflected in note 1.4, which in the current year was influenced by the need to assess the change in current economic conditions on forward looking information and the continuing impact of COVID-19 debt moratorium relief measures.	**For financial assets assessed on a collective basis for impairment:** » We tested key calculations used in the impairment allowances. » We assessed whether significant judgements used in assumptions and estimate made by the management in the underlying methodology and management overlays were reasonable. We also evaluated the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios. Our procedures were based on the best available information up to the date of our report **For Loans and Leases assessed on an individual basis for impairment:** » We assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances » We checked the accuracy of the underlying individual impairment calculations » We evaluated the reasonableness of key inputs used in the provision for credit impairment made with the particular focus on current economic conditions. Such evaluations were carried out considering value and timing of cash flow forecasts particularly relating to elevated risk industries, status of recovery action and collateral values We assessed the adequacy of the related financial statement disclosures set out in notes 2.3, 4, 6, 7 & 26.
Financial reporting related IT based Internal controls A significant part of the Company's financial reporting process is primarily 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, financial reporting related IT based Internal controls is considered a key audit matter.	Our audit procedures included the following: » We obtained an understanding of the Internal control environment of the processes relating to financial reporting and related disclosures. » We identified and test checked relevant controls of key IT systems related to the Company's financial reporting process. » We evaluated the design and operating effectiveness of IT controls, including those related to user access and change management. » We checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of general ledger reconciliations

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Key audit matter	How our audit addressed the key audit matter
Valuation of Investment Properties Investment properties are carried at fair value in accordance with its accounting policies and note disclosed in notes 2.5 and 12 respectively. This was a key audit matter due to the: » materiality of the reported Investment Properties which amounted to LKR 38 Bn as of reporting date; and » degree of assumptions, judgements and estimation uncertainties associated with the fair valuation of investment properties such as reliance on comparable market transactions and consideration of current market conditions. Key areas of significant judgments, estimates and assumptions used in the valuation of the investment properties as disclosed in note 12 included the following: » Estimate of per perch value of the investment properties » Estimate of the per square foot value of the buildings	Our audit procedures included the following; » We assessed the competency, capability and objectivity of the external valuer engaged by the Group. » We read the external valuer's report and understood the key estimates made and the approach taken by the valuer in determining the valuation of each property. » We assessed the reasonableness of the significant judgements made by the valuer and valuation techniques used, per perch price and value per square foot used by the valuer in the valuation of each property. » We have also assessed the adequacy of the disclosures made in notes 2.5 and 12 in the financial statements.
Accounting for Merger of the Company with Commercial Leasing and Finance PLC The Company merged with Commercial Leasing and Finance PLC on 31 March 2022. The Company recognised LKR 169Bn as the merger reserve to the financial statements as disclosed in note 21.5 & 37. The merger was accounted for based on the Statement of Recommended Practice for Merger Accounting for Common Control Combinations issued by CA Sri Lanka. We considered the accounting for the merger to be a key audit matter as it represents a significant transaction entered into by the Company during the year.	Our audit procedures included (among others) the following procedures: » We read the relevant board resolutions and approvals from regulators and shareholders. » We obtained the audited financial statements of Commercial Leasing and Finance PLC. We checked the mathematical accuracy of the calculations and the adjustments related to merger accounting. » We assessed the adequacy of the disclosures included in the notes 21.5 & 37 to the financial statements.

Other information included in the Company's 2022 Annual Report

Other information consists of the information included in the Company's 2022 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2022 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.

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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 controls.

» 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 1884.

29 June 2022
Colombo

Statement of Financial Position

For the year ended 31 March	Note	2022 Rs.	2021 Rs.
ASSETS			
Cash and bank balances	3	12,282,959,936	13,422,689,919
Deposits with banks and other financial institutions		8,885,610,812	7,203,305,871
Investment in government securities	4	23,841,482,770	15,838,454,720
Derivative financial instruments	5.1	3,450,265,935	325,029,200
Financial assets at amortised cost			
Rentals receivable on leased assets	6	56,960,214,609	43,098,406,893
Loans and advances	7	141,614,957,527	61,466,956,726
Factoring receivable	7.6	1,418,432,849	-
Margin trading receivable	7.5	6,816,480,464	83,553,171
Investment securities	8	6,288,566,228	5,497,999,899
Investment in associate	9	1,833,660,667	-
Amount due from related companies	10	47,381,973	33,221,629
Other receivables	11	1,084,330,013	615,275,173
Inventories		428,031,504	271,727,381
Investment properties	12	38,287,958,119	21,088,740,181
Property and equipment and right-of-use assets	13	8,326,734,940	1,163,218,438
Total assets		311,567,068,346	170,108,579,200
LIABILITIES			
Bank overdraft	3	5,675,768,259	1,861,003,040
Interest bearing borrowings	14	44,309,903,398	16,437,442,429
Deposits from customers	15	159,252,382,263	107,791,136,377
Trade payables	16	1,141,928,384	144,788,204
Accruals and other payables	17	7,835,592,729	4,441,130,204
Derivative financial instruments	5.2	13,175,698	-
Amount due to related companies	18	3,719,367,746	620,861,723
Current tax payable	29.1	2,525,556,194	857,902,877
Deferred tax liability	29.2	2,974,781,275	1,733,249,164
Employee benefits	19.2	565,709,494	332,531,588
Total liabilities		228,014,165,440	134,220,045,606
SHAREHOLDERS' FUNDS			
Stated capital	20	211,581,447,542	12,762,500,000
Statutory reserve	21.1	4,444,108,028	3,596,578,755
Revaluation reserve	21.2	1,505,632,154	328,838,183
Cash flow hedge reserve	21.3	(83,701,505)	27,607,751
Fair value through OCI reserve	21.4	140,752,964	45,445,698
Merger reserve	21.5	(169,284,516,561)	-
Retained earnings	21.6	35,249,180,283	19,127,563,207
Total equity		83,552,902,905	35,888,533,594
Total liabilities and equity		311,567,068,346	170,108,579,200
Commitments and Contingencies	36	22,863,999,342	9,367,740,063
Net asset value per share		4.34	6.84

These financial statements are prepared in compliance with the requirements of the Companies Act No.07 of 2007.

(Mr.) Buddhika Weeratunga
Head of Finance

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board by:

(Mr.) Krishan Thilakaratne
Director / CEO

(Mr.) Conrad Dias
Chairman / Non Executive Director

The annexed notes to the financial statements on pages 79 through 149 form an integral part of these financial statements.

29 June 2022
Rajagiriya (Greater Colombo)

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March	Note	2022 Rs.	2021 Rs.
Interest income	22	30,569,862,999	33,761,534,126
Interest expense	23	(8,979,991,819)	(12,446,790,398)
Net interest income		21,589,871,180	21,314,743,728
Net other operating income	24	11,522,271,915	10,298,438,290
Direct expenses excluding interest cost	25	(863,534,058)	(950,854,705)
Allowance for impairment & write-offs	26	(2,991,759,900)	(16,341,362,321)
Personnel expenses	27.1	(3,564,802,548)	(3,156,954,655)
Depreciation	13	(207,247,901)	(131,853,680)
General & administration expenses		(5,904,664,088)	(5,979,227,626)
Profit from operations	27	19,580,134,600	5,052,929,031
Value added tax on financial services		(1,837,501,042)	(556,145,927)
Profit before tax		17,742,633,558	4,496,783,104
Income tax (expense) / reversal	29	(792,048,095)	(130,844,548)
Profit for the year		16,950,585,463	4,365,938,556
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability - gain / (loss)	19.2.b	24,422,219	19,845,167
Related tax	29	(5,861,333)	(12,619,816)
		18,560,886	7,225,351
Revaluation gain on property, plant and equipment	21.2	1,495,420,151	96,207,856
Related tax	21.2	(318,626,179)	(8,897,344)
		1,176,793,972	87,310,512
Movement in fair value (Equity investments at FVOCI)		95,307,266	10,711,224
Related tax		-	3,473,447
		95,307,266	14,184,672
Total of items that will never be reclassified to profit or loss		1,290,662,124	108,720,535

For the year ended 31 March	Note	2022 Rs.	2021 Rs.
Items that are or may be reclassified to profit or loss			
Movement in fair value through OCI reserve	4.2	-	19,304,507
Movement in hedge reserve	21.3	(119,316,737)	130,492,506
Related tax	21.3	8,007,481	(25,575,150)
		(111,309,257)	104,917,356
Total of items that are or may be reclassified to profit or loss		(111,309,257)	124,221,863
Total other comprehensive income, net of tax		1,179,352,867	232,942,398
Total comprehensive income for the year		18,129,938,330	4,598,880,954
Basic earnings per share	30	3.23	0.83

The annexed notes to the financial statements on pages 79 through 149 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 March	Note	Stated Capital Rs.	Statutory Reserve Rs.	Revaluation Reserve Rs.
Balance as at 01 April 2020		12,762,500,000	3,378,281,827	241,527,671
Total comprehensive income for the year				
Profit for the year		-	-	-
Other comprehensive income, net of income tax				
Remeasurements of defined benefit liability - gain / (loss)	19.2 / 29.2	-	-	-
Revaluation gain on property, plant and equipment		-	-	87,310,512
Revaluation gain on fair value through OCI investments		-	-	-
Movement in fair value through OCI reserve	4.1.3	-	-	-
Net movement of cashflow hedges	21.3 / 29.2	-	-	-
		-	-	87,310,512
Total comprehensive income for the year		-	-	87,310,512
Transactions recorded directly in equity				
Transfer to Statutory Reserve Fund		-	218,296,928	-
Total transactions recorded directly in equity		-	218,296,928	-
Balance as at 31 March 2021		12,762,500,000	3,596,578,755	328,838,183
Balance as at 01 April 2021		12,762,500,000	3,596,578,755	328,838,183
Total comprehensive income for the year				
Profit for the year		-	-	-
Other comprehensive income, net of income tax				
Remeasurements of defined benefit liability - gain / (loss)	19.2 / 29.2	-	-	-
Revaluation gain on property, plant and equipment		-	-	1,176,793,972
Revaluation gain on fair value through OCI investments		-	-	-
Net movement of cashflow hedges	21.3 / 29.2	-	-	-
		-	-	1,176,793,972
Total comprehensive income for the year		-	-	1,176,793,972
Transactions recorded directly in equity				
Transfer to Statutory Reserve Fund		-	847,529,273	-
Shares issued during the year		198,818,947,542	-	-
Excess of the investment and other adjustments on merger with subsidiary	37	-	-	-
Total transactions recorded directly in equity		198,818,947,542	847,529,273	-
Balance as at 31 March 2022		211,581,447,542	4,444,108,028	1,505,632,154

The annexed notes to the financial statements on pages 79 through 149 form an integral part of these financial statements.

	Cash flow Hedge Reserve Rs.	Fair Value Through OCI Reserve Rs.	Merger Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
	(77,309,605)	11,956,519	-	14,972,696,227	31,289,652,639
	-	-	-	4,365,938,556	4,365,938,556
	-	-	-	7,225,351	7,225,351
	-	-	-	-	87,310,512
	-	14,184,672	-	-	14,184,672
	-	19,304,507	-	-	19,304,507
	104,917,356	-	-	-	104,917,356
	104,917,356	33,489,179	-	7,225,351	232,942,398
	104,917,356	33,489,179	-	4,373,163,907	4,598,880,954
	-	-	-	(218,296,928)	-
	-	-	-	(218,296,928)	-
	27,607,752	45,445,698	-	19,127,563,206	35,888,533,593
	27,607,752	45,445,698	-	19,127,563,206	35,888,533,593
	-	-	-	16,950,585,463	16,950,585,463
	-	-	-	18,560,886	18,560,886
	-	-	-	-	1,176,793,972
	-	95,307,266	-	-	95,307,266
	(111,309,257)	-	-	-	(111,309,257)
	(111,309,257)	95,307,266	-	18,560,886	1,179,352,867
	(111,309,257)	95,307,266	-	16,969,146,349	18,129,938,330
	-	-	-	(847,529,273)	-
	-	-	-	-	198,818,947,542
	-	-	(169,284,516,561)	-	(169,284,516,561)
	-	-	(169,284,516,561)	(847,529,273)	29,534,430,981
	(83,701,505)	140,752,964	(169,284,516,561)	35,249,180,283	83,552,902,905

Statement of Cash Flows

For the year ended 31 March	Note	2022 Rs.	2021 Rs.
Cash flows from operating activities			
Profit before income tax expense		17,742,633,558	4,496,783,104
Adjustments for:			
Depreciation	13	207,247,901	131,853,680
(Profit)/ loss on sales of investment property and PPE	24	(10,787,672)	(298,765,475)
Change in fair value of derivatives - forward contracts	24	1,790,082,378	195,730,991
Provision for fall / (increase) in value of investments	24	(518,067,319)	(183,575,967)
Impairment provision for the year	26	(6,593,369,409)	5,909,098,541
Change in fair value of investment property	24	(6,925,550,077)	(3,291,066,776)
Provision for defined benefit plans	19.2	25,946,126	57,482,706
Investment income		(2,423,673,259)	(1,881,378,487)
Finance costs	23	8,979,991,819	12,446,790,398
Operating profit before working capital changes		12,274,454,046	17,582,952,715
Change in other receivables		(4,213,960,268)	(232,533,460)
Change in inventories		(147,913,565)	(269,704,259)
Change in trade and other payables		817,923,498	212,034,168
Change in amounts due to / due from related parties		21,850,967	(205,851,269)
Change in lease receivables		3,032,196,059	(1,616,750,212)
Change in loans and advances		(7,725,596,676)	20,498,634,595
Change in factoring receivables		-	3,910,200,287
Change in margin trading advances		(6,808,029,485)	(81,785,482)
Change in fixed deposits from customers		7,817,174,260	2,731,057,344
Change in savings deposits from customers		5,300,554,673	6,438,578,206
Cash (used in) / generated from operations		10,368,653,508	48,966,832,632
Finance cost paid on deposits		(8,312,826,411)	(10,070,523,876)
Gratuity paid	19.2	(22,311,473)	(23,093,102)
Income tax paid	29.1	(10,570,091)	(424,660,905)
Net cash from / (used in) operating activities		2,022,945,533	38,448,554,749
Cash flows from investing activities			
Acquisition of property, plant & equipment & investment property		(6,084,962,864)	(928,434,263)
Proceeds from sale of property, plant & equipment & investment property		299,161,584	641,820,465
Purchase of government securities		(31,393,852,407)	(14,846,086,394)
Proceeds from sale of government securities		27,628,388,944	9,594,334,231
Net proceeds from investments in term deposits		(779,142,636)	10,078,970,814
Net proceeds from investments securities		696,021,218	(2,345,513,947)
Interest received		2,423,673,259	1,881,378,487
Net cash flows used in investing activities		(206,029,660,444)	4,076,469,393
Cash flows from financing activities			
Proceeds from interest bearing loans & borrowings		218,510,687	(34,900,228,157)
Lease rentals paid	14.2	(26,703,945)	(97,521,906)
Finance cost paid on borrowings		(1,044,961,881)	(3,015,947,149)
Net cash flows from / (used in) financing activities		197,965,792,403	(38,013,697,212)
Net increase / (decrease) in cash and cash equivalents		(6,040,922,509)	4,511,326,930
Addition on merger with subsidiary		1,086,427,307	-
Cash and cash equivalents at the beginning of the year		11,561,686,879	7,050,359,949
Cash and cash equivalents at the end of the year (note 3)		6,607,191,677	11,561,686,879

The annexed notes to the financial statements on pages 79 through 149 form an integral part of these financial statements.

Notes to the Financial Statements

1. GENERAL

1.1 Reporting Entity

1.1.1 Corporate Information

LOLC Finance PLC ("the Company") is a quoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The registered office of the Company is at No.100/1, Sri Jayewardenepura Mawatha, Rajagiriya.

The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No. 42 of 2011. The Company has obtained registration from the Securities and Exchange Commission, as a Market Intermediary to perform the functions of a Margin Provider under section 19A of the Securities & Exchange Commission Act No.36 of 1987 as amended by Act Nos. 26 of 1991 & 18 of 2003.

1.1.2 Parent entity and Ultimate Parent Company

The Company's immediate parent is LOLC Ceylon Holdings PLC and ultimate parent undertaking and controlling entity is LOLC Holding PLC, which is incorporated in Sri Lanka.

1.1.3 Principal Activities and Nature of Operations

The principal activities of the Company comprised of leasing, loans, margin trading, mobilisation of public deposits and alternative financing.

There were no significant changes in the nature of the principal activities of the Company during the financial period under review.

1.1.4 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards.

1.1.5 Number of Employees

The staff strength of the Company as at 31 March 2022 was 4,850 (Mar 2021 – 3,072).

1.2 Basis of Preparation

1.2.1 Statement of compliance

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Companies Act, No. 7 of 2007, the Regulation of Finance Business Act No.42 of 2011 and amendments there to.

These Financial Statements include the following components:

- a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the period under review;
- a Statement of Financial Position providing the information on the financial position of the Company as at the period-end;
- a Statement of Changes in Equity depicting all changes in shareholders of Changes in Equity and depicting all changes the Company;
- a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilise those cash flows; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

Details of the company's accounting policies are included in Note 2.

1.2.2 Date of authorisation for issue

The Financial Statements were authorised for issue by the Board of Directors on 29 June 2022.

1.2.3 Basis of measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis	Note No.
Derivative financial instruments	Fair value	5
Non-derivative financial instruments at fair value through profit or loss	Fair value	8.1
Available for sale financial assets / fair value through other comprehensive income	Fair value	4.1.2
Investment property	Fair value	12
Land and buildings	Fair value	13
Net defined benefit assets / (liabilities)	Actuarially valued and recognised at the present value	19.2

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

No adjustments have been made for inflationary factors affecting the Financial Statements.

The Company presents its statement of financial position in order of liquidity.

1.2.4 Materiality and aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.2.5 Going concern basis of accounting

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. In determining the basis of preparing the financial statements for the year ended 31 March 2022, based on available information, the management has assessed the effects of the COVID-19 pandemic and macroeconomic conditions and its effects on each business segment where the company has an interest and the appropriateness of the use of the going concern basis.

Upon the recent merger, the Directors of the Company expect significant growth in assets as the synergies of the combined entity will unlock new market opportunities and would be a controlling arm of the NBFI sector as the market leader.

The management has formed reasonable judgement that the Company has adequate resources to continue its business operations for the foreseeable future monitoring its business performance and continuity by adopting risk mitigation initiatives. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

1.2.6 Comparative information

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous period. Comparative information has not been reclassified or restated.

1.3 Functional and Presentation Currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates (the functional currency). These financial statements are presented in Sri Lankan Rupees, the Company's functional and presentation currency.

There was no change in the company's presentation and functional currency during the period under review.

All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

1.4 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in conformity with SLFRSs/ LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimate and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The respective carrying amounts of assets and liabilities are given in the related Notes to the financial statements.

Information about critical judgments, estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

Critical Accounting estimate / judgment	Disclosure reference Note
Fair value measurement of financial instruments / investment properties / land and buildings	1.4.1 / 12.1 / 13.1
Financial assets and liability classification	1.4.2
Impairment losses on loans and advances	1.4.3
Impairment losses on available for sale investments	1.4.4
Impairment losses on other assets	1.4.5
Defined benefit obligation	1.4.6
Provisions for liabilities and contingencies	1.4.7

1.4.1 Fair value measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Group CFO.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant judgements used in valuation and issues that arises are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

» **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.

» **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

» **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values and the fair value measurement level is included in the following notes:

Note 12 – Investment property;

Note 13 – Property, plant and equipment; and

Note 2.3 & 2.3.4 – Financial instruments;

1.4.2 Financial assets and liability classification into categories

The Company's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets or liabilities into categories, the Company has determined that it meets the description of trading assets and liabilities set out in Note 2.3.1.b. In classifying financial assets as held to maturity, the Company has determined that it has both the positive intention and ability to hold the assets unit their maturity date as required by Note 2.3.1.b

1.4.3 Impairment losses on loans and advances

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided for in the Statement of Profit or Loss and Other Comprehensive Income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance made.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgment on the effect of concentrations of risks and economic data.

The policy on impairment loss on loans and advances is disclosed in more detail in Note 2.3.10.

1.4.4 Impairment losses on available for sale investments

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and advances. The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged decline' in fair value below their cost requires judgment. In making this judgment, the Company evaluates, among other factors, historical price movements and duration and extent to which the fair value of an investment is less than its cost.

The impairment loss on available for sale investments is disclosed in Note 2.3.10.

1.4.5 Impairment losses on other assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the circumstances that necessitate doing so. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

Specific Accounting Policies on impairment of non-financial assets are discussed in Note 2.7.

1.4.6 Defined benefit obligation

The cost of the defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Refer Note 2.8.3 for the accounting policy and assumptions used.

1.4.7 Provisions for liabilities and contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

Index	Accounting policy
2.1	Basis of consolidation
2.2	Foreign currency
2.3	Financial assets and financial liabilities
2.4	Leases
2.5	Investment property
2.6	Property plant and equipment
2.7	Impairment - non-financial assets
2.8	Employee benefits
2.9	Provisions
2.10	Equity movements
2.11	Capital commitments and contingencies
2.12	Events occurring after the reporting date
2.13	Interest income and interest expense
2.14	Fees, commission and other income
2.15	Dividends
2.16	Expenditure recognition
2.17	Income tax expense
2.18	Earnings per share
2.19	Cash flow statements
2.20	Related party transactions
2.21	Operating segments
2.22	Fair value measurement
2.23	New accounting standards issued but not effective as the reporting date.

2.1 Basis of consolidation

2.1.1 Business combinations under common control

Business combinations under common control are accounted for using the book value method. The consideration transferred in the acquisition is generally measured at fair value, and the identifiable net assets acquired are measured at their carrying amounts reflected in the acquiree entity. Any excess or deficit that arises is recognised in equity and no goodwill is recognised as control is not transitory.

2.1.2 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.2 Foreign currency transactions

Sri Lankan rupee is the functional currency of the Company. Transactions in foreign currencies are translated into the functional currency of the Company at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of the available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss) are recognised in other comprehensive income.

SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.3 Financial assets and financial liabilities

2.3.1 Non-derivative financial assets

2.3.1.a Initial recognition of financial assets

Date of recognition

The Company initially recognises loans and receivables and deposits with other financial institutions on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets

The classification of financial instruments at initial recognition depends on their cash flow characteristics and business model for managing the instrument. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Financial Reporting Standard – SLFRS 09 on 'Financial Instruments'.

Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the statement of profit or loss

'Day 1' profit or loss on employee below market loans

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or loss when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

2.3.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories:

» amortised cost;

» fair value through other comprehensive income (FVOCI); and

» fair value through profit or loss (FVTPL).

2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held because this best reflects the way the business is managed and information is provided to management. The information considered includes:

» whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

» how the performance of the portfolio is evaluated and reported to the management;

» the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

» the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity and how cash flows are realised.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test of its classification process. In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Company considers the contractual terms of the instrument.

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

Based on above assessments, subsequent measurement of financial assets are classified as follows.

Amortised cost

Financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition measured at amortised cost using the effective interest method, less any impairment losses.

This includes cash and cash equivalents, deposits with banks and other financial institutions, investments in Standing Deposit Facilities (REPO's), lease receivables, advances and other loans granted, factoring receivables, amount due from related parties and other receivables.

» Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

» Rentals receivable on leased assets

When the Company is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised. Amounts receivable under finance leases are included under "Rentals receivable on leased assets". Leasing balances are stated in the statement of financial position after deduction of initial rentals received, unearned lease income and the provision for impairment losses.

» Loans and advances

Advances and other loans to customers comprised of revolving loans and loans with fixed installment

Loans to customers are reflected in the Statement of Financial Position at amounts disbursed less repayments and provision for impairment losses.

» Financial guarantees

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Company in its normal course of the business issues guarantees on behalf of the depositors, holding the deposit as collateral.

Financial assets at fair value through other comprehensive income (FVOCI)

Instruments are measured at FVOCI, if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and interest on principal outstanding. This comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other investments are measured at fair value after initial recognition.

Financial assets at fair value through profit or loss (FVTPL)

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in statement of profit or loss as incurred.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of profit or loss.

Financial assets at fair value through profit or loss comprises of quoted equity instruments and unit trusts unless otherwise have been classified as amortised cost.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Company becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the AFS reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

2.3.2 Non-derivative financial liabilities

Classification and subsequent measurement of financial liabilities

The Company initially recognises non-derivative financial liabilities on the date that they are originated.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals & other payables and amounts due to related parties:

Bank overdrafts

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Deposits and bank borrowings - classified as other financial liabilities carried at amortised cost

Deposits and bank borrowings are the Company's sources of debt funding.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition deposits and bank borrowings are measured at their amortised cost using the effective interest method.

2.3.3 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. Derivatives are recognised as assets when their fair value is positive and as liabilities when their fair value is negative.

The Company designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the cash flows of the respective hedge item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

These hedging relationships are discussed below.

i. **Fair value hedges**

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Company does not have any fair value hedges

ii. **Cash flow hedges**

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

iii. **Net investment hedges**

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

The Company does not have any net investment hedges.

2.3.3.a Other non-trading derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of other income.

2.3.4 Reclassification of financial assets and liabilities

As per SLFRS 9, Financial assets are not reclassified subsequent to their initial recognition, except and only in its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

2.3.5 Derecognition of financial assets and financial liabilities

Financial assets

The Company derecognises a financial asset when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either.

a) The Company has transferred substantially all the risks and rewards of the asset, or

b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

(i) The consideration received (including any new asset obtained less any new liability assumed) and

(ii) Any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

2.3.6 Modification of financial assets and financial liabilities

Modification of financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses measured using pre modification interest rate. In other cases, it is presented as interest income.

As per the Circular Nos. 4 and 5 of 2020 issued by CBSL dated May 4, 2020 and June 9, 2020 and Circular Nos. 4 and 9 of 2021 issued by CBSL dated March 12, 2021 and October 6, 2021 respectively, the Company granted payment deferrals to eligible customers affected by COVID-19, modifying the original contract. In this regard, NBFIs were allowed to charge upto a maximum of 11.5% per annum on the deferred instalments during the moratorium period of equated monthly instalments (EMI) loans. For other loans various types of interest rate concessions were given to the customers. Further, with the view of meeting the challenges faced by businesses and individuals due to the second wave of COVID-19, CBSL directed banks to extend the debt moratorium to such businesses and individuals further during the financial year 2021/22 as well. Finance Companies were expected to convert the capital and interest falling due during the moratorium period into a term loan. Repayment period of the new loans shall be minimum of two years, however, may vary based on the terms and conditions agreed with the borrower. NBFIs were allowed to recover interest at a rate not exceeding the latest auction rate for 364-days Treasury Bills, available by April 01, 2021, plus 5.5 per cent per annum and shall not exceed 11.5% per annum.

So, the Company has made an assessment in this regard and it shows there is more than 4% PV difference across all the category of the loan due to the first moratorium. Further, in our view such difference would be further increased considerable considering the second moratorium offered by CBSL. Further, the loss of other fees that the Company used to charge its customers at the time of a modification and the penal interest also considerable due to moratorium. In the absence of any prescribed guidelines within SLFRS 9, entities need to develop their own policies and methods while performing the quantitative and qualitative evaluation of such modifications. So, based on the business model and the overall lending strategy, any PV loss beyond 3% will be significant to the Company. Therefore, from the date of moratorium started, the interest accrual will be made based on the revised effective interest rate adjusting applicable costs and fees.

Modification of financial liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

2.3.7 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the company's trading activity

2.3.8 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

2.3.9 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Determination of fair value

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models

2.3.10 Impairment

Overview of the expected credit loss (ECL) principles

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).

Stage 2: If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL.

Stage 3: If a financial asset is credit impaired, it is moved to Stage 3 and the Company recognises an allowance for LTECL, with probability of default at 100%. So it is defined as credit impaired and default.

The key judgements and assumption adopted in addressing the requirements of SLFRS 9 are discussed below:

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available. Based on that, management has decided that an exposure to have significantly increased credit risk when contractual payments of a customer are more than 90 days past due and loss to take place after 180 days in accordance with the rebuttable presumption in SLFRS 9.

Individually Significant Impairment Assessment and Loans which are Not Impaired Individually

Company will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Loans with objective evidence of incurred losses are classified as Stage 3. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 1 or Stage 2, based on the above specified criteria to identify whether there have been a significant credit deterioration since origination.

While establishing significant credit deterioration, Company will consider the following criteria:

» Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated

» Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument

» Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument

» Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet it's obligation

» An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems

» Significant increase in credit risk on other financial instruments of the same borrower

» An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis

As explained above, Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets which belong to stage 3. All assets which belong to stage 1 and 2 will be assessed collectively for Impairment.

Company groups smaller homogeneous exposures based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the Effective Interest Rate (EIR).

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

» Probability of Default (PD): PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

» Exposure at Default (EAD): EAD is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise and expected draw downs on committed facilities.

» Loss Given Default (LGD): LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

When estimating ECL, Company considers 3 scenarios (base case, best case and worst case). Each of these scenarios are associated with different loss rates. For all products, Company considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

Company relies on broad range of qualitative/quantitative forward-looking information as economic inputs such as the following in its Eco model.

Quantitative inputs	Qualitative inputs
GDP growth	Changes in Lending Policies and Procedure
Inflation	Changes in Bankruptcy and lending related Legislations
Unemployment	Credit Growth
Interest rates	Position of the Portfolio within the Business Cycle

In response to COVID-19 and the Company's expectations of economic impacts, key assumptions used in the Company's calculation of ECL have been revised. As at the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19.

Accordingly, under the collective assessment, customers operating in risk elevated industries including Tourism, Transportation and Construction were assessed for Lifetime ECL. Exposures outstanding from the borrowers operating in these industries have been classified as stage 2 unless such exposures are individually significant and have specifically been identified as stage 1 reflecting forward looking view of the economy in relation to the business.

Further, the Company decided to increase the weightages assigned for worst case scenario while reducing the weightages assigned for base case scenario and best case scenario when assessing the probability weighted forward looking macro-economic indicators along with management overlays to qualitative indicators relating to forward looking macro-economic environment with the objective of capturing the impact of COVID-19 and uncertainties and volatilities in future outlook on the ECL computation as at the reporting date.

2.4 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.4.1 Finance Leases

Finance leases – Company as a lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Finance leases – Company as a lessor

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in "Rentals receivable on leased assets". The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

2.4.2 Operating Leases

Leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased items to the lessee are operating leases

Operating leases – Company as a lessor

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

2.5 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

2.6 Property plant and equipment

2.6.1 Recognition and measurement

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured.

Items of property, plant and equipment are measured at cost/ revaluation less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site at which they are located and capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognised in other income/other expenses in profit or loss.

Cost model

The Company applies the cost model to all property, plant and equipment except freehold land, buildings and motor vehicles; and is recorded at cost of purchase together with any incidental expenses thereon less any accumulated depreciation and accumulated impairment losses.

Revaluation model

The Company revalues its land, buildings and motor vehicles which are measured at its fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. In previous financial years, motor vehicles were under cost model and from the financial year 2021/22, it was changed from the cost model to the revaluation model and has not led to a retrospective restatement due to the exemption available in paragraph 17 of LKAS 8 "Accounting Policies, Change in Accounting Estimates and Errors".

On revaluation of land, buildings and motor vehicles, any increase in the revaluation amount is credited to the revaluation reserve in shareholder's equity unless it off sets a previous decrease in value of the same asset that was recognised in the statement of profit or loss. A decrease in value is recognised in the statement of profit or loss where it exceeds the increase previously recognised in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal.

2.6.2 Subsequent costs

The cost of replacing a component of an item of property, plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

2.6.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current period are as follows:

Motor vehicles	4-8 years
Buildings	40 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

2.6.4 Right-of-Use Assets

Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position. Right-of-use assets of the Company include land and buildings under long term rental agreements for its use as offices and branches. The Company recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-use assets are measured at cost less any accumulated amortisation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are amortised on the straight-line basis over the lease term.

2.7 Impairment - non-financial assets

The carrying amounts of the company's non-financial assets, other than, deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in the statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), if any, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.8 Employee benefits

2.8.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.8.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

2.8.3 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The Company recognises all actuarial gains and losses / remeasurement component arising from defined benefit plans immediately in other comprehensive income. Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The obligation is not externally funded.

2.9 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

2.10 Equity movements

2.10.1 Ordinary shares

The company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

2.10.2 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's Board of Directors in accordance with the Articles of Association. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

2.10.3 Share issue costs

Share issue related expenses are charged against the retained earnings in the statement of equity.

2.11 Capital commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless they are remote.

2.12 Events occurring after the reporting date

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF INCOME AND EXPENSES

2.13 Interest income and interest expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss includes the interest on financial assets and financial liabilities measured at amortised cost, fair value through other comprehensive Income (FVOCI) and fair value through profit or loss (FVTPL) calculated on an effective interest basis.

2.13.1 Income from leases and term loans

The excess of aggregated contract receivable over the cost of the assets constitutes the total unearned income at the commencement of a contract. The unearned income is recognised as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

2.13.2 Factoring

Revenue is derived from two sources, funding and providing sales ledger related services.

Funding - Discount income relating to factoring transactions is recognised at the end of a given accounting month. In computing this discount, a fixed rate agreed upon at the commencement of the factoring agreement is applied on the daily balance in the client’s current account.

Sales Ledger Related Services - A service charge is levied as stipulated in the factoring agreement.

Income is accounted for on an accrual basis and deemed earned on disbursement of advances for invoices factored.

2.14 Fees, commission and other income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees are recognised as the related services are performed.

Collections on contracts written off and interest on overdue rentals are accounted for on cash basis.

2.15 Dividends

Dividend income is recognised when the right to receive income is established.

2.16 Expenditure recognition

Expenses are recognised in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the period.

2.16.1 Value Added Tax (VAT) on financial services

The base for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on the prescribed rate.

The VAT on financial service is recognised as expense in the period it becomes due.

2.16.2 Nation Building Tax on financial services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services.

2.16.3 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2.17 Income tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Note 29 represent the major components of income tax expense to the financial statements.

2.17.1 Current tax expense

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

2.17.2 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The relevant disclosures are given in Note 29.2 to the financial statements.

2.18 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Specific disclosures are included in Note 30.1. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees. The relevant disclosures are given in 30.2 to the financial statements.

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.19 Cash flow statements

The cash flow statement has been prepared using the indirect method and direct method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.20 Related Party Transactions

Transactions with related parties are conducted in the normal course of business. The relevant disclosures are given in Note 33 to the Financial Statements.

2.21 Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Company has three reportable segments, Conventional financial services, Islamic financial services and Factoring, which are the Company's strategic divisions. Those offer different products and services, and are managed separately based on the Company's management and internal reporting structure. For each of the strategic divisions, the Company's Board of Directors reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in Note 35. Performance is measured based on segment profit before tax. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

2.22 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

» In the principal market for the asset or liability, or

» In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as investment properties.

Fair Value Hierarchy

The company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

Level 1

Inputs that are unadjusted quoted market prices in an active market for identical instruments

When available, the company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;

(a) quoted market in active markets for similar instruments,

(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or

(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparisons with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgment and estimation while reducing uncertainty associated in determining the fair values.

2.23 New accounting standards issued not yet effective as at reporting date

The new and amended standards and interpretations that are issued up to the date of issuance of the Company's financial statements but are not effective for the current annual reporting period, are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

SLFRS 17 Insurance Contracts

In 8 January 2020, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued SLFRS 17 Insurance Contracts (SLFRS 17). SLFRS 17 was amended by Amendments to SLFRS 17 - Insurance Contracts, in 28 June 2021. SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 Insurance Contracts (SLFRS 4) that was issued in 2005. SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in SLFRS 4, which are largely based on grandfathering previous local accounting policies, SLFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of SLFRS 17 is the general model, supplemented by:

» A specific adaptation for contracts with direct participation features (the variable fee approach)

» A simplified approach (the premium allocation approach) mainly for short-duration contracts

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets:

Onerous Contracts – Costs of Fulfilling a Contract

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets (LKAS 37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

Amendments to LKAS 16 Property, Plant & Equipment: Proceeds before Intended Use

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued LKAS 16 Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Amendments to SLFRS 3 Business Combinations: Updating a reference to conceptual framework

In 23 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 3 Business Combinations - Updating a Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

An exception was also added to the recognition principle of SLFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of LKAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, it was decided to clarify existing guidance in SLFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards – Subsidiary as a first-time adoption

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 1 First-time Adoption of International Financial Reporting Standards (SLFRS 1). The amendment permits a subsidiary that elects to apply paragraph D16(a) of SLFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to SLFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of SLFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

SLFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 9 Financial Instruments (SLFRS 9). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

LKAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to LKAS 41 Agriculture (LKAS 41). The amendment removes the requirement in paragraph 22 of LKAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of LKAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to SLFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021

In 4 December 2020, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued Covid-19-Related Rent Concessions - amendment to SLFRS 16 Leases. The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, in 28 June 2021, CA Sri Lanka extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021

Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform Phase 1 and 2

IBOR reform Phase 1

In 15 January 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform (Phase 1). A summary of Phase 1 amendments are as follows:

» Highly Probable Requirement: when determining whether a forecast transaction is highly probable to be designated as a hedged item, an entity shall assume that the interest rate benchmark on which the hedged cashflows are based is not altered as a result of the reform

» Prospective assessments: when performing prospective assessments to evaluate whether a hedging relationship qualifies for hedge accounting, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

» LKAS 39 retrospective assessment: an entity is not required to undertake the 'LKAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assessment.

» Separately identifiable risk components: For hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement of risk component (or a portion) to be separately identifiable to be eligible for hedge accounting, only at the inception of such hedging relationships.

IBOR reform Phase 2

In addition to Phase 1 amendments, CA Sri Lanka also issued amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 due to Interest Rate Benchmark Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include several practical expedients.

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2021 in the Sri Lankan context.

2.24 Financial risk management

2.24.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

» Credit risk

» Liquidity risk

» Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

2.24.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. All the Company level risks are escalated to the parent company IRMC and the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Audit Committee oversees the reports submitted by the Enterprise Risk Management (ERM) and monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced. The Audit Committee is assisted in its oversight role by ERM. ERM undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

2.24.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Company's receivable from customers.

2.24.3.1 Management of credit risk

1) **Facilities granted to customers**

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit department. Credit department, reporting to the Credit Committee, is responsible for management of the Company's credit risk, including:

1. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Chief Credit Officer, CEO and the Board of Directors as appropriate.
3. Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
4. Monitoring limiting concentrations of exposure to counterparties, geographies and industries
5. Developing and maintaining a risk grading for significant clients in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the associated risks.
6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, and product types.
7. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

2) **Allowances for impairment**

The Company establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of expected losses in its lease and loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortised cost, a collective loan loss allowance established for groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

3) **Write-off policy**

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status. The company generally writes off balances on its past due status reaching 12 months and if no collateral is available.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2022 (March 2021: no collateral held).

The Impact of COVID 19

The sudden shock arisen from the outbreak of the COVID - 19 globally since January 2020 caused massive economic disruption leading to uncertainty in the whole world. Sri Lanka as a country exposed to this risk in the financial year 2020/21 and first half of the financial year 2021/22. As an immediate precautionary measure the Government imposed island wide curfew and travel restrictions. Since no access to office was feasible the Company immediately planned to "work from home' and facilitated the key management personnel and the key required personnel to work from home. To ensure the timely payment of Fixed Deposit Interest, the management sought assistance from the Company bankers and provided an uninterrupted service during the curfew period.

As the banking and NBFI sectors are the backbone of any economy, any significant economic downturn will directly affect banks and NBFI. Due to difficult operating conditions, the performance of the banking sector and the NBFIs in particular will be more challenging, affecting the quality of the asset and the recovery of profitability. Relief measures for affected businesses and individuals in line with the directions issued by the CBSL (The six-month moratorium) are expected to mitigate the impact on individuals and businesses. Further Fitch Ratings, the outlook for the country, banking and NBFI sector in Sri Lanka is negative for 2021. The liquidity position of the financial sector will be affected by the debt moratorium, although this is counteracted to some extent by the lowering of liquidity requirements for financial institutions. The need to strengthen the capital of NBFIs will be felt even more, as it must have the financial capacity to detect crises like this. Stress testing will also be important because of the uncertainty.

The Company has assessed the probable impact stemming from Covid – 19 outbreak and the key assessments are listed below.

» Based on the available information and management's best judgement, it is determined the appropriateness of the Going concern assumptions in preparing Financial Statements for the year ended 31 March 2022.

» Despite the challenging environment of having difficulties in collecting the company dues and the difficulties in getting funding lines from banks and other financial institutions, the Company was able to maintain a stable liquidity position and safeguard the interest of the stakeholders.

» The unutilised Overdraft facilities, the available excess investment and already negotiated funding lines and were used as a cushion to absorb any sudden liquidity shocks.

» A more prudent cost control mechanism was in place which ensured an effective cost structure in the Company.

There is a considerable degree of judgement involved in making the above assessments. The underline assumptions are also subject to certain level of uncertainty and are mostly out of the control of the Company. Hence the actual economic conditions are likely to be different from the anticipated events. The effect of those differences may have significant impact on accounting judgement and estimates included in these Financial Statements.

The Management evaluated the key assumptions used in the above estimates and judgements under probable stress scenarios such as, retention ratio of Fixed Deposits, Deposit renewal ratio, Ratio of Rental Collection and Re-imposing of CBSL liquid asset requirement.

2.24.3.1 Management of credit risk (Contd.)

4) **Credit quality by class of financial assets at amortised cost** (In Rs'mn)

As at 31st March	Leases		Mortgage Loans		Other Loans and Advances		Margin Trading		Factoring Receivables		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Carrying amount	56,960	43,098	4,506	1,784	137,109	59,683	6,816	84	1,418	-	206,810	104,649
Assets at amortised cost												
Individually impaired - Gross amount	805	1,221	248	288	2,437	3,945	-	-	611	-	4,101	5,454
Less : Allowance for impairment	(279)	(466)	(37)	(175)	(716)	(1,979)	-	-	(342)	-	(1,375)	(2,620)
Carrying amount	526	755	211	113	1,721	1,966	-	-	269	-	2,727	2,834
Portfolio subject to collective impairment - Gross amount	58,872	45,832	4,370	1,671	140,676	64,779	6,892	84	1,164	-	211,973	112,366
Less : Allowance for impairment	(2,438)	(3,489)	(75)	-	(5,288)	(7,061)	(75)	-	(15)	-	(7,890)	(10,550)
Carrying amount	56,434	42,343	4,295	1,671	135,388	57,718	6,816	84	1,149	-	204,083	101,815

An estimate made at the time of borrowing / at the time of impairment evaluation, of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below;

(In Rs'mn)	2022	2021
Against individually impaired customers :		
Property	2,348	1,898
Vehicles	615	936

(In Rs'mn)	2022	2021
Against individually impaired customers :		
Property	125,845	56,096
Vehicles	74,593	65,029

Details of non-financial assets obtained by the Company by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements during the period and held at the end of the period are shown below;

(In Rs'mn)	2022	2021
Property	-	-
Vehicles	646	936

Income from individually impaired customers recognised in the statement of profit or loss;

(In Rs'mn)	2022	2021
Leases	13	-
Mortgage Loan	173	38
Other loans & advances	503	415

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. Properties acquired by foreclosure has been considered as investment properties of the Company.

Age analysis of facilities considered for collective impairment as of 31 March 2022. (In Rs'mn)

Category	Leases	Mortgage Loans	Other Loans and Advances	Factoring Receivable	Margin Trading	Total
Not due / current	22,976	1,802	86,307	1,050	6,892	119,027
Overdue:						
Less than 30 days	8,194	774	12,065	100	-	21,133
31 - 60 days	5,811	531	16,414	5	-	22,760
61 - 90 days	3,340	77	4,564	9	-	7,990
91 - 120 days	10,081	110	7,538	-	-	17,728
121 - 150 days	1,661	32	3,094	-	-	4,788
151 - 180 days	1,368	50	2,636	-	-	4,054
Above 180 days	5,442	994	8,058	-	-	14,493
Total	58,871	4,370	140,676	1,164	6,892	211,973

Age analysis of facilities considered for collective impairment as of 31 March 2021. (In Rs'mn)

Category	Leases	Mortgage Loans	Other Loans and Advances	Margin Trading	Total
Not due / current	11,717	492	24,319	84	36,612
Overdue:					
Less than 30 days	5,323	143	4,841	-	10,307
31 - 60 days	3,509	19	3,776	-	7,304
61 - 90 days	2,411	23	1,331	-	3,765
91 - 120 days	16,264	179	10,821	-	27,264
121 - 150 days	781	11	1,041	-	1,833
151 - 180 days	478	3	771	-	1,252
Above 180 days	5,349	801	17,879	-	24,029
Total	45,832	1,671	64,779	84	112,366

Sensitivity Analysis of Allowance for Impairment Losses as at 31 March 2022 and 31 March 2021.

Sensitivity effect on impairment allowance Increase (In Rs'mn)

Changed criteria	Changed factor	2022	2021
Probability of default (PD)	Increase by 1%	230	316
Loss given default (LGD)	Increase by 10%	1,589	1,947

2.24.3.1 Management of credit risk (Contd.)

Analysis of total impairment for expected credit losses As at 31st March 2022 (In Rs'mn)

Category	Stage 01	Stage 02	Stage 03	Total
Financial assets at amortised cost				
Rentals receivable on leased assets	382	661	1,674	2,717
Loans and advances	1,727	1,223	3,166	6,116
Factoring receivable	15	-	342	357
Margin trading receivable	75	-	-	75
Other financial assets	1,531	-	-	1,531
Commitments and Contingencies	-	2	-	2
Total impairment for expected credit losses	3,730	1,886	5,182	10,798

As at 31st March 2021 (In Rs'mn)

Category	Stage 01	Stage 02	Stage 03	Total
Financial assets at amortised cost				
Rentals receivable on leased assets	324	1,604	2,027	3,954
Loans and advances	1,613	2,125	5,478	9,216
Factoring receivable	-	-	-	-
Other financial assets	223	-	-	223
Commitments and Contingencies	-	17	-	17
Total impairment for expected credit losses	2,160	3,746	7,505	13,411

5) **Concentrations of credit risk**

The Company monitors concentrations of credit risk by sector to which the lending was made. The analysis is provided in Note 7.7.1 to the financial statements.

2.24.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

2.24.4.1 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements and debt covenants agreed with the fund providers. The treasury manages the liquidity position as per the treasury policies and procedures and regulatory requirements.

The treasury receives information from the business regarding the liquidity profile of the financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of business units are discussed at the ALCO meetings (Asset Liability Committee) and are arranged by the Treasury.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Company relies on deposits from customers and bank borrowings as its primary sources of funding. The deposits from customers and banks largely have shorter maturities. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

With the onset of COVID 19 pandemic in this year, the Company introduced more rigour to the processes already in place to manage its liquid assets. While closely monitoring any developments related to the pandemic, it has continued to keep its risk management measures under review to readily respond to changing circumstances. The Company is comfortable with its existing buffer of liquid assets. The actions taken will help to maintain existing liquidity position while mitigating any disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

(In Rs'mn)

As at 31st March 2022	Carrying amounts	Gross nominal outflow/ (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
Bank overdraft	5,676	8,196	8,196	-	-	-	-
Borrowings	44,310	48,523	14,516	10,609	11,962	10,916	519
Deposits from customers	197,974	153,120	55,901	74,503	18,966	3,749	-
Trade payables	3,775	3,775	3,775	-	-	-	-
Accruals and other payables	5,237	5,237	3,766	203	-	215	1,052
Derivative liabilities	13	13	13	-	-	-	-
Amount due to related companies	3,719	3,719	3,719	-	-	-	-
Total liabilities	260,704	222,584	89,888	85,316	30,928	14,881	1,571

(In Rs'mn)

As at 31st March 2021	Carrying amounts	Gross nominal outflow/ (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
Bank overdraft	1,861	1,861	1,861	-	-	-	-
Borrowings	16,437	16,480	10,847	1,080	4,540	7	7
Deposits from customers	107,791	104,358	34,003	52,109	16,096	2,150	-
Trade payables	145	145	145	-	-	-	-
Accruals and other payables	4,245	4,245	4,245	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-
Amount due to related companies	621	621	621	-	-	-	-
Total liabilities	131,101	127,710	51,722	53,189	20,636	2,157	7

2.24.3.1 Management of credit risk (Contd.)

The maturity analysis of financial assets based on undiscounted gross inflows / (outflows) is reflected below

(In Rs'mn)

As at 31st March 2022	Carrying amounts	Gross nominal outflow/ (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
Cash and cash equivalents	15,890	19,497	15,890	-	-	-	-
Deposits with banks and other financial institutions	9,789	7,997	7,997	-	-	-	-
Investment in government securities	29,167	25,445	11,391	1,495	6,844	728	4,985
Derivative assets	4,414	5,811	2,697	3,114	-	-	-
Financial assets at amortised cost							
Rentals receivable on leased assets	56,960	77,011	11,417	18,051	38,580	8,948	14
Loans and advances	141,615	167,142	31,198	43,840	68,231	23,491	383
Factoring receivable	3,550	1,775	1,586	1	189	-	-
Margin trading receivables	6,816	6,892	6,892	-	-	-	-
Investment securities	6,289	6,289	4,211	-	-	-	2,078
Investment in associates	1,834	-	-	-	-	-	-
Amount due from related companies	47	47	47	-	-	-	-
Other receivables	147	147	147	-	-	-	-
	276,518	318,051	93,473	66,501	113,844	33,166	7,461

(In Rs'mn)

As at 31st March 2021	Carrying amounts	Gross nominal outflow/ (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
Cash and cash equivalents	13,423	13,423	13,423	-	-	-	-
Deposits with banks and other financial institutions	7,203	7,270	4,536	2,734	-	-	-
Investment in government securities	15,838	23,684	971	10,060	7,097	732	4,825
Derivative assets	325	2,844	2,610	233	-	-	-
Financial assets at amortised cost							
Rentals receivable on leased assets	43,098	64,858	9,891	17,980	31,548	5,431	9
Loans and advances	61,467	79,461	24,542	21,521	24,835	8,054	509
Factoring receivable	-	-	-	-	-	-	-
Margin trading receivables	84	84	84	-	-	-	-
Investment securities	5,498	5,498	4,317	-	-	-	1,181
Amount due from related companies	33	33	33	-	-	-	-
Other receivables	142	142	142	-	-	-	-
	147,112	197,297	60,548	52,528	63,479	14,217	6,524

Contractual Maturities of Commitments & Contingencies

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31st March 2022 (In Rs'mn)

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	625	-	-	-	-	625
Total	625	-	-	-	-	625
Commitments						
Unutilised loan facilities & letter of credit	11,929	-	-	-	-	11,929
Forward exchange contracts - (commitment to purchase)	10,308	-	-	-	-	10,308
Allowance for ECL / impairment	2	-	-	-	-	2
Total	22,239	-	-	-	-	22,239

As at 31st March 2021 (In Rs'mn)

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	403	-	-	-	-	403
Total	403	-	-	-	-	403
Commitments						
Unutilised loan facilities & letter of credit	6,103	-	-	-	-	6,103
Forward exchange contracts - (commitment to purchase)	2,844	-	-	-	-	2,844
Allowance for ECL / impairment	17	-	-	-	-	17
Total	8,964	-	-	-	-	8,964

2.24.5 Market risk

The Company is exposed to the market risk due to changes in market, such as Foreign exchange rates, Interest rate, and equity prices.

Company is exposed to foreign currency risk mainly due to the foreign currency borrowings. The Company manages its exposure to the foreign exchange rates by entering in to forward rate contracts with the banks and placing deposit / maintaining financial assets in the same currency. In this way the Company eliminates substantial exposure on foreign currency risk.

The Company ensures the mix of variable and fixed rate borrowings to manage any exposure due to interest rate movement in the market. These are monitored by the treasury division.

The economic fallout of the COVID-19 pandemic resulted in sharp losses in equity market indexes and subsequent closure of the exchange for trading. However, equities have retraced slightly and management is monitoring the equity price movements.

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows.

Sensitivity analysis as at 31st March 2022 (In Rs'mn)

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.12.22
Interest earning assets						
Deposits with banks and other financial institutions	8,625	260	-	-	-	8,886
Investment in government securities & others	11,265	1,647	7,799	45	3,086	23,841
Financial assets at amortised cost	-	-	-	-	-	-
Rentals receivable on leased assets	4,203	16,264	29,025	7,454	15	56,960
Loans and advances	27,875	32,556	59,657	21,189	339	141,615
Factoring receivable	1,267	1	151	-	-	1,418
Margin trading receivables	6,816	-	-	-	-	6,816
Total interest earning assets	60,052	50,728	96,631	28,688	3,439	239,537
Interest bearing liabilities						
Bank overdraft	5,676	-	-	-	-	5,676
Interest bearing borrowings	14,500	10,762	11,579	7,002	467	44,310
Deposits from customers	71,395	68,992	15,587	3,278	-	159,252
Total interest bearing liabilities	91,571	79,754	27,166	10,280	467	209,238
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(31,519)	(29,027)	69,465	18,408	2,972	30,299
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect	(315)	(290)	695	184	30	
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	315	290	(695)	(184)	(30)	

Sensitivity analysis as at 31st March 2021 (In Rs'mn)

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.12.21
Interest earning assets						
Deposits with banks and other financial institutions	4,518	2,685	-	-	-	7,203
Investment in government securities & others	714	7,469	4,265	-	3,391	15,838
Financial assets at amortised cost	-	-	-	-	-	-
Rentals receivable on leased assets	7,080	10,865	21,019	4,126	9	43,098
Loans and advances	19,646	16,438	18,678	6,378	327	61,467
Factoring receivable	-	-	-	-	-	-
Margin trading receivables	84	-	-	-	-	84
Total interest earning assets	32,042	37,457	43,961	10,504	3,727	127,691
Interest bearing liabilities						
Bank overdraft	1,861	-	-	-	-	1,861
Interest bearing borrowings	10,681	1,807	3,937	7	6	16,437
Deposits from customers	42,009	49,502	14,112	2,168	-	107,791
Total interest bearing liabilities	54,551	51,309	18,049	2,175	6	126,090
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(22,509)	(13,852)	25,912	8,329	3,721	1,601
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect	(225)	(139)	259	83	37	
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	225	139	(259)	(83)	(37)	

2.24.6 Capital Management

The Company's capital management is performed primarily considering regulatory capital. The Company's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company.

The Company is required to comply with the provisions of the Finance Companies (Capital Funds) Direction No.01 of 2003, Finance Companies (Capital Adequacy Requirements) Direction No.03 of 2018 and Finance Companies (Minimum Core Capital) Direction No.01 of 2011 in respect of regulatory capital.

The Company's regulatory capital consists of tier 1 capital, which includes ordinary share capital, retained earnings and statutory reserves. Other negative reserves are included under prudence basis. Tier II capital includes unsecured subordinated debentures, which is included in the capital base consequent to obtaining the approval of CBSL.

The Company's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Company's regulatory capital under the CBSL guidelines is as follows; (In Rs'mn)

Capital element	As at 31.03.2022	As at 31.03.2021
Ordinary share capital	211,581	12,762
Statutory reserve	4,444	3,596
Retained earnings	35,165	19,128
(-) Investment property revaluation	(16,302)	(8,244)
Other negative reserves and adjustments	(169,919)	-
Tier I capital	64,969	27,243
Subordinated debt	1,000	1,933
Provisions allowances & adjustments	(316)	1,730
Tier II capital	684	3,633
Total capital	65,653	30,906

2.25 Financial assets and liabilities

2.25.1 Accounting classifications and fair values

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities. (In Rs'mn)

As at 31st March 2022	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost/ Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
Cash and cash equivalents	-	-	12,283	12,283	12,283	
Deposits with banks & other financial institutions	-	-	8,886	8,886	8,886	
Investment in government securities & others	-	-	23,841	23,841	18,391	Level 1
Derivative assets	3,450	-	-	3,450	3,450	Level 2
Investment securities	5,993	294	1	6,289	6,289	Level 1 / 3
Financial assets at amortised cost						
Rentals receivable on leased assets	-	-	56,960	56,960	57,595	Level 2
Loans and advances	-	-	148,431	148,431	146,754	Level 2
Amount due from related companies	-	-	47	47	47	
Other financial assets	-	-	255	255	255	
Total financial assets	9,443	294	250,705	260,443	253,950	
Bank overdraft	-	-	5,676	5,676	5,676	
Interest bearing borrowings	-	-	44,310	44,310	43,737	Level 2
Deposits from customers	-	-	159,252	159,252	157,835	Level 2
Trade payables	-	-	1,142	1,142	1,142	
Accruals and other payables	-	-	7,542	7,542	7,542	
Derivative liabilities	13	-	-	13	13	Level 2
Amount due to related companies	-	-	3,719	3,719	3,719	
Total financial liabilities	13	-	221,642	221,655	219,665	

Note – For carrying amounts which fair value measurement level is not mentioned are approximate to the fair value.

2.25.1 Accounting classifications and fair values (Contd.)

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities. (In Rs'mn)

As at 31st March 2021	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost/ Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
Cash and cash equivalents	-	-	13,423	13,423	13,423	
Deposits with banks & other financial institutions	-	-	7,203	7,203	7,203	
Investment in government securities & others			15,898	15,898	15,511	Level 1
Derivative assets	325	-	-	325	325	Level 2
Investment securities	5,298	199	1	5,498	5,498	Level 1 / 3
Financial assets at amortised cost						
Rentals receivable on leased assets	-	-	43,098	43,098	45,903	Level 2
Loans and advances	-	-	61,551	61,551	68,907	Level 2
Amount due from related companies	-	-	33	33	33	
Other financial assets	-	-	298	298	298	
Total financial assets	5,623	199	141,445	147,267	157,102	
Bank overdraft	-	-	1,861	1,861	1,861	
Interest bearing borrowings	-	-	16,437	16,437	16,884	Level 2
Deposits from customers	-	-	107,791	107,791	109,751	Level 2
Trade payables	-	-	145	145	145	
Accruals and other payables	-	-	4,490	4,490	4,490	
Derivative liabilities	-	-	-	-	-	Level 2
Amount due to related companies	-	-	621	621	621	
Total financial liabilities	-	-	131,345	131,345	133,751	

Note – For carrying amounts which fair value measurement level is not mentioned are approximate to the fair value.

2.25.2 Valuation technique

Level 2 fair value – market comparison technique

- Derivative assets and liabilities / Forward exchange contracts – fair value is based on broker quotes of similar contracts and the quotes reflect the actual transaction in similar instrument.

Level 2 fair value – discounted cash flows

Financial instruments not measured at fair value

For the purpose of disclosing fair value of the financial instruments not measured at fair value (carried at amortised cost) discounted cash flows have been used to derive the fair value.

3. CASH AND CASH EQUIVALENTS

As at 31 March	2022 Rs.	2021 Rs.

3.1 Favourable cash & cash equivalents balance

Cash in hand and at bank	12,282,959,936	13,422,689,919

3.2 Unfavourable cash & cash equivalent balances

Bank overdraft	(5,675,768,259)	(1,861,003,040)
Total cash and cash equivalents for the purpose of cash flow statement	6,607,191,677	11,561,686,879

4. INVESTMENT IN GOVERNMENT SECURITIES

As at 31 March	2022 Rs.	2021 Rs.
Financial instruments - measured at amortised cost		
Investment In Government Securities (Note 4.1)	23,841,482,770	15,838,454,720

4.1 Financial instruments - measured at amortised cost

As at 31 March	2022 Carrying value Rs.	2022 Fair value Rs.	2021 Carrying value Rs.	2021 Fair value Rs.
Investment in Government Standing Deposit Facilities	7,758,177,941	7,758,177,941	720,085,055	720,085,055
Investment in Treasury Bills	928,649,750	909,729,900	-	-
Investment in Treasury Bonds	16,685,566,604	11,253,966,794	15,341,814,808	14,294,855,235
Allowance for impairment (ECL)	(1,530,911,525)	(1,530,911,525)	(223,445,144)	(223,445,144)
	23,841,482,770	18,390,963,110	15,838,454,720	14,791,495,147

4.2. Fair value adjustments recognised in other comprehensive income - (net of transfers to P&L)

As at 31 March	2022 Rs.	2021 Rs.
Investment in Treasury Bills	-	19,452,325
Investment in Treasury Bonds	-	(147,818)
Net Change in Fair Value	-	19,304,507

5. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 March	2022 Rs.	2021 Rs.
Net derivative assets / (liabilities)		
Derivative assets (note 5.1)	3,450,265,935	325,029,200
Derivative liabilities (note 5.2)	13,175,698	-
Net derivative assets / (liabilities)	3,437,090,237	325,029,200

5.1 Derivative assets

Forward exchange contracts	3,450,265,935	325,029,200

5.2 Derivative liabilities

Forward exchange contracts	13,175,698	-

5.3 Change in fair value during the year - gain / (loss)

Recognised in profit or loss	1,790,082,378	195,730,991
Recognised in OCI	(358,134,304)	29,547,979
	1,431,948,073	225,278,970

6. RENTALS RECEIVABLE ON LEASED ASSETS

As at 31 March	2022 Rs.	2021 Rs.
Rentals receivable	84,592,969,340	69,495,392,564
Unearned income	(20,948,611,569)	(17,423,862,969)
Net rentals receivable (note 6.1)	63,644,357,771	52,071,529,595
Deposits received from lessees	(3,966,847,378)	(5,018,670,599)
Allowance for ECL / impairment (note 6.2)	(2,717,295,784)	(3,954,452,103)
	56,960,214,609	43,098,406,893

6.a Analysis of rentals receivable on leased assets on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
As at 31 March 2022				
Rentals receivable on leased assets	40,304,034,392	13,126,414,535	6,247,061,465	59,677,510,393
Impairment for expected credit losses (Note 6.b)	(382,310,013)	(661,030,801)	(1,673,954,970)	(2,717,295,784)
Net rentals receivable on leased assets	39,921,724,379	12,465,383,735	4,573,106,495	56,960,214,609
As at 31 March 2021				
Rentals receivable on leased assets	22,959,371,851	17,523,176,187	6,570,310,958	47,052,858,996
Impairment for expected credit losses (Note 6.b)	(323,812,191)	(1,604,127,397)	(2,026,512,515)	(3,954,452,103)
Net rentals receivable on leased assets	22,635,559,660	15,919,048,789	4,543,798,443	43,098,406,893

6.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2021	323,812,191	1,604,127,397	2,026,512,515	3,954,452,103
Net charge to profit or loss	(50,070,200)	(1,096,254,082)	(915,656,823)	(2,061,981,104)
Addition on merger with subsidiary	108,568,022	153,157,485	563,099,278	824,824,785
Balance as at 31 March 2022	382,310,013	661,030,801	1,673,954,970	2,717,295,784
Balance as at 01 April 2020	377,284,929	268,109,638	948,333,260	1,593,727,828
Net charge to profit or loss	(53,472,738)	1,336,017,759	1,078,179,255	2,360,724,276
Balance as at 31 March 2021	323,812,191	1,604,127,397	2,026,512,515	3,954,452,103

6.1 Net Rentals Receivable

As at 31 March	2022 Rs.	2021 Rs.
Receivable -more than one year		
Rentals receivable	39,371,375,934	41,419,405,943
Unearned income	(10,862,694,620)	(8,346,517,400)
	28,508,681,314	33,072,888,543
Receivable within one year		
Rentals receivable	41,406,649,904	25,089,976,182
Unearned income	(10,085,916,949)	(9,077,345,569)
	31,320,732,956	16,012,630,613
Overdue		
Rentals receivable	3,814,943,502	2,986,010,439
	63,644,357,771	52,071,529,595

6.2 Allowance for ECL / impairment

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	3,954,452,103	1,593,727,828
Provision / (reversal) for the year	(2,061,981,104)	2,360,724,276
Addition on merger with subsidiary	824,824,785	-
Balance at the end of the year	2,717,295,784	3,954,452,103

6.2.1 Individually significant clients - impairment

Balance at the beginning of the year	465,550,368	540,756,922
Provision / (reversal) for the year	(272,450,235)	(75,206,555)
Addition on merger with subsidiary	86,129,065	-
Balance at the end of the year	279,229,198	465,550,368

6. RENTALS RECEIVABLE ON LEASED ASSETS (CONTD.)

6.2.2 Individually non-significant clients - impairment

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	3,488,901,735	1,052,970,905
Provision / (reversal) for the year	(1,789,530,870)	2,435,930,830
Addition on merger with subsidiary	738,695,721	-
Balance at the end of the year	2,438,066,587	3,488,901,735

7. LOANS AND ADVANCES

As at 31 March	2022 Rs.	2021 Rs.
Mortgage Loans (note 7.1)	4,505,565,976	1,785,291,302
Sundry Loans (note 7.2)	119,331,422,448	48,814,742,050
Gold Loan (note 7.3)	15,511,144,393	9,490,382,659
Credit Cards (note 7.4)	2,266,824,709	1,376,540,715
	141,614,957,527	61,466,956,726

7.a Analysis of loans and receivables on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2022				
Loans and advances :				
Mortgage Loans	3,183,897,469	192,134,700	1,241,548,142	4,617,580,311
Speed Draft	40,436,570,597	2,675,677,169	1,760,550,332	44,872,798,097
Group Loans	9,502,592,784	1,503,467,838	1,763,519,495	12,769,580,118
Sundry Loans	52,165,208,919	8,216,509,027	6,718,714,210	67,100,432,155
Gold Loan	14,916,562,199	643,842,821	150,242,442	15,710,647,462
Credit Cards	2,336,414,128	205,331,083	118,181,436	2,659,926,647
Gross loans and advances	122,541,246,096	13,436,962,637	11,752,756,057	147,730,964,790
Impairment for expected credit losses (note 7.b)	(1,726,845,258)	(1,222,778,787)	(3,166,383,218)	(6,116,007,263)
Net loans and advances	120,814,400,837	12,214,183,851	8,586,372,838	141,614,957,527
Balance as at 31 March 2021				
Loans and advances :				
Mortgage Loans	677,509,401	193,308,656	1,089,461,677	1,960,279,733
Speed Draft	4,981,838,892	2,130,741,394	2,081,493,675	9,194,073,961
Group Loans	7,476,890,460	2,236,400,314	2,193,720,356	11,907,011,130
Sundry Loans	20,441,516,499	8,103,161,541	7,946,057,624	36,490,735,664
Gold Loan	9,452,595,740	-	74,441,741	9,527,037,481
Credit Cards	1,360,544,757	162,105,378	80,803,363	1,603,453,499
Gross loans and advances	44,390,895,749	12,825,717,283	13,465,978,435	70,682,591,468
Impairment for expected credit losses (note 7.b)	(1,612,677,843)	(2,124,934,155)	(5,478,022,744)	(9,215,634,742)
Net loans and advances	42,778,217,907	10,700,783,128	7,987,955,692	61,466,956,726

7.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2021	1,612,677,843	2,124,934,155	5,478,022,744	9,215,634,742
Net charge to profit or loss	(579,654,767)	(1,360,496,710)	(3,741,168,858)	(5,681,320,334)
Addition on merger with subsidiary	693,822,182	458,341,341	1,429,529,332	2,581,692,856
Balance as at 31 March 2022	1,726,845,258	1,222,778,787	3,166,383,218	6,116,007,263
Balance as at 01 April 2020	530,520,480	551,143,320	4,082,679,170	5,164,342,970
Net charge to profit or loss	1,082,157,363	1,573,790,835	1,395,343,573	4,051,291,771
Balance as at 31 March 2021	1,612,677,843	2,124,934,155	5,478,022,744	9,215,634,742

7.1 Mortgage Loans

As at 31 March	2022 Rs.	2021 Rs.
Rentals receivable	6,132,712,489	2,661,454,238
Unearned income	(1,515,132,178)	(701,174,505)
Net rentals receivable (note 7.1.1)	4,617,580,311	1,960,279,733
Allowance for ECL / impairment (note 7.1.2)	(112,014,335)	(174,988,431)
	4,505,565,976	1,785,291,302

7.1.1 Net rentals receivable - Mortgage Loans

Receivable - more than one year		
Installments receivable	2,846,919,277	1,658,413,051
Unearned income	(688,362,950)	(456,643,992)
	2,158,556,326	1,201,769,059
Receivable within one year		
Installments receivable	2,459,872,779	605,313,436
Unearned income	(826,769,228)	(244,530,514)
	1,633,103,551	360,782,922
Overdue		
Installments receivable	825,920,433	397,727,751
	4,617,580,311	1,960,279,733

7. LOANS AND ADVANCES (CONTD.)

As at 31 March	2022 Rs.	2021 Rs.
7.1.2 Allowance for ECL / impairment - Mortgage Loans		
Balance at the beginning of the year	174,988,431	57,283,409
Provision / (reversal) for the year	(95,784,409)	117,705,022
Addition on merger with subsidiary	32,810,313	-
Balance at the end of the year	112,014,335	174,988,431
7.1.2.a Individually significant clients - impairment		
Balance at the beginning of the year	174,988,431	39,952,497
Provision / (reversal) for the year	(138,000,854)	135,035,934
Balance at the end of the year	36,987,577	174,988,431
7.1.2.b Individually non-significant clients - impairment		
Balance at the beginning of the year	-	17,330,912
Provision / (reversal) for the year	42,216,444	(17,330,912)
Addition on merger with subsidiary	32,810,313	-
Balance at the end of the year	75,026,757	-

As at 31 March	2022 Rs.	2021 Rs.
7.2 Sundry Loans		
Total receivable	140,226,171,077	67,901,863,005
Unearned income	(15,483,360,706)	(10,310,042,250)
Net receivable (note 7.2.1)	124,742,810,370	57,591,820,755
Allowance for ECL / impairment (note 7.2.2)	(5,411,387,922)	(8,777,078,705)
	119,331,422,448	48,814,742,050
7.2.1 Net receivable - Sundry Loans		
Receivable -more than one year		
Installments receivable	81,724,693,584	32,297,921,100
Unearned income	(8,285,403,696)	(5,247,659,068)
	73,439,289,888	27,050,262,032
Receivable within one year		
Installments receivable	51,387,934,922	30,435,873,388
Unearned income	(7,197,957,010)	(5,062,383,182)
	44,189,977,912	25,373,490,207
Overdue		
Installments receivable	7,113,542,570	5,168,068,517
	124,742,810,370	57,591,820,755

7.2.2 Allowance for ECL / impairment - Sundry Loans

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	8,777,078,705	4,929,281,555
Provision / (reversal) for the year	(5,912,980,441)	3,847,797,150
Addition on merger with subsidiary	2,547,289,658	-
Balance at the end of the year	5,411,387,922	8,777,078,705

7.2.2.a Individually significant clients - impairment

Balance at the beginning of the year	1,979,461,820	2,209,519,108
Provision / (reversal) for the year	(1,593,407,656)	(230,057,288)
Addition on merger with subsidiary	329,421,736	-
Balance at the end of the year	715,475,900	1,979,461,820

7.2.2.b Individually non-significant clients - impairment

Balance at the beginning of the year	6,797,616,885	2,719,762,447
Provision for the year	(4,319,572,785)	4,077,854,437
Addition on merger with subsidiary	2,217,867,922	
Balance at the end of the year	4,695,912,022	6,797,616,885

7.3 Gold loans

As at 31 March	2022 Rs.	2021 Rs.
Gross amount outstanding at year end	15,710,647,462	9,527,037,481
Allowance for ECL / impairment (note 7.3.1)	(199,503,068)	(36,654,822)
Balance at the end of the year	15,511,144,393	9,490,382,659

7.3.1 Allowance for ECL / impairment

Balance at the beginning of the year	36,654,822	110,150,336
Provision / (reversal) for the year	161,255.362	(73,495,514)
Addition on merger with subsidiary	1,592,884	-
Balance at the end of the year	199,503,068	36,654,822

7.3.1.a Individually significant clients - impairment

Balance at the beginning of the year	-	5,284,102
Provision / (reversal) for the year	-	(5,284,102)
Addition on merger with subsidiary	928,015	-
Balance at the end of the year	928,015	-

7.3.1.b Individually non-significant clients - impairment

Balance at the beginning of the year	36,654,822	104,866,234
Provision for the year	161,255,362	(68,211,412)
Addition on merger with subsidiary	664,869	-
Balance at the end of the year	198,575,053	36,654,822

7. LOANS AND ADVANCES (CONTD.)

7.4 Credit Card

As at 31 March	2022 Rs.	2021 Rs.
Gross amount outstanding at year end	2,659,926,647	1,603,453,499
Allowance for ECL / impairment (note 7.4.1)	(393,101,938)	(226,912,784)
Balance at the end of the year	2,266,824,709	1,376,540,715

7.4.1 Allowance for ECL / impairment

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	226,912,784	67,627,670
Provision / (reversal) for the year	166,189,154	159,285,114
Balance at the end of the year	393,101,938	226,912,784
Individually non-significant clients - impairment		
Balance at the beginning of the year	226,912,784	67,627,670
Provision for the year	166,189,154	159,285,114
Balance at the end of the year	393,101,938	226,912,784

7.5 Margin Trading Receivables

As at 31 March	2022 Rs.	2021 Rs.
Gross amount outstanding at year end	6,891,582,656	83,553,171
Allowance for ECL / impairment (note 7.5.1)	(75,102,192)	-
Net balance on margin trading	6,816,480,464	83,553,171

7.5.1 Allowance for ECL / impairment

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	-	-
Provision / (reversal) for the year	75,102,192	-
Balance at the end of the year	75,102,192	-
Individually non-significant clients - impairment		
Balance at the beginning of the year	-	-
Provision for the year	75,102,192	-
Balance at the end of the year	75,102,192	-

7.6 Factoring Receivables

As at 31 March	2022 Rs.	2021 Rs.
Gross receivable	1,775,221,728	-
Allowance for ECL / impairment (note 7.6.1)	(356,788,879)	-
	1,418,432,849	-

7.6.a Analysis of factoring receivable on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2022				
Factoring receivable	1,163,734,294	450,293	611,037,141	1,775,221,728
Impairment for expected credit losses (note 7.6.b)	(14,673,150)	(34,010)	(342,081,718)	(356,788,879)
Net factoring receivable	1,149,061,144	416,283	268,955,422	1,418,432,849
Balance as at 31 March 2021				
Factoring receivable	-	-	-	-
Impairment for expected credit losses (note 7.6.b)	-	-	-	-
Net factoring receivable	-	-	-	-

7.6.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2021	-	-	-	-
Net charge to profit or loss	-	-	-	-
Addition on merger with subsidiary	14,673,150	34,010	342,081,718	356,788,879
Balance as at 31 March 2022	14,673,150	34,010	342,081,718	356,788,879
Balance as at 01 April 2020	102,904,248	58,646,296	749,897,789	911,448,332
Net charge to profit or loss	(102,904,248)	(58,646,296)	(749,897,789)	(911,448,332)
Balance as at 31 March 2021	-	-	-	-

7.6.1 Allowance for ECL / impairment

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	-	911,448,332
Provision / (reversal) for the year	-	(911,448,332)
Addition on merger with subsidiary	356,788,879	-
Balance at the end of the year	356,788,879	-

7. LOANS AND ADVANCES (CONTD.)

7.6.1.a Individually significant clients - impairment

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	-	-
Provision / (reversal) for the year	-	-
Addition on merger with subsidiary	342,081,719	-
Balance at the end of the year	342,081,719	-

7.6.1.b Individually non-significant clients - impairment

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	-	911,448,332
Provision / (reversal) for the year	-	(911,448,332)
Addition on merger with subsidiary	14,707,160	-
Balance at the end of the year	14,707,160	-

7.7 Portfolio Analysis

7.7.1 Sectorwise exposure of the lending portfolio - before impairment provision.

As at 31 March	2022 Rs.	2021 Rs.
Agriculture	31,986,891,420	22,900,607,286
Manufacturing	14,274,816,278	9,754,777,265
Economics and Social	8,213,636,481	4,609,662,386
Trade	38,175,306,947	18,625,189,899
Factoring	1,775,221,728	-
Margin Trading	6,891,582,656	83,553,171
Tourism	1,655,324,955	1,892,189,151
Services	46,159,207,633	18,196,522,192
Transportation	30,427,109,070	19,017,350,889
Construction	17,297,635,819	8,919,295,289
Mining and Quarrying	1,092,660,288	791,226,923
Others	18,125,886,293	13,028,629,185
	216,075,279,567	117,819,003,635

7.7.2 Product wise analysis of portfolio

Lease receivables	56,713,068,754	44,107,687,952
Loans & Advances	135,026,563,001	63,056,052,081
Factoring receivables	1,775,221,728	-
Margin trading receivables	6,891,582,656	83,553,171
Alternative finance portfolio - Ijarah receivables	2,964,441,639	2,945,171,044
Alternative finance portfolio - Other receivables (Murabaha, Musharakah etc.)	12,704,401,789	7,626,539,388
Gross portfolio	216,075,279,567	117,819,003,635
Less : Allowance for ECL / impairment	(9,265,194,118)	(13,170,086,845)
Net portfolio	206,810,085,449	104,648,916,790

7.7.3 Net portfolio

As at 31 March	2022 Rs.	2021 Rs.
Rentals receivable on leased assets (note 6)	56,960,214,609	43,098,406,893
Loans and advances (note 7)	141,614,957,527	61,466,956,726
Margin trading receivable (note 7.5)	6,816,480,464	83,553,171
Factoring receivable (note 7.6)	1,418,432,849	-
	206,810,085,449	104,648,916,790

8. INVESTMENT SECURITIES

As at 31 March	2022 Rs.	2021 Rs.
Investment securities measured at amortised cost (note 8.2)	966,218	537,175
Investment securities measured at FVTPL – debt / equity investments (note 8.1 / 8.2.2)	5,993,197,046	5,298,367,026
Investment securities measured at FVOCI – equity investments (note 8.2.3)	294,402,964	199,095,698
	6,288,566,228	5,497,999,899

8.1 Investment securities measured at FVTPL – debt / equity investments

Equity shares Name of the company	Original Cost Rs.	Balance as at 01 April 2021 Rs.	Investments during the year Rs.	Fair value - recognised in profits Rs.	Disposal during the year Rs.	Addition on merger with subsidiary Rs.	Balance as at 31 March 2022 Rs.
Expo Lanka Holdings PLC	1,653,174	4,104,383	-	14,976,002	-	-	19,080,384
LOLC Myanmar Micro Finance Co. Ltd (note 8.1.a)	861,125,000	981,415,880	-	(56,845,617)	-	857,693,139	1,782,263,402
Seylan Bank PLC	1,421,868	-	-	-	-	2,941,677	2,941,677
Sampath Bank PLC	469,738	-	-	-	-	330,618	330,618
ACL Cables PLC	1,653,448	-	-	-	-	3,149,636	3,149,636
Access Engineering PLC	269,990	-	-	-	-	150,000	150,000
Aitken Spence Hotel Holdings PLC	403,468	-	-	-	-	133,000	133,000
Cemical Industries Colombo PLC (NV)	-	-	-	-	-	900	900
Commercial Bank of Ceylon PLC	713,656	-	-	-	-	345,563	345,563
Commercial Bank of Ceylon PLC (NV)	125,982	-	-	-	-	305,474	305,474
Softlogic Finance PLC	1,233,775	-	-	-	-	224,660	224,660
Nations Lanka Finance PLC	181,666	-	-	-	-	56,700	56,700
Colombo Dockyard PLC	106,682	-	-	-	-	45,000	45,000
Piramal Glass Ceylon PLC	603,484	-	-	-	-	1,762,500	1,762,500
Laugfs Gas PLC	798,342	-	-	-	-	247,250	247,250
Nestle Lanka PLC	171,819	-	-	-	-	81,120	81,120
Nations Trust Bank PLC	1,528,176	-	-	-	-	826,830	826,830
Swisstek (Ceylon) PLC	602,195	-	-	-	-	1,180,812	1,180,812
Peoples Leasing & Finance PLC	2,443,373	-	-	-	-	1,516,249	1,516,249
Renuka Agri Foods PLC	790,758	-	-	-	-	663,000	663,000
Seylan Bank PLC (NV)	455,040	-	-	-	-	295,832	295,832
Union Bank of Colombo Limited	17,500	-	-	-	-	5,460	5,460
United Motors Lanka PLC	495,407	-	-	-	-	300,000	300,000
The Lanka Hospitals Corporation PLC	502,566	-	-	-	-	501,000	501,000
Merchant Bank of Sri Lanka	79,874	-	-	-	-	27,500	27,500
Total equity shares	877,846,981	985,520,263	-	(41,869,615)	-	872,783,920	1,816,434,567

8.1 Investment securities measured at FVTPL – debt / equity investments (Contd.)

Equity shares Name of the company	Original Cost Rs.	Balance as at 01 April 2021 Rs.	Investments during the year Rs.	Fair value - recognised in profits Rs.	Disposal during the year Rs.	Addition on merger with subsidiary Rs.	Balance as at 31 March 2021 Rs.
Expo Lanka Holdings PLC	1,653,174	2,000,000	-	47,967,311	(45,862,928)	-	4,104,383
LOLC Myanmar Micro Finance Co. Ltd (note 8.1.a)	430,225,000	981,022,426	-	393,454	-	-	981,415,880
Total equity shares	1,653,174	983,022,427	-	48,360,764	(45,862,928)	-	985,520,263

As at 31 March	2022 Rs.	2021 Rs.
Investment in Unit Trusts		
Original cost	3,550,000,000	4,100,000,000
Carrying amount at the beginning of the year	4,120,231,452	1,736,603,949
Investments during the year	16,150,000,000	4,100,000,000
Adjustment for change in fair value - recognised in profits	243,004,216	76,740,190
Disposal during the year	(16,950,701,454)	(1,793,112,687)
Carrying amount at the end of the year	3,562,534,214	4,120,231,452
Trading Gold Stock		
Original cost	227,866,473	123,186,237
Carrying amount at the beginning of the year	192,615,311	49,650,736
Investments during the year	104,680,236	84,489,562
Adjustment for change in fair value - recognised in profits	316,932,718	58,475,013
Carrying amount at the end of the year	614,228,265	192,615,311
Total investments held for trading	5,993,197,046	5,298,367,026

8.1.a Valuation technique - LOLC Myanmar Micro Finance Company Ltd

The fair value measurement for above equity investment has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Residual Income Approach	As at 31st March 2022, value per share was derived based on cost of equity (16.11%), terminal growth (2%), exchange rate (MMK/LKR 0.1682) and forecasted cash flows. As at 31st March 2021, value per share was derived based on cost of equity (20.02%), terminal growth (2%), exchange rate (MMK/LKR 0.1424) and forecasted cash flows.	The estimated fair value would increase (decrease) if: » Cost of equity was lesser / (higher) » Terminal growth was higher / (lesser » Exchange rate was higher / (lesser » Forecasted cashflows were higher / (lesser)

8.2.1 Investment securities measured at amortised cost

As at 31 March	2022 Rs.	2021 Rs.
Credit Information Bureau Ltd	537,175	537,175
Equity Investments Lanka Limited	168,750	-
Credit Information Bureau of Sri Lanka	60,293	-
Finance Houses Consortium (Pvt) Ltd.	200,000	-
Impairment for expected credit losses (Note 8.2.1.a)	-	-
	966,218	537,175

8.2.1.a Analysis of investment securities measured at amortised cost on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2022				
Investment securities measured at amortised cost	537,175	-	-	537,175
Impairment for expected credit losses (note 8.2.1.b)	-	-	-	-
Net Investment securities measured at amortised cost	537,175	-	-	537,175
Balance as at 31 March 2021				
Investment securities measured at amortised cost	537,175	-	-	537,175
Impairment for expected credit losses (note 8.2.1.b)	-	-	-	-
Net Investment securities measured at amortised cost	537,175	-	-	537,175

8.2.2 Investment securities measured at FVOCI – equity investments

As at 31 March	2022 Rs.	2021 Rs.
LOLC Asia (Pvt) Ltd		
Carrying amount at the beginning of the year	199,095,698	188,384,474
Adjustment for change in fair value - recognised in OCI	95,307,266	10,711,224
Carrying amount at the end of the year	294,402,964	199,095,698
Total	294,940,139	199,632,873

9. INVESTMENT IN ASSOCIATE

	Ownership interest Rs.	No. of shares	2022 Cost Rs.	2022 Carrying value Rs.	2021 Cost Rs.	2021 Carrying value Rs.
Commercial Insurance Brokers (Private) Limited	40.00	240,000	800,000	226,752,441	-	-
LOLC Development Finance PLC	44.33	105,499,048	1,265,987,676	1,606,908,226	-	-
Total			1,266,787,676	1,833,660,667	-	-

The principal activities of the equity accounted investees are as follows;

» Commercial Insurance Brokers (Private) Limited - Insurance Brokering

» LOLC Development Finance PLC - Leasing/ Loans/ Deposit mobilisation

9.1 Summarised financial information

Summarised financial information to the carrying amount of the interest in the associate recognised in the Financial Statements is as follows:

As at 31 March	Commercial Insurance Brokers (Private) Limited 2022 Rs.	Commercial Insurance Brokers (Private) Limited 2021 Rs.	LOLC Development Finance PLC 2022 Rs.	LOLC Development Finance PLC 2021 Rs.
Original cost of investment	800,000	-	1,265,987,676	-
Add: Share of profit applicable to the Company				
Addition on merger with subsidiary	207,096,665	-	189,178,027	-
Total comprehensive income :	24,855,776	-	151,742,523	-
Profit or loss for the period recognised in income statement, net of tax (note 9.2.a)	12,114,359	-	172,173,881	-
Profit or loss and other comprehensive income, net of tax (note 9.2.a)	12,741,417	-	(20,431,357)	-
Dividend received	(6,000,000)	-	-	-
Carrying amount at the end of the year	226,752,441	-	1,606,908,226	-

9.2 Summarised financial information in respect of the associate is set out below:

9.2.a Summarised Income Statement

As at 31 March	Commercial Insurance Brokers (Private) Limited		LOLC Development Finance PLC	
	2022 Rs.	2021 Rs.	2022 Rs.	2021 Rs.
Revenue	204,239,311	-	5,452,004,858	-
Expenses	(168,455,721)	-	(4,889,749,683)	-
Income tax	(5,497,692)	-	(173,863,836)	-
Profit from continuing operations, net of tax	30,285,898	-	388,391,339	-
Company's share of profit from continuing operations, net of tax	12,114,359	-	172,173,881	-
Other comprehensive income, net of tax	31,853,542	-	(46,089,234)	-
Company's share of other comprehensive income from continuing operations, net of tax	12,741,417	-	(20,431,357)	-
Share of results of equity accounted investee recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income	24,855,776	-	151,742,523	-

9.2.b Summarised Statement of Financial Position

As at 31 March	Commercial Insurance Brokers (Private) Limited		LOLC Development Finance PLC	
	2022 Rs.	2021 Rs.	2022 Rs.	2021 Rs.
Non-current assets	499,034,216	-	8,213,487,515	-
Current assets	229,873,313	-	13,709,673,493	-
Non-current liabilities	(120,431,041)	-	(5,322,652,796)	-
Current liabilities	(26,714,925)	-	(13,444,376,981)	-
Net assets	581,761,563	-	3,156,131,232	-
Company's share of net assets	232,704,625	-	1,399,112,975	-
Goodwill	(5,952,184)	-	207,795,251	-
Carrying amount of interest in associate	226,752,441		1,606,908,226	

The Company recognises the share of net assets of the associate under the Equity Method to arrive at the Directors' valuation. The maturity analysis of investment in associate is given in Note 28.

10. AMOUNTS DUE FROM RELATED COMPANIES

As at 31 March	Relationship	2022 Rs.	2021 Rs.
Ceylon Graphene Technologies	Fellow subsidiary	1,666	-
LOLC Tea	Fellow subsidiary	3,879	-
Creations Constructions Engineering Pvt Ltd	Fellow subsidiary	-	1,452,902
Leapstitch Technologies Pvt Ltd	Fellow subsidiary	-	741,400
LOLC Factors Ltd	Fellow subsidiary	1,340,551	-
LOLC Asset Holding Co/ LOLC Life Assurance Co.	Fellow subsidiary	10,000	10,000
LOLC Insurance - General Ltd	Fellow subsidiary	27,817,558	19,127,538
LOLC Securities Ltd	Fellow subsidiary	7,899,885	1,375,214
Browns Investments	Fellow subsidiary	-	500,000
Eden Hotel Lanka PLC	Fellow subsidiary	2,694	6,227
Commercial Leasing and Finance PLC	Fellow subsidiary	-	2,293,346
Green Paradise	Fellow subsidiary	1,010	1,236
Sun & Fun Resorts Ltd.	Fellow subsidiary	283,131	2,777
Excel Restaurants (Pvt) Ltd	Fellow subsidiary	-	278,415
LOLC Insurance - Life Ltd	Fellow subsidiary	7,829,887	7,402,974
LOLC Advance Technologies (Pvt) Ltd	Fellow subsidiary	2,191,711	20,000
LOLC GEO Tec Pvt Ltd	Fellow subsidiary	-	9,600
		47,381,973	33,221,629

11. OTHER RECEIVABLES

As at 31 March	2022 Rs.	2021 Rs.
Financial Assets		
Staff loans	20,860,217	67,165,559
Other receivables	659,041,878	644,661,843
Provision on other receivable	(424,450,113)	(422,604,534)
	255,451,982	289,222,869
Non Financial Assets		
VAT receivable	250,542,628	253,412,014
Prepaid staff cost	30,696,082	28,338,439
Miscellaneous receivables	547,639,321	44,301,851
	828,878,030	326,052,304
Total Other receivables	1,084,330,013	615,275,173

12. INVESTMENT PROPERTIES

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	21,088,740,181	15,963,885,792
Additions to Investment Properties from foreclosure of contracts	332,511,900	1,096,066,038
Additions and improvements		
Improvements	19,321,953	27,135,432
Additions	5,074,889,173	710,586,143
Transfers to property, plant and equipment	(492,800,000)	-
Addition on merger with subsidiary	5,361,501,000	-
Disposals	(21,756,165)	-
Change in fair value	6,925,550,077	3,291,066,776
Balance at the end of the year	38,287,958,119	21,088,740,181

- Investment Properties includes bare lands and land and buildings acquired by the company from clients who defaulted on accommodations granted and purchased properties. These properties are held by the Company for capital appreciation.
- The company incurred expenses for the improvements of the investment properties and received rent income amounting to Rs.96,960,937 during the current year (2020/21 - Rs.93,830,720) from these properties.
- During the year company has incurred expenses amounting to Rs.30,969,572 for maintenance of the investment property. (2020/21 - Rs.17,787,750)
- Changes in fair values are recognised as gains in profit or loss and included in 'Net other operating income'.

12.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31 March 2022. The fair value has been determine based on valuation perform by Mr. W M Chandrasena, FIV (SL) Marics (UK) Chartered Valuation Surveyor.

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio as of March 2022 ranges from Rs.470,000 to Rs.37,500,000 in the Colombo area and Rs.30,000 to Rs.4,750,000 outside the Colombo area. As of December 2020, per perch values were ranges from Rs.104,000 to Rs.30,000,000 in the Colombo area and Rs.18,000 to Rs.4,026,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: » Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for year used.	The estimated fair value would increase (decrease) if: » Depreciation rate was lesser / (higher) » Square feet value was higher / (lesser)

13. Property, plant and equipment

Company Cost/Valuation	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Freehold Motor Vehicles Rs.	Other equipment and software Rs.	Right-of use assets Rs.	Total Rs.
Balance as at 01 April 2021	180,500,000	166,004,048	273,915,000	1,158,782,292	79,369,609	-	1,858,570,950
Additions	-	787,866	54,961,000	-	77,060,750	857,942,122	990,751,738
Addition on merger with subsidiary	2,387,650,000	1,167,850,000	-	173,470,000	1,235,162,989	895,381,325	5,859,514,314
Disposals	-	-	-	(10,300,000)	-	-	(10,300,000)
Revaluation	160,300,000	251,569,667	(790,000)	419,242,708	-	-	830,322,375
Transfers from investment properties	414,200,000	78,600,000	-	-	-	-	492,800,000
Transfers / Adjustment	-	(2,957,533)	(149,125,000)	149,125,000	-	-	(2,957,533)
Balance as at 31 March 2022	3,142,650,000	1,661,854,049	178,961,000	1,890,320,000	1,391,593,349	1,753,323,447	10,018,701,844
Accumulated Depreciation							
Balance as at 01 April 2021	-	1,624,811	119,527,979	518,128,780	56,070,941	-	695,352,512
Charge for the year	-	6,390,309	12,066,610	16,203,108	39,678,880	391,301,138	465,640,045
Depreciation on disposals	-	-	-	(5,031,930)	-	-	(5,031,930)
Addition on merger with subsidiary	-	-	-	-	891,494,335	309,609,718	1,201,104,053
Revaluation	-	(7,511,072)	(63,595,589)	(593,991,115)	-	-	(665,097,776)
Transfers to investment properties	-	-	-	-	-	-	-
Balance as at 31 March 2022	-	504,048	67,999,000	(64,691,157)	987,244,157	700,910,856	1,691,966,904
Carrying Amount							
As at 31 March 2022	3,142,650,000	1,661,350,000	110,962,000	1,955,011,157	404,349,192	1,052,412,591	8,326,734,940

Company Cost/Valuation	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Freehold Motor Vehicles Rs.	Other equipment and software Rs.	Total Rs.
Balance as at 01 April 2020	141,719,000	117,874,547	670,050,000	1,050,694,286	65,844,416	2,046,182,249
Additions	-	-	-	-	19,195,193	19,195,193
Disposals	-	-	-	(293,696,994)	-	(293,696,994)
Revaluation	38,781,000	48,129,502	-	-	-	86,910,502
Transfers / Adjustment	-	-	(396,135,000)	401,785,000	(5,670,000)	(20,000)
Balance as at 31 March 2021	180,500,000	166,004,048	273,915,000	1,158,782,292	79,369,609	1,858,570,950
Accumulated Depreciation						
Balance as at 01 April 2020	-	7,598,696	131,404,103	527,717,804	28,255,083	694,975,686
Charge for the year	-	3,323,469	26,671,472	74,042,879	27,815,858	131,853,679
Depreciation on disposals	-	-	-	(122,179,499)	-	(122,179,499)
Revaluation	-	(9,297,354)	-	-	-	(9,297,354)
Transfers / Adjustment	-	-	(38,547,596)	38,547,596	-	(0)
Balance as at 31 March 2021	-	1,624,811	119,527,979	518,128,780	56,070,941	695,352,512
Carrying Amount						
As at 31 March 2021	180,500,000	164,379,237	154,387,021	640,653,512	23,298,668	1,163,218,438

Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles amount to Rs.110,962,000 as at 31 March 2022 (31 March 2021 - Rs.154,387,021) are purchased under finance leases and have been pledged as security for the related finance lease liabilities.

Assets given under operating leases

The motor vehicles of the company represents assets given under operating leases under short term and long term basis.

An analysis of the rentals to be received on such operating leases are as follows.

As at 31 March	2022 Rs.	2021 Rs.
Receivable within one year	118,546,500	84,642,860
Receivable within 1-5 years	214,124,965	9,552,385
Total	332,671,465	94,195,245

Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31 March 2022 and 31 March 2021.

Fully depreciated property, plant and equipment

There were motor vehicles amount to Rs.1,508,000 and office equipment amount to Rs.47,504,368 in property, plant and equipment fully depreciated as at 31 March 2022 and same property, plant and equipment were fully depreciated as at 31 March 2021 also.

13.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of property, plant and equipment was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31 March 2022.

The fair value measurement for all of the land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

The Company has decided to change its accounting policies relating to Motor Vehicles (both leasehold and free hold) from Cost Model to Revaluation Model as per LKAS 16 with effect from 31st March 2022. Management has voluntarily changed the aforementioned accounting policy with the view that it will provide more relevant and reliable information in financial statements to economic users.

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of land and buildings, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio as of March 2022 ranges from Rs.470,000 to Rs.37,500,000 in the Colombo area and Rs.30,000 to Rs.4,750,000 outside the Colombo area. As of December 2020, per perch values were ranges from Rs.104,000 to Rs.30,000,000 in the Colombo area and Rs.18,000 to Rs.4,026,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: » Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for year used.	The estimated fair value would increase (decrease) if: » Depreciation rate was lesser / (higher) » Square feet value was higher / (lesser)

13.2 The carrying amount of revalued land and buildings if they were carried at cost less depreciation and impairment, would be as follows;

As at 31 March	2022 Rs.	2021 Rs.
Cost	1,991,063,382	259,593,547
Accumulated depreciation and impairment	(23,001,276)	(10,922,165)
Carrying value	1,968,062,106	248,671,381

14. INTEREST BEARING BORROWINGS

As at 31 March	2022 Rs.	2021 Rs.
Short-term loans	14,650,000,000	1,060,000,000
Long-term borrowings (note 14.1)	19,661,065,288	12,109,298,395
Lease liability (note 14.2)	1,199,460,769	23,023,094
Debentures (note 14.3)	7,500,000,000	2,500,000,000
Total borrowings	43,010,526,058	15,692,321,489
Interest payable	1,299,377,340	745,120,940
Liability recognised in statement of financial position	44,309,903,398	16,437,442,429

14.1 Long-term borrowings

Balance at the beginning of the year	12,109,298,395	27,198,582,182
Loans obtained during the year	195,810,660	1,853,000,000
Loans transferred on merger with subsidiary	11,783,769,930	-
Repaid during the year	7,355,956,233	(16,942,283,787)
Balance at the end of the year	19,661,065,288	12,109,298,395
Long-term borrowings - current	10,897,159,784	10,940,948,395
Long-term borrowings - non-current (note 14.1.a)	8,763,905,504	1,168,350,000
	19,661,065,288	12,109,298,395

14.1.a Analysis of non-current portion of long-term borrowings

Repayable within 1-3 years	4,117,066,969	1,168,350,000
Repayable after 3 years	4,646,838,535	-
	8,763,905,504	1,168,350,000

14.2 Lease liability

Finance leases (note 14.2.1)	40,073,153	23,023,094
Obligation on lease liability - right of use assets (note 14.2.2)	1,159,387,616	-
	1,199,460,769	23,023,094

As at 31 March	2022 Rs.	2021 Rs.

14.2.1 Finance leases

Gross lease rentals payable at the beginning of the year	24,296,631	121,818,537
Lease obtained during the year	52,398,695	-
Lease rentals paid during the year	(26,703,945)	(97,521,906)
Gross lease rentals payable at the end of the year	49,991,381	24,296,631
Less: Interest in suspense	(9,918,228)	(1,273,537)
Balance at the end of the year / present value of minimum lease payments	40,073,153	23,023,094

14.2.1.1 Analysis of finance leases

Repayable within one year (note 14.2.1.a)	6,849,194	23,023,094
Repayable within 1-5 years (note 14.2.1.b)	33,223,960	-
	40,073,154	23,023,094

14.2.1.a Repayable within one year

Gross lease rentals payable	10,307,940	24,296,631
Less: interest in suspense	(3,458,746)	(1,273,537)
	6,849,194	23,023,094

14.2.1.b Repayable within 1-5 years

Gross lease rentals payable	39,683,441	-
Less: interest in suspense	(6,459,482)	-
	33,223,960	-

14.2.2 Obligation on lease liability of right-of use assets

Balance at the beginning of the year	-	-
Addition during the year	583,030,088	-
Accretion of interest	74,489,762	-
Payments during the year	576,357,528	-
Transferred on merger with subsidiary	604,463,763	
Balance at the end of the year	1,159,387,616	-

14.2.2.1 Maturity analysis of obligation on lease liability

Less than 01 year	112,804,548	-
01 to 05 years	702,526,277	-
More than 05 years	344,056,791	-
	1,159,387,616	-

Sensitivity of Right-of-Use Assets / Lease Liability to Key Assumptions

Sensitivity to Discount Rates 1% increase/(decrease) in discount rate as at 31st March 2022 would have (decreased)/increased the lease liability by approximately Rs 24.9 Mn with a similar (decrease)/increase in the right-of-use asset. Had the Company increased/(decreased) the discount rate by 1%, the Company's profit before tax for the year would have (decreased)/increased by approximately Rs 1.7 Mn.

Sensitivity to Lease Term had the lease term of all existing lease agreements been increased by further one year, lease liability of the Company as at 31st March 2022 would have increased by Rs 277 Mn with a similar increase in the right-of-use assets. Further, this would reduce the profit before tax of the Company by Rs 10.2 Mn.

14.3 Debentures

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	2,500,000,000	2,500,000,000
Transferred on merger with subsidiary	5,000,000,000	-
Balance at the end of the year	7,500,000,000	2,500,000,000

The company issued rated unsecured subordinated redeemable debentures, thirty four million (34,110,193) totalling to Rs.2.5Bn in July 2018 with a five year maturity duration, incurring transaction costs and during the year as a result of the merger, fifty million (50,000,000) debentures totalling to Rs.5Bn had been issued in September 2020 transferred to the Company. These debentures are listed in the Colombo Stock Exchange. The amortisation of the transaction cost is included in the interest payable amount.

15. DEPOSITS FROM CUSTOMERS

As at 31 March	2022 Rs.	2021 Rs.
Customer deposits	155,929,957,835	105,108,361,141
Interest / profit payable		
Interest payable on deposits	3,170,194,369	2,471,949,127
Profits payable to alternative finance deposit holders	152,230,059	210,826,109
	3,322,424,428	2,682,775,236
Deposit liability recognised in statement of financial position	159,252,382,263	107,791,136,377

15.1 Analysis of customer deposits based on nature

Fixed deposits - conventional	122,273,175,771	80,225,049,271
Fixed deposits - alternative finance - Mudharabah	3,177,560,799	3,241,560,004
Fixed deposits - alternative finance - Wakala	8,211,680,811	7,576,034,386
Fixed deposits - foreign currency	2,797,620,406	1,796,317,339
Fixed deposit bonds	4,176,036	4,322,336
Savings deposits - conventional	5,103,504,297	2,938,364,396
Savings deposits - alternative finance	1,033,581,299	789,855,390
Savings deposits - foreign currency	13,328,658,416	8,536,858,019
Total deposits	155,929,957,835	105,108,361,141

15.2 Deposits based on maturity

Deposits maturing within one year	137,064,806,877	88,827,775,215
Deposits maturing after one year	18,865,150,958	16,280,585,926
	155,929,957,835	105,108,361,141

16. TRADE PAYABLES

Creditors for lease equipment and approved facilities to be disbursed	1,141,928,384	144,788,204

17. ACCRUALS AND OTHER PAYABLES

As at 31 March	2022 Rs.	2021 Rs.
Excess payments received from clients	763,519,687	234,761,384
Insurance payable	381,074,621	407,952,887
VAT / other tax payable	244,341,865	61,676,928
Other miscellaneous creditors	5,408,566,906	3,266,477,725
Payable on matured deposits	1,001,198,999	441,562,699
Stamp duty payable	34,579,214	11,282,360
Allowance for impairment (ECL) - Undrawn credit facilities	2,311,437	17,416,220
	7,835,592,729	4,441,130,204

18. AMOUNTS DUE TO RELATED COMPANIES

As at 31 March	Relationship	2022 Rs.	2021 Rs.
LOLC Holding PLC	Parent	3,627,826,427	495,464,521
LOLC Factors Ltd	Fellow subsidiary	104,755	51,133,300
LOLC Information Technology Services Limited	Fellow subsidiary	62,435,438	43,861,815
Brown & Co. Ltd	Fellow subsidiary	-	4,000,000
LOLC Motors Ltd	Fellow subsidiary	12,272,550	12,248,814
LOLC Development Finance PLC	Fellow subsidiary	8,195	177,689
LOLC Corporate services Ltd	Fellow subsidiary	1,190,000	605,657
LOLC Property 1-4	Fellow subsidiary	2,895,875	13,369,927
LOLC Life Insurance	Fellow subsidiary	358,161	-
LOLC General Insurance	Fellow subsidiary	12,276,345	-
		3,719,367,746	620,861,723

19. EMPLOYEE BENEFITS

19.1 Defined contribution plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

As at 31 March	2022 Rs.	2021 Rs.
Employees' Provident Fund		
Employers' contribution	182,952,644	152,704,329
Employees' contribution	121,968,430	101,802,886
Employees' Trust Fund	45,738,157	38,164,717

19. EMPLOYEE BENEFITS (CONTD.)

As at 31 March	2022 Rs.	2021 Rs.
19.2 Defined benefit plan		
Movement in the present value of the defined benefit obligation		
Defined benefit obligation at the beginning of the year	332,531,588	298,141,984
Transferred on merger with subsidiary	229,543,253	-
Expense included in Personnel Expenses (note 19.2.a)	50,368,345	77,327,873
Remeasurement Component	(24,422,219)	(19,845,167)
	255,489,379	57,482,706
Benefits paid	(22,311,473)	(23,093,102)
Defined benefit obligation at end of the year	565,709,494	332,531,588

19.2.a Expense included in Personnel Expenses

Current Service Cost	42,170,878	44,532,255
Interest Cost	26,602,527	32,795,618
(Gain) / loss recognised during the year (due to plan amendment)	(18,405,060)	-
	50,368,345	77,327,873

19.2.b Actuarial gains and losses recognised in other comprehensive income

Cumulative loss at the beginning of the year	176,579,230	196,424,397
(Gain) / loss recognised during the year	(24,422,219)	(19,845,167)
Cumulative loss at end of the year	152,157,011	176,579,230

Acturial valuation for defined benefit obligation was carried out as at 31 March 2022 by Mr. P.S. Goonatilleke, a Fellow of the Society of Actuaries (USA). The valuation method used by the actuaries to value the obligation is the "Projected Unit Credit Actuarial Cost Method", a method recommended by the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

19.2.c Key assumptions used in the above valuation are as follows:

As at 31 March	2022	2021
Discount Rate	15.00%	8.00%
Salary Increment Rate	12.50%	6.50%
Retirement Age	60	55
Staff Turnover	2.5% - 15.0%	2.5% - 15.0%

The Defined Benefit Plan entitles a retired employee to receive a payment equal to half of the last drawn monthly salary multiplied by the number of completed years of service under the Payment of Gratuity Act No. 12 of 1983. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 Years of service. The obligation is not externally funded.

Current weighted average duration of the defined benefit obligation is 10.4 years.

Assumptions regarding future mortality are based on published statistics and mortality tables.

19.2.d Sensitivity analysis of the defined benefit obligation

The effect on the defined benefit obligation at the year end, as a result of changes in the actuarial assumptions used, is shown below.

As at 31 March	2022 Rs.	2021 Rs.
The defined benefit obligation under current assumptions	565,709,494	332,531,588
The defined benefit obligation if the discount rate increased by 100 basis points	489,926,544	307,531,582
The defined benefit obligation if the discount rate reduced by 100 basis points	589,545,097	361,065,787
The defined benefit obligation if the salary increment rate increased by 1%	594,778,970	362,210,258
The defined benefit obligation if the salary increment rate reduced by 1%	485,153,483	306,175,782
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(75,782,950)	(25,000,006)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	23,835,604	28,534,199
The change in the defined benefit obligation if the salary increment rate increased by 1%	29,069,477	29,678,670
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(80,556,011)	(26,355,806)

19.2.e Maturity analysis of the payments

The following payments are expected on employee benefit liabilities in future years.

As at 31 March	2022	2021
Within the next 12 months	51,403,113	35,164,212
Between 1 and 2 years	71,962,635	35,248,634
Between 2 and 5 years	249,899,929	143,891,468
Between 5 and 10 years	646,935,870	330,038,215
Total expected payments	1,020,201,547	544,342,529

20. STATED CAPITAL

As at 31 March	2022		2021	
	Number of shares	Rs.	Number of shares	Rs.
Balance at the beginning of the year	5,250,000,000	12,762,500,000	5,250,000,000	12,762,500,000
Issue of shares	14,001,334,334	198,818,947,542	-	-
Balance at the end of the year	19,251,334,334	211,581,447,542	5,250,000,000	12,762,500,000

Rights, preference and restrictions of classes of capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to have one vote per individual present at meetings of the shareholders or one vote per share in case of a poll. They are entitled to participate in any surplus assets of the Company in winding up. There are no preferences or restrictions on Ordinary Shares.

21. RESERVES

As at 31 March	2022 Rs.	2021 Rs.
Statutory reserve (note 21.1)	4,444,108,028	3,596,578,755
Revaluation reserve (note 21.2)	1,505,632,154	328,838,183
Cash flow hedge reserve (note 21.3)	(83,701,505)	27,607,751
Fair value reserve (note 21.4)	140,752,964	45,445,698
Merger reserve (note 21.5)	(169,284,516,561)	-
Retained earnings (note 21.6)	35,249,180,283	19,127,563,207
	(128,028,544,637)	23,126,033,594

21.1 Statutory reserve

Balance at the beginning of the year	3,596,578,755	3,378,281,827
Transferred during the year	847,529,273	218,296,928
Balance at the end of the year	4,444,108,028	3,596,578,755

The reserve is created according to Direction No.1 of 2003 issued under the Finance Business Act No.42 of 2011. The Company transferred 5% (2020/21 - 5%) of its annual net profit after tax to this reserve in compliance with this direction..

21.2 Revaluation Reserve

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	328,838,183	241,527,671
Transferred during the year	1,495,420,151	96,207,856
Related tax	(318,626,179)	(8,897,344)
Balance at the end of the year	1,505,632,154	328,838,183

This reserve is created from the excess arising from the revaluation of land and buildings of the company.

21.3 Cash flow hedge reserve

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	27,607,751	(77,309,605)
Gain / (loss) arising from cash flow hedge recognised in OCI	(119,316,737)	130,492,506
Related tax - current tax - expense / (reversal) - note 29	85,952,233	(7,091,515)
Related tax - deferred tax - expense / (reversal) - note 29	(77,944,752)	(18,483,635)
Balance at the end of the year	(83,701,505)	27,607,751

The cash flow hedge reserve is maintained to recognise the change in the fair value of, the derivative (forward exchange contract) designated under the hedge relationship and the hedge item (portion of a foreign currency borrowing). The objective of the hedge is to mitigate the risk arising on the movement in foreign exchange rates and the resulting cash flows.

The hedging instrument are forward exchange contracts and as at 31 March 2022, there were assets with fair value of Rs.3,450,265,935 and liabilities with fair value of Rs.13,175,698.

The portion of the foreign currency loan that is subject to hedge accounting is to be settled during the financial years 2020/21 - 2021/22 and the derivative will be rolled over until that date.

The hedge is considered to be effective and is in effect at the reporting date and therefore no reclassification to profit or loss was made.

21.4 Fair Value Reserve

The fair value reserve comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income until such investments are derecognised or impaired.

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	45,445,698	11,956,519
Investment in government securities measured at FVOCI	-	19,304,507
Investment securities measured at FVOCI – equity investments	95,307,266	14,184,672
Balance at the end of the year	140,752,964	45,445,698

21.5 Merger Reserve

The merger reserve comprises the cost of the merge with Commercial Leasing and Finance PLC in excess of the carrying amounts of the identifiable assets and liabilities of the acquiree as at 31st March 2022.

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	-	-
Total cost on Common Control Transaction	(198,818,947,542)	-
Carrying amount of identifiable net assets merged (note 37)	29,534,430,981	-
Balance at the end of the year	(169,284,516,561)	-

21.6 Retained Earnings

Balance at the beginning of the year	19,127,563,207	14,972,696,228
Profit for the year	16,950,585,463	4,365,938,556
Premeasurements of defined benefit liability - gain / (loss)	18,560,886	7,225,351
Transfer to statutory reserve fund	(847,529,273)	(218,296,928)
Balance at the end of the year	35,249,180,283	19,127,563,207

22. INTEREST INCOME

As at 31 March	2022 Rs.	2021 Rs.
Interest on leases	10,551,278,839	11,501,641,597
Interest on loans	11,217,759,011	14,503,508,333
Income from factoring portfolio	-	585,437,376
Interest from credit cards	356,619,107	263,237,066
Interest on margin trading	567,663,888	1,193,616
Income from operating lease and hire	308,632,840	265,091,620
Interest on overdue rentals and others	5,144,236,055	4,760,046,031
Interest income on government securities	2,121,806,104	1,503,773,383
Interest income on term deposits	301,867,155	377,605,104
	30,569,862,999	33,761,534,126

23. INTEREST EXPENSE

As at 31 March	2022 Rs.	2021 Rs.
Interest on fixed deposits	6,864,919,204	8,216,179,370
Interest on savings deposits	182,550,142	190,911,890
Finance cost amortisation of RTU assets	74,489,762	-
Profit distributed to alternative finance deposit holders	712,269,078	948,525,678
Interest on foreign currency deposits	100,801,752	75,226,311
Finance lease interest	1,854,773	8,494,307
Interest on loans & bank overdraft	1,043,107,108	3,007,452,842
	8,979,991,819	12,446,790,398

24. NET OTHER OPERATING INCOME

As at 31 March	2022 Rs.	2021 Rs.
Sundry income	965,476,710	718,876,804
Service charges	2,494,300	3,058,654
Arrangement and documentation fees	271,252,969	270,713,966
Collections from contracts written off	2,919,629,915	5,035,954,870
Fair value change in investment properties (Note 12)	6,925,550,077	3,291,066,776
Change in fair value of derivatives - forward contracts (note 5.3)	1,790,082,378	195,730,991
Net exchange (gain) / loss	(1,905,487,684)	251,780,762
Adjustment for increase / (decrease) in value of investments (note 8.1 / 8.2.2)	518,067,319	183,575,967
Interest income from staff loan	24,418,259	36,204,079
Disposal gain / (loss) on shares	-	12,709,946
Disposal gain / (loss) on government securities	-	229,232,991
Disposal gain / (loss) on PPE	10,787,672	69,532,484
	11,522,271,915	10,298,438,290

25. DIRECT EXPENSES EXCLUDING INTEREST COST

As at 31 March	2022 Rs.	2021 Rs.
Insurance expenses factored to accommodations	828,425,784	943,170,683
VAT on general expenses	35,108,274	7,684,022
	863,534,058	950,854,705

26. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS

As at 31 March	2022 Rs.	2021 Rs.
Impairment provision / (reversal) for lease rentals receivable (Note 6.2)	(2,061,981,104)	2,360,724,276
Impairment provision / (reversal) for mortgage loan (Note 7.2.2)	(95,784,409)	117,705,022
Impairment provision / (reversal) for receivables from sundry loans (Note 7.3.2)	(5,912,980,441)	3,847,797,150
Impairment provision / (reversal) for credit card receivables (Note 7.4)	166,189,154	159,285,114
Impairment provision / (reversal) for receivables from Gold loans (Note 7.4.1)	161,255,362	(73,495,514)
Impairment provision / (reversal) for margin trading receivables (Note 7.5.1)	75,102,192	-
Impairment provision / (reversal) for factoring receivables (Note 7.6.1)	-	(911,448,332)
Impairment provision / (reversal) for other financial assets	1,072,984,259	238,654,181
Impairment provision / (reversal) for insurance receivable	1,845,579	169,876,646
Written-off during the year	9,585,129,309	10,432,263,780
	2,991,759,900	16,341,362,321

Comparison between provision for impairment as per SLFRS 09 and Central Bank (CBSL) requirement

As at 31 March	Impairment charge to profit or loss Rs.	Written-off during the year Rs.	Charge / (reversal) to profit or loss net of write-offs Rs.	Provision impact (reversal) as per CBSL Rs.
Rentals receivable on leased assets	1,151,595,549	3,213,576,653	(2,061,981,104)	(3,183,104,867)
Loans and advances	690,232,321	6,371,552,656	(5,681,320,334)	(4,798,746,499)
Margin trading	75,102,192	-	75,102,192	75,102,192
Factoring receivable	-	-	-	-
Other financial assets	1,072,984,259	-	1,072,984,259	-
Insurance receivable	1,845,579	-	1,845,579	1,845,579
	2,991,759,900	9,585,129,309	(6,593,369,409)	(7,904,903,595)

27. PROFIT FROM OPERATIONS

As at 31 March		2022 Rs.	2021 Rs.
Profit from operations is stated after charging all expenses including the following,			
Directors' emoluments		40,913,600	36,150,500
Audit fees and expenses	- Audit Services	3,645,000	3,518,000
	- Audit Related Services	1,298,000	1,187,000
Depreciation on property, plant and equipment		207,247,901	131,853,680

27.1 Personnel expenses

- Salaries, wages & other related cost	3,285,743,402	2,888,757,737
- Defined contribution plans - EPF & ETF	228,690,801	190,869,046
- Defined benefit plan cost	50,368,345	77,327,873
	3,564,802,548	3,156,954,655

28. MATURITY OF ASSETS AND LIABILITIES

28.1 An analysis of the total assets of the Company as at the year end based on the remaining year at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.2022 Rs.	Total as at 31.03.2021 Rs.
Cash and cash equivalents	12,282,959,936	-	-	-	-	12,282,959,936	13,422,689,919
Deposits with banks and other financial institutions	8,625,373,035	260,237,777	-	-	-	8,885,610,812	7,203,305,871
Investment in government securities	11,265,053,853	1,647,371,388	7,798,671,453	44,529,471	3,085,856,604	23,841,482,770	15,838,454,720
Derivative assets	1,899,622,155	1,550,643,780	-	-	-	3,450,265,935	325,029,200
Financial assets at amortised cost							
Rentals receivable on leased assets	6,165,949,041	16,496,971,851	29,441,086,077	7,558,898,959	14,604,464	59,677,510,393	47,052,858,996
(-) Allowance for ECL / impairment	-	-	-	-	-	(2,717,295,784)	(3,954,452,103)
Loans and advances	31,657,522,881	33,225,592,662	60,897,718,559	21,609,656,980	340,473,708	147,730,964,790	70,682,591,468
(-) Allowance for ECL / impairment	-	-	-	-		(6,116,007,263)	(9,215,634,742)
Factoring receivable	1,585,541,687	1,113,112	188,566,929	-	-	1,775,221,728	-
(-) Allowance for ECL / impairment	-	-	-	-	-	(356,788,879)	-
Margin trading receivable	6,891,582,656	-	-	-	-	6,891,582,656	83,553,171
(-) Allowance for ECL / impairment	-	-	-	-	-	(75,102,192)	-
Investments securities	4,210,933,644	-	-	-	2,077,632,584	6,288,566,228	5,497,999,899
Investment in associate	-	-	-	-	1,833,660,667	1,833,660,667	-
Amount due from related companies	47,381,973	-	-	-	-	47,381,973	33,221,629
Other receivables	722,504,917	346,964,674	11,465,200	3,368,116	27,105	1,084,330,013	615,275,173
Inventories	-	428,031,504	-	-	-	428,031,504	271,727,381
Investment properties	-	-	38,287,958,119	-	-	38,287,958,119	21,088,740,181
Property plant and equipment	-	-	-	-	8,326,734,940	8,326,734,940	1,163,218,438
Total Assets as at 31 March 2022	85,354,425,780	53,956,926,748	136,625,466,337	29,216,453,526	15,678,990,072	311,567,068,346	170,108,579,200
Total Assets as at 31 March 2021	54,175,920,249	40,173,342,428	70,418,804,184	12,336,334,568	6,174,264,615	170,108,579,200	

28.2 An analysis of the total liabilities of the Company as at the year end based on the remaining year at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.2022 Rs.	Total as at 31.03.2021 Rs.
Bank overdraft	5,675,768,259	-	-	-	-	5,675,768,259	1,861,003,040
Interest bearing borrowings	14,500,143,939	10,762,088,749	11,579,089,502	7,001,511,916	467,069,292	44,309,903,398	16,437,442,429
Deposits from customers	71,395,160,329	68,992,070,977	15,586,965,264	3,278,185,694	-	159,252,382,263	107,791,136,377
Trade payables	1,141,928,384	-	-	-	-	1,141,928,384	144,788,204
Accruals and other payables	6,364,815,765	203,409,004	-	215,416,035	1,051,951,925	7,835,592,729	4,441,130,204
Derivative liabilities	13,175,698	-	-	-	-	13,175,698	-
Amount due to related companies	3,719,367,746	-	-	-	-	3,719,367,746	620,861,723
Current tax payable	-	2,525,556,194	-	-	-	2,525,556,194	857,902,877
Deferred tax liability	-	-	2,974,781,275	-	-	2,974,781,275	1,733,249,164
Employee benefits	-	-	-	565,709,494	-	565,709,494	332,531,588
Stated capital	-	-	-	-	211,581,447,542	211,581,447,542	12,762,500,000
Statutory reserve	-	-	-	-	4,444,108,028	4,444,108,028	3,596,578,755
Revaluation Reserve	-	-	-	-	1,505,632,154	1,505,632,154	328,838,183
Cash flow hedge reserve	-	-	-	-	(83,701,505)	(83,701,505)	27,607,751
Fair value reserve	-	-	-	-	140,752,964	140,752,964	45,445,698
Merger reserve	-	-	-	-	(169,284,516,561)	(169,284,516,561)	-
Retained earnings	-	-	-	-	35,249,180,283	35,249,180,283	19,127,563,207
Total Liabilities & Equity as at 31 March 2022	102,810,360,119	82,483,124,924	30,140,836,040	11,060,823,139	85,071,924,123	311,567,068,346	170,108,579,200
Total Liabilities & Equity as at 31 March 2021	57,705,202,760	52,891,710,247	19,782,208,586	2,744,381,832	36,985,075,774	170,108,579,200	

29. INCOME TAX EXPENSE

The major components of income tax expense for the year ended are as follows:

As at 31 March	2022 Rs.	2021 Rs.
Current tax - recognised in P&L		
Current tax charge	-	322,309,197
Deferred Tax		
Deferred tax expense / (reversal) (note 29.2)	792,048,095	(191,464,649)
Income tax expense reported in statement of profit or loss	792,048,095	130,844,548
Current tax - expense / (reversal) - recognised in OCI		
	(85,952,233)	7,091,515
Deferred tax charge / (reversal) recognised in OCI		
Property, plant and equipment	318,626,179	8,897,344
Defined benefit plans	5,861,333	12,619,816
Fair value change in derivatives recognised in hedge reserve	77,944,752	18,483,635
Investment in LOLC Asia Pvt Ltd	-	(3,473,447)
	402,432,263	36,527,348
Total income tax expense / (reversal) recognised in OCI	316,480,030	43,618,863

29.1 Current tax payable

Tax payable at the beginning of the year	857,902,877	960,254,585
Current tax expense for the year - recognised in P&L	85,952,233	315,217,682
Current tax expense for the year - recognised in OCI	(85,952,233)	7,091,515
Addition on merger with subsidiary	1,678,223,409	-
Tax paid during the year	(10,570,091)	(424,660,905)
Tax payable	2,525,556,194	857,902,877

A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

As at 31 March	2022		2021	
	%	Rs.	%	Rs.
Accounting profit before income tax		17,742,633,558		4,496,783,104
Tax effect at the statutory income tax rate of 24%	24%	4,258,232,054	24%	1,079,227,945
Tax effect of other allowable credits	-34%	(6,086,521,907)	-70%	(3,131,859,423)
Tax effect of non deductible expenses	10%	1,828,289,853	53%	2,374,940,675
Deferred tax adjustment	4%	792,048,095	-4%	(191,464,649)
Income tax expense	4%	792,048,095	3%	130,844,548

29.2 Deferred Taxation

As at 31 March	2022 Rs.	2021 Rs.
Balance at the beginning of the year	1,733,249,164	1,888,186,465
Deferred tax expense / (reversal) - recognised in P&L	792,048,095	(191,464,649)
Deferred tax expense / (reversal) - recognised in OCI	402,432,263	36,527,348
Addition on merger with subsidiary	47,051,752	-
Balance at the end of the year	2,974,781,275	1,733,249,164

Recognised deferred tax assets and liabilities are attributable to the following.

Deferred tax is measured using a tax rate of 24% (2020/21 -24%) on temporary differences.

Deferred tax expense / (reversal)

Deferred tax liability / (asset)	Balance as at 01 April 2021 Rs.	Recognised in P&L - expense / (reversal) Rs.	Recognised in OCI - expense / (reversal) Rs.	Addition on merger with subsidiary Rs.	Balance as at 31 March 2022 Rs.
Recognised in P&L / Equity (retained earnings)					
Lease receivables	1,590,276,362	(150,616,893)	-	71,659,432	1,511,318,901
Finance lease liability	31,219,811	(25,389,148)	-	(4,486,117)	1,344,545
Property plant and equipment	146,613,606	12,498,469	-	80,664,909	239,776,983
Cost of acquisition of subsidiary (Note 29.2.b)	(859,067,322)	(167,892,942)	-	(295,738,240)	(1,322,698,505)
Defined benefit plans	(37,428,566)	(6,733,649)	-	(55,090,381)	(99,252,596)
Forward exchange contracts (net)	31,235,760	437,627,252	-	-	468,863,012
Investment property	795,515,045	692,555,008	-	142,637,310	1,630,707,363
Provision for Impairment - SLFRS 9	-	-	-	(166,695,242)	(166,695,242)
Tax Losses	-	-	-	(126,588,575)	(126,588,575)
Recognised in OCI					
Available for sale financial assets	3,018,739	-	-	-	3,018,739
Property plant and equipment	27,473,496	-	318,626,179	400,688,655	746,788,331
Defined benefit plans	(42,379,015)	-	5,861,333	-	(36,517,683)
Forward exchange contracts (net)	46,771,248	-	77,944,752	-	124,716,000
Net deferred tax liability / (asset)	1,733,249,164	792,048,095	402,432,263	47,051,752	2,974,781,275

Deferred tax liability / (asset)	Balance as at 01 April 2020 Rs.	Recognised in P&L - expense / (reversal) Rs.	Recognised in OCI - expense / (reversal) Rs.	Balance as at 31 March 2021 Rs.
Recognised in P&L				
Lease receivables	2,245,845,340	(655,568,978)	-	1,590,276,362
Finance lease liability	107,587,413	(76,367,602)	-	31,219,811
Property plant and equipment	126,628,832	19,984,774	-	146,613,606
Investment in unit trust - unrealised	52,334,885	(52,334,885)	-	-
Cost of acquisition of subsidiary (Note 29.2.b)	(1,096,683,888)	237,616,566	-	(859,067,322)
Defined benefit plans	(28,480,924)	(8,947,642)	-	(37,428,566)
Forward exchange contracts (net)	16,189,320	15,046,440	-	31,235,760
Investment property	466,408,368	329,106,677	-	795,515,045
Recognised in OCI				
Available for sale financial assets	3,018,739	-	-	3,018,739
Property plant and equipment	18,576,152	-	8,897,344	27,473,496
Defined benefit plans	(54,998,831)	-	12,619,816	(42,379,015)
Forward exchange contracts (net)	28,287,613	-	18,483,635	46,771,248
Investment in LOLC Asia Pvt Ltd	3,473,447	-	(3,473,447)	-
Net deferred tax liability / (asset)	1,888,186,465	(191,464,649)	36,527,348	1,733,249,164

29.2.a Temporary differences

Temporary differences - taxable / (deductible)

As at 31 March	2022 Rs.	2021 Rs.
Recognised in P&L / Equity (retained earnings)		
Lease receivables	6,297,162,088	6,626,151,509
Finance lease liability	5,602,273	130,082,545
Property plant and equipment	999,070,764	610,890,024
Investment in unit trust - unrealised	-	-
Cost of acquisition of subsidiary	(5,511,243,769)	(3,579,447,176)
Defined benefit plans	(413,552,483)	(155,952,358)
Forward exchange contracts (net)	1,953,595,882	130,149,000
Investment property	16,307,073,634	7,955,150,453
Provision for Impairment - SLFRS 9	(1,666,952,418)	-
Tax Losses	(1,265,885,747)	-
Recognised in OCI		
Available for sale financial assets	12,578,079	12,578,079
Property plant and equipment	3,111,618,044	114,472,902
Defined benefit plans	(152,157,011)	(176,579,230)
Forward exchange contracts (net)	519,650,000	194,880,200
Net taxable / (deductible) temporary difference	20,196,559,335	11,862,375,948

29.2.b Cost of acquisition of subsidiary and unrecognised deferred tax assets

During the financial year 2017/18, the Company paid Rs.12,291,200,000 to acquire 100% of LOLC Micro Credit Limited and during the financial year 2021/22, the Company paid purchase consideration of Rs.198,818,947,542 to acquire 100% of Commercial Leasing and Finance PLC.

Since this was inline with the Central Bank of Sri Lanka's consolidation program, the Company is able to claim the purchase consideration as a qualifying payment in calculating the income tax liability.

During the year Rs.7,370,312,588 was claimed keeping inline with the requirements of the Inland Revenue Act. The Company expects to claim the remaining amount over the future year based on the profitability of the Company.

On a prudent basis the management has decided to evaluate the recoverability of this claim based on the projected taxable profits for the future years and expects to recover Rs.5,511,243,769 over such year and a deferred tax asset of Rs.1,322,698,505 was recognised during the year.

The management will annually re-evaluate the recoverability of this claim and adjust the deferred tax asset accordingly.

Unrecognised deferred tax asset	2022 Rs.	2021 Rs.
Remaining amount to be claimed at the beginning of the year	7,898,903,094	8,567,361,793
Consideration paid to acquire subsidiary	198,818,947,542	-
Previous year adjustment	371,477,494	3,018,795
Amount claimed during the year	(7,370,312,588)	(671,477,494)
Remaining amount to be claimed in future years	199,719,015,542	7,898,903,094
Tax rate	24%	24%
Deferred tax asset on remaining amount	47,932,563,730	1,895,736,742
Recognised deferred tax asset	(1,322,698,505)	(859,067,322)
Unrecognised deferred tax asset	46,609,865,225	1,036,669,420

30. EARNINGS PER SHARE

30.1 Basic earnings per share

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the Basic Earnings Per Share computation.

	2022 Rs.	2021 Rs.
Amounts used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	16,950,585,463	4,365,938,556

	2022 No.	2021 No.
Number of ordinary shares used as the denominator:		
Ordinary shares in issue at the beginning of the year	5,250,000,000	5,250,000,000
Effects of new shares issued during the year	-	-
Weighted average number of ordinary shares in issue applicable to basic earnings per share	5,250,000,000	5,250,000,000
Basic earnings per share (Rs.)	3.23	0.83

30.2 Diluted earnings per share

There were no potential dilution at the year end. Therefore, diluted earnings/ (loss) per share is the same as basic earnings/ (loss) per share shown above.

31. COMPARATIVE FIGURES

Comparative information has been reclassified to conform to the current year presentation, where necessary. No information has been restated.

32. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged Rs.	Carrying Amount Pledged Rs.
Lease portfolio	Short term borrowing	27,065,754,655	12,878,371,845

These financial assets are pledged against the borrowings made. The lender has the right over the lease receivables in the event of non payment.

33. RELATED PARTY DISCLOSURES

33.1 Parent and Ultimate Controlling Party

The Company's immediate parent is LOLC Private Ltd and ultimate parent undertaking and controlling entity is LOLC Holding PLC.

33.2 Transactions with Key Management Personnel (KMPs)

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly the KMP include members of the Board of Directors and identified senior management personnel of the Company and its ultimate Parent Company LOLC Holding PLC. Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Company.

33.2.1 Compensation of KMPs

	2022 Rs.	2021 Rs.
Short term employment benefits	117,818,470	80,403,266
Total	117,818,470	80,403,266

The short term employment benefits include only the directors fees and emoluments paid to Directors & KMPs.

This is also included under Note 27.1.

33.2.2 Transactions, arrangements and agreements involving KMPs, and their close family members (CFMs)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner. The transactions are carried out on an arms length basis. The details of the transactions are as follows :

	2022 Rs.	2021 Rs.
Deposits held with the Company	45,458,944	66,963,802
Interest paid / charged	3,787,226	5,023,593
Interest payable	902,066	3,354,951
Loans granted (excluding Directors)	60,220,736	15,614,635
Capital outstanding on facilities granted to KMPs (excluding Directors)	67,431,302	22,390,080
Accommodation outstanding as a percentage of the Company's Capital Funds	0.10%	0.12%

No impairment losses have been recorded against balances outstanding with KMP and CFM.

33.3 Transactions with related parties

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures, on an arms length basis. Details of related party transactions are reported below. (For information regarding outstanding balances (receivables / payables) at 31 March 2022 and 31 March 2021, refer notes no.10 and 17 accordingly).

Relationship	Description of Transactions	Nature	2022 Rs.	2021 Rs.
Parent Company	Net funds granted by the Parent during the year (excluding opening balance)	Transaction value	106,714,854	(159,645,919)
	Reimbursement of expenses	Expense	255,889,572	1,075,971,892
	Asset hire charges	Expense	230,207,742	229,924,735
	Royalty	Expense	515,505,134	562,570,272
	Fund transfer interest	Expense	10,459,198	172,735,406

Relationship	Description of Transactions	Nature	2022 Rs.	2021 Rs.
Fellow Subsidiaries & Associates	Deposits & other borrowings by the company	Deposits	148,825,360	73,127,592
	Interest paid/charge	Expense	2,810,459	1,446,233
	Interest payable	Expense	569,203	618,778
	Investments held by the company	Investment	3,683,574,592	1,180,511,578
	Interest income from investment	Income	-	21,505,272
	Consideration on merge with subsidiary	Transaction value	198,818,947,542	-
	IT service fee	Expense	506,429,266	403,743,888
	Factoring related transactions	Transaction value	-	6,996,796,638
	Yard fee	Expense	7,200,000	15,000,000
	Services / Maintenance fee	Expense	103,267,878	87,814,302
	Loan / lease granted	Disbursements	2,668,055,482	1,639,064,914
	Capital outstanding on facilities granted	Lending facilities	2,475,299,631	1,334,413,520
	Rental collections	Collections	453,801,391	1,232,711,415
	Interest income	Income	153,904,001	419,097,015
	Rent Income	Income	1,161,600	36,000,000
	Franchise fee income	Income	268,539,389	256,097,307
Other Related Parties	Services / Maintenance fee	Expense	388,109,246	784,443,309
	Deposits held with the company	Deposits	176,269,125	145,335,153
	Interest paid / charge	Expense	8,904,386	11,496,185
	Interest payable	Expense	1,967,120	2,059,138
	Capital outstanding on facilities granted	Lending facilities	455,838,000	454,500,000
	Rental collections	Collections	53,737,445	164,750,296
	Interest income	Income	55,237,112	153,035,378
Accommodation outstanding as a percentage of the Company's Capital Funds			4.52%	5.91%

All the above transactions (including borrowing / lending / investing transactions) with related parties are on arm's length basis and are on terms that are generic to non-related parties. The outstanding current account balances are unsecured and all accommodations have been granted on secured basis. Settlements of such accommodations are occurred on cash basis. In addition, corporate guarantees worth of Rs. 1,249 Mn has been received from fellow subsidiaries for the accommodations granted.

34. EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date, which would require adjustments to or disclosure in the financial statements except the following;

Surcharge Tax Act No 14 of 2022

The Surcharge Tax Act No 14 of 2022 (Act) was certified by the Speaker and published as a Supplement to Part II of the Gazette of the Democratic Socialist Republic of Sri Lanka on 08 April 2022. As per the said Act, Surcharge Tax is payable by company or each company of a group of companies (holding and subsidiaries) subject to the taxable income threshold specified in the Act. The Group of companies will meet the chargeability threshold when the aggregate taxable income of all subsidiaries and holding company (excluding the companies with nil taxable income due to losses or unrelieved losses) exceed Rs.2 Bn for Y/A commencing from 1 April 2020. Such Group of companies will be liable for Surcharge tax at a rate of 25% on the taxable income of each subsidiary and holding company excluding gains and profits from dividends received from a subsidiary which is part of such taxable income for Y/A commencing from 1 April 2020.

LOLC Finance PLC is not liable to pay surchage tax as the LOLC group meet the chargeability threshold referred to above.

As per the Statement of Alternative Treatment (SoAT) issued by CA Sri Lanka on 22 April 2022, Surcharge Tax expense which is deemed to be an expenditure for the year of assessment which commenced on 1 April 2020, shall be recorded as an adjustment to the opening retained earnings reported in the Statement of Changes in Equity on 1 January 2021. Such adjustment will be incorporated in the Financial Statements for the next reporting period. As the law imposing the surcharge tax was enacted after the reporting period end, the financial statements for the year ended 31 March 2022 do not reflect the tax liability that would arise in consequence for the Group.

35. OPERATING SEGMENTS

	Operating Segment			
	SME Finance Rs.	Development Finance Rs.	Alternative Financial Services Rs.	Total Rs.
For the year ended 31 March 2022				
Total revenue - Interest income & other income	22,704,491,046	16,689,491,745	2,698,152,122	42,092,134,914
Inter segmental revenue	-	-	-	-
External revenue	22,704,491,046	16,689,491,745	2,698,152,122	42,092,134,914
Net interest cost	(4,804,322,274)	(3,440,207,015)	(735,462,530)	(8,979,991,819)
Profit before operating expenses	17,900,168,772	13,249,284,730	1,962,689,592	33,112,143,095
Operating expenses	(5,474,034,030)	(3,930,815,306)	(1,135,399,259)	(10,540,248,595)
Allowance for impairment & write-offs	(1,487,659,198)	(1,380,505,801)	(123,594,901)	(2,991,759,900)
Value added tax on financial services	(507,362,398)	(1,190,694,544)	(139,444,100)	(1,837,501,042)
Results from operating activities	10,431,113,145	6,747,269,080	564,251,333	17,742,633,558
For the year ended 31 March 2021				
Total revenue - Interest income & other income	22,812,651,912	18,672,232,927	2,575,087,577	44,059,972,416
Inter segmental revenue	-	-	-	-
External revenue	22,812,651,912	18,672,232,927	2,575,087,577	44,059,972,416
Net interest cost	(6,597,915,256)	(4,882,347,613)	(966,527,529)	(12,446,790,398)
Profit before operating expenses	16,214,736,656	13,789,885,314	1,608,560,048	31,613,182,018
Operating expenses	(5,358,239,674)	(3,987,215,280)	(873,435,713)	(10,218,890,666)
Allowance for impairment & write-offs	(6,418,198,424)	(9,698,721,884)	(224,442,013)	(16,341,362,321)
Value added tax on financial services	(443,795,924)	(15,592,223)	(96,757,780)	(556,145,927)
Results from operating activities	3,994,502,633	88,355,928	413,924,542	4,496,783,104
Depreciation				
For the year ended 31 March 2022	173,492,083	33,755,818	-	207,247,901
For the year ended 31 March 2021	85,363,651	46,490,029	-	131,853,680
Capital expenditure - Property Plant and equipment				
For the year ended 31 March 2022	829,381,539	161,370,199	-	990,751,738
For the year ended 31 March 2021	12,427,198	6,767,995	-	19,195,193
As at 31-03-2022				
Total assets	240,750,463,467	46,788,813,425	24,301,522,926	311,567,068,346
Total liabilities	161,850,805,398	46,788,813,425	19,648,278,089	228,014,165,440
As at 31-03-2021				
Total assets	100,215,006,936	54,333,822,097	16,008,560,682	170,108,579,200
Total liabilities	67,209,098,642	54,333,822,097	13,125,935,383	134,220,045,606

36. COMMITMENTS AND CONTINGENCIES

As at 31 March	2022 Rs.	2021 Rs.
36.1 Contingent liabilities		
Guarantees issued to banks and other institutions - backed by deposits	624,696,822	403,443,000
36.2 Commitments		
Forward exchange contracts - (commitment to purchase)	10,307,825,961	2,843,557,800
Unutilised loan facilities	11,929,165,122	6,103,323,043
Allowance for ECL / impairment	2,311,437	17,416,220
	22,863,999,342	9,367,740,063

On the commitment to purchase the foreign currencies the company will receive USD 34,207,005, EUR 1,220,000, GBP 2,230,000 and AUD 2,360,000.

37. AMALGAMATION OF COMMERCIAL LEASING AND FINANCE PLC (CLC) WITH LOLC FINANCE PLC (LOFC) IN TERMS OF THE PROVISIONS OF THE COMPANIES ACT, NO. 7 OF 2007 (LOFC / "THE COMPANY")

Pursuant to the Initial Corporate Disclosure made on Colombo Stock Exchange dated on 24th January 2022, LOLC Finance PLC (LOFC - The Company) has expressed its interest in proposed amalgamation of Commercial Leasing & Finance PLC (CLC) under Master Plan for Consolidation of Non-Bank Financial Institution imposed by Central Bank of Sri Lanka (CBSL). Accordingly, the company has received the principal approval from both Central Bank of Sri Lanka and Securities and Exchange Commission of Sri Lanka and other relevant regulatory authorities to take effect the Amalgamation on the proposed effective date of 31 March 2022.

Accordingly, Board has sought the approval from Shareholders through an Extraordinary General Meeting in compliance to the requirement imposed under Companies Act No 07 of 2007 and Securities and Exchange Commission Act and accordingly relevant approval was received on 14th March 2022.

In terms of Section 08 of the Listing Rules of the Colombo Stock Exchange (CSE), subsequent communication made in terms of Rule 5.11.2 of the Listing Rules of the CSE "the value and/ or the consideration, for the purpose of amalgamation; the share exchange ratio is based on the Market Price of a share of CLC and LOFC, as at end of Trading Five (5) Market days, prior to the dated fixed for both shareholders meeting".

Accordingly, amalgamation was executed on following manner;

	Value (Rs.)
Existing No of shares of CLC	6,432,072,002
Number of new shares of LOFC issued to existing CLC shareholders	14,001,334,334
Price per share of LOFC on 31st March 2022 (effective date of Amalgamation)	14.20
Total cost to LOFC on Common Control Transaction	198,818,947,542
Net assets of CLC on 31.3.2022	29,534,430,981
Excess of consideration over and above the net asset value	169,284,516,561

Proportion of the share exchange : 21,768 of new LOFC shares for every 10,000 shares of CLC

37. AMALGAMATION OF COMMERCIAL LEASING AND FINANCE PLC (CLC) WITH LOLC FINANCE PLC (LOFC) IN TERMS OF THE PROVISIONS OF THE COMPANIES ACT, NO. 7 OF 2007 (LOFC / "THE COMPANY") (CONTD.)

The carrying amounts of the identifiable assets and liabilities of the acquiree as at 31st March 2022, which the date of merger is as follows;

As at 31 March	2022 Rs.
ASSETS	
Cash and cash equivalents	3,606,895,329
Investment securities	8,935,689,563
Leases, advances and other loans	83,324,051,210
Trade and other receivables	1,180,649,822
Investment properties	5,361,501,000
Property, plant and equipment	4,658,410,261
Total assets	107,067,197,185
LIABILITIES	
Bank overdrafts	2,520,468,022
Interest bearing loans & borrowings	27,647,289,723
Deposits from customers	38,721,313,426
Trade and other payables	6,688,876,620
Provision for taxation	1,725,275,161
Retirement benefit obligations	229,543,253
Total liabilities	77,532,766,204
Carrying amount of identifiable net assets	29,534,430,981
Results of the merger of above entity are as follows;	
Total cost to LOFC on Common Control Transaction	198,818,947,542
Carrying amount of identifiable net assets merged	(29,534,430,981)
Resulting excess	169,284,516,561

Generally, the excess of Rs.169.3 billion would have been recognised as goodwill on amalgamation and would have been reflected as an asset of the amalgamated entity. However, as this transaction was between two subsidiaries of the LOLC Group, it is considered as a transaction under common control, hence not within the scope of the accounting standard SLFRS 03 – Business Combination. For transactions under common control such as this, the Statement of Recommended Practice (SORP) issued by the Institute of Chartered Accountants of Sri Lanka applies which requires any excess to be recognised in equity. Hence, the excess of Rs.169.3 billion was reflected as a negative reserve within equity ("Merger Reserve").

The break up of the equity value of the entity is as follows.

Description	Amount (Rs.)
Stated capital	211,581,447,542
Statutory reserve	4,444,108,028
Revaluation reserve	1,505,632,154
Cash flow hedge reserve	(83,701,505)
Fair value through OCI reserve	140,752,964
Merger reserve	(169,284,516,561)
Retained earnings	35,249,180,283
Total equity	83,552,902,905

As reflected above it is noted that the entity has sufficient positive reserves and the large Merger Reserve overshadows the other positive reserves.

As a result of this negative Merger Reserve, the net assets of the company as at 31.3.2022 is reflected less than half of the stated capital as at that date.

Description	Amount (Rs.)
Stated Capital immediately after the amalgamation	211,581,447,542
Net assets as of 31st March 2022	83,552,902,905

Section 220 (1) of the Companies Act No 2007 requires that "if at any time it appears to a director of a company that the net assets of the company are less than half of its stated capital, the Board shall within twenty working days of that fact becoming known to the director, call an Extraordinary General Meeting of shareholders of the company, to be held not later than forty working days from that date of calling of such meeting to notify this matter.

Section 220 (2) of the Companies Act also requires "The notice calling a meeting under this section shall be accompanied by a report prepared by the board, which advises shareholders of—

(a) the nature and extent of the losses incurred by the company;

(b) the cause or causes of the losses incurred by the company;

(c) the steps, if any, which are being taken by the board to prevent further such losses or to recoup the losses incurred.

As per this section, the company appears to be facing serious loss of capital situation. However, as the cause for the said serious loss of capital is due to the negative Merger Reserve referred to above and not due to operational losses, the Board of Directors are in the process of taking necessary actions to comply with the requirements of the Companies Act No.7 of 2007.

The company has retained earnings of Rs.35.3 billion as at 31st March 2022. The profits made by the company over the past years are as follows.

Year ended	Profit for the year (Rs.)
31.03.2022	16,950,585,463
31.03.2021	4,365,938,557
31.03.2020	3,779,684,187
31.03.2019	5,962,868,027
31.03.2018	2,191,174,142

Further, having reviewed the financial position, the Management is confident that there will not be any impact on the Company's ability to continue as a going concern due to following :

» Capital adequacy and the liquidity ratios of the company being well above the CBSL minimum requirements

» The current serious loss of capital position triggered by amalgamation accounting is expected to be recovered within the next 1-2 year with the profits of the Company.

Consolidated financial statements

As at the year end, since the subsidiary is merged with the parent, a separate consolidated statement of financial position is not presented as the parent's statement of financial position includes the financial position of the subsidiary as at 31st March 2022 with consolidation adjustments.

Independent Auditors' Report

Building a better working world

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
eysl@lk.ey.com
ey.com

BOARD OF DIRECTORS OF LOLC FINANCE PLC

Opinion

We have audited the statement of financial position as at 31 March 2022 and the statement of comprehensive income for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial statements").

In our opinion, the accompanying financial statement of the LOLC Finance PLC's Al-Falaah, Alternative Financial Services Unit ("LOLC Al-Falaah) for the year ended 31 March 2022 is prepared, in all material aspects, in accordance with the accounting polices set forth in pages 154 to 161 of the financial statement.

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.

Basis of Accounting and Restriction on Distribution

We draw attention to the accounting polices set forth in pages 154 to 161 of the financial statement, which describes the basis of accounting. As a result, the financial statements may not be suitable for another purpose. Our audit work has been undertaken so that we might state to the Board of Directors of the LOLC Finance PLC, those matters that we are required to state, in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume the responsibility to anyone other than the addressee, for our audit work, for this report, or for the opinion we have formed. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the financial statement

Management is responsible for the preparation and fair presentation of financial statement in accordance with the accounting polices set forth in pages 154 to 161 of the financial statement, 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 statement, 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.

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.

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.

29 June 2022
Colombo

Statement of Financial Position

As at 31 March	Note	2022 Rs.	2021 Rs.
ASSETS			
Cash and bank balances	3	603,738,364	439,517,795
Deposits with banks and other financial institutions		177,334	4,985,752,552
Murabaha / Musawamah /Wakalah receivables	4	2,113,506,060	1,526,282,560
Diminishing Musharakah receivables	5	16,634,052,515	5,963,482,689
Ijarah rent receivables	6	4,518,046,048	2,896,107,664
Wadiah Gold Loan Advances	7	183,735,776	8,749,465
Investment securities	8	19,080,384	105,652,837
Investment Properties		122,800,000	-
Other receivables	9	66,312,057	83,015,121
Amount due from related companies		40,074,387	-
Total assets		24,301,522,926	16,008,560,682
LIABILITIES			
Deposits from customers	10	12,575,052,969	11,818,275,889
Income tax payable		321,257,538	135,608,003
Accruals and other payables	11	418,746,808	293,205,058
Amount due to related companies	12	6,333,220,775	878,846,433
Total liabilities		19,648,278,089	13,125,935,383
OWNER'S FUND			
Retained earnings		4,653,244,837	2,882,625,299
Total owner's fund		4,653,244,837	2,882,625,299
Total liabilities & owner's fund		24,301,522,926	16,008,560,682

I certify that these financial statements have been prepared in accordance with the basis of preparation and notes.

(Mr.) Buddhika Weeratunga
Head of Finance

The Board of Directors is responsible for these special purpose financial statements. Approved and signed for and on behalf of the Board;

(Mr.) Krishan Thilakarathne
Director/CEO

(Mr.) Conrad Dias
Chairman / Non Executive Director

The above Statement of Financial Position should be read in conjunction with accounting policies and notes, which form an integral part of these special purpose financial statements.

The basis of preparation and notes are given in pages 154 through 164.

29th June 2022
Rajagiriya (Greater Colombo)

Statement of Profit or Loss and Other Comprehensive Income

As at 31 March	Note	2022 Rs.	2021 Rs.
Revenue	13	2,471,160,641	2,403,173,325
Profit paid to Mudharabah/Wakalah investors		(712,269,078)	(948,525,678)
Profit paid on other funding arrangement		(23,193,453)	(18,001,852)
Other direct expenses		(113,811,902)	(74,875,232)
		1,621,886,209	1,361,770,563
Non distributable other income / (expenses)	14	226,991,481	171,914,251
Total operating income		1,848,877,690	1,533,684,814
Employee benefits	15	(354,952,353)	(290,730,620)
(Provision)/reversal for credit losses		(123,594,901)	(224,442,013)
Other operating expenses		(666,635,004)	(507,829,860)
Profit from operations		703,695,433	510,682,321
Value added tax on financial services		(139,444,100)	(96,757,780)
Profit before taxation		564,251,333	413,924,541
Income tax expense	16	(181,991,622)	(135,608,003)
Profit for the year		382,259,711	278,316,538
Other comprehensive income		-	-
Total comprehensive income		382,259,711	278,316,538

Cash Flow Statement

As at 31 March	2022 Rs.	2021 Rs.
Cash Flows From / (Used in) Operating Activities		
Net Profit before Income Tax Expense	564,251,333	413,924,541
Adjustments for:		
Provision for fall/(Increase) in value of investments	(17,023,048)	(3,652,837)
Allowance for/(reversal of) doubtful debts	123,594,901	(23,925,940)
Investment income	(96,632,938)	(148,798,483)
Profits attributable to investment made from banks & other Financial institutions	23,193,453	18,001,851
Profits attributable to Mudharabah / Wakalah investors	712,269,078	948,525,678
Operating profit before working capital changes	1,309,652,778	1,204,074,810
Change in other receivables	(16,784,295)	(5,798,662)
Change in trade and other payables	(2,852,539)	73,431,068
Change in amounts due to head office	1,673,240,422	648,918,492
Change in Ijarah rent receivables	(99,987,648)	65,349,388
Change in Murabaha / Musawamah receivables	(461,415,011)	2,524,492,817
Change in Diminishing Musharakah receivables	(4,546,151,660)	(1,156,952,246)
Change in Wadiah Gold Loan Advances	(144,696,984)	-
Change in Mudharabah investments from customers	(476,260,731)	368,431,886
Change in Wakalah investments from customers	(1,850,977,331)	238,626,653
Change in Mudharabah savings deposits from customers	141,076,417	24,579,517
Cash used in Operations	(4,475,156,583)	3,985,153,725
Profits paid to Mudharabah / Wakalah investors	(712,269,078)	(948,525,678)
Income tax paid	-	(133,068,826)
Net Cash Used in Operating Activities	(5,187,425,661)	2,903,559,221
Cash Flows from / (Used in) Investing Activities		
Investments in Unit trust	103,595,501	(100,000,000)
Net proceeds from Investments in Mudaranah Deposits	4,962,381,766	(1,284,235,523)
Profit Received	96,632,938	148,798,483
Net Cash Flows from Investing Activities	5,162,610,205	(1,235,437,040)
Cash Flows from / (Used in) Financing Activities		
Net proceeds from banks & other financial institutions	-	(1,520,000,000)
Net Proceeds from Qurd-Hassan	-	-
Profit paid -other instruments	-	(62,655,945)
Net Cash Flows from Financing Activities	-	(1,582,655,945)
Net Increase/(decrease) in cash and cash equivalents	(24,815,455)	85,466,236
Cash and cash equivalents at the beginning of the period	439,517,795	354,051,558
Cash and cash equivalents from the merger	189,036,024	-
Cash and cash equivalents at the end of the period	603,738,364	439,517,795
Analysis of cash and cash equivalents at the end of the period		
Cash and bank balances	603,738,364	439,517,795
	603,738,364	439,517,795

The above Statement of Profit or Loss should be read in conjunction with accounting policies and notes, which form an integral part of these special purpose financial statements.

The basis of preparation and notes are given in pages 154 through 164.

Notes to the Supplementary Finance Information

1. GENERAL

LOLC Finance PLC (the "Company") is a quoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No 42 of 2011 (formerly Finance Companies Act, No. 78 of 1988.)

LOLC Finance PLC has set up the Al-Falaah, Alternative Financial Service Unit ("LOLC Al-Falaah") which commenced its operations in February 2008, under Islamic economic jurisprudence. It is housed in the head office premises at No. 100/1 Sri Jayewardenepura Mawatha, Rajagiriya.

1.1.1 Principal activities and nature of business

The principal activities of the LOLC Al-Falaah comprised of Mudharabah and Wakalah (Profit Sharing investments & savings), Diminishing Musharakah (Partnership Financing), Murabaha (Trade Financing), /Musawamah (Import Financing), Wakalah (Working Capital Financing) and Ijarah (Leasing).

1.1.2 Directors' responsibility statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards.

1.2 Basis of Preparation

1.2.1 Statement of compliance

These supplementary financial statements of the LOLC Al-Falaah are prepared on based on the accounting policies explained in Note 2.

The results of LOLC Al-Falaah and the financial position of the LOLC Al-Falaah form part of the financial statements of LOLC Finance PLC which is prepared in accordance with Sri Lanka Accounting Standards. LOLC Finance PLC's primary set of financial statements was authorised for issue by the Board of Directors in accordance with a resolution of the Directors passed on 29 June 2022. Therefore, the isolated financial statements of the LOLC Al-Falaah should be read in conjunction with the LOLC Finance PLC's primary set of financial statements.

These Financial Statements include the following components:

» a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the LOLC Al-Falaah for the year under review.

» a Statement of Financial Position providing the information on the financial position of the LOLC Al-Falaah as at the year-end.

» a Statement of Cash Flows providing the information to the users, on the ability of the LOLC Al-Falaah to generate cash and cash equivalents and the needs of the LOLC Al-Falaah to utilise those cash flows; and

» Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

Details of the company's accounting policies are included in Note 2

1.2.2 Basis of Measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis
Non-derivative financial instruments at fair value through profit or loss	Fair value
Investment property	Fair value

No adjustments have been made for inflationary factors affecting the Financial Statements.

The Company presents its statement of financial position broadly in order of liquidity.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

1.2.3 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.2.4 Going Concern basis of accounting

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

1.2.5 Comparative information

The accounting policies have been consistently applied by the LOLC Al-Falaah and are consistent with those used in the previous period. Comparative information has not been reclassified or restated.

1.3 Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the LOLC Al-Falaah operates (the functional currency).

These financial statements are presented in Sri Lankan Rupees, the Company's functional and presentation currency.

There was no change in the company's presentation and functional currency during the year under review.

All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

1.4 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with the described accounting policies requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimate and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The respective carrying amounts of assets and liabilities are given in the related Notes to the financial statements.

Critical Accounting estimate / judgment	Disclosure reference Note
Fair value measurement of financial instruments and	1.4.1
Impairment losses on loans and advances	1.4.2
Provisions for liabilities and contingencies	1.4.3

1.4.1 Fair Value Measurement

A number of the Company's (LOLC Finance PLC including the LOLC Al-Falaah) accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Group CFO.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant judgements used in valuation and issues that arises are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

» **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.

» **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

» **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values and the fair value measurement level is included in the following notes:

1.4.2 Impairment Losses on Loans and Advances

In addition to the provisions made for possible loan losses based on the parameters and directives for specific provisions on loans and advances by the Central Bank of Sri Lanka, the LOLC Al-Falaah reviews its loans and advances portfolio at each reporting date to assess whether a further allowance for impairment should be provided in the statement of profit or loss. The judgements by the management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors though actual results may differ, resulting in future changes to the provisions.

1.4.3 Provision for liabilities and contingencies

The LOLC Al-Falaah receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.1 Financial assets and financial liabilities

2.1.1 Non-derivative financial assets

2.1.1.a Initial recognition of financial assets

Date of recognition

The LOLC Al-Falaah initially recognises receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the LOLC Al-Falaah becomes a party to the contractual provisions of the instrument.

Initial measurement of financial Assets

The classification of financial instruments at initial recognition depends on their cash flow characteristics and business model for managing the instrument. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Financial Reporting Standard – SLFRS 09 on 'Financial Instruments'.

Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the statement of profit or loss

2.2.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories: (effective after 1 April 2018)

» amortised cost.

» fair value through other comprehensive income (FVOCI); and

» fair value through profit or loss (FVTPL).

2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

With effect from April 1, 2018, the Company makes an assessment of the objective of a business model in which an asset is held because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

» whether management's strategy focuses on earning contractual mark-up revenue, maintaining a particular profit ratio/rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

» how the performance of the portfolio is evaluated and reported to the management

» the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed

» the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity and how cash flows are realised.

Assessment of whether contractual cash flows are solely payments of principal and mark-up (SPPI test)

The Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test of its classification process. In assessing whether the contractual cash flows are solely payments of principal and mark-up on principal amount outstanding, the Company considers the contractual terms of the instrument.

For the purposes of this assessment,

"principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Profit" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

Based on above assessments, subsequent measurement of financial assets are classified as follows.

Amortised cost

Financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition measured at amortised cost using the effective mark-up method, less any impairment losses.

This includes cash and cash equivalents, deposits with banks and other financial institutions, investments in Standing Deposit Facilities (REPO's), lease receivables, hire purchase receivables, advances and other loans granted, factoring receivables, amount due from related parties and other receivables.

» **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the LOLC Al-Falaah in the management of its short-term commitments.

» **Ijarah receivables**

The LOLC Finance PLC's LOLC Al-Falaah buys and lease out equipment required by its clients for a fee (Rental). The duration of the lease and value of the rental is agreed in advance. Ownership of the asset will remain with the Company till the end of the lease period. Rent receivables on Ijarah advances reflected in the statement of financial position are the total rent receivables after eliminating unearned income and deducting pre-paid rentals, rental collections and provision for impairment losses.

» **Murabaha, Musawamah and Diminishing Musharakah receivables**

Murabaha/Musawamah to customers with fixed installments are stated in the statement of financial position net of provision for impairment losses and income, which is not accrued to revenue.

Diminishing Musharakah to customers is reflected in the statement of financial position at amounts disbursed less repayments and provision for doubtful debts.

» **Financial guarantees**

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Company in its normal course of the business issues guarantees on behalf of the depositors, holding the deposit as collateral.

Financial assets at fair value through other comprehensive income (FVOCI)

Instruments are measured at FVOCI, if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and mark-up on principal outstanding. This comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other investments are measured at fair value after initial recognition.

Financial assets at fair value through profit or loss (FVTPL)

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in statement of profit or loss as incurred.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of profit or loss.

Financial assets at fair value through profit or loss comprises of quoted equity instruments and unit trusts unless otherwise have been classified as amortised cost.

Mark-up income is recognised in profit or loss using the effective mark-up method. Dividend income is recognised in profit or loss when the Company becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the AFS reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss

Amortised cost- Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost.

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, Ijarah receivables, Murabaha, Musawamah and Diminishing Musharakah receivables and other receivables.

» **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the LOLC Al-Falaah in the management of its short-term commitments.

» **Ijarah receivables**

The LOLC Finance PLC's LOLC Al-Falaah buys and lease out equipment required by its clients for a fee (Rental). The duration of the lease and value of the rental is agreed in advance. Ownership of the asset will remain with the Company till the end of the lease period. Rent receivables on Ijarah advances reflected in the statement of financial position are the total rent receivables after eliminating unearned income and deducting pre-paid rentals, rental collections and provision for impairment losses.

» **Murabaha, Musawamah and Diminishing Musharakah receivables**

Murabaha/Musawamah to customers with fixed installments are stated in the statement of financial position net of provision for impairment losses and income, which is not accrued to revenue.

Diminishing Musharakah to customers is reflected in the statement of financial position at amounts disbursed less repayments and provision for doubtful debts.

2.1.2 Non-derivative financial liabilities

Classification and Subsequent Measurement of Financial Liabilities

The LOLC Al-Falaah initially recognises non-derivative financial liabilities on the date that they are originated.

The LOLC Al-Falaah classifies non-derivative financial liabilities into the other financial liabilities' category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

Other financial liabilities comprise of Mudharabah deposits, Wakalah deposits, trade payables, accruals & other payables and amounts due to head office.

Profit Payable to the Mudharabah Investors

Profits payable are recognised on accrual basis and are credited to Investors' accounts when the profit is distributed on a monthly basis on or before the 10th of the following month.

2.1.3 Derecognition of financial assets and financial liabilities

Financial assets

The LOLC Al-Falaah derecognises a financial asset when the rights to receive cash flows from the asset have expired or the LOLC Al-Falaah has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either.

(a) The LOLC Al-Falaah has transferred substantially all the risks and rewards of the asset, or

(b) The LOLC Al-Falaah has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

(i) The consideration received (including any new asset obtained less any new liability assumed) and

(ii) Any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The LOLC Al-Falaah derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

2.1.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.1.5 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, plus the cumulative income, minus principal repayments, minus any reduction for impairment.

2.1.6 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Determination of fair value

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models

2.1.7 Impairment

Overview of the expected credit loss (ECL) principles

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).

Stage 2: If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL.

Stage 3: If a financial asset is credit impaired, it is moved to Stage 3 and the Company recognises an allowance for LTECL, with probability of default at 100%. So it is defined as credit impaired and default.

The key judgements and assumption adopted in addressing the requirements of SLFRS 9 are discussed below:

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available. Based on that, management has decided that an exposure to have significantly increased credit risk when contractual payments of a customer are more than 90 days past due and loss to take place after 180 days in accordance with the rebuttable presumption in SLFRS 9.

Individually Significant Impairment Assessment and Loans which are Not Impaired Individually

Company will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Loans with objective evidence of incurred losses are classified as Stage 3. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 1 or Stage 2, based on the above specified criteria to identify whether there has been a significant credit deterioration since origination.

While establishing significant credit deterioration, Company will consider the following criteria:

» Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated

» Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument

» Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument

» Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its obligation

» An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems

» Significant increase in credit risk on other financial instruments of the same borrower

» An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis

As explained above, Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets which belong to stage 3. All assets which belong to stage 1 and 2 will be assessed collectively for Impairment.

Company groups smaller homogeneous exposures based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the Effective Income Rate (EIR).

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

» Probability of Default (PD): PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

» Exposure at Default (EAD): EAD is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and income, whether scheduled by contract or otherwise and expected draw downs on committed facilities.

» Loss Given Default (LGD): LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

When estimating ECL, Company considers 3 scenarios (base case, best case and worst case). Each of these scenarios are associated with different loss rates. For all products, Company considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

Company relies on broad range of qualitative/quantitative forward-looking information as economic inputs such as the following in its ECO model.

Quantitative inputs	Qualitative inputs
» GDP growth	» Changes in Lending Policies and Procedure
» Inflation	» Changes in Bankruptcy and lending related Legislations
» Unemployment	» Credit Growth
» Income rates	» Position of the Portfolio within the Business Cycle

In response to COVID-19 and the Company's expectations of economic impacts, key assumptions used in the Company's calculation of ECL have been revised. As at the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19.

Accordingly, under the collective assessment, customers operating in risk elevated industries including Tourism, Transportation and Construction were assessed for Lifetime ECL. Exposures outstanding from the borrowers operating in these industries have been classified as stage 2 unless such exposures are individually significant and have specifically been identified as stage 1 reflecting forward looking view of the economy in relation to the business.

Notes to the Supplementary Finance Information

Further, the Company decided to increase the weightages assigned for worst case scenario while reducing the weightages assigned for base case scenario and best case scenario when assessing the probability weighted forward looking macro-economic indicators along with management overlays to qualitative indicators relating to forward looking macro-economic environment with the objective of capturing the impact of COVID-19 and uncertainties and volatilities in future outlook on the ECL computation as at the reporting date.

2.1.8 Write-off policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status. The company generally writes off balances on its past due status reaching 12 months and if no collateral is available.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

2.2 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Determining Fair value

An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the company's investment property portfolio annually.

2.3 Employee benefits

2.3.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.3.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

2.4 Provisions

A provision is recognised if, as a result of a past event, the LOLC Al-Falaah has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

2.5 Events occurring after the reporting date

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

2.6 Benevolent Loan (Qurd Hassan)

Qurd Hassan is a loan or debt extended which is absolutely free from mark-up or any charges. The borrower is only required to repay the principal amount borrowed, but it may pay an additional amount at its discretion, as a token of appreciation.

The Company extends Qurd Hassan to the LOLC Al-Falaah as and when required and the LOLC Al-Falaah settles those when funds are available.

SIGNIFICANT ACCOUNTING POLICIES –RECOGNITION OF INCOME AND EXPENSES

2.7 Revenue Recognition

2.7.1 Murabaha/Musawamah Income

The profits and losses arising from Murabaha/Musawamah transactions are recognised over the term of the facility, commencing from the month in which the facility is executed.

2.7.2 Ijarah Income

Profits and losses arising from Ijarah assets are recognised over the term of the lease, commencing from the month in which the lease is executed so as to yield a constant periodic rate of return on Ijarah assets.

2.7.3 Diminishing Musharakah Income

Profits and losses arising from Diminishing Musharakah are recognised in the accounting period in which the installments are due.

2.7.4 Profit in Suspense

Profit from advances classified as non-performing is accounted for on cash basis. Income falling due on non-performing advances is credited to profit in suspense account.

2.7.5 Fees and other income

Fees and other income that are integral to the financial asset or liability are included in the measurement of the amortised cost.

Other fees and other income, including account servicing fees are recognised as the related services are performed.

Collections on contracts written off are accounted for on cashbasis.

2.7.6 Dividends

Dividend income is recognised when the right to receive income is established.

2.8 Expenditure Recognition

Expenses are recognised in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

Expenses incurred by the LOLC Al-Falaah for which a fee is charged from the customers, has been presented net of the related income.

2.8.1 Value Added Tax (VAT) on financial services

The base for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on the prescribed rate.

The VAT on financial service is recognised as expense in the period it becomes due.

2.9 Income Tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Inland Revenue. The rate and tax laws used to compute the amount are those that are enacted or substantially enacted as at the statement of financial position date. Accordingly, provisions for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with provisions of Inland Revenue Act No. 10 of 2006 and amendments thereto.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date and any adjustments to tax payable in respect of previous years.

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.10 Cash flow statements

The cash flow statement has been prepared using the indirect method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short-term deposits with banks.

SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.11 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

» In the principal market for the asset or liability, or

» In the absence of a principal market, in the most advantageous market for the asset or liability

Notes to the Supplementary Finance Information

3. CASH AND BANK BALANCES

As at 31 March	2022 Rs.	2021 Rs.
Cash & bank balances	603,738,364	439,517,795
	603,738,364	439,517,795

4. MURABAHA / MUSAWAMAH /WAKALAH RECEIVABLES

Instalment receivable	2,436,104,493	1,671,344,966
Unearned income	(313,871,275)	(130,609,687)
Provision for impairment	(8,727,158)	(14,452,719)
	2,113,506,060	1,526,282,560

5. DIMINISHING MUSHARAKAH RECEIVABLES

Instalment receivable	16,841,721,032	6,077,054,644
Provision for impairment	(207,668,517)	(113,571,955)
	16,634,052,515	5,963,482,689

6. IJARAH RENT RECEIVABLES

Rent receivables	6,187,716,271	3,945,819,678
Unearned income	(1,576,256,236)	(1,000,648,633)
Provision for impairment	(93,413,986)	(49,063,381)
	4,518,046,048	2,896,107,664

7. WADIAH GOLD LOAN ADVANCES

Gross amount outstanding	182,881,145	8,749,465
Income in suspense	854,631	-
	183,735,776	8,749,465

8. INVESTMENT SECURITIES-FVTPL/ HELD FOR TRADING

Expo Lanka Holdings PLC		
Cost (91843 shares)		
Carrying amount as at 1st April	4,105,383	2,000,000
Adjustment for change in fair value - recognised in profits	14,975,001	47,967,311
Disposal during the period	-	(45,861,929)
Carrying amount as at 31st March	19,080,384	4,105,383
Investment in Unit Trusts		
Original cost		
Carrying amount as at 1st April	101,547,454	
Investments during the year	-	100,000,000
Disposal during the year	(103,595,501)	
Adjustment for change in fair value - recognised in profits	2,048,047	1,547,454
Carrying amount as at 31st March	-	101,547,454
Total investments held for trading	19,080,384	105,652,837

9. OTHER RECEIVABLES

As at 31 March	2022 Rs.	2021 Rs.
Staff car advances	608,927	383,273
Insurance premium receivable	23,057,306	34,349,684
WHT receivable	-	-
Others	42,645,825	48,282,164
	66,312,057	83,015,121

10. DEPOSITS FROM CUSTOMERS

Customer deposits	12,422,822,910	11,607,449,780

10.1. Analysis of customer deposits based on nature

Mudharabah investments	5,576,593,160	3,241,560,004
Wakalah investments	5,812,648,451	7,576,034,386
Mudharabah savings	1,033,581,299	789,855,390
Total deposits	12,422,822,910	11,607,449,780
Profit payable		
Profit payable on Mudharabah investments	41,545,969	48,555,279
Profit payable on Wakalah investments	110,684,090	162,270,830
	152,230,059	210,826,109
Deposit liability recognised in statement of financial position	12,575,052,969	11,818,275,889

11. ACCRUALS AND OTHER PAYABLES

As at 31 March	2022 Rs.	2021 Rs.
Trade Payable	87,787,322	84,489,418
Refunds payable	46,586,395	57,341,871
Insurance payable	12,038,759	10,879,134
Al-Falaah charity fund	10,198,965	3,530,141
Other miscellaneous creditors	69,001,170	84,146,213
Other payables	193,134,196	52,818,281
	418,746,808	293,205,058

12. AMOUNT DUE FROM RELATED COMPANIES

As at 31 March	2022 Rs.	2021 Rs.
Fund received from related companies	3,159,000,000	-
Current account balance due to related companies	3,174,220,774	878,846,433
	6,333,220,775	878,846,433

Notes to the Supplementary Finance Information

13. REVENUE

As at 31 March	2022 Rs.	2021 Rs.
Income from Ijarah receivables	800,404,964	745,034,256
Income from Diminishing Musharakah receivables	1,204,057,187	930,678,328
Income from Murabaha/Musawamah receivables	265,830,884	498,232,789
Income from Wadiah Gold Loan	10,043,393	-
Profit on terminations	94,191,275	78,882,014
Income from Mudarabah deposits	96,632,938	148,798,483
Adjustment for change in fair value - recognised in profits- on Unit trust	-	1,547,455
	2,471,160,641	2,403,173,325

14. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)

As at 31 March	2022 Rs.	2021 Rs.
Arrangement & documentation Fee	39,593,488	21,636,993
Collection admin fee	131,012,001	65,799,236
Franchise Fee	36,702,450	30,492,480
Sundry income	19,490,932	53,765,183
Takaful commission	192,609	220,359
	226,991,481	171,914,251

15. EMPLOYEE BENEFITS

As at 31 March	2022 Rs.	2021 Rs.
Salaries & other benefits	354,952,353	290,730,620
	354,952,353	290,730,620

16. INCOME TAX EXPENSE

As at 31 March	2022 Rs.	2021 Rs.
Income tax is provided at 24% of the taxable profits computed in accordance with the inland revenue act No 10 of 2006 (and amendments thereto)	181,991,622	135,608,003
	181,991,622	135,608,003

17. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date no circumstances have arisen which would require adjustments to, or disclosure in the financial statements.

Statement of Financial Position

As at	31.03.2022 Rs'000	31.03.2021 Rs'000	31.03.2020 Rs'000	31.03.2019 Rs'000	31.03.2018 Rs'000	31.03.2017 Rs'000	31.03.2016 Rs'000	31.03.2015 Rs'000	31.03.2014 Rs'000	31.03.2013 Rs'000
ASSETS										
Cash and bank balances	12,282,960	13,422,690	8,333,561	17,535,538	11,323,366	4,924,112	3,497,994	2,975,305	3,236,380	3,061,190
Deposits with banks and other financial institutions	8,885,611	7,203,306	17,282,277	21,637,176	26,346,552	14,161,567	10,206,771	761,095	466,476	414,634
Investment in government securities	23,841,483	15,838,455	10,790,843	18,150,996	10,871,768	7,853,176	8,397,496	5,900,718	4,936,822	3,378,980
Derivative assets held for risk management	3,450,266	325,029	273,195	568,530	133,541	23,840	98,163	2,740	13,572	1,936
Financial assets at amortised cost	-	-			-					
Rentals receivable on leased assets	56,960,215	43,098,407	43,842,381	42,941,837	43,605,124	18,408,733	17,243,862	13,150,376	10,836,503	11,452,172
Loans and advances	141,614,958	61,466,957	87,112,949	88,995,842	97,072,665	55,578,906	53,420,772	36,941,041	28,951,843	25,547,021
Factoring receivable	1,418,433	-	2,998,752	4,253,668	10,638,755	16,524,638	13,598,601	6,200,202	3,279,931	3,198,685
Margin trading receivable	6,816,480	83,553	1,768							
Investment securities	6,288,566	5,498,000	2,958,199	2,809,229	1,965,299	324,629	1,083,471	8,843	9,043	7,143
Investment in associate	1,833,661	-	-	-	-	-	-	-	-	-
Amount due from related companies	47,382	33,222	63,233	5,569	32,909	224,506	3,271	2,883	5,930	75,649
Other receivables	1,084,330	615,275	914,073	937,941	1,122,496	1,071,661	694,055	639,352	1,418,033	357,943
Inventories	428,032	271,727	2,023	4,811	9,078	-	-	-	12,080	-
Real estate stock	-	-	-	-	-	-	-	-	-	2,598
Investment properties	38,287,958	21,088,740	15,963,886	11,635,211	6,278,187	906,300	930,200	1,142,800	215,173	71,500
Property plant and equipment	8,326,735	1,163,218	1,351,207	1,559,025	1,714,491	2,621,022	1,210,407	136,545	50,143	-
Total assets	311,567,068	170,108,579	191,888,346	211,035,373	211,114,232	122,623,092	110,385,065	67,861,900	53,431,929	47,569,453
LIABILITIES										
Bank overdraft	5,675,768	1,861,003	1,283,201	2,242,496	4,243,170	2,393,316	1,941,608	2,333,062	1,136,163	2,201,599
Interest bearing borrowings	44,309,903	16,437,442	51,558,593	61,086,897	70,490,432	24,456,314	35,070,152	11,040,028	823,838	5,981,573
Deposits from customers	159,252,382	107,791,136	99,261,181	115,365,141	110,027,420	80,607,115	60,197,201	41,309,960	42,617,800	32,069,049
Trade payables	1,141,928	144,788	1,048,944	1,161,094	1,593,496	677,878	637,850	645,905	328,986	434,517
Accruals and other payables	7,835,593	4,441,130	3,331,643	3,072,454	2,388,376	1,620,968	1,018,603	822,441	494,314	685,456
Derivative liabilities	13,176	-	114,349	661,931	482,464	18,978	17,859	57,515	8,104	40,097
Amount due to related companies	3,719,368	620,862	854,198	817,644	1,497,000	434,259	996,781	2,453,097	649,310	135,056
Current tax payable	2,525,556	857,903	960,255	1,501,293	813,718	268,932	309,888	434,426	282,718	178,418
Deferred tax liability	2,974,781	1,733,249	1,888,186	2,272,773	2,402,219	1,102,058	984,741	761,420	548,718	415,508
Employee benefits	565,709	332,532	298,142	87,061	70,303	17,018	12,249	10,450	8,008	4,550
Total liabilities	228,014,165	134,220,045	160,598,693	188,268,784	194,008,598	111,596,835	101,186,931	59,868,304	46,897,960	42,145,823
SHAREHOLDER'S FUNDS										
Stated capital	211,581,448	12,762,500	12,762,500	7,880,000	7,880,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Statutory reserve	4,444,108	3,596,579	3,378,282	3,189,298	1,996,724	1,556,439	1,239,075	953,677	879,497	679,438
Revaluation Reserve	1,505,632	328,838	241,528	241,528	241,528	206,230	-	-	391,850	287,762
Cash flow hedge reserve	(83,702)	27,608	(77,310)	(39,059)	(6,333)	14,237	22,748	-	-	-
Available for sale investment reserve	-	-	-	-	(7,166)	(115,485)	(160,154)	86,037	109,793	(2,117)
Fair value through OCI reserve	140,753	45,446	11,957	(21,756)	-	-	-	-	-	-
Merger reserve	(169,284,517)	-	-	-	-	-	-	-	-	-
Retained earnings	35,249,180	19,127,563	14,972,696	11,516,579	7,000,882	7,364,836	6,096,465	4,953,882	3,152,829	2,458,547
Total equity	83,552,903	35,888,534	31,289,653	22,766,588	17,105,634	11,026,257	9,198,134	7,993,596	6,533,970	5,423,630
Total liabilities and equity	311,567,068	170,108,579	191,888,346	211,035,373	211,114,232	122,623,092	110,385,065	67,861,900	53,431,929	47,569,453

Statement of Profit or Loss

Year ended	31.03.2022 Rs'000	31.03.2021 Rs'000	31.03.2020 Rs'000	31.03.2019 Rs'000	31.03.2018 Rs'000	31.03.2017 Rs'000	31.03.2016 Rs'000	31.03.2015 Rs'000	31.03.2014 Rs'000	31.03.2013 Rs'000
Interest income	30,569,863	33,761,534	38,081,709	42,663,318	23,818,183	18,489,741	13,137,597	10,871,227	10,515,811	8,457,606
Interest expense	(8,979,992)	(12,446,790)	(19,271,364)	(20,891,754)	(13,902,137)	(11,459,273)	(6,499,475)	(4,978,312)	(6,125,280)	(4,950,845)
Net interest income	21,589,871	21,314,744	18,810,345	21,771,563	9,916,047	7,030,467	6,638,122	5,892,915	4,390,531	3,506,761
Net other operating income	11,522,272	10,298,438	4,919,828	4,012,257	1,816,619	2,348,653	1,245,509	1,269,831	971,589	496,871
Direct expenses excluding interest cost	(863,534)	(950,855)	(1,279,608)	(1,522,224)	(1,047,933)	(1,311,408)	(911,717)	(428,892)	(297,539)	(121,899)
Allowance for impairment & write-offs	(2,991,760)	(16,341,362)	(7,843,541)	(5,700,505)	(3,709,288)	(1,329,042)	(1,568,576)	(1,497,302)	(1,371,346)	(1,237,473)
Personnel expenses	(3,564,803)	(3,156,955)	(2,971,773)	(3,165,698)	(1,370,493)	(1,424,495)	(1,100,550)	(897,364)	(687,106)	(548,439)
Depreciation	(207,248)	(131,854)	(201,533)	(163,498)	(173,817)	(148,246)	(32,717)	(12,166)	(3,823)	-
General & administration expenses	(5,904,664)	(5,979,228)	(6,661,847)	(6,734,428)	(2,997,554)	(2,624,517)	(1,974,524)	(1,860,447)	(1,390,608)	(970,659)
Profit from operations	19,580,135	5,052,929	4,771,869	8,497,467	2,433,582	2,541,412	2,295,547	2,466,575	1,611,698	1,125,162
Value added tax on financial service	(1,837,501)	(556,146)	(892,210)	(1,389,654)	(348,841)	(364,835)	(275,891)	(240,226)	(169,274)	(129,822)
Profit before tax	17,742,634	4,496,783	3,879,659	7,107,812	2,084,740	2,176,577	2,019,656	2,226,349	1,442,423	995,340
Income tax (expense) / reversal	(792,048)	(130,845)	(99,975)	(1,144,944)	116,686	(589,759)	(592,663)	(742,767)	(442,124)	(309,060)
Profit for the year	16,950,585	4,365,939	3,779,684	5,962,868	2,201,426	1,586,818	1,426,993	1,483,582	1,000,299	686,280

Quarterly Statement of Financial Position

As at	2021-22				2020/21			
	30-Jun-21 Rs'000	30-Sep-21 Rs'000	31-Dec-21 Rs'000	31-Mar-22 Rs'000	30-Jun-20 Rs'000	30-Sep-20 Rs'000	31-Dec-20 Rs'000	31-Mar-21 Rs'000
ASSETS								
Cash and bank balances	19,281,633	20,033,868	8,731,152	12,282,960	7,788,022	16,447,805	13,672,354	13,422,690
Deposits with banks and other financial institutions	6,492,397	3,615,015	1,849,120	8,885,611	9,382,559	2,009,110	4,328,439	7,203,306
Investment in government securities & others	17,544,016	14,185,008	15,330,917	23,841,483	10,951,663	14,234,450	20,115,054	15,838,455
Derivative assets held for risk management	224,892	210,625	100,568	3,450,266	21,512	154,161	398,879	325,029
Financial assets at amortised cost				-				-
Rentals receivable on leased assets	43,901,205	44,797,724	45,167,156	56,960,215	46,302,397	48,256,750	46,599,048	43,098,407
Loans and advances	60,778,138	63,627,055	76,629,446	141,614,958	82,462,125	75,826,561	67,853,643	61,466,957
Factoring receivable	-	-	-	1,418,433	3,118,870	2,635,986	-	-
Margin trading receivable	-	-	-	6,816,480	-	-	-	83,553
Investment securities	5,736,888	1,455,794	3,599,853	6,288,566	2,513,170	1,500,584	1,597,612	5,498,000
Investment in associate	-	-	-	1,833,661	-	-	-	-
Amount due from related companies	74,636	40,570	18,130	47,382	1,002,429	1,205,893	835,926	33,222
Other receivables	708,766	608,090	753,201	1,084,330	58,542	22,626	35,906	615,275
Inventories	90,862	267,867	52,009	428,032	8,541	7,654	6,669	271,727
Investment properties	21,354,190	21,601,563	25,072,691	38,287,958	16,250,775	16,343,640	20,260,463	21,088,740
Property plant and equipment	1,153,926	1,662,863	2,158,988	8,326,735	1,160,528	1,129,106	1,191,491	1,163,218
Total assets	177,341,549	172,106,042	179,463,231	311,567,068	181,021,132	179,774,325	176,895,484	170,108,579
LIABILITIES								
Bank overdraft	14,474,558	2,681,925	2,431,393	5,675,768	3,489,087	4,454,294	1,289,178	1,861,003
Interest bearing borrowings	14,429,347	16,548,857	13,013,588	44,309,903	41,728,696	32,543,087	24,874,110	16,437,442
Deposits from customers	104,706,630	103,950,327	106,157,038	159,252,382	93,870,859	97,553,070	102,961,659	107,791,136
Trade payables	507,274	712,003	334,165	1,141,928	2,852,400	1,753,864	907,511	144,788
Accruals and other payables	3,442,294	5,426,273	5,916,874	7,835,593	1,606,508	6,942,148	5,927,162	4,441,130
Derivative liabilities held for risk management	3,174	2,304	32,970	13,176	126,194	74,511	58,303	-
Amount due to related companies	308,350	94,262	280,892	3,719,368	2,570,562	1,669,923	2,245,737	620,862
Current tax payable	994,441	1,747,314	1,168,307	2,525,556	987,734	1,030,410	971,886	857,903
Deferred tax liability	1,733,249	1,733,249	1,733,249	2,974,781	1,888,186	1,888,186	1,736,365	1,733,249
Employee benefits	342,159	351,583	359,943	565,709	301,666	318,914	390,499	332,532
Total liabilities	140,941,476	133,248,097	131,428,419	228,014,165	149,421,891	148,228,405	141,362,409	134,220,045
SHAREHOLDERS' FUNDS								
Stated capital	12,762,500	12,762,500	12,762,500	211,581,448	12,762,500	12,762,500	12,762,500	12,762,500
Statutory reserve	3,596,579	3,596,579	3,596,579	4,444,108	3,378,282	3,378,282	3,378,282	3,596,579
Revaluation Reserve	328,838	328,838	328,838	1,505,632	241,528	241,528	324,259	328,838
Cash flow hedge reserve	23,853	23,853	23,853	(83,702)	(31,833)	(20,745)	(74,438)	27,608
Fair value reserve	45,446	45,446	45,446	140,753	205,407	31,261	31,261	45,446
Merger reserve	-	-	-	(169,284,517)	-	-	-	-
Retained earnings	19,642,857	22,100,729	31,277,596	35,249,180	15,043,357	15,153,095	19,111,210	19,127,563
Total equity	36,400,073	38,857,945	48,034,812	83,552,903	31,599,240	31,545,920	35,533,075	35,888,534
Total liabilities and equity	177,341,549	172,106,042	179,463,231	311,567,068	181,021,132	179,774,325	176,895,484	170,108,579

Quarterly Statement of Profit or Loss and Other Comprehensive Income

As at	2021-22					2020/21				
	Quarter Ended				Year Ended	Quarter Ended				Year Ended
	30-Jun-21 Rs'000	30-Sep-21 Rs'000	31-Dec-21 Rs'000	31-Mar-22 Rs'000	31-Mar-22 Rs'000	30-Jun-20 Rs'000	30-Sep-20 Rs'000	31-Dec-20 Rs'000	31-Mar-21 Rs'000	31-Mar-21 Rs'000
Interest income	7,450,421	7,541,616	7,929,390	7,648,436	30,569,863	8,468,518	9,077,286	8,176,160	8,039,570	33,761,534
Interest expense	(2,296,303)	(2,169,269)	(2,161,230)	(2,353,190)	(8,979,992)	(3,751,976)	(3,195,088)	(2,927,237)	(2,572,490)	(12,446,790)
Net interest income	5,154,118	5,372,347	5,768,160	5,295,246	21,589,871	4,716,542	5,882,198	5,248,923	5,467,081	21,314,744
Net other operating income	748,487	863,661	4,761,873	5,148,251	11,522,272	3,258,856	1,383,003	4,046,762	1,609,817	10,298,438
Direct expenses excluding interest cost	(150,728)	(194,037)	(246,270)	(272,499)	(863,534)	(179,492)	(368,387)	(152,591)	(250,385)	(950,855)
Allowance for impairment & write-offs	(2,549,489)	(275,601)	1,979,159	(2,145,830)	(2,991,760)	(5,700,288)	(4,112,135)	(1,849,136)	(4,679,803)	(16,341,362)
Personnel expenses	(829,991)	(744,749)	(838,200)	(1,151,863)	(3,564,803)	(587,109)	(825,983)	(990,717)	(753,145)	(3,156,955)
Depreciation	(9,293)	(78,538)	(60,573)	(58,843)	(207,248)	(39,815)	(39,172)	(31,030)	(21,837)	(131,854)
General & administration expenses	(1,396,485)	(1,343,154)	(1,498,960)	(1,666,065)	(5,904,664)	(1,277,065)	(1,662,093)	(1,442,630)	(1,597,439)	(5,979,228)
Profit from operations	966,619	3,599,929	9,865,189	5,148,397	19,580,135	191,629	257,430	4,829,580	(225,710)	5,052,929
Value added tax on financial service	(289,787)	(364,701)	(688,322)	(494,691)	(1,837,501)	(93,489)	(105,017)	(686,854)	329,214	(556,146)
Profit before tax	676,832	3,235,228	9,865,189	5,212,712	17,742,634	98,140	152,413	4,142,726	103,504	4,496,783
Income tax (expense) / reversal	(161,539)	(777,356)	-	146,847	(792,048)	(27,479)	(42,676)	(152,442)	91,753	(130,845)
Profit for the year	515,293	2,457,872	9,176,867	4,800,552	16,950,585	70,661	109,737	3,990,284	195,256	4,365,939

Investor Information

1. MARKET PRICE PER SHARE AS AT 31 MARCH

	2022 Rs.	2021 Rs.
Highest during the year	39.90	9.70
Lowest during the year	5.70	2.20
Last traded as at the end of the year	14.20	5.60

2. COMPOSITION OF SHAREHOLDERS AS AT 31ST MARCH

	2022		2021	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Institutions				
Resident	16,059,442,053	83.42	2,561,286,938	48.79
Non Resident	2,615,928,573	13.59	2,615,667,930	49.82
Individuals				
Resident	568,081,349	2.95	72,703,412	1.38
Non Resident	7,882,359	0.04	341,720	0.01
Total	19,251,334,334	100	5,250,000,000	100

3. DISTRIBUTION OF SHAREHOLDERS AS AT 31 MARCH

Range		2022			2021		
		No. of Shareholders	No. of Shares	% of Shares	No. of Shareholders	No. of Shares	% of Shares
1	1,000	7,405	2,667,854	0.01	1822	679,678	0.01
1,001	10,000	8,345	34,893,227	0.18	1398	6,213,612	0.12
10,001	100,000	5,497	186,324,522	0.97	763	27,527,854	0.52
100,001	1,000,000	1,351	361,681,793	1.88	162	42,202,215	0.81
Over 1,000,000 Shares		136	18,665,766,938	96.96	16	5,173,376,641	98.54
Total		22,734	19,251,334,334	100	4161	5,250,000,000	100

4. TOP 20 SHAREHOLDERS

Name of Shareholder	2022		2021	
	No. of Shares	% of Issued Capital	No. of Shares	% of Issued Capital
1. LOLC Ceylon Holdings PLC	15,651,765,122	81.30	NIL	NIL
2. LOLC Asia Private Limited	2,614,934,919	13.58	2,614,934,919	49.81
3. Singhe Capital Investment Limited	58,690,102	0.30	NIL	NIL
4. Phantom Investments [Private] Limited	47,922,000	0.25	NIL	NIL
5 Hatton National Bank PLC/Hennasy Geeth Balasuriya	9,758,616	0.05	1,600,076	0.03
6. Hatton National Bank PLC/Muhandiramlage Lasantha Kumara Somaratne & Munasinghe Liyana Arachchige Sagari Induka	9,541,520	0.05	80,000	0.00
7. CIC Holdings PLC/CIC Charitable & Educational Trust Fund	8,707,200	0.05	NIL	NIL
8. Mr. W.D.N.H. Perera	8,146,854	0.04	NIL	NIL
9. Ranfer Teas Private Limited	7,029,083	0.04	NIL	NIL
10. Mr. K.K. Weerasinghe	6,530,522	0.03	NIL	NIL
11. People`s Leasing & Finance PLC/Mr.D.M.P.Disanayake	6,033,647	0.03	NIL	NIL
12. DFCC Bank PLC/P.S.R.Casie Chitty	5,796,410	0.03	NIL	NIL
13. Mrs. K.V.W.S Maddumage	5,692,884	0.03	NIL	NIL
14. Mr. A.A. Sunil	5,665,468	0.03	520,000	0.01
15. Nuwara Eliya Property Developers [Pvt] Ltd	5,334,744	0.03	NIL	NIL
16. Hatton National Bank PLC/Rizmy Ahamed Rishard	5,249,949	0.03	NIL	NIL
17. Mr. H.G. Balasuriya	5,049,105	0.03	NIL	NIL
18. Mr. W.W.D.D.S. Perera	4,897,551	0.03	NIL	NIL
19. Mr. A.M.V.A. Chaminda	4,650,738	0.02	NIL	NIL
20. Merchant Bank of Sri Lanka & Finance PLC/K.K. Karunamoorthy	4,650,520	0.02	NIL	NIL
	18,476,046,954	95.97	2,617,134,995	49.85
Other	775,287,380	4.03	2,632,865,005	50.15
	19,251,334,334	100.00	5,250,000,000	100.00

5. MARKET PRICE OF LISTED DEBENTURES

Debentures 2018/2023	HIGHEST		LOWEST		END OF THE YEAR	
	2021/2022	2020/2021	2021/2022	2020/2021	2021/2022	2020/2021
Semi Annually 14.75% D0445 LOFC-BD C2408	112.75	110.99	103.11	109.24	103.45	110.99
Date	06.08.2021	04.12.2020	22.02.2022	04.08.2020	23.02.2022	04.12.2020

Debentures 2018/2023	HIGHEST		LOWEST		END OF THE YEAR	
	2021/2022	2020/2021	2021/2022	2020/2021	2021/2022	2020/2021
D0446-Type B [LOFC-BD-31/07/23-C2409-0]	84.49	-	83.94	-	84.49	-
Date	01.02.2022	-	11.01.2022	-	01.02.2022	-

6. PUBLIC SHAREHOLDING

	2022 %	2021 %
Public Holding percentage	5.11	5.39
Number of public shareholders	22,726	4,154
Float adjusted market capitalisation	13,969,655,708.20	1,585,617,706

The Company is not compliant with the minimum public holding requirement stipulated in the Listing Rule 17.14.1.i (b) (Option 1) of the Colombo Stock Exchange, consequent to the amalgamation of the Company with Commercial Leasing and Finance PLC on 31st March 2022. Your Board of Directors is in the process of exploring options available for complying with the said Rule.

7. STATEMENT OF VALUE ADDED

As at 31 March	2022 Rs.	2021 Rs.
Value added		
Income	30,569,862,999	33,761,534,127
Other Income	11,522,271,915	10,298,438,290
Cost of Borrowing	(8,979,991,819)	(12,446,790,398)
General and administration Expenses	(6,768,198,146)	(6,930,082,331)
Allowance for impairment & write-offs	(2,991,759,900)	(16,341,362,321)
	23,352,185,049	8,341,737,367
Distribution of value added		
To Employees	3,564,802,548	3,156,954,655
Remuneration and other benefits	3,564,802,548	3,156,954,655
To Government	2,629,549,137	686,990,475
Indirect Taxes	1,837,501,042	556,145,927
Direct Taxes	792,048,095	130,844,548
To Expansion and Growth	17,157,833,364	4,497,792,237
Retained Profits	16,950,585,463	4,365,938,557
Depreciation and amortisation	207,247,901	131,853,680
	23,352,185,049	8,341,737,367

Other Disclosures

1. PROPERTIES HELD BY THE COMPANY

Location	Property Name	District	Province	Extent	Valuation	Number of building
1	Hendala Hekiththa Waththa Property	Colombo	Western Province	0A-0R-9.00P	28,000,000	-
2	Idama Moratuwa Property	Colombo	Western Province	0A-0R-14.85P	50,000,000	3
3	Wewala Piliyandala Property	Colombo	Western Province	0A-0R-20.00P	13,000,000	-
4	Gothatuwa Property	Colombo	Western Province	0A-3R-35.00P	186,000,000	-
5	Wickremasinghepura Property	Colombo	Western Province	0A- 3R- 33.83P	338,000,000	-
6	Shady Grove Property	Colombo	Western Province	0A-0R-35.75P	657,000,000	1
7	Kosgoda Property	Galle	Southern Province	9A- 0R- 00.00P	130,000,000	-
8	Thalaheena Property	Colombo	Western Province	0A-1R-10.25P	118,000,000	2
9	Horana Property	Kaluthara	Western Province	0A-3R-06.83P	161,500,000	-
10	No-296 Horana Proprty	Kaluthara	Western Province	0A- 0R- 10.1P	28,000,000	-
11	Badulla Property	Badulla	Uva Province	0A-1R-19.15P	142,000,000	1
12	Mannar Property	Mannar	Jaffna Province	0A-0R-23.5P	37,500,000	-
13	Beruwala Property (EDEN Board Yard)	Kaluthara	Western Province	0A – 1R – 06.00P	90,500,000	1
14	Jethawana Property (Stores)	Colombo	Western Province	0A-2R-18.7P	976,500,000	1
15	Nawala 2nd Lane Property (Call Center)	Colombo	Western Province	0A-0R-08.70 P	192,000,000	-
16	Piliyandala Property - Thumbowila	Colombo	Western Province	0A-0R-30.5P	128,000,000	-
17	Rathnapura Property - Bandaranayeka Mw (Leo Building)	Rathnapura	Sabaragamuwa Province	0A-0R-32.69P	189,000,000	-
18	Rajagiriya Land (Valuation Unit) Property	Colombo	Western Province	0A- 1R- 12.50P	656,000,000	-
19	Colombo 14 - Grandpass - Vincent Perera Mw	Colombo	Western Province	4A- 3R- 08.60P	5,457,000,000	-
20	Grandpass Property- Deed 220	Colombo	Western Province	2A-3R-14.5P	1,014,600,000	4
21	Kiribathgoda Property	Colombo	Western Province	0A- 0R- 30.57P	143,500,000	1
22	Watinapaha Property Pannala	Kurunegala	North Western Province	19A-0R-35.85P	92,000,000	-
23	Ebert Silva Property/ Chilaw	Chilaw	North Western Province	0A- 0R- 40.0P	150,000,000	-
24	Nawala (Factoring Building) Property	Colombo	Western Province	0A- 2R- 13.96P	808,500,000	1
25	No 72 Galle Road ,Kaluwamodara,Beruwala (EDEN Boat Yard)	Kaluthara	Western Province	0A- 1R- 22.55P	112,500,000	-
26	Wellampitiya Yard	Colombo	Western Province	5A- 0R- 3.11P	1,245,000,000	-
27	Land & Building - Kotta Road (Call Center)	Colombo	Western Province	0A- 0R- 10.00P	239,000,000	1
28	Investment Property Wattala (CLC Branch)	Gampaha	Western Province	0A-0R-16.61P	194,500,000	1
29	Investment Property Dampe - Kesbewa	Colombo	Western Province	0A-0R-40P	28,000,000	-
30	Malabe Property	Colombo	Western Province	0A-0R-12P	45,000,000	1
31	Battaramulla Land	Colombo	Western Province	0A-0R-38.71P	147,000,000	-
32	IP Gamunu Mw, Rajagiriya	Colombo	Western Province	0A-0R-30.25P	111,000,000	-
33	Investment Property Biyagama	Colombo	Western Province	0A-0R-23.70P	37,000,000	1
34	Gnanendra Mawatha Property, Nawala	Gampaha	Western Province	0A-1R-4P	298,000,000	3
35	Yakkala Property (Plan - 4897)	Colombo	Western Province	7A-2R-9.20P	193,000,000	-
36	Dambulla Property (Padeniya)	Matale	Central Province	0A-0R-35.96P	133,000,000	1
37	Waskaduwa Property (Desatara, Kalutara)	Kaluthara	Western Province	0A-2R-39.50P	100,000,000	-
38	Kadawatha Property	Gampaha	Western Province	0A-1R-0.3P	352,500,000	-
39	Kadawatha Property (No 348)	Colombo	Western Province	A0-0R-12.85P	102,800,000	-
40	Battaramulla Property (Plan -8248)	Colombo	Western Province	0A-0R-16.10P	81,000,000	-
41	Rathnapura Property -Kataliyanpala	Rathnapura	Sabaragamuwa Province	0A-0R-15P	3,450,000	-

Location	Property Name	District	Province	Extent	Valuation	Number of building
42	Panadura Property -No.224,Gorakana,Panadura	Kaluthara	Western Province	0A-0R-39.63P	127,000,000	3
43	Panadura Property -No.222,Gorakana,Panadura	Kaluthara	Western Province	0A-0R-20P	45,000,000	1
44	Panadura Property-No.12/4,Gorakana,Panadura	Kaluthara	Western Province	0A-1R-07.00P	37,500,000	-
45	Moratuwa Property -No,24,1St Lane,Angulana	Colombo	Western Province	0A-0R-19.84P	51,500,000	1
46	Horana Property-Villa resident (Insurance)	Kaluthara	Western Province	0A-1R-25.73P	161,500,000	2
47	Matara Property -Deed 1285	Matara	Southern Province	0A-2R-11.299P	232,500,000	-
48	Matara Property	Matara	Southern Province	0A-2R-26.30P	271,000,000	-
49	Excellent Property - Deed No 37 (Lenadora)	Matale	Central Province	1A-1R-2P	34,000,000	-
50	Kahatagahawatta Property -Deed 131 (Kandana)	Colombo	Western Province	0A-0R-4.2P	43,000,000	5
51	Maharagama Property (Next to School) -Deed 105	Colombo	Western Province	0A-0R-32.62P	156,500,000	-
52	Colombo 13 - Bluemendhal - Cyril C Perera Mw	Colombo	Western Province	1A- 3R- 16.5P	1,558,000,000	3
53	Pahadamulla Property -Deed 9767	Kaluthara	Western Province	0A-0R-20.00P	36,000,000	1
54	Welabodawila Property -(Nawala, Senanayaka Mw.)	Colombo	Western Province	0A-0R-9.00P	67,500,000	1
55	Mahara Property -Deed No.7179B	Gampaha	Western Province	0A-1R-19.8P	73,500,000	1
56	Property Malwana No -68/2014	Gampaha	Western Province	0A-0R-30P	37,500,000	-
57	Malwana Sunflower Construction Property	Gampaha	Western Province	5A-0R-32.67P	175,000,000	-
58	Property Kiribathgoda	Colombo	Western Province	0A-0R-23.30P	43,000,000	1
59	Merigam Kanda Property	Gampaha	Western Province	0A-3R-4.50P	22,000,000	-
60	Damugahawatta Property	Colombo	Western Province	0A-1R-0P	91,500,000	1
61	Ranmuthugala Property 37.P	Gampaha	Western Province	0A-0R-37P	84,000,000	1
62	Eriyagaha Kumbura Property 20-P	Colombo	Western Province	0A-0R-20P	52,000,000	1
63	Madangahawatta Property 16.77P - Uyana, Moratuwa	Colombo	Western Province	0A-0R-10.77P	29,000,000	1
64	Thalagahawattha Kolonnawa Property	Colombo	Western Province	0A-0R -10.62P	30,500,000	-
65	Abagahawatta Maharagama Property 12.5P	Colombo	Western Province	0A-0R-12.50P	28,000,000	-
66	Horana Property 29.5P	Kaluthara	Western Province	0A-0R-28.50P	24,000,000	1
67	Nuwaraeliya Property 10.8P	Nuwara Eliya	Central Province	0A-0R-10.80P	19,500,000	1
68	Walgama Property	Colombo	Western Province	0A-2R-34P	95,500,000	2
69	Kurunegala Property	Kurunegala	North Western Province	0A-0R-10.90P	49,000,000	-
70	Paragahakotuwe Kumbura Property Lot B (368) (Rajapeelawatte Rd)	Kurunegala	North Western Province	0A– 0R–12.50P	56,000,000	-
71	Paragahakotuwe Kumbura Property (367) (Rajapeelawatte Rd)	Kurunegala	North Western Province	0A–0R–23.00P	103,500,000	-
72	Kurunegala Property-Plan No:8248	Kurunegala	North Western Province	0A-3R-20.50P	597,000,000	-
73	No 7528, Walgama, Malwana.	Gampaha	Western Province	0A-2R-5.60P	77,000,000	-
74	Waragoda Property	Gampaha	Western Province	0A-2R-15P	142,500,000	-
75	Millagahawatta Property - Nawala (ORUMIX)	Colombo	Western Province	0A-0R-13.1P	203,500,000	1
76	Hittatiya Property (Matara)	Matara	Southern Province	0A-0R-39P	151,500,000	1
77	Thalahena Malabe (787)	Colombo	Western Province	0A-0R-38.27P	51,500,000	-
78	Minuwangoda Property(Boragodawatta)-Machang	Gampaha	Western Province	0A-0R-22P	17,000,000	-
79	Kandy Rd Thalahena Malabe Property (Staff Quarters)	Colombo	Western Province	0A-0R-29.42P	125,000,000	1
80	Pattinigewatta Property	Colombo	Western Province	0A-0R-19.85P	24,000,000	-
81	Erewwala Property (Kesbawa)	Colombo	Western Province	0A-0R-15P	12,000,000	-
82	Damparagahawatta Peoperty	Colombo	Western Province	0A-0R-9.70P	5,800,000	-

1. PROPERTIES HELD BY THE COMPANY (CONTD.)

Location	Property Name	District	Province	Extent	Valuation	Number of building
83	Korathota Athurugiriya	Colombo	Western Province	0A-0R-10.00P	4,500,000	-
84	Nikakotuwa Estate Property	Matale	Central Province	3A-0R-4.00P	41,000,000	-
85	Dematagoda Property	Colombo	Western Province	0A-0R-11.00P	79,500,000	1
86	Udagama Property (Ampitiya Land)	Kandy	Central Province	0A-0R-11.83P	9,000,000	1
87	Pitakotte Property (Rajamahavihara Rd Property)	Colombo	Western Province	0A-0R-25.40P	48,000,000	-
88	Kotabodawatta avissavelle Property D267 (Seylis Property)	Colombo	Western Province	0A-1R-38.5P	13,000,000	-
89	Suriyapaluwa, Mahara (Aldeniya Property)	Gampaha	Western Province	0A-0R-20.00P	15,000,000	-
90	Bandarawatta Estate (Yakkala)	Gampaha	Western Province	0A-1R-14.3P	61,000,000	1
91	Hapugoda Property	Gampaha	Western Province	0A-0R-10.84P	10,000,000	1
92	Horagala Property	Colombo	Western Province	1A-1R-26.50P	90,500,000	-
93	Kirigalpotta Property	Matale	Central Province	1A-3R-25.30P	135,000,000	1
94	Kesbawa Property Monarch Ltd	Colombo	Western Province	0A-0R-11.75P	28,000,000	1
95	Ladhubima Property-malabe athurugiriya	Colombo	Western Province	0A-2R-23.25P	110,840,000	-
96	Bogahawaththa Property-Sharmila Amidon	Colombo	Western Province	0A-0R-9.80P	15,500,000	-
97	Kosgahalanda Property (Rag Priyani)	Colombo	Western Province	0A-0R-19.80P	78,500,000	1
98	Topuwewatta Property- Richie Skylark(Pvt) Ltd	Kalutara	Western Province	1A-0R-0P	113,500,000	-
99	No 77, Watarappola Rd, Mt Lavinia.	Colombo	Western Province	0A-0R-6.13P	41,000,000	1
100	Symphoniya Watta Property-S.D.D. Gunawardena	Gampaha	Western Province	0A-0R-38.50P	56,000,000	1
101	Malwattha Sanduma Lanka Property	Colombo	Western Province	0A-0R-10.15P	31,000,000	1
102	Anuradhapura Property (W.H.Hettiarachchi)	Anuradhapura	North Central	0A-2R-4.17P	57,000,000	1
103	M/S Hanco Investment Kelanimulla Property M/S Hanco Investment	Colombo	Western Province	0A-3R-4.70P	367,000,000	1
104	Udahamulla Village Property (Zabir)	Colombo	Western Province	0A-0R-9.75P	41,500,000	1
105	Malamulla Property RLD Wasantha Kumar Property	Kalutara	Western Province	0A-3R-33.40P	47,500,000	1
106	Mt Lavinia Gnanasiri Abeywickrama Property	Colombo	Western Province	0A-0R-9.60P	52,800,000	-
107	Welisara Property Blue mountain properties (Pvt) Ltd	Gampaha	Western Province	0A-0R-20.50P	26,000,000	-
108	Galigamuwa P.P.N. Perera Property	Kegalle	Sabaragamuwa	0A-1R-32.18P	44,800,000	1
109	C R S R Trading Attanagalla Property	Gampaha	Western Province	0A-0R-10P	3,000,000	-
110	Ambalanthota A Muthumala Property	Hambantota	Southern Province	0A-0R-17.20P	61,000,000	-
111	Pathadumbara Kandy land Ex(Pvt)Ltd Property	Galle	Southern Province	0A-3R-34.40P	13,000,000	-
112	Walawage Nishantha Kumara Jamburaliya Property	Colombo	Western Province	0A-3R-0P	60,000,000	-
113	N S C International Pvt (Ltd) Moratuwa Property (Kandemulla)	Colombo	Western Province	0A-0R-9.72P	10,500,000	-
114	Hapugoda Kadana Property	Gampaha	Western Province	0A-0R-10P	12,800,000	-
115	Sanguine garment Property(H D jagath Jayasundara)	Colombo	Western Province	0A-0R-20P	31,000,000	-
116	Golden Links International, Pragathi Mw Kotte Property	Colombo	Western Province	0A-0R-13.99P	14,500,000	-
117	Ravindra Dayasiri kumarage Thalangama Property	Colombo	Western Province	0A-0R-15.00P	30,000,000	-
118	S Vishvalingam Arugambay property	Ampara	Estern Province	5A-2R-15.00P	188,000,000	-
119	S Vishvalingam Pothuwil property	Ampara	Estern Province	12A-3R-18.80P	92,500,000	-
120	Buddhi Metals (Pvt) Ltd Habanhenawatta Property	Colombo	Western Province	0A-2R-05.00P	35,000,000	-
121	Horizon tour-inn property pugoda	Gampaha	Western Province	4A-1R-02.00P	20,000,000	-
122	W U Senavirathna company (Pvt) Ltd property Godigamuwa	Colombo	Western Province	0A-0R-18.83P	108,000,000	-

Location	Property Name	District	Province	Extent	Valuation	Number of building
123	NISANSALA BORALESGAMUWA LAND - Not Revalued since its an Buy Back active contract	Colombo	Western Province	0A-0R-17.00P	36,920,000	1
124	Kolitha Amarasekara Kundasale Property	Kandy	Central Province	0A-2R-31.10P	61,000,000	-
125	ASP Construction Nawala Property	Colombo	Western Province	1A-0R-03.50P	1,022,000,000	1
126	Pinwatta-Panadura Property-Creative Entertainment - Not Revalued since its an Buy Back active contract	Kaluthara	Western Province	0A-0R-21.14P	47,760,000	1
127	G N Jayawardena Wattala Property	Gampaha	Western Province	0A-0R-20.07P	46,000,000	1
128	Manik Tea Enterprises Ltd Property	Colombo	Western Province	2A-1R-19.55P	26,000,000	1
129	Buddhi Metals (Pvt) Ltd Homagama Property 02 - Homagama South, Homagama (Rock Land)	Colombo	Western Province	1A-2R-14.86P	68,000,000	-
130	Buddhi Metals (Pvt) Ltd Homagama Property 01	Colombo	Western Province	0A-0R-9.82P	5,800,000	1
131	IC Nanayakkara Kandy Property	Kandy	Central Province	0A-0R-29.10P	465,600,000	-
132	M/S Midula Garden Mukuluduwa property - Not Revalued since its an Buy Back active contract	Colombo	Western Province	0A-2R-12.2P	44,000,000	1
133	Panadura Jayanthi Mala Abeyrathne Property	Kaluthara	Western Province	0A-0R-16.5P	30,000,000	1
134	Ja Ela Beedee Mervin Property - Not Revalued since its an Buy Back active contract	Gampaha	Western Province	0A-0R-12.5P	5,940,000	-
135	M K D D Wijayarathna Mathugama Property	Kaluthara	Western Province	0A-0R-27.00P	30,000,000	1
136	S T C Pathiraja Wennappuwa Property	Puttalam	North Western Province	0A-1R-31.60P	36,500,000	1
137	ORU MIX ASPHALT (PVT) LTD Delwala Property(Meerigama)	Gampaha	Western Province	10A-3R-6.00P	157,800,000	-
138	P C P Jayasinghe Padeniya Village Property(Dambulla) - Not Revalued since its an Buy Back active contract	Matale	Central Province	0A-1R-17.00P	76,250,000	1
139	W D N Perera's Biyagama Property	Gampaha	Western Province	0A-0R-12.00P	14,000,000	-
140	M M Saalim Makola property	Gampaha	Western Province	0A-0R-12.00P	18,000,000	1
141	I D S Champika Kaduwela Property	Colombo	Western Province	0A-0R-21.40P	26,000,000	1
142	Central Homes & Real Estate Ja Ela Property-Not Revalued since its an Buy Back active contract	Gampaha	Western Province	0A-0R-13.25P	23,156,250	-
143	D W Ajith Aluthwala Property	Gampaha	Western Province	0A-1R-15.00P	28,500,000	-
144	Aquacleen International Angoda Property	Colombo	Western Province	0A-0R-19.00P	49,000,000	1
145	WI Mudalige Kotte Property	Colombo	Western Province	0A-0R-18.50P	185,000,000	-
146	Ranaviru Prabath Cooray Mw Property / D P Jayasinghe Property	Colombo	Western Province	0A-2R-17.25P (S P 97.25P)	534,500,000	-
147	W U Senavirathna Kahathuduwa property	Colombo	Western Province	0A-0R-10.00P	14,000,000	1
148	W U Senavirathna Maharagama property	Colombo	Western Province	0A-0R-12.10P	61,000,000	1
149	Sadara Senavirathna Depanama 11.55P Property	Colombo	Western Province	0A-0R-11.55P	89,000,000	1
150	Sadara Senavirathna Depanama 12.40P Property	Colombo	Western Province	0A-0R-12.40P	37,000,000	1
151	Sadara Senavirathna Depanama 17.20P Property	Colombo	Western Province	0A-0R-17.20P	76,000,000	1
152	LOLC Maradana No 615, Maradana Rd Maradana	Colombo	Western Province	0A-0R-8.48P	93,500,000	1
153	Orumex PVT LTD Kolonnawa Property (Jayalath Trades & Transport)	Colombo	Western Province	0A-2R-06.76P	390,000,000	1
154	Lion City Lot 34 & 35 Liyanagemulla Seeduwa	Gampaha	Western Province	0A-0R-28.78P	39,000,000	-
155	Gothatuwa Manigamulla Rd. Property	Colombo	Western Province	0A-0R-25.90P	26,000,000	-
156	A R A LATHIF Rohini Rd. Property	Colombo	Western Province	0A-0R-03.00P	80,000,000	1
157	Artigala Property 01-A.D Weeraseekara	Colombo	Western Province	0A-1R-19.00P	8,000,000	1

1. PROPERTIES HELD BY THE COMPANY (CONTD.)

Location	Property Name	District	Province	Extent	Valuation	Number of building
158	Artigala Property 02--A.D Weeraseekara	Colombo	Western Province	0A - 0R - 34.20P	17,000,000	-
159	Rajapihilla Rd Kurunegala Property	Kurunegala	North Central Province	0A-0R-01.1P	4,600,000	-
160	Ahangama Property	Galle	Southern Province	0A-2R-13.00P	87,000,000	-
161	IFS Building Property	Colombo	Western Province	0A-3R-03.67P	2,524,000,000	1
162	Meegahathenna Property	Kaluthara	Western Province	1A-0R-14.20P	52,000,000	2
163	Weerapana Property	Galle	Southern Province	0A-3R- 10.08P	126,500,000	1
164	Waterfront Cinnamon Life Property	Colombo	Western Province	1270	160,000,000	1
165	Havelock Apt. Tower-Edmonton	Colombo	Western Province	1442	87,000,000	1
166	Havelock Apt. Tower-Edmonton	Colombo	Western Province	1442	87,000,000	1
167	Havelock Apt. Tower-Edmonton	Colombo	Western Province	1442	87,000,000	1
168	Havelock Apt. Tower-Melford	Colombo	Western Province	1690	105,000,000	1
169	Havelock Apt. Tower-Melford	Colombo	Western Province	1356	85,000,000	1
170	Havelock Apt. Tower-Melford	Colombo	Western Province	1356	85,000,000	1
171	Havelock Apt. Tower-Melford	Colombo	Western Province	1356	86,000,000	1
172	Havelock Apt. Tower-Melford	Colombo	Western Province	1356	87,000,000	1
173	Havelock Apt. Tower-Peterson	Colombo	Western Province	1259	79,000,000	1
174	Havelock Apt. Tower-Peterson	Colombo	Western Province	1259	79,000,000	1
175	Havelock Apt. Tower-Peterson	Colombo	Western Province	1367	87,000,000	1
176	Havelock Apt. Tower-Peterson	Colombo	Western Province	1302	82,000,000	1
177	Havelock Apt. Tower-Peterson	Colombo	Western Province	1259	81,000,000	1
178	Havelock Apt. Tower-Peterson	Colombo	Western Province	1302	81,000,000	1
179	Havelock Apt. Tower-Peterson	Colombo	Western Province	1259	81,000,000	1
180	Havelock Apt. Tower-Peterson	Colombo	Western Province	1302	83,000,000	1
181	Havelock Apt. Tower-Peterson	Colombo	Western Province	1023	66,000,000	1
182	Havelock Apt. Tower-Peterson	Colombo	Western Province	1023	67,000,000	1
183	Havelock Apt. Tower-Peterson	Colombo	Western Province	1302	84,000,000	1
184	Havelock Apt. Tower-Peterson	Colombo	Western Province	1367	89,000,000	1
185	Havelock Apt. Tower-Peterson	Colombo	Western Province	1023	67,000,000	1
186	Havelock Apt. Tower-Peterson	Colombo	Western Province	1367	90,000,000	1
187	Havelock Apt. Tower-Peterson	Colombo	Western Province	1023	68,000,000	1
188	Havelock Apt. Tower-Peterson	Colombo	Western Province	1367	92,000,000	1
189	Havelock Apt. Tower-Straford	Colombo	Western Province	1184	74,000,000	1
190	Havelock Apt. Tower-Straford	Colombo	Western Province	1119	71,000,000	1
191	Havelock Apt. Tower-Straford	Colombo	Western Province	1690	109,000,000	1
192	Havelock Apt. Tower-Straford	Colombo	Western Province	1690	112,000,000	1
193	Havelock Apt. Tower-Straford	Colombo	Western Province	1690	111,000,000	1
194	Havelock Apt. Tower-Straford	Colombo	Western Province	1356	88,000,000	1
195	TRI-ZEN PROPERTY'S AT UNION PLACE-20	Colombo	Western Province	-	327,311,326	1
196	TRI-ZEN PROPERTY'S AT UNION PLACE-60	Colombo	Western Province	-	340,449,538	1
197	Capital Towers Apartments	Colombo	Western Province	-	15,000,000	1
198	Sanguine garment Property-2	Colombo	Western Province	-	24,000,000	-
199	No 10, Third Lane, Pita kotte,Kotte.	Colombo	Western	0A- 0R- 35.18P	117,000,000	1
200	No 156 & 122,Kolonnawa Road,Gothatuwa	Colombo	Western	1A- 1R- 33.71P	728,000,000	1
201	No 28A, Badulla Road Nuwara- Eliya	Nuwara Eliya	Central	21.03P	132,000,000	1
202	No 305/5.Rajagiriya Road,Nawala	Colombo	Western	0A-3R-19.14P	1,280,000,000	-

Location	Property Name	District	Province	Extent	Valuation	Number of building
203	"Thalagahawatta" No 08,Jude Place,Negombo.	Gampaha	Western	0A-1R-14.21P	119,000,000	-
204	"Delgawatta" No 10,10/A Wijayawardenaramaya Rd,Nawala,Nugegoda	Colombo	Western	0A-0R-20.40P	90,800,000	-
205	"Dawatagahawatta" Dankotuwa	Puttalam	North Central	0A-2R-22.94P	41,000,000	-
206	No. 1232/2018,Kaluwanchikudy Village In Batticaloa.	Batticaloa	Eastern	0A-R0-08.78P	1,750,000	-
207	"Rajagiriya Estate" 137,Rajagiriya Rd,Rajagiriya.	Colombo	Western	0A-R0-19.1P 0A-R0-24.3P	316,000,000	1
208	No.78, 2nd Lane, Kandawala,Rathmalana	Colombo	Western	0A-0R-13.32P	36,000,000	-
209	Hambantota Rd,Netolpitiya,Tangalle	Hambanthota	Southern	1A-2R-38.70P	72,000,000	-
210	No. 42/20, Deebaddara Rd , Nalluruwa, Panadura	Kalutara	Western	0A-0R-9.8P	25,000,000	1
211	No 71/C1, Pamankada Rd, Kirillapone	Colombo	Western	0A-0R-06.47P	32,000,000	-
212	No. 9927A,Padeniya Village, Dambulla.	Matale	Central	0A-0R-36P	40,000,000	1
213	No. 1886, Averiwatta, Wattala.	Gampaha	Western	0A-0R-06.01P	13,500,000	1
214	No 29,4th Lane,Weralawatta,Yakkala.	Gampaha	Western	0A-1R-16.10P	101,000,000	1
215	No 29,4th Lane,Weralawatta,Yakkala.(Car Park)	Gampaha	Western	0A-0R-10P	7,500,000	-
216	No. 2012/057, Puwarasankulama,Anuaradhapura	Anuradhapura	North Central	0A-2R-0.0P	30,000,000	3
217	Padeniya,Dambulla	Matale	Central	0A-0R-09.50P	37,000,000	1
218	Dambokka,Kurunegala	Kurunegala	North Central	0A-3R-27.68P	129,000,000	5
219	No'S, 14/5 & 14/5A, Daya Road, Hendala, Wattala.	Gampaha	Western	0A-0R-20.20P	29,000,000	2
220	Thalpawila Village, Matara.	Matara	Southern	0A-1R-39.70P	9,500,000	-
221	Nagahatota Galhenekanda, Galle.	Galle	Southern	6A-2R-18.5P	36,000,000	-
222	No 38/1, School lane,Sri jayawardenepura,kotte	Colombo	Western	0A-0R-19.00P	94,000,000	-
223	NO 322B,Kotte rd,Pitakotte	Colombo	Western	0A-0R -24.70P	144,000,000	-
224	No 741B, Rukmale Road, Kottawa	Colombo	Western	0A-0R-64.70P	70,000,000	-
225	Neelammahata Road, Maharagama	Colombo	Western	0A-0R-9.65P	27,500,000	1
226	No 2004/329A, Katumana, Nuwara Eliya	Nuwara Eliya	Central	0A-0R-24P	30,000,000	-
227	No 250 1/23, R A De Mel Mawatha, Colombo 03.	Colombo	Western	141	15,800,000	1
228	No 351, Mulleriyawa, Angoda	Colombo	Western	0A-1R-08.50P	114,000,000	2
229	Nettipolagama,Pahala wisideka korale,Kurunegala	Kurunegala	North Western	1A-0R-03.0P	17,000,000	-
230	No. 78/7, Vihara mawatha ,Suduhumpola, Kandy	Kandy	Central	0A-0R-10.40P	40,000,000	1
231	No. 95, Sri Rahula road, Angoda	Colombo	Western	0A-1R-03.75P	55,000,000	3
232	3rd Lane, Magasthota, Nuwaraeliya	Nuwara Eliya	Central	0A-1R-19.35P	43,799,000	-
233	No.179,181,Nagolla Road, Matale	Matale	Central	LOT 3307/4368	116,000,000	2
234	No.42, Park Road, Alias Esplanade Rd, Bandarawela	Badulla	Uva	0A-0R-12.80P	75,000,000	1
235	No.10 Meegammana North ,Wattegama	Kandy	Central	0A-0R-38.00P	27,000,000	1
236	Lot.20, udewela, Teldeniya	Kandy	Central	0A-0R-10.50P	2,100,000	-
237	No.25/1,5th Cannel Road,Atupara yaya ,Dambulla.	Matale	Central	0A-0R-40.00P	12,000,000	-
238	"Heepitiye hena", Ataragalla, Udugama, Udugammedda	Kandy	Central	0A-0R-63.50P	9,600,000	-
239	Supercity Estate,Kivulgalla,Narammala	Kurunegala	North Western	0A-0R-66.00P	5,000,000	-
240	Madugalla Road, Ududumbara	Kandy	Western	0A-0R-12.00P	18,000,000	1
241	62A, 62B, & 62C, Galle road, MT.Lavinia	Colombo	Western	0A-0R-10.98P	119,000,000	1
242	No 375, Colombo Rd ,Kurunegala	Kurunegala	North Western	0A-1R-04.06P	357,759,000	-
243	No 290, D S Senanayaka Veediya,Kandy	Kandy	Central	0A-0R-13.25P	165,359,000	-
244	No 288, D S Senanayaka Veediya,Kandy	Kandy	Central	0A-0R-07.45P	92,975,000	-
245	No 566,Kandy Road, Kelaniya	Kelaniya	Western	0A-0R-39.05P	287,559,000	-

2. NON-RECURRENT RELATED PARTY TRANSACTIONS

During the Financial year the Company entered in to a non-recurrent related party transaction exceeding 10% of the equity and 5% of the total assets of the Company. As at 31st March 2022, LOLC Finance PLC merged with Commercial Leasing & Finance PLC and the transaction cost of the merger was Rs.198,818,947,542. However detailed related party transactions were disclosed in the note no 33.

3. RECURRENT RELATED PARTY TRANSACTIONS

During the current period there were no recurrent related party transactions which exceeds 10% of the gross revenue/income (or equivalent term in the income statement and in the case of group entity consolidated revenue). However detailed related party transactions were disclosed in the note no 33.

All the transactions with related parties which are disclosed under note 33 are recurrent, of revenue or trading nature and are necessary for day-to-day operations of the Company. In the opinion of the Related Party Transaction Review Committee, terms for all these transactions are not favourable to the related party than those generally available to the public.

4. SELECTED KEY PERFORMANCE INDICATORS

Regulatory Capital Adequacy		31.03.2022	31.03.2021
Total Tier 1 Core Capital	Rs.'000	64,969,174	27,242,787
Total Capital Base	Rs.'000	65,653,398	30,905,598
Core Capital Adequacy Ratio (Minimum Requirement 8%)		20.49%	15.88%
Total Capital Adequacy Ratio (Minimum Requirement 12%)		20.71%	18.01%

Asset Quality Ratios		31.03.2022	31.03.2021
Net Non-Performing Advances Ratio		2.30%	1.43%

Regulatory Liquidity		31.03.2022	31.03.2021
Available Liquid Assets	Rs.'000	39,238,387	30,353,948
Required Liquid Assets	Rs.'000	19,813,506	7,061,663
Liquid Assets to Deposits Ratio		24.64%	28.16%

5. DEBENTURE INFORMATION

The debt capital of the company comprises rated unsecured subordinated redeemable debentures thirty four million (34,110,193) issued in July 2018 and fifty million (50,000,000) issued in Sep 2020. These debentures are listed in the Colombo Stock Exchange and ICRA Lanka Ltd rated these debentures as [SL]A-(Stable).

Interest rates of the debentures

Instrument type	Interest frequency	Coupon (% p.a)	Interest yield as at last trade	Yield to maturity of last trade done	Interest rate of comparable Government Security
Type A - 5 Years Tenor	Semi-annually	14.75%	14.75%	8.03%	14.51%
Type B - 5 Years Tenor	At maturity	20.13%	20.13%	20.13%	14.51%
Type A - 5 Years Tenor	Semi-annually	10.50%	10.50%	8.38%	14.51%
Type B - 5 Years Tenor	Semi-annually	16.23%	16.23%	16.23%	14.51%

Market prices & issue prices of debentures recorded during the quarter ended 31st March 2022 are as follows.

Instrument Type	Issue Price	Highest Price	Lowest Price	Last Traded Price	Last Traded Date
Type A - 5 Years Tenor	Rs.100.00	Rs. 103.45	Rs. 103.45	Rs. 103.45	23-Feb-22
Type B - 5 Years Tenor	Rs. 49.83	Not Traded	Not Traded	Not Traded	N/A
Type A - 5 Years Tenor	Rs.100.00	Rs. 105.00	Rs. 101.75	Rs. 105.00	13-Jul-21
Type B - 5 Years Tenor	Rs.100.00	Not Traded	Not Traded	Not Traded	N/A

Debt security related ratios

As at 31 March	As at 31.03.2022 Rs.	As at 31.03.2021 Rs.
Debt to equity ratio (With Deposits)	2.5 times	3.51 times
Quick asset ratio	0.78 times	0.86 times
Interest cover	2.98 times	1.36 times

6. Subordinated, Unsecured, Listed, Redeemable, Rated Debentures Issue (2018/2023) - Proceeds utilisation as at 31st March 2022 are as follows.

Objective as per Prospect	Amount allocated as per prospect in LKR	Proposed date of utilisation	Amount allocated in LKR (a)	% of total proceed	Amount utilised in LKR (b)	% of utilised against allocation (b/a)	Clarification if not fully utilised including where the funds invested (e.g. whether lent to related party/s etc.)
Supporting the general business growth opportunities of the Company	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Reducing the mismatch of maturity periods between assets and liabilities	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Improve the capital Adequacy of the company's balance sheet, by strengthening its Tier II Capital, Subject to the CBSL's approval as mentioned below. Such an increase in the Tier II capital will enable the company to significantly expand its lending portfolio in conformity with the CBSL's capital requirements.	2.5 Billion	From the date of allotment	2.5 Billion	100%	2.5 Billion	100%	N/A

Senior, Unsecured, Listed, Redeemable, Rated Debentures Issue (2020/2025) - Proceeds utilisation as at 31st March 2022 are as follows.

Objective as per Prospect	Amount allocated as per prospect in LKR	Proposed date of utilisation	Amount allocated in LKR (a)	% of total proceed	Amount utilised in LKR (b)	% of utilised against allocation (b/a)	Clarification if not fully utilised including where the funds invested (e.g. whether lent to related party/s etc.)
To support the expansion of the lending portfolio of the company	3,371,250	Immediately upon receipt of the issue	3,371,250	100%	3,371,250	N/A	N/A
To support the expansion of the lending portfolio of the company	1,628,750	Immediately upon receipt of the issue	1,628,750	100%	1,628,750	N/A	N/A

7. Rights Issue - proceeds utilisation as at 31st March 2022 are as follows.

Objective as per Circular	Amount allocated as per circular in Rs.	Proposed date of utilisation as per circular	Amount allocated from proceeds in Rs.(a)	% of total proceeds	Amount utilised in Rs. (b)	% of utilise against allocation (b/a)	Clarification if not fully utilised including where the funds are invested (e.g. whether lent to related party/s etc.)
To comply with CBSL Direction No. 02 of 2006 (Risk Weighted Capital Adequacy Ratio) to facilitate the acquisition and merger of LOLC Micro Credit Ltd.	5.88 Billion	Within Two months from Allotment (26th March 2018)	5.88 Billion	100% by 26th March 2018	5.88 Billion	100%	N/A
To comply with the minimum capital adequacy requirement for every licensed finance company is required to maintain by 1st July 2019, in terms of the of the finance business act direction no. 3 of 2018 dated 6th June 2018	4.88 Billion	Within 15 - 18 month from Allotment	4.88 Billion	100% utilised for portfolio growth & invest in T Bill/ Repo's	4.88 Billion	100%	N/A
To facilitate the acquisition and merger of Commercial Leasing and Finance PLC.	198.82 Billion	6th April 2022	198.82 Billion	100% by 6th April 2022	198.82 Billion	100%	N/A

Notice of Meeting

NOTICE IS HEREBY GIVEN THAT THE 21ST ANNUAL GENERAL MEETING of the Company will be held on Friday, 30th September 2022 at 10.30 a.m. as an on-line audio-visual meeting with arrangements for the on-line meeting platform made at the registered office of the Company at No.100/1, Sri Jayawardenapura Mawatha, Rajagiriya, for the following purposes:

1. To receive the Annual Report and Financial Statements for the year ended 31st March 2022, with the Report of the Auditors thereon.
2. To re-elect as Director Mr. D M D K Thilakaratne, who retires in terms of Article 70 of the Articles of Association of the Company.
3. To re-elect as Director Mrs. K U Amarasinghe, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
4. To re-elect as Director Mr. B C G de Zylva, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
5. To re-appoint as Auditors M/s Ernst and Young, Chartered Accountants for the ensuing financial year at a remuneration to be fixed by the Directors.
6. To approve in terms of the Companies (Donations) Act No.26 of 1951, the making of donations by the Directors as determined by them for the current Financial Year and until the next Annual General Meeting of the Company.

By Order of the Board

LOLC Finance PLC

LOLC Corporate Services (Private) Limited

Secretaries

30th August 2022

Rajagiriya (in the greater Colombo)

Notes

Form of Proxy

I/We ....

holder of NIC/ Reg. No .... of .... being

a member/members of the LOLC Finance PLC hereby appoint ....

of .... whom failing

Mr. Francisco Kankanamalage Conrad Prasad Niroshan Dias	of Colombo or failing him
Mr. Don Manuwelge Don Krishan Thilakaratne	of Colombo or failing him
Mrs. Kalsha Upeka Amarasinghe	of Colombo or failing her
Mr. Brindley Chrishantha Gajanayake De Zylva	of Colombo or failing him
Mr. Panamulla Arachchige Wijeratne	of Colombo or failing him
Mr. Kandiah Sundararaj	of Colombo

as my/our proxy to represent me/us and vote on my/our behalf at the Annual General Meeting of the Company to be held as an on-line meeting on Friday, 30th September 2022 at 10.30 a.m. and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid Meeting.

	For	Against
1. To re-elect as Director Mr. D M D K Thilakaratne, who retires in terms of Article 70 of the Articles of Association of the Company.		
2. To re-elect as Director Mrs. K U Amarasinghe, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.		
3. To re-elect as Director Mr. B C G de Zylva, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.		
4. To re-appoint as Auditors M/s Ernst and Young, Chartered Accountants for the ensuing financial year at a remuneration to be fixed by the Directors.		
5. To approve in terms of the Companies (Donations) Act No.26 of 1951, the making of donations by the Directors as determined by them for the current Financial Year and until the next Annual General Meeting of the Company.		

dated this .... day of ...., Two Thousand Twenty Two.

....

Signature of Shareholder

(Please delete inappropriate words and refer overleaf for instructions)

INSTRUCTIONS AS TO COMPLETION

1 Please return the completed Form of Proxy after filling in legibly your full name and address, signing on the space provided and filling in the date of signature.

2 The Proxy shall

a) in the case of an individual, be under the hand of the shareholder or his or her attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.

b) if the shareholder is a company or a corporation, be either under its common seal or under the hand of an officer or attorney authorised by such organisation in that behalf in accordance with its Articles of Association or Constitution.

3 Please indicate with an 'X' how the proxy should vote on each Resolution. If no indication is given, the proxy shall exercise his/her discretion and vote as he/she thinks fit.

4 The completed Form of Proxy should be deposited at the registered office of the Company No: 100/1, Sri Jayawardenapura Mawatha, Rajagiriya or scanned and emailed to corporateservices@lolc.com with the email subject titled "LOFC AGM PROXY" not less than 48 hours before the time appointed for the holding of the Meeting.

Corporate Information

NAME OF THE COMPANY
LOLC Finance PLC

COUNTRY OF INCORPORATION
Sri Lanka

DATE OF INCORPORATION
13th December 2001

LEGAL FORM
A quoted public Company with limited liability

COMPANY REGISTRATION NO.
PB 244 PQ

STOCK EXCHANGE LISTING
The ordinary shares of the Company were listed on the Diri Savi Board of the Colombo Stock Exchange (CSE) on 7th July 2011.

CREDIT RATING
ICRA Lanka assigned the Company an issuer rating of (SL) A (Stable).

REGISTERED OFFICE AND HEAD OFFICE
No. 100/1, Sri Jayawardenepura Mawatha, Rajagiriya
Tel: 011 5880880
Fax: 011 2865606
Website: https://www.lolcfinance.com/
Swift: LOFCKLC

DIRECTORS
F K C P N Dias – Chairman, Non-Executive Director
D M D K Thilakaratne – Executive Director/CEO
Mrs. K U Amarasinghe – Executive Director
B C G de Zylva – Non-Executive Director
P A Wijeratne – Senior Independent Director
K Sundararaj – Independent Director
Mrs. D P Pieris – Senior Independent Director - statutory retirement from the Board with effect from 26.06.2021

SECRETARIES
LOLC Corporate Services (Private) Limited
100/1, Sri Jayawardenapura Mawatha, Rajagiriya
Tel: 011 5880356-60

AUDITORS
Ernst & Young, Chartered Accountants

LAWYERS
Julius & Creasy, Attorneys-at-Law
Nithya Partners

REGISTRARS
PW Corporate Secretarial (Pvt) Ltd
No. 3/17 Kynsey Road, Colombo 8
Tel: 0114 640360-3

PRINCIPAL ACTIVITIES
During the year the principal activities of the Company comprised Finance Business, Finance Leasing, Alternate Finance, Micro Finance, issue of Payment Cards, Gold Loans, provision of Advances for Margin Trading in the Colombo Stock Exchange.

BANKERS
Nations Trust Bank PLC
Citi Bank N.A.
Commercial Bank of Ceylon PLC
NDB Bank PLC
Bank of Ceylon
Seylan Bank PLC
MCB Bank
Deutsche Bank
Hatton National Bank PLC
Pan Asia Bank PLC
Hong Kong & Shanghai Banking Corporation
Sampath Bank PLC
DFCC Bank
Peoples Bank
Cargills Bank Limited
Union Bank of Colombo PLC

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www.lolcfinance.com

LOLC FINANCE PLC
No. 100/1, Sri Jayewardenepura Mawatha, Rajagiriya, Sri Lanka.
Tel: +94 11 588 0880 (General)
Fax: +94 112 865 606