

ANNUAL REVIEW 2022/23



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About Us

LOLC AL-FALAAH REMAINS A GUIDING LIGHT FOR THE LOCAL AND REGIONAL ALTERNATE FINANCIAL SERVICES SECTOR, THRIVING EVEN AMIDST ADVERSITY. ON THE STRENGTH OF A STRONG BRAND IDENTITY AND TRUSTED CREDENTIALS, WE NOT ONLY EXPANDED OUR REVENUE BUT WE ALSO PROVIDED MUCH-NEEDED CSR ASSISTANCE TO THE MOST VULNERABLE IN SOCIETY. OUR COMMITMENT TO EXTEND INCLUSIVE FINANCE BENEFITED COUNTLESS CUSTOMERS DURING THE YEAR. BACKED BY AN EMINENT EXECUTIVE AND SENIOR MANAGEMENT TEAM AND PROFESSIONAL STAFF, LOLC AL-FALAAH HAS POSITIONED ITSELF AT THE FOREFRONT OF THE SECTOR.

VISION

To be the most preferred alternate banking & financial services provider.

MISSION

Assist those driven by the spirit of enterprise to reach greater heights, through our innovative, personalised and wide-ranging alternate financial solutions.

VALUES

Al-Falaah strictly concentrates on ensuring that no element of 'Gharar' (Uncertainty) lies in any transaction. Therefore, in order to adopt a clear separation of in-flow and out-flow of funds, LOLC Al-Falaah maintains separate financials, systems, processes and operations in the strictest form. LOLC Al-Falaah has appointed a dedicated Scholar Supervisory Board (SSB) with representation of eminent local and international industry-leading scholars together with a permanent and full-time in-house Scholar Advisor for guidance and advice on the principles of Islamic economic jurisprudence. The SSB also conducts periodic Scholar audits on all transactions done by LOLC Al-Falaah.

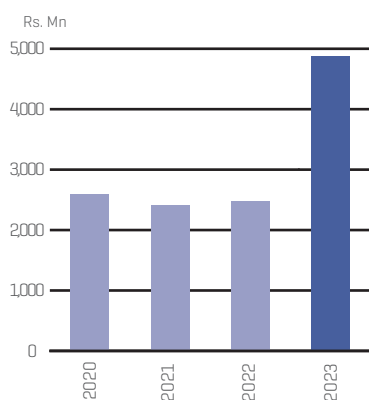
Guided by our values, we aspire to:

- Make available broad-based alternate financial services islandwide.
- Spread the concept amongst all stakeholders and to champion the process of development of alternate finance in Sri Lanka.
- Create long-term value for all stakeholders and build lasting relationships with them.
- Inculcate a 'Service-First' mindset across the organisation and go the extra mile to provide innovative financial solutions to our customers.
- Nurture an enterprising spirit through the generation and power of ideas.
- Respect diversity in the workplace, provide dignity and purpose, and collectively share talents to attain the corporate vision as well as to achieve departmental and individual goals, objectives and aspirations.
- Be a model corporate citizen by maintaining the highest professional and ethical standards.

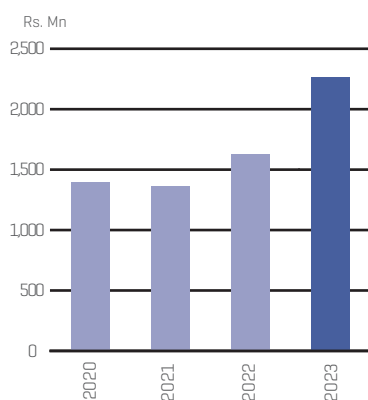
Financial Highlights

Year Ended 31 March	Rs. 2023 Mn	Rs. 2022 Mn
Revenue	4,878	2,471
Gross Profit	2,260	1,622
Profit Before Tax	754	564
Retained Earning	5,407	4,653
Total Assets	31,398	24,302
Financial Accommodations and Advances Portfolio	23,513	23,758
Non Performing Loans	1,584	550
Total Liabilities	25,991	19,648
Deposit Base	23,080	12,575
Profit Paid to Depositors	2,541	712

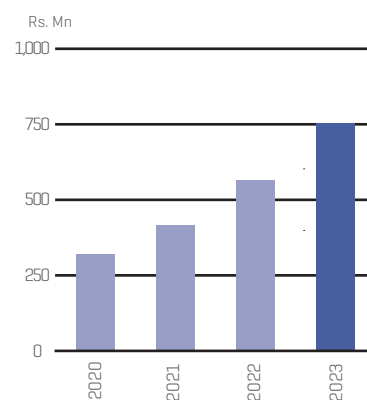
Revenue



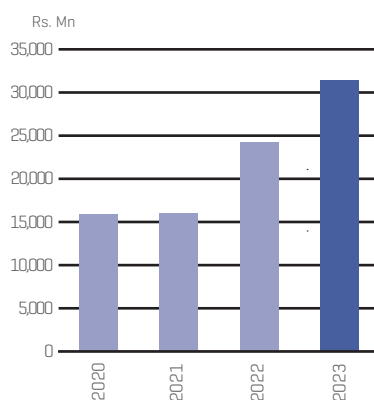
Gross Profit



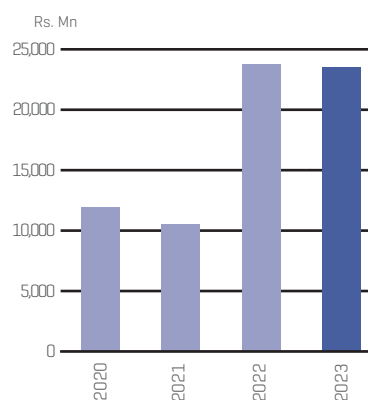
PBT



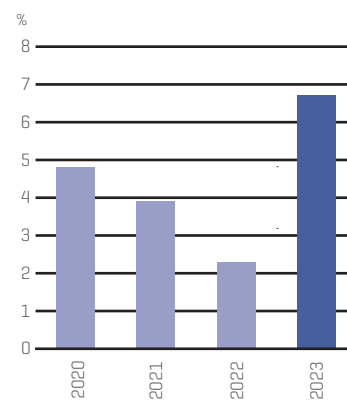
Total Assets



Financial Accommodations & Advances

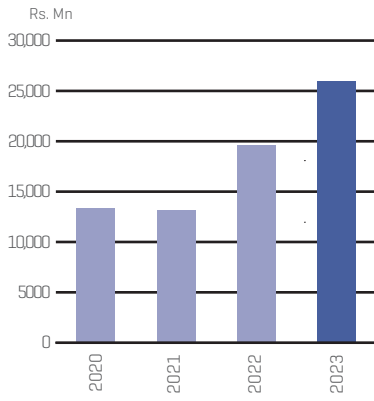


NPL Ratio

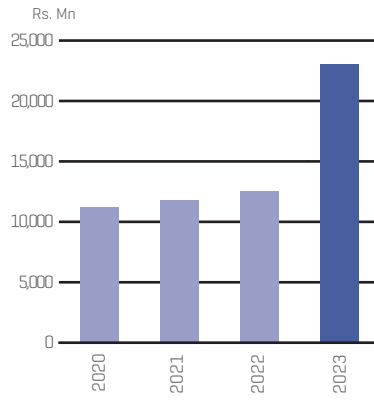


Financial Highlights

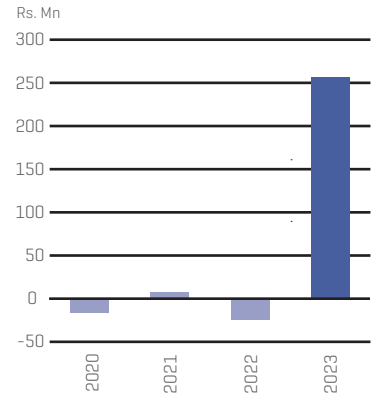
Total Liabilities



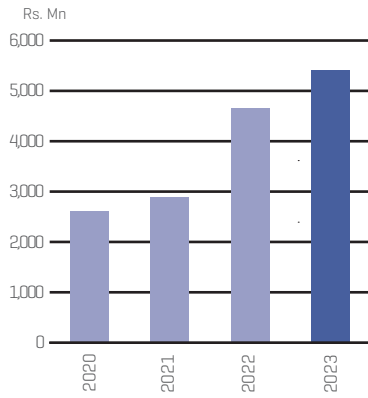
Total Deposits



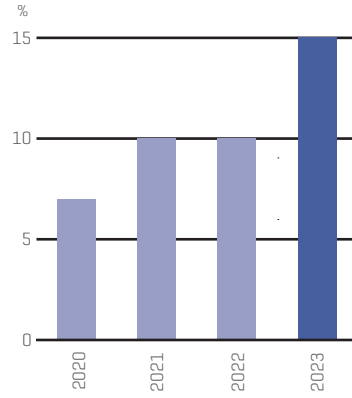
Profit Paid to Depositors



Retained Earnings



ROE



Awards and Significant Events

OUR CORE VALUES AND OUR STRONG WORK ETHICS HAVE BEEN THE MAJOR INFLUENCING FACTORS BEHIND OUR UNINTERRUPTED AND UNRIVALLED SUCCESS BOTH LOCALLY AND GLOBALLY.



LOLC AI-Falaah was awarded IFN Best Islamic Leasing Provider (Global) 2023 - 1st Runner-up Islamic Financial News



LOLC AI-Falaah was awarded IFFSA NBF of the year 2022/23 - Gold Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded IFFSA Brand of the year 2022/23 - Gold Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded IFFSA Islamic Banking Window of the year 2022/23 - Silver Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded IFFSA Entity of the year 2022/23 - Silver Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded SLIBFI Islamic Finance NBF Entity of the year 2022/23 - Gold Sri Lanka Islamic Banking & Finance Industry



LOLC AI-Falaah was awarded SLIBFI Islamic Finance Window of the year 2022/23 - Silver Sri Lanka Islamic Banking & Finance Industry

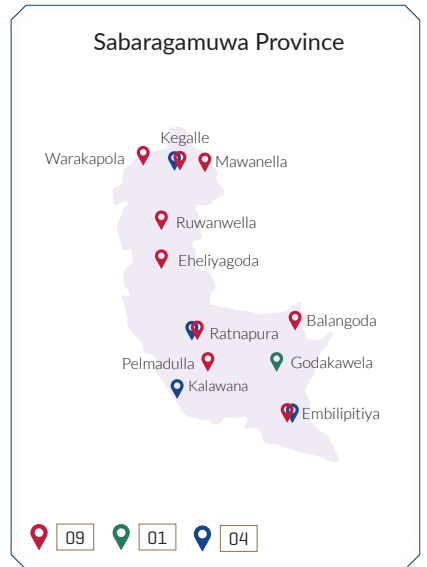
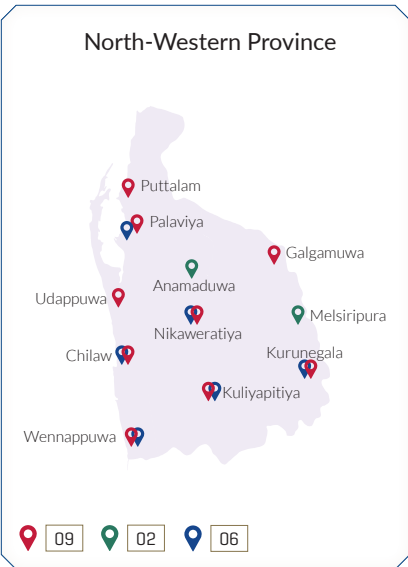
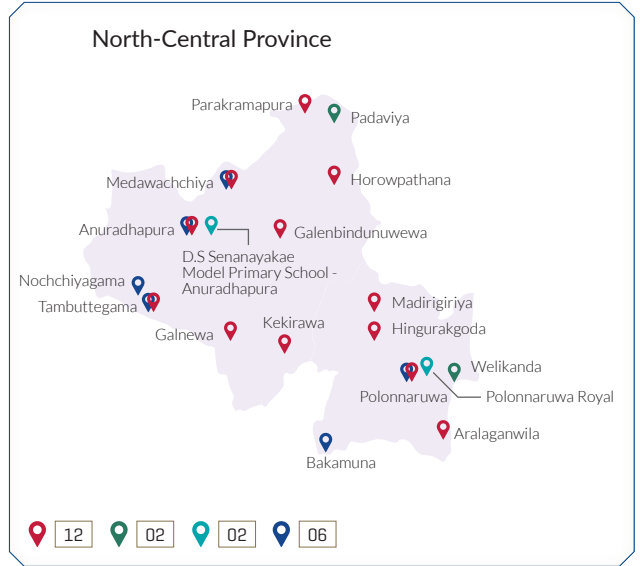
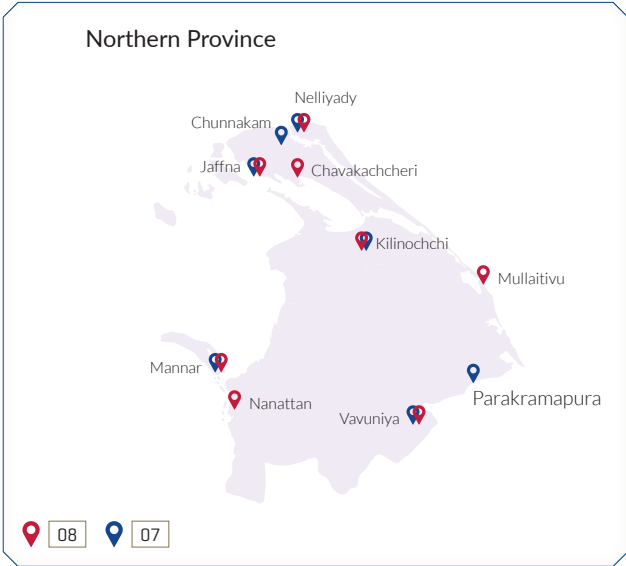


LOLC AI-Falaah was awarded SLIBFI Islamic Finance Entity of the year 2022/23 - Bronze Sri Lanka Islamic Banking & Finance Industry



LOLC Finance was awarded Best Management Practices Excellence Awards 2023 - Silver The Institute of Chartered Professional Managers of Sri Lanka

Our Locations



As at 31st March

- LOLC Finance I Branches
- LOLC Finance Savings Centres
- LOLC Finance Service Centres
- LOLC Finance, AI-Falaah Branches/ LOLC Finance, AI-Falaah Service Centres
- LOLC Finance II Branches

Southern Province



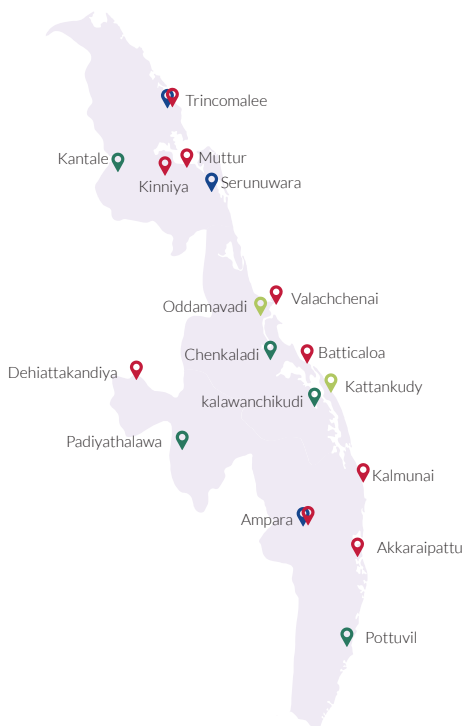
14 02 06

Uva Province



05 01 03

Eastern Province



09 05 02 03

Western Province



32 07 03 01 24

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AS A WHOLE, WE ARE HONOURED TO HAVE BEEN ON THE RECEIVING END OF MANY ESTEEMED AWARDS OVER THE YEARS AND TAKE PRIDE IN CONTINUALLY PUSHING THE BOUNDARIES THANKS TO OUR TIRELESS DEDICATION AND OUR EXCEPTIONAL TEAM.

Director/CEO's Review

THE NEWLY-MERGED ENTITY NOT ONLY CREATED THE LARGEST NBFi IN SRI LANKA, BUT ALSO ESTABLISHED AN ENTITY THAT IS RANKED AMONGST TOP BANKS ON MANY FRONTS.

The year under review was successful for LOLC Al-Falaah as a result of the merger between LOLC Finance PLC and Commercial Leasing & Finance PLC in March 2022, which paved the way to achieving further milestones, as these entities were positioned as the second and fourth-largest Non-Banking Financial Institutions (NBFIs) respectively. The historic merger has changed the entire landscape of the NBFi industry. As the newly-merged entity, LOLC Finance PLC not only created the largest NBFi in Sri Lanka, but also established an entity that is ranked amongst the leading banks across many fronts, including an asset base of over Rs. 31.2 Bn, over 210 branches and combined profits of Rs. 17 Bn. LOLC Finance now accounts for over 20% of the NBFi industry in assets, deposit base and portfolio in an industry with 38 players.

The merger also created the highest Islamic Finance portfolio in the NBFi sector, since LOLC Al-Falaah accounts for over 60% of Islamic Finance assets in the NBFi industry. Undoubtedly, this figure would be much higher in terms of liability and the customer base since LOLC Al-Falaah caters to all segments of clients, including Micro, Small and Medium Enterprise (SMEs), High Networth Individuals (HNIs) and Corporates.

The merger also created the largest distribution channel of all NBFi products common to Islamic Finance. Today, LOLC Al-Falaah offers Islamic Finance through 210 branches of LOFC. Another critical factor is the distribution of profits amongst investors - where LOLC Al-Falaah stands proudly for having distributed the highest profits in the entire banking industry. This was notable during the year under review when market interest rates increased significantly and other Islamic Finance providers struggled to cope. LOLC Finance, with its sound business model, managed to deliver investor expectations, which proved useful in maintaining investor confidence.

During the year under review, Al-Falaah was recognised with an array of awards, namely, two Gold and Silver awards at the Islamic Finance Forum for South Asia (IFFSA) Awards 2023 - 'South Asia's Brand of the Year' Gold award and the 'South Asia's Islamic NBFi of the Year,' for the third consecutive year. The company won a Silver award for 'Islamic Entity of the Year' and

'Islamic Banking Window/Unit of the Year'; four prestigious awards at the 12th edition of the SLIBFI (Sri Lanka Islamic Banking and Financial Industry); Gold award for Islamic Finance Non-Banking Financial Institute (NBFi) Entity of the Year (in previous years the category availability for NBFi was the recognition for the 'Islamic Leasing Company of the Year' award). This marks the fourth consecutive year that Al-Falaah has secured this title in the NBFi category. Additionally, it secured the Silver award for Islamic Finance Window/Unit of the Year, and the Bronze award for Islamic Finance Entity of the Year. In a notable accolade, LOLC Al-Falaah's Ash-Shaikh Fazil Mohamed was honoured this year with the prestigious 'Rising Personality of the Year' award for his performance and contribution to the industry.

LOLC Al-Falaah possesses the highest Islamic Finance asset base of Rs. 31 Bn with a portfolio of Rs. 23.5 Bn and a deposit book of Rs. 25 Bn. The company recorded Profit Before Tax (PBT) of Rs. 754 Mn and a Return on Portfolio of 4% which is very creditable under the prevailing market conditions. Its NPL ratio of 6.7% stands by far as the best in the industry and is much lower compared to conventional finance companies. A substantial portion of the lending portfolio is through Diminishing Musharakah products, followed by Ijarah and Murabaha. The progress of the Wadi'ah gold storage product is very encouraging and I expect it to contribute significantly to the portfolio and topline and bottomline numbers in the years to come.

Amongst all these achievements, the company's Shari'ah compliance certification is equally valuable to the management and Board, as it is considered one of the most Shari'ah compliant and business oriented institutions in Sri Lanka. Moreover, LOLC Al-Falaah also contributed to the industry through its awareness programmes around the country and other activities on social media and other platforms.

CORPORATE SOCIAL RESPONSIBILITY

Supporting sustainability of communities is a priority for LOLC Al-Falaah and during the year under the company funded health, education and social upliftment projects. LOLC Al-Falaah distributed Rs. 22.8 Mn amongst beneficiaries, exceeding Rs. 0.7 Mn from its Charity Fund for new and on-going

Total Assets



CSR projects as compared to Rs. 14.6 Mn in the previous year. Despite the challenges in the market, the company did not cease its contribution to the most vulnerable in society. Accelerating adoption of Alternate Financial Services, LOLC Al-Falaah supported ongoing educational programmes to raise awareness amongst the community in conjunction with the Scholar Supervisory Board (SSB) members and in-house scholar advisors during the year.

As the single-largest NBFi which accounts for over 60% of the market share, the Islamic Finance unit too will strive for growth using the large channel network and digital network to grow the portfolio. In time to come, digitalisation of processes and product offerings should substantially increase service standards whilst cost structures would be maintained at lower levels, which would benefit both the business and customers equally.

APPRECIATION

I would like to thank our key shareholders, the Scholar Supervisory Board, the Board of Directors and senior management of the business unit for their support in consolidating the resilient and responsible performance of the company through challenging times. Our staff has demonstrated tireless cooperation and dedication to achieve our strategic goals as the company progresses ahead with confidence, backed by a committed contribution from all our stakeholders.

Krishan Thilakarathne
Executive Director/CEO

Message from Head of Alternate Financial Services - LOLC

LOLC AL-FALAAH WAS SUCCESSFUL IN EXCEEDING THE MAIN KPI'S ESPECIALLY IN TERMS OF PORTFOLIO AND PORTFOLIO QUALITY

The year 2022/23 witnessed unprecedented economic, social and political upheaval in Sri Lanka, which impacted the nation and its people. The acute economic crisis endured during the year only exacerbated the systemic economic weaknesses which had already been precipitated by the global pandemic. If the company's performance was marked by resilience through the pandemic period, the economic crisis only served to strengthen the resolve of LOLC Al-Falaah to raise the bar even higher, despite the severe impact on the financial services sector. As a result of its resolve to surmount the odds, the company delivered an outstanding performance in the year under review amidst upheaval in the wider industry and economy.

COMPANY PERFORMANCE

Despite the seemingly uphill task of operating amidst a severe economic crisis, the company managed to grow its savings and deposits portfolio admirably, which reflects the trust that customers have placed in the company. As depositors took flight to the safety of stable financial institutions, the company's customer base burgeoned. Mudharabah and Wakalah products combined grew by 200% even amidst the crisis, based on the strength of the company's reputation and inherent financial stability.

Furthermore, LOLC Al-Falaah was successful in exceeding the main KPIs especially in terms of portfolio and portfolio quality. On the assets side, although caution was exercised in extending financial accommodation, certain industries that were doing well during the economic crisis were identified and became a key focus for customer acquisitions, thereby helping to sustain the portfolio.

The company's stringent credit policies assisted in sustaining the lending book.

However, the sector felt many shocks through the year, the main one being the impact from the sharp rise in conventional interest rates. Since the company works on a profit-sharing concept, it was not easy to manage the escalating market rates. Nevertheless the company managed the gap between the income from its asset book and expenditure to depositors in a skilled manner via a re-pricing exercise and by managing investment returns against the trend of skyrocketing conventional rates offered in the market. I am proud of the fact that LOLC Al-Falaah swam against tide without giving into market pressures. Its strong systems, processes and credit policies supported the company to navigate the troubled period unscathed.

FINANCIAL PERFORMANCE

Demonstrating strong growth during the period under consideration, Revenue grew by 97% in 2022/23 mainly due to escalating conventional interest rates in the market. Going against the trend of curtailing lending, LOLC Al-Falaah continued selective lending and financing activities, thus increasing its income levels. During this period of high conventional interest rates, most banks and 's were relying on government securities, like treasury bills, to tide over the crisis. However, since interest bearing instruments are not permitted in the alternate financial services industry, the business unit had to work hard to earn its income. This was achieved with appropriate checks and balances.

Over the past two years, the company's Gross Profit has demonstrated growth of almost 40%. Since lending activities were not curtailed, LOLC Al-Falaah managed to record strong profitability. Profit Before Tax witnessed a 34% growth from Rs. 564 Mn to Rs. 754 Mn during the year. Over the last three years, the company has achieved a steady 30% growth in PBT despite the

unfavourable economic backdrop that prevailed. Meanwhile, Profit After Tax grew by 97% as a result of the merger and tax benefits therein.

Retained Earnings grew sharply by Rs. 5.4 Bn, marking a 16% growth over the previous year. Without a doubt, the company recorded the highest ROE of 15% in the alternate financial services industry in the year under review, which is a considerable achievement considering the dire circumstances that characterized the year.

The company's Total Assets surged by 30% in 2022/23, which took the total asset base from Rs. 24 Bn to Rs. 31 Bn. The company's Non-Performing Loan (NPL) ratio was the lowest at 6.7% as compared to industry NPLs which were in excess of 13%. The low NPLs recorded by the company reflect the quality of its portfolio. Profits paid to depositors showed an increase of over 250% since the investment pool surged by over 200%, thus increasing returns to investors.

The Wadi'ah gold storage option proved to be a timely product which empowered the bottom of the pyramid segment as an alternative to pawning due to its cash advance feature.

Despite the external challenges, LOLC Al-Falaah remained committed to its charitable projects. The company disbursed 22 Mn in 2022/23 across its charity initiatives focused on the pillars of education, social upliftment and healthcare.

AWARDS AND ACCOLADES

LOLC Al-Falaah clinched two distinguished Gold awards and two Silver awards at the Islamic Finance Forum for South Asia (IFFSA) Awards 2023 – 'South Asia's Brand of the Year' Gold award and the 'South Asia's Islamic NBF of the Year,' which has

been secured for the third consecutive year. Silver awards were bestowed on the company for 'Islamic Entity of the Year' and 'Islamic Banking Window/Unit of the Year.' The evaluation criteria were centred around LOLC Al-Falaah's financial performance for the 2022/23 fiscal year, serving as compelling evidence of the business unit's exceptional performance and customer satisfaction in the field of alternate financial services.

The company also proved its dominance in the Islamic Banking and Finance sector by winning four prestigious awards at the 12th edition of the SLIBFI [Sri Lanka Islamic Banking and Financial Industry] awards in 2023. The brand was honoured with the Gold award for Islamic Finance Non-Banking Financial Institute (NBFI) Entity of the Year, where in previous years the category availability for NBFI was the recognition for the 'Islamic Leasing Company of the Year' award. Impressively, this marks the fourth consecutive year that Al-Falaah has secured this esteemed title in the NBFI category. Additionally, it also secured the Silver award for Islamic Finance Window/Unit of the Year, and the Bronze award for Islamic Finance Entity of the Year. In a notable addition to its already impressive list of achievements, LOLC Al-Falaah has been a breeding ground for young industry professionals over the years. The year under review, our very own Ash-Shaikh Fazil Mohamed was honoured this year at the SLIBFI with the highly esteemed 'Rising Personality of the Year' award.

FUTURE PLANS

The company accelerated digitalisation through the pandemic and now has completely transformed into a more efficient operation, completely automating the documentation process to minimize manual intervention. Online account opening and savings and deposits facilities were introduced during the year, resulting in enhancing service levels and customer accessibility. Digitalisation of Wakalah Term investments and Mudharabah deposits & savings accounts with iPay, the Group's digital payment platform, was enabled to enhance customer convenience further.

In its commitment to grow the alternate financial services, the Wadi'ah product will be introduced in rural areas to offer these communities access to finance. Since the company does not operate conventional group loan models to bottom of the pyramid customers, this product will enable them to maximise benefits.

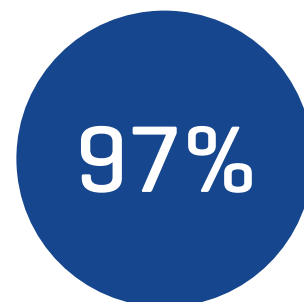
Alternate financial services operation is available under LOLC Al-Falaah's footprint spanning in locations across 210 branches. The company plans to accelerate its public awareness campaigns to raise awareness on the benefits offered by alternate financial services. In 2022/23, more than 25 public awareness programmes were held.

The focus ahead will be on vehicle financing and business development financing to support startups. The expected economic resurgence will see the birth of new businesses at grassroots and the company wants to be an enabler for them.

Beyond the economic challenges we already see growing interest in Middle East funds to invest in the region. LOLC Al-Falaah has already pioneered sukuks as alternative securitization alternatives. If the regulator too gets involved in attracting sukuk funds to Sri Lanka, it would impact the economy positively and the benefits will spread across the entire industry. The only immediate challenge for the company will be managing the impact of the drop in lending rates as high yield financing was downpriced due to rate reduction.

The economic outlook remains somber and we believe problems are far from over even through immediate challenges were surmounted. Overall the situation has improved because of the contingent actions taken by the government. As a responsible corporate entity we have played our part and managed to survive and thrive while making a positive impact on local communities and staff.

PAT Growth



APPRECIATION

I take this opportunity to thank the Scholar Supervisory Board (SSB) for valuable guidance. The Chairman, Board of Directors, Senior management and staff at LOLC Al-Falaah have many reasons to be proud of their performance amidst a severe economic crisis. Our customers remain our pillar of strength.

Last but not the least, I would like to thank the regulator for supporting the alternate financial services industry and underscoring the value it adds to the national economy.

Shiraz Refai
Head of Alternate Financial Services

LOLC AL-FALAAH HAS BEEN PROMOTING ISLAMIC FINANCE IN SRI LANKA FOR MORE THAN A DECADE-AND-A-HALF BY CONDUCTING TRAINING PROGRAMMES WHICH WILL BE ACCELERATED TO CREATE MORE BENEFITS FOR THE COMMUNITY

The year under review witnessed unprecedented economic, political and social upheaval in the country. The economic crisis that unfolded proved to be a challenge for people and businesses as they had to operate in the new normal. Amidst the uncertainty that prevailed, LOLC Al-Falaah generally remained stable as the company navigated the crisis with skill.

LOLC Al-Falaah has gained solid momentum on its journey of growth. Its success is becoming apparent as it widens its geographical footprint across the country and increases its customer base. Its comprehensive product portfolio offers financial solutions to accommodate a multitude of investment and financial needs of the populous in a compliant manner.

LOLC Al-Falaah's product portfolio caters to the community's financial needs and I would like to see further consolidation of these products before implementing new ones. Our R&D team continues to assess needs of the community to improve both customer convenience while maintaining compliance. As a result, we have seen that technology integration is being given priority where most of the processes have been automated and digital investment and savings products are now offered via a mobile application.

During the year under consideration, LOLC Al-Falaah generally complied with Islamic commercial principles as set out by the accounting and auditing organization for Islamic financial institutions (AAOIFI) and by the SSB. As and when needed, we extended the necessary guidance for ensuring enhanced communication. The SSB recommended some enhancements to the Wadi'ah premium product and the management has taken our suggestions on board.

Furthermore, SSB has asked the Management to segregate the internal roles of advisory and audit between the Internal Scholar Advisors (ISA's) to differentiate functions of supervision and the internal audit department of the company has been requested to conduct Shari'ah audits as an additional layer to improve compliance with the principles of Islamic finance.

Islamic Finance is growing rapidly around the world and global Islamic finance assets have been estimated at around US\$ 4 trillion. Western economies are showing a greater interest in Islamic Finance – with countries like United Kingdom wanting to strategically position London as a global Islamic economic hub. It is heartening to note that Islamic finance is growing beyond finance to an Islamic economic system.

While sustainability is a buzzword globally, with the United Nations pushing for Sustainable Developmental Goals (SDGs), we believe it is simply not possible to achieve some of those goals in a capitalistic economy. However, Islamic economic principles provide the perfect solution to implement and institute principles of sustainability.

LOLC Al-Falaah has been promoting Islamic Finance in Sri Lanka for more than a decade-and-a-half by conducting training programmes which will be accelerated to create more benefits for the community. In Sri Lanka, Islamic Finance has weathered the twin storms of the pandemic and the economic crisis and we look ahead with anticipation of better times ahead.

I wish to thank the members of the SSB for their collective and valuable contributions given and the ISA's and LOLC Al-Falaah staff for the yeoman efforts in striving to

Global Islamic Finance Assets



maintain compliance in processes and the transactions to the best of their abilities. Finally, I wish to thank the Management and Board of LOLC Finance for their continued trust placed on the alternate financial services concept within, where many of our valued customers continue to benefit from each day.



Ash-Shaikh Shafique A. Jakhura (Mufti)
Scholar Supervisory Board - Chairman

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HAVING REACHED THE HELM OF ISLAMIC FINANCE, AND HAVING INNUMERABLE AWARDS THAT SPEAK FOR THEMSELVES, WE HAVE BEEN RECOGNISED AS AN INDUSTRY GIANT FOR ALMOST TWO DECADES. OUR BRANCHES ARE STRATEGICALLY LOCATED FOR ENHANCED ACCESSIBILITY. WE HAVE ELEVATED OUR RESOURCES TO GREATER HEIGHTS SO AS TO BENEFIT THE ENTIRE NATION.

Product Review

LOLC AL-FALAAH SUCCEEDED IN EFFECTIVE MANAGEMENT OF THE ASSET AND LIABILITY BOOK WHILE GROWING BOTH THE ASSETS PORTFOLIO

MANAGEMENT DISCUSSION & ANALYSIS

During the year 2022/23, LOLC Al-Falaah yet again proved its leadership amongst Islamic Financial Services providers in the Non-Bank Financial Institutions (NBFI) segment in Sri Lanka, delivering an industry best performance amidst the economic crisis in the country. LOLC Al-Falaah has a strong brand identity and brand acceptance in the alternate financial services market, operating through over 210 island-wide branches. LOLC Al-Falaah has a total asset base of over Rs. 31 Bn and serves over 60,000 active clients in the alternate finance industry space.

FINANCIAL REVIEW

In a landmark achievement, the company surpassed the Rs. 10 Bn mark net inflow of its Mudharabah and Wakalah investments to reach a Rs. 23 Bn portfolio and a savings base that exceeds Rs. 1 Bn. This 84% growth in deposits reflects the trust reposed in the brand by customers to safeguard their hard-earned money.

LOLC Al-Falaah succeeded in effective management of the asset and liability book while growing both the assets portfolio and also drawing in new deposits. Whilst Revenue earnings reached Rs. 4.9 Bn, LOLC Al-Falaah achieved a 33.68% increase in Profit before Tax from Rs. 564 Mn in the previous year to Rs. 754 Mn in the year under review. The SBU succeeded in maintaining Non-Performing Loan (NPL) levels of 6.59% against an industry average exceeding 12%, which reflects its strong process-driven operations and risk-mitigating action strategies.

In 2022/23, LOLC Al-Falaah distributed Profits to Depositors amounted to Rs. 2.5 Bn amidst the economic crisis. Return on Equity too indicated an upward trend. The Assets and Liability portfolios were managed masterfully to extend optimum returns to all stakeholders. At the close of

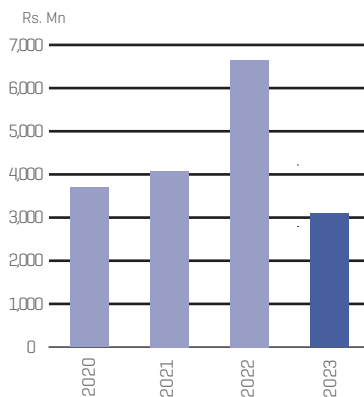
the financial year-end, Retained Earnings were recorded as Rs. 5.4 Bn, reflecting 16% growth in comparison to the previous year's Rs. 4.7 Bn.

PRODUCT PERFORMANCE

Mudharabah Fixed Deposits and Savings

The high level of trust embodied by customers in the company was apparent as market conditions eased, albeit marking a slight decline of 2% over the previous year for this product. One of the main reasons was a shift from variable return products such as Mudharabah to fixed returns products such as Wakalah. The Mudharabah performed below par as customers could not predict anticipated profit due to the volatility in conventional interest rates.

Mudharabah

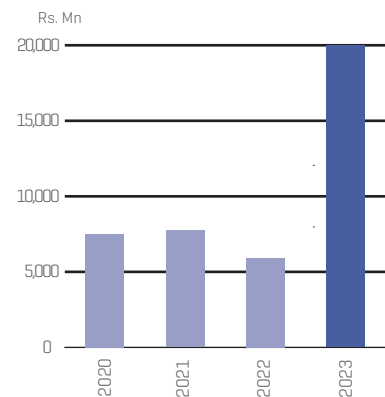


Wakalah For Investment

This product is aimed at the corporate customer segment and extended for fixed term investors who seek an anticipated fixed-return or a stable return on investments. The demand for the Wakalah product grew strongly, from Rs. 6 Bn in the previous year to Rs. 20 Bn in the year under review. The overall deposit base

grew by 200%, which reflects the trust placed in the company during an economic crisis. LOLC Al-Falaah was clearly the most desired alternate financial services provider during challenging times.

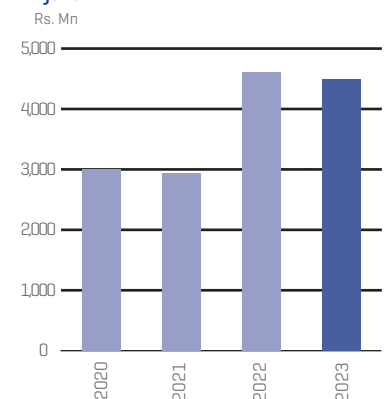
Wakalah Investments



Ijarah For Leasing

Ijarah is a product mainly focused on vehicle leasing and due to the ongoing import restriction on vehicles, high taxes and depreciating demand, the leasing market was virtually at a standstill. However, we managed to sustain the book by ensuring settlements and filling gaps with new facilities. The Ijarah Leasing portfolio decreased by -3% to Rs. 4.3 Bn in 2022/23 from Rs. 4.6 Bn in 2021/22.

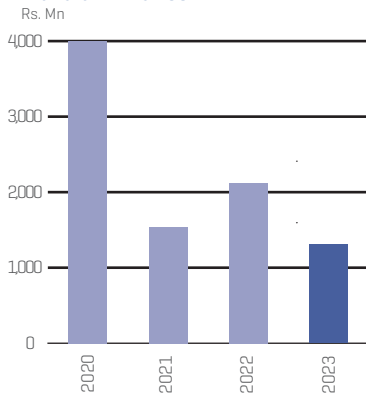
Ijarah



Murabaha For Trade Finance

All the optimal factors needed for trade finance were absent during the year due to the turbulent external factors and as a result this product recorded weak growth during the period under review. The Murabaha Trade Finance Portfolio registered Rs. 180 Mn in 2022/23.

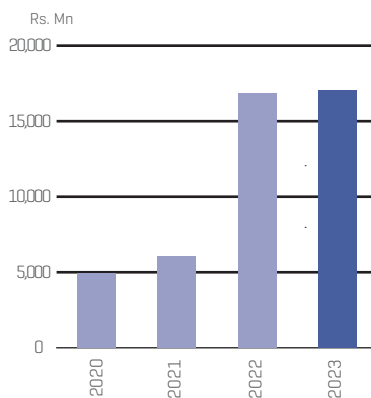
Murabaha / Musawamah / Wakalah Finance



Diminishing Musharakah For Property And Project Finance

The Diminishing Musharakah portfolio seen a slight growth of 2% to Rs. 6.9 Bn as compared to the previous year.

Diminishing Musharakah



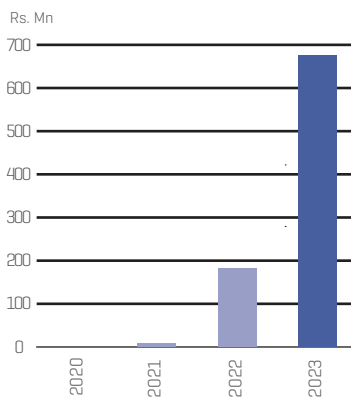
Wakalah For Business And Working Capital Finance

The Wakalah Finance product, which is a working capital generating finance instrument, was managed well to maintain the portfolio almost identical to the previous year's at Rs. 2.1 Bn in 2022/23, as businesses held back from investing further. Unsatisfactory monetary and fiscal factors during the year curtailed traditional trade.

Wadi'ah Gold Storage

The main aim of this facility is to give financial access to grassroots-level clients who do not have direct access to banking and finance, but require small cash advances to develop daily businesses and self-employment. Considering the backdrop of the economic crisis, the Wadi'ah gold storage option proved to be a timely product which empowered the bottom of the pyramid segment as an alternative to pawning due to its cash advance feature. The Wadi'ah Gold Storage Facility grew to Rs. 671 Mn in 2022/23 as LOLC Al-Falaah is one of the only companies catering to this segment.

Wadi'ah Gold Storage Facility



Product Review

Corporate Social Responsibility

Ensuring sustainable communities is a priority for LOLC AI-Falaah and it funded health, education and social upliftment projects during the year under review. LOLC AI-Falaah distributed Rs. 21.8 Mn amongst beneficiaries exceeding 1900 from its Charity Fund for new and on-going CSR projects as compared to Rs. 14.6 Mn. in the previous year. Despite the challenges in the market, the company did not cease its contribution to the most vulnerable in society.

Greater adoption of Alternate Financial Services requires ongoing educational programmes to raise awareness amongst communities. LOLC AI-Falaah's Operations/Compliance Unit organised several educational programmes in conjunction with the Scholar Supervisory Board (SSB) members and in-house scholar advisors during the year.

AWARDS & ACCOLADES

LOLC AI-Falaah clinched two distinguished Gold awards and two Silver awards at the Islamic Finance Forum for South Asia (IFFSA) Awards 2023 – 'South Asia's Brand of the Year' Gold award and the 'South Asia's Islamic NBF of the Year,' which has been secured for the third consecutive year. Silver awards were bestowed on the company for 'Islamic Entity of the Year' and 'Islamic Banking Window/Unit of the Year.' The evaluation criteria were centred around LOLC AI-Falaah's financial performance for the 2022/23 fiscal year, serving as compelling evidence of the business unit's exceptional performance and customer satisfaction in the field of alternate financial services.

The company also proved its dominance in the Islamic Banking and Finance sector by winning four prestigious awards at the 12th edition of the SLIBFI (Sri Lanka Islamic Banking and Financial Industry) awards in 2023. The brand was honoured with the Gold award for Islamic Finance Non-Banking Financial Institute (NBF) Entity of the Year, where in previous years the category availability for NBF was the recognition for the 'Islamic Leasing Company of the Year' award. Impressively, this marks the fourth consecutive year that AI-Falaah has secured this esteemed title in the NBF category. Additionally, it also secured the Silver award for Islamic

Finance Window/Unit of the Year, and the Bronze award for Islamic Finance Entity of the Year. In a notable addition to its already impressive list of achievements, LOLC AI-Falaah's very own Ash-Shaikh Fazil Mohamed was honoured this year with the highly esteemed 'Rising Personality of the Year' award.

Digitalisation Drive

LOLC AI-Falaah had been on a digitalisation drive and successfully digitalised its Wakalah Investments and Mudharabah accounts with iPay, the lifestyle fin-tech app from LOLC Finance PLC. In order to reap benefits from the absorption of CLC's Islamic Business Unit with LOLC AI-Falaah, a Business Process Reengineering (BPR) exercise was undertaken to redesign and improve key business processes to achieve significant enhancements in performance, efficiency, and effectiveness, ultimately enhancing the overall credit application experience for both the financial institution and the borrowers.

This exercise would help identify bottlenecks, redundancies and areas of improvement, while reimagining the credit application workflow from the ground up. Technology solutions will be leveraged such as software applications, data analytics tools, and workflow automation systems to support the redesigned credit application process to ensure faster data processing, improved accuracy, enhanced risk assessment, and better collaboration among stakeholders. Business Process Reengineering also will play a significant role in promoting sustainability by improving financial decision-making and reducing environmental impact.

Looking ahead

Going ahead, LOLC AI-Falaah will leverage on the growing demand for alternate financial services by further entrenching its trusted credentials in new geographic locations.

Charity Fund

The noble concept of Charity and of making a positive contribution to underprivileged sections of society forms one of the key tenets of Islamic Finance whilst ensuring equitable distribution of wealth for a better world. Over the years, LOLC Al-Falaah has been proactive in growing its 'Charity Fund' significantly to match its status as a highly-respected front-runner of Islamic Finance in Sri Lanka.

LOLC Al-Falaah's 'Charity Fund' is making a significant contribution towards promoting social equality." This is an ideal way to fulfil a corporate's social responsibility and to highlight that Alternate Finance is meant for all communities – since the charity fund benefits all needy persons regardless of religion or other bias. LOLC Al-Falaah's charity disbursements for the 12 months ended are as follows;

Charity disbursements for the period of 1st April'2022 to 31st March'2023

Period	Medical	Education	Social	Ramadan Packs
01/04/2022 - 31/03/2023	Rs.8,446,128 /-	Rs.1,566,000/-	Rs.2,683,515/-	Rs.9,125,000/-

Rs. 21,820,643 /- total disbursements for the period 01/04/2022 - 31/03/2023

1,918 total beneficiaries as at March'2023



Rs. 8,446,128 /-

61 Medical Beneficiaries



Rs. 1,566,000/-

18 Education Beneficiaries



Rs. 2,683,515/-

14 Social Beneficiaries



Rs. 9,125,000/-

1,825 Ramadan Packs Beneficiaries

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 a master's in Business Administration [MBA] from University of Leicester UK and is a Fellow Member of the Chartered Management Accountants UK [FCMA] and Chartered Global Management Accountant [CGMA -USA]. He is also a Fellow of Certified Management Accountants of Sri Lanka [FCMA] and Fellow Member of the British Computer Society [FBCS].

His experience spans close to three decades, 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 solutions, he is the Founder of iPay, a revolutionary platform beyond payments and Founder of OYES, another fintech platform that makes every day a pay day.

His thought leadership on technology and contribution in the field of ICT to the industry, society and at LOLC Group has been recognised with many local and international awards including the prestigious Computer Society of Sri Lanka CIO of the Year 2016 award. He was also awarded with Chartered Management Institute of Sri Lanka Professional Excellence Award 2017. Further he was inducted in to the Global CIO Hall of Fame 2020 of IDG (USA) CIO100 and is the only Sri Lankan to be granted this honour.

MR. D M D K THILAKARATNE

Executive Director/CEO

Mr. Krishan Thilakarathne is the Director/CEO of LOLC Finance PLC and a Member of the Senior Management Team of LOLC Holdings PLC. Mr. Thilakarathne was the former Director/CEO of Commercial Leasing and Finance PLC and was appointed to LOLC Finance PLC pursuant to the merger with effect from 31st March 2022.

Mr. Thilakarathne is a Board member of Seylan Bank PLC and further serves on the boards of LOLC Myanmar Micro Finance

Company Ltd and Faso S Micro Deposit Organisation in Tajikistan.

He was a Board member of the 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 the Associateship of the Institute of Bankers of Sri Lanka (AIB) and a passed finalist of the Chartered Institute of Management Accountants (CIMA) UK. He has followed a Strategic Leadership training programme in Micro Finance at Harvard Business School USA and counts over 27 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 the international Islamic Finance forums.

MRS. K U AMARASINGHE

Executive Director

Mrs. Kalsha Amarasinghe served as a Board Member from 05th March 2003 to 29th May 2023. She holds an Honours Degree in Economics and has an outstanding vision for investments.

Mrs. Amarasinghe further serves on the Boards and subsidiaries of LOLC Holdings PLC and Brown & Company PLC including LOLC Life Assurance Limited, Palm Garden Hotels PLC, Eden Hotel Lanka PLC, Browns Investments PLC, Serendib Hotels PLC, Hotel Sigiriya PLC, Dolphin Hotels PLC, Riverina Resorts [Pvt] Ltd, Green Paradise [Pvt] Ltd, P L Resorts [Pvt] Ltd, Browns Holdings Ltd, Sanctuary Resorts Lanka [Pvt] Ltd and Serendib Leisure Management Ltd.

MR. B C G DE ZYLVA

Non-Executive Director

Mr. Brindley De Zylva was appointed on 23rd April 2018 and serves as Non-Executive Director of LOLC Finance PLC. He is also the Chairman of LOLC [Cambodia]

PLC and Serendib Microinsurance PLC and Managing Director of LOLC Myanmar Micro-Finance Company Limited. He joined the LOLC Group in 2003 and counts over 39 years' experience in the Non-Bank Financial Services Industry [NBFIs] covering Licensed Finance Companies, Specialised Leasing, Micro Finance and Micro Insurance in South and South East Asia.

MR. P A WIJERATNE

Senior Independent Director

Mr. P A Wijeratne was appointed as an Independent Director on 26th May 2017 and 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 joined CBSL in 1991 and worked in the Finance, Public Debt Management and Internal Audit departments till his retirement in year 2016.

He holds a BA in Economics [Special Field - Commerce] from the University of Kelaniya and a postgraduate Diploma in Accounting and Financial Economics and an MSc in Accounting and Financial Economics from 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 at 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.

MR. S LANKATHILAKE
Independent Director

Mr. Sunil Lankathilake is a former Deputy Governor of the Central Bank Sri Lanka. He was appointed to the LOLC Finance Board, pursuant to the merger with LOLC Development Finance PLC on 31st January 2023. He holds an MSc in Economics and a Postgraduate Diploma in Economics from the University of Manchester, United Kingdom and a B. Com degree with first Class honours from the University of Peradeniya.

Mr. Lankathilake has more than 32 years of experience in the CBSL in the areas of Economic and Price Stability, Financial System Stability and Agency Functions. Prior to joining the Central Bank in 1986, he has worked as an Assistant Lecturer at the University of Peradeniya.

During his 32 years career in the CBSL, Mr. Lankathilake has participated in large number of foreign training programmes conducted by reputed training providers such as IMF, World Bank, ADB, University of Cambridge etc. in the areas of Macroeconomic Management, Macroeconomic Modelling, Financial Programming, Trade Policies, Competitiveness, Project Management, Foreign Investment, Strategic Planning and Management, Human Resource Management and Communication Policy. Mr. Lankathilake has also served as a member of the Board of Directors of Sri Lanka Export Credit Insurance Corporation, Board of Management of the Title Insurance Fund of Registrar General's Department, National Labour Advisory Committee, Securities Exchange Commission and several other committees in the past. Mr. Lankathilake has authored many articles and published them in reputed international and local journals and with CBSL publications particularly in the areas of economic issues, small-scale industries, international trade, gem industry, apparel industry etc.

MR. A J L PEIRIS
Independent Director

Mr. Luxman Peiris retired as Additional Director of the Central Bank of Sri Lanka (CBSL) and was appointed as an Independent Director. pursuant to the merger with LOLC Development Finance PLC with effect from 31st January 2023. His career at the CBSL spanned 25 years, during which he worked in several different departments in the CBSL, including Economic Research, Management Development Centre, Governor's Office (Chief Protocol Officer), Domestic Operations and Payments and Settlements.

Mr. Peiris holds a BSc (Physical Science) with a First-Class Honours from the University of Kelaniya, Sri Lanka, an MSc and a Postgraduate Diploma in Agricultural Economics from the University of Reading, UK and an MSc and a Postgraduate Diploma in Quantitative Development Economics from the University of Warwick, UK.

Mr. Peiris served as the Vice President of the Clearing Association of Bankers (CAB). He was also the Coordinator CBSL SEACEN Financial Statistics. He is a member of the Sri Lanka Economic Association. He served in the Sri Lanka Army Volunteer Force attached to the 2nd Sri Lanka Army Service Corps as a Commissioned Officer too. He was adjudged as the Best Officer Cadet in Intake one in the Sri Lanka Army Volunteer Force in 1981. Presently he is an Exco member of the Sri Lanka Army Service Corps Ex- Servicemen's Association.

Report of the Board of Directors

The Directors have pleasure in presenting their Annual Report together with the Audited Financial Statements for the year ended 31st March 2023.

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 of the Company 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 [resigned from the Board with effect from 29.05.2023]	Executive Director
4. B C G De Zylva	Non-Executive Director
5. P A Wijeratne	Senior Independent Director
6. K Sundararaj	Independent Director
7. S Lankathilake [appointed to the Board with effect from 31.01.2023]	Independent Director
8. A J L Peiris [appointed to the Board with effect from 31.01.2023]	Independent Director

The profiles of the above Directors can be found on pages 8 to 9.

The Board welcomes Messrs S Lankathilake and A J L Peiris who were appointed as Independent Directors on 31.01.2023 upon completion of the amalgamation with L O L C Development Finance PLC. The Board looks forward to benefiting from their expertise in development finance and economics.

In compliance with Section 3.5 (f) of the Corporate Governance Direction No. 5 of 2021, Mrs. K U Amarasinghe resigned with effect from 29th May 2023. The Board places on record its immense gratitude to Mrs Amarasinghe for her contribution towards the strategic decision making of the board over the past 20 years.

The aforesaid changes to the directorate have been approved by the Central Bank of Sri Lanka.

RECOMMENDATIONS FOR RE-ELECTION OF DIRECTORS

In terms of Article 70 of the Articles of Association of the Company, Mr. S Lankathilake and Mr. A J L Peiris will retire and being eligible seek re-election as directors.

In terms of Article 75 of the Articles of Association of the Company Mr. F K C P N Dias and Mr P A Wijeratne will retire by rotation and being eligible seek re-election as directors.

The Board recommends their re-election.

The approval of the Department of Supervision of Nonbank Financial Institutions of the Central Bank of Sri Lanka has been Sought for the existing/continuing directors of the Company in terms of Sec. 7.2 (a) of the Fitness & Propriety of Directors and Officers Direction No. 6 of 2021.

DIRECTORS' SHAREHOLDING

Director's Name	As at 31.03.2023	As at 31.03.2022
1. F K C P N Dias	Nil	Nil
2. D M D K Thilakaratne	Nil	Nil
3. Mrs. K U Amarasinghe	Nil	Nil
4. B C G De Zylva	Nil	Nil
5. P A Wijeratne	455,998	455,998
6. K Sundararaj	Nil	Nil
7. S Lankathilake	Nil	Nil
8. A J L Peiris	Nil	Nil

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 79.

DIRECTORS' DECLARATIONS IN TERMS OF SECTION 16.1 OF THE FINANCE BUSINESS ACT DIRECTIONS NO. 05 OF 2021, CORPORATE GOVERNANCE

The Chairman and the Directors of the Company have made declarations as per the requirements in the above Directions, that there is no financial, business, family or other material/relevant relationship[s] between the Chairman and the CEO and/or amongst the members of the Board.

DIRECTORS' REMUNERATION

The Company paid Rs. 38,364,559/- as Directors' remuneration for the financial year ended 31st March 2023 [Rs. 40,913,600/- for 31st March 2022].

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 84.

CAPITAL STRUCTURE

The stated capital of the Company is Rs. 306,993,805,500/50 divided into 33,079,212,299 shares.

The debt capital of the company comprises rated unsecured subordinated redeemable debentures of 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 Lanka Rating Agency rated Rs.2.5Bn debentures as A- (Stable) and Rs.5Bn debentures as A (Stable).

The details of the Debentures in issue as at 31st March 2023 are set out in Note 14.3 to the Financial Statements on page 153.

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 70 to 72.

CORPORATE GOVERNANCE

LOLC Finance PLC is governed by the requirements of the Finance Companies (Corporate Governance) Direction No. 05 of 2021 (with transitional provisions applicable from 01.07.2022 to 01.07.2024) and the Listing Rules of the Colombo Stock Exchange.

The manner in which the Board of Directors of the Company ensures adherence with the above requirements has been disclosed on pages 28 to 72.

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. Furthermore, the Board approved the appointment of a Board Credit Committee subsequent to the year under review.

The reports of these committees can be found on pages 82 to 87.

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 Minimum Public Float under rule 7.14.1.i.b. Please refer page 69. 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 found on pages 93 to 96.

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.

The Statement of Directors' Responsibilities for Financial Reporting is on page 89.

DIRECTORS' STATEMENT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

In terms of Section 16.1 (ix) of Finance Companies (Corporate Governance) Direction No. 05 of 2021, the Board has issued a statement on the internal control mechanism of the Company on page 80 The Assurance Report from the Independent Auditors on the Directors' Statement on Internal Controls over Financial Reporting obtained by the Board is on page 80.

Report of the Board of Directors

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 106 to 120.

TRANSACTIONS WITH RELATED PARTIES

In terms of LKAS 24, the Directors have disclosed transactions which are classified as related party transactions under Note 33.3 on pages 167 to 168.

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 2023 and that such transactions with the company if any, have been disclosed while abstaining from voting on matters of material interest.

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, the Auditors of the Company, retire and offer themselves for re-appointment. As the auditors have expressed their willingness to continue, as advised by the Audit Committee, the Board recommends their re-appointment for the year 2023/2024 at a fee to be decided by the Board.

The Auditors' remuneration for the year ended 31st March 2023 is disclosed in Note 27 to the Financial Statements.

The Audit Committee reviews the appointment of the Auditor, its effectiveness, its independence and its relationship with the Company, including

the level of audit and non audit fees paid.

The Auditor's were also engaged to seek an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 05 of 2021 issued by the Monetary Board and the Company's level of adherence to the internal controls on financial reporting.

As far as the Directors are aware, the Auditors do not have any other relationship with the Company or any interest in contracts with the Company.

RISK MANAGEMENT AND 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 LOLC DEVELOPMENT FINANCE PLC

In accordance with the CBSL Master Plan for Consolidation of Non-Bank Financial Institutions, the amalgamation of LOLC Development Finance PLC (LODF) with the Company, LOLC Finance PLC was concluded effective from 31st January, 2023 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 the amalgamating company LODF.

Please refer Note 37 for further details.

ASSOCIATE COMPANIES

The Company holds the following associate investments:

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 34 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 EL-OULA MICROFINANCE EGYPT

The Company held 25% shareholding in LOLC El-Oula Microfinance Egypt. Effective from 16th July 2023, the holding diluted to 15.10% due to non subscription of rights.

LOLC MYANMAR MICROFINANCE COMPANY LTD

The Company holds 17.33% 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.

EVENTS AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date that would require disclosure.

FAIR TREATMENT FOR STAKEHOLDERS

The Board of Directors declare that the Company has taken necessary measures to ensure the fair and equitable treatment for all stakeholders, including its shareholders of depositors.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Wednesday the 27th day of September 2023 at 10:00 a.m. as a virtual meeting and the Notice of Meeting is on page 206.

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 2023
Rajagiriya

Strategic Business Unit/AFSU Team

SHIRAZ REFAI

FCMI[UK], AMABE[UK], MBA[UK]
Head of Alternate Financial Services Unit of LOLC Finance

Joined LOLC Group in 2006 and counts over 21 years of experience in the Banking and Financial Services sectors in both local and overseas establishments. A key member of the Operational Management Team of LOLC, has played a pivotal role in spearheading the formation and implementation of Alternate Financial Services projects under LOLC Group financial services subsidiaries.

SHAFIN IQBAL

MCIM[UK], MBA[UK]
Manager, Institutional Marketing – Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Joined LOLC group in 2014 and counts over 20 years of experience in Marketing services in the areas of Strategic marketing, new business development, branding and communication and network marketing.

IMRAN ZAROOK

ADCM [SLICM], ADICM [SLICM]
Senior Manager, Recoveries Supervision – Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Joined LOLC Group in 2015. Counts over 19 years of experience in the field of customer operations/finance including credit control, collection, recovery, legal, risk and relationship management.

ASH-SHAikh MUAWWITh MUBARAK

Certified Shari'ah Advisor & Auditor [AAOIFI], BA, Islamic Law [Madina]
In-House Scholar Advisor – Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Graduated from Islamic University of Madina. Possesses a wide knowledge in Islamic law and commercial transaction.

ASH-SHAikh ILHAM MUFARIS

BA in Usoolud Deen [NALEEMI], BA [University of Peradeniya]
Executive, Business Operations – Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Joined LOLC Group in 2015. Counts over 7 years of experience in Alternate Banking and Financial Services in Operational areas.

BUDDHIKA WEERATUNGE

FCA[SL], ACMA[SL], MBA[ACS]
Head of Finance, LOLC Finance

Buddhika Weeratunge is Fellow member of the Institute of Chartered Accountants in Sri Lanka. He possesses a Master's Degree from University of Southern Queensland, Australia and Associated Member of Institute of Certified Management Accountants of Sri Lanka [CMA Sri Lanka].

HIKAM HUSSAIN

PG Dip. in Islamic Banking, Dip. in Mgt Development [PIM], Dip. in Structuring Islamic Legal Documentation [Malaysia]
Manager, Channel Marketing, Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Joined the group in 2021. Counts over 15 years experience in Islamic Banking and Finance.

MOHAMED WAFIQ

MBA [UK]
Deputy Manager – Recoveries Supervision, Al-Falaah Alternate Financial Services Unit

Has 13 years experience in Telecommunication sector, including Customer care, Recoveries, Inbound and Outbound call handling, Back Office functions and Corporate support service. Joined LOLC on 7th of January 2019. He currently overlooks the Alternate facilities recoveries.

ASH-SHAikh UMAR ANAS [ISLAMI]

CIBF [FGA]
In-House Scholar Advisor – Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Graduated from Darul Uloom Islamiyyah Colombo. Holder of Certificate in Alternate Banking and Finance.

ASH-SHAikh SEYYED SAABIQ

BA in Usoolul Fiqh [FATHIH], EDIBF [FGA]
Executive, Business Operations – Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Joined LOLC group in 2018. Graduated from the Fathih Institute of Sri Lanka in Thihariya and a holder of Executive Diploma in Alternate Banking and Finance.

ILSAM AWFER

MSLIM, AFIBI [UK], MBA [MANIPAL]
Chief Manager – Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Joined the group in 2008. Counts over 15 years experience in Islamic Banking and Finance operations, marketing, research and finance.

IFTHAZ NAZIR

Msc. in Strategic Marketing
Manager, Channel Marketing, Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Joined LOLC Group in 2010 and count over 19 years of experience in marketing of Financial service sector. Played a pivotal role in developing metro region Alternate Finance businesses.

SILMY SALLY

PG Dip. in Marketing [UG]
Deputy Manager – Recoveries Supervision, Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Joined the group in 2014. Counts over 13 years experience in Recoveries, administration and marketing.

ASH-SHAikh FAZIL MOHIDEEN

Msc. In Islamic and Accounting, BA in Usoolud Deen [NALEEMI], DIB [IBSL]
Associate Manager, Business Operations – Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Joined LOLC Group in 2014. Counts over 8 years of experience in Alternate Banking and Financial Services in both Marketing and Operational areas.

NISAL RATHNAYAKA

CBA/MAAT/BA Hans UK
Executive, Finance – LOLC Finance

Graduated in Bedfordshire University, UK. CBA holder in CA, Sri Lanka and a Member of Association of Accounting Technicians. Joined LOLC group in 2015. Counts over 9 years of experience in both financial analysis and operations.

Regional Coordinators - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

RAMSHAD MOHAMED

MBA (OUSL)

Chief Manager - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Central I & II, Northern I & II, Sabragamuwa Regions

Joined LOLC group in 2008. Counts over 21 years of experience in the field of banking & finance and insurance.

DHILFOWZY MOHAMED

MBA - Cardiff Metropolitan UK

Senior Manager - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

*Liability Marketing
Central I & II, Sabragamuwa, Eastern, Uva, North Central I & II, North Western II Regions*

Joined LOLC group in 2011. Count over 30 years of experience in the field of banking & finance.

MOHAMED FAIZ

BBA, MCIM, AM SLIM

Chief Manager - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Eastern, Uva Regions

Joined LOLC group in 2016. Counts over 18 years of experience in the field of banking & finance.

JAMEEL AHAMED

Deputy Manager - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Southern I & II Regions

Joined LOLC group in 2011. Counts over 13 years of experience in the field of banking & finance.

IMRAN HAMEED

IFA-UK (Associate Member of Institute of Financial Accountant)

Deputy Manager - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

North Western I, Western I & II Regions

Joined LOLC group in 2005. Counts over 19 years of experience in the field of banking & finance.

AHSAN MUNAF

*B.A (Hons) in Business Management
Northumbria University-UK
Islamic Finance Qualification CISI-UK*

Deputy Manager - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Metro I & II Regions

Joined LOLC group in 2014. Counts over 11 years of experience in the field of banking & finance.

AHAMED NUSKY

CIMA Passed Finalists

Deputy Manager - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

North Central II & North Western II Regions

Joined LOLC group in 2021. Counts over 8 years of experience in the field of banking & finance.

SHAZEEN SHAHUL HAMEED

Dip. Credit Management SLICM

Associate Manager - Al-Falaah, Alternate Financial Services unit of LOLC Finance

Southern III & Western III Regions

Joined LOLC group in 2015. Count over 10 years of experience in the field of banking & finance.

MUSTHAFA MUSRIF

Associate Manager - Al-Falaah, Alternate Financial Services unit of LOLC Finance

North Central I & Uva Regions

Joined LOLC group in 2016. Counts over 10 years of experience in the field of banking & finance and insurance.

Scholar Supervisory Board Members

ASH-SHAIKH SHAFIQUE

A. Jakhura (Mufti)
Chairman

Mufti Shafique is a Registered, Certified Shari'ah Advisor and Auditor by the Accounting and Auditing Organisation for Islamic Financial Institutions of Bahrain (AAOIFI). He serves in the Fatwa Department preparing and issuing Islamic Juristic Rulings at the Darul Ihsan Centre in Durban, South Africa. He is also a founding member of the Centre of Islamic Economics and Finance South Africa (CIEFSA). He completed the Aalimiyah Course at Madrasah Taleemuddeen in 2002 in Durban and completed a three-year specialisation course in Islamic jurisprudence (Fiqh and Fatwa) from the Jami'ah Darul Uloom, Karachi, Pakistan in 2005, under the guidance of Mufti Taqi Usmani, which culminated in the submission of a thesis on the topic of Shirkat and Mudharabah. He also has an Advanced Diploma in Islamic Banking and Finance from the Centre for Islamic Economics based in Karachi, Pakistan. A leading International Consultant in Islamic Finance, Mufti Shafique Jakhura is the Chairman of the Scholar Supervisory Board of Al-Falaah, the Islamic Business Unit of LOLC Finance PLC.

ASH-SHAIKH MURSHID

M. Mulaffar
Member

Ash-Shaikh Murshid is a graduate of the Darul Uloom Al-Humaidhiya in Islamic Shari'ah, Colombo and a qualified scholar in Islamic Banking and Finance from the Centre for Islamic Economics, Karachi, Pakistan. Certified Shari'ah Advisor and Auditor by the Accounting and Auditing Organisation for Islamic Financial Institutions of Bahrain (AAOIFI) He is a leading Islamic Finance consultant in Sri Lanka and also the Assistant General Secretary of the All Ceylon Jamiyyathul Ulama (ACJU). Ash-Shaikh Murshid Mulaffar and is a Member of the Scholar Supervisory Board of Al-Falaah, the Islamic Business Unit of LOLC Finance PLC.

ASH-SHAIKH FAZIL

M. Farook
Member

Ash-Shaikh Fazil is a graduate of Islamic Shari'ah and completed Dharuthul Hadith from The Darul Uloom, Newcastle, South Africa. A qualified scholar in Islamic Banking and Finance from the Islamic University, Malaysia, he is also a lecturer at The Al-Ain Islamic Institute and The Darul Uloom Islamiya, Colombo and a leading Islamic Banking and Finance consultant in Sri Lanka. Ash-Shaikh Fazil Farook is a Member of the Scholar Supervisory Board of Al-Falaah, the Islamic Business Unit of LOLC Finance PLC.

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THE NINE MAIN PRODUCTS CONTAINED IN OUR PORTFOLIO ARE TAILOR-MADE TO FULLY MEET ALL YOUR FINANCIAL NEEDS. BEING THE FIRST FINANCIAL INSTITUTION REGISTERED UNDER THE CENTRAL BANK OF SRI LANKA, OUR GUIDING PRINCIPLES ENSURE THAT WE UPHOLD TRUST AND OPENNESS AT ALL TIMES.

Scholar Supervisory Board Audit Report 2022/23

IN THE NAME OF ALMIGHTY ALLAH, ALL GRACIOUS, THE VERY MERCIFUL.

TO THE SHAREHOLDERS OF LOLC FINANCE PLC

The year under review was the Fifteenth year of Al-Falaah, the Alternate Financial Services Unit of LOLC Finance PLC [LOLC Al-Falaah].

During the year, The Scholars Supervisory Board [SSB] of the LOLC Al-Falaah and the Management of LOLC Finance PLC held several meetings to review various products, concepts, transactions, processes and their compliance with Islamic economic jurisprudence.

We have reviewed the principles and the contracts relating to the transactions applied by LOLC Al-Falaah, as well as audited directly or indirectly through the In-House Scholar Advisor [ISA], the transactions concluded by LOLC Al-Falaah during the financial year under review from April 2021 to March 2022.

We have also conducted our review to form an opinion as to whether LOLC Al-Falaah, complied with the rules and Islamic economic & commercial principles in accordance with international benchmark standards set out by the Accounting and Auditing Organisation for Islamic Financial Institutions of Bahrain [AADIFI] and the guidelines of the SSB.

The Management of LOLC Finance PLC [LOFC], is responsible for ensuring that LOLC Al-Falaah, conducts its business in accordance with the rules and Islamic economic & commercial principles. It is the SSB's responsibility to form an independent opinion based on its review of the operation of LOLC Al-Falaah, and report to you.

THE FOLLOWING WERE THE MAJOR DEVELOPMENTS THAT TOOK PLACE DURING THE YEAR UNDER REVIEW

1. Training & Development: During the year, the In-House Scholars Advisor and AFSU operations Department held training programs for staff online & Physically.
2. Launching of new products: Wadi'ah Gold Storage facility, & Wakalah Speed-Draft.
3. The In-House Scholars Advisor was not able to visit the branch due to crisis in the country. However, virtual meetings

were held to enhance knowledge, related to products and processes.

4. SSB meetings were held both physically as well as online
5. Al-Falaah Alternate Financial Services Unit of LOLC Finance PLC was recognized and accolades were received in Islamic Banking & Finance Industry Awards both locally and internationally.

SSB Audit and Compliance Review

The scope of the audit included examining on a test basis:

1. Mudharabah Fixed Deposits & Savings Transactions
2. Wakalah Term Investment Transactions
3. Ijarah Lease Financing Transactions
4. Murabaha Trade Financing Transactions
5. Diminishing Musharakah Project & Property Financing Transactions
6. Wakalah Business & Working Capital Financing Transactions
7. Wadi'ah Gold Storage Transactions
8. Benevolent Loans against Wadi'ah Gold Storage Certificates
9. Profit Distribution for Depositors
10. Excess-Fund Investments
11. Bank Statements
12. Expenditure Apportionment
13. Review of Audited Financial Statements
14. Marketing and Advertising material review
15. Reconciliation of Administrative Charges on Delayed Penalties against actual Expenses incurred for recoveries
16. Accrual and Disposal of Impermissible Income
17. Charity Fund

We planned and performed our review to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give us reasonable assurance that LOLC Al-Falaah, has adhered to Islamic commercial principles.

In our opinion;

1. The overall structure of the contracts offered by LOLC Al-Falaah and their implementation during the year under review are generally in compliance with the rules and Islamic economic & commercial principles.
2. The allocation of profits relating to investment accounts and profit equalization reserve [PER] allocation appears to conform to the rules and Islamic economic principles.
3. The expense allocation appears to be based on a reasonable formula. Management is requested to review this methodology annually to ensure accurate allocation of expenses.
4. The reconciliation of administrative costs recovered vs actual costs incurred for recovery of delayed payments appears to indicate that Administrative charges recovered are less than costs incurred in recovering delayed payments. Hence, this is in accordance with the guidelines issued by the SSB. Management is required to carry out periodic reviews on this to ensure that administrative charges recovered does not exceed costs of actual recoveries costs incurred.

We beseech the Almighty Allah to bless us with the guidance to accomplish His cherished tasks, make us successful in this world and in the hereafter, and to forgive our mistakes.

[Mufti] Shafique A. Jakhura
Chairman – SSB

[Ash-Shaikh] Fazil A. Farook
Member – SSB

[Ash-Shaikh] Murshid M. Mulaftar
Member – SSB

Independent Auditors' Report



Ernst & Young
Chartered Accountants
201, De Saram Place
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Colombo 10, Sri Lanka

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ey.com

APAG/TP/CT/AD

BOARD OF DIRECTORS OF LOLC FINANCE PLC

Opinion

We have audited the statement of financial position as at 31 March 2023 and the statement of comprehensive income for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financials").

In our opinion, the accompanying financial statement of the LOLC Finance PLC ("the company"), AL-Falaah, Alternate Financial Services Unit ("Unit") for the year ended 31 March 2023 is prepared, in all material aspects, in accordance with the accounting policies set forth in pages 06 to 24 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 Bank 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.

Emphasis of Matter - Basis of Accounting and Restriction on Distribution

We draw attention to the accounting policies set forth in pages 06 to 24 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.

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.

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.

29 June 2023
Colombo

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

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACMA, D L B Karunathilaka ACMA, Ms. P S Paranavirane ACA ACMA LLB (Colombo), T P M Ruseru FCMA FCCA

A member firm of Ernst & Young Global Limited

Statement of Financial Position

As at 31 March 2023	Note	2023 Rs.	2022 Rs.
ASSETS			
Cash and bank balances	3	5,547,597,315	603,738,364
Deposits with banks and other financial institutions		2,048,743,772	177,334
Murabaha / Musawamah /Wakalah Finance	4	1,301,377,967	2,113,506,060
Diminishing Musharakah receivables	5	16,935,845,248	16,634,052,515
Ijarah rent receivables	6	4,328,237,645	4,518,046,048
Wadi'ah Gold Storage Facility	7	671,443,923	183,735,776
Trading assets - Fair value through profit or loss	8	16,407,646	19,080,384
Investment Properties	10	143,000,000	122,800,000
Other receivables	9	405,353,006	66,312,057
Amount due from related companies		-	40,074,387
Total assets		31,398,006,522	24,301,522,926
LIABILITIES			
Deposits from customers	11	23,080,494,620	12,575,052,969
Income tax payable	18	317,599,624	321,257,538
Accruals and other payables	12	2,057,615,385	418,746,808
Amount due to related companies	13	534,859,896	6,333,220,775
Total liabilities		25,990,569,525	19,648,278,089
OWNER'S FUND			
Retained earnings		5,407,436,996	4,653,244,837
Total owners fund		5,407,436,996	4,653,244,837
Total liabilities & owners fund		31,398,006,522	24,301,522,926

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 Financial Statements. Signed for and on behalf of the Board by;



[Mr.] Krishan Thilakarathne
Director/CEO



[Mr.] Conrad Dias
Chairman / Non Executive Director

The annexed notes to the financial statements on pages 32 through 44 form an integral part of these financial statements.

29 June 2023
Rajagiriya [Greater Colombo]

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 March 2023	Note	2023 Rs.	2022 Rs.
Revenue	14	4,878,017,971	2,471,160,641
Profit paid to Mudharabah/Wakalah investments		(2,540,735,836)	(712,269,078)
Profit paid on other funding arrangement		(253,097)	(23,193,453)
Other direct expenses		(77,423,725)	(113,811,902)
		2,259,605,313	1,621,886,209
Non distributable other income / (expenses)	15	313,470,054	226,991,481
Total operating income		2,573,075,367	1,848,877,690
Employee benefits	16	(542,290,133)	(354,952,353)
(Provision)/reversal for credit losses		(58,151,465)	(123,594,901)
Other operating expenses		(990,173,022)	(666,635,004)
Profit from operations		982,460,747	703,695,433
Value added tax on financial services		(228,268,589)	(139,444,100)
Profit before taxation		754,192,158	564,251,333
Income tax expense	17	-	(181,991,622)
Profit for the year		754,192,158	382,259,711
Other comprehensive income		-	-
Total comprehensive income		754,192,158	382,259,711

The annexed notes to the financial statements on pages 32 through 44 form an integral part of these financial statements.

Statement of Cash Flows

Year ended 31 March 2023	2023 Rs.	2022 Rs.
Cash Flows From / (Used in) Operating Activities		
Net Profit before Income Tax Expense	754,192,158	564,251,333
Provision for fall/(Increase) in value of investments	2,672,738	(17,023,048)
Allowance for/(reversal of) doubtful debts	58,151,465	123,594,901
Change in fair value of investment property	(20,200,000)	
Investment income	(178,879,439)	(96,632,938)
Profits attributable to investment made from banks & other Financial institutions	253,097	23,193,453
Profits attributable to Mudharabah / Wakalah investors	2,540,735,836	712,269,078
Operating profit before working capital changes	3,156,925,855	1,309,652,778
Change in other receivables	(298,966,562)	(16,784,295)
Change in trade and other payables	1,635,210,664	(2,852,539)
Change in amounts due to head office	(5,798,360,879)	1,673,240,422
Change in Ijarah rent receivables	189,808,403	(99,987,648)
Change in Murabaha / Musawamah receivables/ Wakalah Finance	753,976,628	(461,415,011)
Change in Diminishing Musharakah receivables	(301,792,733)	(4,546,151,660)
Change in Wadi'ah Gold Storage Facility	(487,708,147)	(144,696,984)
Change in Mudharabah investments from customers	(3,649,555,000)	(476,260,731)
Change in Wakalah investments from customers	14,060,515,603	(1,850,977,331)
Change in Mudharabah savings deposits from customers	94,481,048	141,076,417
Cash used in Operations	9,354,534,880	(4,475,156,583)
Profits paid to Mudharabah / Wakalah investors	(2,540,735,836)	(712,269,078)
Income tax paid	-	-
Net Cash Used in Operating Activities	6,813,799,045	(5,187,425,661)
Cash Flows from / (Used in) Investing Activities		
Investments in Unit trust	-	103,595,501
Net proceeds from Investments in Mudharabah Deposits	(2,048,566,438)	4,962,381,766
Profit Received	178,626,342	96,632,938
Net Cash Flows from Investing Activities	(1,869,940,097)	5,162,610,205
Cash Flows from / (Used in) Financing Activities		
Net Increase/(decrease) in cash and cash equivalents	4,943,858,949	(24,815,455)
Cash and cash equivalents at the beginning of the period	603,738,364	439,517,795
Addition on merger with subsidiary	-	189,036,024
Cash and cash equivalents at the end of the period	5,547,597,315	603,738,364
Analysis of cash and cash equivalents at the end of the period		
Cash and bank balances	5,547,597,315	603,738,364
	5,547,597,315	603,738,364

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 accounting policies and notes on pages 32 through 44 form an integral part of the Financial Statements.

Notes to the Financial Statements

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 AI-Falaah, Alternate Financial Service Unit (“LOLC AI-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 AI-Falaah comprised of Mudharabah (Profit Sharing Investments & Savings) and Wakalah (Term Investments), Diminishing Musharakah (Property & Project Financing), Murabaha (Trade Financing), Musawamah (Import Financing), Wakalah (Working Capital Financing), Wadi’ah (Gold Storage Facility) 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 AI-Falaah are prepared on based on the accounting policies explained in Note 2.

The results of LOLC AI-Falaah and the financial position of the LOLC AI-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 authorized for issue by the Board of Directors in accordance with a resolution of the Directors passed on 29 June 2023. Therefore, the isolated financial statements of the LOLC AI-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 AI-Falaah for the year under review.
- a Statement of Financial Position providing the information on the financial position of the LOLC AI-Falaah as at the year-end.
- a Statement of Cash Flows providing the information to the users, on the ability of the LOLC AI-Falaah to generate cash and cash equivalents and the needs of the LOLC AI-Falaah to utilize 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 alternate 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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 AI-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 AI-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 recognized 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 investment properties	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 AI-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 categorized 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 categorized 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 recognizes 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 10 – Investment property

Note 2.1 – Financial instruments

1.4.2 Impairment Losses on Financial Accommodation

In addition to the provisions made for possible loan losses based on the parameters and directives for specific provisions on financial accommodation by the Central Bank of Sri Lanka, the LOLC AI-Falaah reviews its financial accommodation portfolio at each reporting date to assess whether a further allowance for impairment should be provided in the statement of profit or loss. The judgement 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 AI-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

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	Financial assets and financial liabilities
2.2	Investment property
2.3	Employee benefits
2.4	Provisions
2.5	Events occurring after the reporting date
2.6	Benevolent Loan (Qurd Hassan)
2.7	Revenue Recognition
2.8	Expenditure Recognition
2.9	Income Tax
2.10	Cash flow statements
2.11	Fair value measurement

Notes to the Financial Statements

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 AI-Falaah initially recognizes receivables on the date that they are originated. All other financial assets are recognized initially on the trade date at which the LOLC AI-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)

- amortized 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 realizing 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 realized.

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 amortization 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.

Amortized cost

Financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition measured at amortized 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 AI-Falaah in the management of its short-term commitments.

- **Ijarah receivables**

The LOLC Finance PLC’s LOLC AI-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, Wakalah Finance 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/ Wakalah finance 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 amortized 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 recognized 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 recognized 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 amortized cost.

Mark-up income is recognized in profit or loss using the effective mark-up method. Dividend income is recognized in profit or loss when the Company becomes entitled to the dividend. Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, are recognized 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

Amortized cost- Financial Accommodations and Receivables

Financial accommodations are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost.

Financial accommodations and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, Ijarah receivables, Murabaha, Musawamah, Wakalah Finance 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 AI-Falaah in the management of its short-term commitments.

- **Ijarah receivables**

The LOLC Finance PLC's LOLC AI-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 Wakalah Finance 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/ Wakalah Finance 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 AI-Falaah initially recognizes non-derivative financial liabilities on the date that they are originated.

The LOLC AI-Falaah classifies non-derivative financial liabilities into the other financial liabilities' category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized 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 recognized 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.

Profit Payable to the Wakalah Investors

Profits payable are recognized on accrual basis and credited to Investors' accounts on a monthly or maturity basis.

Notes to the Financial Statements

2.1.3 Derecognition of financial assets and financial liabilities

Financial assets

The LOLC AI-Falaah derecognises a financial asset when the rights to receive cash flows from the asset have expired or the LOLC AI-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 AI-Falaah has transferred substantially all the risks and rewards of the asset, or
- (b) The LOLC AI-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 recognized in other comprehensive income is recognized in profit or loss.

Financial liabilities

The LOLC AI-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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.1.5 Amortized cost measurement

The amortized 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 recognizes 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 Financial Accommodations which are Not Impaired Individually

Company will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Financial accommodations with objective evidence of incurred losses are classified as Stage 3. Financial Accommodations 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

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.

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 standardized financial accommodations, 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 recognized 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

Notes to the Financial Statements

between the net proceeds from disposal and the carrying amount of the item) is recognized 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 recognized 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 recognized 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 recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized 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 recognized if, as a result of a past event, the LOLC AI-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, favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized 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 AI-Falaah as and when required and the LOLC AI-Falaah settles those when funds are available.

SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF INCOME AND EXPENSES

2.7 Revenue Recognition

2.7.1 Murabaha/Musawamah/ Wakalah Finance Income

The profits and losses arising from Murabaha/Musawamah transactions are recognized 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 recognized 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 recognized in the accounting period in which the installments are due.

2.7.4 Fees and other income

Fees and other income that are integral to the financial asset or liability are included in the measurement of the amortized cost.

Other fees and other income, including account servicing fees are recognized as the related services are performed.

Collections on contracts written off are accounted for on cash basis.

2.7.5 Dividends

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

2.8 Expenditure Recognition

Expenses are recognized 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 AI-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 recognized as expense in the period it becomes due.

2.9 Income Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax

is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

2.9.1 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.

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

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.

Notes to the Financial Statements

3. CASH AND BANK BALANCES

	2023 Rs.	2022 Rs.
Cash & bank balances	5,547,597,315	603,738,364
	5,547,597,315	603,738,364

4. MURABAHA / MUSAWAMAH / WAKALAH RECEIVABLES

	2023 Rs.	2022 Rs.
Instalment receivable	2,052,023,411	2,436,104,493
Unearned income	[745,062,083]	[313,871,275]
Provision for impairment	[5,583,361]	[8,727,158]
	1,301,377,967	2,113,506,060

5. DIMINISHING MUSHARAKAH RECEIVABLES

	2023 Rs.	2022 Rs.
Instalment receivable	17,046,298,575	16,841,721,032
Provision for impairment	[110,453,326]	[207,668,517]
	16,935,845,248	16,634,052,515

6. IJARAH RENT RECEIVABLES

	2023 Rs.	2022 Rs.
Rent receivables	6,405,106,282	6,187,716,271
Unearned income	[1,920,591,189]	[1,576,256,236]
Provision for impairment	[156,277,448]	[93,413,986]
	4,328,237,645	4,518,046,048

7. WADI'AH GOLD STORAGE FACILITY

	2023 Rs.	2022 Rs.
Gross amount outstanding	675,137,666	182,881,145
Provision for impairment	[3,693,743]	854,631
	671,443,923	183,735,776

8. TRADING ASSETS - FAIR VALUE THROUGH PROFIT OR LOSS

	2023 Rs.	2022 Rs.
Original Cost	1,653,174	1,653,174
Carrying amount as at 1st April	19,080,384	4,105,383
Adjustment for change in fair value - recognized in profits	(2,672,738)	14,975,001
Disposal during the period	-	-
Carrying amount as at 31st March	16,407,646	19,080,384
Carrying amount as at 1st April	-	101,547,454
Investments during the year	-	-
Disposal during the year	-	(103,595,501)
Adjustment for change in fair value - recognized in profits	-	2,048,047
Carrying amount as at 31st March	-	-
Total investments held for trading	16,407,646	19,080,384

9. OTHER RECEIVABLES

	2023 Rs.	2022 Rs.
Staff car advances	112,093,387	608,927
Insurance premium receivable	(271,419,796)	23,057,306
WHT receivable	4,060,442	-
Others	560,618,972	42,645,825
	405,353,006	66,312,057

10 INVESTMENT PROPERTIES

	2023 Rs.	2022 Rs.
Balance as at 1st April	122,800,000	122,800,000
Additions to Investment Properties from foreclosure of contracts	-	-
Change in fair value	20,200,000	-
Balance as at 31 March	143,000,000	122,800,000

11 DEPOSITS FROM CUSTOMERS

	2023 Rs.	2022 Rs.
Customer deposits	22,308,316,693	12,422,822,910
	22,308,316,693	12,422,822,910

Notes to the Financial Statements

11.1 ANALYSIS OF CUSTOMER DEPOSITS BASED ON NATURE

	2023 Rs.	2022 Rs.
Mudharabah investments	1,925,345,613	5,576,593,160
Wakalah investments	19,254,908,733	5,812,648,451
Mudharabah savings	1,128,062,348	1,033,581,299
Total deposits	22,308,316,693	12,422,822,910
PROFIT PAYABLE		
Profit payable on Mudharabah investments	43,238,516	41,545,969
Profit payable on Wakalah investments	728,939,411	110,684,090
	772,177,927	152,230,059
Deposit liability recognized in statement of financial position	23,080,494,620	12,575,052,969

12. ACCRUALS AND OTHER PAYABLES

	2023 Rs.	2022 Rs.
Trade Payable	131,177,887	87,787,322
Refunds payable	643,311,372	46,586,395
Insurance payable	29,206,066	12,038,759
Al-Falaah charity fund	18,686,014	10,198,965
Other miscellaneous creditors	975,946,516	69,001,170
Other payables	259,287,530	193,134,196
	2,057,615,385	418,746,808

13. AMOUNT DUE FROM RELATED COMPANIES

Carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with its related parties as defined under LKAS 24 "Related Party Disclosures"

	2023 Rs.	2022 Rs.
Fund received from related companies	-	3,159,000,000.00
Current account balance due to related companies	534,859,896	3,174,220,774
	534,859,896	6,333,220,775

14. REVENUE

Revenue is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

	Note	2023 Rs.	2022 Rs.
Direct Income	14.1	4,634,502,047	2,280,336,428
Other Operating Income	14.2	243,515,924	190,824,213
		4,878,017,971	2,471,160,641

14.1 DIRECT INCOME

	2023 Rs.	2022 Rs.
Income from Ijarah receivables	1,171,313,338	800,404,964
Income from Diminishing Musharakah receivables	2,882,208,174	1,204,057,187
Income from Murabaha/Musawamah/Wakalah Finance	485,075,740	265,830,884
Income from Wadi'ah Gold Storage Facility	95,904,795	10,043,393
	4,634,502,047	2,280,336,428

14.2 OTHER OPERATING INCOME

	2023 Rs.	2022 Rs.
Profit on terminations	65,388,680	94,191,275
Income from Mudarabah/Wakalah deposits	178,127,244	96,632,938
	243,515,924	190,824,213

15. NON DISTRIBUTABLE OTHER INCOME/[EXPENSES]

	2023 Rs.	2022 Rs.
Arrangement & documentaion Fee	37,146,627	39,593,488
Collection admin fee	163,751,940	131,012,001
Franchise Fee	57,331,931	36,702,450
sundry income	53,609,473	19,490,932
Takaful commission	1,630,083	192,609
	313,470,054	226,991,481

16 EMPLOYEE BENEFITS

	2023 Rs.	2022 Rs.
Salaries & other benefits	542,290,133	354,952,353
	542,290,133	354,952,353

17 INCOME TAX EXPENSE

	2023 Rs.	2022 Rs.
Income tax expense reported in statement of profit or loss	-	181,991,622
	-	181,991,622

Notes to the Financial Statements

18. INCOME TAX PAYABLE

	2023 Rs.	2022 Rs.
Current tax payable		
Tax payable at the beginning of the year	321,257,538	135,608,003
Adjustment to the Opening balance	(3,657,913)	3,657,913
Current tax expense for the year - recognized in P&L	-	181,991,622
Tax payable	317,599,624	321,257,538

19. 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.

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