

ANNUAL REPORT 2019/20

CONTENT

| |
|---|
| 01 About Us |
| 02 Our True Identity |
| 03 Awards |
| 04 Financial Highlights |
| 08 Director/CEO'S Review |
| 10 Message from Group Head of Alternate Financial Services - LOLC |
| 12 SSB Chairman's Review |
| 14 Our Locations |
| 17 Product Review |
| 19 Corporate Governance |
| 21 Enterprise Risk Management |
| 24 Charity Fund |
| 25 Scholar Supervisory Board Members |
| 26 Board of Directors |
| 29 Directorships held by the Directors |
| 30 Strategic Business Unit/AFSU Team |
| 33 Scholar Supervisory Board Audit Report 2019/2020 |
| 35 Product Approval by Scholar Supervisory Board |
| 36 Independent Auditors' Report |
| 38 Statement of Financial Position |
| 39 Statement of Profit or Loss and Other Comprehensive Income |
| 40 Cash Flow Statement |
| 41 Notes to the Financial Statements |
| IBC Corporate Information |



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ABOUT US

Vision

Al-Falaah (the Alternate Financial Services Unit of LOLC Finance LOLC Al-Falaah) to be the most preferred Islamic Banking & financial services (IBF) provider.

Mission

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

Our Values

The guiding principles of LOLC Al-Falaah strictly concentrate on ensuring that no element of 'Gharar' (Uncertainty) is 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.

OUR TRUE IDENTITY

LOLC AI-Falaah commenced operations in 2007, led by a mandate to promote and offer alternate financial solutions in keeping with the growing global popularity of Islamic finance.

We differentiated our services by focusing on a wider customer base which encompassed clients from all religious persuasions and not merely the Muslim community.

Buoyed by the Company's viable alternative products and services, LOLC AI-Falaah gained a steady and loyal customer base. Our key differentiator is our customised and innovative product portfolio which addresses both business and socio-economic requirements of diverse market segments, whilst meeting the specialised needs of individuals.

LOLC AI-Falaah's product portfolio offers a superior range of alternate financial solutions in areas of Profit Sharing Investment & Savings, Leasing, Trade Financing, Import Financing, Property & Project Financing and Business & Working Capital Financing. Customers can access these products and services via dedicated windows within LOLC Finance's extensive channel network of over 130 branches and service centres islandwide in strategic locations across the country.

Our focus is not solely on the excellence of our business operations - we are mindful of our contribution to society, through various CSR projects which are aligned on a Group scale.

The operations, of LOLC AI-Falaah are closely monitored and guided by a dedicated Scholar Supervisory Board to ensure that we are at all times, and in every way, compliant with the principles of Islamic economics vis-a-vis alternate financing.

At LOLC AI-Falaah, we're keeping our pledge of total transparency, trustworthiness and value creation while rewarding your partnership with excellence.

AWARDS



IFN Best Islamic Leasing Provider
"Global"



IFN Best Islamic Bank in
"Sri Lanka"

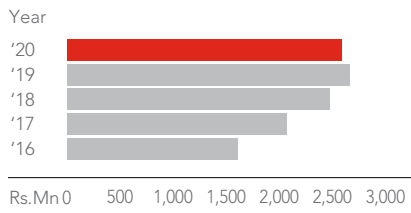


SLIBFI QUIZ - Champions 2019

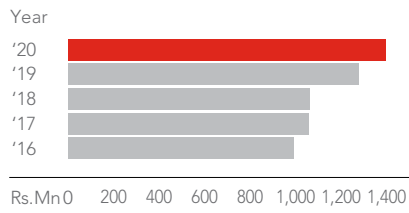
FINANCIAL HIGHLIGHTS

| Year ended 31 March | 2020 Rs. Million | 2019 Rs. Million |
|---------------------------|---------------------|---------------------|
| Revenue | 2,582 | 2,659 |
| Gross Profit | 1,396 | 1,275 |
| Profit Before Tax | 318 | 452 |
| Profit After Tax | 185 | 362 |
| Retained Earning | 2,604 | 2,419 |
| Total Assets | 15,938 | 12,825 |
| Finance and Advance | 11,804 | 9,649 |
| Non Performing Loan | 565 | 430 |
| Deposit Base | 11,187 | 7,951 |
| Profit Paid to Depositors | 876 | 1,040 |
| Total Liabilities | 13,334 | 10,406 |

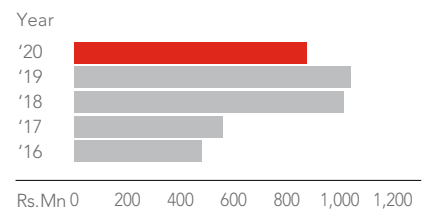
Revenue : Rs. 2,582 Mn



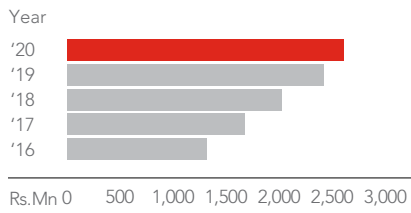
Gross Profit : Rs. 1,396 Mn



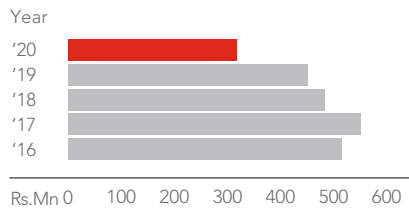
Profit Paid to Depositors : Rs. 876 Mn



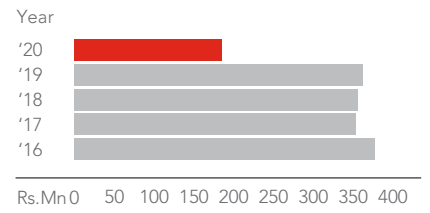
Retained Earnings : Rs. 2,604 Mn



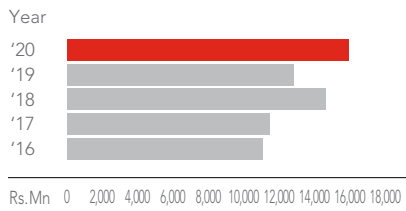
PBT : Rs. 318 Mn



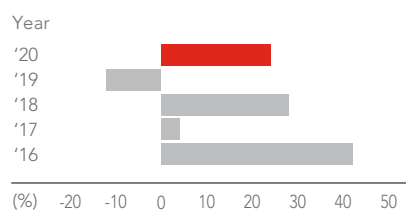
PAT : Rs. 185 Mn



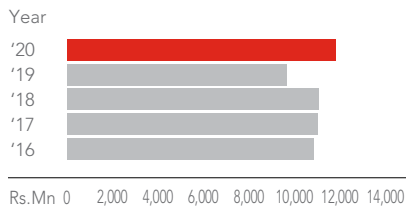
Total Assets : Rs. 15,938 Mn



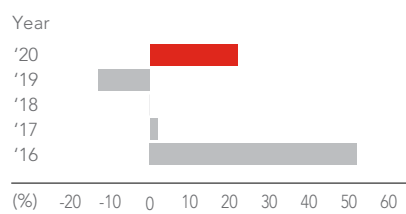
Total Assets Growth : 24% ↑



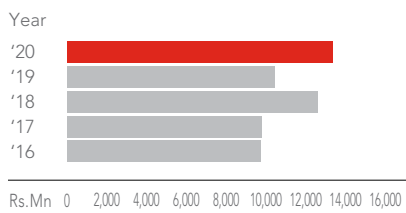
Finance and Advance : 11,804 Mn



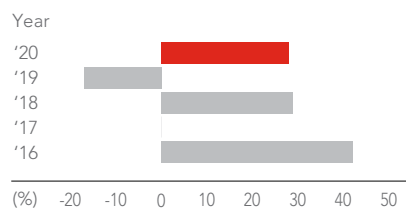
Finance and Advances Growth : 22% ↑



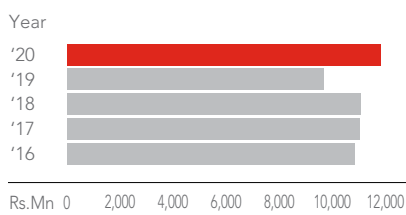
Total Liabilities : Rs. 13,334 Mn



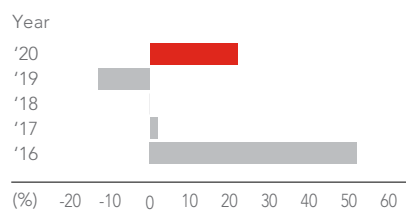
Total Liabilities Growth : 28% ↑



Deposit Base : Rs. 11,187 Mn



Deposit Base Growth : 41% ↑



EXECUTIVE REVIEWS

08 | Director/CEO'S Review

10 | Message from Group Head of Alternate Financial Services - LOLC

12 | SSB Chairman's Review

14 | Our Locations

DIRECTOR /CEO' S REVIEW

One of the key pillars of our sustained success over the years has been the backing from the LOLC Group and LOLC Finance whose enduring stability and brand recognition gives us confidence and helps us leverage our products and services. As the alternate financial solution arm of LOLC Finance, Al-Falaah has seen a wider adoption of this mode of financing across various sections of society during the period under review.

The catastrophic events that unfolded during the 2019/20 financial year did not succeed in deterring LOLC Al-Falaah's propensity for business continuity, having similarly countered various external shocks in the past, which reflects its steely grit to surmount any and every obstacle in its path. The company has gained a reputation for absorbing shocks, retaining critical functionality and even thriving to lead the industry in the face of challenges. This was amply evident in the way the company bounced back from the fall-out of the unfortunate events of April 2019 and ensuing disruptions in business activity across the economy in 2019, the subsequent Presidential Election and the outbreak of COVID-19 by financial year-end.

Financial Performance

Despite these challenges, for the financial year ended 31st March 2020, Al-Falaah achieved loan book growth by as much as 22% year-on-year along with 41% year on year increase in Deposits while Gross Profit recorded growth by 10%. The company recorded a drop in Profit before Tax of 30% due to an increase in operational costs that were invited

to further strengthen the business operations, recoveries reach and technological enhancements, to benefit the business in the long run. Nevertheless, Al-Falaah successfully recorded a retained earnings growth by 8% during the year under review.

While sustained financial performance is one measure of strong performance, Al-Falaah equally values the fact that it was able to fulfil its charity commitments amounting to Rs. 15 Mn during the year under review amidst volatile market conditions.

Future Outlook

Technology continues to power Al-Falaah's operations and going ahead we plan to invest further in digitalising our offerings. The company offers an array of Islamic banking and finance compliant products and services to service the needs of existing and potential customers.

During the year, an e-platform was launched for facilitating online training and development for staff while also enhancing customer experience and to remain more accessible to the public. The company's revamped website offers an enhanced experience and is complaint with the latest Central Bank of Sri Lanka guidelines on key documents required.

Moreover, Al-Falaah garnered awards and accolades once again, reflecting its local and global repute. The company was awarded the 'Best Islamic Bank in Sri Lanka' for the 3rd consecutive year and also the 'Best Leasing Company Globally' by IFN polls for the second year running. Despite the frenetic pace of activity during the year due



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to challenging external factors, the Al-Falaah team participated and won the SLIBFI Quiz championship, showing overall engagement in fraternal industry activity. These awards underscore our commitment to expand the boundaries of alternate financial services in Sri Lanka.

Al-Falaah is geared to deliver an even stronger financial performance once the effects of COVID-19 ease up and economic activity resumes normalcy. In the year ahead we plan to launch the gold storage facility, which will also optionally cater to the liquidity needs of the lower income micro segment. This is one of many product ideas in the pipeline which will be customised to suit emerging needs of our customer segments.



Mr. F.K.C.P.N. Dias
Director/CEO



Al-Falaah achieved Asset book growth by as much as 22% year-on-year along with 41% year-on-year increase in Deposits.



Gross Profit recorded growth by 10%.



Al-Falaah successfully recorded a retained earnings growth by 8% during the year under review.

Acknowledgements

I am grateful to the Chairman and Board of Directors and the senior leadership of Al-Falaah and LOLC Finance for their counsel and support. We deeply value the hard work and dedication of all business units, regional managers and channel staff in navigating a challenging year. We are thankful to the Scholar Supervisory Board for their continued support and

guidance. In conclusion, I would like to thank all our stakeholders and well-wishers for their support at all times.

Mr. F.K.C.P.N. Dias
Director/CEO

MESSAGE FROM GROUP HEAD OF ALTERNATE FINANCIAL SERVICES - LOLC

LOLC Al-Falaah sustained its industry leadership through 2019/20 despite extremely challenging operating conditions when economic activity was impacted by external factors beyond our control. As the pioneer and market leader, we remain cognisant of the fact that Al-Falaah's approach to various challenges in the past becomes the blueprint the rest of the Alternate Finance industry follows. Today, LOLC Al-Falaah stands tall amongst a few Islamic finance institutions that have demonstrated growth year after year and weathered headwinds to capitalise on few opportunities which emerged during the year under review.

Performance

The unfortunate events of April 2019 at the beginning of the financial year and the COVID-19 pandemic at the end of 2019/20 posed a double threat to the profitability of the sector, yet the resilient nature of LOLC Al-Falaah's business and its solid business model steered the company toward profitability. A clear testimony to this claim is reflected in the company being awarded the 'Best Islamic Bank in Sri Lanka' for the third consecutive year and also the 'Best Leasing Company Globally' by IFN's Best Banks polls 2019 for the second consecutive year. The company's spirit of innovation, unique array of products and services, total compliance with Islamic Finance principles and diverse customer base ensure the company maintains a clear lead in the market as the most preferred alternate financial services provider.

LOLC Al-Falaah witnessed a drop in revenue by 3% which is attributable to a marginal decline in margins, while cost of funds and direct expenses dropped by 16% resulting in an increase in operating income by 9%. This performance achieved through heavy investment in operational activities was a prudent measure resulting in increase in overheads by 36%. The company's Profit before Tax and Profit after Tax also declined by 30% and 49%

respectively. On a positive note, the company rebounded quickly in May 2019 as reflected in deposit-taking as customer confidence in LOLC Al-Falaah remained strong.

Though we cannot be overly pleased with the company's performance during the year considering the high internal standards we have set for ourselves, the performance was nevertheless highly commendable in comparison to the industry. One of the key highlights is that the Non-Performing Loan (NPL) ratio as at end March 2020 was 4.7%, which is well below the industry average.

Industry Leader

LOLC Al-Falaah is one of the top brands in the industry and is being embraced as a true alternative to conventional finance. The success of Islamic Finance will largely depend on the right balance between compliance, business model, execution and market perception – all key pillars of the company's business model. LOLC Al-Falaah practices the highest compliance and ethical standards whilst being a step ahead in terms of product offerings, process and service standards, distribution channels, rates and returns.

Going ahead, LOLC Al-Falaah will continue to strive for growth in its portfolio in the next financial year with its strong deposit and liability base. Currently, it is able to pay the highest market returns with the Central Bank of Sri Lanka's capital requirements for Non-Bank Financial Institutions (NBFIs) due to its well managed asset base, which has in turn created long-lasting investor confidence and strong market campaigns inclusive of digital media marketing, Its increasing footprint and business partnerships will be key driving factors of the business. Looking inwards, we will reduce overheads and improve processes to enhance the bottom line as well.



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Appreciation

I value the advice and guidance of the Scholar Supervisory Board (SSB) together with the Alternate Financial Services Unit and LOLC Finance Board of Directors and Senior management for their continuous support and trust. LOLC Al-Falaah stands as one of the strongest Islamic Finance Institutions in the country today together with its parent company being one of the largest NBFIs in the country – and looks ahead to leverage on opportunities for stable growth.

Krishan Thilakaratne

Group Head of Alternate Financial Services - LOLC



Krishan Thilakaratne
Group Head of Alternate
Financial Services - LOLC



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The company rebounded quickly in May 2019 as reflected in deposit-taking as customer confidence in LOLC Al-Falaah remained strong.



The company was awarded the 'Best Islamic Bank in Sri Lanka' for the third consecutive year by IFN's Best Banks polls 2019.

SSB CHAIRMAN'S REVIEW

The year under review for LOLC Al-Falaah has been a unique one; amidst a turbulent start to the financial year affecting the local business and a year end with a pandemic affecting global business, the company has displayed resilience and has shown that the Islamic finance model is a dynamic model that can adapt and persevere through different financial climates. LOLC Al-Falaah has demonstrated reasonable growth and continues to develop innovative approaches to the alternate finance concepts in order to meet the modern day financial requirements. This is evident in its comprehensive product portfolio, offering financial solutions to accommodate a multitude of investment and financial needs of the populous in a compliant manner.

LOLC Al-Falaah has made deliberations to accommodate more sectors of business and invite different segments of the community, where access to finance is limited. The simplified product offering, and diverse sector reach enables to offer products and services from the high-end small and medium entrepreneur sector down to the micro small and medium entrepreneurial segment. Many of these products cater to promote self-employment, private vehicle hire and home-industry financing. A unique Gold Storage product with a cash-advance option also is due to be launched within the next financial year to cater to the afire requirements, where the community with no credit history will also have access to basic finance.

The SSB has carried out its usual periodic audits throughout the year as planned; that includes daily transactional audits by the In-House Scholar Advisor (ISA), Quarterly and Bi-Annual audit. Considering the global pandemic status, this year's Full Annual audit was concluded digitally by all SSB members connecting via online stream. However, this didn't compromise the stringent approach and scrutiny of the transactions vis-à-vis a physical meeting.

On behalf of the SSB, I am pleased to note that LOLC Al-Falaah strives to adhere to SSB guidelines in the aspects of its business process with reference to the framework of the AAOIFI. A comprehensive SSB Audit Report is annexed in this 2019/20 Annual Review of LOLC Al-Falaah.

Representing all members of the SSB of LOLC Al-Falaah, we constantly brain-storm innovative thinking and positive approaches to improve the products, processes and compliance of the Alternate Financial Services offered by LOLC Al-Falaah.

Acknowledgements

I would like to express my appreciation to my colleagues on the Scholar Supervisory Board for their continued confidence and support as well as the management of LOLC Al-Falaah for their continued support to ensure compliance and promotion of alternate finance as a true business proposition. I also wish to thank all stakeholders including regulators,



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channel staff and customers for their trust and patronage.

I pray that the world is rid of the current pandemic and that conditions of unity, prosperity and well-being prevail for one and all.

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



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



On behalf of the SSB, I am pleased to note that LOLC AI-Falaah strives to adhere to SSB guidelines.

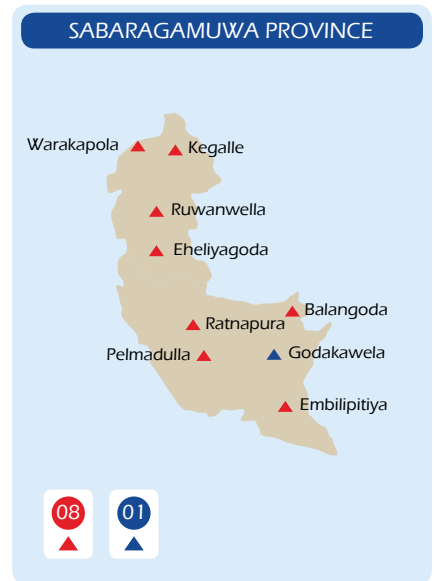
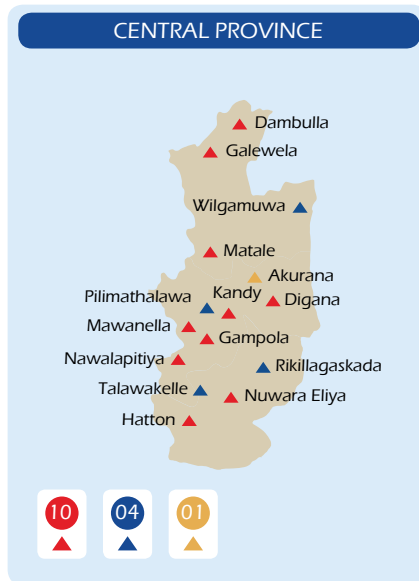
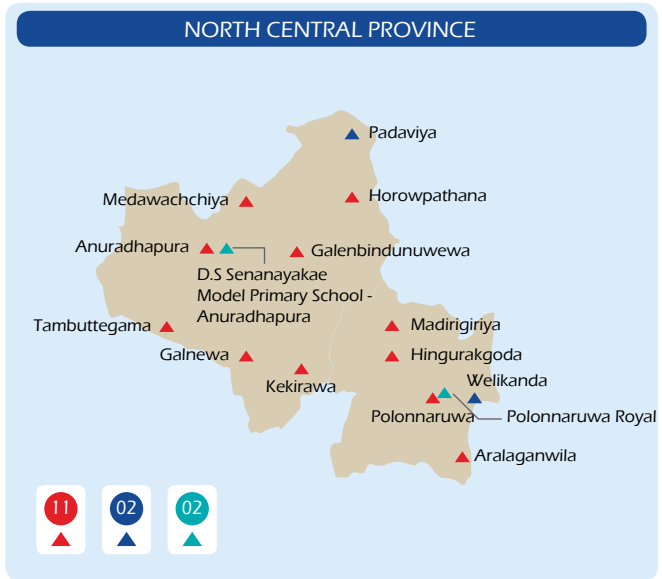
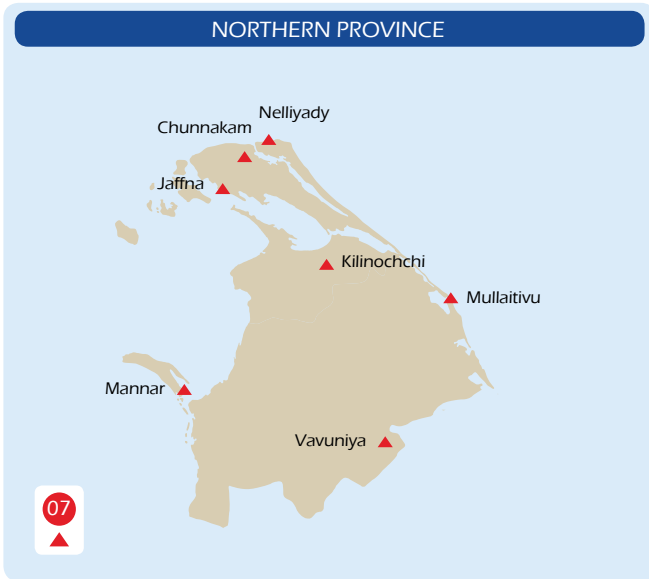


A unique Gold Storage product with a cash-advance option also is due to be launched within the next financial year.

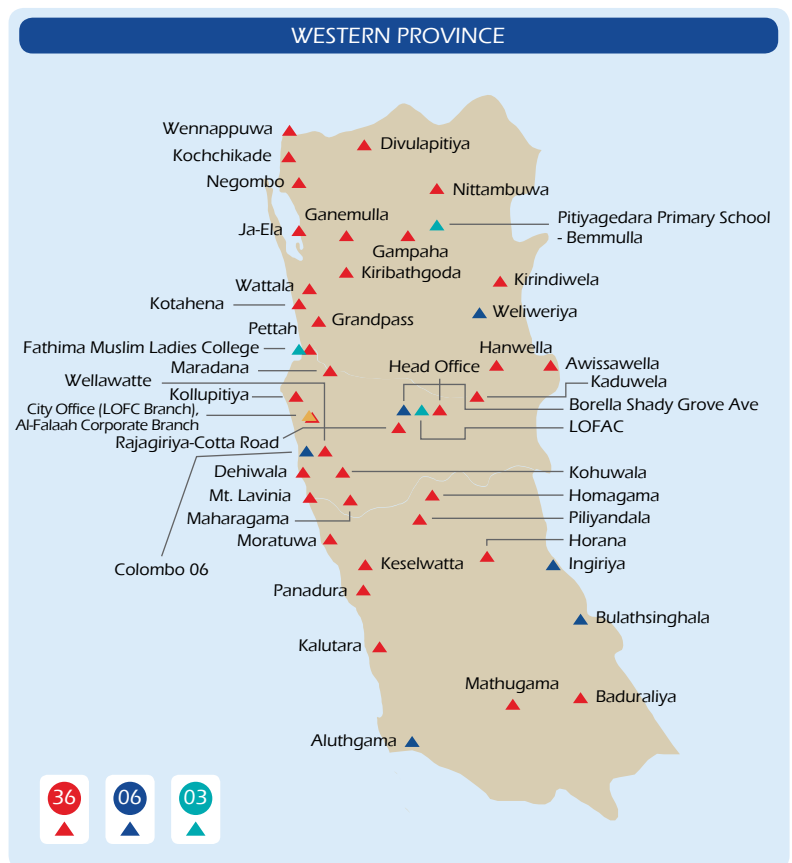
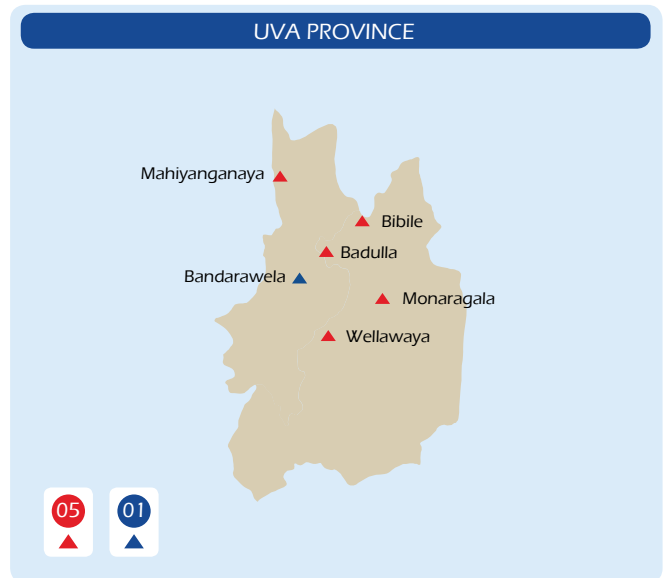
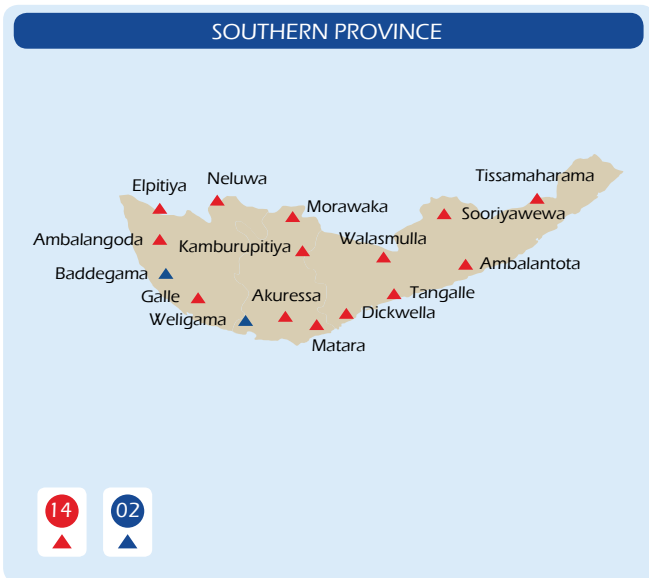


LOLC AI-Falaah has demonstrated reasonable growth and continues to develop innovative approaches.

OUR LOCATIONS



“ Our commitment to transform the lives of all Sri Lankans has strengthened and supported our strategies and policies; as we continue to expand our reach in the years to come. ”



as at 31st March

- ▲ LOLC Finance Branches
- ▲ LOLC Finance Service Centres
- ▲ LOLC Finance Savings Centres
- ▲ LOLC Finance, AI-Falaah Branches / LOLC Finance, AI-Falaah Service Centres

OPERATIONAL REVIEW

- 17 | Product Review
- 19 | Corporate Governance
- 21 | Enterprise Risk Management
- 24 | Charity Fund
- 25 | Scholar Supervisory Board Members
- 26 | Board of Directors
- 29 | Directorships held by the Directors
- 30 | Strategic Business Unit/AFSU Team

PRODUCT REVIEW

Overview

LOLC Al-Falaah's unique array of products and services, which are in compliance with the principles of Islamic economic jurisprudence, served to sustain the company as the most preferred market leading alternate financial services provider. Despite the challenges of year 2019/20 that experienced unfavourable and adverse external factors and events for growth or expansion for the entire financial services industry, the company's performance reflected resilience as it was quick to see a positive inflow of investments even before market conditions stabilised, which underscores the positive investor sentiment about the entity.

An amount of Rs.876 Mn was paid to depositors in 2019/20, reflecting a significant growth despite a high pressure banking and finance environment, whilst LOLC Al-Falaah's deposit portfolio grew significantly during the year under review from Rs. 7.9 billion to Rs. 11.1 billion, a 41% growth in comparison with the previous year.

The trust and confidence placed in the company was upheld by loyal customers as LOLC Al-Falaah recorded a lending book growth by as much as 22% year-on-year to close an Asset portfolio of Rs. 11.803 Bn. The increase of 41% year-on-year in deposits reaching a deposit portfolio of Rs. 11.186 Bn resulted in the entity managing to sustain a favourable balance of deposit portfolio vs asset portfolio through the year under review.

In an industry-wide trend of business slowdown, LOLC Al-Falaah proved its resilience by recording a revenue of Rs.2.58 Bn, although a minor dip of 3% in comparison to the Rs.2.66 Bn of previous year. Strengthening the portfolio with a strong focus on security-based lending and financing of sustainable business proposition was a key focus throughout the year. As a result, LOLC Al-Falaah successfully maintained Non-Performing Loans (NPLs) at 4.9% in comparison with

4-4.4% in the previous year vis-a-vis rest of the industry, which struggled with much higher NPLs through the year.

LOLC Al-Falaah adopted a cautious lending approach in the period under consideration while simultaneously focusing on strategic business propositions. This resulted in an influx of Wakalah Lending and Wakalah Investments to perform well, while most of the other products were unable to deliver expected growth due to the unfavourable conditions that prevailed through the year. However, the company's overall prudent management led it to record 10% growth in Gross Profit during the financial year under review.

Customer-Centric Approach

Realising the plight of some of its customers in the SME, MSME and the retail sector due to the events that took place during 2019, the company adopted a compassionate approach to facilitate key customers where possible while pursuing a cautious lending strategy. Sustaining its ethos of innovation and an undaunted approach, the company is in the process of introducing an e-platform for cost-effective and real-time notifications for added customer convenience. Further, LOLC Al-Falaah's website was revamped during the year with a more user-friendly outlook for customers to quickly access product and service information, backed by the assurance that it has been updated in compliance with the new guidelines set out by the Central Bank of Sri Lanka.

Corporate Social Responsibility

Apart from its customer base, LOLC Al-Falaah remains sensitive to the needs of the wider community and this is witnessed in the manner in which the company upholds its corporate social responsibility commitment to benefit the underprivileged in society. During the year under review, a sum of Rs.22 Mn was allocated for new and on-going charity projects focusing on medical care, education and social upliftment.



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LOLC Al-Falaah's philanthropy truly benefits deserving and vulnerable beneficiaries across all communities to build a more inclusive society.

Awards and Accolades

Unfailingly, the company is bestowed with local and international awards year after year. In 2019/20, LOLC Al-Falaah once again won the trust of the community, aptly reflected in the company winning the 'Best Islamic Bank in Sri Lanka' for the 3rd consecutive year and also the 'Best Leasing Provider', globally' for the 2nd year running by IFN's Best Banks polls 2019.

Product-wise Performance

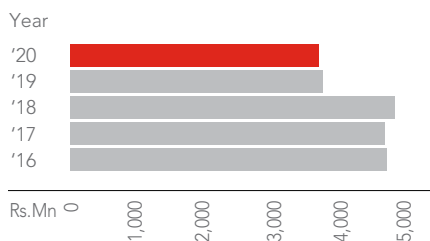
LOLC Al-Falaah offers an innovative and customised product portfolio which addresses business and socio-economic requirements of the diverse market segments, whilst meeting the specialised needs of individuals. The product portfolio consists of a superior range of Alternate Financial Solutions in areas of Profit Sharing Investment & Savings Accounts, Leasing, Trade Financing, Import Financing, Property & Project Financing and Working Capital financing. All financial activities of LOLC Al-Falaah are supervised by a dedicated, independent SSB chaired by a mix of industry leading local and international scholars.

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 'Al-Falaah Ladies Savings Account' offers attractive benefits to female customers while 'Al-Falaah Junior Mudharabah Savings Account' provides a stable and secure safety net for minors while ingraining in them the valuable habit of saving. Apart from helping with financial literacy, it helps to promote principles of Alternate Finance amongst the younger generation. Meanwhile, the 'Al-Falaah Senior Savings Account' continued to provide self-sufficiency and financial independence for senior citizens.

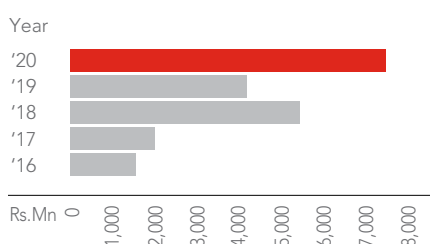
Mudharabah : Rs. 3,687 Mn



Wakalah for Investment

Wakalah Term Investments performed strongly during the period under review, recording 41% growth. This product is focussed towards the corporate customer segment and is extended for fixed term investors who seek an anticipated fixed-return or a stable return on investments.

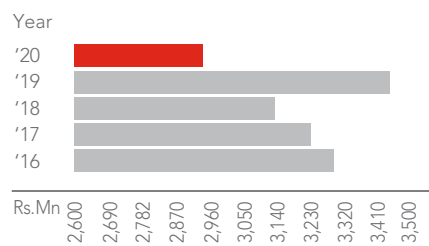
Wakalah Investments : Rs. 7,500 Mn



Ijarah for Leasing

Import restrictions levied in the previous year coupled with high taxes, depreciating rupee and weak demand resulted in a drop of 15%. LOLC Al-Falaah's Ijarah product performed in a subdued manner during the period under review to record Rs. 2,944 Mn during 2019/20 as compared to Rs. 3,444 Mn in the previous year.

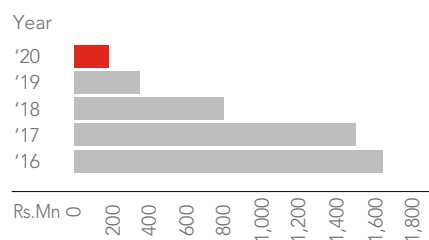
Ijarah : Rs. 2,944 Mn



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. However, it was observed that a significant segment of the corporate segment shifted to Wakalah-based financing options due to the flexibilities offered by the latter concept.

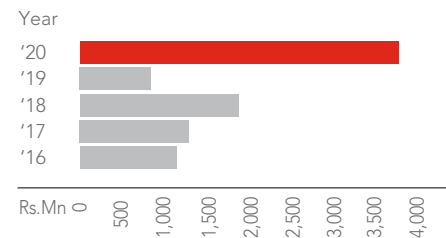
Murabaha : Rs. 183 Mn



Wakalah for Business and Working Capital Finance

This product grew by a sharp 348% during the period under review as working capital financing was in high demand due to limitations of the once popular Murabaha concept. Unsatisfactory monetary and fiscal factors during the year curtailed traditional trade, where application of the Murabaha concept served to support customers in the time of their need, marking a shift towards Wakalah-finance methodology.

Wakalah Lending : Rs. 3,786 Mn



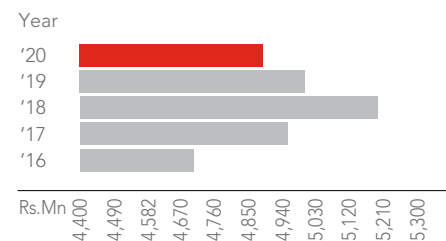
Musawamah for Import Finance

This product is preferred by importers but during the period under review the volatility in exchange rates and weak consumer demand were unable to generate much business, as many customer segments were adversely affected by the negative sequence of events through the year.

Diminishing Musharakah for Property And Project Finance

This product experienced a marginal drop of 2% to record Rs. 4,890 Mn as against Rs. 5,002 Mn achieved in the previous year. Despite this, the corporate segment was seen moving towards Wakalah-finance concept during the year under review.

Diminishing Musharakah : Rs. 4,890 Mn



CORPORATE GOVERNANCE

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

Structure

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

Instruments of Governance

The corporate governance framework of LOLC Finance encompassing external and internal instruments of governance, enables the Board to provide assurance to investors that they have discharged their duties responsibly. The Board of Directors of LOLC Finance and staff at all levels consider it their duty and responsibility to act in the best interests of the Company. It is this strong set of values that has facilitated the trust that our stakeholders have continued to place on the core values underlying our corporate activities.

The external instruments of governance at LOLC Finance include the Companies Act, No. 7 of 2007, the Finance Business Act, No. 42 of 2011, the Finance Leasing Act, No. 56 of 2000, the Foreign Exchange Act, No. 12 of 2017, the Payment and Settlement Systems Act, No. 28 of 2005, the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987, and any amendments thereto, including rules and directions issued to finance companies from time to time by the Monetary Board of the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange. The internal instruments of governance include the Articles of Association, the Role of the Board, Board approved policies, procedures, and processes for internal controls and anti-money laundering.

Policies and procedures have been established taking into consideration

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

Board of Directors

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

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

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

Monitoring and Evaluation by the Board

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

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

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

Skills and Performance of the Board

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

As required by the Finance Companies Corporate Governance Direction, LOLC Finance has established a well-defined self evaluation mechanism undertaken by each director annually to evaluate performance of the Board. These evaluations are subsequently tabled at a Board meeting for review and to address areas that require improvement. Related records are maintained by the Company Secretaries.

Engagement with Shareholders

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

Engagement with Employees

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

pertaining to general interest that affect employees and their families.

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

Avoiding Conflicts of Interest

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

External Audit

M/s Ernst & Young, Chartered Accountants were re-appointed as External Auditors of the Company by the shareholders at the Annual General Meeting held in September 2019.

Their services were also engaged to seek: a) an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board; and b) the Company's level of adherence to the internal controls on financial reporting. The external auditor's certification on the effectiveness of the Internal Control Mechanisms in respect of the audited financial statements released has been published in this Annual Report.

The Directors confirm that no significant deviations have been observed by the External Auditors and that the

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

ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management

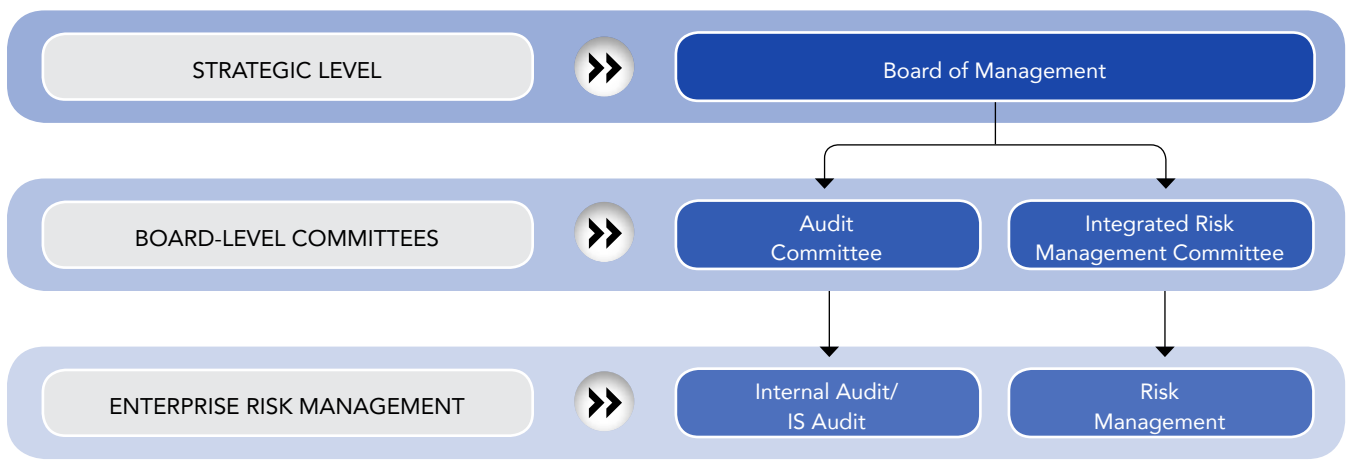
The Alternate Financial Services Unit is a business silo under LOLC Finance PLC. The risk management function comes under the scope of the Enterprise Risk Management structure of LOLC Finance PLC.

Success of Risk Management mainly depend on the risk governance structures in place and the risk culture within the organisation. LOLC Finance PLC (LOFC) being the flagship finance company of the LOLC group is the trend setter for

the other finance sector companies in the LOLC group in risk management. we are constantly open for innovative ideas to make our processes better and stronger. The risk governance structures at LOFC are unique and agile. in addition, being receptive to the operating environment and timely access to information plays a major role in effective risk management practices. Having considered the aforesaid LOFC risk management frame work is a combination of the Risk Management, The internal audit & the

compliance functions. Risk management and internal audit operates under the umbrella of Enterprise Risk Management (ERM) while compliance function work separately.

The synergy between risk and internal audit is one of the critical success factors as risk is forward looking while internal audit focuses on the reliability and effectiveness of the risk mitigation controls/internal controls. This approach allows both functions to optimise its resources and inter feeding of critical

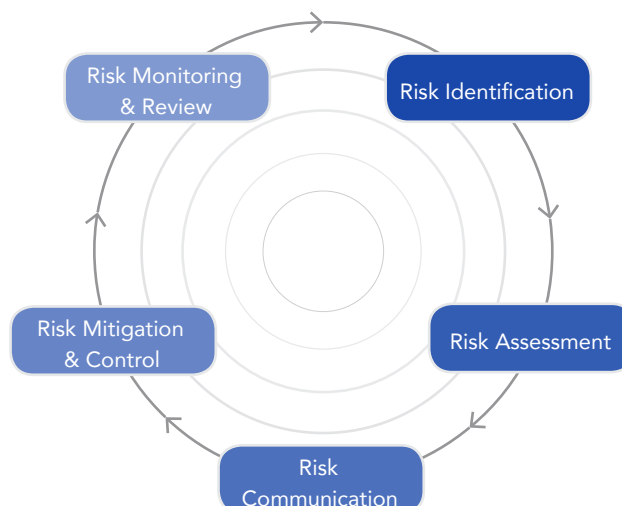


information vital to have a reasonable assurance that the risk management processes are effective, reliable and consistent.

The leadership or the tone at the top is a critical success factor for any successful initiative and risk management is no exception. At LOFC the enterprise risk management is given total independence and separation from the executive management control by having its reporting line to chairmen of two independent board committees, thus the internal audit reports to the board audit committee on audit related matters while the risk management reports to the integrated risk management committee. These committees supervise and monitors the progress of matters related the enterprise risk management which ensures that board level concerns are adequately addressed, and operational level risk information escalated up to the board level without any hindrance or filtering.

Risk Management Process

The Risk identification, Assessment, Control and Review are a cyclic process and risk communication and current and reliable information flow both inward and outward is a pre-requisite for reliable risk management output. Hence both the risk management and internal audit functions are given unrestricted access to information and is enshrined in the culture of the organisation.



It is quoted that "The biggest risk in risk management is not identification of a risk" therefore risk for LOFC is defined as "Anything which hinders the achievement our strategic and tactical objectives." This scope enables us to identify even small risks. In practice we have a two-way approach for risk identification. This happens at the two ends of the spectrum of a process; by the process owners and independently by the risk management function. All risk owners are required to submit risk related information to ERM department within their scope of operations and in addition are encouraged to report any foreseeable risk. This initiative allows any employee to analyse any operation or initiative from an angle of risk. The enterprise risk department does its own analysis from data available and via scanning of the operating environment. To ensure that a comprehensive risk identification process is carried out all new product development or process formulation is channeled through the ERM for their opinion.

All risk information received and collected by ERM analysed in order to ascertain the probability and impact of the identified risks and acted upon the severity. New product and process formulations too are analysed for a wide spectrum of inherent risks which ranges from legal, technological, process, feasibility, regulatory, compliance and money laundering.

Risk information reaching the risk owners and relevant management personal is vital for taking rectification action and initiating required risk mitigation action in a timely manner. The board of management is appraised of the risks on a monthly basis and IRMC meetings are held on a quarterly basis unless otherwise a situation arises that IRMC should meet to discuss an emerging material risk. Organisational level risks related to anti money laundering (AML) and Countering Terrorist Financing (CFT) are analysed on a quarterly basis and reported to IRMC while the risks arising out of new products

and process developments are appraised to the board of management as and when such developments are undertaken. Other than the scheduled reporting any emerging risks which are perceived as material are informed to the organisation's executive management (CEO and relevant process owners) as and when they are identified by way of risk escalation reports. In addition, the IRMC evaluates annually the functions of the Assets and Liability Committee (ALCO) and the Credit Committee (CC) thus bringing under the purview of IRMC a comprehensive risk management mechanism to ensure the reliability, consistency and adequacy of the risk management initiatives of LOFC

The primary responsibility of maintaining adequate level of risk response is entrusted to the risk owners and ERM department plays an independent analysts' role in recommending / proposing risk mitigation action and available internal controls. The risk custodians evaluate these recommendations and in consultation with the management authorities implement all feasible risk mitigation initiatives in order to minimise the risks. The synergy of having the internal audit under the umbrella of the enterprise risk management frame work is visible here as the proposed control information is captured by internal audit and is incorporated in their audit reviews for test of controls and the feedback information is seamlessly shared with risk to ascertain the effectiveness of the risk controls.

The Key Risk Indicators (KRI) pertaining to Credit, Market and Operational risks are identified and risk appetite is set by the Board of Management by way of tolerance limits. These limits among additional risk parameter are monitored by ERM on a regular basis while the Key Risk Indicators, its values and behavior trends are reported to the Board and IRMC while any adverse movements observed in other risk indicators are analysed and if material are reported to the relevant stakeholders for necessary action.

Enterprise Risk Management is a cyclic process and it undergoes continuous changes to reflect the ever changing risks environment. We are committed to improve our risk management practices and one critical requirement of such a continuous quality improvement practice is to upgrade skills and knowledge of the staff. We regularly conduct training sessions for ERM division staff with both in-house and external facilities.

Internal Audit

Annual planning for internal audits takes place in consideration of the risks faced by branches, processes, departments or service delivery channels .in addition the branch locations too are included. The annual plan presented to and approved by the audit committee form the basis of the audit operations for the year. Progress of audit activities are monitored monthly at ERM level and quarterly at audit committee level.

General audits conducted include, Credit Audits, Regional reviews, Process level, Department level, Branch level, IS system audits, field audits for micro finance operations & special assignments. The branches are currently audited on an annual cycle while the dedicated micro operation centers are audited on a semiannual cycle. Audit findings are discussed with the management and rectification action are taken. Any audit query which is time critical are escalated to the management at the point of audit itself by way of an Audit Information Escalation while the same is also noted in the final report.

Summary findings are tabled at the audit committee. All audits are subjected to a follow up mechanism at two levels. All branches are required to give a sign off on rectification of audit findings and are reviewed at the time of the following audit at the branch, while the other audit queries are followed up by the auditors for successful rectification. In addition, decisions taken at the audit committee are separately followed up and feedback on

the status is given at the subsequent audit committee meeting. Thus, ensuring all audit issues are resolved.

An inherent draw back in audits is that it is time lagged, sample-based and contains historical data. In order to reduce the time lagged nature of the audits, we have successfully implemented a continuous auditing mechanism where critical audit exceptions detected are incorporated in to a continuous review which is operating at predefined intervals ranging from day +1 to monthly, depending on the critical nature of the exceptions monitored. Due to the database level data extraction tools used, the entire audit universe is reviewed rather than a sample. This initiative has improved the response time for both audit detections and audit query rectifications.

Enterprise Risk Management (ERM) department is the custodian of both the Corporate whistleblower hotline and the customer feedback line (operational in addition to general complaint line). The corporate whistle blower line facilitates and encourages employee reporting of suspicious and irregular activities while the customer feedback hotline allows customers an alternate grievance handling mechanism if their complains are not handled by the operational staff. All information received via these lines are followed up until resolution.

The Future

The COVID-19 pandemic at the latter part of the year under review was an acid test for risk management practices globally and it opened up new opportunities as well. However, the full impact will be felt next year and it mates us more determined to improve and strengthen our practices to ensure smooth operations during turbulent times.

Our vision in risk management “Building an organisational culture where Protection, Assurance, Reliability, Accountability, Transparency and Confidentiality are

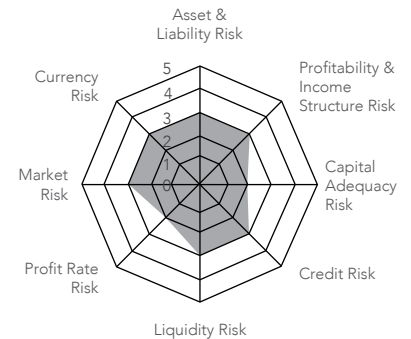
treasured and lasting values” is enshrined in all our activities and a conscious effort is made to enhance the awareness of risk and response at all levels of staff. Enterprise risk management department engages in conducting training and awareness sessions for staff at induction level and later at more specific operational level training programmes to cultivate the appropriate risk culture among the rank and file of the organisation.

Risk Profile

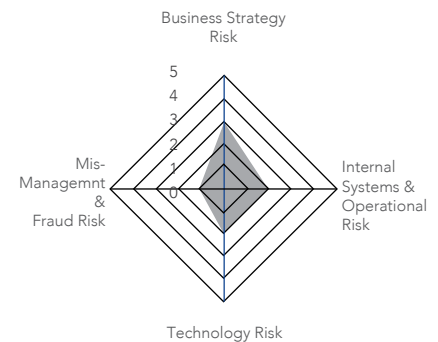
The following is based on the perceived risk and is a high level categorisation used only for the illustration purposes of this report.

| Risk Levels | Risk Score |
|-------------|------------|
| Very High | 5 |
| High | 4 |
| Medium | 3 |
| Low | 2 |
| Very Low | 1 |

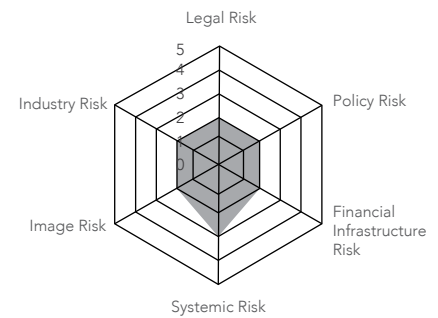
FINANCIAL RISKS



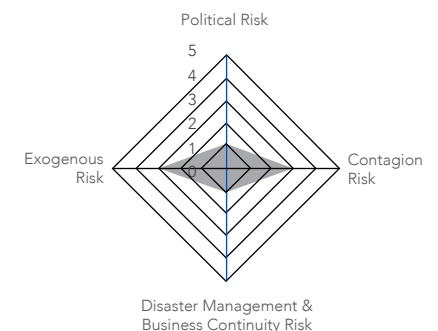
OPERATIONAL RISKS



BUSINESS RISKS



EVENT RISKS



CHARITY FUND

LOLC Al-Falaah undertakes its corporate social responsibility with utmost seriousness in keeping with its stature as the leading alternate financial services provider in Sri Lanka. Its commitment to community empowerment, not limiting to a specific ethnicity, has inspired it to donate generously and provide support to underprivileged sections of society in line. By taking care of the needs of various communities, Al-Falaah is working towards achieving the highly valued principles of justice and brotherhood.

During the year under review, Al-Falaah sustained support towards key focus areas, namely, medical care, education and social upliftment for communities across religion, race or ethnicity considerations. Beneficiaries are identified through a formal process of selection and approval to ensure that only the truly deserving benefit. The company's commitment towards the Charity Fund is reflected by the fact that it has disbursed close to Rs. 160 Mn since 2009 to empower communities.

As for FY 2019/20, Al-Falaah's Charity Fund disbursed a total amount of Rs. 21,700,438, marking an equally amount disbursed in 2018/19. Approximately 1,316 beneficiaries welcomed Al-Falaah's generosity in the year under review, up from 167 beneficiaries in the previous year. The company was able to reach out to substantially more beneficiaries, which severely impacted many marginalised sections of the community.

The major proportion of Al-Falaah's Charity Fund is channelled towards providing medical care to cover critical medical procedure costs for the underprivileged, who are often unable to access medical care due to high costs. As a result, a sum of Rs. 8.75 Mn was directed towards the medical care of 78 beneficiaries during 2019/20.

The second pillar of Al-Falaah's charity fund is Education - which lays the foundation for better prospects for the under-privileged. It is not uncommon for children from economically disadvantaged backgrounds to drop out of school due to their inability to meet the cost of education or to discontinue education to help earn an income to support families. Recognising this obstacle in the path of learning, Al-Falaah comes forward every year to support educational needs of bright students and helps them to pursue academics by offering scholarships for primary, secondary and tertiary education and coaching assistance especially for O/L and A/L students. In 2019/20, the company extended Rs. 4.31 Mn towards the education of 57 deserving students from economically disadvantaged backgrounds.

During the year under review, a sum of Rs. 4.03 Mn was channelled towards social upliftment to fulfil people's aspirations for a better life for their families. Approximately 31 beneficiaries were covered under this donation. A further 1,150 Ramadan Packs amounting to Rs. 4.60 Mn were distributed amongst the disadvantaged population to bring them cheer during the festive season, with an annual fete conducted by Al-Falaah since the past decade.

The enthusiasm and dedication with which the Charity Fund is managed and funds disbursed reflects the pride that the team at Al-Falaah takes in helping others. The company goes well beyond its mandate by the Scholar Supervisory Board (SSB) to perform meaningful charity, by supporting beneficiaries since 2009 when the Charity Fund was established.

SCHOLAR SUPERVISORY BOARD MEMBERS

“ LOLC Al-Falaah has been able to consistently meet compliance requirements laid down by the Scholar Supervisory Board (SSB), which consists of eminent Islamic scholars. We work closely with SSB on all aspects of our products and solutions such as product design and mechanism, and practicality and compliance of new products. ”

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. 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.

BOARD OF DIRECTORS



Mr. B C G de Zylva
Non-Executive Chairman



Mr. F K C P N Dias
Director/CEO



Mrs. K U Amarasinghe
Executive Director



Mr. A Nissanka
Non-Executive Director



Mrs. D P Pieris
Senior Independent Director



Mr. P A Wijeratne
Independent Director



Mr. K Sundararaj
Independent Director

Mr. B C G de Zylva

Mr. B C G de Zylva is the Chairman of the Boards of LOLC Finance PLC & LOLC (Cambodia) PLC, and the Managing Director of LOLC Myanmar Micro-Finance Company Limited. Prior to joining the LOLC Group, he had served the Non-Bank Financial Services Industry (NBFI) in Sri Lanka in both Licensed Finance Companies and Specialised Leasing Companies holding Board and General Management positions. He counts over 36 years of experience in the NBFI Sector including the Micro Finance Industry in Sri Lanka, Myanmar & Cambodia.

Mr. F K C P N Dias

Mr. Conrad Dias was appointed to the Board on 1st March 2020. He holds a Masters in Business Administration (MBA) from University of Leicester UK. He is a Fellow Member of Chartered Management Accountants UK (FCMA), Chartered Global Management Accountant (CGMA -USA). He is also a Fellow of Certified Management Accountant of Sri Lanka (FCMA), and British Computer Society (FBCS).

His experience spans over 3 decades and as a visionary thought leader in business technology and his C-Level experience spans over 20+ years. He is a seasoned veteran in Business Management, Information Technology Management, Software Engineering, Project Management, Strategic and Investment Planning, Finance Management, Corporate Restructuring and Unit Trust & Fund Management. He has domain expertise in sectors such as Information Technology, Trading, Banking and Finance, Insurance, Portfolio/Asset Management and Manufacturing Sectors.

Fintech enthusiast who innovated many financial technology products and solutions, he is the Founder of iPay; a revolutionary platform beyond payments and the Founder of OYES; another fintech platform that makes every day a payday.

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

He was the former Group CIO and currently functions as the Chairmen LOLC Technologies Ltd. He is also founding board member Digital Mobility Pvt Ltd popularly known as PickMe. Director ODoc Pvt Ltd again a successful start-up telemedicine platform of and hold other directorships of overseas subsidiary companies.

Mrs. K U Amarasinghe

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

Other key appointments: Director – LOLC Holdings PLC, LOLC Finance PLC, LOLC Life Assurance Limited, Palm Garden Hotels PLC, Riverina Resorts (Pvt) Ltd., Eden Hotel Lanka PLC, Brown & Co. PLC, Browns Investments PLC, Green Paradise (Pvt) Ltd., Browns Holdings Ltd., Danya Capital (Pvt) Ltd. and Ultimate Sports (Pvt) Ltd.

Mr. A Nissanka

Mr. Ashan Nissanka is a Non-Executive Director of LOLC Finance PLC and previously served as the Director / Chief Executive Officer from 2015 - 2018. He also serves on the board of LOLC Philippines Corporation - Philippines, Inter-Asia Development Bank – Philippines, LOLC ASKI Finance Inc. – Philippines, Fina Trust Microfinance Bank – Nigeria and LOLC Finance Zambia Limited – Zambia.

He joined LOLC in 1998 and counts over 27 years of experience in the Banking and Finance sector with expertise in Strategic Marketing Planning, Development and Management of the Retail Channels.

Mr. Ashan holds an MBA from Edith Cowan University, Australia. He is also holds a Graduate Diploma from Chartered Institute of Marketing – UK (CIM) and a Certified Management Accountant from Institute of Certified Management Accountants Australia. He currently serves as a Council member of the Institute of Certified Management Accountants Australia (CMA- Australia), and a member of Sri Lanka Institute of Marketing (SLIM). He served as a Deputy Chairman/ Director – Financial Ombudsman Sri Lanka, Director - Finance Houses Association of Sri Lanka, Director – Leasing Association of Sri Lanka and a Committee Member – Non Banking Financial Institutions of the Chamber of Commerce, Sri Lanka and relinquished these positions in 2019.

Mrs. D P Pieris

Mrs. Priyanthi Peiris was appointed to the Board in June 2012. She is an Attorney-at-Law of the Supreme Court of Sri Lanka and has over 40 years of experience in corporate and financial law. She is also a solicitor of England & Wales.

She is currently engaged in private practice. She served on the boards of Forbes & Walker Ltd., Forbes Ceylon Ltd., Forbes Stock Brokers Ltd, Forbes Air Services Ltd. (general sales agent for Emirates), Vanik Corporate Services Ltd., Office Network (Pvt) Ltd., Capital Reach (Holdings) Ltd. and Associated Motorways Ltd. She currently serves on the boards of Associated Electrical Corporation Ltd, Asia Asset Finance PLC, Abans Electricals PLC, PW Corporate Secretarial (Pvt) Ltd, and MTN Corporate Consultants (Pvt) Ltd.

She served as a legal adviser to the Ministry of Finance from 2002 - 2004 and as a legal consultant to the

Colombo Stock Exchange from 2004 - 2011. She was also a member of the committees set up by the SEC to recommend amendments to the Takeovers & Mergers Code 1995 (as amended) and was a member of the committee appointed to recommend amendments to the Rules for Corporate Governance.

Mr. P A Wijeratne

Mr. Wijeratne has over twenty years of experience in accounting, financial reporting, Investment of internal funds, foreign loan disbursements and repayments, auditing, public debt management and administration as an ex-Officio of the Central Bank of Sri Lanka. He has joined CBSL in 1991 and has worked in the Finance, Public Debt Management and Internal Audit departments till his retirement in year 2016.

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

Mr. K Sundararaj

Mr. Kandiah Sundararaj counts over 27 years experience in Accounting, Auditing and Tax consulting. He started his career as a Chartered Accountant in 1998 and is currently serving as the Tax Partner in M/s Amarasekera 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.

DIRECTORSHIPS HELD BY THE DIRECTORS

Directors' Declarations

| | |
|----------------------|---|
| Mr. B C G De Zylva | <p>Chairman: LOLC Finance PLC LOLC (Cambodia) PLC Browns Machinery (Cambodia) Co. Ltd Serendib Microinsurance PLC</p> <p>Managing Director: LOLC Myanmar Micro-Finance Company Limited</p> |
| Mr. F K C P N Dias | <p>Chairman: LOLC Technology Services Ltd LOLC Technologies Ltd</p> <p>Director/CEO: LOLC Finance PLC</p> <p>Director: iPay Global FZC Fusion X Global FZC Digital Mobility Solutions Lanka (Pvt) Ltd I Pay (Private) Limited oDoc (Private) Limited LOLC Finance Zambia Limited LOLC Holdings PLC</p> |
| Mrs. K U Amarasinghe | <p>Director: LOLC Holdings PLC LOLC Finance PLC LOLC Life Assurance Limited Palm Garden Hotels PLC Eden Hotel Lanka PLC Brown & Co. PLC Browns Investments PLC Riverina Resorts (Pvt) Ltd Browns Holdings Ltd Green Paradise (Pvt) Ltd Danya Capital (Pvt) Ltd Ultimate Sports (Pvt) Ltd</p> |
| Mr. A Nissanka | <p>Director: LOLC Finance PLC LOLC Philippine Corporation LOLC Philippines Capital Holdings Corporation LOLC Finance Zambia Limited Inter-Asia Development Bank – Philippines LOLC ASKI Finance Inc. – Philippines Fina Trust Microfinance Bank – Nigeria</p> |
| Mrs. D P Pieris | <p>Chairperson: PW Corporate Secretarial (Pvt) Ltd.</p> <p>Director: Asia Asset Finance PLC Sithijaya Fund Ltd Asian Centre for Lease Education Associated Electrical Corporation Ltd Abans Electricals PLC LOLC Finance PLC MTN Corporate Consultants (Pvt) Ltd</p> |
| Mr. P A Wijeratne | <p>Director: LOLC Finance PLC</p> |
| Mr. K Sundararaj | <p>Director: LOLC Finance PLC</p> |

STRATEGIC BUSINESS UNIT/AFSU TEAM



Krishan Thilakaratne



Shiraz Refai



Buddhika Weeratunge



Imran Zarook



Shafin Iqbal



Ash-Shaikh Fazil Mohideen



Ash-Shaikh Ilham Mufaris



Ash-Shaikh Seyyed Saabiq



Ash-Shaikh Ubaidullah Iqbal



Mohamed Wafiq



Fazna Fazmi

Krishan Thilakaratne*AIB (SL), FICM (SL)*

Group Head of Alternate Financial Services - LOLC

*Joined the LOLC Group in 1995.**Counts over 25 years of experience in Banking, Credit, Leasing, Factoring and Branch Management. Conceptualised and introduced Alternate Finance to LOLC Group.***Shiraz Refai***MABE (UK), FCMI (UK), MBA (UK)*

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

*Joined LOLC Group in 2006 and counts over 20 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.***Buddhika Weeratunge***FCA (SL), MBA (ACS), ACMA (SL)*

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).**Buddhika counts 10 years of post-qualified experience in the finance sector commencing his career at LOLC in 2010. Currently is the Head of Finance of the LOLC Finance PLC and prior to it he headed the Finance division of both LOLC Micro Credit Ltd and BRAC Lanka Finance PLC.***Imran Zarook***ADCM (SLICM), ADICM (SLICM)*

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

*Joined LOLC Group in 2015. Counts over 18 years of experience in the field of customer operations/finance including credit control, collection, recovery, legal, risk and relationship management.***Shafin Iqbal***MCIM, MBA (UK)*

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

*Joined in 2014. Counts over 14 years of experience in Marketing services in the areas of New Business Development, Public Relations and Networking and Event Management.***Ash-Shaikh Fazil Mohideen***BA in Usoolud Deen (NALEEMI), DIB (IBSL)*

Executive, Operations - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

*Joined LOLC Group in 2014. Counts over 5 years of experience in Alternate Banking and Financial Services in both Marketing and Operational areas.***Ash-Shaikh Ilham Mufaris***BA in Usoolud Deen (NALEEMI), BA (University of Peradeniya), AAT (Passed Finalist), CCHRM.*

Executive, Operations - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

*Joined LOLC Group in 2015. Counts over 4 years of experience in Alternate Banking and Financial Services in Operational areas.***Ash-Shaikh Seyyed Saabiq***BA in Usoolul Fiqh (FATHIH), EDIBF (FGA)*

Officer, Operations - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

*Joined LOLC group in 2018. Graduated from the Fathih Institute of Sri Lanka in Alternate Shari'ah, Thihariya and a holder of Executive Diploma in Alternate Banking and Finance***Ash-Shaikh Ubaidullah Iqbal (Humaidi)***B.A (Hons), SEUSL, DIB (SEUSL).*

In-House Scholar Advisor - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

*Joined LOLC group in 2017. Counts over 5 years of experience in teaching of Alternate theological studies. Graduated from the Darul Uloom Al-Humaidiyah in Alternate Shariah, Colombo. A holder of B.A (Hons), specialisation in Alternate Banking and Financing from South-Eastern University of Sri Lanka.***Mohamed Wafiq***MBA (UK)*

Deputy Manager - IBU Recoveries Supervision, Alternate Financial Services Unit

*Has 12 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.***Fazna Fazmi***ACSI-UK*

Deputy Manager, Customer Services - Al-Falaah, Ladies Business Unit of LOLC Finance

Joined in Dec-2018. Counts over 8 years of experience in Marketing, Operations, New Business Development, Public Relations and Networking, conducting lectures in the areas of IBF and Event Management. Currently reading for her MBA-UK. She also completed a Post Graduate Diploma in Strategic Management and Leadership and CIM-UK part-qualified.

FINANCIAL STATEMENTS

| | |
|----|--|
| 33 | Scholar Supervisory Board Audit Report 2019/2020 |
| 35 | Product Approval by Scholar Supervisory Board |
| 36 | Independent Auditors' Report |
| 38 | Statement of Financial Position |
| 39 | Statement of Profit or Loss and Other Comprehensive Income |
| 40 | Cash Flow Statement |
| 41 | Notes to the Financial Statements |

SCHOLAR SUPERVISORY BOARD AUDIT REPORT 2019/2020

In the name of Almighty Allah, the All Merciful, the Very Merciful.

To the Shareholders of LOLC Finance PLC

The year under review was the twelfth 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 2019 to March 2020.

We have also conducted our review to form an opinion as to whether LOLC Al-Falaah, complied with the rules and economic principles of Shari'ah in accordance with international benchmark standards set out by the Accounting and Auditing Organization for Islamic Financial Institutions of Bahrain (AAOIFI) 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 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.

Shari'ah Audit and Compliance Review

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

1. Mudharabah Transactions
2. Wakalah Investment Transactions
3. Ijarah Lease Financing Transactions
4. Murabaha Trade Financing Transactions
5. Musawamah Import Financing Transactions
6. Diminishing Musharakah Financing Transactions
7. Wakalah Financing Transactions
8. Concluded Ijarah Sukuk Review and Audit
9. Profit Distribution
10. Wakalah Investment from an Overseas Establishment Audit
11. Excess-fund Investments
12. Bank Statements
13. Expenditure Apportionment
14. Review of Audited Financial Statements
15. Marketing and Advertising Material review
16. Reconciliation of Administrative Charges on Delayed Penalties against actual Expenses incurred for recoveries
17. Interview with LOLC Al-Falaah staff
18. Accrual and Disposal of impermissible Income
19. Charity Fund

We planned and performed our review so as 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.

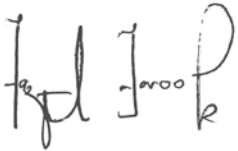
In our opinion;

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 principles of Shari'ah.
2. The allocation of profit relating to investment accounts 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 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 never exceed costs of recoveries 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 Mulaffar
Member – SSB

PRODUCT APPROVAL BY SCHOLAR SUPERVISORY BOARD

To whom it may concern,

This is to confirm that we, the members of the Scholar Supervisory Board of LOLC Finance PLC after a careful examination of relevant documents, processes and review of operational procedures, have approved the following Islamic Financing products of the Alternate Financial Services Unit of LOLC Finance PLC.

1. IJARAH - (Since 19th December 2007)
2. MURABAHA - (Since 19th December 2007)
3. MUDHARABAH - (Since 19th December 2007)
4. DIMINISHING MUSHARAKAH - (Since 28th March 2008)
5. MUSAWAMAH - (Since 30th November 2010)
6. WAKALAH (Investments) - (Since 26th November 2011)
7. WAKALAH (Lending) - (Since 01st July 2013)

The approval has been granted after having taken into consideration the following:

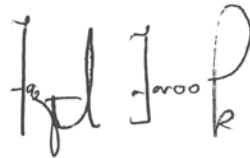
1. Having Quard-Hassanah agreement with LOLC Finance
2. Adhering only to The Scholar Supervisory Board of LOLC approved agreements
3. Maintaining of Chart of Accounts & IT systems separately identify its transactions
4. Having separate Banking transactions
5. Periodic Audit conducted by the Scholar Supervisory Board of LOLC

As members of the Scholar Supervisory Board we are duty bound to provide necessary guidance and advice where required, in order to ensure the Shari'ah compliant nature of the Islamic Finance operation of LOLC Finance. The Management of LOLC Finance PLC, is responsible for ensuring that Al-Falaah, the Alternate Financial Services Unit of LOLC Finance conducts its business in accordance with the rules and principles of the Shari'ah as per the guidelines of the SSB.

However, it is important to note that, should there prevail an environment where adequate attention is not given to Shari'ah directives and Shari'ah violations are frequently repeated, in such an environment, we members of the Scholar Supervisory Board will exercise the option of revoking our supervisory position from LOLC.



Ash-Shaikh/Mufti Shafique A.
JakHura
Chairman-SSB / Mufthi



Ash-Shaikh Fazil A. Farook
Member-SSB



Ash-Shaikh Murshid M. Mulaffar
Member-SSB

INDEPENDENT AUDITORS' REPORT



Ernst & Young
Chartered Accountants
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Sri Lanka

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BOARD OF DIRECTORS OF LOLC FINANCE PLC

Opinion

We have audited the statement of financial position as at 31st March 2020 and the statement of comprehensive income for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial statements").

In our opinion, the accompanying financial statement of the LOLC Finance PLC's AI-Falaah, Alternate Financial Services Unit ("LOLC AI-Falaah") for the year ended 31 March 2020 is prepared, in all material aspects, in accordance with the accounting policies set forth in pages 41 to 52 of the financial statement.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis of Accounting and Restriction on Distribution

We draw attention to the accounting policies set forth in pages 41 to 52 of the financial statement, which describes the basis of accounting. As a result, the financial statements may not be suitable for another purpose. Our audit work has been undertaken so that we might state to the Board of Directors of the LOLC Finance PLC, those matters that we are required to state, in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume the responsibility to anyone other than the addressee, for our audit work, for this report, or for the opinion we have formed. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the financial statement

Management is responsible for the preparation and fair presentation of financial statement in accordance with the accounting policies set forth in pages 41 to 52 of the financial statement, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is responsible for assessing the Company's ability to continue as a going concern,

disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal: T P M Ruberu FCMA FCCA

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effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.



29th June 2020
Colombo

STATEMENT OF FINANCIAL POSITION

| As at 31st March | Notes | 2020 Rs. | 2019 Rs. |
|--|-------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash and bank balances | 3 | 354,051,558 | 545,261,206 |
| Deposits with banks and other financial institutions | | 3,701,517,029 | 2,557,074,022 |
| Murabaha / Musawamah /Wakalah receivables | 4 | 3,969,000,585 | 1,207,014,756 |
| Diminishing Musharakah receivables | 5 | 4,890,275,098 | 4,997,402,551 |
| Ijarah rent receivables | 6 | 2,944,310,713 | 3,444,479,946 |
| Investment securities | 7 | 2,000,000 | 4,000,000 |
| Other receivables | 8 | 77,216,459 | 68,968,890 |
| Total assets | | 15,938,371,442 | 12,824,201,371 |
| LIABILITIES | | | |
| Placement from Banks & other Financial institutions | 10 | 1,564,654,093 | 1,650,749,817 |
| Deposits from Customers | 11 | 11,186,637,831 | 7,950,585,096 |
| Income tax payable | | 133,068,826 | 90,250,955 |
| Accruals and other payables | 12 | 219,773,990 | 169,760,617 |
| Due to head office | 13 | 229,927,941 | 543,928,976 |
| Total liabilities | | 13,334,062,681 | 10,405,275,462 |
| OWNER'S FUND | | | |
| Retained earnings | | 2,604,308,761 | 2,418,925,909 |
| Total owners fund | | 2,604,308,761 | 2,418,925,909 |
| Total liabilities & owners fund | | 15,938,371,442 | 12,824,201,371 |

I certify that these financial statements have been prepared in accordance with the basis of preparation and notes.



Mr. Buddhika Weeratunge
Head of Finance

The Board of Directors is responsible for these special purpose financial statements.
Approved and signed for and on behalf of the Board.



Mr. Conrad Dias
Director/CEO



Mr. Ashan Nissanka
Director

The above Statement of Financial Position should be read in conjunction with accounting policies and notes, which form an integral part of these special purpose financial statements.

The basis of preparation and notes are given in pages 41 through 52.

29 June 2020
Rajagiriya (Greater Colombo)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| Year ended 31 March | Notes | 2020 Rs. | 2019 Rs. |
|---|-------|---------------|-----------------|
| Revenue | 13 | 2,581,847,264 | 2,659,273,184 |
| Profit paid to Mudharabah/Wakalah investors | | (875,735,205) | (1,039,785,457) |
| Profit paid on other funding arrangement | | (242,542,163) | (237,207,937) |
| Other direct expenses | | (67,132,228) | (107,254,965) |
| | | 1,396,437,667 | 1,275,024,825 |
| Non-distributable other income / (expenses) | 14 | 36,197,257 | 39,966,642 |
| Total operating income | | 1,432,634,924 | 1,314,991,467 |
| Employee benefits | 15 | (274,334,501) | (196,326,951) |
| (Provision)/reversal for credit losses | | (347,880,348) | (342,838,258) |
| Other operating expenses | | (371,660,214) | (191,388,949) |
| Profit from operations | 16 | 438,759,861 | 584,437,309 |
| Value added tax on financial services | | (120,308,184) | (132,005,514) |
| Profit before taxation | | 318,451,677 | 452,431,796 |
| Income tax expense | 17 | (133,068,826) | (90,250,955) |
| Profit for the year | | 185,382,852 | 362,180,841 |
| Other comprehensive income | | - | - |
| Total comprehensive income | | 185,382,852 | 362,180,841 |

The above Statement of Profit or Loss should be read in conjunction with accounting policies and notes, which form an integral part of these special purpose financial statements.

The basis of preparation and notes are given in pages 41 through 52.

CASH FLOW STATEMENT

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|---|-----------------|-----------------|
| Cash Flows From / (Used in) Operating Activities | | |
| Net Profit before Income Tax Expense | 318,451,677 | 452,431,796 |
| Adjustments for: | | |
| Provision for fall/(Increase) in value of investments | 2,000,000 | (6,723,337) |
| Allowance for/(reversal of) doubtful debts | 48,104,117 | (53,147,386) |
| Investment income | (260,969,689) | (277,236,905) |
| Profits attributable to investment made from banks & other Financial institutions | 242,542,163 | 237,207,936 |
| Profits attributable to Mudharabah / Wakalah investors | 875,735,205 | 1,039,785,457 |
| Operating profit before working capital changes | 1,225,863,473 | 1,392,317,561 |
| Change in other receivables | (7,785,005) | 2,700,752 |
| Change in trade and other payables | 49,550,809 | (46,065,584) |
| Change in amounts due to Head Office | (314,001,035) | 395,103,207 |
| Change in Ijarah rent receivables | 475,875,052 | (323,728,607) |
| Change in Murabaha / Musawamah receivables | (2,850,225,539) | 1,577,959,566 |
| Change in Diminishing Musharakah receivables | 171,557,227 | 242,466,436 |
| Change in Mudharabah investments from customers | (100,766,052) | (905,896,202) |
| Change in Wakalah investments from customers | 3,283,619,036 | (1,270,503,484) |
| Change in Mudharabah savings deposits from customers | 59,556,623 | (154,843,014) |
| Cash used in Operations | 1,993,244,589 | 909,510,629 |
| Profits paid to Mudharabah / Wakalah investors | (882,092,077) | (1,034,536,405) |
| Income tax paid | (90,250,956) | (128,848,957) |
| Net Cash Used in Operating Activities | 1,020,901,556 | (253,874,733) |
| Cash Flows from / (Used in) Investing Activities | | |
| Investments in Unit trust | - | 402,132,460 |
| Net proceeds from Investments in Mudaranah Deposits | (1,144,443,007) | (6,534,567) |
| Profit Received | 260,969,689 | 277,236,905 |
| Net Cash Flows from Investing Activities | (883,473,318) | 672,834,799 |
| Cash Flows from / (Used in) Financing Activities | | |
| Net proceeds from banks & other financial institutions | (70,331,170) | (176,502,263) |
| Profit paid -other instruments | (258,306,716) | (225,125,676) |
| Net Cash Flows from Financing Activities | (328,637,886) | (401,627,939) |
| Net Increase/(decrease) in cash and cash equivalents | (191,209,648) | 17,332,124 |
| Cash and cash equivalents at the beginning of the period | 545,261,206 | 527,929,082 |
| Cash and cash equivalents at the end of the period | 354,051,558 | 545,261,206 |
| Analysis of cash and cash equivalents at the end of the period | | |
| Cash and bank balances | 354,051,558 | 545,261,206 |
| | 354,051,558 | 545,261,206 |

The above Statement of Profit or Loss should be read in conjunction with accounting policies and notes, which form an integral part of these special purpose financial statements.

The basis of preparation and notes are given in pages 41 through 52.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

LOLC Finance PLC (the "Company") is a quoted public company with limited liability incorporated on 13th December 2001 and domiciled in Sri Lanka. The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No 42 of 2011 (formerly Finance Companies Act, No. 78 of 1988.)

LOLC Finance PLC has set up the Al-Falaah, Alternate Financial Service Unit ("LOLC Al-Falaah") which commenced its operations in February 2008, under Islamic economic jurisprudence. It is housed in the head office premises at No. 100/1 Sri Jayawardenepura Mawatha, Rajagiriya.

1.1 Principal activities and nature of business

The principal activities of the LOLC Al-Falaah comprised of Mudharabah and Wakalah (Profit Sharing investments & savings), Diminishing Musharakah (Partnership Financing), Murabaha (Trade Financing), /Musawamah (Import Financing), Wakalah (Working Capital Financing) and Ijarah (Leasing).

1.2 Basis of Preparation

1.2.1 Statement of Compliance

These supplementary financial statements of the LOLC Al-Falaah are prepared on based on the accounting policies explained in Note 2.

The results of LOLC Al-Falaah and the financial position of the LOLC Al-Falaah form part of the financial statements of LOLC Finance PLC which is prepared in accordance with Sri Lanka Accounting Standards. LOLC Finance PLC's primary set of financial statements was authorised for issue by the Board of Directors in accordance with a resolution of the Directors passed on 29 June 2020. Therefore, the isolated financial statements of the LOLC Al-Falaah should be read in conjunction with the LOLC Finance PLC's primary set of financial statements.

These Financial Statements include the following components:

- a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the LOLC Al-Falaah for the year under review;
- a Statement of Financial Position providing the information on the financial position of the LOLC Al-Falaah as at the year-end;
- a Statement of Cash Flows providing the information to the users, on the ability of the LOLC Al-Falaah to generate cash and cash equivalents and the needs of the LOLC Al-Falaah to utilise those cash flows; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

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

1.2.2 Basis of Measurement

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

| Items | Measurement basis |
|---|-------------------|
| Non-derivative financial instruments at fair value through profit or loss | Fair value |
| Investment property | Fair value |

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

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

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position

only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

1.2.2 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.

1.2.3 Going Concern

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.

1.2.4 Comparative information

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

1.3 Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the LOLC Al-Falaah operates (the functional currency).

These financial statements are presented in Sri Lankan Rupees, the Company's functional and presentation currency.

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

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

1.4 Significant accounting judgments, estimates and assumptions

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

The 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.

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

| Critical Accounting estimate / judgment | Disclosure reference Note |
|---|---------------------------|
| Fair value measurement of financial instruments and 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 Al-Falaah) accounting policies and disclosures require the measurement of

fair values, for both financial and non-financial assets and liabilities.

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value

measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

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

1.4.2 Impairment Losses on Loans and Advances

In addition to the provisions made for possible loan losses based on the parameters and directives for specific provisions on loans and advances by the Central Bank of Sri Lanka, the LOLC Al-Falaah reviews its loans and advances portfolio at each reporting date to assess whether a further allowance for impairment should be provided in the statement of profit or loss. The judgements by the management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors though actual results may differ, resulting in future changes to the provisions.

1.4.3 Provision for liabilities and contingencies

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

2. SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.1 Financial assets and financial liabilities

2.1.1 Non-derivative financial assets

2.1.1.a Initial recognition of financial assets

Date of recognition

The LOLC Al-Falaah initially recognises receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the LOLC Al-Falaah becomes a party to the contractual provisions of the instrument.

Initial measurement of financial Assets

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

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

2.2.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories: (effective after 1 April 2018)

- amortised cost;
- fair value through other comprehensive income (FVOCI); and
- fair value through profit or loss (FVTPL).

2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

With effect from April 1, 2018, the Company makes an assessment of the objective of a business model in which an asset is held because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- whether management’s strategy focuses on earning contractual mark-up revenue, maintaining a particular profit ratio/rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity and how cash flows are realised.

Assessment of whether contractual cash flows are solely payments of principal and mark-up (SPPI test)

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

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

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

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

Amortised cost

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

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

- Cash and cash equivalents

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

- Ijarah receivables

The LOLC Finance PLC’s LOLC Al-Falaah buys and lease out equipment required by its clients for a fee (Rental). The duration of the lease and value of the rental is agreed in advance. Ownership of the asset will remain with the Company till the end of the lease period. Rent receivables on Ijarah advances reflected in the statement of financial position are the total rent receivables after eliminating unearned income and deducting pre-paid rentals,

rental collections and provision for impairment losses.

- **Murabaha, Musawamah and Diminishing Musharakah receivables**

Murabaha/Musawamah to customers with fixed installments are stated in the statement of financial position net of provision for impairment losses and income, which is not accrued to revenue.

Diminishing Musharakah to customers is reflected in the statement of financial position at amounts disbursed less repayments and provision for doubtful debts.

- **Financial guarantees**

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

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

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

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

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets

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

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

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

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

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

Amortised cost- Loans and Receivables

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

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, Ijarah receivables, Murabaha, Musawamah and Diminishing Musharakah receivables and other receivables.

- **Cash and cash equivalents**

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

- **Ijarah receivables**

The LOLC Finance PLC's LOLC Al-Falaah buys and lease out equipment required by its clients for a fee (Rental). The duration of the lease and value of the rental is agreed in advance. Ownership of the asset will remain with the Company till the end of the lease period. Rent receivables on Ijarah advances reflected in the statement of financial position are the total rent receivables after eliminating unearned income and deducting pre-paid rentals, rental collections and provision for impairment losses.

- **Murabaha, Musawamah and Diminishing Musharakah receivables**

Murabaha/Musawamah to customers with fixed installments are stated in the statement of financial position net of provision for impairment losses and income, which is not accrued to revenue.

Diminishing Musharakah to customers is reflected in the statement of financial position at amounts disbursed less repayments and provision for doubtful debts.

2.1.2 Non-derivative financial liabilities

Classification and Subsequent Measurement of Financial Liabilities

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

The LOLC Al-Falaah classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs.

Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

Other financial liabilities comprise of Mudharabah deposits, Wakalah deposits, trade payables, accruals & other payables and amounts due to head office.

Profit Payable to the Mudharabah Investors

Profits payable are recognised on accrual basis and are credited to Investors' accounts when the profit is distributed on a monthly basis on or before the 10th of the following month.

2.1.3 Derecognition of financial assets and financial liabilities

Financial assets

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

- (a) The LOLC Al-Falaah has transferred substantially all the risks and rewards of the asset, or
- (b) The LOLC Al-Falaah has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

- (i) The consideration received (including any new asset obtained less any new liability assumed) and
- (ii) Any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The LOLC Al-Falaah derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

2.1.4 Offsetting of financial instruments

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

2.1.5 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, plus the cumulative income, minus principal repayments, minus any reduction for impairment.

2.1.6 Fair value measurement

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

Determination of fair value

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

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

2.1.7 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the LOLC Al-Falaah on terms that the LOLC Al-Falaah would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the LOLC Al-Falaah, economic conditions that correlate with defaults or the disappearance of an active market for a security.

The LOLC Al-Falaah computes its impairment on receivables in accordance with Direction No. 03 of 2006 of the Finance Business Act No.42 of 2011 as follows

- Fifty percent (50%) of Ijarah receivables, Murabaha/Musawamah advances & Diminishing Musharakah advances receivable (net of unearned income) which are in arrears for a period of 06 to 12 months.
- One hundred percent (100%) of Ijarah lease, Murabaha/Musawamah advances & Diminishing Musharakah advances receivable

(net of unearned income) which are in arrears for a period of 12 months and more

Additional specific provisions are made upon management review on the performance of these portfolios.

Balance receivables on any terminated contracts are fully provided.

The values of the following items held as collateral for a particular advance have been deducted in arriving at the above provisions.

- Vehicles that have been repossessed by the Company

Eighty per cent (80%) of the valuation obtained during the preceding six months from a professional valuer approved by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka

- Lands & Buildings

The value of the property on a declining basis based on the age of the facility, in case of a primary mortgage. Such value shall not exceed the value decided by a qualified professional valuer at the time of providing the accommodation.

2.2 Investment property

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

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

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property

includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

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

Determining Fair value

An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the company's investment property portfolio annually.

2.3 Employee benefits

2.3.1 Short-term employee benefits

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

2.3.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction

in future payments is available. All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

2.4 Provisions

A provision is recognised if, as a result of a past event, the LOLC Al-Falaah has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

2.5 Events occurring after the reporting date

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

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

2.6 Benevolent Loan (Qurd Hassan)

Qurd Hassan is a loan or debt extended which is absolutely free from mark-up or any charges. The borrower is only required to repay the principal amount borrowed, but it may pay an additional amount at its discretion, as a token of appreciation.

The Company extends Qurd Hassan to LOLC Al-Falaah as and when required and LOLC Al-Falaah settles those when funds are available.

SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF INCOME AND EXPENSES

2.7 Revenue Recognition

2.7.1 Murabaha/Musawamah Income

The profits and losses arising from Murabaha/Musawamah transactions are recognised over the term of the facility, commencing from the month in which the facility is executed.

2.7.2 Ijarah Income

Profits and losses arising from Ijarah assets are recognised over the term of the lease, commencing from the month in which the lease is executed so as to yield a constant periodic rate of return on Ijarah assets.

2.7.3 Diminishing Musharakah Income

Profits and losses arising from Diminishing Musharakah are recognised in the accounting period in which the installments are due.

2.7.4 Profit in Suspense

Profit from advances classified as non-performing is accounted for on cash basis. Income falling due on non-performing advances is credited to profit in suspense account.

2.7.5 Fees and other income

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

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

Collections on contracts written off are accounted for on cash basis

2.7.6 Dividends

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

2.8 Expenditure Recognition

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

charged to income in arriving at the profit for the year.

Expenses incurred by the LOLC 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 recognised as expense in the period it becomes due.

2.8.2 Nation Building Tax on financial services (NBT)

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

2.9 Income Tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Inland Revenue. The rate and tax laws used to compute the amount are those that are enacted or substantially enacted as at the statement of financial position date. Accordingly, provisions for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with provisions of Inland Revenue Act No. 10 of 2006 and amendments thereto.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date and any adjustments to tax payable in respect of previous years.

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.10 Cash flow statements

The cash flow statement has been prepared using the indirect method of preparing cash flows in accordance with

the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

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

SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.11 Fair value measurement

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

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

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.

The 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.

3. CASH AND BANK BALANCES

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|----------------------|-------------|-------------|
| Cash & bank balances | 354,051,558 | 545,261,206 |
| | 354,051,558 | 545,261,206 |

4. MURABAHA / MUSAWAMAH / WAKALAH RECEIVABLES

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|-----------------------------|---------------|---------------|
| Instalment receivable | 4,216,903,917 | 1,414,268,184 |
| Unearned income | (218,087,080) | (190,516,162) |
| Income in suspense | (11,761,427) | (4,524,682) |
| Provision for credit losses | (18,054,824) | (12,212,584) |
| | 3,969,000,585 | 1,207,014,756 |

5. DIMINISHING MUSHARAKAH RECEIVABLES

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|-----------------------------|---------------|---------------|
| Instalment receivable | 4,995,263,122 | 5,091,659,624 |
| Income in suspense | (65,248,833) | (52,653,570) |
| Provision for credit losses | (39,739,191) | (41,603,503) |
| | 4,890,275,098 | 4,997,402,551 |

6. IJARAH RECEIVABLES

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|-----------------------------|---------------|-----------------|
| Rent receivables | 3,995,430,114 | 4,738,325,532 |
| Unearned income | (984,909,681) | (1,251,930,048) |
| Income in suspense | (15,220,576) | (10,351,073) |
| Provision for credit losses | (50,989,143) | (31,564,465) |
| | 2,944,310,713 | 3,444,479,946 |

7. INVESTMENT SECURITIES-FVTPL/ HELD FOR TRADING

Expo Lanka Holdings PLC

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|---|------------------|------------------|
| Cost (1,000,000 shares) | 18,000,000 | 18,000,000 |
| Carrying amount as at 1st April | 4,000,000 | 4,900,000 |
| Adjustment for change in fair value - recognised in profits | (2,000,000) | (900,000) |
| Carrying amount as at 31st March | 2,000,000 | 4,000,000 |
| Investment in Unit Trusts | | |
| Original cost | - | 335,000,000 |
| Carrying amount as at 1st April | - | 394,509,123 |
| Investments during the year | - | - |
| Disposal during the year | - | (402,132,460) |
| Adjustment for change in fair value - recognised in profits | - | 7,623,337 |
| Carrying amount as at 31st March | - | - |
| Total investments held for trading | 2,000,000 | 4,000,000 |

8. OTHER RECEIVABLES

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|------------------------------|-------------------|-------------------|
| Staff car advances | 2,504,465 | 2,637,364 |
| Insurance premium receivable | 37,608,577 | 22,692,334 |
| WHT receivable | - | 18,481,862 |
| Others | 37,103,416 | 25,157,330 |
| | 77,216,459 | 68,968,890 |

9. INVESTMENT PROPERTIES

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|--|-------------|--------------|
| Balance as at 1st April | - | 22,500,000 |
| Additions to Investment Properties from foreclosure of contracts | - | - |
| Change in fair value | - | - |
| Disposal during the year | - | (22,500,000) |
| Balance as at 31 March | - | - |

10. PLACEMENT FROM BANKS & OTHER FINANCIAL INSTITUTIONS**10.1 Long-term borrowings**

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|---|---------------|---------------|
| Balance at the beginning of the year | 1,520,000,000 | 1,520,000,000 |
| Facility obtained during the year (ICD) | - | - |
| Repaid during the year | - | - |
| Balance at the end of the year | 1,520,000,000 | 1,520,000,000 |
| Profit Payable | 44,654,094 | 40,074,868 |
| | 1,564,654,094 | 1,560,074,868 |

10.2 Ijarah Sukuk Bond

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|---|---------------|---------------|
| Balance at the beginning of the year | 70,331,170 | 228,789,442 |
| Sukuk obtained during the year | - | - |
| Repaid during the year | (70,331,170) | (158,458,273) |
| Balance at the end of the year | (0) | 70,331,170 |
| Profit Payable | - | 20,343,779 |
| | (0) | 90,674,949 |
| Liability recognised in statement of financial position | 1,564,654,093 | 1,650,749,817 |

11. DEPOSITS FROM CUSTOMERS

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|---------------------|----------------|---------------|
| Customer deposits | 11,015,928,509 | 7,683,920,636 |
| | 11,015,928,509 | 7,683,920,636 |

11.1 Analysis of customer deposits based on nature

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|---|----------------|---------------|
| Mudharabah investments | 2,863,945,728 | 2,964,713,514 |
| Wakalah investments | 7,386,706,909 | 4,013,487,873 |
| Mudharabah savings | 765,275,872 | 705,719,249 |
| Total deposits | 11,015,928,509 | 7,683,920,636 |
| Profit payable | | |
| Profit payable on Mudharabah investments | 57,737,669 | 77,597,840 |
| Profit payable on Wakalah investments | 112,971,653 | 189,066,620 |
| | 170,709,322 | 266,664,460 |
| Deposit liability recognised in statement of financial position | 11,186,637,831 | 7,950,585,096 |

12. ACCRUALS AND OTHER PAYABLES

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|-------------------------------|-------------|-------------|
| Trade Payable | 34,565,208 | 47,320,959 |
| Refunds payable | 66,348,573 | 45,352,220 |
| Insurance /Takaful payable | 1,463,845 | 2,248,450 |
| Al-Falaah charity fund | 1,971,082 | (462,564) |
| Other miscellaneous creditors | 68,482,566 | 56,427,842 |
| WHT payable | - | 2,553,933 |
| Other payables | 46,942,716 | 16,319,777 |
| | 219,773,990 | 169,760,617 |

13. DUE TO HEAD OFFICE

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|--|-------------|-------------|
| Current account balance due to Head Office | 229,927,941 | 543,928,976 |
| | 229,927,941 | 543,928,976 |

14. REVENUE

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|--|---------------|---------------|
| Income from Ijarah receivables | 800,049,049 | 832,883,542 |
| Income from Diminishing Musharakah receivables | 966,978,887 | 1,092,693,258 |
| Income from Murabaha/Musawamah /Wakalah | 479,263,461 | 376,373,071 |
| Profit on terminations | 74,586,178 | 73,363,072 |
| Income from Mudarabah deposits | 260,969,689 | 277,236,905 |
| Profit on Unit trust | - | 6,723,337 |
| | 2,581,847,264 | 2,659,273,185 |

15. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|---------------------|-------------|-------------|
| Takaful commission | 1,213,566 | 1,206,977 |
| Franchise Fee | 31,381,233 | 34,035,515 |
| Sundry income | 3,602,458 | 4,724,149 |
| | 36,197,257 | 39,966,642 |

16. EMPLOYEE BENEFITS

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|---------------------------|-------------|-------------|
| Salaries & other benefits | 274,334,501 | 196,326,951 |
| | 274,334,501 | 196,326,951 |

17. PROFIT FROM OPERATION**Stated after charging**

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|-----------------------------|-------------|-------------|
| Advertising | 7,562,809 | 3,496,923 |
| Business promotion expenses | 52,038,729 | 56,216,264 |

18. INCOME TAX EXPENSE

| Year ended 31 March | 2020 Rs. | 2019 Rs. |
|--|-------------|-------------|
| Income tax is provided at 28% of the taxable profits computed in accordance with the inland revenue act No 10 of 2006 (and amendments thereto) | 133,068,826 | 90,250,955 |
| | 133,068,826 | 90,250,955 |

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.

CORPORATE INFORMATION

Name of the Company

LOLC Finance PLC

Country of Incorporation

Sri Lanka

Date of Incorporation

13th December 2001

Legal Form

A quoted public company with limited liability

Company Registration No.

PB 244 PQ

Stock Exchange Listing

The ordinary shares of the Company were listed on the Diri Savi Board of the Colombo Stock Exchange on 7th July 2011. The shares are presently on the Second Board due to non compliance with the rules relating to minimum public float.

Credit Rating

ICRA Lanka assigned the company an issuer rating of (SL) A (Stable outlook).

Registered Office and Head Office

No. 100/1, Sri Jayewardanapura Mawatha, Rajagiriya
Tel: 011 5880880
Fax: 011 2865606
Website: <https://www.lolcfinance.com/>
Swift: LOFCKLC

Directors

Mr B C G de Zylva - Non Executive Chairman
Mr F K C P N Dias - Executive Director/CEO-appointed with effect from 01st March 2020
Mrs K U Amarasinghe - Executive Director
Mr A Nissanka - Non-Executive Director -re-designated with effect from 28th April 2020
Mrs D P Pieris -Senior Independent Director
Mr P A Wijeratne - Independent Director
Mr K Sundararaj - Independent Director
Mr R D Tissera - Deputy Chairman/ CEO – resigned with effect from 28th February 2020

Secretaries

LOLC Corporate Services (Private) Limited
100/1 Sri Jayawardanapura Mawatha Rajagiriya
Tel: 011 5880354/7 - 0115 880880 (general)

Auditors

Ernst & Young, Chartered Accountants

Lawyers

Julius & Creasy, Attorneys-at-Law
Nithya Partners

Registrars

PW Corporate Secretarial (Private) Ltd
No. 3/17 Kynsey Road, Colombo 8.
Tel: 011 4897733-5

Principal Activities

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

Bankers

Nations Trust Bank PLC
Citi Bank N.A.
Commercial Bank of Ceylon PLC
NDB Bank PLC
Bank of Ceylon
Seylan Bank PLC
MCB Bank
Deutsche Bank
Hatton National Bank PLC
Pan Asia Bank PLC
Hong Kong & Shanghai Banking Corporation
Sampath Bank PLC
DFCC Bank
Peoples Bank
Cargills Bank Limited
Union Bank of Colombo PLC

