

# ANCHORED IN PURPOSE



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# ANCHORED IN PURPOSE



As an industry leader in Shari'ah compliant financial products and services, Al-Falaah has aspired to create a landscape that recognizes the long-term value of alternate financial options, and our ability to provide innovative solutions that is anchored in respect towards the goals and aspirations of our customers. Today, we are a well established brand in our field as a Sri Lankan Islamic banking and financial Institution, with a reputation that is recognized island wide as a standard of excellence and dependability. Navigating these difficult times with purpose, hard work and commitment has enabled us to fulfil our promise to our customers, going the extra mile in nurturing a spirit of enterprise and perseverance. We are honoured to have inspired the trust and loyalty of so many individuals, corporates and business institutions with unmatched access and service standards that have pushed us to the forefront of the industry. We are confident in our forged path towards success and are empowered by your committed support for over a decade to push the boundaries of value.



# ABOUT US

With the emergence of Alternate Financing around the world, LOLC Finance focused its attention towards alternative/participatory financing concepts and brought a new facet to the financial services industry of Sri Lanka. Driven by the goal of playing a more active role in developing this sector, we established a dedicated Alternate Financial Services Unit in an effort to ensure that all products and services are handled in accordance with these established concepts, guaranteeing consistency with Islamic principles at all times.

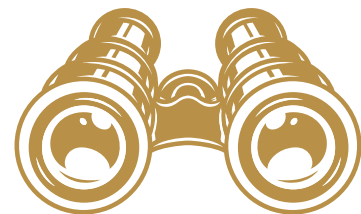


## Vision

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.



## 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.

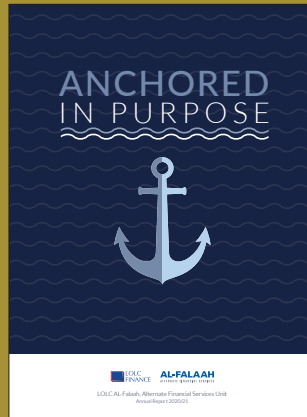
# OUR TRUE IDENTITY

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.

# 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)
8. Wadi'ah – Gold Storage Facility (Launched in Feb 2021)

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

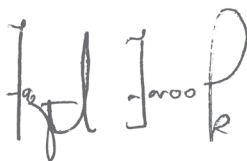
1. Having Quard-Hassanah agreement with LOLC Finance
2. Adhering only to The Scholar Supervisory Board of LOLC approved agreements
3. Maintaining of Chart of Accounts & IT systems separately identify its transactions
4. Having separate Banking transactions
5. Periodic Audit conducted by the Scholar Supervisory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



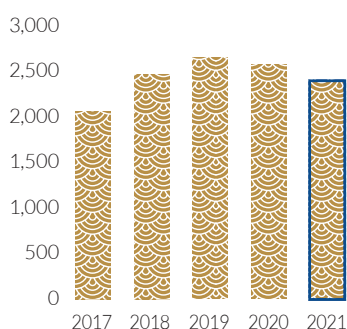
**Ash-Shaikh Murshid M. Mulaffar**  
Member-SSB

# FINANCIAL HIGHLIGHTS

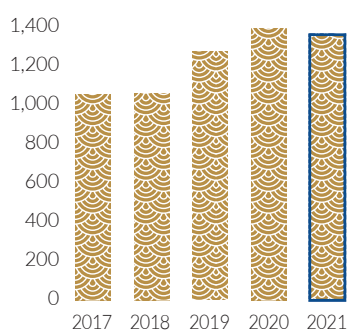


Year Ended 31 March	Rs. 2021 Mn	Rs. 2020 Mn
Revenue	2,403	2,582
Gross Profit	1,362	1,396
Profit Before Tax	414	318
Profit After Tax	278	185
Retained Earning	2,883	2,604
Total Assets	16,009	15,938
Loan and Advance	10,386	11,804
Non Performing Loan	409	565
Total Liabilities	13,126	13,334
Deposit Base	11,818	11,187
Profit Paid to Depositors	949	876

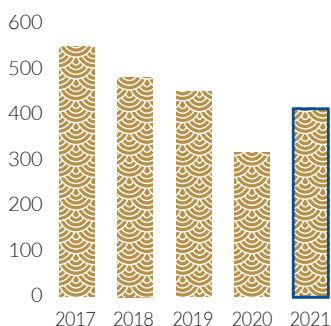
**REVENUE : Rs. 2,403Mn**



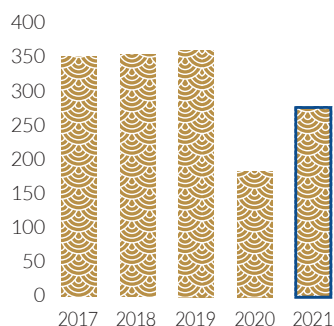
**GROSS PROFIT : Rs. 1,362 Mn**



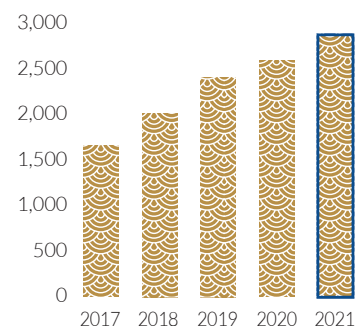
**PBT : Rs. 414 Mn**



**PAT : Rs. 278 Mn**

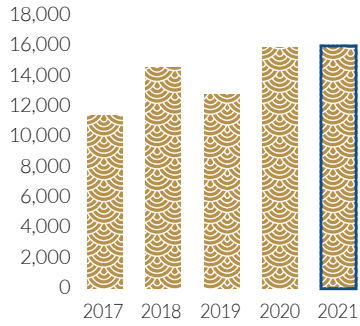


**RETAINED EARNINGS : Rs. 2,883 Mn**

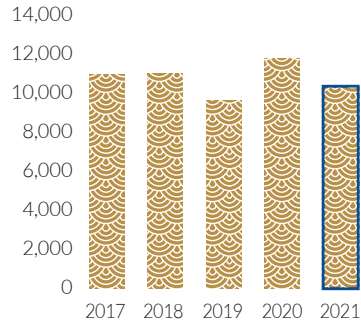


# FINANCIAL HIGHLIGHTS

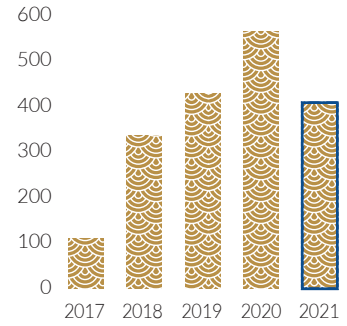
**TOTAL ASSETS : Rs. 16,009 Mn**



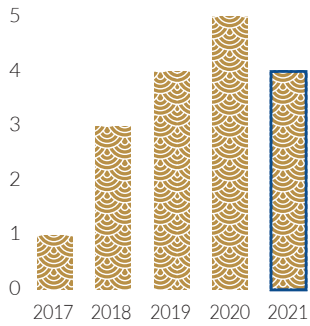
**LOANS AND ADVANCES : 10,386 Mn**



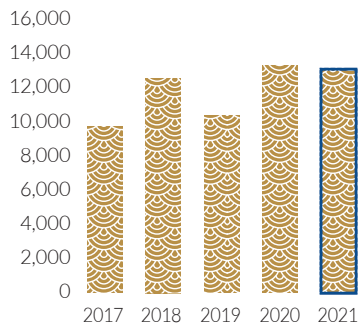
**NPL : Rs. 409 Mn**



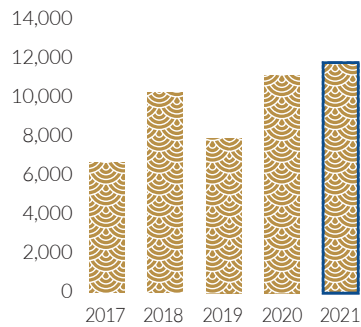
**NPL RATIO : 3.9%**



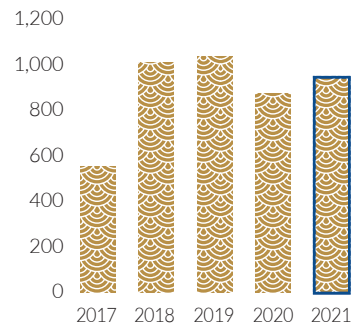
**TOTAL LIABILITIES : Rs. 13,126 Mn**



**DEPOSIT BASE : Rs. 11,818 Mn**



**PROFIT PAID TO DEPOSITORS : Rs. 949 Mn**





# AWARDS

Our dedication towards excellence has been recognized across the industry both globally and locally. This year too, we are the proud recipient of numerous awards, further solidifying our presence as a key financial institution playing a pivotal role in the Alternate Financial Services sphere.



LOLC Al-Falaah was awarded IFN Best Islamic Leasing Provider (Global) 2020



LOLC Al-Falaah emerged as the Winner of the SLIBFI Islamic Leasing Company 2020

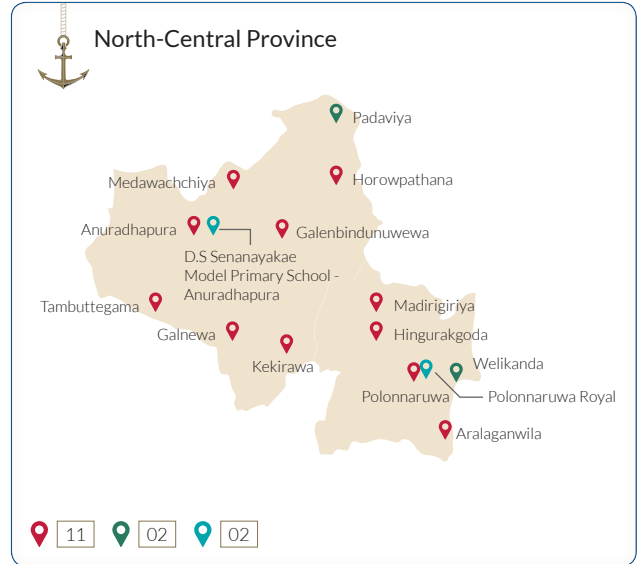


LOLC Al-Falaah was awarded IFFSA Islamic Leasing Company of the Year 2020



LOLC Al-Falaah was awarded IFFSA Islamic Banking Window/Unit of the Year 2020

# OUR LOCATIONS



As at 31st March

- LOLC Finance Branches
- LOLC Finance Savings Centres
- LOLC Finance Service Centres
- LOLC Finance, Al-Falaah Branches/LOLC Finance, Al-Falaah Service Centres



# BALANCE AND FORESIGHT



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# DIRECTOR/CEO'S REVIEW



Focused on its core business and ensuring prudent financial management, the Company recorded a 30% jump in profitability amidst the uncertain business climate that prevailed through the year.

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

I am proud to state that LOLC AI-Falaah displayed exceptional grit in the face of challenges emanating from the pandemic during the year under review. Despite an unfavourable economic environment, LOLC AI-Falaah succeeded in strengthening its position as the preferred alternate financial services provider in Sri Lanka.

In spite of the decline in economic activity due to lockdowns, the Company managed to sustain and grow profitability, earning a Revenue of Rs. 2,403 Mn in 2020/21 as compared to Rs. 2,582 Mn in the previous year. Focused on its core business and ensuring prudent financial management, the Company recorded a 30% jump in profitability amidst the uncertain business climate that prevailed through the year, which reflects the strong management expertise and the skilled team at LOLC AI-Falaah.

## Financial performance

Underscoring the extent of the performance, LOLC AI-Falaah posted a Profit before Tax of Rs. 413.92 Mn from Rs. 318.45 Mn in the previous year, which marks a massive 30% growth.

This is an outstanding achievement by any measure and that too in a disruptive year.

We believe our trusted credentials helped sustain our presence in the market over the years and strong customer relationships helped grow our assets portfolio. The unwavering investor confidence shown in the Company is a testament of CLC's market leadership. Staying true to our depositors, the Company Profit distributed to Depositors grew by 8.3% as did Return on Equity, which showed positive growth.

The expertise is evident in the manner in which LOLC AI-Falaah maintained an NPL level of 3.9% against an industry average amongst finance companies of over 13% in the year under review.

In another favourable development, the Company leveraged on its' digital platforms to provide uninterrupted services to its customer base through the year under review, backed by the technological expertise of parent LOLC Finance PLC and the holding group.



**Rs. 2,403 Mn**  
REVENUE



**Rs. 413.92 Mn**  
PROFIT BEFORE TAX



**Rs. 949 Mn**  
PROFIT PAID TO  
DEPOSITORS

## DIRECTOR/CEO'S REVIEW

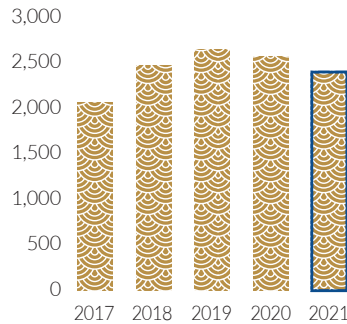
LOLC AI-Falaah's customer-centric philosophy is at the heart of its financial performance. The Charity Fund in the year under review, enabled the Company to distribute a sum in excess of approximately Rs. 20Mn amongst 1,262 beneficiaries for new and ongoing CSR projects.

### Looking ahead

LOLC AI-Falaah will sustain its industry leadership position by widening its footprint and introducing new products and services to meet the evolving needs of customers. During the year under review, the Company introduced two new novel products - Wadi'ah Gold Loan Facility for Gold storage as well as cash advances for urgent working-capital or personal consumption emergencies and the Mudharabah Super Saver for the progressive saver. The Wakalah Speedraft is also ready for launch, which reflects the path of innovation the Company expects to traverse in the months ahead. Technology will be a key driver for growth as company processes are being fully automated for end-to-end digitalisation at customers' doorsteps with the backing of parent LOLC Finance's fintech capabilities, and to infuse speed and convenience.

In another favourable development, the Company leveraged on digital platforms to provide uninterrupted services to its customer base through the year under review, backed by the technological expertise of parent LOLC Finance PLC and the holding group.

### REVENUE : Rs. 2,403Mn



### Recognition & Rewards

As the pioneer in Alternate Finance, the Company was been bestowed with a multitude of awards over the years. In 2020, LOLC AI-Falaah won 3 awards: IFN Best Islamic Leasing Provider 2020, SLIBFI Islamic Leasing Company 2020 Gold Award and IFFSA Islamic Leasing Company of the year 2020 Gold Award. LOLC AI-Falaah also won the Bronze award as the 'IFFSA Islamic Banking Window/Unit of the year 2020'.

By the time this edition is printed LOLC AI-Falaah would have secured 3 top awards at the 2021 SLIBFI awards, with Gold Awards for the Leasing Company of the year and Window Unit of the year. Further, LOLC AI-Falaah also won the Silver Award for the Entity of the year amidst intense competition – an award which is vied for by all banks. Being recognized on the local and global stage is a clear testament to the Company's industry leadership.

### Acknowledgement

I wish to thank the Chairman and Board of Directors and the senior leadership of LOLC AI-Falaah and LOLC Finance for their unstinted support. The year has made exceptional demands on the entire team and I am proud to say that they have been more than equal to

the task. I am proud to work alongside such an exceptional team. The Scholar Supervisory Board too has been a great source of knowledge and counsel for our operations through the year. We remain grateful to all our stakeholders for continuing to place their confidence in LOLC AI-Falaah.

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

# MESSAGE FROM GROUP HEAD OF ALTERNATE FINANCIAL SERVICES - LOLC



Practical loan measures combined with an emphasis on recoveries will be key to maintaining profitability during these challenging market conditions.

**Mr. Krishan Thilakaratne**  
Group Head of Alternate Financial Services - LOLC

The 2020/2021 financial year was certainly challenging in terms of the business and market conditions, the impact of the pandemic, and disruptions to business as usual in every aspect, further exacerbated by the negative business sentiments that prevailed through the year. At the beginning of the year under review, with the COVID-19 outbreak in Sri Lanka, it was a matter of survival for organizations until LOLC AI-Falaah took stock of the disruptions arising from the lockdowns. Navigating this journey brought the realization that the difficult paths were also strewn with new opportunities and 'new normals' which the company needed to adapt to quickly in order to demonstrate its leadership in the field of alternate financial services.

The new challenges included the lockdown, continuous moratoriums announced by the Central Bank of Sri Lanka, restrictions in recovery action, staff and visitors being infected with COVID-19 and the extraordinary price increases in vehicles due to import ban. In order to face these hurdles, the company embarked on new strategies and plans, including

creating staff bubbles and roster-based arrangements to ensure uninterrupted services.

Furthermore, personalised communication with clients was accelerated during the period to understand their hardships, to manage moratoriums at manageable levels, gain insights into market issues, and on a positive note – leverage the price escalation of vehicles for recovery and acquisition. Ultimately, the fact that these strategies have worked is soundly reflected in the strong growth numbers.

### Performance

LOLC AI-Falaah's robust performance was a master-class in crisis management for the rest of the financial services industry and will provide many lessons on how to build a resilient organization that can withstand an once-in-a-lifetime challenge like a global pandemic. Amidst the volatile economic and market condition that prevailed through the year, LOLC AI-Falaah held on to business volumes while many players exited the industry as they were unable to sustain operations due to market challenges.



**Rs. 278 Mn**  
PROFIT AFTER TAX



**3.9%**  
NON PERFORMING  
LOANS



**5.6%**  
CUSTOMER DEPOSITS  
GROWTH

## MESSAGE FROM GROUP HEAD OF ALTERNATE FINANCIAL SERVICES - LOLC

Although Total Assets were maintained at the same level as in the previous year, inflow of deposits in 2020/21 saw a growth of 5.6%. One of the key achievements of LOLC Al-Falaah was that it successfully maintained an NPL of 3.9% as against an industry average of 13% for the period. Profit before Tax rose by 30% to reach Rs. 414 Mn and Profit after Tax grew by over 50%. This is by all means an admirable performance derived by maintaining the portfolio and the deposits numbers during a tough year, while managing overheads and controlling costs which has resulted in exponential growth in the bottom line.

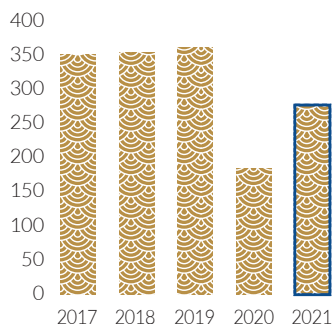
Continuing its winning streak year after year, LOLC Al-Falaah was bestowed with a Gold award for 'Leasing company of the year' and a Silver award for 'Entity of the year' at the Islamic Finance Forum of South Asia (IFFSA) and 'Leasing company of the year' globally by IFM.

### Future plans

LOLC Al-Falaah will uphold its commitment to the industry by giving leadership and lighting the path for others and delivering a sound performance for its clients. The

Continuing its winning streak year after year, LOLC Al-Falaah was bestowed with a Gold award for 'Leasing company of the year' and a Silver award for 'Entity of the year' at the Islamic Finance Forum of South Asia (IFFSA) and 'Leasing company of the year' globally by IFM.

**PAT : Rs. 278 Mn**



company plans to expand its geographic footprint, and launch new products and new processes, especially on the digital platform. During the year, the Wadi'ya gold safekeeping product was launched in compliance with Islamic Finance principles. Mudaraba Supersaver was also introduced to fulfil client needs. LOLC-Al-Falaah also joined hands with iPay, the leading digital platform, to enhance online and mobile transactions for clients and to expand its geographical presence.

### Appreciation

I wish to thank the Scholar Supervisory Board (SSB) for their guidance through the year. The Board of directors, senior management and staff of LOLC Al-Falaah have shown exceptional commitment and resilience to overcome challenges in a tough year and helped to strengthen the company's position as the leader in the alternate financial services industry.

**Mr. Krishan Thilakaratne**

Group Head of Alternate Financial Services - LOLC



# SSB CHAIRMAN'S REVIEW



Through the period under consideration, LOLC Al-Falaah has been in touch with the Shari'a Supervisory Board, now called the Scholar's Supervisory Board (SSB), which guided them to ensure that the moratoriums comply with the regulator's guidelines, as well as with the rules of Islamic finance.

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

LOLC Al-Falaah, the alternative finance wing of LOLC, proved its resilience in the 2021/22 financial year, succeeding in earning revenue of Rs. 2.4 billion amidst difficult conditions. The pandemic-induced challenges not only affected the Islamic finance market, but also global markets across most sectors. Although LOLC Al-Falaah witnessed a slight decline in revenue year on year, it still managed to sustain in the wake of national lockdowns and business shutdowns. The Central Bank of Sri Lanka provided adequate guidance for all financial institutions during the year under review and extended moratoriums to ease the financial burden of companies.

Through the period under consideration, LOLC Al-Falaah has been in touch with the Shari'a Supervisory Board, now called the Scholar's Supervisory Board (SSB), which guided them to ensure that the moratoriums comply with the regulator's guidelines, as well as with the rules of Islamic finance.

During the year under review, the gold storage product was developed and an overdraft product was structured on Wakalah basis. I am pleased to note that the Company has a robust product portfolio presently.

Overall, we are pleased with LOLC Al-Falaah's compliance to SSB requirements, the structure of the contracts offered and the manner of implementation during the year under review. We have found them in compliance with the rules of Islamic economic and commercial principles. The allocation of profits relating to investment accounts all appear to conform to Islamic principles. The expense allocation appears to be based on reasonable formula as has been guided by SSB. The Board also performed reconciliation between administrative charges charged and actual costs incurred for recovery of delayed payments, which also appear to be in line with the guidelines.



**Rs. 2.4 Bn**  
REVENUE

**"DURING THE YEAR UNDER REVIEW, THE GOLD STORAGE PRODUCT WAS DEVELOPED AND AN OVER DRAFT PRODUCT WAS STRUCTURED ON WAKALAH BASIS."**

**"OVERALL, WE ARE PLEASED WITH LOLC AL-FALAAH'S COMPLIANCE TO SSB REQUIREMENTS"**

## SSB CHAIRMAN'S REVIEW

During the year we faced challenges in terms of conducting audits and reviews which had to be conducted online. Looking at global trends of global travel and economies opening up and restrictions easing, we hope that remote audits will be a thing of the past. Overall, there is a growth in the Islamic Finance industry and it seems that globally Islamic finance proved its resilience.

Islamic Finance is well-entrenched globally and as a pioneering finance company in Sri Lanka, LOLC Al-Falaah finds itself with a sound foundation and a good platform for growth.

In addition, the management always is looking at new products and the needs of the community.

Looking ahead, we have every reason to believe at least that the future is promising. LOLC Al-Falaah is on a strong growth trajectory and hoping to replicate its particular model in other countries as it expands its geographic footprint to new markets outside Sri Lanka.



**Ash-Shaikh Shafique A. Jakhura**  
(Mufti)

Scholar Supervisory Board - Chairman

Overall, we are pleased with LOLC Al-Falaah's compliance to SSB requirements, the structure of the contracts offered and the manner of implementation during the year under review. We have found them in compliance with the rules of Islamic economic and commercial principles. The allocation of profits relating to investment accounts all appear to conform to Islamic principles.

# EXCELLENCE AND DEPENDABILITY



## Operational Review

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# PRODUCT REVIEW

As the most preferred alternate financial services provider in Sri Lanka, LOLC Al-Falaah continued to lead by example in the industry by demonstrating prudent growth strategies and the determination to surmount obstacles to sustain and grow profitability despite the external pressures that prevailed through the 2020/21 financial year.

## Operating Environment

Amidst the COVID-19 pandemic, Sri Lanka's economy contracted by 3.6% in 2020. Lockdowns and other restrictive measures enacted by the government in the second quarter helped contain the first wave of COVID-19 successfully, but these measures had a negative impact on tourism, construction, and transport sectors. Jobs and earnings losses disrupted private consumption and uncertainty impeded investment. The second wave erupted by the end of the third quarter and a third wave followed by end of the financial year, further eroding business confidence and investor sentiment.

While Sri Lanka's public expenditure increased, revenues declined, resulting in a widening of the fiscal deficit in 2020. As a result of the economic contraction and the elevated fiscal deficit, public and publicly guaranteed debt increased to untenable levels.

In response, the Central Bank of Sri Lanka (CBSL) undertook considerable monetary policy easing and additional measures to increase liquidity in the market and support businesses with financial sector regulatory measures such as debt moratoriums for COVID-19 affected businesses and individuals. Thereafter, CBSL implemented a series of policy rate cuts - further bringing the short-term rates lower, to the lowest long-term rates in years.

In response, CBSL further implemented a policy package containing a variety of monetary stimulus measures to ease the financial difficulties faced by private sector entrepreneurs of which reduction of market lending and borrowing rates was key, bringing entire industries' rates down to historically low levels. The Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were 4.50% and 5.5% respectively, compared with 8.00% and 9.00% two years ago. However, the envisaged expansion of economic activities due to the low lending and borrowing rates did not materialize due to the third wave and the uncertain business climate that persisted, although the accelerated vaccination drive is expected to boost investor sentiment.

## Financial Performance

In an industry-wide trend of business slowdown, LOLC Al-Falaah proved its resilience by managing a Revenue of Rs. 2.40 Bn in 2020/21 as compared to Rs.2.58 Bn in the previous year. The portfolio was infused with a strong focus on security-based lending and financing of sustainable business propositions. Despite all the challenges, LOLC Al-Falaah achieved the seemingly impossible task of recording a 30% increase in Profit before Tax for 2020/21 from Rs. 318,45 Mn in 2019/20 to Rs. 413.9 Mn in the year under review. This historic growth is even more commendable considering that the Company was unable to operate for more than about half the year due to lockdowns, branch closures, curfews and so on. Recording a 30% jump in profitability amidst this scenario reflects the strong management expertise and the skilled team at LOLC Al-Falaah.

The Company's innovative approach to the alternate financial system and its longstanding relationships with its customer base enabled it to post a Profit after Tax of Rs. 278 Mn from Rs. 185 Mn in the previous year - which reflects a massive 50% growth, a phenomenal achievement by any standard and more so in the disruptive year experienced in 2020/21.

While growing its profitability stridently in 2020/21, the Company ensured prudent measures were in place to mitigate any risks from the wider economic risks. LOLC Al-Falaah cautiously grew its Liability book and maintained a growth overall mainly due to its strong customer relationships and longstanding presence in the market, ending the year by successfully growing its Asset portfolio. The investor confidence shown in the Company in an uncertain environment truly reflects the leadership status of the Company. The new product inclusions 'Mudharabah Super Saver' and 'Wadi'ah Gold Storage Facility' introduced during the latter part of the period under review has received wide-attention from the valued client base.

As the preferred market leading alternate financial services provider, LOLC Al-Falaah has garnered experience in this segment for almost 15 years and this is evident in the Company low NPL levels of 3.9% against an industry average of finance companies of over 13% in the year under review, or for that matter even compared to the NPL ratio in the banking sector during the comparable period. Year-on-year, the Company's NPL ratio of 3.91% was lower considering the industry setbacks faced during consecutive years. LOLC Al-Falaah not only performed strongly in maintaining a sound performing

book, but surpassed industry standards with perhaps the best NPL ratio in the industry.

Meanwhile, Retained Earnings grew from Rs. 2,604 Mn in the previous year to Rs. 2,882 Mn, in 2020/21, reflecting an 11% growth, once again a measure of the astute and professional management of the Company.

LOLC AI-Falaah's deposit portfolio grew significantly during the year under review from Rs. 11.1 billion to Rs. 11.8 Bn under the reporting period, marking a growth of 6% in comparison with the previous year. Assets and deposits portfolio were suitably sustained under the difficult circumstances through deposits. The Company succeeded in effective management of the asset and liability book while drawing in new deposits.

Committed to safeguarding investors, the Company distributed Profit to Depositors amounting to Rs. 948,52 Mn as against Rs. 875,7 Mn in the previous year, demonstrating a strong 8% growth despite the volatile economic conditions during the year. Return on Equity too showed a positive growth amidst volatile economic and industry conditions.

The major contribution to Company profitability came from the 'Diminishing Musharakah for working capital' product, which grew by 22% while most of the other products in the portfolio did not record anticipated growth as a direct effect of the pandemic-induced uncertainty and the subdued economy.

### Supporting Customers

The Company's humane approach to business is based on its alternate finance principles and its industry-best

customer care philosophy. LOLC AI-Falaah supported its customer base in the SME, MSME and the retail sector as many of them were impacted by the pandemic-induced challenges. The Company was able to help customers restructure and reschedule their loans to better suit their diminished cash flow while itself adopting a cautious lending strategy. Backed by the technology prowess of parent LOLC Finance PLC and holding group, LOLC, the Company leveraged on digital platforms to provide uninterrupted services to its customer base through the year under review.

### Corporate Social Responsibility

Ensuring sustainable communities is a priority for the Company and it has disbursed funding across health, education and social upliftment projects year after year, even more so during the pandemic when it reached out to assist people across all communities. During the year under review, a sum of approximately Rs. 12 Mn was distributed amongst 1260 beneficiaries for new and on-going CSR projects.

### Awards and Accolades

As Sri Lanka's most awarded and trusted Alternate Financial services brand, LOLC AI-Falaah was bestowed with more recognition in the year under review. During 2020/21, the Company was awarded 3 top-awards, namely, as the IFN Best Islamic Leasing Provider 2020, SLIBFI Islamic Leasing Company 2020 Gold Award and IFFSA Islamic Leasing Company of the year 2020 Gold Award. LOLC AI-Falaah also won the Bronze award as the 'IFFSA Islamic Banking Window/Unit of the year 2020'. Being recognized on the local and global stage is a clear testament to the Company's industry leadership.

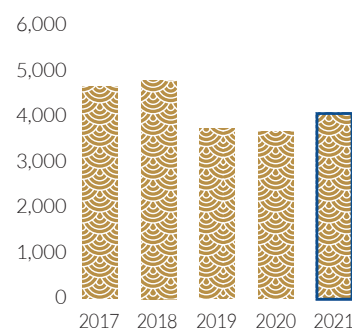
### Product-wise Performance

The Company's comprehensive portfolio of products and services are in compliance with the principles of Islamic economic principles and cater to personal business needs of its diverse customer base. 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 AI-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 climate of liquidity crunch and lack of disposable incomes among customers who had to contend with reduced incomes and business closures due to lockdowns did not create an ideal atmosphere for deposit mobilisation. Nevertheless, the Company managed to draw in funds and record 11% growth while simultaneously honouring withdrawals from customers and ended the financial year under review by recording healthy growth in difficult times.

**MUDHARABAH : Rs. 4,080 Mn**



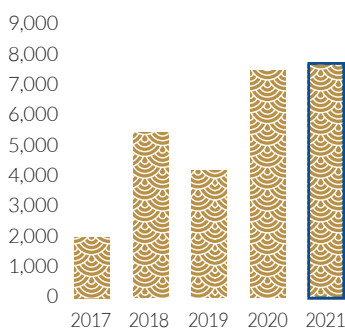
## PRODUCT REVIEW

The 'Al-Falaah Ladies Savings Account' and 'Al-Falaah Junior Mudharabah Savings Account' remain popular safety net products for female customer and minors. Apart from encouraging savings, these products promote principles of Alternate Finance amongst the younger generation. The 'Al-Falaah Senior Savings Account' promotes financial independence amongst senior citizens. The Mudharabah portfolio as at close of financial year end stood at Rs. 4,080 Mn.

### Wakalah for Investment

LOLC Al-Falaah's financial stability and its backing by LOLC Finance PLC, which is Sri Lanka's largest non-banking financial institution (NBFI) being rated [SL]A with stable outlook by ICRA Lanka Limited, gives immense confidence to investors. As a result, the product recorded a 3% growth amidst the subdued climate while overall the Company's savings and deposits recorded a 6% growth which is commendable under the circumstances. The Wakalah investment portfolio. As at close was at Rs. 7,738 Mn by year-end.

#### WAKALAH INVESTMENTS : Rs. 7,738 Mn

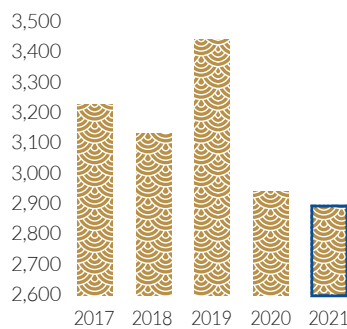


### Ijarah for Leasing

The lockdown, travel restrictions and vehicle import restrictions hampered normal business activity. The inability of businesses to operate for more than 6 months of the year under

review resulted in weak interest for vehicle purchases coupled with the unfavourable exchange rate, although the Company managed to sustain its leasing book during 2020/21. The Ijarah portfolio at close of year-end was at Rs. 2,896 Mn.

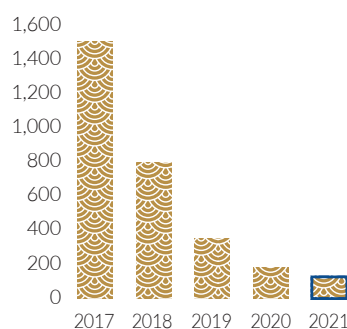
#### IJARAH : Rs. 2,896 Mn



### Murabaha for Trade Finance

The pandemic-induced economic slowdown and intermittent closure of shops had a direct impact on the product which witnessed a 30% drop. Customers reported weak trading activities and as a result did not avail of financing for maintaining large stocks. Murabaha portfolio sustained a Rs.127 Mn value by close of the year.

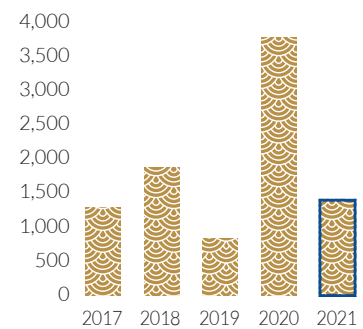
#### MURABAHA : Rs. 127 Mn



### Wakalah for Business and Working Capital Finance

The lack of appetite for business development resulted in a decline in the product performance, albeit to a lesser extent, as compared to the previous year. The lack of optimal monetary and fiscal conditions curbed traditional economic activities and with the economy contracting, this product, which is mostly used for business expansion and development, experienced low demand. The Wakalah finance portfolio closed at Rs. 1,399 Mn showing an encouragement to the new financial year.

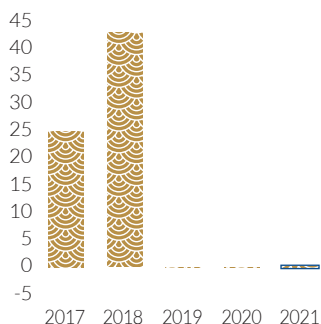
#### WAKALAH LENDING : Rs. 1,399 Mn



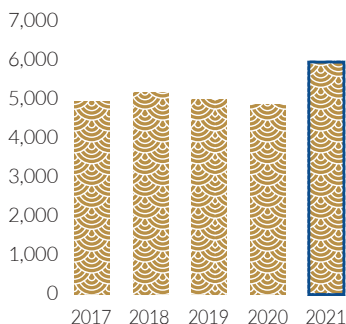
### Musawamah for Import Finance

This product is preferred by importers, but during the period under review, considering the strict import ban and the volatility in exchange rates and weak consumer demand, business conditions were not conducive as many customer segments were adversely affected by the negative sequence of events through the year. The Musawamah portfolio dropped to a low of Rs.0.001 Mn considering the macro-economic status.

**MUSAWAMAH : Rs. 0.001 Mn**



**DIMINISHING MUSHARAKAH : Rs. 5,963 Mn**



### Diminishing Musharakah for Property and Project Finance

This versatile product provides financial assistance for working capital, refinance as well as purchase of assets. Considering the circumstances during the year, businesses avoided capital investments, therefore the Company engaged in refinancing to assist customers to keep their businesses afloat. This product was able to provide a timely and flexible solution to customers to suit the prevailing climate during the year under review. The Company went the extra mile to absorb risks to help finance customers. As a result, Diminishing Musharakah for working capital product grew by 22%. This product structure provides a multitude of functions to cater to different needs of clients such as raising funds, restructuring, rescheduling as well as purchase options. The portfolio as at close of financial year end increased to Rs. 5,963 Mn.

### Future Outlook

Undeterred by the unfavourable climate during the year, LOLC Al-Falaah introduced 2 new products, the returns of which will accrue during the upcoming financial year. The new products were designed to cater to evolving customer needs of customers. The main purpose behind the groundbreaking Wadi'ah Facility was to give financial-access to the grass-root level clients who do not have direct access to banking and finance, but require small cash advances to develop daily businesses and self-employment. This is the first time that an alternate financial services company in Sri Lanka is offering this type of facility. Al-Falaah Wadi'ah allows customers the benefit of obtaining a maximum cash advance in the industry at zero mark-up against the gold storage value for any emergencies. Al-Falaah aims to make the facility available across all LOLC Finance branches and dedicated Al-Falaah centers island-wide by the end of the 1st quarter of 2021.

The Wakalah-Speedraft will also be launched as an alternate financial solution that complements the most popular conventional 'LOLC Speed-Draft' or permanent and temporary overdraft facilities offered by commercial banks. The 'Wakalah Speed

Draft' was devised to help increase the liquidity of the business and facilitate a greater level of business activity allowing greater flexibility of usage and repayment as and when customers require, especially during the present business climate. One of its main features is its ability to draw-down funds in flexible quantum based on the customer's cash-need and repayment capabilities.

Considering the commitment of the government to accelerate the vaccination drive against COVID-19 and the tourism authorities gearing up to welcome tourists back to the island, the year ahead should witness renewed business confidence and an uptick in economic activities as organizations of all sizes become accustomed to working within the new normal.

As is evident with the launch of these unique products, LOLC Al-Falaah continued on its path of innovation in 2020/21 and expects to further leverage on technology to infuse speed and convenience to customers.

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

# CHARITY FUND

LOLC Al-Falaah's Charity Fund demonstrates its commitment to community empowerment through its principal mandate to support the disadvantaged sections of society. Embodying the principles of brotherhood, the Charity Fund financially assists the vulnerable and less-abled, and meets their medical needs, encourages education amongst under-privileged children and helps in the social upliftment of economically disadvantaged communities across Multi ethnicity considerations. The Charity Fund has enhanced the lives of countless people and funded community initiatives since 2009 when it was established.

## CHARITY FUND

Period	Medical	Education	Social	Dryrations
01/04/2020 - 31/03/2021	Rs.3,912,500/-	Rs.1,279,500/-	Rs. 1,265,143/-	6,000,000/-

## CHARITY DISBURSEMENTS FOR THE PERIOD OF 1ST OF APRIL' 2020 TO 31 ST MARCH' 2021

**TOTAL DISBURSEMENTS FOR THE PERIOD 01/04/2020 - 31/03/2021 : RS. 12,457,143/-**

**TOTAL BENEFICIARIES AS AT MARCH' 2021: 1,262**



**36 Beneficiaries**  
MEDICAL



**17 Beneficiaries**  
EDUCATION



**09 Beneficiaries**  
SOCIAL



**1,200 Beneficiaries**  
DRYRATION

The above charity Fund Disbursement were executed under the guidelines given by the Scholars Supervisory Board of LOLC AL-Falaah, Alternate Financial Services unit.



# 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. LOFC is a Licensed Finance Company in terms of the Finance Business Act No. 42 of 2011.

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

## 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

1. B. C. G. De. Zylva Chairman, Non-Executive Director
2. F. K. C. P. N. Dias Director/ Chief Executive Officer
3. Mrs. K. U. Amarasinghe Executive Director
4. Mrs. D. P. Pieris (Retired from the Board with effect from 26.06.2021) Senior Independent Director
5. P. A. Wijeratne Independent Director
6. K. Sundararaj Independent Director
7. A. Nissanka (Resigned from the Board with effect from 31.12.2020) Non-Executive Director

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 (SID). Upon her retirement the Board appointed Mr P A Wijeratne as the next SID with CBSL approval.

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.

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

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

# CORPORATE GOVERNANCE

on compliance submitted to the Board covering the operations of LOLC Finance.

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

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

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 communiques issued periodically by the Directors' Office. LOLC Finance follows an open-door policy for its employees at all levels. Regular dialogue is also maintained on work related issues as well as on matters pertaining to general interest that affect employees and their families.

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

## Industrial Relations

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

workforce for current and future business needs of the Company. Disciplinary matters are dealt according to the board approved policies in compliance with labour regulations. There was no occurrence of any issue detrimental to the harmonious industrial relations of the Company during the year under review.

## 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 November 2020.

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.

## Compliance with Laws and Regulations

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

The Company is compliant with the Listing Rules of the Colombo Stock Exchange (CSE) with the exception of the requirements relating to the Public Float under rule 7.13.1.b.

# 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.

## Risk

“Risk is anything that could be an impediment to achieve our objectives”. The above statement is embedded in to our risk culture at LOLC Finance Plc (LOFC). This allows us to identify risks at all levels of operations in the organisation ranging from strategic decision making to operational level, from products to delivery channels and from internal stake holders to external stakeholders.

## Risk Management

We strongly believe that effective risk management is a collective effort and

is a responsibility of all levels 8 of staff spearheaded by the Board of Management. Our efforts are guided by our vision for risk,

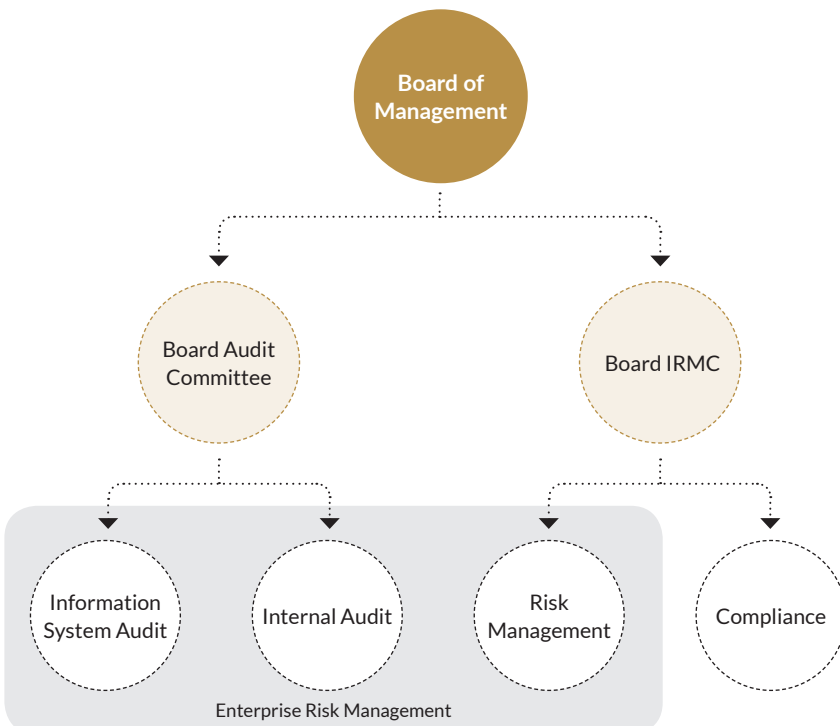
“Building an organisational Culture where Protection, Assurance, Reliability, Accountability, Transparency and Confidentiality are treasured and lasting values” and we strive to create this culture from the time an employee joins our ranks. Risk-related training is embedded in our induction training and selected targeted trainings too are conducted on a need basis. These interactions and awareness sessions allow our employees to be more receptive to risks arising and helps early identification of potential threats and vulnerabilities.

The risk governance structures at LOFC are driven by the Board with Risk Management, Internal Audit and Compliance functions

playing a major role. Risk Management, Internal Audit and Information Systems Audit functions operate in synergy under the Enterprise Risk Management department while the Compliance department too forms a part of the risk governance structures at LOFC.

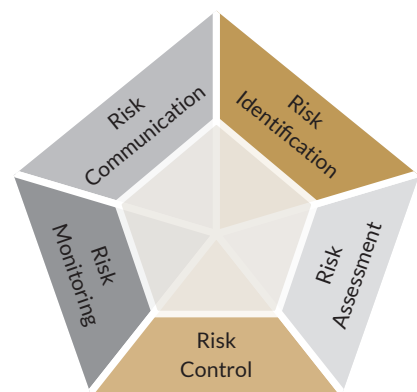


The independence of risk governance structures is vital to ensure that the Board is appraised of all risk related information in an unbiased manner and LOFC has ensured that the departments coming under the risk governance structures retain their full independence by having reporting lines to the Board Integrated Risk Management Committee and Board Audit Committee.



## The Process

Risk management is a cyclic process which need to be consistent and reliable and should be bound by a seamless mechanism to escalate any risk-related information to relevant risk owners for remedial action.



Risk identification at LOFC is a multilayered activity. Risk/process owners are primarily responsible for the identification and management

# ENTERPRISE RISK MANAGEMENT

of risk while the Enterprise Risk Management Department forms an independent function for identification of enterprise-wide risks stemming from the business environment, while the internal audit too channels material level Risks detected through their reviews to risk department for evaluation. Formalisation of risk information gathering has taken place in the organisation by requiring each business unit to monthly report any perceived risks or emerging risks with in their operations to the Enterprise Risk Management department.

Identified risks are broadly categorised in to credit, market, operational, finance and business/strategic. Then these risks are assessed for the probable impact to the organisation and material risks are classified as Key Risks. The organisational appetite in the form of risk limits for key risks are decided and approved by the Board of Management. Such risk limits are continuously monitored for breaches and stress tested for potential breaches under different scenarios in order to take proactive action to mitigate any adverse impact.

The responsibility of controlling risks with in the organisational appetite rests with the process /risk owners and the effectiveness of the risk control methodologies, mechanisms and internal controls are reviewed by the internal audit. The reviewing of effectiveness of the information systems facilitating the business processes are within the scope of the information systems audit. The Compliance unit ensures that the organisation is consistently in compliance with all applicable statues, directions by the regulatory authorities

and ensures that necessary checks and balances are in place to prevent any non-compliances.

The Board is appraised every month on the movement of indicators associated with key risks and any other potential risks while IRMC meetings are held quarterly where monitored risks, emerging risks and strategy to manage such risks are discussed in detail and action taken. In addition, any adverse conditions developing in the operating environment are escalated to all relevant stakeholders as and when required for timely action.

## Challenges

The year under review was a real test for the risk management practices of the organisation as we were compelled to face a myriad of risks due to the global pandemic. Key among them was the organisations ability to operate under restrictive conditions. The potential impacts were identified with the onset of the first wave of COVID-19 and the organisation seamlessly shifted to cluster/roster based working environment with part of the staff; mainly back office operations working from home. This was possible mainly due to fact that the required technological infrastructure was already in place in the organisation few years prior to the onset of the pandemic. Customers too were given the required access and support through our online and mobile based platforms.

Impact on the customers too were unprecedented and the organisation managed to provide all the relief measures formulated by the Government to affected sectors. The asset portfolio was managed

meticulously in order to prevent a major stress to the asset base. We have seen signs of recovery of the affected customers with the country gradually opening; yet are largely dependent on how fast the country returns to full operational levels seen prior to the pandemic. In order to manage the portfolio quality; stringent credit policies were adopted and practiced.

The restrictive nature of the operations brought in a new challenge due to relaxation of the internal controls on some operations. Yet by the time of the pandemic, the internal audit had transitioned to a continuous audit strategy of exception and anomaly monitoring in addition to the traditional audits therefore review mechanisms of key controls were kept largely intact.

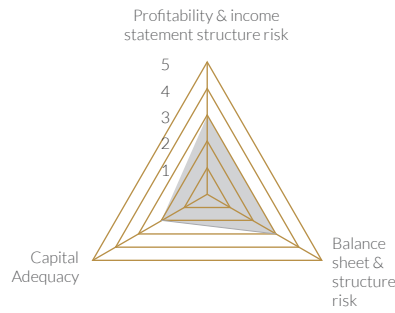
All aforesaid aspects allowed us to face the challenges due to the pandemic and we are confident that the strong base of our risk management practices would enable us to face future challenges too.

## Risk Profile

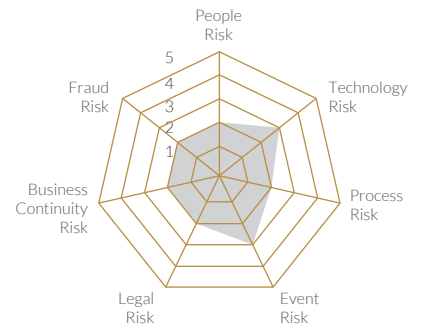
The following is for illustration purposes only and the risk is rated as perceived by us taking in to consideration the challenges expected due to the present global pandemic situation.

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

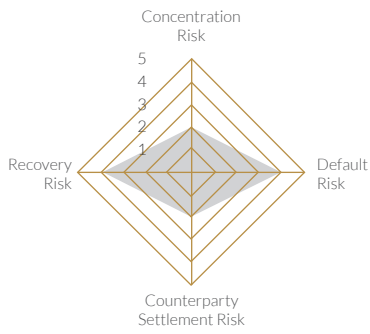
## FINANCIAL RISK



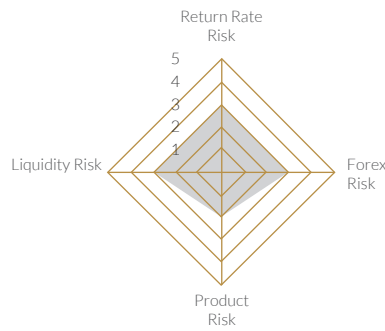
## OPERATIONAL RISK



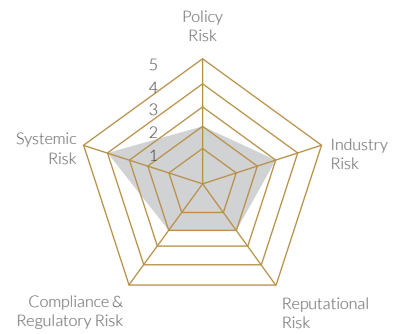
## CREDIT RISK



## MARKET RISK



## BUSINESS & STRATEGIC RISK



# BOARD OF DIRECTORS



**MR. B. C. G. DE ZYLVA**  
Non-Executive Chairman

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



**MR. F. K. C. P. N DIAS**  
Director/CEO

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

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

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

His thought leadership on technology and contribution in the field of ICT to the industry, society and in LOLC Group was recognised by many local and international awards including prestige's Computer Society of Sri Lanka CIO of the year 2016. He was also award and Chartered Management Institute of Sri Lanka Professional Excellence Award 2017. Further he was inducted to Global CIO Hall of Fame 2020 of IDG CIO 100 and only Sri Lankan to get this accolade.



**MRS. K. U. AMARASINGHE**  
Executive Director

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

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. Ultimate Sports (Pvt) Ltd. Melana Capital (Pvt) Ltd, Serendib Hotels PLC, Dolphin Hotels PLC, Hotel Sigiriya PLC, Sanctuary Resorts Lanka (Pvt) Ltd., Serendib Leisure Management Ltd. and Kammala Hoteliers (Pvt) Ltd.



**MRS. D. P. PIERIS**  
Senior Independent Director

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**  
Independent Director

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

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



**MR. KANDIAH SUNDARARAJ**  
Independent Director

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

Name of the Director	Directorates as at 31.03.2021
B. C. G. De Zylva	LOLC Myanmar Micro-Finance Company Limited
	LOLC (Cambodia) PLC
	Browns Machinery (Cambodia) Co. Ltd
	LOLC Finance PLC
	Serendib Microinsurance Plc
F. K. .C P. N. Dias	LOLC Technology Services Ltd
	LOLC Technologies Ltd
	Digital Mobility Solutions Lanka (Pvt) Ltd
	oDoc (Private) Limited
	LOLC Finance Zambia Limited
	LOLC Holdings PLC
	LOLC Finance PLC
	I Pay Global FZC
	Fusion X Global FZC
	LOLC ASKI Finance Inc.
	LOLC Asia Private Ltd
	LOLC Inter Asia Development Bank
	LOLC Myanmar Microfinance Company Limited
	Fina Trust Microfinance Bank Limited – Nigeria
	LOLC Cambodia PLC
Mrs. K. U. Amarasinghe	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
	Melana Capital (Pvt) Ltd
	Sanctuary Resorts Lanka (Private) Limited
	Serendib hotels PLC
	Kammala Hoteliers (Private) Limited
	Dolphin Hotels PLC
	Hotel Sigiriya PLC
Serendib Leisure Management Limited	
Mrs. D. P. Pieris	PW Corporate Secretarial (Pvt) Ltd
	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
JAT Holdings Limited	
P. A. Wijeratne	LOLC Finance PLC
K. Sundararaj	LOLC Finance PLC



# STRATEGIC BUSINESS UNIT/AFSU TEAM



## 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).



## 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

*MBA (UK), MCIM*

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

Joined LOLC group in 2014 and counts over 19 years of experience in Marketing services in the areas of Strategic marketing, new business development, branding and communication and network marketing.



## IFTHAZ NAZIR

*Msc. in Strategic Marketing*

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

Joined LOLC Group in 2010 and count over 18 years of experience in marketing of Financial service sector. Played a pivotal role in developing metro region Alternate Finance businesses.



## 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-Humaidiyyah in Alternate Shariah, Colombo. A holder of B.A (Hons), specialisation in Alternate Banking and Financing from South-Eastern University of Sri Lanka.

## STRATEGIC BUSINESS UNIT/AFSU TEAM



**MOHAMED WAFIQ**  
MBA (UK)

Deputy Manager - 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.



**ASH-SHAIKH FAZIL MOHIDEEN**  
Msc. In Islamic and Accounting, BA in Usoolud Deen (NALEEMI), DIB (IBSL)

Associate Manager, Business Operations - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

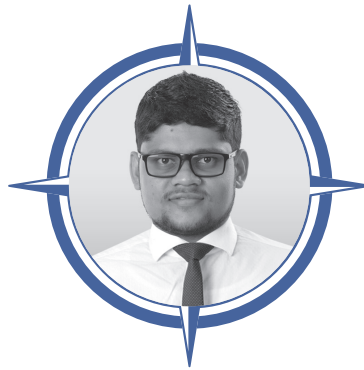
Joined LOLC Group in 2014. Counts over 7 years of experience in Alternate Banking and Financial Services in both Marketing and Operational areas.



**ASH-SHAIKH ILHAM MUFARIS**  
BA in Usoolud Deen (NALEEMI), BA (University of Paradeniya), AAT (Passed Finalist) and CCHRM.

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

Joined LOLC Group in 2015. Counts over 6 years of experience in Alternate Banking and Financial Services in Operational areas.



**ASH-SHAIKH SEYYED SAABIQ**  
BA in Usoolul Fiqh (FATHIH), EDIBF (FGA)  
Officer, Business Operations - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

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

# SCHOLAR SUPERVISORY BOARD MEMBERS

## ASH-SHAIKH SHAFIQUE

A. Jakhura (Mufti)

### Chairman

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

## ASH-SHAIKH MURSHID

M. Mulaffar

### Member

Ash-Shaikh Murshid is a graduate of the Darul Uloom Al-Humaidhiya in Islamic Shari'ah, Colombo and a qualified scholar in Islamic Banking and Finance from the Centre for Islamic Economics, Karachi, Pakistan. 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.

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.

# TRUST AND VALUE



## Financial Reports

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# SCHOLAR SUPERVISORY BOARD AUDIT REPORT 2020/21

**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 thirteenth 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 2020 to March 2021.

We have also conducted our review to form an opinion as to whether LOLC Al-Falaah, complied with the rules and Islamic economic & commercial principles in accordance with international benchmark standards set out by the Accounting and Auditing 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 & commercial

principles. It is the SSB's responsibility to form an independent opinion based on its review of the operation of LOLC Al-Falaah, and report to you.

## SSB Audit and Compliance Review

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

1. Mudharabah Fixed Deposits & Savings Transactions
2. Wakalah Term Investment Transactions
3. Ijarah Lease Financing Transactions
4. Murabaha Trade Financing Transactions
5. Musawamah Import Financing Transactions
6. Diminishing Musharakah Project & Property Financing Transactions
7. Wakalah Business & Working Capital Financing Transactions
8. Wadi'ah Gold Storage Transactions
9. Profit Distribution for Depositors
10. Excess-Fund Investments
11. Bank Statements
12. Expenditure Apportionment
13. Review of Audited Financial Statements
14. Marketing and Advertising Material review

15. Reconciliation of Administrative Charges on Delayed Penalties against actual Expenses incurred for recoveries

16. Interview with LOLC Al-Falaah staff

17. Accrual and Disposal of Impermissible Income

18. 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 & commercial principles.
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 Actual costs incurred for recovery of delayed


## SCHOLAR SUPERVISORY BOARD AUDIT REPORT 2020/21

payments appears to indicate that administrative charges recovered are less than costs incurred in recovering delayed payments. Hence, this is in accordance with the guidelines issued by the SSB. Management is required to carry out periodic reviews on this to ensure that administrative charges recovered does not exceed costs of actual recoveries costs incurred.

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



**(Mufti) Shafique A. Jakhura**  
Chairman – SSB



**(Ash-Shaikh) Fazil A. Farook**  
Member – SSB



**(Ash-Shaikh) Murshid Mulaffar**  
Member – SSB

# INDEPENDENT AUDITORS' REPORT



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

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Fax Gen : +94 11 2697369  
Tax : +94 11 5578180  
eysl@lk.ey.com  
ey.com

## BOARD OF DIRECTORS OF LOLC FINANCE PLC

### Opinion

We have audited the statement of financial position as at 31 March 2021 and the statement of comprehensive income for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial statements").

In our opinion, the accompanying financial statement of the LOLC Finance PLC's Al-Falaah, Alternate Financial Services Unit ("LOLC Al-Falaah") for the year ended 31 March 2021 is prepared, in all material aspects, in accordance with the accounting policies set forth in pages 42 to 51 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 42 to 51 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 42 to 51 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

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 Sajewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

# INDEPENDENT AUDITORS' REPORT

purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

underlying transactions and events in a manner that achieves fair presentation.

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

## Report on other legal and regulatory requirements

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



28 June 2021  
Colombo



# STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	2021 Rs.	2020 Rs.
<b>ASSETS</b>			
Cash and bank balances	3	439,517,795	354,051,558
Deposits with banks and other financial institutions		4,985,752,551	3,701,517,029
Murabaha / Musawamah /Wakalah receivables	4	1,526,282,560	3,969,000,585
Diminishing Musharakah receivables	5	5,963,482,689	4,890,275,098
Ijarah rent receivables	6	2,896,107,664	2,944,310,713
Wadiah Gold Loan Advances	7	8,749,465	-
Investment securities	8	105,652,837	2,000,000
Other receivables	9	83,015,121	77,216,459
<b>Total assets</b>		<b>16,008,560,682</b>	15,938,371,442
<b>LIABILITIES</b>			
Placement from banks & other Financial institutions	10	(0)	1,564,654,093
Deposits from customers	11	11,818,275,889	11,186,637,831
Income tax payable		135,608,003	133,068,826
Accruals and other payables	12	293,205,058	219,773,990
Due to head office	13	878,846,433	229,927,941
<b>Total liabilities</b>		<b>13,125,935,383</b>	13,334,062,681
<b>OWNER'S FUND</b>			
Retained earnings		2,882,625,299	2,604,308,761
<b>Total owners fund</b>		<b>2,882,625,299</b>	2,604,308,761
<b>Total liabilities &amp; owners fund</b>		<b>16,008,560,682</b>	15,938,371,442

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



**Mr. Buddhika Weeratunga**  
Head of Finance

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



**Mr. Conrad Dias**  
Director/CEO



**Mrs. K. U. Amarasinghe**  
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 42 through 56.

23 June 2021  
Rajagiriya (Greater Colombo)

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March	Note	2021 Rs.	2020 Rs.
<b>Revenue</b>	14	<b>2,403,173,325</b>	2,581,847,264
Profit paid to Mudharabah/Wakalah investors		<b>(948,525,678)</b>	(875,735,205)
Profit paid on other funding arrangement		<b>(18,001,852)</b>	(242,542,163)
Other direct expenses		<b>(74,875,232)</b>	(67,132,228)
		<b>1,361,770,563</b>	1,396,437,667
Non distributable other income / (expenses)	15	<b>171,914,251</b>	122,549,498
<b>Total operating income</b>		<b>1,533,684,814</b>	1,518,987,166
Employee benefits	16	<b>(290,730,620)</b>	(274,334,501)
(Provision)/reversal for credit losses		<b>(224,442,013)</b>	(347,880,348)
Other operating expenses		<b>(507,829,860)</b>	(458,012,456)
<b>Profit from operations</b>	17	<b>510,682,321</b>	438,759,861
Value added tax on financial services		<b>(96,757,780)</b>	(120,308,184)
<b>Profit before taxation</b>		<b>413,924,541</b>	318,451,677
Income tax expense	18	<b>(135,608,003)</b>	(133,068,826)
<b>Profit for the year</b>		<b>278,316,538</b>	185,382,852
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>278,316,538</b>	185,382,852

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 42 through 56.

# CASH FLOW STATEMENT

Year ended 31 March	2021 Rs.	2020 Rs.
<b>Cash Flows From / (Used in) Operating Activities</b>		
Net Profit before Income Tax Expense	413,924,541	318,451,677
Adjustments for:		
Provision for fall/(Increase) in value of investments	(3,652,837)	2,000,000
Allowance for/(reversal of) doubtful debts	(23,925,940)	48,104,117
Investment income	(148,798,483)	(260,969,689)
Profits attributable to investment made from banks & other Financial institutions	18,001,851	242,542,163
Profits attributable to Mudharabah / Wakalah investors	948,525,678	875,735,205
Operating profit before working capital changes	1,204,074,810	1,225,863,473
Change in other receivables	(5,798,662)	(7,785,005)
Change in trade and other payables	73,431,068	49,550,809
Change in amounts due to head office	648,918,492	(314,001,035)
Change in Ijarah rent receivables	65,349,388	475,875,052
Change in Murabaha / Musawamah receivables	2,524,492,817	(2,850,225,539)
Change in Diminishing Musharakah receivables	(1,156,952,246)	171,557,227
Change in Mudharabah investments from customers	368,431,886	(100,766,052)
Change in Wakalah investments from customers	238,626,653	3,283,619,036
Change in Mudharabah savings deposits from customers	24,579,517	59,556,623
<b>Cash used in Operations</b>	<b>3,985,153,725</b>	<b>1,993,244,589</b>
Profits paid to Mudharabah / Wakalah investors	(948,525,678)	(882,092,077)
Income tax paid	(133,068,826)	(90,250,956)
<b>Net Cash Used in Operating Activities</b>	<b>2,903,559,221</b>	<b>1,020,901,556</b>
<b>Cash Flows from / (Used in) Investing Activities</b>		
Investments in Unit trust	(100,000,000)	-
Net proceeds from Investments in Mudarabah Deposits	(1,284,235,523)	(1,144,443,007)
Profit Received	148,798,483	260,969,689
<b>Net Cash Flows from Investing Activities</b>	<b>(1,235,437,040)</b>	<b>(883,473,318)</b>
<b>Cash Flows from / (Used in) Financing Activities</b>		
Net proceeds from banks & other financial institutions	(1,520,000,000)	(70,331,170)
Profit paid -other instruments	(62,655,945)	(258,306,716)
<b>Net Cash Flows from Financing Activities</b>	<b>(1,582,655,945)</b>	<b>(328,637,886)</b>
<b>Net Increase/(decrease) in cash and cash equivalents</b>	<b>85,466,236</b>	<b>(191,209,648)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>354,051,558</b>	<b>545,261,206</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>439,517,794</b>	<b>354,051,558</b>
<b>Analysis of cash and cash equivalents at the end of the period</b>		
Cash and bank balances	439,517,795	354,051,558
	439,517,795	354,051,558

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 42 through 56.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. GENERAL

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

LOLC Finance PLC has set up the 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 Jayewardenepura 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), Ijarah (Leasing) and Wadi’ah Gold Storage (Gold Loan).

### 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 authorized for issue by the Board of Directors in accordance with a resolution of the Directors passed on 23 June 2021. 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 utilize those cash flows; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

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

#### 1.2.2 Basis of Measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settled the liability simultaneously.

#### 1.2.3 Materiality and Aggregation

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

#### 1.2.4 Going Concern

The Directors have made an assessment of the company’s ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company’s ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

#### 1.2.5 Comparative information

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

### 1.3 Functional and presentation currency

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

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

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

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

### 1.4 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with the

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

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

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

support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

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

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

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

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

Critical Accounting estimate / judgement	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

# NOTES TO THE FINANCIAL STATEMENTS

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

## 2. SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

### 2.1 Financial assets and financial liabilities

#### 2.1.1 Non-derivative financial assets

##### 2.1.1.a Initial recognition of financial assets

###### Date of recognition

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

###### Initial measurement of financial Assets

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

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

#### 2.2.1.b Classification of financial assets

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

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

#### 2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

#### Business model assessment

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

- whether management's strategy focuses on earning contractual mark-up revenue, maintaining a particular profit ratio/rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity and how cash flows are realized.

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

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

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

“Profit” is defined as consideration for the time value of money and for the credit risk associated with the

principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

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

**Amortized cost**

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

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

- **Cash and cash equivalents**  
Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the LOLC 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

## NOTES TO THE FINANCIAL STATEMENTS

because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Company in its normal course of the business issues guarantees on behalf of the depositors, holding the deposit as collateral.

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

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

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

All financial assets other than those classified at amortized cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets

designated upon initial recognition at fair value through profit or loss. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognized in statement of profit or loss as incurred.

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

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

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

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

### **Amortized cost- 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 recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized 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 AI-Falaah initially recognizes non-derivative financial liabilities on the date that they are originated.

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

recognition, these financial liabilities are measured at amortized cost.

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

#### **Profit Payable to the Mudharabah Investors**

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

### **2.1.3 Derecognition of financial assets and financial liabilities**

#### **Financial assets**

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

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

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

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

#### **Financial liabilities**

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

### **2.1.4 Offsetting of financial instruments**

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

### **2.1.5 Amortized cost measurement**

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

## NOTES TO THE FINANCIAL STATEMENTS

### 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 recognized in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment

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

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

### **Determining Fair value**

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

## **2.3 Employee benefits**

### **2.3.1 Short-term employee benefits**

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

employee, and the obligation can be estimated reliably.

### **2.3.2 Defined contribution plans**

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

## **2.4 Provisions**

A provision is recognized if, as a result of a past event, the LOLC 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, favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue.

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

## **2.6 Benevolent Loan (Qurd Hassan)**

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

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

## **SIGNIFICANT ACCOUNTING POLICIES -RECOGNITION OF INCOME AND EXPENSES**

### **2.7 Revenue Recognition**

#### **2.7.1 Murabaha/Musawamah Income**

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

## NOTES TO THE FINANCIAL STATEMENTS

### 2.7.2 Ijarah Income

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

### 2.7.3 Diminishing Musharakah Income

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

### 2.7.4 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 amortized cost.

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

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

### 2.7.6 Dividends

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

## 2.8 Expenditure Recognition

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

Expenses incurred by the LOLC Al-Falaah for which a fee is charged from the customers, has been presented net of the related income.

### 2.8.1 Value Added Tax (VAT) on financial services

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

The VAT on financial service is recognized 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.

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

## NOTES TO THE FINANCIAL STATEMENTS

### 3. CASH AND BANK BALANCES

	2021	2020
	Rs.	Rs.
Cash & bank balances	439,517,795	354,051,558
	439,517,795	354,051,558

### 4. MURABAHA / MUSAWAMAH / WAKALAH RECEIVABLES

	2021	2020
	Rs.	Rs.
Instalment receivable	1,671,344,966	4,216,903,917
Unearned income	(130,609,687)	(218,087,080)
Income in suspense	(3,873,408)	(11,761,427)
Provision for credit losses	(10,579,311)	(18,054,824)
	1,526,282,560	3,969,000,585

### 5. DIMINISHING MUSHARAKAH RECEIVABLES

	2021	2020
	Rs.	Rs.
Instalment receivable	6,077,054,644	4,995,263,122
Income in suspense	(63,976,915)	(65,248,833)
Provision for credit losses	(49,595,040)	(39,739,191)
	5,963,482,689	4,890,275,098

### 6. IJARAH RECEIVABLES

	2021	2020
	Rs.	Rs.
Rent receivables	3,945,819,677	3,995,430,114
Unearned income	(1,000,648,633)	(984,909,681)
Income in suspense	(13,393,079)	(15,220,576)
Provision for credit losses	(35,670,301)	(50,989,143)
	2,896,107,664	2,944,310,713

### 7. WADIAH GOLD LOAN ADVANCES

	2021	2020
	Rs.	Rs.
Gross amount outstanding	8,749,465	-
	8,749,465	-

## 8. INVESTMENT SECURITIES-FVTPL/ HELD FOR TRADING

### Expo Lanka Holdings PLC

	2021	2020
	Rs.	Rs.
Cost (91843 shares)	1,653,174	18,000,000
Carrying amount as at 1st April	2,000,000	4,000,000
Adjustment for change in fair value - recognized in profits	47,967,311	(2,000,000)
Disposal during the period	(45,861,929)	
Carrying amount as at 31st March	4,105,383	2,000,000

### Investment in Unit Trusts

	2021	2020
	Rs.	Rs.
Original cost		-
Carrying amount as at 1st April	-	-
Investments during the year	100,000,000	
Disposal during the year	-	-
Adjustment for change in fair value - recognized in profits	1,547,454	
Carrying amount as at 31st March	101,547,454	-
Total investments held for trading	105,652,837	2,000,000

## 9. OTHER RECEIVABLES

	2021	2020
	Rs.	Rs.
Staff car advances	383,273	2,504,465
Insurance premium receivable	34,349,684	37,608,577
Others	48,282,164	37,103,416
	83,015,121	77,216,459

## 10. PLACEMENT FROM BANKS & OTHER FINANCIAL INSTITUTIONS

### 10.1 Long-term borrowings

	2021	2020
	Rs.	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	(1,520,000,000)	-
Balance at the end of the year	-	1,520,000,000
Profit Payable	-	44,654,094
	-	1,564,654,094

## NOTES TO THE FINANCIAL STATEMENTS

### 10.2 Ijarah sukuk bond

	2021	2020
	Rs.	Rs.
Balance at the beginning of the year	(0)	70,331,170
Sukuk obtained during the year	-	-
Repaid during the year	-	(70,331,170)
Balance at the end of the year	(0)	(0)
Profit Payable	-	20,343,779
	<b>(0)</b>	<b>20,343,779</b>
Liability recognized in statement of financial position	<b>(0)</b>	<b>1,584,997,873</b>

### 11. DEPOSITS FROM CUSTOMERS

	2021	2020
	Rs.	Rs.
Customer deposits	<b>11,607,449,780</b>	11,015,928,509

#### 11.1 Analysis of customer deposits based on nature

	2021	2020
	Rs.	Rs.
Mudharabah investments	<b>3,241,560,004</b>	2,863,945,728
Wakalah investments	<b>7,576,034,386</b>	7,386,706,909
Mudharabah savings	<b>789,855,390</b>	765,275,872
Total deposits	<b>11,607,449,780</b>	11,015,928,509
Profit payable		
Profit payable on Mudharabah investments	<b>48,555,279</b>	57,737,669
Profit payable on Wakalah investments	<b>162,270,830</b>	112,971,653
	<b>210,826,109</b>	170,709,322
Deposit liability recognized in statement of financial position	<b>11,818,275,889</b>	11,186,637,831

### 12. ACCRUALS AND OTHER PAYABLES

	2021	2020
	Rs.	Rs.
Trade Payable	<b>84,489,418</b>	34,565,208
Refunds payable	<b>57,341,871</b>	66,348,573
Insurance payable	<b>10,879,134</b>	1,463,845
Al-Falaah charity fund	<b>3,530,141</b>	1,971,082
Other miscellaneous creditors	<b>84,146,213</b>	68,482,566
Other payables	<b>52,818,281</b>	46,942,716
	<b>293,205,058</b>	219,773,990



**13. DUE TO HEAD OFFICE**

	2021	2020
	Rs.	Rs.
Current account balance due to head office	878,846,433	229,927,941
	878,846,433	229,927,941

**14. REVENUE**

	2021	2020
	Rs.	Rs.
Income from Ijarah receivables	745,034,256	800,049,049
Income from Diminishing Musharakah receivables	930,678,328	966,978,887
Income from Murabaha/Musawamah receivables	498,232,789	479,263,461
Profit on terminations	78,882,014	74,586,178
Income from Mudarabah deposits	148,798,483	260,969,689
Adjustment for change in fair value - recognized in profits- on Unit trust	1,547,455	-
	2,403,173,325	2,581,847,264

**15. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)**

	2021	2020
	Rs.	Rs.
Arrangement & documentaion Fee	21,636,993	21,027,116
Collection admin fee	65,799,236	65,325,126
Franchise Fee	30,492,480	31,381,233
sundry income	53,765,183	3,602,458
Takaful commission	220,359	1,213,566
	171,914,251	122,549,498

**16. EMPLOYEE BENEFITS**

	2021	2020
	Rs.	Rs.
Salaries & other benefits	290,730,620	274,334,501
	290,730,620	274,334,501

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

	2021	2020
	Rs.	Rs.
Advertising	6,786,807	7,562,809
Business promotion expenses	55,658,835	52,038,729

## NOTES TO THE FINANCIAL STATEMENTS

### 18. INCOME TAX EXPENSE

	2021	2020
	Rs.	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)	<b>135,608,003</b>	133,068,826
	<b>135,608,003</b>	133,068,826

### 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 (CSE) on 7th July 2011. The shares are presently on the Second Board due to non compliance of minimum float rules of the CSE.

## 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

B. C. G. de Zylva - Non Executive Chairman

F. K. C. P. N. Dias - Executive Director/CEO

Mrs. K. U. Amarasinghe - Executive Director

P. A. Wijeratne - Independent Director

K. Sundararaj - Independent Director

Mrs. D. P. Pieris - Senior Independent Director - retired with effect from 26th June 2021

A. Nissanka - Non-Executive Director - resigned with effect from 31st December 2021 2020

## Secretaries

LOLC Corporate Services (Private) Limited  
100/1 Sri Jayawardanapura Mawatha Rajagiriya  
Tel: 011 5880356-60

## 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, Alternate Finance, Micro Finance, issue of Payment Cards, 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

People's Bank

Cargills Bank Limited

Union Bank of Colombo PLC



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Rajagiriya, Sri Lanka.  
[www.lolcfinance.com](http://www.lolcfinance.com)