

ANNUAL REVIEW 2023/24



Contents

About Us	2
Financial Highlights	3
Awards and Significant Events	5
Our Locations	6
Director/CEO's Review	9
Message from Head of Alternate Financial Services – LOLC	10
SSB Chairman's Review	12
Product Review	14
Charity Fund	17
Board of Directors	18
Report of the Board of Directors	20
Scholar Supervisory Board Members	23
Scholar Supervisory Board Audit Report 2023/24	24
Strategic Business Unit/AFSU Team	25
Regional Business Supervisors – Al-Falaah, Alternate Financial Services Unit of LOLC Finance	26
Independent Auditors' Report	28
Statement of Financial Position	29
Statement of Profit or Loss and Other Comprehensive Income	30
Statement of Cash Flows	31
Notes to the Financial Statements	32

About Us

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

VISION

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

MISSION

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

VALUES

Al-Falaah strictly concentrates on ensuring that no element of 'Gharar' (uncertainty) lies in any transaction. Therefore, in order to adopt a clear separation of in-flow and out-flow of funds, LOLC Al-Falaah maintains separate financials, IT 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.

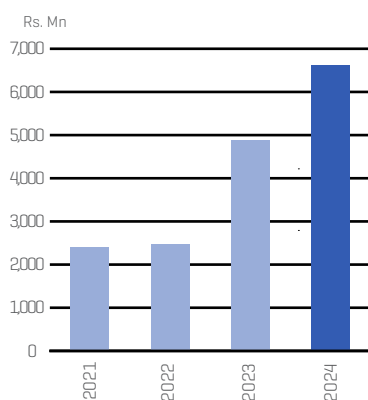
Guided by our values, we aspire to:

- 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 our corporate vision as well as to achieve departmental and individual goals, objectives and aspirations.
- Be a model corporate citizen by maintaining the highest professional and ethical standards.

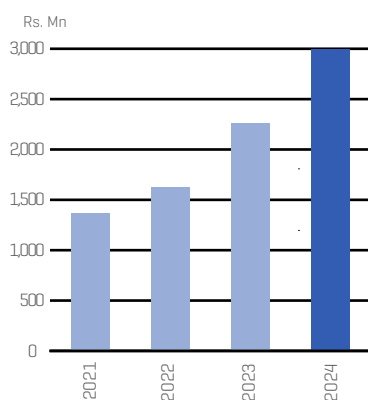
Financial Highlights

Year Ended 31 March	2024 Rs. Mn	2023 Rs. Mn
Revenue	6,606	4,878
Gross Profit	2,996	2,260
Profit Before Tax	1,302	754
Retained Earning	6,709	5,407
Total Assets	31,593	31,398
Loans and Advances Portfolio	29,362	23,513
Non Performing Loans	2,251	1,584
Total Liabilities	24,884	25,991
Deposit Base	22,983	23,080
Profit Paid to Depositors	3,498	2,541

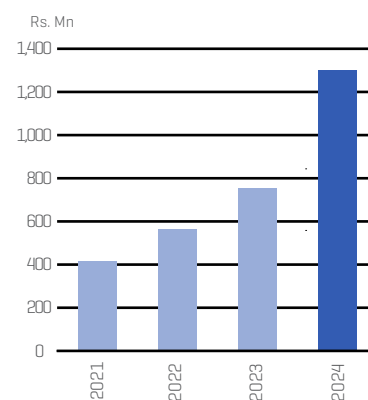
Revenue



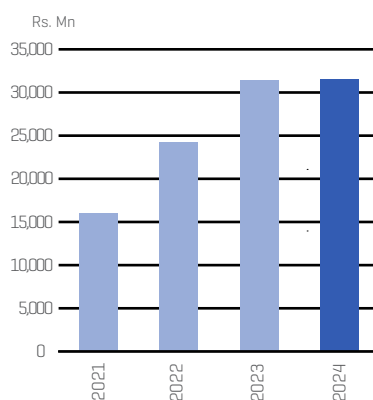
Gross Profit



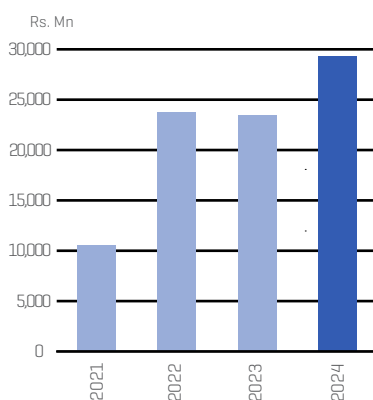
PBT



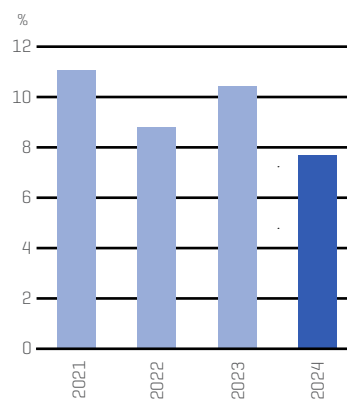
Total Assets



Loans & Advances

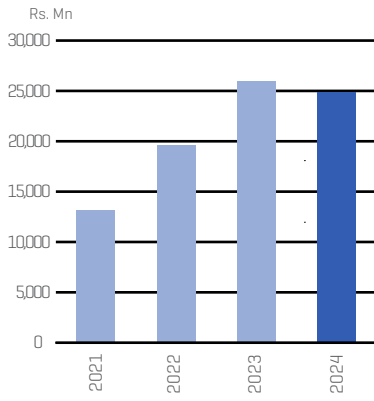


NPL Ratio

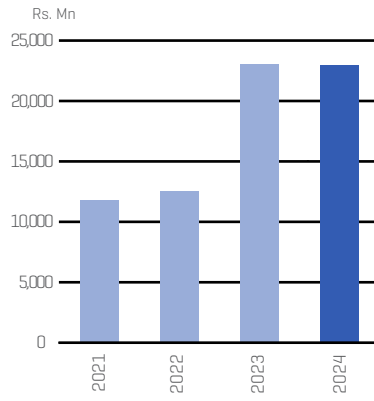


Financial Highlights

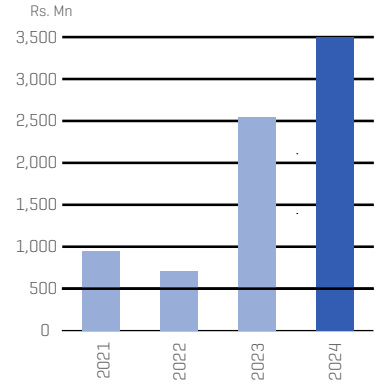
Total Liabilities



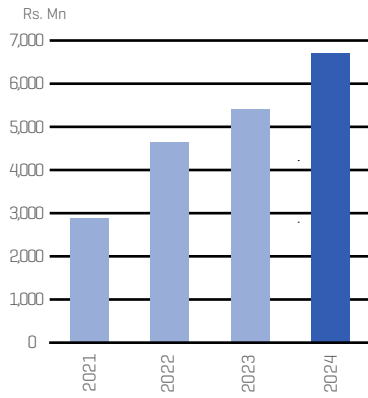
Total Deposits



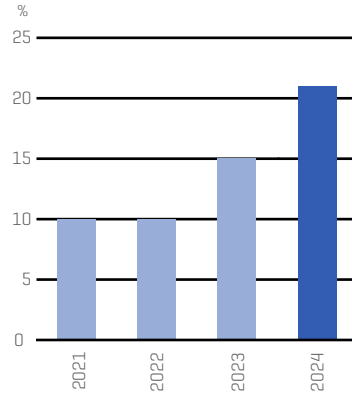
Profit Paid to Depositors



Retained Earnings



ROE



Awards and Significant Events

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



LOLC AI-Falaah was awarded IFN's Best Islamic Leasing Provider (Global) 2024 Islamic Finance News Global Poll Awards



LOLC AI-Falaah was awarded IFFSA Islamic Banking Window/unit of the Year 2023/24 - Silver Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded IFFSA Islamic NBF Window/unit of the Year 2023/24 - Silver Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded IFFSA Social Upliftment of the Year 2023/24 - Merit Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded IFFSA Digital Product/Fintech offering of the Year 2023/24 - Bronze Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded SLIBFI Islamic Finance Entity of the Year 2023/24 - Silver Sri Lanka Islamic Banking & Finance Industry



LOLC AI-Falaah was awarded SLIBFI Islamic Finance NBF of the Year 2023/24 - Silver Sri Lanka Islamic Banking & Finance Industry



LOLC AI-Falaah was awarded SLIBFI Islamic Finance Window/unit of the Year 2023/24 - Silver Sri Lanka Islamic Banking & Finance Industry



LOLC AI-Falaah was awarded SLIBFI Social Upliftment Award 2023/24 - Merit Sri Lanka Islamic Banking & Finance Industry



LankaPay Technovision Awards Most Popular Digital Payment - Ipay 2023 - Gold

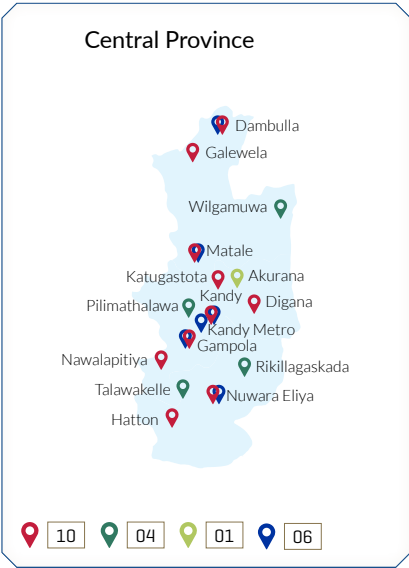
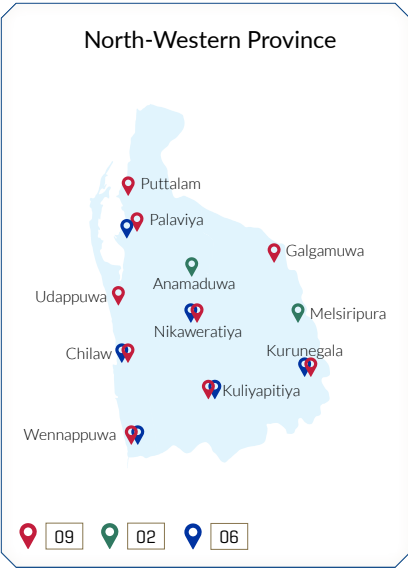
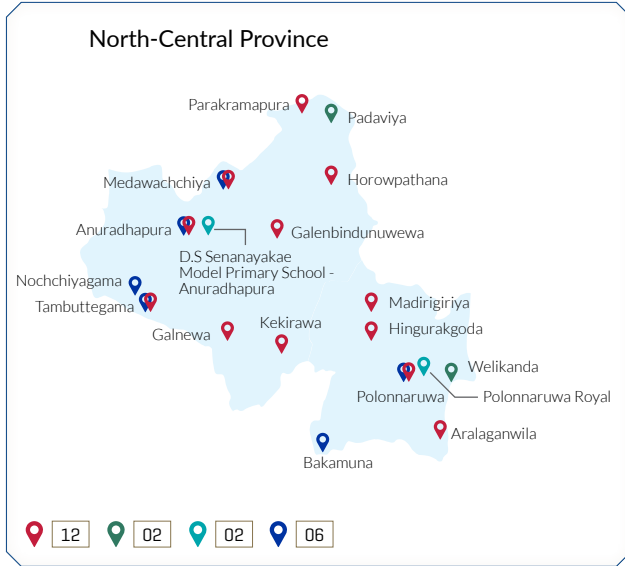
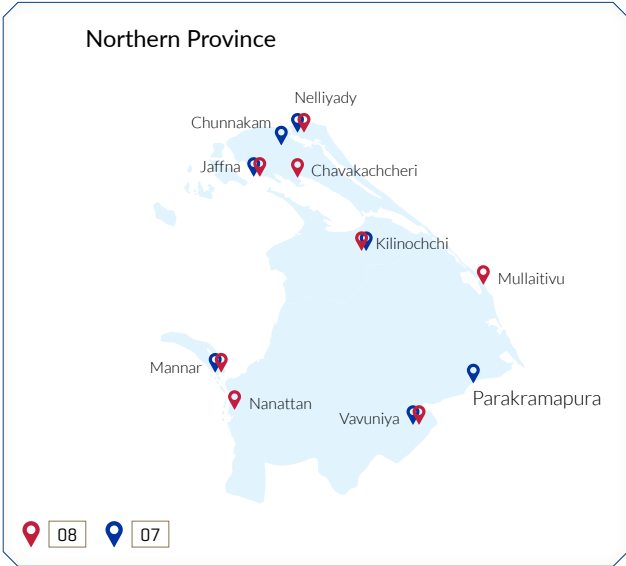


Chartered Professional Managers (CPM) Awards Excellence in Best Management Practices 2023 - Winner



Green Building Council of Sri Lanka Green Business Commitment 2023 - Winner

Our Locations



As at 31st March

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

Southern Province



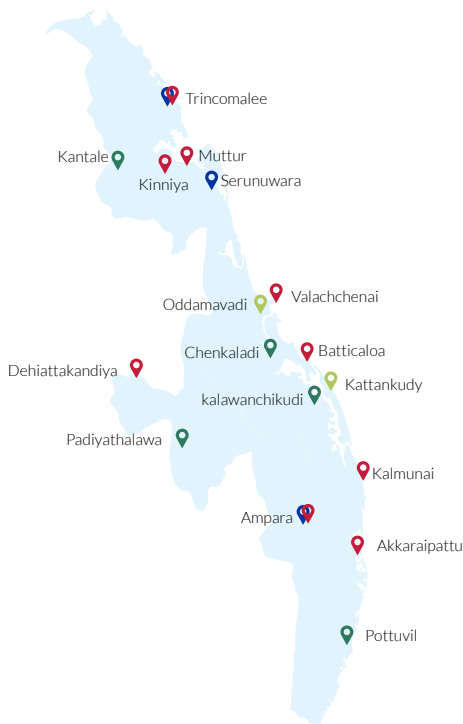
14 02 06

Uva Province



05 01 03

Eastern Province



09 05 02 03

Western Province



32 07 03 01 24

Executive Reviews

Director/CEO's Review | 9

Message from Head of Alternate Financial Services - LOLC | 10

SSB Chairman's Review | 12

ENSHRINED IN THE PRINCIPLES OF COOPERATION, TRUST, HONESTY AND OPENNESS, OUR OPERATIONS ARE ADVANCED BY A STRONG TEAM OF LEADERS WHO ENSURE THAT WE MAINTAIN OUR POSITION AS SRI LANKA'S FIRST CHOICE FOR ALTERNATE FINANCIAL SERVICES.

Director/CEO's Review

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

I am immensely proud to report that LOLC AI-Falaah has recorded yet another exceptional year in 2023-24, underscored by our commitment to excellence in the realm of Islamic finance. The context in which we achieved these impressive figures – a year when our country faced significant economic challenges – highlights both the internal resilience and external strengths of our business model.

LOLC AI-Falaah stands as a comprehensive one-stop-shop for Islamic finance in Sri Lanka, boasting an extensive range of products and services, supported by the largest distribution network with 210 branches, digital offerings and mobile applications, including our super app, iPay. Our expansive ecosystem enables us to effectively reach and serve over 60,000 active clients in lending and deposits, with over 100,000 individuals benefitting from our Islamic finance services.

PERFORMANCE

Our financial performance in the period under review speaks volumes: we experienced a remarkable revenue growth of 35%, while our lending book expanded by 25%, positioning us as a high-performing entity capable of delivering substantial profits.

The year under review culminated in a Profit after Tax of Rs. 1.3 billion, marking a historic milestone for being the highest profit ever generated by our Islamic Business Unit. This success is further reflected in our high profit-sharing rates with investors, where returns are consistently in line with, or exceed those of conventional counterparts. This achievement is a testament to our sound business practices, the quality of our portfolio and the sustainability of our Islamic finance model.

Notably, our non-performing loans are nearly 50% lower than those of conventional financial institutions, exemplifying the effectiveness of our asset-based financing approach that aligns with the true essence of business and the principles of Islamic finance.

Currently, LOLC AI-Falaah accounts for approximately 12.5% of the LOLC Finance portfolio in terms of assets, liabilities and profits, solidifying our position as a key business unit within the largest non-banking financial institution in Sri Lanka. We remain committed to growth through innovative product development, expanded distribution

channels, an increased sales force and aggressive marketing campaigns to raise awareness about the benefits of Islamic finance among potential customers.

COMPLIANCE & STEWARDSHIP

Our unwavering commitment to ethical practices and Shari'ah compliance has been exemplary and I extend my deepest appreciation to our highly competent Shari'ah Supervisory Board, led by Mufti Shafique Jhakura, along with our dedicated Shari'ah Supervisory team, whose guidance has been instrumental in steering our business towards success. LOLC AI-Falaah exemplifies the principle of 'value-creating value' – illustrating that our steadfast adherence to righteous practices ultimately leads to mutual success for all stakeholders, including our customers, suppliers and banking partners. While we are inspired by our achievements, the true motivation lies in the steady influx of new customers joining our community each month.

LOLC AI-Falaah has made remarkable strides in advancing sustainability and responsible governance within Sri Lanka's Islamic finance sector through its commitment to innovative practices and ethical financial solutions. By prioritising corporate responsibility, the organisation has positioned itself as a key player in fostering a more sustainable future.

As an integral part of LOLC Finance, LOLC AI-Falaah actively contributes to the Group's broader sustainability initiatives. These initiatives encompass a wide range of environmental projects, each designed to promote eco-friendly practices and responsible resource management. Through its efforts, LOLC AI-Falaah not only supports the principles of Islamic finance but also sets a benchmark for ethical practices in the financial sector. This holistic approach underscores LOLC AI-Falaah's role as a leader in the movement towards responsible finance in Sri Lanka.

WAY FORWARD

The future of Islamic finance in Sri Lanka is exceedingly bright. However, it is imperative that we dismantle the prevailing myth that this financial model is solely for any one community; our offerings are designed to create a sustainable financial pathway for anyone seeking to benefit from them. Today, LOLC AI-Falaah stands as the premier brand in Islamic finance in Sri Lanka, earning recognition on both regional and global stages.

PAT

1.3 Bn.

Our leadership in the industry has been affirmed through a multitude of awards received in 2023-24. LOLC AI-Falaah won the prestigious IFN Award for the 'Best Leasing Company Global' and at the esteemed 12th Sri Lanka Islamic Banking and Financial Industry (SLIBFI) awards, we were honoured to receive the Silver Awards for Islamic Finance Non-Banking Financial Institute (NBFi) Entity of the Year and Window of the Year; we also won the Merit Award in the Social Upliftment category. Moreover, our achievements at the Islamic Finance Forum for South Asia (IFFSA), where we secured both Silver Awards for Islamic NBFi and Banking Window of the Year categories, Bronze for Digital/Fintech Award and last but not least, the Merit Award for Social Upliftment this year further solidified our status as a pioneer in the field. These accolades not only reflect our commitment to excellence but also highlight our significant contributions to the growth and development of Islamic finance in the region.

ACKNOWLEDGEMENTS

I would like to extend my deepest gratitude to our key shareholders, the Scholar Supervisory Board, the Board of Directors, and the senior management team for their unwavering support during these challenging times. The dedication and cooperation of our staff have been remarkable, enabling us to achieve our strategic objectives as we move forward with confidence. I eagerly anticipate another exceptional year of growth and innovation in Islamic finance at LOLC AI-Falaah.



Krishan Thilakarathne
Executive Director/CEO

Message from Head of Alternate Financial Services - LOLC

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

I am elated to reflect on a remarkable year of growth and achievement that sets us apart in the landscape of alternate financial services in Sri Lanka. In the ever-evolving world of non-bank financial institutions (NBFIs), we stand tall as the largest provider, boasting a formidable asset base exceeding Rs. 31.6 billion. Our reach now extends over 50,000 active clients across 210 branches island-wide, an impressive testament to our commitment and service excellence in the Islamic finance domain.

FINANCIAL PERFORMANCE IN 2023/24

Despite the turbulent macroeconomic landscape and the lingering effects of economic challenges, LOLC Al-Falaah has emerged stronger than ever. In the fiscal year 2023/24, we not only maintained our strong brand identity but also enhanced our performance significantly, showcasing our resilience and adaptability. LOLC Al-Falaah ensures compliance with Islamic Economic principles through rigorous oversight by a qualified Scholar Supervisory Board, which reviews and approves all financial activities and products to maintain adherence to Islamic economic jurisprudence.

Our revenue soared to an astounding Rs. 6.6 billion, reflecting a staggering 35% increase from the previous year's Rs. 4.9 billion. This remarkable growth is complemented by an exceptional 73% leap in Profit Before Tax, soaring to LKR 1.3 billion from the previous year's Rs. 754 million. Furthermore, our ability to effectively manage our asset and liability portfolios has allowed us to maintain Non-Performing Loan (NPL) levels at a commendable 7.67%. This is particularly noteworthy given that the industry average hovers above 10%. Such a performance underscores the efficacy of our robust, process-driven operations and risk-mitigating strategies, cementing our reputation as a trusted financial partner.

The response to our Mudharabha and Wakalah FD & Savings products has been nothing short of phenomenal. The strong uptake can be attributed to the confidence we've cultivated among our clients, even in these challenging times. In a remarkable display of financial stewardship, we distributed over Rs.3.5 billion in profits to our depositors, ensuring their trust and continued support.

LOLC Al-Falaah is not just about numbers; we are committed to nurturing relationships and fostering community engagement. Our prudent management of assets and liabilities has allowed us to deliver optimal returns to all our stakeholders, culminating in retained earnings of Rs. 6.7 billion by the fiscal year-end.

DEMONSTRATING SOCIAL RESPONSIBILITY

Education is a cornerstone of our mission. Throughout the year, our Operations/ Compliance Unit spearheaded educational programmes in collaboration with the Scholar Supervisory Board and in-house advisors. These initiatives are crucial for promoting awareness of alternative financial services and fostering a culture of savings from an early age, as we also support Grade 5 Scholarship students through targeted educational assistance facilitated by leading subject tutors in the respective localities.

In alignment with our commitment to social responsibility, we allocated Rs. 16.95 million for charitable initiatives focused on health, education, and social upliftment projects during 2023/24. This dedication to sustainable giving is not just part of our business; it is at the heart of who we are as an organisation.

INDUSTRY LEADERSHIP

Our industry leadership is further validated by the plethora of awards we received in 2023/24 as the 'Best Leasing Company of the Year [Global]' at the IFN's [Islamic Finance News] Global NBFi Awards and top-honours at the SLIBFI [Sri Lanka Islamic Banking and Financial Industry] awards, IFFSA [Islamic Finance Forum South Asia] Awards alongside multiple accolades for excellence in various service sector categories, reinforcing our position as a trailblazer in the field. Through its environmental, social, and governance initiatives, LOLC Al-Falaah continues to lead the way in Sri Lanka's Islamic finance sector, contributing meaningfully to the global effort toward sustainable development.

FUTURE OUTLOOK

As we look ahead, LOLC Al-Falaah will leverage on its number one position in the NBFi segment also with its powerful synergies backed by its 360-degree product portfolio of alternative financial services offered by its expansive branch network and cutting-edge technology. We are poised to revolutionise the alternate finance landscape in Sri Lanka.

Our digitalisation efforts have been exemplary; we've successfully integrated our Wakalah Investments and Mudharabah accounts into iPay - our innovative lifestyle fintech app, while providing seamless access through real-time internet banking solutions and internationally VISA enabled debit cards.

We have several innovative alternative financial solutions in development, aimed specifically at supporting the working capital needs of the trading community. These industry-first offerings are designed to enhance financial accessibility and

efficiency, and we plan to launch them in the upcoming fiscal year. Stay tuned for more details as we strive to empower traders with tailored financial options that meet their unique requirements.

LOLC AI-Falaah stands as a testament to resilience, innovation and unwavering commitment to our clients and community. As we stride confidently into the future, we remain dedicated to not only transforming the alternative finance sector but also uplifting the lives of those we serve. The journey continues, and the best is yet to come!

APPRECIATION

I extend my heartfelt gratitude to the Scholar Supervisory Board (SSB) for their invaluable guidance, the Board of Directors (BOD) for their unwavering confidence in our vision, and our clients for their continued trust and support. Your contributions are essential to our success, and we are committed to upholding the highest standards of service and integrity.



Shiraz Refai
Head of Alternate Financial Services

Asset Base



31.6 Bn.

Scholar Supervisory Board (SSB) Chairman's Review

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

Dear Stakeholders,

In the name of the Almighty, the All-Merciful, the Very Merciful, I extend my warmest greetings to all. It is with great sense of honour as well as humility that I present my report as Chairman of a SSB of LOLC Al-Falaah for the financial year ended 31st March 2024.

The year under review was marked by notable achievements, as we witnessed a remarkable 35% increase in revenue and a significant surge in net profits, which rose by 73% before tax. These figures underscore a robust financial performance, especially as we emerge from the challenges posed by the economic upheaval and political unrest that has affected our operations. We are hopeful that the recent presidential elections will foster a stable environment conducive to economic growth, further enhancing our prospects.

However, it is crucial to highlight that within the framework of Islamic Finance, our true success lies in the positive impact we create for our community, particularly for the underprivileged and our clients. Our commitment to our depositors and indeed all stakeholders is of paramount importance; we take great pride in our ability to grow our portfolio by enhancing penetration and outreach of our services, which serves as a testament to the health of our operations.

In terms of compliance with Shari'ah principles, I am pleased to affirm that LOLC Al-Falaah has consistently demonstrated a strong commitment to adhering to the guidelines set forth by our Scholar Supervisory Board. The company's management has been highly supportive of our mission to align all operations with Islamic principles. The SSB held eight training sessions for the staff of the company during the year at various

regional offices of LOLC Al-Falaah. When challenges arise, we engage in open discussions to address any concerns, striving for solutions that uphold our Shari'ah compliance without compromise. This collaborative spirit is integral to our operational ethos.

While no new products were introduced during the past financial year, our dedication to research and development remains unwavering. Our ongoing efforts have led to a robust and dynamic suite of offerings that distinguishes us within the industry. We continue to explore new opportunities and refine existing products, ensuring that we remain responsive to the evolving needs of our clients. 13 public awareness programs were held during the period under review to explain the principles and benefits of Islamic Finance. Additionally, further development of products is in progress, which we anticipate will be introduced in the current financial year.

Throughout the past year, we have conducted regular audits to ensure adherence to our Shari'ah principles. The in-house Shari'ah department has also performed numerous audits, the specifics of which are documented in our annual SSB audit. A total of 10 meetings were held by SSB during the year. In addition, the in-house scholar advisors visited 58 branches for inspection of compliance with Islamic principles.

Looking ahead, the landscape for Islamic finance in Sri Lanka is becoming increasingly promising. We are observing a growing interest from new institutions, banks and financial entities in Islamic economics and finance. Furthermore, regulatory bodies, including the Securities and Exchange Commission (SEC), have shown a keen interest in supporting the developing the regulatory framework

.....
'Looking ahead, the landscape for Islamic finance In Sri Lanka is becoming increasingly promising'
.....

around the introduction of Sukuk and other Shari'ah-compliant products to the capital markets. These developments suggest a positive trend and signal the potential for Sri Lanka to play a significant role in the region's Islamic finance sector.

As we navigate the complexities of our world, it is essential to seek peace, prosperity and harmony, not just for Sri Lanka but for the global community. The world is facing challenges today and we appeal for collective action towards justice and understanding. Our journey is one of continuous improvement and we remain dedicated to making every effort in the right direction.



Ash-Shaikh Shafique A. Jakhura [Mufti]
Scholar Supervisory Board - Chairman

Operational Review

Product Review | 14

Charity Fund | 17

Board of Directors | 18

Report of the Board of Directors | 20

Strategic Business Unit/AFSU Team | 23

Scholar Supervisory Board Members | 24

Regional Coordinators - Al-Falaah, Alternate
Financial Services Unit of LOLC Finance | 25

HAVING REACHED NEW HEIGHTS IN ALTERNATE FINANCING OPERATIONS, WE HAVE BECOME AN INDUSTRY GIANT – AND IT IS DUE TO OUR TAILOR-MADE PRODUCTS AND SERVICES THAT ALL MANNER OF CITIZENS CAN FIND WITH US A SOLUTION THAT MEETS THEIR NEEDS.

Product Review

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

In the financial year 2023/24, LOLC Al-Falaah reinforced its position as a leader among Islamic Financial Services providers in Sri Lanka's Non-Bank Financial Institutions (NBFI) sector. Despite the ongoing challenges arising from the nation's economic crisis, the Business Unit continued to deliver a steady performance. With a strong brand presence and widespread recognition in the alternative finance market, LOLC Al-Falaah operates through more than 210 branches across the island. The company boasts a total asset portfolio exceeding Rs. 31.6 billion and serves over 65000 active clients within the alternative finance sector.

FINANCIAL REVIEW

In a landmark achievement, LOLC Al-Falaah's Mudharabah and Wakalah investments reached an impressive Rs. 22.9 billion, with its savings base surpassing Rs. 1.6 billion – marking a remarkable growth of 46%.

Its Mudharabah Fixed deposit portfolio also demonstrated exceptional performance, with a staggering 166% increase, reflecting the high level of trust and confidence customers place in the brand.

Despite the broader economic challenges, LOLC Al-Falaah managed its asset and liability portfolio with remarkable prudence. Revenue for the 2023/24 year soared to Rs. 6.6 billion, up from Rs. 4.9 billion in the previous year, underscoring the company's resilience and operational efficiency.

The Business Unit also recorded an impressive 73% growth in Profit Before Tax, rising from Rs. 754 million in 2022/23 to Rs. 1.3 billion in the current year.

Furthermore, LOLC Al-Falaah successfully maintained Non-Performing Loan (NPL) levels at 7.67% against a challenging macroeconomic backdrop, well below the industry average of over 12%, highlighting the effectiveness of its robust, process-driven operations and proactive risk management strategies.

In the 2023/24 financial year, despite the ongoing economic challenges, LOLC Al-Falaah distributed a significant Rs. 3.5 billion in profits to depositors, up from Rs. 2.5 billion in the previous year.

Return on Equity also saw a positive upward trajectory, increasing by 21.48%.

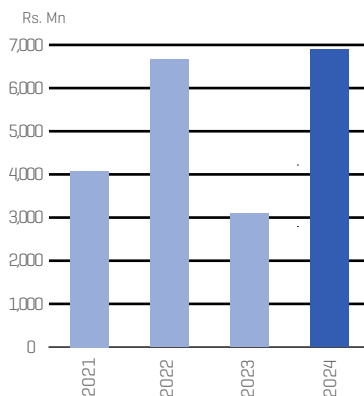
The Business Unit's prudent management of its assets and liabilities led to a 25% growth in these portfolios, ensuring optimal returns for all stakeholders.

At the close of the 2023/24 financial year, Retained Earnings reached Rs. 6.7 billion, marking a 24% increase from Rs. 5.4 billion the previous year and reflecting strong financial growth.

MUDHARABAH FIXED DEPOSITS AND SAVINGS

The high level of trust embodied by customers in the company was apparent as portfolios of Mudharabah Fixed deposit stood at 5.2 billion and Mudharabah Savings at 1.6 billion, and had exceptional growth of 166% and 46% respectively over the previous year. And the main reasons for this big shift for the deposit mobilization was due to upward trend of profit returns and the confidence customers had with LOLC Al-Falaah in safeguarding their finances.

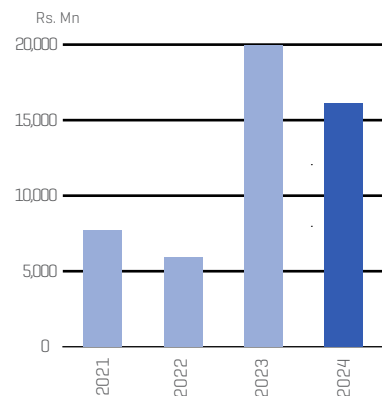
Mudharabah



WAKALAH FOR INVESTMENT

Wakalah for Investment is designed for corporate clients and fixed-term investors seeking predictable or stable returns on their investments. However, the demand for the Wakalah product declined by 19% in the year under review, from Rs. 20 billion in 2022/23 to Rs. 16 billion in the year under review. This reduction was primarily due to the presence of excess funds, leading to a more restrained approach in actively seeking new deposits. Despite this, LOLC Al-Falaah remained the preferred choice for alternative financial services, even amidst challenging market conditions.

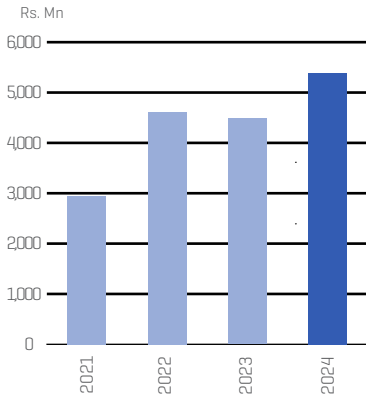
Wakalah Investments



IJARAH FOR LEASING

The Ijarah Leasing portfolio grew to Rs. 5.4 billion, up from Rs. 4.5 billion in 2022/23, demonstrating its resilience in the market. LOLC Al-Falaah successfully maintained its portfolio of Ijarah Leasing by ensuring timely settlements and offsetting gaps with new facilities. This is a commendable achievement despite significant challenges with the ongoing import restrictions, high taxes and a decline in demand.

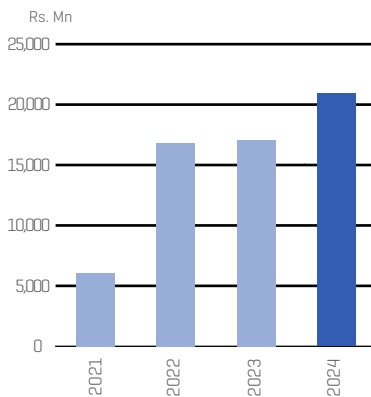
Ijarah



DIMINISHING MUSHARAKAH FOR PROPERTY AND PROJECT FINANCE

The Diminishing Musharakah portfolio for Property and Project Finance reached Rs. 21 billion in the year under review compared to the previous year. This growth reflects a steady demand in the sector, contributing to a 23% increase in overall performance.

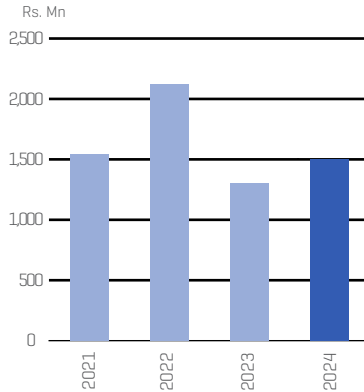
Diminishing Musharakah



MURABAHA/MUSAWAMAH/WAKALAH FINANCE

Murabaha/Musawamah/Wakalah Finance products were managed well and the combined portfolios registered 1.5 Bn in 2023/24 compared to 1.3 Bn in the previous year with 15% moderate growth. Businesses were held back from investing further but these products have seen improvement with greater stability of the economy.

Murabaha / Musawamah / Wakalah Finance

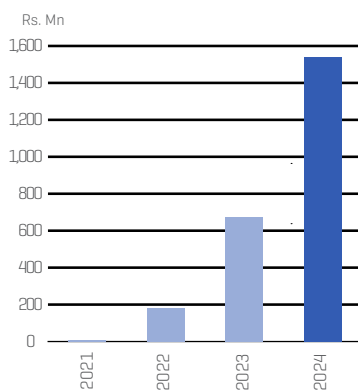


WADI'AH GOLD STORAGE

The primary objective of the Wadi'ah Gold Storage Facility is to provide financial access to grassroots-level clients who lack direct access to traditional banking and finance but require small cash advances to support their daily businesses and self-employment. In the context of the ongoing economic crisis, this product emerged as a timely solution, offering an alternative to pawning and gold-loans with its cash advance feature.

The Wadi'ah Gold Storage Facility saw remarkable growth, increasing by 128% to reach Rs. 1.5 billion in 2023/24, compared to Rs. 675 million in 2022/23. As one of the few companies catering to this segment, LOLC AI-Falaah continues to empower the bottom-of-the-pyramid population with accessible financial solutions.

Wadi'ah Gold Storage Facility



CORPORATE SOCIAL RESPONSIBILITY

At LOLC AI-Falaah, fostering the development of sustainable communities is a core priority. Over the past year, the company has been actively involved in supporting health, education, and social upliftment initiatives. Through its Charity Fund, LOLC AI-Falaah allocated Rs. 28.95 million to fund various charitable projects, benefitting over 1950 individuals. This funding was directed towards both new and ongoing initiatives, with a continued focus on improving the lives of the most vulnerable segments of society.

Despite the challenges posed by market conditions, the company remained unwavering in its commitment to social responsibility. LOLC AI-Falaah recognises that promoting the adoption of alternative financial services requires not only access to resources but also education. As such, the company has prioritised educational programs aimed at increasing awareness and understanding of these services within communities. Throughout the year, our Operations and Compliance Unit, in collaboration with the Scholar Supervisory Board (SSB) and in-house scholar advisors, organised several educational initiatives to engage and inform the public about the benefits of alternative finance.

This ongoing commitment to sustainable giving and education is integral to our values, reinforcing LOLC AI-Falaah's dedication to making a meaningful and positive impact on society.

AWARDS & ACCOLADES

Our industry leadership is further validated by the plethora of awards we received in 2023/24. At the prestigious 12th SLIBFI (Sri Lanka Islamic Banking and Financial Industry) Awards, Islamic Finance Forum South Asia (IFFSA) Awards, Islamic Finance News (IFN) Global Awards together with industry standard setting service sector awards, our position as a trailblazer in the field was reinforced.

Product Review

DIGITALISATION

LOLC AI-Falaah has been actively advancing its digital transformation efforts, successfully integrating its Wakalah Investments and Mudharabah accounts into iPay, the lifestyle fintech app by LOLC Finance PLC. As part of the strategic integration following the absorption of CLC's Islamic Business Unit, the company initiated a comprehensive Business Process Reengineering (BPR) exercise. This initiative aims to redesign and optimise key business processes, driving substantial improvements in performance, efficiency, and overall effectiveness. The goal is to significantly enhance the credit application experience for both the institution and its customers.

To support this overhaul, technology solutions such as advanced software applications, data analytics, and workflow automation tools will be implemented, ensuring faster data processing, greater accuracy, enhanced risk assessment capabilities, and improved collaboration across all stakeholders. Additionally, the BPR process will contribute to sustainability goals by streamlining financial decision-making and reducing environmental impact.

SUSTAINABILITY

As the Alternate Financial Services Unit of LOLC Finance PLC, LOLC AI-Falaah has consistently demonstrated a strong commitment to Environmental, Social, and Governance (ESG) principles, firmly aligning its operations with the UN's 17 Sustainable Development Goals (SDGs). Through innovative practices, ethical financial solutions, and a deep sense of corporate responsibility, LOLC AI-Falaah has contributed significantly to the advancement of sustainability and responsible governance in Sri Lanka's Islamic finance sector.

LOLC AI-Falaah plays an integral role in contributing to LOLC Holdings' comprehensive sustainability initiatives. Key environmental projects are implemented by the Group and adopted across the board, reflecting LOLC AI-Falaah's dedication to environmental protection and responsible resource use.

A standout project is the Carbon Footprint Management Strategy, where LOLC Finance implements a GHG emission reduction plan across 210 branches in line with ISO 14064:1 2018 standards. Through this project, the organisation tracks and minimises direct and indirect emissions, supporting SDGs 7, 8, 12, and 13.

Further contributing to environmental sustainability, LOLC has digitalised internal communication systems, saving over 812,100 sheets of paper and reducing the environmental impact of traditional office operations. This initiative is in line with SDG 12: Responsible Consumption and Production. The company's partnership with Zero Trash to establish recyclable plastic collection points also highlights LOLC AI-Falaah's alignment with the government's Extended Producer Responsibility (EPR) policy, thereby tackling plastic pollution.

In the Green Building Initiative, LOLC Finance has begun modifying its head office to apply for the Green SL® certification, enhancing energy efficiency and resource management, and directly addressing Goals 7 and 12. Additionally, energy conservation projects, such as reducing electricity consumption to 5.68 million kWh in FY 23/24, further exemplify the company's commitment to environmental sustainability.

LOOKING AHEAD

Looking ahead, LOLC AI-Falaah is poised to capitalise on the increasing demand for alternative financial services by expanding its footprint into new geographic regions. By continuing to build on its strong reputation for trust and reliability, the company aims to further solidify its position as a leader in the industry, offering innovative solutions that cater to the evolving needs of its customers. With a focus on strategic growth and sustainable practices, LOLC AI-Falaah is well-equipped to navigate future challenges and deliver long-term value to all its stakeholders.

Charity Fund

Charity disbursements for the period of 1st April 2023 to 31st March 2024

Period	Medical	Education	Social	Ramadan Rations
01/04/2023 - 31/03/2024	Rs.10,942,625 /-	Rs.3,200,000/-	Rs.2,815,730/-	Rs.12,000,000/-

Total disbursements for the period 01/04/2023 - 31/03/2024: Rs. 16,958,355 /-

Total beneficiaries as at March 2024: 101

Medical - 64 Education - 23

Social - 14 Ramadan Rations - 2,100



Rs.10,942,625 /-
64 Medical Beneficiaries



Rs.3,200,000/-
23 Education Beneficiaries



Rs.2,815,730/-
14 Social Beneficiaries



Rs.12,000,000/-
2,100 Ramadan Rations Beneficiaries

I/We confirm and assure that, the above Charity Fund Disbursement were executed under the guidelines given by the Scholar Supervisory Board of LOLC AL-Falaah, Alternate Financial Services Unit.

Note: Due to the sensitivity of the information on individual Accounts, I/We am/are not in a position to disclose details of disbursements and projects carried out within the said period.

LOLC Finance PLC.

Ash-Shaikh Anas Umar
In-House Scholar Advisor
Al-Falaah, Alternate Financial Services Unit

Ash-Shaikh Muawwith Mubarak
In-House Scholar Advisor
Al-Falaah, Alternate Financial Services Unit

Board of Directors

F K C P N DIAS

Chairman/Non-Executive Director

Mr. Conrad Dias was appointed to the Board on 01st March 2020. He holds a Master's in Business Administration [MBA] from University of Leicester UK, Fellow Member of Chartered Management Accountants UK [FCMA], Chartered Global Management Accountant [CGMA -USA]. He is also a Fellow of the Certified Management Accountant of Sri Lanka [FCMA] and a Fellow Member of the 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 20+ years.

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

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

D M D K THILAKARATNE

Executive Director/CEO

Mr. Krishan Thilakaratne is the Director/CEO of LOLC Finance PLC and a Member of the Senior Management Team of LOLC Holdings PLC. Mr. Thilakaratne was the former Director-CEO of Commercial Leasing and Finance PLC and was appointed to LOLC Finance PLC pursuant to the merger.

Mr. Thilakaratne is a Board member of Seylan Bank PLC and further serves on the Boards of LOLC Myanmar Micro Finance Company Ltd and Faso S Micro Deposit Organisation in Tajikistan.

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

He is an Associate Member of the Institute of Bankers of Sri Lanka [IBSL] and a passed finalist of the Chartered Institute of Management Accountants [CIMA] UK. He has followed the Strategic Leadership training programme in Micro Finance at Harvard Business School USA and counts over 30 years of experience in Management, Credit, Channel Management, Marketing, Factoring, Portfolio Management and Islamic Finance. He conceptualised and introduced Islamic Finance to LOLC Group in 2007 and is a Guest Speaker at the International Islamic Finance Forums.

B C G DE ZYLVA

Non-Executive Director

Mr. Brindley De Zylva was appointed on 23rd April 2018 and serves as Non-Executive Director of LOLC Finance PLC. He is also the Chairman of LOLC [Cambodia] PLC, Serendib Micro Insurance PLC and Managing Director of LOLC Myanmar Micro-Finance Company Limited. He is the joined the LOLC Group in 2003 and counts over 40 years' experience in the Non-Bank Financial Services Industry [NBFI] covering Licensed Finance Companies, Specialised Leasing, Micro Finance and Micro Insurance in South and South East Asia.

P A WIJERATNE

Senior Independent Director

Mr. P A Wijeratne was appointed as an Independent Director on 26th May 2017 and has over twenty years of experience in accounting, financial reporting, investment of internal funds, foreign loan disbursements and repayments, auditing, public debt management and administration as an ex Officio of the Central Bank of Sri Lanka. He joined CBSL in 1991 and 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 and an MSc in Accounting and Financial Economics from the University of Essex, UK.

A J L PEIRIS

Independent Director

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

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

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

K SUNDARARAJ
Independent Director

Mr Kandiah Sundararaj counts over 29 years of experience in Accounting, Auditing and Tax Consulting. He started his career as a Chartered Accountant in 1998 and is currently serving as the Tax Partner in M/s Amerasekera and Company, Chartered Accountants.

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

and Management, Human Resource Management and Communication Policy. Mr. Lankathilake has also served as a member of the Board of Directors of the Sri Lanka Export Credit Insurance Corporation, Board of Management of the Title Insurance Fund of Registrar General's Department, National

Labour Advisory Committee, Securities Exchange Commission and several other committees in the past. Mr. Lankathilake has authored many articles and published them in reputed international and local journals and CBSL publications particularly in the areas of economic issues, small-scale industries, international trade, gem industry, apparel industry etc.

MR. S LANKATHILAKE
Independent Director

Mr. Sunil Lankathilake is a former Deputy Governor of the Central Bank Sri Lanka. He was appointed to the LOLC Finance Board, pursuant to the merger with LOLC Development Finance PLC with effect from 31st January 2023.

He holds an MSc degree in Economics and a Postgraduate Diploma in Economics from the University of Manchester, United Kingdom and a B. Com degree with 1st Class Honours from the University of Peradeniya.

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

During his 32-year career in the CBSL, Mr. Lankathilake participated in a large number of foreign training programmes conducted by reputed training providers such as the IMF, World Bank, ADB, University of Cambridge etc. in the areas of Macroeconomic Management, Macroeconomic Modelling, Financial Programming, Trade Policies, Competitiveness, Project Management, Foreign Investment, Strategic Planning

Report of the Board of Directors

The Board of Directors of LOLC Finance PLC takes pleasure in presenting their Annual Report together with the Audited Financial Statements for the year ended 31st March 2024.

PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

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

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

MARKETS SERVED

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

DIRECTORATE

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

1. F K C P N Dias	Chairman, Non-Executive Director
2. D M D K Thilakaratne	Executive Director/CEO
3. B C G De Zylva	Non-Executive Director
4. P A Wijeratne	Senior Independent Director
5. K Sundararaj	Independent Director
6. S Lankathilake	Independent Director
7. A J L Peiris	Independent Director

The profiles of the above directors can be found on pages 8 and 9.

RECOMMENDATIONS FOR RE-ELECTION OF DIRECTORS

In terms of Article 75 of the Articles of Association of the Company, Mr. K Sundararaj and Mr B C G De Zylva will retire and will be eligible to seek re-election as directors.

THE BOARD RECOMMENDS THEIR RE-ELECTION

The approval of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka has been obtained by the Company for the continuation of all its existing in terms of Sec. 7.2 (a) of the Finance Companies Fitness & Propriety of Directors and Officers Direction No. 6 of 2021.

DIRECTORS INTERESTS IN CONTRACTS

The Company maintains an Interests Register in terms of the Companies Act No. 7 of 2007 and is available for inspection upon request. The disclosures made by Directors have been noted by the Board, recorded in the minutes and entered into the Interest Register.

DIRECTORS' SHAREHOLDING

Director's Name	As at 31.03.2024	As at 31.03.2023
1 F K C P N Dias	Nil	Nil
2 D M D K Thilakaratne	Nil	Nil
3 Mrs. K U Amarasinghe (Resigned with effect from 29.05.2023)	N/A	Nil
4 B C G De Zylva	Nil	Nil
5 P A Wijeratne	334,533	455,998
6 K Sundararaj	Nil	Nil
7 S Lankathilake	Nil	Nil
8 A J L Peiris	Nil	Nil

MEETINGS OF THE BOARD OF DIRECTORS

Fourteen scheduled monthly meetings were held during the year. A schedule of Directors' Attendance at Board Meetings and Sub Committee Meetings is on pages 76 to 78.

CORPORATE GOVERNANCE

The Company is governed by the requirements of the Finance Companies [Corporate Governance] Direction No. 05 of 2021 and the Listing Rules of the Colombo Stock Exchange.

The manner in which the Company has complied with the Finance Companies [Corporate Governance] Directions and the Listing Rules of the Colombo Stock Exchange [CSE] is disclosed on pages 30 to 78.

The report of the Corporate Governance can be found on pages 30 to 78. Your Board of Directors is committed towards maintaining an effective corporate governance framework by effectively implementing

CAPITAL STRUCTURE

As at 31st March 2024, the stated capital of the Company is Rs. 306,993,805,501/- divided into 33,079,212,299 shares.

The debt capital of the company comprises rated unsecured senior redeemable debentures fifty million [50,000,000] issued in September of 2020. These debentures are listed in the Colombo Stock Exchange and Lanka Rating Agency rated Rs.5 Bn debentures as A [Positive].

The details of the debentures in issue as at 31st March 2024 are set out in Note 14.3 to the Financial Statements on page 161 and further elaborated in other disclosures on page 202 of the Annual Report.

systems and structures required to ensuring best practices in corporate governance.

BOARD SUB COMMITTEES

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

- » Audit Committee
- » Integrated Risk Management Committee
- » HR & Remuneration Committee
- » Related Party Transaction Review Committee
- » Nomination and Governance Committee
- » Board Credit Committee [Voluntary Committee]

The mandate of each of these sub committees is provided by their regulatory guideline or Board approved Terms of Reference. The composition of these committees is as prescribed by the relevant

regulation (where applicable) or as deemed most appropriate for effective functioning of the Committee. The reports of the respective Committees are included in this Report on pages 90 to 95.

The Board sub committees are empowered to call for additional information, and also to invite key management personnel to provide further details, or to facilitate a dialogue.

This enables the Board to ensure that proposed initiatives, changes to procedures or enhancing of controls are practical and also clearly communicated to the senior management.

Committee Meeting minutes are tabled at Board meetings. Thus, while the entire Board is aware of Committee deliberations and decisions, they have the assurance of knowing that matters receive the focused attention of sub committees.

MANAGEMENT COMMITTEES

The Company has the following management level Committees to manage matters relating to credit, and liquidity.

- » Credit Committee
- » Asset Liability Committee

Additionally, Management Meetings are held monthly to discuss collections and operational level planning and risk management.

The Legal Settlement Committee was dissolved as recommended by the Nomination & Governance Committee as there is no current requirement for such a committee.

COMPLIANCE WITH LAWS AND REGULATIONS

Through participation in various workshops/ forums and updates from the Company Secretary and the Management, the Board of Directors keeps abreast of laws, rules, regulations and changes thereto, particularly to the Finance Companies (Corporate Governance) Directions and to the Listing Rules and applicable capital market provisions.

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. Furthermore, the directors confirm that there were no fines which are

material imposed on the Company by any governmental or regulatory authority in the country.

The Company is compliant with the Corporate Governance requirements of the Listing Rules of the Colombo Stock Exchange (CSE) with the exception of the requirements relating to the Minimum Public Float under rule 7.13.1.i.b. Consequently, the Company has been transferred to the Second Board of the CSE. Please refer page 201 for further details.

INDUSTRIAL RELATIONS

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

Board approved policies with compliance with labour regulations. There was no occurrence of any issue detrimental to the harmonious industrial relations of the Company during the year under review which required disclosure under Rule 7.6 (vii) of the Listing Rules of the CSE.

SCHOLAR SUPERVISORY BOARD

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

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

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

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

The Financial Statements and the Auditors report are found on pages 101 to 178.

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

SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the financial statements and any changes thereof where applicable have been included in the Notes to the financial statements on pages 111 to 178.

TRANSACTIONS WITH RELATED PARTIES

In terms of LKAS 24, the Directors have disclosed transactions which are classified as related party transactions under Note 33 on pages 174 to 176.

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

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2024 and that such transactions with the Company if any, have been disclosed while abstaining from voting on any matters of material interest.

GOING CONCERN

During the year, the Directors reviewed the interim financials and the year-end financials. They have also regularly reviewed operations, and the environment within which the Company operated, including the macro environment, potential risks and resource allocation.

Having reviewed the outlook for each sector and after due consideration of the range and likelihood of outcomes, the Directors are satisfied that the Company has adequate resources to continue in

Report of the Board of Directors

operational existence for the foreseeable future and continue to adopt the going concern basis in preparing and presenting these financial statements.

STATUTORY PAYMENTS

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

AUDITORS

The Auditors of the Company, Messrs Ernst and Young, Chartered Accountants were appointed in July 2008.

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

As far as the Directors are aware, the Auditors do not have any other relationship [other than that of an auditor] with the Company and the Group.

The fees paid to the auditors for the year under review are disclosed in the notes to the Accounts on page 168.

The Report of the Auditors is given on page 28.

As recommended by the Audit Committee in accordance with applicable regulations, the Board of Directors propose the rotation of the external Auditors.

As such, your Board of Directors recommends that Messrs. Deloitte Partners, Chartered Accountants take over as Auditors of the Company for the ensuing financial year 2024/25, subject to approval of the shareholders to be obtained at the forthcoming Annual General Meeting to be held on 26th September 2024.

THE CODE OF ETHICS

The Board sets the tone from the top to instil the right behaviours across all levels, from directors to staff, based on the Company's Code of Business Conduct and Ethics, which provides guidance to ensure duties are carried out with the highest standards of integrity.

This also enables the Company to manage any potential impact with fair treatment. The Board confirms that there has not been any material breach of the Code during the year under review.

RISK MANAGEMENT INTERNAL CONTROLS

Delegated by the Board, the Board Audit Committee and the Integrated Risk Management Committee regularly reviews all aspects of operations, internal controls, risk management and compliance, against established policies and procedures.

Any deficiencies or weaknesses detected are discussed with the relevant operational staff to ensure that the gravity of the position is understood by all and to expedite remedial action. Decisions made are followed up at subsequent Committee or Board meetings. The Directors declare that a reasonable assurance of their effectiveness and successful adherence has been obtained for the year under review.

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

ASSOCIATE COMPANIES

The Company holds the following associate investments:

Commercial Insurance Brokers (Private) Limited

The Company holds 40% of the equity of Commercial Insurance Brokers (Private) Limited (CIB). Mr D M D K Thilakaratne and Mr N Weerapana have been nominated to its Board by the Company. During the past 34 years CIB has been engaged in the business of life and general insurance. It is one of the premier insurance broking firms in the country.

FAIR TREATMENT FOR STAKEHOLDERS

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

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 26th September 2024 at 10.00 a.m. as a virtual meeting and the Notice of Meeting is on page 211.


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



D M D K Thilakaratne
Director/CEO



F K C P N Dias
Chairman



M V S C Rodrigo
Company Secretary

28th June 2024
Rajagiriya

Scholar Supervisory Board Members

ASH-SHAIKH SHAFIQUE

A. Jakhura (Mufti)
Chairman

Mufti Shafique is a Registered, Certified Shari'ah Advisor and Auditor (CSAA) 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. A certified Shari'ah Advisor and Auditor (CSAA) by the Accounting and Auditing Organisation for Islamic Financial Institutions of Bahrain, 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.

Scholar Supervisory Board Audit Report 2023/2024

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 Seventeenth (17) year of Al-Falaah, the Alternate Financial Services Unit of LOLC Finance PLC [LOLC Al-Falaah].

During the year, The Scholar 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 2023 to March 2024.

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

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

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

1. Training & Development: During the year, eight (8) training programs for staff were held in various regional branches.
2. Branch Visits: The In-House Scholar Advisors visited fifty eight (58) branches around the island to review procedures and meet staff involved in Al-Falaah transactions. SSB Members accompanied them on some of these visits
3. SSB meetings: ten (10) meetings were held by members of the SSB physically & online for the period under review.

4. Public Awareness Program: thirteen (13) Public Awareness programs were conducted by the SSB for the financial year ended. In addition, In-House Scholar Advisors conducted two (2) awareness programs that were organized by regional branches for their customers.
5. Development of New Products & Processes: the SSB is currently in the process of advising, structuring and assisting with the development of a Shari'ah compliant Factoring solution and other procedural developments to improve service deliveries and maintain higher level of compliance required by the/a institution.
6. Awards & Recognition: the Alternate Financial Services Unit of LOLC Finance PLC, was recognised by being awarded in various categories in the Islamic Banking and Finance Industry locally and internationally, which is commendable.

SSB Audit and Compliance Review

The scope of the SSB audit included examining on a test basis;

1. Mudharabah Fixed Deposits & Savings Transactions
2. Wakalah Term Investment Transactions
3. Ijarah Lease Financing Transactions
4. Ijarah Operating Lease Transactions
5. Murabaha Trade Financing Transactions
6. Musawamah Import Financing Transactions [no new transactions for the period]
7. Diminishing Musharakah Project & Property Financing Transactions
8. Wakalah Business & Working Capital Financing Transactions
9. Wadi'ah Gold Storage Transactions
10. Profit Distribution for Depositors
11. Excess-Fund Investments
12. Bank Statements and Reconciliation
13. Expenditure Apportionment
14. Review of Audited Financial Statements
15. Marketing and Advertising Material review
16. Charity Fund allocation and usage
17. Reconciliation of Admin. fees charged vs Recovery costs incurred

We planned and performed our review to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give

us reasonable assurance that LOLC Al-Falaah, has adhered to Islamic commercial principles.

In our opinion;

1. The overall structure of the contracts offered by LOLC Al-Falaah and their implementation during the year under review are generally in compliance with Islamic economic and commercial principles.
2. The allocation of profit relating to investment accounts appears to conform to Islamic economic principles.
3. The expense allocation generally appears to be in order as per the agreed formula recommended and agreed by the management during the last financial year. Efficiencies of this formula will be reviewed annually by the SSB and recommendations will be made if required as appropriate
4. The Audited Financial statements depict assurance of prudent overall income and expenditure management, maintenance of regulatory compliance and standards of accounting that supports adherence to Islamic economic principles.
5. Certain aspects requiring rectification pertaining to a particular transaction were drawn to the attention of management. SSB has confirmed that the management has executed the relevant directive.

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

[Mufti] Shafique A. Jakhura
Chairman – SSB

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

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

Strategic Business Unit/AFSU Team

SHIRAZ REFAI

MABE [UK], FCMI [UK], MBA [UK]
Head of Al-Falaah, Alternate Financial Services Unit of LOLC Finance

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

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 20 years of experience in Marketing services in the areas of strategic marketing, new business development, branding and communication and network marketing.

IMRAN ZAROOK

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

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

ASH-SHAIKH MUAWWITH MUBARAK

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

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

ASH-SHAIKH ILHAM MUFARIS

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

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

BUDDHIKA WEERATUNGE

FCA [SL], 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 is an Associate Member of Institute of Certified Management Accountants of Sri Lanka [CMA Sri Lanka].

HIKAM HUSSAIN

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

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

MOHAMED WAFIQ

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

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

ASH-SHAIKH UMAR ANAS (ISLAMI)

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

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

ASH-SHAIKH SEYYED SAABIQ

BA in Usoolul Fiqh [FATHIH], EDIBF [FGA]
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 an Executive Diploma in Alternate Banking and Finance.

ILSAM AWFER

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

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

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 counts over 19 years of experience in marketing of financial service sector. Played a pivotal role in developing metro region Alternate Finance businesses.

SILMY SALLY

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

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

ASH-SHAIKH FAZIL MOHIDEEN

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

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

NISAL RATHNAYAKA

CBA/MAAT/BA Hons UK, Graduated in Bedfordshire University, UK.
Executive, Finance – LOLC Finance

Joined LOLC group in 2015. Counts over 9 years of experience in both financial analysis and operations.

HANEEA WAJITH

DCM [SLICM], ADCM [SLICM], APDCM [SLICM]
Executive – Ladies Unit – Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Joined LOLC Finance in 2023 and has 5 years of experience in Islamic Finance.

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

RAMSHAD MOHAMED

MBA (OUSL)

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

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

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

DHILFOWZY MOHAMED

MBA - Cardiff Metropolitan UK

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

Liability Marketing

Central I & II, Sabragamuwa, Eastern, Uva, North Central I & II, North Western II Regions

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

MOHAMED FAIZ

BBA, MCIM, AM SLIM

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

Eastern, Uva Regions

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

JAMEEL AHAMED

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

Southern I & II Regions

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

IMRAN HAMEED

IFA-UK [Associate Member of Institute of Financial Accountant]

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

North Western I, Western I & II Regions

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

AHSAN MUNAF

B.A (Hons) in Business Management Northumbria University-UK

Islamic Finance Qualification CISI-UK

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

Metro I & II Regions

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

AHAMED NUSKY

CIMA Passed Finalists

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

North Central II & North Western II Regions

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

MUSTHAFA MUSRIF

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

North Central I & Uva Regions

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

SHAZEEN SHAHUL HAMEED

Dip. Credit Management SLICM

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

Southern III & Western III Regions

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

Financial Reports

Scholar Supervisory Board Audit Report 2023/24 | 27

Independent Auditors' Report | 28

Statement of Financial Position | 29

Statement of Profit or Loss and Other Comprehensive Income | 30

Statement of Cash Flows | 31

Notes to the Financial Statements | 32

WHILE MAINTAINING THE HIGHEST LEVELS OF TRUST WITH ALL TRANSACTING PARTNERS, WE CONDUCT OUR FINANCIAL OPERATIONS WITH COMPLETE TRANSPARENCY AND PRUDENCE, SO THAT OUR PRODUCT OPTIONS ARE BENEFICIAL AND RELIABLE TO ALL OF OUR CUSTOMERS.

Independent Auditors' Report



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

Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 557 8180
Email: eysl@k.ey.com
ey.com

PNS/TP/LA

BOARD OF DIRECTORS OF LOLC FINANCE PLC

Opinion

We have audited the statement of financial position as at 31 March 2024 and the statement of comprehensive income for the year then ended, and a summary of material accounting policies and other explanatory information [together "the financials"].

In our opinion, the accompanying financial statement of the LOLC Finance PLC ["the company"], AL-Falaah, Alternate Financial Services Unit ["Unit"] for the year ended 31 March 2024 is prepared, in all material aspects, in accordance with the accounting policies set forth in pages 06 to 24 of the financial statement.

Basis for opinion

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

Emphasis of Matter - Basis of Accounting and Restriction on Distribution

We draw attention to the accounting policies set forth in pages 06 to 24 of the financial statement, which describes the basis of accounting. As a result, the financial statements may not be suitable for another purpose. Our audit work has been undertaken so that we might state to the Board of Directors of the LOLC

Finance PLC, those matters that we are required to state, in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume the responsibility to anyone other than the addressee, for our audit work, for this report, or for the opinion we have formed. Our opinion is not modified in respect of this matter.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

27 June 2024
Colombo

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

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

A member firm of Ernst & Young Global Limited

Statement of Financial Position

As at 31 March 2024	Note	2024 Rs.	2023 Rs.
ASSETS			
Cash and bank balances	3	1,404,357,334	5,547,597,315
Deposits with banks and other financial institutions		503,609,589	2,048,743,772
Murabaha / Musawamah /Wakalah Finance	4.1	1,498,564,240	1,301,377,967
Diminishing Musharakah receivables	4.2	20,806,515,686	16,935,845,248
Ijarah rent receivables	4.3	5,264,768,652	4,328,237,645
Wadi'ah Gold Storage Facility	4.4	1,536,037,429	671,443,923
Trading assets - Fair value through profit or loss	6	16,990,955	16,407,646
Investment Properties	7	150,000,000	143,000,000
Other receivables	5	412,154,093	405,353,006
Total assets		31,592,997,978	31,398,006,522
LIABILITIES			
Deposits from customers	8	22,982,610,534	23,080,494,620
Income tax payable	14	317,599,624	317,599,624
Accruals and other payables	9	1,583,834,121	2,592,475,281
Total liabilities		24,884,044,279	25,990,569,525
OWNER'S FUND			
Retained earnings		6,708,953,699	5,407,436,996
Total owners fund		6,708,953,699	5,407,436,996
Total liabilities & owners fund		31,592,997,978	31,398,006,522

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



[Mr.] Buddhika Weeratunga
Head of Finance

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



[Mr.] Krishan Thilakarathne
Director/CEO



[Mr.] Conrad Dias
Chairman / Non-Executive Director

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

Statement of Profit or Loss and Other Comprehensive Income

As at 31 March 2024	Note	2024 Rs.	2023 Rs.
Revenue	10	6,606,315,881	4,878,017,971
Profit paid to Mudharabah/Wakalah investments		(3,498,233,581)	(2,540,735,836)
Profit paid on other funding arrangement		-	(253,097)
Other direct expenses		(112,382,739)	(77,423,725)
		2,995,699,561	2,259,605,313
Non distributable other income / [expenses]	11	479,913,037	313,470,054
Total operating income		3,475,612,597	2,573,075,367
Personnel expenses	12	(551,373,105)	(542,290,133)
[Provision]/reversal for credit losses		(242,868,019)	(58,151,465)
Other operating expenses		(1,047,168,101)	(990,173,022)
Profit from operations		1,634,203,372	982,460,747
Value added tax on financial services		(332,686,669)	(228,268,589)
Profit before taxation		1,301,516,703	754,192,158
Income tax expense	13	-	-
Profit for the year		1,301,516,703	754,192,158
Other comprehensive income		-	-
Total comprehensive income		1,301,516,703	754,192,158

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

Statement of Cash Flows

Year ended 31 March 2024	2024 Rs.	2023 Rs.
Cash Flows From / (Used in) Operating Activities		
Net Profit before Income Tax Expense	1,301,516,703	754,192,158
Provision for fall/(Increase) in value of investments	[583,309]	2,672,738
Allowance for/(reversal of) doubtful debts	242,868,019	58,151,465
Change in fair value of investment property	[7,000,000]	[20,200,000]
Investment income	[111,124,116]	[178,879,439]
Profits attributable to investment made from banks & other Financial institutions	-	253,097
Profits attributable to Mudharabah / Wakalah investments	3,498,233,581	2,540,735,836
Operating profit before working capital changes	4,923,910,877	3,156,925,855
Change in other receivables	[6,801,088]	[298,966,562]
Change in trade and other payables	[1,008,641,160]	[4,163,150,215]
Change in Ijarah rent receivables	[936,531,007]	189,808,403
Change in Murabaha / Musawamah /Wakalah Finance	[440,054,292]	753,976,628
Change in Diminishing Musharakah receivables	[3,870,670,438]	[301,792,733]
Change in Wadi'ah Gold Storage Facility	[864,593,506]	[487,708,147]
Change in Mudharabah investments from customers	3,268,908,542	[3,649,555,000]
Change in Wakalah investments from customers	[3,887,928,890]	14,060,515,603
Change in Mudharabah savings deposits from customers	521,136,262	94,481,048
Cash used in Operations	[2,301,264,700]	9,354,534,880
Profits paid to Mudharabah / Wakalah investments	[3,498,233,581]	[2,540,735,836]
Income tax paid	-	-
Net Cash Used in Operating Activities	[5,799,498,281]	6,813,799,045
Cash Flows from / (Used in) Investing Activities		
Net proceeds from Investments in Mudharabah Deposits	1,545,134,183	[2,048,566,438]
Profit Received	111,124,116	178,626,342
Net Cash Flows from Investing Activities	1,656,258,299	[1,869,940,097]
Cash Flows from / (Used in) Financing Activities		
Net Increase/(decrease) in cash and cash equivalents	[4,143,239,979]	4,943,858,949
Cash and cash equivalents at the beginning of the period	5,547,597,315	603,738,364
Addition on merger with subsidiary	-	-
Cash and cash equivalents at the end of the period	1,404,357,334	5,547,597,315
Analysis of cash and cash equivalents at the end of the period		
Cash and bank balances	1,404,357,334	5,547,597,315
	1,404,357,334	5,547,597,315

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

Notes to the Financial Statements

1. GENERAL

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

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

1.1.1 Principal activities and nature of business

The principal activities of the LOLC AI-Falaah comprise Mudharabah (Profit Sharing Investments & Savings) and Wakalah (Term Investments), Diminishing Musharakah (Property & Project Financing), Murabaha (Trade Financing), Musawamah (Import Financing), Wakalah (Working Capital Financing), Wadi'ah (Gold Storage Facility) and Ijarah (Leasing).

1.1.2 Directors' responsibility statement

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

1.2 BASIS OF PREPERATION

1.2.1 Statement of compliance

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

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

1.2.2 Basis of Measurement

These special purpose Financial statement have been prepared on a historical cost basis except for the following material items, which are measured on an alternate basis on each reporting date:

The results of LOLC AI-Falaah and the financial position of the LOLC AI-Falaah form part of the financial statements of LOLC Finance PLC which is prepared in accordance with Sri Lanka Accounting Standards. LOLC Finance PLC's primary set of financial statements was authorised for issue by the Board of Directors in accordance with a resolution of the Directors passed on 27 June 2024. Therefore, the isolated special purpose financial statements of the LOLC AI-Falaah should be read in conjunction with the LOLC Finance PLC's primary set of financial statements.

These special purpose Financial Statements include the following components:

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

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

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

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

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

1.2.3 Materiality and Aggregation

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

1.2.4 Going Concern basis of accounting

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

1.2.5 Comparative information

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

1.3 Functional and presentation currency

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

These special purpose financial statement 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 special purpose Financial Statement in conformity with the described accounting policies requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations

of future events that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

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

Critical Accounting estimate/judgement	Disclosure reference Note
Fair value measurement of financial instruments and investment properties	1.4.1
Impairment losses on financial accommodations and advances	1.4.2
Provisions for liabilities and contingencies	1.4.3

1.4.1 Fair Value Measurement

A number of the Company's (LOLC Finance PLC including the LOLC AI-Falaah) accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

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

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

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

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a

fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

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

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

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

Note 10 – Investment property

Note 2.1 – Financial instruments

1.4.2 Impairment Losses on Financial Accommodation

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

1.4.3 Provision for liabilities and contingencies

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

2. MATERIAL ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

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

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

Notes to the Financial Statements

2.1 Financial assets and financial liabilities

2.1.1 Non-derivative financial assets

2.1.1.a Initial recognition of financial assets

Date of recognition

The LOLC AI-Falaah initially recognises receivables on the date that they are originated. All other financial assets are recognised 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 instruments, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Financial Reporting Standard – SLFRS 09 on ‘Financial Instruments’.

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

2.2.1.b Classification of financial assets

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

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

2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

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

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

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

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

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

“Profit” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of

time and for other basic lending risks and costs, as well as profit margin.

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

Amortised cost

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

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

- Cash and cash equivalents

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

- Ijarah receivables

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

- Murabaha, Musawamah, Wakalah Finance and Diminishing Musharakah receivables

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

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

- **Financial guarantees**

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

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

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

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

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

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

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

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

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

Amortised cost- Financial Accommodations and Receivables

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

Financial accommodations and receivables comprise cash and cash equivalents, deposits with banks and other financial institutions, Ijarah receivables, Murabaha, Musawamah, Wakalah Finance and Diminishing Musharakah receivables and other receivables.

- **Cash and cash equivalents**

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

- **Ijarah receivables**

The LOLC Finance PLC's LOLC AI-Falaah buys and leases out equipment required by

its clients for a fee [rental]. The duration of the lease and value of the rental is agreed in advance. Ownership of the asset will remain with the Company till the end of the lease period. Rent receivables on Ijarah advances reflected in the statement of financial position are the total rent receivables after eliminating unearned income and deducting pre-paid rentals, rental collections and provision for impairment losses.

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

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

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

2.1.2 Non-derivative financial liabilities Classification and Subsequent Measurement of Financial Liabilities

The LOLC AI-Falaah initially recognises 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 recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

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

Profit Payable to the Mudharabah Investors

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

Notes to the Financial Statements

Profit Payable to the Wakalah Investors

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

2.1.3 Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

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

Financial liabilities

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

2.1.4 Offsetting of financial instruments

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

2.1.5 Amortised cost measurement

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

2.1.6 Fair value measurement

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

Determination of fair value

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

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

2.1.7 Impairment

Overview of the expected credit loss (ECL) principles

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

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

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

Stage 3: If a financial asset is credit impaired, it is moved to Stage 3 and the Company recognises an allowance for

LTECL, with probability of default at 100%. So it is defined as credit impaired and default.

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

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available. Based on that, management has decided that an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due and loss to take place after 90 days in accordance with the rebuttable presumption in SLFRS 9.

Individually Significant Impairment Assessment and Financial Accommodations which are Not Impaired Individually

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

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

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- Existing or forecast adverse changes

in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its obligation

- An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis

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

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

Calculation of ECL

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

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

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

- Probability of Default (PD): PD is an estimate of the likelihood of default over a given time horizon. A default

may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

- Exposure at Default (EAD): EAD is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principal and income, whether scheduled by contract or otherwise and expected draw downs on committed facilities.
- Loss Given Default (LGD): LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

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

Forward Looking Information

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

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

Accordingly, under the collective assessment, customers operating in risk elevated industries including Tourism, Transportation and Construction were assessed for Lifetime ECL. Exposures outstanding from the borrowers operating in these industries have been classified

as Stage 2 unless such exposures are individually significant and have specifically been identified as Stage 1 reflecting forward looking view of the economy in relation to the business.

2.1.8 Write-off policy

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

The Company holds collateral against financial accommodations and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when an accommodation is individually assessed as impaired.

2.2 Employee benefits

2.2.1 Short-term employee benefits

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

2.2.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which

Notes to the Financial Statements

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

2.3 Provisions

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

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

2.4 Events occurring after the reporting date

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

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

2.5 Benevolent Loan (Qurd Hassan)

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

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

SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF INCOME AND EXPENSES

2.6 Revenue Recognition

2.6.1 Murabaha/Musawamah/ Wakalah Finance Income

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

2.6.2 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.

2.6.3 Diminishing Musharakah Income

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

2.6.4 Fees and other income

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

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

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

2.6.5 Dividends

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

2.7 Expenditure Recognition

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

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

2.7.1 Value Added Tax (VAT) on financial services

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

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

2.8 Income Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

2.8.1 Current tax expense

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

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.9 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].

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

2.10 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

Cash and cash equivalents include cash in hand and balance with banks. They are brought to account at the face value or the gross value where appropriate

	2024 Rs.	2023 Rs.
Cash & bank balances	1,404,357,334	5,547,597,315
	1,404,357,334	5,547,597,315

4 FINANCING AND RECEIVABLES FROM CUSTOMERS

Recognition

Financing and receivables to customers are measured initially at fair value plus transaction costs.

Measurement

After initial recognition accommodation and receivables from customers are subsequently measured at amortised cost using the Effective Profit Rate less loss, allowance based on expected credit losses. Amortised cost is calculated by taking into account any fee and cost that are integral parts of Effective Profit Rate. The amortisation is included in advance income in the Statement of Profit or Loss.

4.1 MURABAHA / MUSAWAMAH / WAKALAH FINANCE

	2024 Rs.	2023 Rs.
Instalment receivable	1,782,486,914	2,052,023,411
Unearned income	[277,847,130]	[745,062,083]
Provision for impairment	[6,075,544]	[5,583,361]
	1,498,564,240	1,301,377,967

4.2 DIMINISHING MUSHARAKAH RECEIVABLES

	2024 Rs.	2023 Rs.
Instalment receivable	20,933,886,041	17,046,298,575
Provision for impairment	[127,370,355]	[110,453,326]
	20,806,515,686	16,935,845,248

4.3 IJARAH RENT RECEIVABLES

	2024 Rs.	2023 Rs.
Rent receivables	7,264,411,686	6,405,106,282
Unearned income	[1,881,067,241]	[1,920,591,189]
Provision for impairment	[118,575,793]	[156,277,448]
	5,264,768,652	4,328,237,645

4.4 WADI'AH GOLD STORAGE FACILITY

	2024 Rs.	2023 Rs.
Gross amount outstanding	1,539,755,773	675,137,666
Provision for impairment	[3,718,344]	[3,693,743]
	1,536,037,429	671,443,923

5 OTHER RECEIVABLES

	2024 Rs.	2023 Rs.
Staff car advances	167,222,190	112,093,387
Insurance premium receivable	31,605,074	[271,419,796]
WHT receivable	12,111,549	4,060,442
Current account balance due from conventional unit	216,455,474	-
Others	[15,240,193]	560,618,972
	412,154,093	405,353,006

6 TRADING ASSETS - FAIR VALUE THROUGH PROFIT OR LOSS

Recognition

Financial assets measured at FVTPL are measured initially at fair value and transaction costs that are directly attributable to its acquisition or issue is charged to profit or loss.

Measurement

Financial assets measured at FVTPL are subsequently recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in profit or loss. Income are recorded in "Other income" net gains/(losses) from trading recorded in the income statement.

	2024 Rs.	2023 Rs.
Original Cost	1,653,174	1,653,174
Carrying amount as at 1st April	16,407,646	19,080,384
Adjustment for change in fair value - recognised in profits	583,309	[2,672,738]
Disposal during the period	-	-
Total investments held for trading	16,990,955	16,407,646

7 INVESTMENT PROPERTIES

Basis of Recognition

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.

Initial and Subsequent Measurement

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

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

Notes to the Financial Statements

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 recognised professional qualifications and recent experience in the location and category of property being valued, values the company's investment property portfolio annually.

	2024 Rs.	2023 Rs.
Balance as at 1st April	143,000,000	122,800,000
Additions to Investment Properties from foreclosure of contracts	-	-
Change in fair value	7,000,000	20,200,000
Disposal during the year	-	-
Balance as at 31 March	150,000,000	143,000,000

Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio as of December 2023 ranges from Rs.70,000 to Rs.28,000,000 in the Colombo area and Rs.13,259 to Rs.12,500,000 outside the Colombo area. As of March 2023 at ranges from Rs.62,500 to Rs.28,000,000 in the Colombo area and Rs.43,750 to Rs.14,000,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: - Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for year used.	The estimated fair value would increase (decrease) if: - Depreciation rate was lesser / (higher) - Square feet value was higher / (lesser)

8 DEPOSITS FROM CUSTOMERS

Accounting Policy

These include savings deposits and term deposits. Customer deposits are initially recognised at fair value net of transaction cost. Subsequent to initial recognition deposits are measured at their amortised cost using the Effective Profit Rate method. Profit paid/payable on these deposits is recognised in the Statement of Profit or Loss.

	2024 Rs.	2023 Rs.
Customer deposits	22,323,372,036	22,308,316,693
	22,323,372,036	22,308,316,693

8.1 ANALYSIS OF CUSTOMER DEPOSITS BASED ON NATURE

	2024 Rs.	2023 Rs.
Mudharabah investments	5,160,821,419	1,925,345,613
Wakalah investments	15,513,352,007	19,254,908,733
Mudharabah savings	1,649,198,610	1,128,062,348
Total deposits	22,323,372,036	22,308,316,693
PROFIT PAYABLE		
Profit payable on Mudharabah investments	76,671,251	43,238,516
Profit payable on Wakalah investments	582,567,246	728,939,411
	659,238,498	772,177,927
Deposit liability recognised in statement of financial position	22,982,610,534	23,080,494,620

9 ACCRUALS AND OTHER PAYABLES

	2024 Rs.	2023 Rs.
Trade Payable	395,755,068	131,177,887
Refunds payable	514,259,661	643,311,372
Insurance payable	79,779,087	29,206,066
Al-Falaah charity fund	23,246,964	18,686,014
Other miscellaneous creditors	237,954,974	975,946,516
Other payables	332,838,364	259,287,530
Current account balance due to conventional unit	-	534,859,896
	1,583,834,120	2,592,475,281

10 REVENUE

	Note	2024 Rs.	2023 Rs.
Direct Income	10.1	6,399,946,213	4,634,502,047
Other Operating Income	10.2	206,369,668	243,515,924
		6,606,315,881	4,878,017,971

10.1 DIRECT INCOME

	2024 Rs.	2023 Rs.
Income from Ijarah receivables	1,537,910,397	1,171,313,338
Income from Diminishing Musharakah receivables	4,015,049,774	2,882,208,174
Income from Murabaha/Musawamah/Wakalah Finance	651,408,473	485,075,740
Income from Wadi'ah Gold Storage Facility	195,577,569	95,904,795
	6,399,946,213	4,634,502,047

Notes to the Financial Statements

10.2 OTHER OPERATING INCOME

	2024 Rs.	2023 Rs.
Profit on terminations	95,245,551	65,388,680
Income from Mudarabah deposits	111,124,116	178,127,244
	206,369,668	243,515,924

11 NON DISTRIBUTABLE OTHER INCOME/[EXPENSES]

	2024 Rs.	2023 Rs.
Arrangement & Documentation Fee	82,837,327	37,146,627
Collection admin fee	262,228,840	163,751,940
Franchise Fee	106,686,384	57,331,931
Sundry income	28,160,485	53,609,473
Takaful commission	-	1,630,083
	479,913,037	313,470,054

12 PERSONNEL EXPENSES

	2024 Rs.	2023 Rs.
Salaries & other benefits	551,373,105	542,290,133
	551,373,105	542,290,133

13 INCOME TAX EXPENSE

	2024 Rs.	2023 Rs.
Income tax expense reported in statement of profit or loss	-	-
	-	-

14 INCOME TAX PAYABLE

	2024 Rs.	2023 Rs.
Current tax payable		
Tax payable at the beginning of the year	317,599,624	321,257,538
Adjustment to the Opening balance	-	(3,657,913)
Tax payable	317,599,624	317,599,624

15 EVENTS AFTER THE REPORTING DATE

Reference to the announcements made on 31st March 24 and 28th Mar 24, upon receiving the relevant approvals from the securities and exchange commission of sri lanka on proposed voluntary offer made by existing major shareholders of Expo Lanka Holding PLC. Accordingly, Board of Directors has considered in favour of intended voluntary offers at a proposed value for shares of RS 185 per share [Measuring fair value in Note 6]

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to, or disclosure in the financial statements other than those disclosed above.

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LOLC Al-Falaah, Alternate Financial Services Unit

Al-Falaah Corporate Office, C/O: LOLC Finance PLC. No: 481, T. B. Jayah Mawatha (Darley Road), Colombo 10, Sri Lanka.
Telephone: Hotline: +94 11 571 5555, Fax: +94 11 2 662 877, E-mail : al-falaah@lolcfinance.com
Website: www.lolcfinance.com