

ANNUAL REVIEW 2024/25



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Our Business at a Glance

LOLC AL-FALAAH RECORDED RESILIENT AND SUSTAINABLE GROWTH IN 2025, SUPPORTED BY STRONGER FINANCIAL PERFORMANCE, DISCIPLINED PORTFOLIO EXPANSION AND IMPROVED PROFITABILITY. THE YEAR SAW CONTINUED PROGRESS IN DIGITALISATION, ENHANCED CUSTOMER CONVENIENCE AND DEEPER FINANCIAL INCLUSION THROUGH SHARI'AH-COMPLIANT SOLUTIONS. UNDERPINNED BY ROBUST GOVERNANCE, A COMMITTED SCHOLAR SUPERVISORY BOARD AND AN EXPERIENCED LEADERSHIP TEAM, AL-FALAAH FURTHER STRENGTHENED STAKEHOLDER CONFIDENCE WHILE CONTRIBUTING MEANINGFULLY TO THE ADVANCEMENT OF SRI LANKA'S ISLAMIC FINANCE ECOSYSTEM.

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.

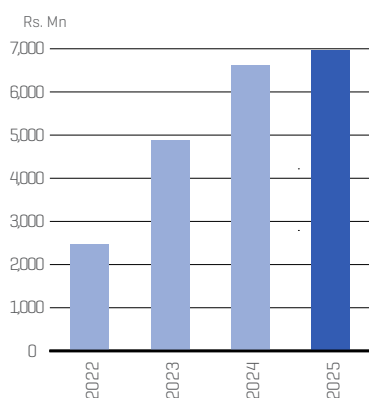
Guided by our values, we aspire to:

- 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.

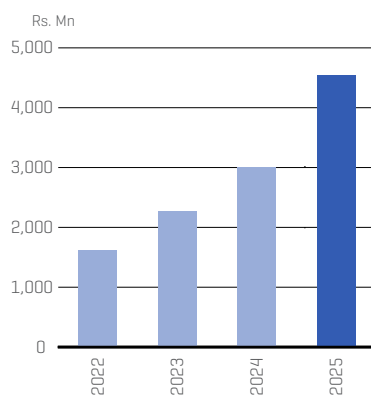
Financial Highlights

Year Ended 31 March	2025 Mn	2024 Mn
Revenue	6,954	6,606
Gross Profit	4,539	2,996
Profit Before Tax	2,371	1,302
Retained Earning	9,106	6,709
Total Assets	39,498	31,593
Loans and Advances Portfolio	38,190	29,362
Non - Performing Loans	1,485	2,251
Total Liabilities	30,393	24,884
Deposit Base	23,772	22,983
Profit Paid to Depositors	2,234	3,498

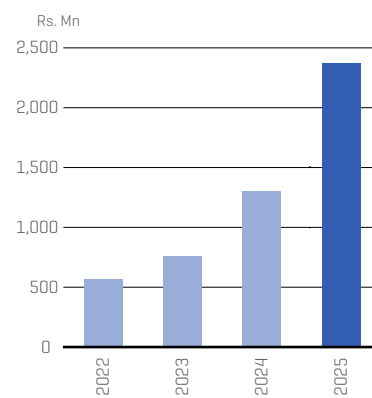
Revenue



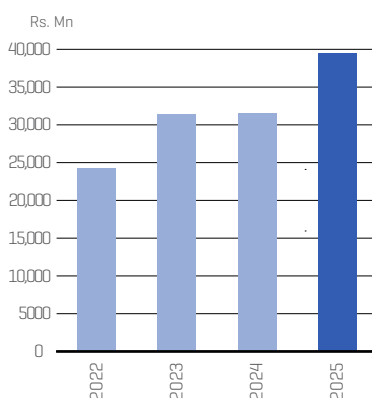
Gross Profit



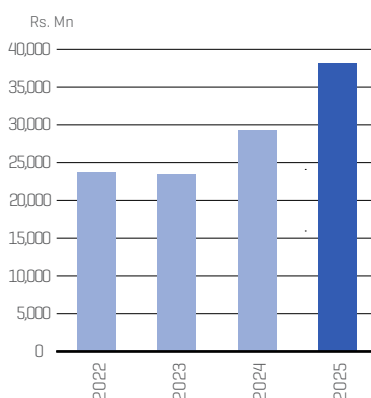
PBT



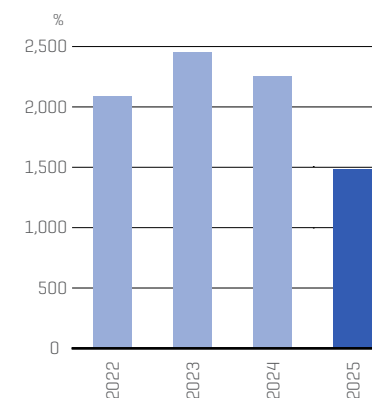
Total Assets



Loans & Advances

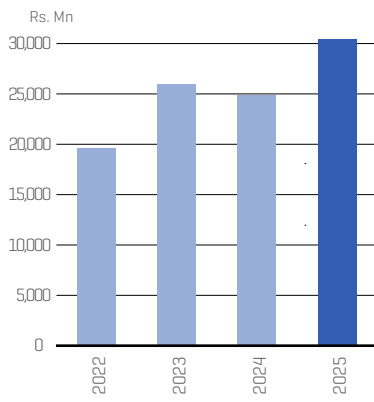


NPL Ratio

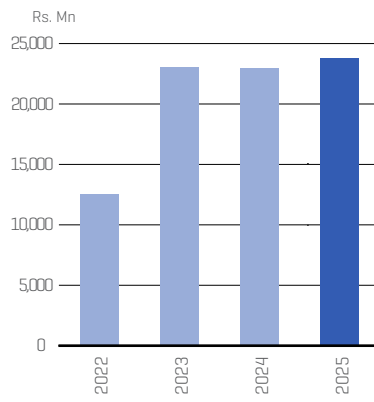


Financial Highlights

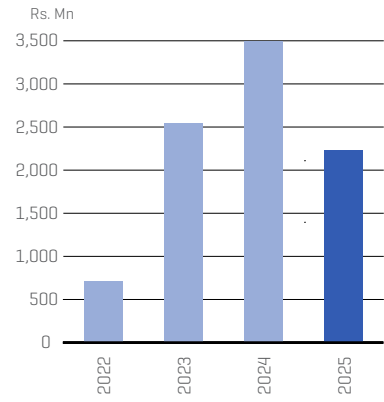
Total Liabilities



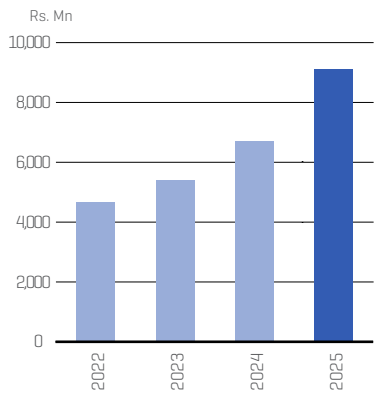
Total Deposits



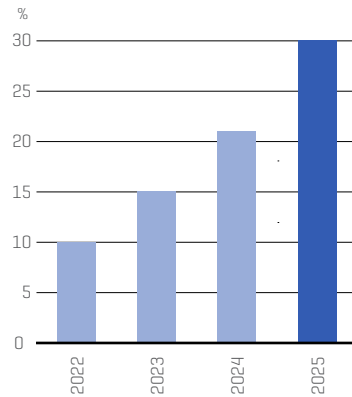
Profit Paid to Depositors



Retained Earnings



ROE



Milestones & Achievements

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) 2025 Islamic Finance News Global Poll Awards



LOLC AI-Falaah was awarded IFFSA Islamic Finance NBFi of the Decade Award 2024/25-Winner Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded SLIBFI Islamic Finance Entity of the year 2024/25-Gold Sri Lanka Islamic Banking & Finance Industry



LOLC AI-Falaah was awarded SLIBFI Islamic Finance NBFi of the year 2024/25- Gold Sri Lanka Islamic Banking & Finance Industry



LOLC AI-Falaah was awarded SLIBFI Islamic Finance Window/unit of the year 2024/25-Gold Sri Lanka Islamic Banking & Finance Industry



LOLC AI-Falaah was awarded SLIBFI Social Upliftment Award 2024/25-Gold Sri Lanka Islamic Banking & Finance Industry



LOLC AI-Falaah was awarded SLIBFI Best Fintech offering of the year 2024/25-Gold Sri Lanka Islamic Banking & Finance Industry



LOLC AI-Falaah was awarded IFFSA Islamic Finance NBFi of the year 2024/25-Gold Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded IFFSA Islamic Finance Entity of the year 2024/25-Silver Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded IFFSA Islamic Finance Window/unit of the year 2024/25-Silver Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded IFFSA Islamic Finance Product the year 2024/25-Silver Islamic Finance Forum of South Asia

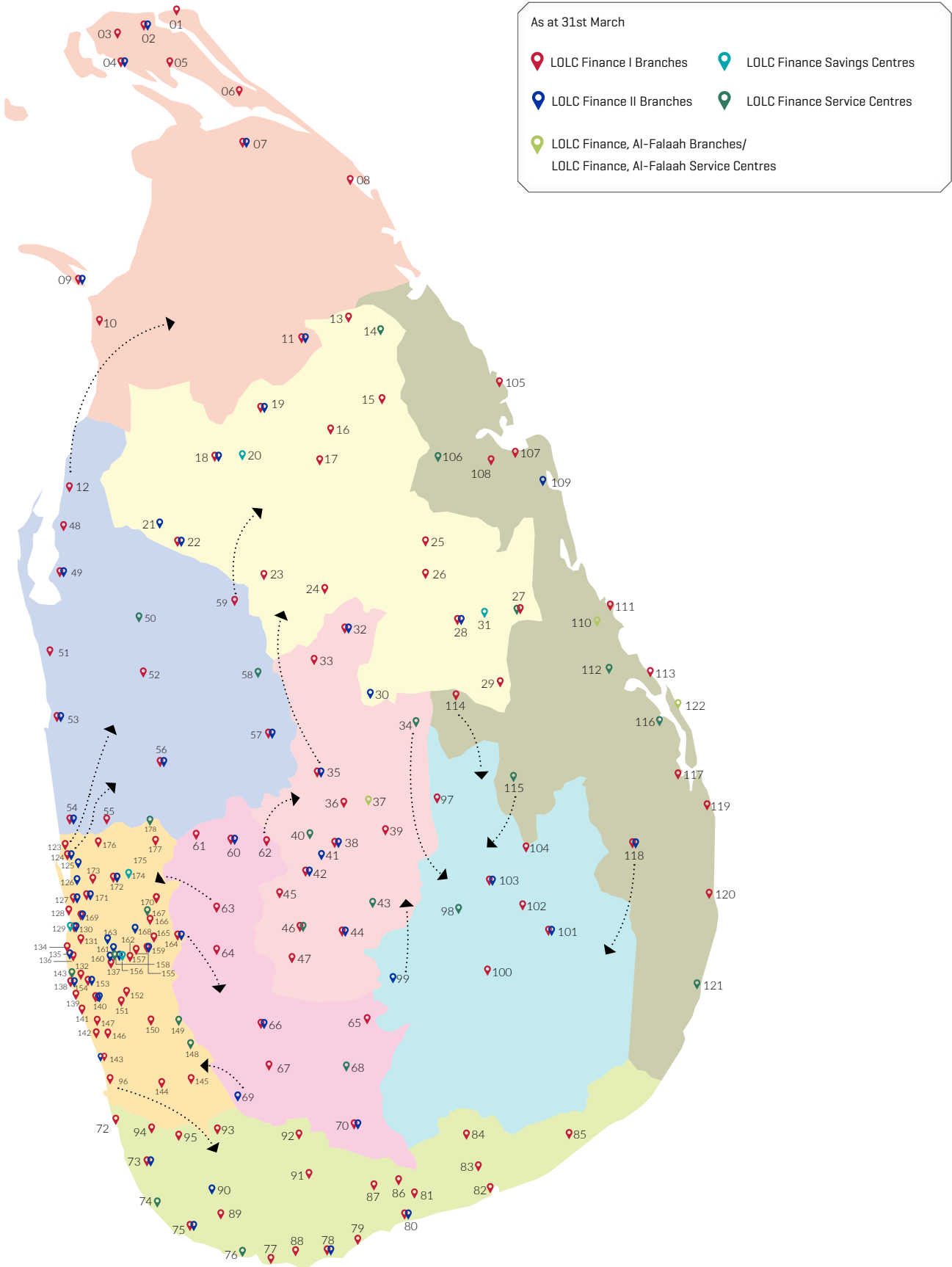


LOLC AI-Falaah was awarded IFFSA Social Upliftment Award 2024/25-Silver Islamic Finance Forum of South Asia



LOLC AI-Falaah was awarded IFFSA Islamic Finance Window/unit of the year 2024/25-Silver Islamic Finance Forum of South Asia

Our Locations



Northern Province		
Nelliady	01	📍
Chunnakam	02	📍📍
Chankanai	03	📍
Jaffna	04	📍📍
Chavakachcheri	05	📍
Pallai	06	📍
Kilinochchi	07	📍📍
Mullaitivu	08	📍
Mannar	09	📍
Nanattan	10	📍
Vavuniya	11	📍📍

North-Central Province		
Pudukudyiruppu	12	📍
Parakramapura	13	📍
Padaviya	14	📍
Horowpathana	15	📍
Kahatagasdigiliya	16	📍
Galenbindunuwewa	17	📍
Anuradhapura	18	📍📍
Medawachchiya	19	📍📍
D.S Senanayakae Model Primary School - Anuradhapura	20	📍
Nochchiyagama	21	📍
Tambuttegama	22	📍📍
Galnewa	23	📍
Kekirawa	24	📍
Madirigiriya	25	📍
Hingurakgoda	26	📍
Welikanda	27	📍📍
Polonnaruwa	28	📍📍
Aralaganwila	29	📍
Bakamuna	30	📍
Polonnaruwa Royal	31	📍

Central Province		
Dambulla	32	📍📍
Galewela	33	📍
Wilgamuwa	34	📍
Matale	35	📍📍
Katugastota	36	📍
Akurana	37	📍
Kandy	38	📍📍
Digana	39	📍
Pilimathalawa	40	📍
Kandy Metro	41	📍
Rikillagaskada	43	📍

Nuwara Eliya	44	📍📍
Nawalapitiya	45	📍
Talawakelle	46	📍📍
Hatton	47	📍

North-Western Province		
Puttalam	48	📍
Palaviya	49	📍📍
Anamaduwa	50	📍
Udappuwa	51	📍
Nikaweratiya	52	📍
Chilaw	53	📍📍
Wennappuwa	54	📍📍
Dankotuwa	55	📍
Kuliyapitiya	56	📍📍
Kurunegala	57	📍📍
Melsiripura	58	📍
Galgamuwa	59	📍

Sabaragamuwa Province		
Kegalle	60	📍📍
Warakapola	61	📍
Mawanella	62	📍
Ruwanwella	63	📍
Eheliyagoda	64	📍
Balangoda	65	📍
Ratnapura	66	📍📍
Pelmadulla	67	📍
Godakawela	68	📍
Kalawana	69	📍
Embilipitiya	70	📍📍

Southern Province		
Hikkaduwa	72	📍
Ambalangoda	73	📍📍
Baddegama	74	📍
Galle	75	📍
Weligama	76	📍
Habaraduwa	77	📍
Matara	78	📍📍
Dickwella	79	📍
Tangalle	80	📍📍
Beliatta	81	📍
Ambalantota	82	📍
Angunukolapelassa	83	📍
Sooriyawewa	84	📍
Tissamaharama	85	📍
Walasmulla	86	📍

Our Locations

Hakmana	87	📍
Akuressa	88	📍
Karapitiya	89	📍
Udugama	90	📍
Kamburupitiya	91	📍
Morawaka	92	📍
Neluwa	93	📍
Elpitiya	94	📍
Pitigala	95	📍
Aluthgama	96	📍

Uva Province

Mahiyanganaya	97	📍
Bandarawela	98	📍
Welimada	99	📍
Wellawaya	100	📍
Monaragala	101	📍
Badalkumbura	102	📍
Badulla	103	📍
Bibile	104	📍

Eastern Province

Trincomalee	105	📍
Kantale	106	📍
Muttur	107	📍
Kinniya	108	📍
Serunuwara	109	📍
Oddamavadi	110	📍
Valachchenai	111	📍
Chenkaladi	112	📍
Batticaloa	113	📍
Dehiattakandiya	114	📍
Padiyathalawa	115	📍
Kalawanchikudi	116	📍
Kokkadicholai	117	📍
Ampara	118	📍
Kalmunai	119	📍
Akkaraipattu	120	📍
Pottuvil	121	📍
Kattankudy	122	📍

Western Province

Kochchikade	123	📍
Negombo	124	📍
Minuwangoda	125	📍
Ja-Ela	126	📍
Wattala	127	📍

Kotahena	128	📍
Fathima Muslim Ladies College	129	📍
Pettah	130	📍
Maradana	131	📍
Wellawatte	132	📍
Kollupitiya	133	📍
Bambalapitiya	134	📍
City Office (LOFC Branch)	135	📍
Al-Falaah Corporate Branch Darley Road	136	📍
Rajagiriya-Cotta Road	137	📍
Dehiwala	137	📍
Mt. Lavinia	138	📍
Maharagama	139	📍
Moratuwa	140	📍
Panadura	141	📍
Colombo 06	142	📍
Kalutara	143	📍
Mathugama	144	📍
Baduraliya	145	📍
Bandaragama	146	📍
Keselwatta	147	📍
Bulathsinhala	148	📍
Ingiriya	149	📍
Horana	150	📍
Piliyandala	151	📍
Homagama	152	📍
Kohuwala	153	📍
Nugegoda	154	📍
Malabe	155	📍
LOFAC	156	📍
Battaramulla	157	📍
Borella Shady Grove Ave	158	📍
Kaduwela	159	📍
Nawala	160	📍
Rajagiriya	161	📍
Head Office	162	📍
Borella	163	📍
Avissawella	164	📍
Hanwella	165	📍
Delgoda	166	📍
Weliweriya	167	📍
Kelaniya	168	📍
Grandpass	169	📍
Kirindiwela	170	📍
Kiribathgoda	171	📍
Gampaha	172	📍
Ganemulla	173	📍
Pitiyagedara Primary School - Bemulla	174	📍
Nittambuwa	175	📍
Divulapitiya	176	📍
Mirigama	177	📍
Giriulla	178	📍

Strategic Insights from our Leadership

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FORTIFIED WITH
A STRONG BRAND
PRESENCE AND
POSITIONED AT THE
FOREFRONT OF THE
ALTERNATE FINANCE
SECTOR, OUR LEADERS
ENVISION OUR FUTURE
WITH CLARITY AND
CONFIDENCE, AND
MOVE WITH STRATEGIC
ACUMEN TO PROMOTE
INCLUSIVE FINANCE
ACROSS THE ISLAND.

Message from Head of Alternate Financial Services - LOLC

AS AN ALTERNATE FINANCIAL SERVICES OPERATOR, AL-FALAAH'S PROFIT-SHARING AND ASSETBACKED FINANCING MODELS ENABLED IT TO REMAIN ACTIVE THROUGHOUT ECONOMIC CYCLES, PROVIDING REASSURANCE AND CONTINUITY TO CUSTOMERS AT A TIME WHEN ACCESS TO FINANCE WAS CONSTRAINED ELSEWHERE. AS A RESULT, THE CUSTOMER BASE EXPANDED BY 20% DURING THE PERIOD UNDER REVIEW.

I am pleased to welcome our stakeholders to the Annual Report of LOLC Al-Falaah, the Alternate Financial Services Unit of LOLC Finance [LOLC Al-Falaah]; for the financial year ended 31st March 2025. The year under review represents a landmark period for LOLC Al-Falaah, recording the strongest performance in its 19-year history. Operating within a gradually stabilising macroeconomic environment, LOLC Al-Falaah delivered robust growth across its asset base, profitability and asset quality, while continuing to serve customers through a full economic cycle without curtailing lending. This performance reflects the resilience of our Alternate Financial Services business model, disciplined execution and an unwavering commitment to responsible, inclusive finance.

MACROECONOMIC BACKDROP

The financial year ended 31 March 2025 unfolded against a markedly improved macroeconomic backdrop in Sri Lanka. Following several years of contraction, uncertainty and subdued economic activity, the gradual stabilisation of the economy, easing inflationary pressures and a declining interest rate environment in the banking & financial services sector contributed to a return of confidence across key sectors. As a result, business activity gained momentum, tourism arrivals strengthened and early signs of recovery were evident in consumption and investment decisions. While challenges persisted, the overall operating environment during the year was notably more conducive than in the immediate post-crisis period, creating space for enterprises and households to re-engage in productive economic activity.

COMPANY PERFORMANCE

The year under review marked a defining phase for the Alternate Financial Services Unit (AFSU), underpinned by favourable macroeconomic conditions, disciplined execution and the sustained relevance of Alternate Financial Services in a transitioning economy. The exceptional performance was driven not merely by external tailwinds, but by the consistency of our market presence during periods when much of the financial sector curtailed lending due to liquidity constraints, elevated interest rates and heightened credit risk.

As an Alternate Financial Services operator, Al-Falaah's profit-sharing and asset-backed financing models enabled it to remain active throughout economic cycles, providing reassurance and continuity to customers at a time when access to finance was constrained elsewhere. As a result, the customer base expanded by 20% during the period under review.

This unwavering market engagement allowed the business to grow its asset base by over 30% year-on-year, outperforming the broader industry growth range of 20-25%. Customer confidence in our approach, coupled with the revival of business activity supported by government-led restructuring initiatives, enabled LOLC Al-Falaah to play a pivotal role in bridging financing gaps and supporting the recovery of Small and Medium-sized Enterprises (SMEs), entrepreneurs and households.

FINANCIAL PERFORMANCE

Profitability during the year reached unprecedented levels. Notably, Profit from Operations recorded growth of over 84%,

with Profit before Tax and Profit after Tax also expanding by more than 82% year-on-year. Importantly, this performance was not driven by aggressive pricing or elevated margins. Total revenue increased modestly, from Rs. 6.6 billion to Rs. 6.9 billion, reflecting growth of approximately 5.27%.

The significant uplift in profitability was instead driven by sustained improvements in collections, effective overhead management and the disciplined use of resources. This is further evidenced by the sharp improvement in asset quality. Gross non-performing financing (90-day basis) declined from 7.7% in 2023/24 to 3.9% in 2024/25, with the value of non-performing facilities reducing by nearly 50% to approximately Rs. 1.4 billion. This represents one of the strongest asset quality outcomes recorded within the non-bank financial sector, reinforcing the strength of our credit discipline and customer-centric financing philosophy.

Retained Earnings increased by over 36%, rising from Rs. 6.7 billion to Rs. 9.1 billion, while Return on Equity stood at a robust 30%. These outcomes reflect the sustainability of the business model and the effectiveness of management actions undertaken over recent years.

Deposit growth remained relatively flat at approximately 3%, largely attributable to customers utilising savings and fixed deposits to reinvest in business expansion, asset acquisition and vehicle purchases during a period of heightened economic activity. Despite this dynamic, all withdrawals were honoured without delay and liquidity was managed prudently while maintaining lending momentum.

Profits Distributed to Depositors amounted to approximately Rs. 2.2 billion during the year, compared to over Rs. 3.5 billion in the previous period. This decline reflects the broader reduction in market interest rates rather than any contraction in profitability, as both lending and deposit rates moderated during the latter part of the financial year.

PRODUCT PERFORMANCE

Al-Falaah's diversified portfolio of Islamic financial solutions continued to gain traction across customer segments. Ijarah, the leasing-alternate products recorded growth of 26%, while loan-alternate trading products Murabaha and Wakalah Finance expanded by an exceptional 129%. This was largely driven by the continued success of Wakalah Finance, including the Wakalah Speed Draft facility, an industry-first product offering flexible drawdown and repayment options aligned to customer cash flows.

The Diminishing Musharakah product, a reducing-balance financing solution for working capital and asset acquisition, remained the cornerstone of the portfolio, delivering a solid 20% growth on a large base.

Wadi'ah-based gold-backed financial advances, introduced to support micro-enterprises and personal funding needs, recorded growth of 85%, closing the year with a portfolio of Rs. 2.8 billion and surpassing Rs. 3 billion shortly thereafter. This product has emerged as a critical solution in a segment traditionally underserved by Islamic finance.

Wakalah Factoring-alternative, another industry-first Islamic solution, was re-introduced during the latter part of the year. While initial volumes were modest, market acceptance improved steadily, supported by targeted awareness initiatives and ongoing product refinement. Several more products are in the pipeline and would be launched during the upcoming financial year which will fill a void in the market for those seeking personal loans and for stock market investments.

CAPABILITY BUILDING AND DIGITAL ENABLEMENT

As at year-end, Al-Falaah operated through a network of over 203 locations island-wide. Rather than expanding physical branches, the focus was on strengthening internal capability through extensive training and backward integration. All frontline and support staff are now equipped to offer Alternate Financial Services solutions, ensuring accurate product matching and responsible financing.

Revenue



Investments in training, process re-engineering and technology significantly reduced turnaround times and improved customer convenience. Automation of documentation and agreements, alongside digital enhancements, streamlined end-to-end processes.

Deposit products were fully integrated into i-Pay, LOLC Finance' super-app, enabling customers to open and renew accounts, manage funds and transact digitally. Enhancements to the debit-card offering, including the introduction of a chip-and-PIN, NFC and Visa-enabled international card, further strengthened the value proposition offered to our valued savings customer base.

COMMUNITY ENGAGEMENT

Social responsibility remains integral to Al-Falaah's operating philosophy. During the year, approximately Rs. 39 million was disbursed through the Charity Fund, with education continuing as the primary focus area.

Medical assistance assumed greater prominence during the year due to rising healthcare costs, while over 2,000 beneficiaries received Ramadan packs island-wide.

In addition, the unit continued its long-standing commitment to scholarship seminars conducted across 12 schools based in Central and Western regions, customer awareness programmes held monthly covering across Metro, Western, Central and North Central regions, and voluntary educational support for madrassas and Maulavi training institutions. Furthermore, 12 large scale regional customer empowerment and awareness programmes were conducted by the SSB during the year. These initiatives reflect a deeper commitment to knowledge-sharing, financial literacy and inclusive development.

FUTURE OUTLOOK

Looking ahead, the medium-term outlook remains cautiously optimistic. Declining interest rates, improved tourism activity, anticipated vehicle imports and growing demand across the leasing, trading and microfinance segments are expected to support continued growth. While external risks remain, the foundations laid over recent years position LOLC Al-Falaah to navigate uncertainty with resilience.

ACKNOWLEDGEMENTS

In closing, I extend my sincere appreciation to the Board of Directors, Senior Management, the Scholar Supervisory Board and our dedicated teams across the island for their unwavering commitment. Their collective efforts have enabled LOLC Al-Falaah to deliver record performance while remaining true to the principles of ethical, inclusive and responsible finance.

Shiraz Refai
Head of Alternate Finance Services

Scholar Supervisory Board (SSB) Chairman's Review

LOLC AL-FALAAH MAINTAINS A ROBUST AND COMPREHENSIVE PORTFOLIO OF ALTERNATE FINANCIAL SOLUTIONS DEVELOPED THROUGH RIGOROUS CONSULTATION AND CAREFUL DELIBERATION TO ENSURE FULL COMPLIANCE WITH ISLAMIC ECONOMIC PRINCIPALS.

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

Dear Stakeholders,

I extend my warmest greetings as I present my review as Chairman of the Scholar Supervisory Board of LOLC Al-Falaah for the financial year ended 31st March 2025. The year under review marks the 19th year of operations of the Al-Falaah Business Unit and represents a period characterised by resilience, consolidation and meaningful progress.

The Company's financial performance during the year reflected strong momentum underpinned by disciplined execution. The financing portfolio expanded steadily, supported by increased adoption of Alternate Financial structures, while total assets recorded healthy growth, underscoring balance sheet strength and prudent capital management. Deposit mobilisation, comprising both fixed deposits and savings, also demonstrated resilience, signalling sustained confidence among depositors in the Al-Falaah value proposition.

Operational profitability improved markedly during the year, supported by enhanced portfolio performance, effective risk management and disciplined cost control. Profit Before Tax increased to approximately Rs 2.37 billion, compared to Rs. 1.3 billion in the previous financial year, while retained earnings strengthened further, reinforcing the institution's capital base and long-term sustainability. These outcomes, by the grace of the Almighty, are encouraging and provide a strong foundation for continued sustainable growth in the years ahead, in shā' Allāh.

I am pleased to affirm that LOLC Al-Falaah has consistently demonstrated a strong and unwavering commitment to complying with the guidelines and rulings issued by the Scholar Supervisory Board. A well-established and constructive working relationship continues to prevail between the SSB and the management team. During the year, several engagements were conducted, including formal meetings, structured staff training programmes and public awareness initiatives. Such engagements play a critical role in ensuring that operational practices remain fully aligned with Islamic principles while fostering responsible innovation.

Product and service offerings continued to evolve in response to the diverse financial needs of individuals, entrepreneurs and businesses. LOLC Al-Falaah maintains a robust and comprehensive portfolio of Alternate Financial solutions, developed through rigorous consultation and careful deliberation to ensure full compliance with Islamic Economic Principles. Further product enhancements and new offerings are currently under development and are expected to be introduced during the current financial year, subject to the requisite approvals.

Islamic economic governance in the Company was further strengthened through regular audits conducted during the year. Four formal Scholar Supervisory audits repetitive were undertaken, both directly by the Scholar Supervisory Board and through the in-house Scholar department. These audits serve to reinforce transparency, enhance governance standards and ensure continuous adherence to Islamic Economic principles across all areas of operation.

LOLC Al-Falaah has consistently demonstrated a strong and unwavering commitment to complying with the guidelines and rulings issued by the Scholar Supervisory Board.

The broader outlook for Islamic finance, both globally and in Sri Lanka, remains increasingly positive. As an integral component of the wider Islamic economic system, Islamic finance offers an ethical, participatory and interest-free alternative to conventional financial models. Growing global interest in this approach reflects its potential to address structural imbalances and recurring debt challenges, while promoting financial inclusion and equitable distribution in alignment with ESG and Sustainable Development Goals.

As the institution progresses into the new financial year, prayers are offered for peace, justice and prosperity for Sri Lanka and the global community. A steadfast commitment remains to guide LOLC Al-Falaah in a manner that upholds Islamic values, strengthens repetition the Islamic economic governance and contributes meaningfully to the advancement of an ethical and sustainable financial system.



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

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Regional Coordinators - Al-Falaah, Alternate Financial Services Unit of LOLC Finance | 28

WITH AN OPTIMISED TEAM OF SKILLED PROFESSIONALS DRIVING OUR OPERATION FORWARD, LOLC AL - FALAAH REMAINS ONE OF THE GREATS OF OUR INDUSTRY, WITH CURATED PRODUCTS AND SERVICES THAT TRULY EMBODY OUR MISSION TO IMPACT THE LIVES OF EVERY SRI LANKAN.

Product Review

THE YEAR UNDER REVIEW UNDERSCORES THE STRENGTH AND ADAPTABILITY OF LOLC AL-FALAAH'S DIVERSIFIED PRODUCT PORTFOLIO. DISCIPLINED GROWTH, TARGETED INNOVATION AND PRUDENT RISK MANAGEMENT ENABLED THE BUSINESS UNIT TO RESPOND EFFECTIVELY TO EVOLVING CUSTOMER REQUIREMENTS WHILE PRESERVING PORTFOLIO QUALITY AND BALANCE SHEET STABILITY.

In the financial year 2024/25, LOLC Al-Falaah further strengthened its position as a leading provider of Alternate Financial Services within Sri Lanka's Non-Bank Financial Institutions (NBFI) sector. Operating in a gradually stabilising yet still cautious economic environment, the Business Unit delivered a resilient performance, supported by disciplined balance sheet management, product innovation and sustained customer confidence. Armed with a well-established brand presence in the alternative finance market, LOLC Al-Falaah continued to extend its reach through an extensive branch network across the island, serving a steadily growing customer base. During the period under review, LOLC Al-Falaah maintained a prudent and well-balanced approach to asset and liability management, ensuring stability while selectively expanding its financing and investment portfolios.

FINANCIAL REVIEW

During the financial year ended 31st March 2025, LOLC Al-Falaah delivered a strong financial performance, underpinned by disciplined asset and liability management, sustained portfolio expansion and improved profitability. Revenue for the year increased to Rs. 6.9 billion, up from Rs. 6.6 billion in the previous year, reflecting steady growth across core financing and investment activities despite a still-evolving macroeconomic environment. Gross profit recorded a significant improvement, rising to Rs. 4.5 billion from Rs. 2.9 billion in 2023/24. This improvement was driven by enhanced portfolio yields, improved cost efficiencies and a more optimised funding mix.

Furthermore, Profit Before Tax increased markedly to Rs. 2.3 billion compared to Rs. 1.3 billion in the previous year,

underscoring the Business Unit's strengthened earnings capacity and operational resilience. Total assets expanded by 25% year-on-year to Rs. 39.49 billion up from Rs. 31.59 billion, reflecting broad-based growth across financing portfolios. In addition, Loans and loans and Advances increased to Rs. 38.19 billion compared to Rs. 29.36 billion in the prior year, driven primarily by higher utilisation of Diminishing Musharakah, Ijarah and trading-based financing products.

Asset quality too improved notably during the year, with Non-Performing Loans declining to Rs. 1.48 billion from Rs. 2.25 billion demonstrating the effectiveness of strengthened credit appraisal, monitoring and recovery mechanisms. Moreover, Total total Liabilities increased in line with balance sheet growth to Rs. 30.39 billion compared to Rs. 24.88 billion in 2023/24. The deposit base expanded to Rs. 23.77 billion, up from Rs. 22.98 billion supported by sustained customer confidence in Mudharabah and Wakalah-based investment products.

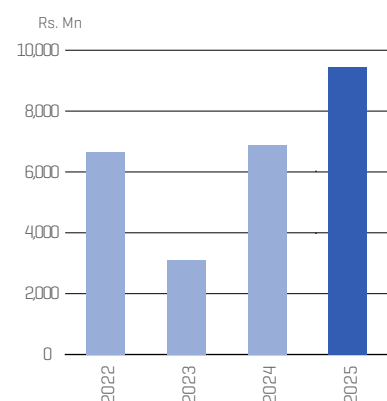
Profit paid to depositors amounted to Rs. 2.2 billion during the year, reflecting prudent profit distribution aligned with portfolio performance and prevailing market conditions.

Retained earnings strengthened significantly to Rs. 9.10 billion, up from Rs. 6.71 billion in the previous year, reinforcing the Business Unit's capital position and enhancing its capacity to support future growth while safeguarding stakeholder interests. Overall, the financial performance for 2024/25 reflects LOLC Al-Falaah's ability to deliver sustainable growth, strengthen profitability and improve asset quality, while remaining firmly aligned with Islamic economic principles and prudent risk management practices.

PRODUCT PERFORMANCE MUDHARABAH FIXED DEPOSITS & SAVINGS

Mudharabah-based Fixed Deposits and Savings continued to demonstrate strong momentum during the year under review, increasing by 37% to Rs. 9.44 billion, following rapid growth in the previous year. Customer preference for savings instruments aligned with Islamic economic principles remained high, driven by competitive profit distributions, transparent structures and confidence in the Business Unit's governance framework. The sustained growth in these portfolios reflects the continued shift toward ethical and participatory financial solutions, particularly among retail and SME segments.

Mudharabah



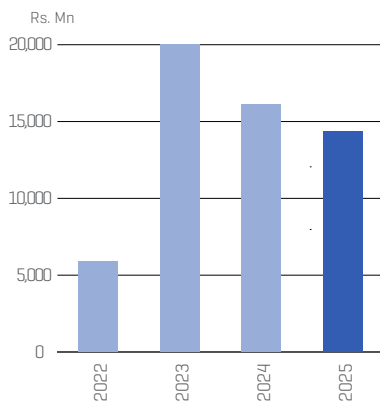
WAKALAH FOR INVESTMENT

Wakalah for Investment continued to serve as a preferred solution for corporate clients and fixed-term investors seeking predictable, risk-aligned returns. Wakalah Investments moderated to Rs. 14.32 billion, reflecting a deliberate and prudent approach to managing excess liquidity while maintaining balance sheet stability.

Even though demand reflected a more measured approach amid evolving liquidity conditions, the product remained an integral component of Al-Falaah's investment offering. The Business Unit maintained a disciplined stance in deposit acceptance, prioritising balance sheet optimisation and return sustainability over aggressive volume growth.

Importantly, Loan-alternate trading products expanded by an exceptional 27% with DM. This was largely driven by the continued success of Wakalah Finance, including the Wakalah Speed Draft facility, an industry-first product offering flexible drawdown and repayment options aligned to customer cash flows.

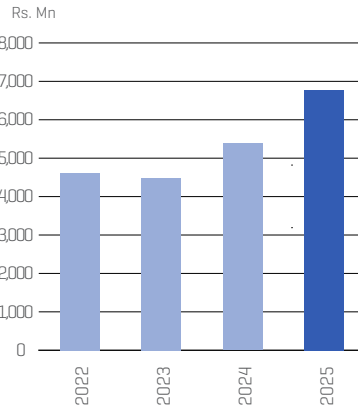
Wakalah Investments



IJARAH FOR LEASING

Ijarah financing recorded healthy expansion, growing by 26% to Rs. 6.78 billion, supported by steady demand for asset-backed leasing solutions. Despite ongoing challenges related to taxation, regulatory constraints and selective import activity, the Business Unit successfully preserved portfolio quality through timely settlements and prudent facility structuring. The steady performance of Ijarah underscores its relevance as a stable financing option within the alternate finance ecosystem.

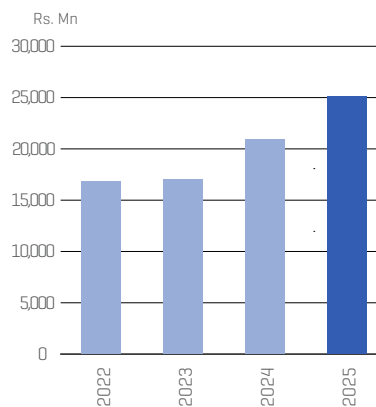
Ijarah



DIMINISHING MUSHARAKAH FOR PROPERTY & PROJECT FINANCE

Diminishing Musharakah continued to serve as the cornerstone of the Company's financing portfolio, expanding by 20% to Rs. 25.06 billion in 2024/25, following growth of 23% in the previous year. Demand for this reducing-balance structure remained strong, particularly for property and project-related financing, reflecting its suitability for long-term asset acquisition and working capital needs. The product's sustained performance highlights its alignment with customer requirements and its contribution to portfolio stability and scale.

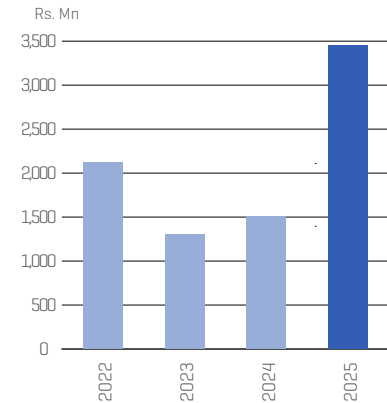
Diminishing Musharakah



MURABAHA / MUSAWAMAH / WAKALAH FINANCE

Trading-based financing products, including Murabaha, Musawamah and Wakalah Finance, recorded exceptional growth of 129%, with the portfolio increasing to Rs. 3.45 billion, reflecting renewed business confidence and strong uptake. Growth was driven by increased utilisation among SMEs and entrepreneurs seeking structured, short to medium-term financing aligned with cash flow cycles. The continued success of Wakalah Finance, including flexible facilities such as Wakalah Speed Draft, reinforced Al-Falaah's reputation for product innovation within the alternate finance space.

Murabaha / Musawamah / Wakalah Finance



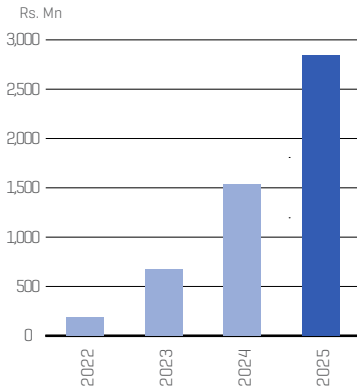
WADI'AH GOLD STORAGE

Wadi'ah-based gold-backed financial advances, introduced to support micro-enterprises and personal funding needs, recorded growth of 85%, closing the year with a portfolio of Rs. 2.8 billion and surpassing Rs. 3 billion shortly thereafter. This product has emerged as a critical solution in a segment traditionally underserved by Alternate Finance. Designed to support grassroots-level clients and micro-entrepreneurs, the product recorded exceptional growth during the year, reflecting rising demand for ethical, asset-backed alternatives to conventional pawning and gold-loan products.

Product Review

As one of the few Alternate Finance solutions catering to this segment, the facility remains central to Al-Falaah's social and economic empowerment mandate.

Wadi'ah Gold Storage Facility



WAKALAH FACTORING

During the latter part of the financial year, LOLC Al-Falaah introduced Wakalah Factoring alternative, an industry-first Islamic finance solution aimed at supporting trade finance and working capital management. Although the initial uptake was gradual, market acceptance improved steadily through targeted awareness initiatives, customer education and continuous product refinement.

OUTLOOK

The year under review underscores the strength and adaptability of LOLC Al-Falaah's diversified product portfolio. Disciplined growth, targeted innovation and prudent risk management enabled the Business Unit to respond effectively to evolving customer requirements while preserving portfolio quality and balance sheet stability. Consistent performance across core financing and investment products reinforces Al-Falaah's position as a trusted provider of Alternate Financial solutions and establishes a solid platform for sustainable growth in the years ahead.

ESG and Digitalisation

ESG

As the Alternate Financial Services Unit of LOLC Finance PLC, LOLC AI-Falaah continues to embed Environmental, Social and Governance (ESG) considerations into its operating philosophy, recognising resource efficiency as a critical enabler of sustainable and responsible growth. Guided by ethical principles that resonate strongly with Islamic finance values, the organisation adopts a holistic approach to managing its environmental footprint while creating long-term value for stakeholders.

Energy optimisation, responsible waste management, water conservation, greenhouse gas (GHG) reduction, biodiversity protection and environmental awareness form integral components of this framework, supported by strategic partnerships that amplify collective impact. Resource management is therefore not treated as a peripheral initiative but as a core element of business strategy, strengthening resilience and contributing meaningfully to the transition towards a low-carbon and inclusive economy.

A cornerstone initiative during the year was the implementation of LOLC Finance PLC's first comprehensive Carbon Footprint Management Strategy, covering the head office and over 203 branches, including window operations. GHG calculations for the 2024/25 financial year were conducted in accordance with ISO 14064:1 2018 standards, marking a foundational step in the organisation's journey towards net zero aspirations. Carbon reporting enabled the systematic measurement, assessment and management of emissions arising from operational activities, allowing informed decision-making and optimisation of branch-level efficiency. Direct emissions were generated from controllable sources such as on-site generators, refrigerant leakage, company-owned vehicles and employee transport, while indirect emissions were primarily driven by grid electricity consumption, alongside business travel, water usage and transmission losses.

Energy management initiatives were therefore prioritised, including awareness programmes across the branch network, the adoption of LED lighting solutions and the increased use of natural daylight to reduce electricity demand. Total electricity consumption for the year was monitored and reported at 5.68 million kWh, reinforcing transparency and accountability in environmental performance.

Digitalisation also played a pivotal role in reducing environmental impact. The digitalisation of internal memorandum procedures resulted in the saving of paper during the year, contributing to a measurable reduction in annual paper consumption and aligning with responsible consumption practices.

Complementing this effort, LOLC Finance PLC partnered with Zero Trash to establish recyclable plastic collection points at LOLC Holdings, Rajagiriya, marking the first phase of a broader waste management initiative that will be extended across the branch network. This programme supports national Extended Producer Responsibility policies while encouraging employee participation in reducing plastic pollution.

Further reinforcing environmental stewardship, the organisation advanced its Green Building Initiative by commencing modifications to the head office in line with the Green SL® Rating System for Institutional Sustainability, focusing on energy efficiency, responsible materials use, waste management and indoor environmental quality.

Water stewardship, biodiversity conservation and ecosystem restoration also remained key focus areas. Water consumption across the branch network was closely monitored, with primary sourcing from the National Water Supply and Drainage Board, ensuring responsible usage for utility and sanitation purposes.

LOLC Finance PLC's partnership with Biodiversity Sri Lanka underscored its commitment to conservation, sustainable use of natural resources and equitable benefit sharing. The Deniyaya

Reforestation and Ecosystem Restoration project progressed for the second consecutive year, covering a fifty-acre land area and encompassing reforestation, biodiversity studies and carbon insetting initiatives. Fully - funded by LOLC Finance PLC and implemented in collaboration with Mathurata Plantations and specialist partners, this project contributes to carbon offsetting while generating lasting ecological and social benefits.

These ESG initiatives, funded through green bonds and dedicated ESG allocations from business returns, benefit all stakeholders across the value chain and reaffirm LOLC AI-Falaah's commitment to ethical finance, environmental responsibility and sustainable development.

DIGITALISATION

During 2024/25, LOLC AI-Falaah continued to strengthen its digitalisation agenda, leveraging Group-wide technological capabilities to enhance customer convenience, operational efficiency and service accessibility, while remaining firmly aligned with Islamic economic principles. Supported by LOLC Technologies, a subsidiary of the LOLC Group, with strategic partnerships with globally recognised technology providers such as Oracle, Microsoft and AirWatch, the business unit benefitted from robust, secure and scalable digital infrastructure that enabled the delivery of reliable, customer-centric solutions.

Notable progress was made in enhancing digital access for Mudharabah and Wakalah customers, enabling seamless day-to-day financial management while also expanding outreach to new customer segments through digital onboarding. The LOLC Real Time mobile and internet banking platform continued to play a central role in this transformation, offering customers the ability to conduct transactions instantaneously via CEFT and SLIPS. The platform enabled real-time payments, utility bill settlements, leasing and insurance payments, scheduled transactions and instant alerts, delivering a secure and efficient banking experience that aligned with the evolving expectations of customers.

ESG and Digitalisation

Further value was created through the continued expansion of the iPay digital platform, which supports the national agenda of promoting a cashless economy. Integrated into the LOLC Al-Falaah offering, iPay provided customers with a seamless, multilingual digital payment experience, enabling real-time utility payments, interbank fund transfers and account management across multiple financial institutions. Customers also benefitted from QR-based payments, access to merchant discounts and the ability to obtain digital certificates, statements and balance confirmations, enhancing transparency and ease of access.

The introduction and expansion of digital account opening capabilities marked another important milestone during the year. Customers were able to open Mudharabah savings, Mudharabah fixed deposit and Wakalah investment accounts digitally via the iPay application, reducing documentation requirements and processing time. This initiative enabled real-time transactions, efficient profit payouts to both internal and external bank accounts, access to digital statements and certificates, and enhanced personal wealth management tools, significantly improving the overall customer experience.

The relaunch of the LOLC Al-Falaah International debit card offering further strengthened transactional convenience. The introduction of contactless 'tap and go' debit cards linked to the global VISA network enabled customers to conduct secure payments locally and internationally, withdraw cash from VISA-enabled ATMs and receive real-time transaction alerts, providing greater flexibility and uninterrupted access to funds.

In tandem with customer-facing initiatives, internal process development remained a key focus. Business Process Reengineering (BPR) initiatives, documentation automation, online credit processes, self-service kiosks and direct debit systems were progressively implemented to streamline workflows, improve turnaround times and enhance governance. These initiatives were supported by robust structural safeguards that ensure full segregation of Islamic finance operations, including dedicated systems, accounts, reporting structures and specialised staff, under the continuous oversight of the Scholar Supervisory Board and in-house Scholar advisors. The efforts reinforced the company's commitment to enhancing customer convenience and supporting sustainable growth in an increasingly digital financial landscape.

Charity Fund

Overview

The Charity Fund of LOLC Al-Falaah continued to function as a key social support mechanism during the financial year ended 31st March 2025, extending assistance to individuals and communities in need in line with the principles of Islamic finance and the guidance of the Scholar Supervisory Board. Amidst an environment of continued economic pressures and social vulnerabilities, the Fund remained an important avenue through which LOLC Al-Falaah delivered structured and compassionate support, complementing its core financial services.

Disbursements during the year were directed towards medical assistance, educational support, social welfare initiatives and the distribution of Ramadan Dry rations. These areas of intervention reflect the institution's commitment to addressing essential needs, promoting social equity and supporting community resilience, while ensuring full compliance with Islamic economic principles.

Period	Medical	Education	Social	Ramadan dry rations
01/04/2024 - 31/03/2025	Rs. 14,765,500/-	Rs.5,240,000 /-	Rs.5,933,330 /-	Rs.14,000,000/-

Charity Fund Disbursements

Total disbursements for the period: Rs. 39,938,830/-



BENEFICIARY REACH

As at March 2025, the Charity Fund supported a total of 106 direct beneficiaries across medical, education and social categories, in addition to 2,000 beneficiaries who received Ramadan dry rations. Medical assistance remained the largest area of intervention, reflecting the rising cost of healthcare and the pressing needs of vulnerable individuals and families. Educational support focused on easing financial constraints faced by students, while social assistance addressed critical welfare requirements within communities.

The distribution of Ramadan dry rations continued to be a significant component of the Charity Fund's outreach during the holy month, providing essential support to households and reinforcing the values of compassion, solidarity and social responsibility that underpin Islamic social finance.

GOVERNANCE AND COMPLIANCE

All Charity Fund disbursements during the year were executed in strict compliance with the guidelines and approvals of the Scholar Supervisory Board of LOLC Al-Falaah – Alternate Financial Unit. Robust oversight mechanisms were maintained to ensure that funds were utilised responsibly and in accordance with the requirements of Islamic economic principles.

The Charity Fund continues to reinforce LOLC Al-Falaah's commitment to ethical financing, social responsibility and inclusive growth, ensuring that financial intermediation activities are complemented by meaningful and well-governed community support initiatives.

Note. 1 Due to the sensitive nature of individual beneficiary information and account details, disclosures are limited to aggregated data.

Board of Directors

MR. F K C P N DIAS

Chairman/Non-Executive Director

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

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

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

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

MR. D M D K THILAKARATNE

Executive Director/CEO

Mr. Krishan Thilakaratne is a Board Member of Seylan Bank PLC and LOLC Southeast Asia covering Philippines, Indonesia and Pakistan. Further, Mr. Thilakaratne is a Director of LOLC Central Asia covering Kyrgyzstan, Kazakhstan, Tajikistan and Uzbekistan. He serves on the Boards of

LOLC Moliya in Tajikistan, OJSC Micro Finance Company "ABN" in Kyrgyzstan and is appointed as the Director of R Finance in Kazakhstan. He is an Advisor to Lombard Micro Finance Company in Tajikistan. He has also served as a Board Member for Credit Information Bureau of Sri Lanka (CRIB), Commercial Insurance Brokers (Pvt) Ltd, Sri Lanka, and Prasac Microfinance Institution Ltd, Cambodia. Additionally, Mr. Thilakaratne has served as the Chairman of the Finance Houses Association of Sri Lanka (FHASL), the apex body for Non-Bank Financial Institutions (NBFIs) Sri Lanka.

He is a Passed Finalist of the Chartered Institute of Management Accountants (CIMA) UK and Associate member of the Institute of Bankers of Sri Lanka (AIB). 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 International Islamic Finance Forums.

MR. B C G DE ZYLVA

Non-Executive Director

Mr. Brindley de Zylva is a Non-Executive Director of LOLC Finance PLC. He also serves as the Chairman of LOLC (Cambodia) PLC and Serendib Microinsurance PLC, and as the Managing Director of LOLC Myanmar Micro-Finance Company Limited. Brindley joined the LOLC Group in 2003 and brings over 40 years of extensive experience in the Non-Bank Financial Services Industry (NBFIs). His expertise spans licensed finance companies, specialised leasing, microfinance, and microinsurance across South and Southeast Asia.

Mr. De Zylva is a Fellow of the Sri Lanka Institute of Credit Management, where he has also served as Honorary Secretary. He has been actively involved in the Council of Management of the Finance Houses Association of Sri Lanka, serving as a member for nine years, including four years as Vice Chairman. Additionally, he has held the position of Director at the Financial Ombudsman Sri Lanka (Guarantee) Limited

P A WIJERATNE

Senior Independent Director

Mr. P A Wijeratne was appointed as an Independent Director on 26th May 2017 and has over 20 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 (CBSL). He joined CBSL in 1991 and worked in the Finance, Public Debt Management and Internal Audit departments till his retirement in year 2016.

He holds a BA degree in Economics (Special Field – Commerce) from University of Kelaniya and a postgraduate Diploma in Accounting and Financial Economics and a 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 the CBSL spanned 25 years, during which he worked in several different departments in the

CBSL, including Economic Research, Management Development Centre, Governor's Office (Chief Protocol Officer), Domestic Operations and Payments and Settlements.

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

Mr. Peiris served as the Vice President of the Clearing Association of Bankers (CAB). He was also the coordinator - CBSL SEACEN Financial Statistics. He is a member of the Sri Lanka Economic Association. He served in the Sri Lanka Army Volunteer Force attached to the 2nd Sri Lanka Army Service Corps as a Commissioned Officer too. He was adjudged as the Best Officer Cadet in the 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.

MRS. K T C PRIYANGANI

Independent Director
[Appointed w.e.f. 23.01.2025]

Mrs. Chamila Priyangani is a fellow member of Institute of Chartered Accountant of Sri Lanka. She holds a Masters in Business Administration (MBA) from the University of Sri Jayawardenepura and an Accountancy and Financial Management (Special) Degree of University of Sri Jayawardenepura. She has extensive experience in the private and state sector while demonstrating exceptional expertise in financial management and governance. .

MR. S LANKATHILAKE

Independent Director

Mr. Sunil Lankathilake is a former Deputy Governor of the Central Bank Sri Lanka (CBSL). 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 a Masters 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 has worked as an Assistant Lecturer at the University of Peradeniya.

During his 32 years career in CBSL, Mr. Lankathilake has participated in 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 and Management, Human Resource Management and Communication Policy. Mr. Lankathilake has also served as a member of the Board of Directors of Sri Lanka Export Credit Insurance Corporation, Board of Management of the Title Insurance Fund of Registrar General's Department, National Labour Advisory Committee, Securities Exchange Commission and several other committees in the past. Mr. Lankathilake has authored many articles and published them in reputed international and local journals and CBSL publications particularly in the areas of economic issues, small-scale industries, international trade, gem industry, apparel industry, etc.

MR. K SUNDARARAJ

Independent Director
[Appointed w.e.f. 23.01.2025]

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

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

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 2025.

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.	(Mrs) K T C Priyangani	Independent Director (appointed w.e.f. 23.01.2025)
6.	S Lankathilake	Independent Director
7.	A J L Peiris	Independent Director
8.	K Sundararaj	Independent Director (resigned w.e.f. 23.01.2025)

The profiles of the above Directors can be found on pages 20 to 21.

Recommendations for re-election of Directors in terms of Article 75 of the Articles of Association of the Company, Mr. F K C P N Dias and Mr P A Wijeratne will retire and being eligible 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 Directors 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.

The Directors confirm that all material interests in contracts involving the Company have been disclosed to the Board and wherever any Director is materially interested in a contract or proposed contract with the Company, they would refrain from voting on such contracts. During the year under review, the Company did not enter into any contracts in which any Director was materially interested.

DIRECTORS' SHAREHOLDING

Director's Name	As at 31.03.2025	As at 31.03.2024
1 F K C P N Dias	Nil	Nil
2 D M D K Thilakaratne	Nil	Nil
3 B C G De Zylva	Nil	Nil
4 P A Wijeratne	455,998	334,533
5 (Mrs) K T C Priyangani (appointed w.e.f. 23.01.2025)	Nil	Nil
6 S Lankathilake	Nil	Nil
7 A J L Peiris	Nil	Nil
8 K Sundararaj (resigned w.e.f. 23.01.2025)	Nil	Nil

The declarations made by the Directors confirm that there are no financial, business, family or other material/relevant relationship[s] between members of the Board.

FIT AND PROPER ASSESSMENT OF DIRECTORS

In terms of Rule 9.7.4 of the Listing Rules of the Colombo Stock Exchange, declarations were obtained from the Directors who confirmed that they have continuously satisfied the fit and proper assessment criteria of the Listing Rules during the financial year under review and as at the date of such declaration.

DIRECTORS' REMUNERATION

The Company paid Rs. 19,694,894/- as Directors' remuneration for the financial year ended 31st March 2025 [Rs. 20,653,647/- for 31st March 2024].

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

CAPITAL STRUCTURE

As at 31st March 2025, the stated capital of the Company is Rs. 44,078,915,852/- divided into 33,079,212,299 shares.

The debt capital of the Company comprises unsecured, subordinated, redeemable debentures amounting to 50 million units, issued in September 2020. The debentures are listed on the Colombo Stock Exchange and are rated A [Positive] by Lanka Rating Agency.

MEETINGS OF THE BOARD OF DIRECTORS

Twelve scheduled monthly meetings and two special meetings were held during the year.

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.

The Board of Directors is committed towards maintaining an effective corporate governance framework by effectively implementing 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:

- » Board Audit Committee
- » Board Integrated Risk Management Committee
- » Board HR & Remuneration Committee
Board Related Party Transaction Review Committee
- » Board 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 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.

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.

INDUSTRIAL RELATIONS

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

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

SCHOLAR SUPERVISORY BOARD

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

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

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

Report of the Board of Directors

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

The Financial Statements and the Auditors report are found on pages 30 to 51.

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.

TRANSACTIONS WITH RELATED PARTIES

In terms of LKAS 24, the Directors have disclosed transactions which are classified as related party transactions.

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 2025 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 have adequate resources to continue in 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 Deloitte Partners, Chartered Accountants were appointed in September 2024.

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 Report of the Auditors is given on page 30 to 31.

The Board of Directors recommends that Messrs. Deloitte Partners, Chartered Accountants take over as Auditors of the Company for the ensuing financial year 2025/26, subject to approval of the shareholders to be obtained at the forthcoming Annual General Meeting to be held on 29th September 2025.

THE CODE OF ETHICS

The Board sets the tone from the top to instill 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 enable 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

Subject to clearance from Central Bank of Sri Lanka, the Company divested its 40% stake held in Commercial Insurance Brokers (Private) Limited for a consideration of Rs. 332,880,000.00 on 31st March 2025.

FAIR TREATMENT FOR STAKEHOLDERS

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

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



D M D K Thilakarathne
Director/ CEO



F K C P N Dias
Chairman



M V S C Rodrigo
Company Secretary

30th June 2025
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.

Scholars Supervisory Board Audit Report 2024/2025

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 Eighteenth (18) year of Al-Falaah, the Alternate Financial Services Unit of LOLC Finance PLC (LOLC Al-Falaah).

During the year, The Scholars Supervisory Board (SSB) of 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 2024 to March 2025.

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 Organization for Islamic Financial Institutions of Bahrain (AAOIFI) and the guidelines of the SSB.

The Management of LOLC Finance PLC (LOFC), is responsible for ensuring that LOLC Al-Falaah, conducts its business in accordance with the 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 (28) branches around the island to review procedures and meet staff involved in Al-Falaah transactions. SSB Members accompanied them in 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 alternative product option for Personal Loans & Credit cards solution and other procedural developments to improve service deliveries and maintain higher level of compliance required by the institution.
6. Awards & Recognition: The Alternate Financial Services Unit of LOLC Finance PLC, was recognized 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 (Including Factoring alternative options)
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. Reconciliation of Admin. Fees charged vs Recovery costs incurred
17. Charity Fund allocation and usage

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 appeared 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. A comprehensive review and reconciliation was carried out between the administration fees charged and the actual expenses incurred in recoveries. The review confirmed that the criteria used and the allocation of expenses were as per the guidelines set forth. Furthermore, it was resolved that any over-recovered amounts identified during the financial year-end audit should be transferred to the Charity Fund.
5. 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.

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 mistake s.

Ash-Shaikh Shafique Jakhurah
SSB Chairman

Ash-Shaikh Murshid Mulaffar
SSB Member

Ash-Shaikh Fazil Farook
SSB Member

Strategic Business Unit/AFSU Team

SHIRAZ REFAI

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

Joined LOLC Group in 2006 and counts 25 years of experience in the Banking and Financial Services sectors in both local and overseas establishments. A key member of the Operational Management Team of LOLC, has played a pivotal role in spearheading the formation and implementation of Alternate Financial Services projects under LOLC Group financial services subsidiaries.

BUDDHIKA WEERATUNGE

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

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

IMRAN ZAROOK

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

Joined LOLC Group in 2015. Counts over 21 years of experience in the field of customer operations/finance including credit control, collection, recovery, legal, risk and relationship management.

SHAFIN IQBAL

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

Joined LOLC Group in 2014 and counts over 23 years of experience in Marketing services in the areas of Strategic marketing, new business development, branding and communication and network marketing.

IFTHAZ NAZIR

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

Joined LOLC Group in 2010 and counts over 20 years of experience in marketing of Financial Service sector. Played a pivotal role in developing metro region Alternate Finance businesses.

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 17 years' experience in Islamic Banking and Finance.

ASH-SHAIKH ZAID NOORAMITH

B.A/Dip. Islamic Banking [South Africa]
In-House Scholar Advisor

Joined the Group in 2011. Counts over 15 years' experience in Islamic theological studies and Islamic Finance.

MUFTI ABDULLAH RUZNI [RASHADI]

Specialized in Islamic Jurisprudence and Islamic Banking & Finance
Newcastle, South Africa.
In-House Scholar Advisor. AFSU

Joined the Group in 2025. Counts over 5 years' experience in Islamic law and ruling researches.

ASH-SHAIKH ILHAM MUFARIS

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

Joined LOLC Group in 2015. Counts over 10 years of experience in Alternate Banking and Financial Services in Operational areas.

ASH-SHAIKH SEYYED SAABIQ

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

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

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 7 years of experience in Islamic Finance.

FATHIMA DILRUBA SABRY

MBA [UK], MCIM [UK], DBF [IBSL], DIBF [IBSL]
Deputy Manager - Ladies Unit - Al-Falaah, Alternative Financial Services Unit, LOLC Finance

Joined LOLC Finance in 2025 and brings over 18 years of experience in the banking sector, with strong expertise in Customer Relationship, Marketing, and Islamic Finance.

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

DHILFOWZY MOHAMED

MBA - Cardiff Metropolitan UK

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

Liability Marketing

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

Joined LOLC Group in 2011. Count over 31 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 19 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 & Sabragamuwa Regions

Joined LOLC Group in 2011. Counts over 14 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 20 years of experience in the field of banking & finance.

SILMY SALLY

PG Dip. in Marketing [UG]

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

Central I, II & Uva Regions

Joined the Group in 2014. Counts over 14 years' experience in recoveries, administration and marketing.

SHAFRAZ KHAN

Diploma in Marketing

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

Joined LOLC Group in 2015. Counts over 15 years experience in the field of Islamic 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 9 years of experience in the field of banking & finance.

MUSTHAFA MUSRIF

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

Northern I, II & North Central I

Joined LOLC Group in 2016. Counts over 11 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. Count over 11 years of experience in the field of banking & finance.

Financial Reports

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Statement of Profit or Loss and Other Comprehensive Income | 33
Statement of Changes In Equity | 34
Statement of Cash Flows | 35
Notes to the Special Purpose Financial Statement | 36

TRUSTED BY
COUNTLESS
INDIVIDUALS AND
COMMUNITIES WITH
THEIR FINANCES,
WE AT AL FALAAH
REMAIN COMMITTED
TO UPLIFTING THE
TRANSPARENT
AND RESPECTFUL
RELATIONSHIP WE
SHARE WITH THOSE
WHOM WE SERVE,
AND TO CONTINUE TO
FOSTER VALUE AND
GOODWILL.

Independent Auditors' Report



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Sri Lanka

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TO THE BOARD OF DIRECTORS OF LOLC FINANCE PLC

Opinion

We have audited the special purpose financial statements of LOLC Finance PLC's (the Company), Al-Falaah, Alternate Financial Services Unit (the Unit) which comprise the special purpose financial position as at 31 March 2025, and the special purpose statement of profit or loss and other comprehensive income, special purpose statement of changes in equity, the special purpose statement of cash flows for the year then ended; and the notes to the special purpose financial statements, including material accounting policy information (together "the special purpose financial statements").

In our opinion, the accompanying special purpose financial statements are prepared, in all material respects, in accordance with the accounting policies set forth in pages 36 to 42 of the special purpose financial statements.

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 Special Purpose Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka ("CA Sri Lanka Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the CA Sri Lanka 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 Note 1.2 to the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements are prepared to provide specific information to the Board of Directors of the Company in connection with Al-Falaah, Alternate Financial Services Unit. As a result, the special purpose financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of the unit for the year ended 31 March 2024 were audited by another firm of auditors whose report, dated 27 June 2024, expressed an unmodified opinion on those statements.

Responsibilities of Management and those Charged with Governance for the Special Purpose Financial Statements

Management is responsible for preparation and presentation of the special purpose financial statements in accordance the accounting policies set forth in pages 36 to 42 to the financial statements; this includes determining that the recognition, measurement, presentation and disclosure requirements of accounting policies is an acceptable basis for the preparation of the special purpose financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for assessing the Unit's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Unit or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements

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

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

- Identify and assess the risks of material misstatement of the special purpose 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

C S Manoharan FCA, T U Jayasinghe FCA, M D B Boyagoda FCA, H A C H Gunaratne FCA, M P M T Gunasekara FCA, N R Gunasekera FCA, M S J Henry FCA, M M R Hilmy FCA, H P V Lakdeva FCA, K M D R P Manatunga ACA, M M M Manzeer FCA, W D A S U Perera ACA, L A C Tillekeratne ACA, D C A J Yapa ACA

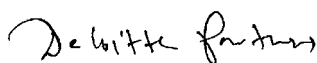
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appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, 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 Unit's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Unit's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the special purpose 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 Unit to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the special purpose financial statements, including the disclosures, and whether the special purpose financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



CHARTERED ACCOUNTANTS COLOMBO
25 November 2025

Statement of Financial Position

As at 31 March	Note	2025 Rs.	2024 Rs.
ASSETS			
Cash and bank balances	3	925,840,117	1,404,357,334
Deposits with banks and other financial institutions		-	503,609,589
Murabaha / Musawamah /Wakalah Finance	4.1	3,442,524,444	1,498,564,240
Diminishing Musharakah receivables	4.2	24,922,905,695	20,806,515,686
Ijarah rent receivables	4.3	6,652,383,844	5,264,768,652
Wadi'ah Gold Storage Facility	4.4	2,839,320,453	1,536,037,429
Factoring Receivable	4.5	46,933,528	-
Trading assets - Fair value through profit or loss	6	-	16,990,955
Investment properties	7	153,500,000	150,000,000
Other receivables	5	514,750,776	412,154,093
Total assets		39,498,158,857	31,592,997,978
LIABILITIES			
Deposits from customers	8	23,771,808,148	22,982,610,534
Income tax payable	19	-	317,599,624
Accruals and other payables	9	6,620,849,085	1,583,834,121
Total liabilities		30,392,657,233	24,884,044,279
OWNER'S FUND			
Retained earnings		9,105,501,624	6,708,953,699
Total owners fund		9,105,501,624	6,708,953,699
Total liabilities & owners fund		39,498,158,857	31,592,997,978

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 Thilakaratne
Director/CEO



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

The annexed notes to the financial statements on pages 36 through 51 form an integral part of these financial statements.

21 November 2025
Rajagiriya [Greater Colombo]

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st March 2025	Note	2025 Rs.	2024 Rs.
Income from Financing Activities	10	6,954,333,013	6,606,315,881
Profit paid to Mudharabah/Wakalah investments	11	(2,233,625,831)	(3,498,233,581)
Net Profit Earn from financing activities		4,720,707,182	3,108,082,300
Other direct expenses	12	(182,040,458)	(112,382,739)
		4,538,666,724	2,995,699,561
Non distributable other income / [expenses]	13	566,842,890	479,913,036
Total operating income		5,105,509,614	3,475,612,597
Personnel expenses	14	(887,829,799)	(551,373,105)
Net impairment loss on financial assets	15	(63,976,950)	(242,868,019)
Other operating expenses	16	(1,153,120,351)	(1,047,168,101)
Profit from operations		3,000,582,514	1,634,203,372
Value added tax on financial services	17	(629,904,172)	(332,686,669)
Profit before taxation		2,370,678,342	1,301,516,703
Income tax expense	18	-	-
Profit for the year		2,370,678,342	1,301,516,703

The annexed notes to the financial statements on pages 36 through 51 form an integral part of these financial statements.

Statement of Changes In Equity

For the year ended 31st March 2025	Retained Earnings [Rs.]	Total Equity [Rs.]
Particulars		
Balance as at 01 April 2023	5,407,436,996	5,407,436,996
Profit for the year	1,301,516,703	1,301,516,703
Balance as at 31 March 2024	6,708,953,699	6,708,953,699
Balance as at 01 April 2024	6,708,953,699	6,708,953,699
Profit for the year	2,370,678,342	2,370,678,342
Other comprehensive income	-	-
Transfers/ adjustments	25,869,583	25,869,583
Balance as at 31 March 2025	9,105,501,624	9,105,501,624

The AL Falaah business unit does not have issued share capital or other equity instruments.

The Statement of Changes in Equity presents movements in Retained Earnings, which represent the accumulated results of operations.

The AL Falaah unit operates as a fully owned business unit of LOLC Finance PLC, and funding requirements are met through intra-group financing arrangements.

Accordingly, Retained Earnings are the sole component of equity disclosed in these financial statements.

Statement of Cash Flows

For the year ended 31st March 2025	2025 Rs.	2024 Rs.
Cash Flows From / (Used in) Operating Activities		
Net Profit before Income Tax Expense	2,370,678,342	1,301,516,703
Adjustment to retained earnings	25,869,583	
Provision for fall/(Increase) in value of investments	16,990,955	[583,309]
Allowance for/(reversal of) doubtful debts	63,976,950	242,868,019
Change in fair value of investment property	[3,500,000]	[7,000,000]
Investment income	[68,370,168]	[111,124,116]
Profits attributable to Mudharabah / Wakalah investments	2,233,625,831	3,498,233,581
Operating profit before working capital changes	4,639,271,493	4,923,910,878
Change in other receivables	[102,596,683]	[6,801,088]
Change in trade and other payables	4,719,415,339	[1,008,641,160]
Change in Ijarah rent receivables	[1,387,615,192]	[936,531,007]
Change in Murabaha / Musawamah /Wakalah Finance	[2,007,937,154]	[440,054,292]
Change in Diminishing Musharakah receivables	[4,116,390,009]	[3,870,670,438]
Change in Wadi'ah Gold Storage Facility	[1,303,283,024]	[864,593,506]
Change in Factoring Receivables	[46,933,528]	-
Change in Mudharabah investments from customers	2,122,111,467	3,268,908,542
Change in Wakalah investments from customers	[1,773,262,015]	[3,887,928,890]
Change in Mudharabah savings deposits from customers	440,348,162	521,136,262
Cash flows from / (used in) operations	1,183,128,857	[2,301,264,699]
Profits paid to Mudharabah / Wakalah investments	[2,233,625,831]	[3,498,233,581]
Net Cash Used in Operating Activities	[1,050,496,974]	[5,799,498,280]
Cash flows from investing activities		
Net proceeds from Investments in Mudharabah Deposits	503,609,589	1,545,134,183
Profit Received	68,370,168	111,124,116
Net Cash Flows from Investing Activities	571,979,757	1,656,258,299
Cash Flows from / (Used in) Financing Activities		
Repayment of lease liabilities	-	-
	-	-
Net Increase/(decrease) in cash and cash equivalents	[478,517,217]	[4,143,239,981]
Cash and cash equivalents at the beginning of the period	1,404,357,334	5,547,597,315
Cash and cash equivalents at the end of the period	925,840,117	1,404,357,334
Analysis of cash and cash equivalents at the end of the period		
Cash and bank balances (Note 03)	925,840,117	1,404,357,334
	925,840,117	1,404,357,334

The basis of preparation and notes are given in pages 36 through 37.

The accounting policies and notes on pages 36 through 51 form an integral part of the Financial Statements.

Notes to the Special Purpose Financial Statements

Year ended 31 March 2025

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" "the Unit") which commenced its operations in February 2008, under Islamic economic jurisprudence. It is housed in the head office premises at No. 100/1 Sri Jayewardenepura Mawatha, Rajagiriya.

1.1.1 Principal activities and nature of business

The principal activities of the LOLC AI-Falaah comprised of Mudharabah (profit sharing investments & savings) and Wakalah (term investments), Diminishing Musharakah (property & project financing), Murabaha (trade financing), Musawamah (import financing), Wakalah (working capital financing), Wadi'ah (gold storage facility) and Ijarah (leasing).

1.1.2 Directors' responsibility statement

The Board of Directors takes the responsibility for the preparation and presentation of these Special Purpose Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the stated accounting policies.

1.2 BASIS OF PREPARATION

1.2.1 Statement of compliance

These supplementary special purpose financial statements of the LOLC AI-Falaah are carved out from the financial statements of LOLC Finance PLC for the year ended 31 March 2025 and are prepared on based on the accounting policies explained in Note 2.

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 Unit for the year under review.

- a Special Purpose Statement of Financial Position providing the information on the financial position of the LOLC AI-Falaah Unit 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 Unit to generate cash and cash equivalents and the needs to utilize those cash flows; and
- Notes to the Special Purpose Financial Statements comprising Accounting Policies and other explanatory information.

These carve-out financial statements reflect the historical information relating to the economic and financial results, cash flows and the statement of financial position, directly or indirectly attributable to the LOLC AI-Falaah unit, including an allocation of LOLC Finance PLC's indirect costs. In particular, the elements of the statement of financial position, as well as the revenues and costs have been captured to specific general ledger accounts where directly attributable, and allocated, where possible and applicable, using the various methodologies detailed below.

Allocation criteria for the Carve-out financial statements:

This outlines the treatment of financial statement items related to the LOLC AI Falaah unit, distinguishing between directly attributable income, expenses, assets and liabilities captured through dedicated general

ledger accounts and indirectly allocated items, together with the basis and rational applied in its allocation.

Directly attributable items are those that are related exclusively to the operations, assets, or liabilities of the LOLC AI Falaah unit. These items are recorded under general ledger account specific to the AI Falaah Unit and include direct income, direct expenses, and directly attributable assets and Liabilities.

Indirect items relate to overall operations of the Company. These are not directly attributable to LOLC AI Falaah Unit and therefore require allocation based on a systematic and a rational allocation methodology. Indirect items consist solely of expenses, and are allocated proportionate to the loan portfolio balances on a periodic basis.

The management believes that the assumptions underlying the preparation of the carve-out financial statements, including the allocation of the indirect costs, are reasonable. Management may change the basis of allocation to make more accurate presentation where deemed necessary.

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

1.2.2 Basis of Measurement

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

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

No adjustments have been made for inflationary factors affecting the Financial Statements. The Unit presents its statement of financial position broadly in order of liquidity.

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

1.2.3 Materiality and Aggregation

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

1.2.4 Going Concern basis of accounting

The Directors have made an assessment of the unit'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 unit's ability to continue as a going concern. Therefore, the Special Purpose Financial Statements continue to be prepared on a going concern basis.

1.2.5 Comparative information

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

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
2.11	Prior period error corrections

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

Initial measurement of financial Assets

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

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

2.1.1.b Classification of financial assets

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

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

2.1.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

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

- whether management's strategy focuses on earning contractual mark-up revenue, maintaining a particular profit ratio/rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the management
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed

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

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

The Unit 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 Unit considers the contractual terms of the instrument.

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

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

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

Amortized cost

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

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

- Cash and cash equivalents

Cash and cash equivalents comprise both positive and negative cash balances and are presented in the financial statements on a net basis.

Notes to the Special Purpose Financial Statements

Year ended 31 March 2025

this also includes 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.

2.1.1.c Subsequent measurement of financial assets (Contd)

- Ijarah receivables

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

- Murabaha, Musawamah, Wakalah Finance and Diminishing Musharakah receivables

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

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

- Financial guarantees

Financial guarantees are contracts that require the Unit 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 Unit in its normal course of the business issues guarantees on behalf of the depositors, holding the deposit as collateral.

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

Instruments are measured at FVOCI, if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and mark-up on principal outstanding. This comprise equity

securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other investments are measured at fair value after initial recognition.

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

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

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

2.1.1.c Subsequent measurement of financial assets (Contd)

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

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

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

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

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

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

Profit Payable to the Mudharabah Investors

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

Profit Payable to the Wakalah Investors

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

2.1.3 Derecognition of financial assets and financial liabilities

Financial assets

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

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

2.1.3 Derecognition of financial assets and financial liabilities (Contd)

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

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

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

Financial liabilities

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

2.1.4 Offsetting of financial instruments

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

2.1.5 Amortized cost measurement

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

2.1.6 Fair value measurement

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

Determination of fair value

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

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

2.1.7 Impairment

Overview of the expected credit loss (ECL) principles

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

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

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

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

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

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Unit 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

Unit 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, Unit will consider the following criteria:

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its obligation
- An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping financial assets measured on a collective basis

As explained above, Unit calculates ECL either on a collective or individual basis. Asset classes where Unit 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.

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

Notes to the Special Purpose Financial Statements

Year ended 31 March 2025

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

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

- **Probability of Default (PD):** PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- **Exposure at Default (EAD):** EAD is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and income, whether scheduled by contract or otherwise and expected draw downs on committed facilities.
- **Loss Given Default (LGD):** LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

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

Forward looking information

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

Quantitative inputs	Qualitative inputs
GDP growth	- Changes in lending policies and procedure
Inflation	- Changes in bankruptcy and lending related legislations
Unemployment	- Credit growth
Income rates	- Position of the portfolio within the business cycle

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

2.1.8 Write-off policy

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

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

2.2 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 recognized for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.2.2 Defined contribution plans

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

2.3 Provisions

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

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

2.4 Events occurring after the reporting date

Events after the reporting date are those favorable and unfavorable events that occur between the reporting date and the date on which the special purpose financial statements are authorized for issue. The Unit evaluates all such events to determine whether they provide evidence of conditions that existed as at the reporting date [adjusting events] or are indicative of conditions that arose subsequent to that date [non-adjusting events].

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 Unit 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 recognized 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 recognized 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 amortized cost.

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

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

2.6.5 Dividends

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

2.7 Expenditure Recognition

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

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

2.7.1 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 recognized 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 recognized 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] 7, Cash Flow Statements.

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

SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.10 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 Unit.

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.

2.11 Prior period error corrections

The entity applies a prospective approach to the correction of prior period errors. Material errors identified in the current period that relate to prior periods are corrected in the period in which they are discovered, with the effect recognized in the current period's Statement of Profit or Loss and Other Comprehensive Income and/or Statement of Financial Position and/or Statement of Cash Flows as appropriate. Comparative information is not restated, and opening balances of assets, liabilities, and equity for prior periods are not adjusted.

Notes to the Special Purpose Financial Statements

Year ended 31 March 2025

Disclosure requirements

When prior period errors are corrected prospectively, the Unit shall disclose the following in the period in which the error is identified:

- The nature of the prior period error, including a description of how it arose.
- The amount of the correction recognized in the current period, presented separately for each affected financial statement line item.
- An explanation that comparative information has not been restated due to the entity's accounting policy of applying a prospective approach.
- If determining the full impact of the error is impracticable, disclosure of the circumstances that made such determination impracticable and a description of how the error has been corrected under the prospective method.

Financial statements of subsequent periods do not need to repeat these disclosures.

Prior period errors

Prior period errors are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorized for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

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

	2025 Rs.	2024 Rs.
Cash & bank balances	925,840,117	1,404,357,334
	925,840,117	1,404,357,334

3.1 CASH AND CASH EQUIVALENTS

	2025 Rs.	2024 Rs.
Cash	4,688,180,963	4,272,779,754
Bank overdraft	(3,762,340,846)	(2,868,422,420)
Cash & bank balances	925,840,117	1,404,357,334

4 FINANCING AND RECEIVABLES FROM CUSTOMERS - MEASURED AT AMORTIZED COST

Recognition

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

Measurement

After initial recognition loans 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 part of Effective Profit Rate. The amortisation is included in advance income in the Statement of Profit or Loss.

4.1 MURABAHA / MUSAWAMAH / WAKALAH FINANCE

	2025 Rs.	2024 Rs.
Instalment receivable	3,772,322,292	1,782,486,914
Unearned income	(319,819,671)	(277,847,130)
Provision for impairment	(9,978,177)	(6,075,544)
	3,442,524,444	1,498,564,240

4.2 DIMINISHING MUSHARAKAH RECEIVABLES

	2025 Rs.	2024 Rs.
Instalment receivable	25,067,913,056	20,933,886,041
Provision for impairment	(145,007,361)	(127,370,355)
	24,922,905,695	20,806,515,686

4.3 IJARAH RENT RECEIVABLES

	2025 Rs.	2024 Rs.
Rent receivables	9,259,857,749	7,264,411,686
Unearned income	(2,480,309,807)	(1,881,067,241)
Provision for impairment	(127,164,098)	(118,575,793)
	6,652,383,844	5,264,768,652

Notes to the Special Purpose Financial Statements

Year ended 31 March 2025

4.4 WADI'AH GOLD STORAGE FACILITY

	2025 Rs.	2024 Rs.
Gross amount outstanding	2,843,154,381	1,539,755,773
Provision for impairment	[3,833,928]	[3,718,344]
	2,839,320,453	1,536,037,429

4.5 FACTORING RECEIVABLE

	2025 Rs.	2024 Rs.
Gross amount outstanding	47,056,999	-
Provision for impairment	[123,471]	-
	46,933,528	-

5 OTHER RECEIVABLES

	2025 Rs.	2024 Rs.
Staff car advances	256,286,028	167,222,190
Insurance premium receivable & others	235,755,201	16,364,880
WHT receivable	15,670,445	12,111,549
Current account balance due from conventional unit	-	216,455,474
Refunds payable	7,039,102	-
	514,750,776	412,154,093

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 charge 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.

	2025 Rs.	2024 Rs.
Original Cost	1,653,174	1,653,174
Carrying amount as at 1st April	16,990,955	16,407,646
Adjustment for change in fair value - recognized in profits	-	583,309
Disposal during the period	[16,990,955]	-
Total investments held for trading	[0]	16,990,955

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 recognized in profit or loss.

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

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

Determining Fair value

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

	2025 Rs.	2024 Rs.
Balance as at 1st April	150,000,000	143,000,000
Additions to Investment Properties from foreclosure of contracts	-	-
Change in fair value	3,500,000	7,000,000
Disposal during the year	-	-
Balance as at 31 March	153,500,000	150,000,000

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	Price per perch for land - The value of a perch ranges from Rs.4,900,000 to Rs.7,500,000 in the Colombo area.	Estimated fair value would increase / (decrease) if; - Price per perch for land would increase / (decrease)

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.

	2025 Rs.	2024 Rs.
Customer deposits	23,266,900,519	22,323,372,036

Notes to the Special Purpose Financial Statements

Year ended 31 March 2025

8.1 ANALYSIS OF CUSTOMER DEPOSITS BASED ON NATURE

	2025 Rs.	2024 Rs.
Mudharabah investments	7,298,309,572	5,160,821,419
Wakalah investments	13,879,044,175	15,513,352,007
Mudharabah savings	2,089,546,772	1,649,198,610
Total deposits	23,266,900,519	22,323,372,036
PROFIT PAYABLE		
Profit payable on Mudharabah investments	61,294,566	76,671,252
Profit payable on Wakalah investments	443,613,063	582,567,246
	504,907,629	659,238,498
Deposit liability recognized in statement of financial position	23,771,808,148	22,982,610,534

9 ACCRUALS AND OTHER PAYABLES

	2025 Rs.	2024 Rs.
Refunds payable	-	514,259,661
Insurance payable	130,287,496	79,779,088
Al-Falaah charity fund	20,339,865	23,246,964
Other miscellaneous creditors	138,248,461	237,954,975
Trade Payable	166,807,090	395,755,068
Current account balance due to conventional unit	1,313,062,771	-
Provision for VAT on FS	1,120,335,473	-
Benevolent Loan	3,600,000,000	-
Other payables	131,767,929	332,838,365
	6,620,849,085	1,583,834,121

10 INCOME FROM FINANCING ACTIVITIES

Initial and Subsequent Measurement

Financing income and expenses are recognised in Statement of Profit or Loss using the Effective Profit Rate (EPR)

The EPR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the Financial Asset or Liability [or, where appropriate, a shorter period] to the carrying amount of the Financial Asset or Liability.

When calculating the EPR, the Bank estimates future cash flows considering all contractual terms of the Financial Instrument, but not future credit losses. The calculation of the EPR includes all fees and points paid or received that are an integral part of the effective profit rate.

Other Operating Income includes profit earned from terminations of Islamic financing facilities, income generated from Mudarabah deposits, and service charges received from factoring business.

	Note	2025 Rs.	2024 Rs.
Direct Income	10.1	6,659,311,427	6,399,946,213
Other Operating Income	10.2	295,021,586	206,369,668
		6,954,333,013	6,606,315,881

10.1 DIRECT INCOME

	2025 Rs.	2024 Rs.
Income from Ijarah receivables	1,652,011,321	1,537,910,397
Income from Diminishing Musharakah receivables	4,060,700,741	4,015,049,774
Income from Murabaha/Musawamah/Wakalah Finance	635,436,765	651,408,473
Income from Wadi'ah Gold Storage Facility	310,568,488	195,577,569
Income from Factoring	594,112	-
	6,659,311,427	6,399,946,213

10.2 OTHER OPERATING INCOME

	2025 Rs.	2024 Rs.
Profit on terminations	226,225,252	95,245,552
Income from Mudarabah deposits	68,370,168	111,124,116
Service charges from Factoring	426,166	-
	295,021,586	206,369,668

11 PROFIT PAID TO MUDHARABAH/WAKALAH INVESTMENTS

Profit paid to Mudharabah and Wakala investments represents the cost incurred by the Islamic Business Unit in mobilising funding from customers. These expenses relate to the profit distributed on Mudharabah Savings accounts, Mudharabah Fixed Deposits, and Wakala investment deposits in accordance with the agreed Profit Sharing Ratios [PSR]. Profit is recognised on an accrual basis and charged to the Statement of Profit or Loss in the period to which it relates.

	2025 Rs.	2024 Rs.
Share of Profits - IBU Mudharabha	642,880,116	453,919,396
Share of Profits - IBU Wakala	1,590,745,715	3,044,314,185
	2,233,625,831	3,498,233,581

12 OTHER DIRECT EXPENSES

Other Direct Expenses comprise costs directly attributable to the Islamic financing operations of the Unit. These expenses are recognised in the period in which they are incurred and are presented separately to reflect the direct cost structure of Islamic business activities.

	2025 Rs.	2024 Rs.
Finance Expense on right of use the assets	27,082,923	16,123,947
Stamp Duty on Contracts	98,480	343,798
Insurance on Contracts	105,927,362	60,777,063
Corp Insurance Levy	23,737,380	11,739,455
Others	25,194,313	23,398,476
	182,040,458	112,382,739

13 NON DISTRIBUTABLE OTHER INCOME

Non-distributable other income comprises administrative fees, franchise fees, Takaful commissions, and other ancillary income streams that are not considered in the computation of distributable profit to deposit holders. Accordingly, these income items are retained by the Unit and do not form part of the profit distribution pool of the Islamic business unit.

Notes to the Special Purpose Financial Statements

Year ended 31 March 2025

	2025 Rs.	2024 Rs.
Arrangement & documentation Fee	97,926,193	82,837,327
Collection admin fee	306,394,580	262,228,840
Franchise Fee	130,243,495	106,686,384
Sundry income	25,183,672	28,160,485
Takaful commission	7,094,950	-
	566,842,890	479,913,036

14 PERSONNEL EXPENSES

Personnel expenses comprise salaries, bonuses, contributions to defined contribution and benefit plans, as well as other staff-related costs. These other costs include medical and hospitalization expenses, training and recruitment costs, and staff welfare activities. Short-term employee benefits are recognized on an undiscounted basis and expensed as the related services are rendered. A liability for short-term bonuses is recognized when the company has a legal or constructive obligation and the amount can be reliably measured.

	2025 Rs.	2024 Rs.
Salaries & bonus	786,595,976	505,856,598
Provision on gratuity	20,320,875	4,230,551
Staff welfare and others	80,912,948	41,285,956
	887,829,799	551,373,105

15 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

The Company recognises the changes to the impairment provision which are assessed based on expected credit loss method in accordance with Sri Lanka Accounting Standard - SLFRS 09 [Financial Instruments].

For customers who are having exposures above the predefined threshold, the Company individually assesses for Significant Increase in Credit Risk [SICR]. If a particular loan is individually impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If the Company determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairment along with the remaining portfolio.

The Company computes ECL using three main components; a Probability of Default (PD), a Loss Given Default (LGD) and the Exposure At Default (EAD) under the collective assessment. The Company updated its PD and LGD calculations using the most recent recovery data to determine the impairment provisions as of 31st March 2025. These parameters are generally derived from internally developed statistical models and historical data and then adjusted to reflect forward-looking information using the most recent data published by the Central Bank of Sri Lanka, the International Monetary Fund, and other relevant sources. Additionally, the weightings assigned to the best, base and worst-case scenarios were adjusted.

16 OTHER OPERATING EXPENSES

These expenses are recognised in the Statement of Profit or Loss when there is a direct correlation between the costs incurred and the generation of specific income items. All operating expenses, including those related to running the business and in maintenance of property, plant and equipment to ensure operational efficiency, are charged to the Statement of Profit or Loss as incurred.

	2025 Rs.	2024 Rs.
Depreciation	154,910,709	77,903,517
IT Service Fees	140,761,122	119,742,864
Miscellaneous Expenses on Contracts	(102,985,686)	62,379,173
Professional Fees	87,185,137	70,059,286
Stamp Duty & Postage	4,286,832	6,155,424
Telecommunication	48,664,354	40,208,060
Others	820,297,883	670,719,776
	1,153,120,351	1,047,168,101

17 VALUE ADDED TAX ON FINANCIAL SERVICES

	2025 Rs.	2024 Rs.
Value Added Tax (VAT)	553,086,590	292,115,124
Social Security Contribution Levy (SSCL)	76,817,582	40,571,545
	629,904,172	332,686,669

18 INCOME TAX EXPENSE

Income tax expense comprises of current taxation and deferred taxation. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in Equity or in OCI.

18.1 CURRENT TAX

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of prior years. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017.

18.2 DEFERRED TAX

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities as per Statement of Financial Position and the amount of such assets or liabilities considered for taxation purposes. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax assets are recognised for deductible temporary, carried forward unused tax losses and carried forward unused tax credits to the extent that it is probable that future taxable profits will be available, against which they can be used. Deferred tax assets are reassessed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax asset or liability is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted as at the reporting date. The measurement of deferred tax reflects the tax consequences to the Company as at the reporting date in relation to temporary difference in carrying amount of its assets and liabilities recorded in the Statement of Financial Position and the tax base.

	2025 Rs.	2024 Rs.
Income tax expense reported in statement of profit or loss	-	-

19 INCOME TAX PAYABLE

	2025 Rs.	2024 Rs.
Current tax payable		
Tax payable at the beginning of the year	317,599,624	317,599,624
Prospective adjustment to the opening balance [Note 21]	(317,599,624)	
Tax payable	-	317,599,624

20 EVENTS AFTER THE REPORTING DATE

The management has evaluated events occurring after the reporting date up to the date these special purpose financial statements were authorized for issue. Based on this assessment, no events have been identified that would require adjustment to, or disclosure in, the special purpose financial statements.

Notes to the Special Purpose Financial Statements

Year ended 31 March 2025

1. SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

During the financial year ended 31 March 2025, the Company identified certain prior-period errors relating mainly to the factoring receipts, remittance control account, VAT on FS, Insurance payable and other related balances. Consequently, the errors were corrected prospectively in accordance with the requirements of special purpose accounting framework adopted by the unit, following the accounting policy number 2.11 prior period error corrections. The corrections primarily arise from the following matters:

Factoring receivables: Certain factoring receipts available in the control account were erroneously recorded under the Islamic Business Unit (IBU) side instead of the general side, resulting in misstatements in both the factoring and intercompany balances.

Remittance Control: LOLC Finance PLC has changed its module for cash management from teller-balancing process to the cash-in-hand module, discrepancies in control accounts were identified following the system transition an unidentified balance was present from the remittance control account under AL Falaah Unit.

Internet Banking Utility Control: The balance captured by the IBU relating to Commercial Leasing and Finance PLC (currently merged with LOLC Finance PLC) included significant amounts not pertaining to the IBU Unit, which was corrected.

Insurance Premium to LOLC Insurance: Reconciliations were prepared considering the LOLC Finance PLC level and the Unit level reconciliation was performed and the balance relating to IBU contracts was adjusted to accurately reflect the position as at current reporting periods.

Un Presented Cheques (Over Two Month): A long-outstanding balance originating from 2014, which remained unreconciled for more than two months, was identified and corrected in the current period.

VAT on FS Payable: The VAT on Financial Services payable balance relating to IBU financials had not been recorded through prior financial periods; this has now been adjusted accordingly.

Income tax payable: AL Falaah Unit does not have an income tax payable balance as the Company and the Unit continues to benefit from qualifying payment relief arising from past mergers. During the current year, it was noted that an erroneous income tax payable balance had been recorded in the prior year within the AL Falaah unit. This error has been identified and corrected in the current period.

The above errors have been corrected prospectively by adjusting each of the affected financial-statement line items for current period following the accounting policy number 2.11 prior period error corrections. The above corrections affect the Statement of Financial Position and Statement of Changes in Equity, and Statement of Cash Flows.

Effect of prior year error correction to statement of financial position

As at 31 March	As at 31st March 2025		
	2025 balance - Before adjustments	Effects of prior year error correction	2025 Adjusted balance
ASSETS			
Cash and bank balances	971,022,855	(45,182,738)	925,840,117
Deposits with banks and other financial institutions	-	-	-
Murabaha / Musawamah /Wakalah Finance	3,442,524,444	-	3,442,524,444
Diminishing Musharakah receivables	24,922,905,695	-	24,922,905,695
Ijarah rent receivables	6,652,383,844	-	6,652,383,844
Wadi'ah Gold Storage Facility	2,839,320,453	-	2,839,320,453
Factoring Receivable	46,933,528	-	46,933,528
Trading assets - Fair value through profit or loss	-	-	-
Investment properties	153,500,000	-	153,500,000
Other receivables	434,952,196	79,798,580	514,750,776
Total assets	39,463,543,015	34,615,842	39,498,158,857
LIABILITIES			
Deposits from customers	23,771,808,148	-	23,771,808,148
Income tax payable	317,599,624	(317,599,624)	-
Accruals and other payables	6,294,503,201	326,345,884	6,620,849,085
Total liabilities	30,383,910,973	8,746,260	30,392,657,233
OWNER'S FUND			
Retained earnings	9,079,632,042	25,869,582	9,105,501,624
Total owners fund	9,079,632,042	25,869,582	9,105,501,624
Total liabilities & owners fund	39,463,543,015	34,615,843	39,498,158,857

Effect of prior year error correction to statement of cash flows

	For year ended 31st March 2025		
	2025 balance - Before adjustments	Effects of prior year error correction	2025 Adjusted balance
Cash Flows From / (Used in) Operating Activities			
Net Profit before Income Tax Expense	2,370,678,342	-	2,370,678,342
Adjustment to retained earnings	-	25,869,583	25,869,583
Provision for fall/(Increase) in value of investments	16,990,955	-	16,990,955
Allowance for/(reversal of) doubtful debts	63,976,950	-	63,976,950
Change in fair value of investment property	(3,500,000)	-	(3,500,000)
Investment income	(68,370,168)	-	(68,370,168)
Profits attributable to investment made from banks & other Financial institutions	-	-	-
Profits attributable to Mudharabah / Wakalah investments	2,233,625,831	-	2,233,625,831
Operating profit before working capital changes	4,613,401,910	25,869,583	4,639,271,493
Change in other receivables	(22,798,102)	(79,798,581)	(102,596,683)
Change in trade and other payables	4,710,669,080	8,746,260	4,719,415,340
Change in Ijarah rent receivables	(1,387,615,192)	-	(1,387,615,192)
Change in Murabaha / Musawamah /Wakalah Finance	(2,007,937,154)	-	(2,007,937,154)
Change in Diminishing Musharakah receivables	(4,116,390,009)	-	(4,116,390,009)
Change in Wadi'ah Gold Storage Facility	(1,303,283,024)	-	(1,303,283,024)
Change in Factoring Receivables	(46,933,528)	-	(46,933,528)
Change in Mudharabah investments from customers	2,122,111,467	-	2,122,111,467
Change in Wakalah investments from customers	(1,773,262,015)	-	(1,773,262,015)
Change in Mudharabah savings deposits from customers	440,348,162	-	440,348,162
Cash used in Operations	1,228,311,595	(45,182,738)	1,183,128,857
Profits paid to Mudharabah / Wakalah investments	(2,233,625,831)	-	(2,233,625,831)
Net Cash Used in Operating Activities	(1,005,314,236)	(45,182,738)	(1,050,496,974)
Cash Flows from / (Used in) Investing Activities			
Net proceeds from Investments in Mudharabah Deposits	503,609,589	-	503,609,589
Profit Received	68,370,168	-	68,370,168
Net Cash Flows from Investing Activities	571,979,757	-	571,979,757
Cash Flows from / (Used in) Financing Activities			
Repayment of lease liabilities	-	-	-
Net Increase/(decrease) in cash and cash equivalents	(433,334,479)	(45,182,738)	(478,517,217)
Cash and cash equivalents at the beginning of the period	1,404,357,334	-	1,404,357,334
Addition on merger with subsidiary	-	-	-
Cash and cash equivalents at the end of the period	971,022,855	(45,182,738)	925,840,117
Analysis of cash and cash equivalents at the end of the period			
Cash and bank balances	971,022,855	(45,182,738)	925,840,117
	971,022,855	(45,182,738)	925,840,117

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