

LOLC AL-FALAAH ALTERNATE FINANCIAL SERVICES UNIT

ANNUAL REPORT 2018/19







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Our Vision

Al-Falaah, the Alternate Financial Services Unit of LOLC Finance (LOLC Al-Falaah) to be the most preferred Shari'ah compliant financial services provider.

Our Mission

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

Our Values

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

Guided by our values, we aspire to:

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





Our True Identity

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

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

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

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

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

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

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

Awards



IFN Best Islamic Bank in Sri Lanka 2018



IFN Best Leasing Company (Global) of the Year 2018



SLIBFI Sports Category 2019 - Winners



SLIBFI QUIZ - Champions 2019

Awards



CSR Project of the Year 2018 - IFFSA Silver award



Social Upliftment Award of the Year 2018 - SLIBFI Silver award



Leasing Company of the Year 2018 - SLIBFI Bronze award



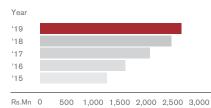
Leasing Company of the Year 2019 - IFFSA Bronze award

Financial Highlights

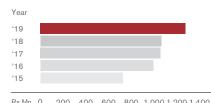
For the year ended 31st March	2019 Rs.	2018 Rs.
Revenue	2,659,273,184	2,476,273,138
Profit paid to Mudharabah/Wakala investors	1,039,785,457	1,014,111,005
Profit paid on other funding arrangement	237,207,937	257,720,738
Other direct expenses	107,254,965	141,530,756
Non distributable other income/(expenses)	39,966,642	34,250,326
Employee benefits	196,326,951	131,406,933
(Provision)/reversal for credit losses	342,838,258	161,112,998
Other operating expenses	191,388,949	223,801,786
Value added tax on financial services	132,005,514	96,472,781
Profit before taxation	452,431,796	484,366,466
Income tax expense	90,250,955	128,848,958
Profit for the year	362,180,841	355,517,508
Assets		
Cash and bank balances	545,261,206	527,929,082
Murabaha/Musawamah/Wakala receivables	1,207,014,756	2,728,465,115
Diminishing Musharaka receivables	4,997,402,551	5,196,286,714
ljarah rent receivables	3,444,479,946	3,134,812,708
Investment securities	4,000,000	399,409,123
Other receivables	69,431,454	71,669,642
Investment properties	-	22,500,000
Total assets	12,824,663,935	14,631,611,838
Liabilities		
Placement from banks & other financial institutions	1,650,749,817	1,815,169,821
Mudharabah investments	3,042,311,354	3,956,680,398
Wakala investments	4,202,554,493	5,459,336,084
Mudharabah savings	705,719,249	860,562,263
Income tax payable	90,250,955	128,848,958
Accruals and other payables	170,223,181	231,660,201
Due to head office	543,928,976	155,491,769
Retained earnings	2,418,925,909	2,023,862,343
Total liabilities & owners' fund	12,824,663,935	14,631,611,838

Financial Highlights

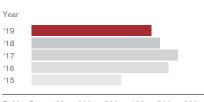
Revenue - Rs. 2,659 Mn



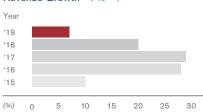
Gross Profit - Rs. 1,275 Mn



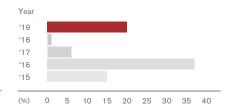
PBT - Rs. 452 Mn



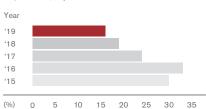
Revenue Growth - 7%



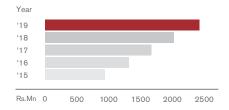
Gross Profit Growth - 20%



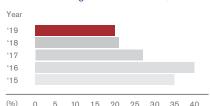
ROE - 16% **↓**



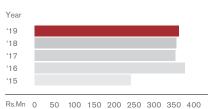
Retained Earnings - Rs. 2,419 Mn



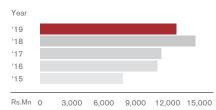
Retained Earnings Growth - 20%



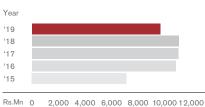
PAT - Rs. 362 Mn



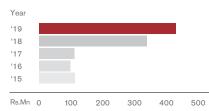
Total Assets - Rs. 12,825 Mn



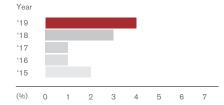
Loans and Advances - Rs. 9,649 Mn



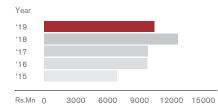
NPL - Rs. 430 Mn



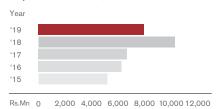
NPL Ratio - 4% 1



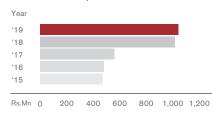
Total Liabilities - Rs. 10,406 Mn



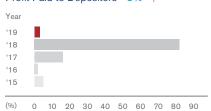
Deposit Base - Rs.7,951 Mn



Profit Paid to Depositors - Rs.1,040 Mn



Profit Paid to Depositors - 3% 1



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DEPUTY CHAIRMAN / CEO'S REVIEW

Alternate Financial Services Unit remains one of the best performing divisions in LOLC Finance in terms of NPL performance, profitability and ROE 11



The resilient performance of LOLC Al-Falaah against the backdrop of volatile industry and macro-economic conditions that characterised the 2018/19 financial year can be deemed exceptional. While many players in the financial services industry struggled, Al-Falaah not only sustained its leadership position in the market, but also managed to strengthen its customer base and increase earnings during the period under review. During the year ended 31st March 2019, Al-Falaah delivered a marginally increased Profit after Tax of Rs. 362 Mn, from Rs. 355 Mn achieved in the previous year. The company also managed to sustain its Non-Performing Loans (NPLs) to 4% which is way below the rest of the industry. A slew of prudential measures were undertaken to lower exposure to any risks by reducing the overall portfolio by 12.76%, which proved to be an astute measure as it protected the company from any major shocks.

As a part of LOLC Finance, Al-Falaah is supported strongly by the highlyrespected LOLC brand which was further strengthened during the year under review due to the merger between LOLC Finance and LOLC Micro Credit Ltd. This merger makes LOLC Finance Sri Lanka's biggest Non-Bank Financial Institution with a combined asset base of over Rs. 200 billion as at 1st April 2019. As the alternate financial solution arm of LOLC Finance, Al-Falaah expects to gain from this positive development while proactively marketing Alternate Finance concept to all parts of the country. The Al-Falaah Alternate Financial Services Unit remains one of the best performing divisions in LOLC Finance in terms of NPL performance, profitability and ROE and we intend to leverage on the new synergies for high profitability in the next financial year.

Future Outlook

As a customer-centric company, Al-Falaah is cognisant of the economic hardship faced by many of its customers in the SME sector, especially in manufacturing and trading segment. Our portfolio of products and our exceptional customer service will continue to support their business aspirations as we did through the year under review. At the same time, the company took a cautious lending approach in order to maintain reasonable NPLs.

Total operating income

Rs. 1,315 Mn

2018: Rs. 1,097 Mn

The fact that Al-Falaah retains its competitive advantage despite challenging conditions is evident in the gamut of awards and accolades won by the company through the year under review.

Technology has always been a key differentiator for LOLC Finance and we intend to infuse this knowhow to benefit Al-Falaah customers. We remain committed to building profitability and enhancing return on investment for our customers while staying focused on offering an array of Shari'ah compliant products and services.

The fact that Al-Falaah retains its competitive advantage despite challenging conditions is evident in the gamut of awards and accolades won by the company through the year under review.

For a second year in a row, LOLC Al-Falaah was bestowed with the 'Best Islamic Bank in Sri Lanka' and 'Best Islamic Leasing Provider (Global)' titles, whilst simultaneously having been nominated for Most Innovative Islamic Bank (Global) 2018, Best Private Islamic Bank (Global) 2018 and Best Overall Islamic Bank (Global) 2018 categories at the Islamic Finance News (IFN) Global Awards, Dubai, UAE. Furthermore, the company took centre-stage at the 2018 Sri Lanka Islamic Banking & Finance Industry (SLIBFI) Annual Quiz Competition, Sri Lanka, bagging the 1st place as Champions along with becoming a winner in the Sports Category. In addition, LOLC Al-Falaah walked away with a Bronze award at the 2018 Islamic Finance Forum South Asia (IFFSA) Awards, Maldives, in the

Leasing Company of the Year category. Doing the nation proud yet again, the company also won Silver and a Bronze award in the Social Upliftment Award and Leasing Company of the Year categories respectively at the highly-prestigious 2018 Sri Lanka Islamic Banking & Finance Industry (SLIBFI) Awards, Sri Lanka. These awards, on local and international platforms, further affirm our commitment to expand the boundaries of alternate financial services in Sri Lanka.

Acknowledgements

I would like to place on record my appreciation to the Chairman and Board of Directors and the senior leadership of LOLC AI-Falaah and LOLC Finance for their support and guidance. I would like to thank the employees at AI-Falaah for their outstanding commitment and grit in the face of difficult operating conditions. I would also like to appreciate the help and support received from the regulators, customers and the Shari'ah Supervisory Board who ensure we remain in compliance with the tenets of Islamic Finance.

Mr. R D Tissera
Deputy Chairman/CEO

Message from Group Head of Alternate Financial Services - LOLC



LOLC Al-Falaah, the Alternate Financial Services unit of LOLC Finance, continues to be an integral part of the company and also the LOLC Group. The success story of Al-Falaah over the last 12 years has resulted in the origination of many initiatives within the group where Al-Falaah continues to be the mother brand. LOLC Group's Alternate Finance operation has expanded its scope to many areas such as the launch of Al-Falaah Takaful in 2015; launch of CLC Islamic Finance in 2016, introduction of Islamic Finance in Sumut Ventura in Indonesia in 2016 and to Pak Oman Bank - Pakistan, by 2020. I have no doubt that this is still the beginning of a larger story to come.

Leader and Role Model

LOLC Al-Falaah is a critical player in the Islamic Finance industry of Sri Lanka. Its success, challenges and strategies are critically analysed and observed by the rest of the industry and community as a whole. The Islamic Finance market in Sri Lanka looks to Al-Falaah to drive the industry through product innovation and product distribution at grassroots levels; to create awareness and continue to be the market influencer in terms of challenging conventional finance. models or even surpassing them.

Over the years, Al-Falaah has been crowned as the Best Islamic Finance entity in Sri Lanka and South Asia; recognised as the Best Leasing Tax showed marginal decline of 7% to Rs. 452 Mn but Profit after Tax showed an increase of 2% to 362 Mn from Rs. 355 Mn in the previous year.

Retained Earnings

Rs. 2,419 Mn

2018: Rs. 2.024 Mn

Company and Most Innovative Product Development; as the first Sukuk provider. Al-Falaah's role is not limited to LOLC Finance alone but extends to the entire LOLC Group and the Islamic Finance industry in the country. During the year under consideration, the company attracted several prestigious awards, reflecting its leadership status amongst its peers.

Strong Performance

The year under review had its fair share of challenges. However, we steered the ship safely and saw both positive and negative results in terms of overall performance. Profit before Tax showed marginal decline of 7% to Rs. 452 Mn but Profit after Tax showed an increase of 2% to 362 Mn from Rs. 355 Mn in the previous year. Moreover,

Non-Performing Loans (NPLs) were kept low at 4% whereas in the overall Non Banking Finance Industry (NBFI) industry, the NPLs were nearly double that.

Non-Performing Loans (NPLs) were kept low at 4% whereas in the overall Non-Banking Finance Industry (NBFI) industry, the NPLs were nearly double that. Due to the high NPL positioning in the NBFI industry, Al-Falaah developed a careful lending strategy and reduced the overall portfolio by 12.76%. However, primary products such as Ijarah leasing saw 10% growth.

I am happy to say that the Al-Falaah Alternate Financial Services Unit is one of the best performing divisions in LOLC Finance in terms of NPL performance, profitability and ROE. Our thinking going forward is to name it 'Alternate Finance' in order to clear the myths prevailing in the market that Islamic Finance is only for any single community. Needless to say, it is designed for all communities and is not a religious based concept which can be embraced by all communities and a successful business model that provides safe and sound returns to all stakeholders. Al-Falaah will continue progressing in its journey of expanding the concept within the group, country and the region, building bridges among communities as a sustainable, long-term financial model.

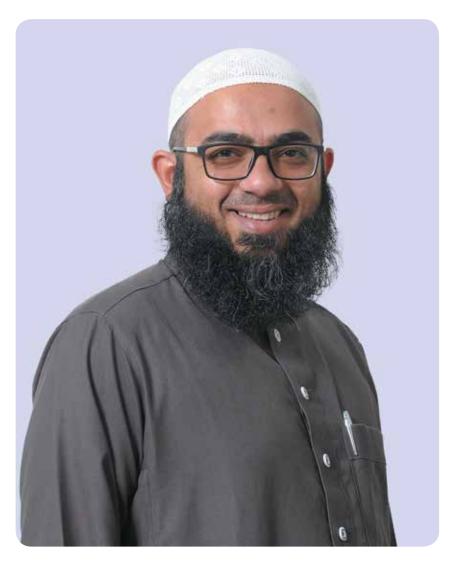
Appreciation

I take this opportunity to thank the Board of Directors of LOLC Finance and the Shari'ah Supervisory Board (SSB) for their guidance through a challenging year. The key pillar of our success remains our employees who yet again need to be commended for going beyond the call of duty to ensure LOLC Al-Falaah sustained profitability. As market leader, I have full faith in the ability of LOLC Al-Falaah to expand the reach of Islamic Finance across the country.

E.

Krishan Thilakaratne
Group Head of Alternate Financial
Services - LOLC

SSB Chairman's Message



As members of the SSB of LOLC Al-Falaah, we constantly strive to inculcate new thinking and positive changes to improve the product lines, processes and compliance of the Alternate Financial Services offered by LOLC Al-Falaah.

The year under review was fairly stable for LOLC Al-Falaah and one in which the company made steady progress. Islamic Finance continues to demonstrate reasonable growth and development of new innovative concepts. LOLC Al-Falaah's product offering has become fairly comprehensive and the unit is able to address a number of the investment and financial needs of the community in a Shari'ah-compliant manner.

The current product portfolio of Investment and Finance options covers a wide-range of financial services that both individuals and corporates could require. We also saw a need to penetrate into the micro-segment of the economy. Therefore, together with the Alternate Financial Services Unit team of LOLC

Al-Falaah, we have developed a Gold Storage product that extend ancillary benefits to this segment of the economy to address their basic needs. We anticipate this product to be launched by the last quarter of the new financial year.

SSB has carried out periodic audits both directly as well as through the Shariah department throughout the year. The SSB Audit process includes a daily transactional audit by the In-House Shari'ah Advisor (ISA), a Quarterly, a Bi-Annual and a Full Annual audit by the SSB members on all aspects of the business process to ensure that highest levels of compliance is met as per the set guidelines by the SSB as inclined with AAOIFI. We have found the Unit to be generally in Compliance with SSB

Guidelines. A comprehensive SSB Audit Report is annexed in this 2018/19 Annual Review of LOLC Al-Falaah.

Further, I had the good fortune of attending the Accounting and Auditing Organisation for Islamic Financial Institutes (AAOIFI) Annual Shari'ah Scholars conference in Bahrain on behalf of LOLC Al-Falaah's Shari'ah Supervisory Board (SSB). Participation at such global events provides the opportunity to interact with global experts in the field and gauge the direction in which the global industry is heading. There is a great need for Governance and Regulation for Islamic Financial Institutions which helps in providing standardisation in the industry. As members of the SSB of

LOLC Al-Falaah has been conducting many internal and external awareness programmes for the general public, various stakeholders such as scholars, students, opinion-leaders, and continued training and re-training of LOLC's employees to ensure the mix between the promotional formula and the understanding of same is right.

LOLC Al-Falaah, we constantly strive to inculcate new thinking and positive changes to improve the product lines, processes and compliance of the Alternate Financial Services offered by LOLC Al-Falaah.

Islamic Finance is promoted globally as an alternate form of finance that is based on the principles of trade and ethics and free of interest. LOLC Al-Falaah has been conducting many internal and external awareness programmes for the general public, various stakeholders such as scholars, students, opinion-leaders, and continued training and re-training of LOLC's employees.

Whereas Islamic Finance globally was growing between 10-15% over the past few years, this strong level of growth has come down to 7-9%. The principal cause for this I believe is to the generic slowdown on champion markets such as the Middle-East and the Far-East, where Islamic Financial services were peaking year-on-year. The trend was no different in the Sri Lankan context; however, there have been a few additional setbacks for the local industry due to negative effects by certain pressure-groups and

general political volatility. Nevertheless, it is significant to note that the overall industry was resilient during these trying times.

Acknowledgements

I would like to express my gratitude to my colleagues on the Shari'ah Supervisory Board for their continued confidence and support. The management of LOLC Al-Falaah has been extremely supportive in ensuring total compliance of the company's products and services to the tenets of Shari'ah and in promoting Islamic Finance. I thank all stakeholders including regulators, staff and customers for their patronage of this highly-viable alternate finance mode.



Ash-Shaikh Shafique A. Jakhura (Mufti) SSB Chairman

How We Create Value

360° FINANCIAL SOLUTIONS



MUDHARABAH Fixed Deposits and Savings



WAKALA FOR INVESTMENT Term Investments



Leasing



Trade Financing



DIMINISHING MUSHARAKAH Property & Project Financing



WAKALA FINANCE Business & Working Capital Financing



MUSAWAMAH Import Financing



Al-Falaah Junior Savings Accounts



Al-Falaah Ladies FD & Savings Accounts



Al-Falaah Senior Citizens FD & Savings Accounts

A STORY OF INNOVATION

- 1st Integrated Mudharabah Savings Account & Pass-book
- 1st Visa enabled International Debit Card & Internet Banking for Mudharabah Savings accounts
- 1st to offer Monthly profits for Investment accounts
- 1st Discount card dedicated for Ladies Mudharabah Savings Account
- 1st Sukuk Transaction in the Country
- 1st Foreign Funding line to an Islamic Finance Window Operation

ATTRACTIVE INVESTOR RETURNS

ATTRACTIVE INVESTOR RETURNS

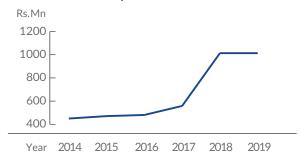
Profit Paid to Depositors

2018

Rs. 1,014 Mn Rs. 1,040 Mn

CONSISTENT GROWTH YEAR ON YEAR

Profit Paid to Depositors



LOCALLY & INTERNATIONALLY RECOGNISED



Islamic Finance News (IFN) Awards



Islamic Finance Forum South Asia Awards



Sri Lanka Islamic Banking & Finance Industry (SLIBFI) Awards



ARC Global Awards, by MercommINC., U.S.A.



Global Banking & Finance Review (GBFR)
Awards, United Kingdom



League of American Communications Professionals (LACP) Global Awards, U.S.A.

STABILITY & GOVERNANCE

- Strategically placed within the regulatory framework of LOLC Finance
- LOLC Finance is a Licensed NBFI of the Central Bank of Sri Lanka
- LOLC Finance rated (SL) A (Stable Outlook) by ICRA Lanka Ltd.
- Dedicated In-House Shari'ah Supervisory Board
- Quarterly, Biannual & Annual Shari'ah Auditing and Reporting
- Segregated & Annual Audited Financial Reporting

DEDICATED TO SERVE



500 + Fully-Trained Staff



100+

Dedicated Al-Falaah Staff



AL-FALAAH

Dedicated Centres



130 +

Locations



11,000+

Active Customers with Finance Facilities



22,000+

Active Customers with Investments & Deposits

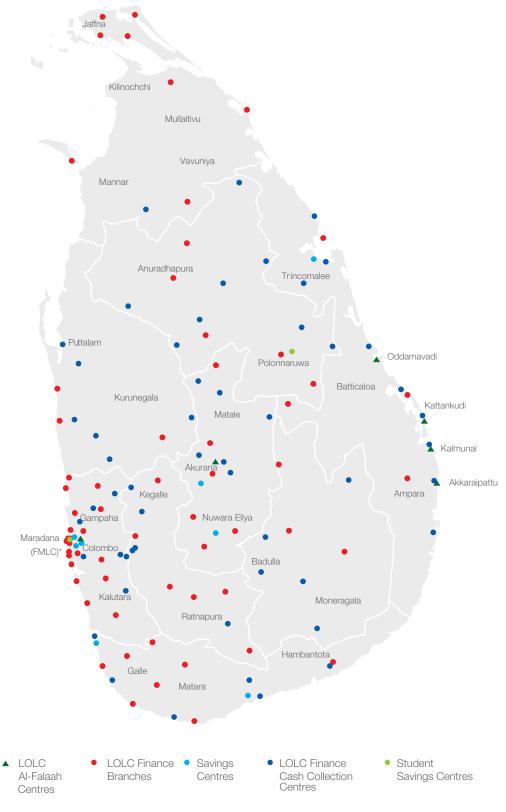


ADVISOR

Full-Time Shari'ah Advisor Availability

Our Locations

OVER 130 LOCATIONS ISLANDWIDE



^{*} FMLC - Fathima Muslim Ladies College

Northern Province

LOLC Finance Branches : 8

North Central Province

LOLC Finance Branches : 14

North Western Province

LOLC Finance Branches : 09

Western Province

LOLC Finance Branches : 29 Student Savings Centre : 01 LOLC Al-Falaah Centre : 01

Central Province

LOLC Finance Branches : 14 LOLC Al-Falaah Centres : 01

> Eastern Province

LOLC Finance Branches : 14 LOLC Al-Falaah Centres : 04

> Sabaragamuwa Province

LOLC Finance Branches : 09

Uva Province

LOLC Finance Branches : 08

Southern Province

LOLC Finance Branches : 17

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Product Review

The period under review proved extremely challenging due to the economic and political instability that persisted through the financial year. In terms of performance against the previous year, LOLC Al-Falaah demonstrated lower NPLs ranging between 4-4.4% than the previous year and a much stronger ratio as compared to banks and the rest of the financial services industry. Perhaps because of stressful prevailing external conditions, the company witnessed an inflow of deposits and savings as customers shifted to LOLC Al-Falaah, as it is seen as a stable and dependable entity. While the business unit's deposit portfolio reached Rs. 7.9 Bn, the Asset portfolio closed at Rs. 9.6 Bn in 2018/19.

In an industry-wide trend of business slowdown, LOLC Al-Falaah proved its resilience by recording a strong performance with revenues of Rs. 2.6 Bn, while strengthening the portfolio with a strong focus on security-based lending. LOLC Al-Falaah cut back on extending consumption loans and high-risk businesses whilst liaising with key customers to provide sustenance and business continuity. Working capital products such as Diminishing Musharakah and Wakala Finance performed well and the performance of the tourism sector also helped the business. Therefore, LOLC Al-Falaah managed to close the year with a Profit before tax of Rs. 452 Mn which is a significant achievement as compared to the performance of the previous financial year.

Although the loan book did not grow in the year under review, LOLC Al-Falaah managed to sustain its portfolio without any major impact to the Company. Reflecting its spirit of innovation, the company is chalking out plans to offer a safe custody product along the lines of Gold Loans for Microfinance customers who are ineligible for asset-backed loans.

SUPPORTING CUSTOMERS IN TIME OF NEED

The Company's main customer segments, namely, SME, MSME and the retail sector, were adversely impacted during the year. Being a key financial services provider to the coconut and tea exporters, both these customer segments suffered hardship during the period under consideration. Furthermore, tax reviews imposed during the year led to thinning margins and a liquidity crunch as small and medium businesses, which keep liquidity high in the market, experienced a slowdown. Many of LOLC Al-Falaah's customers were preoccupied with sustaining their business rather than borrowing for growth and expansion and were seeking solutions to bridge cash flow gaps. As a result of all these unfavourable factors, the entire industry witnessed a sharp rise in Non-Performing Loans (NPLs).

Closely monitoring the situation through the year, the company adopted a cautious approach to lower its lending activity and turned to consolidation of its finances by maintaining the loan portfolio, promoting asset-backed financing and discouraged high risk non collateralised lending to sustain its portfolio.

Going ahead, the Company will entrench its credentials to strongly position itself as offering financial services for every citizen of Sri Lanka regardless of race and religion. This approach has taken the company to the forefront of the Islamic finance industry as one of the top three players. The Company plans to leverage on group synergies to retail off-the-shelf products for all citizens.

GAINING RECOGNITION

LOLC Al-Falaah's depth of expertise is evident in the issue of the industry's first sukuk in 2016 which is maturing in 2019. The Company plans to issue a second sukuk based on its requirement. It is the first Sri Lankan company to be granted funding from IDBs ICD in 2017 which will be up for a successful renewal negotiation in 2020.

The Company received local and international awards during the year under review. LOLC Al-Falaah was adjudged the Best Islamic Leasing Provider in the Global category and the Best Islamic Bank in Sri Lanka at the 14th Annual IFN Best Banks Poll 2018.

The Company received local and international awards during the year under review. LOLC Al-Falaah was adjudged the Best Islamic Leasing Provider in the Global category and the Best Islamic Bank in Sri Lanka at the 14th Annual IFN Best Banks Poll 2018. LOLC Al-Falaah was also nominated in three other categories: Most Innovative Islamic Bank 2018 (Global), Best Islamic Private Bank 2018 (Global) and Best Overall Islamic Bank 2018 (Global). The IFN Best Bank Poll recognises leading industry stalwarts across 38 sectors and countries. In the category of the Best Islamic Leasing Provider, LOLC Al-Falaah moved up from the previous Runner-Up position, whilst in the Best Islamic Bank of Sri Lanka category, the Company successfully retained its position as the winner once again.

PRODUCT REVIEW **DEPOSITS & SAVINGS**

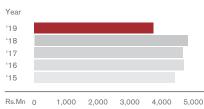
The macro-economic condition during the 20188/19 financial year proved challenging as a result of a severe liquidity crunch and general economic slowdown. The Non Banking Finance Industry (NBFI) was forced to operate in a high pressure environment. Despite these obstacles, Al-Falaah performed reasonably to sustain its position at the forefront of the Islamic Finance industry. The company is considered a role model for Islamic Finance in the country and customer confidence in the brand remains high. Al-Falaah's commitment to its investors can be evidenced by the fact that the company paid depositors a total sum of Rs.1040 Mn for the period 2018/19 as compared to Rs. 1014 Mn in the preceding year.

MUDHARABAH

The tight liquidity crunch in the market moderated higher savings and deposits during the year. Our 'Al-Falaah Ladies Savings Account' continued to empower these customer segments. The company has customised solutions for both investors and borrowers alike.

'Al-Falaah Junior Mudharabah Savings Account' is doing a great service by attracting young customers and inculcating in them the valuable habit of saving for a secure financial future. It also proves to be a great way to introduce principles of Islamic Finance amongst youth. The 'Al-Falaah Senior Savings Account' has garnered a wide customer base as more customers come to realise the value of providing for their twilight years to lead a life of financial independence and dignity.

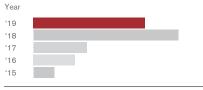
Mudharabah - Rs. 3,748 Mn



WAKALA FOR INVESTMENT

Wakala Term Investments, popular amongst trading and manufacturing sectors, suffered a decline due to unfavourable macro-economic conditions prevailing in the country. This product is extended for corporate fixed term investors who seek a fixed-return or a stable return for its investments.

Wakala Investments - Rs. 4,203 Mn

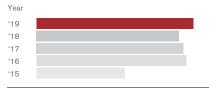


(Rs. Mn) O 1,000 2,000 3,000 4,000 5,000 6,000

IJARAH FOR LEASING

Despite import restrictions being levied on the sector to stabilise the exchange rate, LOLC Al-Falaah's Ijarah product performed strongly to record Rs. 3444 Mn as compared to Rs. 3135 in the previous year, reflecting a 10% increase.

ljarah - Rs. 3,444 Mn

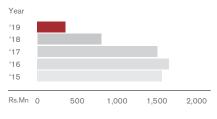


500 1,000 1,500 2,000 2,500 3,000 3,500

MURABAHA FOR TRADE FINANCE

Adverse weather conditions, weak market demand and a cash flow crunch resulted in various sectors performing poorly as a result of which demand for trade finance saw a drastic drop.

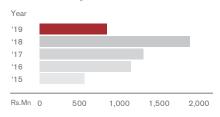
Murabaha - Rs. 352 Mn



WAKALA FOR BUSINESS AND WORKING CAPITAL FINANCE

This segment of our portfolio witnessed a decline once again due to lesser need for working capital financing as investors held back further investment until such time the economy showed an uptick. LOLC Al-Falaah too adopted a cautious approach in lending and customers to strengthen credit quality.

Wakala Lending - Rs. 846Mn



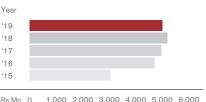
MUSAWAMAH FOR IMPORT **FINANCE**

Although LOLC Al-Falaah counts a major proportion of the import fraternity in its customers, the volatility in exchange rates and weak consumer demand lowered the need for import financing as importers were impacted adversely due to the macro conditions.

DIMINISHING MUSHARAKAH FOR PROPERTY AND PROJECT FINANCE

This product witnessed a slight growth of 5% to record Rs. 5,002 against Rs. 5,196 achieved in the previous year. This was largely due to a stagnant real estate and property market during the year in tandem with a 'wait and watch' stance adopted by businesses due to low business confidence.

Diminishing Musharakah - Rs. 5,002 Mn



1,000 2,000 3,000 4,000 5,000 6,000

Corporate Governance

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

Structure

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

Instruments of Governance

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

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

policies, procedures, and processes for internal controls and anti- money laundering.

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

Board of Directors

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

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

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

Monitoring and Evaluation by the Board

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

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

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

Skills and Performance of the Board

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

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

Engagement with Shareholders

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

Engagement with Employees

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

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

Avoiding Conflicts of Interest

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

External Audit

M/s Ernst & Young, Chartered Accountants were re-appointed as External Auditors of the Company by the shareholders at the Annual General Meeting held in September 2018.

The External Auditors' certification on the effectiveness of the Internal Control Mechanisms in respect of the audited financial statements released has been published in this Annual Report in compliance with the requirements of the aforesaid Direction. Furthermore, based on a report issued by the External Auditors on Factual Findings on the Level of Compliance of the said Corporate Governance Direction, the Board has determined that the Company has in fact adhered to its requirements.

The Directors confirm that no significant deviations have been observed by the External Auditors and that the Company has not engaged in any activity that contravenes any applicable law or regulation. To the best of the knowledge of the Directors the Company has been in compliance with all prudential requirements, regulations and laws.

Enterprise Risk Management

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

Risk for LOLC Finance PLC. (LOFC) is defined as anything which hinders the achievement for our strategic and tactical objectives. Risk governance at LOLC Group is spearheaded by the Group level centralised risk function with adequate level of independence given to the entity level structures. This allows seamless integration with the Group level policies and allows for the risk management initiatives to cascade down to entities and ensure uniformity across the Group.

LOLC Finance PLC comes under the financial sector of LOLC Group and requires a high degree of regulatory compliance with regard to risk management. Risk management at LOLC Finance is given full independence with the enterprise risk management unit having its reporting line to the Board of Management via the integrated Risk Management Committee and the Audit Committee. This segregation of reporting from the organisation's executive management ensures that all risk and audit related matters are free from any bias and reported to the Board of Management. This initiative shows the commitment of the Board of Management to risk governance with in the organisation.

The integrated Risk Management Committee (IRMC) and the Audit Committee are Board level subcommittees which are headed by Independent Directors. The above risk governance initiative allows the Board of Management to have direct oversight over the enterprise risk management division and its sub functions and ensures that the Board of Management is appraised of the organisational risks and internal controls in an independent and unbiased manner. This elevates the confidence level the Board has on the internal control and risk governance structures and their reliability, consistency and effectiveness.

The IRMC and the Audit Committee approve the annual plans with regard to their respective scope of works and monitors the progress on a quarterly basis. This ensures that both the risk and audit functions are adequately staffed, and resources constraints are managed.

The risk governance structures at LOLC Finance consist of Risk Management, Internal Audit and IS Audit functions which forms the Enterprise Risk Management Department (ERM). Risk management focuses on the probable risks, its impact and mitigation strategies while the internal audit function focuses on the adequacy, effectiveness, consistency and the reliability of the internal control framework in place to manage the risks. The information systems audit functions play a supporting role to both the internal audit and the risk management in evaluating the information and cyber related risks to the organisation. The synergy between the risk and audit functions ensures efficient deployment of resources based on risk factors and that all required risk mitigation structures are working as intended.

The risk management function identify risks with a reasonable probability to affect the realisation of objectives, The risk identification takes place at different levels of the organisation, mainly at risk and process owners level and at focused risk assessments carried out by the risk management function. This is supplemented by the risks identified by the audit function in its reviews. To strengthen the above process compulsory reporting lines are established from each business and service silo to the ERM department to which all units reports on a monthly basis of perceived risks covering a broader entity level risk spectrum. These reports are further analysed by ERM for impact and reported to the board on a monthly basis. Any material risks which are identified with in two reporting periods are immediately informed to the CEO and the respective risk owners by way of risk information escalations. so mitigation action can be taken promptly. In addition to the aforesaid quarterly reporting, the Integrated Risk Management Committee (IRMC) focuses on emerging material risks and identified monitored risks against key risk indicators defined by the Board and other risk indicators monitored by ERM for potential adverse movements. The Integrated Risk Management Committee (IRMC) evaluates the possible impacts and in line with the mitigation action proposed by ERM consults risk owners and decide on the best possible risk mitigation strategies and comfortable levels of expected risk. The Board of Management is kept informed of all activities of the IRMC via a Board communication with in seven days of the quarterly IRMC meeting.

We firmly believe on our vision in risk management, "Building an organisational Culture where Protection, Assurance, Reliability, Accountability, Transparency and Confidentiality are treasured and lasting values", and have identified that creating awareness of risk and response at all levels of staff is the key to a successful risk management programme. In pursuant of this strategy enterprise risk management department engages in a consultative capacity in new product, service developments and business process formulations to ensure that product, process and service risks are adequately addressed. In addition ERM conducts in house training for staff on risk and controls.

The Internal Audit adopts a risk-based approach to its auditing and peruse a three-pronged strategy of Branch Audits, Process Audits and Continuous audits are conducted. We have a team of regional auditors based in the branches who review the branches as well as engage in field reviews of our Microfinance operation. In addition all these audits are supported by IT audits in reviewing corresponding IT controls supplemented by the planned Information system audits conducted by the IS Audit unit which gives a reasonable assurance that IT controls are reliable and adequate. All new major system developments and deployments also are scrutinised by the IS Audit function for application and general controls.

A corporate whistle blower hotline and a customer feedback line (in addition to the operational complaint line) are managed by ERM division. The corporate whistle blower line facilitates employee reporting of information on irregularities and suspicious activities while the customer feedback hotline allows a customer to use an alternate channel to complain if their grievances

are not handled satisfactorily by the operational staff.

Risk management is an evolving function and adaptation to the global trends and economic environment is essential. We firmly believe that in order to adopt to the volatile business environment updating and maintaining of diverse skills and knowledge covering all aspects of LOLC Finance operations is a pre-requisite. Constant training, both in-house and external are provided to enhance the knowledge and skills of the ERM staff. The elevate confidence levels in our ability to identify emerging risks and formulation of risk mitigation controls.

Risk Profile

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

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

Financial Risks



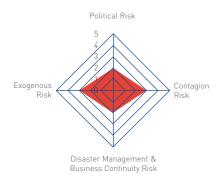
Operational Risks



Business Risks



Event Risks



Charity Fund

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

During the year under consideration, the company engaged in meaningful charitable initiatives to benefit selected beneficiaries with special focus on Medical care, Education and Social Upliftment, irrespective of religion, race or ethnicity. In its dedication to benefit those who deserve help the most, LOLC Al-Falaah identifies and prioritises requests for humanitarian help through a formal selection and approval procedure to ensure the highest standard of transparency.

Even though the Charity Fund is mandated by the Shari'ah Supervisory Board (SSB) for entities engaged in provision of Islamic Finance, it is an ideal way to fulfill a corporate's social responsibility and to highlight that Islamic Finance is meant for all communities – since the charity fund benefits all needy persons regardless of religion or other bias.

During the year under review, LOLC Al-Falaah's Charity Fund disbursed a total amount of Rs. 17,918,887/- for the financial year ended 31st March 2019 amongst 167 beneficiaries, which reflects a growth of over 28% over the amount disbursed and approximately 35% wider reach than in the previous year.

Medical care forms a key focus because rising health costs and lack of access to quality medical care can be a huge obstacle for the economically underprivileged. As a result, a large proportion of the funds were spent on medical needs of 86 beneficiaries to the tune of Rs. 12,333,000/- whilst the balance funds of Rs. 2,553,320/- were spent on meeting educational needs of 49

During the year under review, LOLC Al-Falaah's Charity Fund disbursed a total amount of Rs. 17,918,887/- for the financial year ended 31st March 2019 amongst 167 beneficiaries 77

beneficiaries as LOLC Al-Falaah believes that education provides the foundation to live a better life and to gain access to more opportunities. Finally, a further Rs. 3,032,567/- was spent on social upliftment initiatives to benefit 32 persons which has enhanced their quality of life.

Furthermore, some special projects were also conducted during the period, such as distribution of 1,100 Ramazan dry ration packs for the 10th consecutive year amongst the needy during the fasting season through staff across the branch network island-wide.

The company also was engaged in sponsoring several educational programs for under-privileged G.C.E.Ordinary-Level and Scholarly students, such as the special teaching project organised by All Ceylon Jammiyathul Ulama (ACJU). Contributions were also given for several volunteering CSR Projects, in the likes organised for the National Cancer institute, Maharagama by entities such as the Lions Clubs International and other interest groups.

The Charity Fund also donated towards an annual book donation project organised by Sewa Vanitha Unit of Civil Security Department. Moreover, the fund supported housing rentals to fulfill shelter needs for deserving candidates.

Funds were also directed for yet another consecutive year for the annual book donation project organised by the Positive Women's Network (PWN+) for the children of PLHIV families, apart from the various specialised organisations and

orphanages that the fund had committed monthly maintenance contributions.

LOLC Al-Falaah's generosity of spirit is evidenced by its constant efforts to enhance its Charity Fund whilst painstakingly taking into account the most urgent needs of less privileged people to see where its resources have the greatest impact. The company's Charity Fund has been a boon for many deserving persons whose hope has been restored through its swift intervention and generous support to give back to society.



Medical Needs
Rs.12.33 Mn



Education
Rs. 2.55 Mn
49 Beneficiaries
2018: 4.25 Mn



Social
Rs.3.03 Mn
32 Beneficiaries
2018: 2.73 Mn



Total Beneficiaries
167

Shari'ah Supervisory Board Members

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

ASH-SHAIKH SHAFIQUE A. JAKHURA (MUFTI)

Chairman

Mufti Shafique is a Registered, Certified Shari'ah Advisor and Auditor by the Accounting and Auditing Organisation for Islamic Financial Institutions of Bahrain (AAOIFI). He serves in the Fatwa Department preparing and issuing Islamic Juristic Rulings at the Darul Ihsan Centre in Durban, South Africa. He is also a founding member of the Centre of Islamic Economics and Finance South Africa (CIEFSA). He completed the Aalimiyah Course at Madrasah Taleemuddeen in 2002 in Durban and completed a three-year specialisation course in Islamic jurisprudence (Figh and Fatwa) from the Jami'ah Darul Uloom, Karachi, Pakistan in 2005, under the guidance of Mufti Tagi 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 Shari'ah Supervisory Board of Al-Falaah, the Islamic Business Unit of LOLC Finance PLC.

ASH-SHAIKH MURSHID M. MULAFFAR

Member

Graduate from 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 whilst being a leading Islamic
Finance consultant in Sri Lanka, he is
also the Assistant General Secretary
of the All Ceylon Jamiyyathul Ulama
(ACJU) Ash-Shaikh Murshid Mulaffar
and is a Member of the Shari'ah
Supervisory Board of Al-Falaah, the
Islamic Business Unit of LOLC Finance
PLC.

ASH-SHAIKH FAZIL M. FAROOK

Member

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 Shari'ah Supervisory Board of Al-Falaah, the Islamic Business Unit of LOLC Finance PLC.

Board of Directors



MR. B C G DE ZYLVA Non-Executive Chairman



MR. R D TISSERA
Deputy Chairman/CEO



MRS. K U AMARASINGHE Executive Director



MR. A NISSANKA Executive Director



MRS. D P PIERIS
Senior Independent Director



MR. P A WIJERATNE
Independent Director



MR. K SUNDARARAJ Independent Director

MR. B C G DE ZYLVA

Non-Executive Chairman

The Chairman of the Boards of LOLC Finance PLC and LOLC (Cambodia) PLC, and the Managing Director of LOLC Myanmar Micro-Finance Company Limited. Prior to joining the LOLC Group, he served the Non-Bank Financial Services Industry (NBFI) in Sri Lanka in both Licensed Finance Companies and Specialised Leasing Companies holding Board and General Management positions. He counts over 35 years of experience in the NBFI sector including the micro finance industry in Sri Lanka, Myanmar and Cambodia.

MR. R D TISSERA

Deputy Chairman/CEO

Mr. Ravi Tissera joined the LOLC Group in 1993 and currently serves as Deputy Chairman/CEO of LOLC Finance PLC (LOFC), the largest Non-Bank Financial Institution in Sri Lanka.

Mr. Tissera, a Development Finance Specialist with a Post Graduate Diploma in Marketing, is a member of the Chartered Institute of Marketing UK. He has followed Strategic Leadership Training in Microfinance at Harvard Business School.

Mr. Tissera introduced microfinance to the LOLC Group and was the founder Director/CEO of LOLC Micro Credit Ltd., Sri Lanka's largest microfinance provider, certified on Client Protection Principles from the SMART Campaign USA. He also has expanded LOLC's microfinance operation outside Sri Lanka in Myanmar, Cambodia and Pakistan.

He is also on the Boards of LOLC Development Finance PLC, Sundaya Lanka (Pvt) Ltd. and LOLC Mauritius Holdings Limited. Mr. Tissera was appointed to the Board of Seylan Bank PLC as Alternate Director to Mr. W D K Jayawardena in April 2018.

MRS. K U AMARASINGHE

Executive Director

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

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

MR. A NISSANKA

Executive Director

Ashan Nissanka is an Executive Director of LOLC Finance PLC and previously functioned as the Director/Chief Executive Officer from 2015-2018. He currently serves on the Board of LOLC Philippines Corporation and spearheads the Group's international operations in Philippines, Africa and South America.

Joined LOLC in 1998 and counts over 26 years of experience in the banking and finance sector with expertise in strategic marketing planning, development and management of the retail channels.

Ashan holds an MBA from Edith Cowan University, Australia, a Graduate Diploma from Chartered Institute of Marketing – UK (CIM) and a Certified Management Accountant from Institute of Certified Management Accountants Australia. He currently serves as a Council member of the Institute of Certified Management Accountants Australia (CMA-Australia), a Board Member of the Leasing Association of Sri Lanka (LASL) and a member of Sri Lanka Institute of Marketing (SLIM).

MRS. D P PIERIS

Senior Independent Director

Mrs. Dayangani Priyanthi Pieris is an Attorney-at-Law of the Supreme Court of Sri Lanka and a Solicitor of England & Wales.

She counts over 38 years experience in the fields of corporate/securities law. She has a wide experience in handling corporate restructuring, privatisations, capital market transactions and take-overs and mergers.

She serves on the Boards of Asia Asset Finance PLC, LOLC Finance PLC, Abans Electricals PLC, Associated Electrical Corporation Ltd., MTN Corporate Consultants (Pvt) Ltd. and the Chairperson/Consultant of P W Corporate Secretarial (Pvt) Ltd., a company providing Secretarial and Registrars Services to a large number of companies listed on the Colombo Stock Exchange.

She served on the Boards of Forbes & Walker Ltd., Forbes Ceylon Ltd., Forbes Stock Brokers Ltd., Forbes Air Services Ltd (general sales agent for Emirates), Vanik Corporate Services Ltd., Office Network (Pvt) Ltd., Capital Reach Holdings Ltd. and Associated Motorway Ltd.

Mrs. Pieris served as the Legal Adviser to the Ministry of Finance from 2002 to 2004 and as Legal Consultant to the Colombo Stock Exchange from 2004 to 2011. She also serves as a member of the Committee set up by the Securities

Board of Directors

and Exchange Commission of Sri Lanka to recommend amendments to the Company Takeovers and Mergers Code1995 (as amended) and a member of the Committee, recommending amendments to the Rules on Corporate Governance.

MR. P A WIJERATNE

Independent Director

Mr. Wijeratne 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. He joined CBSL in 1987 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. He read for his MSc in Accounting and Financial Economics at the University of Essex, UK.

MR. K SUNDARARAJ

Independent Director

Mr. Kandiah Sundararaj counts over 26 years experience in accounting, auditing and tax consulting. He started his career as a Chartered Accountant in 1998 and is currently serving as the Tax Partner in M/s Amarasekera and Company, Chartered Accountants.

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

Directorships held by the Directors

Mr B C G De Zylva	Chairman: LOLC Finance PLC LOLC (Cambodia) PLC
	Managing Director: LOLC Myanmar Micro-Finance Company Limited
	Director: Navajeevana Rehabilitation Tangalle Browns Machinery (Cambodia) Co. Ltd.
Mr. R D Tissera	Deputy Chairman/CEO: LOLC Finance PLC
	Director: Sundaya Lanka (Pvt) Ltd. LOLC Development Finance PLC LOLC Mauritius Holdings Limited
	Alternate Director:
	Seylan Bank PLC

Mr. A Nissanka	Director/CEO: LOLC Finance PLC
	Director: LOLC Philippine Corporation LOLC Philippines Capital Holdings Corporation LOLC Finance Zambia Limited
Mrs. D P Pieris	Chairperson: PW Corporate Secretarial (Pvt) Ltd. Director:
	LOLC Finance PLC Asia Asset Finance PLC Sithijaya Fund Ltd. Asian Centre for Lease Education Associated Electrical Corporation Ltd. Abans Electricals PLC MTN Corporate Consultants (Pvt) Ltd.
Mr. P A Wijeratne	Director: LOLC Finance PLC
Mr. K Sundararaj	Director: LOLC Finance PLC

Strategic Business Unit Team



KRISHAN THILAKARATNE



SHIRAZ REFAI



BUDDHIKA WEERATUNGE



IMRAN ZAROOK



SHAFIN IQBAL



ASH-SHAIKH FAZIL MOHIDEEN



ASH-SHAIKH ILHAM MUFARIS



ASH-SHAIKH SEYYED SAABIQ



ASH-SHAIKH UBAIDULLAH IQBAL



MOHAMED WAFIQ



FAZNA FAZMI

KRISHAN THILAKARATNE

AIB (SL)

Group Head of Alternate Financial Services - LOLC

Joined the LOLC Group in 1995. Counts over 25 years of experience in Banking, Credit, Leasing, Factoring and Branch Management. Conceptualised and introduced Islamic Finance to LOLC Group.

SHIRAZ REFAI

MABE (UK), FCMI (UK), MBA (UK)
Deputy General Manager - Al-Falaah,
Alternate Financial Services Unit of
LOLC Finance

Joined LOLC Group in 2006 and counts over 20 years of experience in the Banking and Financial Services sectors in both local and overseas establishments. A key member of the Operational Management Team of LOLC, has played a pivotal role in spear-heading the formation and implementation of Islamic Financial Services projects under LOLC Group financial services subsidiaries.

BUDDHIKA WEERATUNGE

FCA (SL), MBA (ACS), ACMA (SL) Head of Finance, LOLC Finance

Buddhika Weeratunge is Fellow member of the Institute of Chartered Accountants in Sri Lanka. He also possess a Master Degree from University of Southern Queensland, Australia and Associated Member of Institute of Certified Management Accountants of Sri Lanka (CMA Sri Lanka).

Buddhika counts 9 years of postqualified experience in the finance sector commencing his career at LOLC in 2010. Currently is the head of Finance of the LOLC Finance PLC and prior to it he head the Finance division of both LOLC Micro Credit Ltd and BRAC Lanka Finance PLC.

IMRAN ZAROOK

ADCM (SLICM), ADICM (SLICM) Assistant Manager, Recoveries Supervision - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Joined LOLC Group in 2015. Counts over 17 years of experience in the field of customer operations/finance

including credit control, collection, recovery, legal, risk and relationship management.

SHAFIN IQBAL

MCIM, MBA (UK)

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

Joined in 2014. Counts over 13 years of experience in Marketing services in the areas of New Business Development, Public Relation and Networking, and Event Management.

ASH-SHAIKH FAZIL MOHIDEEN

BA in Usoolud Deen (NALEEMI), DIB (IBSL)

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

Joined LOLC Group in 2014. Counts over 4 years of experience in Islamic Banking and Financial Services in both Marketing and Operational areas.

ASH-SHAIKH ILHAM MUFARIS

BA in Usoolud Deen (NALEEMI), BA (University of Peradeniya),AAT(Passed Finalist),CCHRM.

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

Joined LOLC Group in 2015. Counts over 3 years of experience in Islamic Banking and Financial Services in Operational areas.

ASH-SHAIKH SEYYED SAABIQ

BA in Usoolul Fiqh (FATHIH), EDIBF (FGA) Assistant, Operations - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

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

ASH-SHAIKH UBAIDULLAH IQBAL (HUMAIDI)

B.A (Hons), SEUSL, DIB (SEUSL). In-House Shari'ah Advisor - Al-Falaah, Alternate Financial Services Unit of LOLC Finance

Joined LOLC group in 2017. Counts over 4 years of experience in teaching

of Islamic theological studies. Graduated from the Darul Uloom Al-Humaidiyyah in Islamic Shariah, Colombo. A holder of B.A (Hons), specialisation in Islamic Banking and Financing from South Eastern University of Sri Lanka.

MOHAMED WAFIQ

MBA (UK)

Executive - IBU Recoveries Supervision, Islamic Business Unit

Has 11 years experience in Telecommunication Sector, including Customer care, Recoveries, Inbound and Outbound call handling, Back Office functions and Corporate support service. Joined LOLC on 7th of January 2019. Overlooking the Islamic facilities recoveries.

FAZNA FAZMI

ACSI-UK

Customer Service Executive- Al-Falaah, Ladies Business Unit of LOLC Finance

Joined in Dec-2018. Counts over 7 years of experience in Marketing, Operations, New Business Development, Public Relations and Networking, Conducting lectures in the areas of IBF and Event Management. Currently reading for MBA-UK, completed Post Graduate Diploma in Strategic Management and Leadership and CIM-UK part qualified.

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Shari'ah Supervisory Board Audit Report 2018/2019

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 eleventh year of Al-Falaah, the Islamic Business Unit of LOLC Finance PLC (LOLC Al-Falaah).

During the year, The Shari'ah Supervisory Board (SSB) of the LOLC Al-Falaah and the Management of LOLC Finance PLC held several meetings to review various products, concepts, transactions, processes and their Shari'ah compliance.

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 Shari'ah Supervisor (ISA), the transactions concluded by LOLC Al-Falaah during the financial year under review from April 2018 to March 2019.

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

The Management of LOLC Finance PLC (LOFC), is responsible for ensuring that LOLC Al-Falaah, conducts its business in accordance with the rules and economic principles of the Shari'ah. It is the Shari'ah Supervisory Board's (SSB) responsibility to form an independent Shari'ah 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:

- SSB branch visits: The ISA as well as members of the SSB visited a number of Branches around the Island to review procedures and meet staff involved in LOLC Al-Falaah transactions.
- 2. SSB meetings: At least 9 days of meetings were held by members of the SSB during the period.
- 3. Development of New Products: The SSB is currently in the process of advising, structuring and assisting with the development of various new products required by the institution.
- 4. Review of existing product agreements: As part of ongoing reviews and in the effort to constantly improve, the existing Ijarah, Murabaha, Musawamah, Diminishing Musharakah and Wakala Finance agreements were reviewed and where required, certain amendments were suggested.
- 5. Awards: Some of the achievements of LOLC Al-Falaah were recognised during the year.

Shari'ah Audit and Compliance Review

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

- 1. Ijarah Lease Financing Transactions
- Murabaha Trade Financing Transactions
- 3. Musawamah Import Financing Transactions
- 4. Diminishing Musharakah Financing Transactions

- 5. Wakala Financing Transactions
- 6. Ijarah Sukuk Audit
- 7. Profit Distribution
- 8. Bank Statements
- 9. Expenditure Apportionment
- Review of Audited Financial Statements
- 11. Accrual and Disposal of impermissible Income
- 12. Marketing and Advertising Material
- 13. Reconciliation of Administrative Charges on Delayed Penalties against actual Expenses incurred for recoveries
- 14. Interview with LOLC Al-Falaah staff
- 15. Wakala Investment from an Overseas Establishment
- 16. Charity Fund
- 17. Excess-Fund Investments

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

In our opinion;

- The overall structure of the contracts offered by LOLC Al-Falaah and their implementation during the year under review are generally in compliance with the rules and economic principals of Shari'ah.
- The allocation of profit relating to investment accounts appears to conform to the rules and economic principles of Shari'ah.

- The expense allocation appears to be based on a reasonable formula.
 Management is requested to review this methodology annually to ensure accurate allocation of expenses.
- 4. The reconciliation of Administrative Costs recovered vs Costs incurred for recovery of delayed payments appears to indicate that Administrative charges recovered are less than costs incurred in recovering delayed payments. Hence, this is in accordance with the guidelines issued by the SSB. Management is required to carry out periodic reviews on this to ensure that Administrative charges recovered never exceed costs of recoveries incurred.

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

(MUFTI) SHAFIQUE A. JAKHURA

Chairman-SSB

(ASH-SHAIKH) FAZIL A. FAROOK

 ${\sf Member-SSB}$

(ASH-SHAIKH) MURSHID M. MULAFFAR

Member-SSB

18 July 2019

Product Approval by Shari'ah Supervisory Board

TO WHOM IT MAY CONCERN,

This is to confirm that we, the members of the Shari'ah Supervisory Board of Lanka ORIX Leasing company PLC (LOLC), after a careful examination of relevant documents, processes and review of operational procedures, have approved the following Islamic Financing products of the Islamic Business Unit of LOLC Finance PLC.

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

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

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

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

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



ASH-SHAIKH/MUFTI SHAFIQUE A. JAKHURA Chairman-SSB / Mufthi

Tapl Jaroo R

ASH-SHAIKH FAZIL A. FAROOK Member-SSB

ASH-SHAIKH MURSHID M. MULAFFAR Member-SSB

Independent Auditors' Report



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

: +94 11 2463500 Fax Gen: +94 11 2697369 Tax: +94 11 5578180

eysl@lk.ey.com ey.com

OPINION

We have audited the statement of financial position as at 31 March 2019 and the statement of comprehensive income for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial statements").

In our opinion, the accompanying financial statements of the LOLC Finance PLC Islamic Business Unit ("IBU") for the year ended 31 March 2019 is prepared, in all material aspects, in accordance with the accounting polices set forth in pages 47 to 55 of the 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 financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

EMPHASIS OF MATTER - BASIS OF ACCOUNTING AND RESTRICTION ON DISTRIBUTION

We draw attention to the accounting polices set forth in pages 6 to 18 of the financial statements, which describes the basis of accounting. As a result, the financial statements may not be suitable for another purpose. Our audit work has been undertaken so that we might state to the Board of Directors of the LOLC Finance PLC, those matters that we are required to state, in an auditor's report and for no other purpose. Our report is intended solely for the addressee and should not be distributed to parties other than the addressee. Our opinion is not modified in respect of this matter.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of financial statements in accordance with the accounting polices set forth in pages 47 to 55 of the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL **STATEMENTS**

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

WRH Fernando FCA FCMA MPD Cooray FCA FCMA RN de Saram ACA FCMA Ms. NA De Silva FCA Ms. YA De Silva FCA WKBS PFernando FCA FCMA Ms. KRM Fernando FCA ACMA Ms. LKHLFonseka FCA APA Gunasekera FCA FCMA A Herath FCA DKHulangamuwa FCA FCMA LLB (Lond) HMA Jayesinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. GGS Manatunga FCA Ms. PVKN Sajeewani FCA NMS Ulaiman ACA ACMA BE Wijesuriya FCA FCMA

T P M Ruberu FCMA FCCA

Independent Auditors' Report

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's

- report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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.

We also provide those charge with governance with a statement that we have complied with relevant ethical requirements regarding independence, to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

26 June 2019 Colombo

Statement of Financial Position

As at 31st March	Notes	2019 Rs.	2018 Rs.
ASSETS			
Cash and bank balances	3	545,261,206	527,929,082
Deposits with banks and other financial institutions		2,557,074,022	2,550,539,455
Murabaha/Musawamah/Wakala receivables	4	1,207,014,756	2,728,465,115
Diminishing Musharaka receivables	5	4,997,402,551	5,196,286,714
ljarah rent receivables	6	3,444,479,946	3,134,812,708
Investment securities	7	4,000,000	399,409,123
Other receivables	8	69,431,454	71,669,642
Investment properties	9	-	22,500,000
Total assets		12,824,663,935	14,631,611,838
LIABILITIES			
Placement from banks & other financial institutions	10	1,650,749,817	1,815,169,821
Mudharabah investments		3,042,311,354	3,956,680,398
Wakala investments		4,202,554,493	5,459,336,084
Mudharabah savings		705,719,249	860,562,263
Income tax payable		90,250,955	128,848,958
Accruals and other payables	11	170,223,181	231,660,201
Due to head office	12	543,928,976	155,491,769
Total liabilities		10,405,738,026	12,607,749,495
OWNER'S FUND			
Retained earnings		2,418,925,909	2,023,862,343
Total owners fund		2,418,925,909	2,023,862,343
Total liabilities & owners' fund		12,824,663,935	14,631,611,838

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

Mr. Buddhika Weeratunge Head of Finance

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

(Mr.) Ravi Tissera Deputy Chairman/CEO

A. Nissanka Executive Director

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

The basis of preparation and notes are given in pages 47 through 60.

26 June 2019

Rajagiriya (Greater Colombo)

Statement of Profit or Loss and Other Comprehensive Income

As at 31st March	Notes	2019 Rs.	2018 Rs.
Revenue	13	2,659,273,184	2,476,273,138
Profit paid to Mudharabah/Wakala investors		(1,039,785,457)	(1,014,111,005)
Profit paid on other funding arrangement		(237,207,937)	(257,720,738)
Other direct expenses		(107,254,965)	(141,530,756)
		1,275,024,825	1,062,910,639
Non distributable other income/(expenses)	14	39,966,642	34,250,326
Total operating income		1,314,991,467	1,097,160,964
Employee benefits	15	(196,326,951)	(131,406,933)
(Provision)/reversal for credit losses		(342,838,258)	(161,112,998)
Other operating expenses		(191,388,949)	(223,801,786)
Profit from operations	16	584,437,310	580,839,246
Value added tax on financial services		(132,005,514)	(96,472,781)
Profit before taxation		452,431,796	484,366,466
Income tax expense	17	(90,250,955)	(128,848,958)
Profit for the year		362,180,841	355,517,508
Other comprehensive income		-	-
Total comprehensive income		362,180,841	355,517,508

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

The basis of preparation and notes are given in pages 47 through 60.

Cash Flow Statement

As at 31st March	2019 Rs.	2018 Rs.
Cash Flows From/(Used in) Operating Activities		
Net Profit before Income Tax Expense	452,431,796	484,366,466
Adjustments for:		
Provision for fall/(Increase) in value of investments	(6,723,337)	1,700,000
Allowance for/(reversal of) doubtful debts	(53,147,386)	107,846,898
Change in fair value of investment property	-	2,166,000
Investment income	(277,236,905)	(125,083,313)
Profits attributable to investment made from banks & other Financial institutions	237,207,936	257,720,738
Profits attributable to Mudharabah/Wakala investors	1,039,785,457	1,014,062,221
Operating profit before working capital changes	1,392,317,561	1,742,779,010
Change in other receivables	2,700,752	3,921,912
Change in trade and other payables	(46,065,584)	(11,108,236)
Change in amounts due to head office	395,103,207	(161,196,834)
Change in Ijarah rent receivables	(323,728,607)	88,477,979
Change in Murabaha/Musawamah receivables	1,577,959,566	71,116,953
Change in Diminishing Musharaka receivables	242,466,436	(307,329,940)
Change in Mudharabah investments from customers	(905,896,202)	(211,187,022)
Change in Wakala investments from customers	(1,270,503,484)	3,382,322,357
Change in Mudharabah savings deposits from customers	(154,843,014)	375,730,833
Cash used in Operations	909,510,629	4,973,527,011
Profits paid to Mudharabah/Wakala investors	(1,034,536,405)	(965,872,985)
Income tax paid	(128,848,957)	(197,523,144)
Net Cash Used in Operating Activities	(253,874,733)	3,810,130,883
Cash Flows from/(Used in) Investing Activities		
Acquisition of Property, Plant & Equipment	-	(6,666,000)
Investments in Unit trust	402,132,460	(394,509,123)
Net proceeds from Investments in Mudaranah Deposits	(6,534,567)	(2,550,539,455)
Profit Received	277,236,905	125,083,313
Net Cash Flows from Investing Activities	672,834,799	(2,826,631,265)

Cash Flow Statement

As at 31st March	2019 Rs.	2018 Rs.
Cool Flore (confidence) A Francisco A di Visa		
Cash Flows from/(Used in) Financing Activities	(
Net proceeds from banks & other financial institutions	(176,502,263)	1,343,762,381
Net Proceeds from qurd hassan	-	(1,906,500,000)
Profit paid -other instruments	(225,125,676)	(208,666,489)
Net Cash Flows from Financing Activities	(401,627,939)	(771,404,107)
Net Increase/(decrease) in cash and cash equivalents	17,332,124	212,095,510
Cash and cash equivalents at the beginning of the period	527,929,082	315,833,572
Cash and cash equivalents at the end of the period	545,261,206	527,929,082
Analysis of cash and cash equivalents at the end of the period		
Cash and bank balances	545,261,206	527,929,082
	545,261,206	527,929,082

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

The basis of preparation and notes are given in pages 47 through 60.

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 Islamic Business Unit ("IBU") which commenced its operations in February 2008, under Islamic Shari'ah Law. It is housed in the head office premises at No. 100/1 Sri Jayewardenepura Mawatha, Rajagiriya.

1.1 Principal activities and nature of business

The principal activities of the IBU comprised of Mudharabah and Wakala (Profit Sharing investments), Diminishing Musharakah (Partnership Financing), Murabaha/ Musawamah (Trade Financing), Ijarah (Leasing).

1.2 Basis of Preparation

1.2.1 Statement of compliance

These supplementary financial statements of the IBU are prepared on based on the accounting policies explained in Note 2.

The results of IBU and the financial position of the IBU form part of the financial statements of LOLC Finance PLC which is prepared in accordance with Sri Lanka Accounting Standards. LOLC Finance PLC's primary set of financial statements was authorised for issue by

the Board of Directors in accordance with a resolution of the Directors passed on 26 June 2019. Therefore, the isolated financial statements of the IBU should be read in conjunction with the LOLC Finance PLC's primary set of financial statements.

These Financial Statements include the following components:

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

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

1.2.2 Basis of Measurement

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

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

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

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

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

1.2.2 Materiality and Aggregation

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

1.2.3 Going Concern

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

Therefore, the Financial Statements continue to be prepared on a going concern basis.

1.2.4 Comparative information

The accounting policies have been consistently applied by the IBU and are consistent with those used in the previous period. Comparative information has not been reclassified or restated other than mentioned under note 18

1.3 Functional and presentation currency

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

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

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

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

1.4 Significant accounting judgments, estimates and assumptions

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

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

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

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

1.4.1 Fair Value Measurement

A number of the Company's (LOLC Finance PLC including the IBU) accounting policies

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

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

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

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

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

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

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

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

1.4.2 Impairment Losses on Loans and Advances

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

1.4.3 Provisions for liabilities and contingencies

The IBU receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in

making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.1 Financial assets and financial liabilities

2.1.1 Non-derivative financial assets

2.1.1.a Initial recognition of financial assets

Date of recognition

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

Initial measurement of financial Assets

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

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

2.2.1.b Classification of financial assets

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

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

2.2.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

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

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

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

Assessment of whether contractual cash flows are solely payments of principal and profit (SPPI test)

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

For the purposes of this assessment,

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

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

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

Amortised cost

Financial assets with fixed or determinable payments that

are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition measured at amortised cost using the effective profit method, less any impairment losses.

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

- Cash and cash equivalents
 Cash and cash equivalents
 comprise cash balances and
 call deposits with maturities
 of three months or less from
 the acquisition date that are
 subject to an insignificant risk
 of changes in their fair value,
 and are used by the IBU in the
 management of its short-term
 commitments.
- Ijarah receivables The LOLC Finance PLC's IBU 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 ljarah advances reflected in the statement of financial position are the total rent receivables after eliminating unearned income and deducting pre-paid rentals, rental collections and provision for impairment losses.

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

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

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

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

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

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

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

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

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

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

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

Amortised cost-Loans and Receivables

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

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

- Cash and cash equivalents
 Cash and cash equivalents
 comprise cash balances and
 call deposits with maturities
 of three months or less from
 the acquisition date that are
 subject to an insignificant risk
 of changes in their fair value,
 and are used by the IBU in the
 management of its short-term
 commitments.
- Ijarah receivables
 The LOLC Finance PLC's IBU
 buys and lease out equipment
 required by its clients for a fee
 (Rental). The duration of the
 lease and value of the rental is
 agreed in advance. Ownership
 of the asset will remain with
 the Company till the end
 of the lease period. Rent
 receivables on Ijarah advances

reflected in the statement of financial position are the total rent receivables after eliminating unearned income and deducting pre-paid rentals, rental collections and provision for impairment losses.

 Murabaha, Musawamah and Diminishing Musharaka receivables

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

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

2.1.2 Non-derivative financial liabilities

Classification and Subsequent Measurement of Financial Liabilities

The IBU initially recognises nonderivative financial liabilities on the date that they are originated.

The IBU classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

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

Profit Payable to the Mudharabah Investors

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

2.1.3 Derecognition of financial assets and financial liabilities

Financial assets

The IBU derecognises a financial asset when the rights to receive cash flows from the asset have expired or the IBU 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 IBU has transferred substantially all the risks and rewards of the asset, or
- (b) The IBU has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities

The IBU derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

2.1.4 Offsetting of financial instruments

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

2.1.5 Amortised cost measurement

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

2.1.6 Fair value measurement

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

Determination of fair value

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

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

2.1.7 Impairment

Non-derivative financial assets

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

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

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

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

Balance receivables on any terminated contracts are fully provided.

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

- Vehicles that have been repossessed by the Company Eighty per cent (80%) of the valuation obtained during the preceding six months from a professional valuer approved by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka
- Lands & Buildings
 The value of the property
 on a declining basis based
 on the age of the facility, in
 case of a primary mortgage.
 Such value shall not exceed
 the value decided by a
 qualified professional valuer
 at the time of providing the
 accommodation.

2.2 Investment property

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

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

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

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

Determining Fair value

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

2.3 Employee benefits

2.3.1 Short-term employee benefits

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

2.3.2 Defined contribution plans

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

2.4 Provisions

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

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

2.5 Events occurring after the reporting date

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

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

2.6 Benevolent Loan (Qurd Hassan)

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

The Company extends Qurd Hassan to the IBU as and when required and the IBU settles those when funds are available.

SIGNIFICANT ACCOUNTING POLICIES-RECOGNITION OF INCOME AND EXPENSES

2.7 Revenue Recognition

2.7.1 Murabaha/Musawamah Income

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

2.7.2 Ijarah Income

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

2.7.3 Diminishing Musharakah Income

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

2.7.4 Profit in Suspense

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

2.7.5 Fees and other income

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

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

Collections on contracts written off are accounted for on cash basis

2.7.6 Dividends

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

2.8 Expenditure Recognition

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

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

2.8.1 Value Added Tax (VAT) on financial services

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

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

2.8.2 Nation Building Tax on financial services (NBT)

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

2.9 Income Tax

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

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

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.10 Cash flow statements

The cash flow statement has been prepared using the indirect method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

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

SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.11 Fair value measurement

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

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

The principal or the most advantageous market must be accessible to the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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.

3. CASH AND BANK BALANCES

As at 31st March	2019 Rs.	2018 Rs.
Cash & bank balances	545,261,206	527,929,082
	545,261,206	527,929,082

4. MURABAHA/MUSAWAMAH/WAKALA RECEIVABLES

As at 31st March	2019	2018
	Rs.	Rs.
Instalment receivable	1,414,268,184	3,140,709,931
Unearned income	(190,516,162)	(367,329,238)
Income in suspense	(4,524,682)	(6,626,097)
Provision for credit losses	(12,212,584)	(38,289,481)
	1,207,014,756	2,728,465,115

5. DIMINISHING MUSHARAKAH RECEIVABLES

As at 31st March	2019 Rs.	2018 Rs.
Instalment receivable	5,091,659,624	5,334,126,060
Income in suspense	(52,653,570)	(42,987,008)
Provision for credit losses	(41,603,503)	(94,852,338)
	4,997,402,551	5,196,286,714

6. IJARAH RECEIVABLES

As at 31st March	2019 Rs.	2018 Rs.
Rent receivables	4,738,325,532	4,196,061,457
Unearned income	(1,251,930,048)	(1,037,946,411)
Income in suspense	(10,351,073)	(6,692,732)
Provision for credit losses	(31,564,465)	(16,609,607)
	3,444,479,946	3,134,812,708

7. INVESTMENT SECURITIES - FVTPL/HELD FOR TRADING

Expo Lanka Holdings PLC

As at 31st March	2019 Rs.	2018 Rs.
Cost (1,000,000 shares)	18,000,000	18,000,000
Carrying amount as at 1st April	4,900,000	6,600,000
Adjustment for change in fair value - recognised in profits	(900,000)	(1,700,000)
Carrying amount as at 31st March	4,000,000	4,900,000
Investment in Unit Trusts		
Original cost	335,000,000	335,000,000
Carrying amount as at 1st April	394,509,123	-
Investments during the year	-	1,500,000,000
Disposal during the year	(402,132,460)	(1,165,000,000)
Adjustment for change in fair value - recognised in profits	7,623,337	59,509,123
Carrying amount as at 31st March	-	394,509,123
Total investments held for trading	4,000,000	399,409,123
OTHER RECEIVABLES		
As at 31st March	2019	2018
	Rs	Rs

8.

As at 31st March	2019	2018
	Rs.	Rs.
Staff car advances	2,637,364	20,940,707
Insurance premium receivable	22,692,334	18,796,517
WHT receivable	18,481,862	10,952,193
Others	25,157,330	20,980,224
IBU charity fund	462,564	-
	69,431,454	71,669,642

9. INVESTMENT PROPERTIES

As at 31st March	2019 Rs.	2018 Rs.
Balance as at 1st April	22,500,000	18,000,000
Additions to Investment Properties from foreclosure of contracts	-	-
Change in fair value	-	4,500,000
Disposal during the year	(22,500,000)	
Balance as at 31 March	-	22,500,000

10. PLACEMENT FROM BANKS & OTHER FINANCIAL INSTITUTIONS

10.1 Long-term borrowings

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	1,520,000,000	-
Facility obtained during the year (ICD)	-	1,520,000,000
Repaid during the year	-	-
Balance at the end of the year	1,520,000,000	1,520,000,000
Profit Payable	40,074,868	30,315,738
	1,560,074,868	1,550,315,738

10.2 Ijarah Sukuk Bond

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	228,789,442	405,027,061
Sukuk obtained during the year	-	-
Repaid during the year	(158,458,273)	(176,237,619)
Balance at the end of the year	70,331,170	228,789,442
Profit Payable	20,343,779	36,064,641
	90,674,949	264,854,083
Liability recognised in statement of financial position	1,650,749,817	1,815,169,821

11. ACCRUALS AND OTHER PAYABLES

As at 31st March	2019 Rs.	2018 Rs.
Lease equipment creditors	47,320,959	84,913,336
Refunds payable	45,352,220	54,251,239
Insurance payable	2,248,450	6,784,878
IBU charity fund	-	1,690,486
Other miscellaneous creditors	56,427,842	59,648,315
WHT payable	2,553,933	1,970,349
Other payables	16,319,777	22,401,598
	170,223,181	231,660,201

12. DUE TO HEAD OFFICE

As at 31st March	2019 Rs.	2018 Rs.
Current account balance due to head office	543,928,976	155,491,769
	543,928,976	155,491,769

13. REVENUE

Year ended 31st March	2019 Rs.	2018 Rs.
Income from Ijarah receivables	832,883,542	705,179,750
Income from Diminishing Musharaka receivables	1,092,693,258	930,980,429
Income from Murabaha/Musawamah receivables	376,373,071	598,503,207
Profit on terminations	73,363,072	58,717,318
Income from Mudarabah deposits	277,236,905	125,083,311
Profit on Unit trust	6,723,337	57,809,123
	2,659,273,184	2,476,273,138

14. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)

Year ended 31st March	2019	2018
	Rs.	Rs.
Takaful commission	1,206,977	2,968,502
Franchise Fee	34,035,515	29,531,334
Others	4,724,149	1,750,490
	39,966,642	34,250,326

15. EMPLOYEE BENEFITS

Year ended 31st March	2019 Rs.	2018 Rs.
Salaries & other benefits	196,326,951	131,406,933
	196,326,951	131,406,933

16. PROFIT FROM OPERATION

Stated after charging

Year ended 31st March	2019 Rs.	2018 Rs.
Advertising	3,496,923	8,112,490
Business promotion expenses	56,216,264	52,797,630

17. INCOME TAX EXPENSE

Year ended 31st March	2019	2018
	Rs.	Rs.
Income tax is provided at 28% of the taxable profits computed in accordance with the inland		
revenue act No 10 of 2006 (and amendments thereto)	90,250,955	128,848,958
	90,250,955	128,848,958

18. COMPARATIVE FIGURES

The comparative information is reclassified wherever necessary to conform the current year's presentation and details are given below.

		As disclosed		
Statement of Financial Position	Note	in 2018	Adjustment	Reclassified
Deposits with banks and other financial institutions	Α	-	2,550,539,455	2,550,539,455
Cash and bank balances	А	3,039,427,493	(2,511,498,411)	527,929,082
Other receivables	В	110,710,686	(39,041,044)	71,669,642

- A Deposits with Banks and other financial institutions previously reported under Cash and Bank balances in the Statement of Financial Position have been transferred to Deposits with Banks and other financial institutions.
- B Accrued profit for Mudarabah deposits which were previously reported under other receivables in Statement of Financial Position have been transferred to Deposits with banks and other financial institutions.

19. EVENTS AFTER THE REPORTING DATE

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

Corporate Information

Name of the Company

LOLC Finance PLC

Country of Incorporation

Sri Lanka

Date of Incorporation

13th December 2001

Legal Form

A quoted public company with limited liability

Company Registration No.

PB 244 PQ

Stock Exchange Listing

The ordinary shares of the Company were listed on the Diri Savi Board of the Colombo Stock Exchange on 7th July 2011.

Credit Rating

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

Registered Office and Head Office

No. 100/1, Sri Jayawardenepura Mawatha,

Rajagiriya

Tel: 011 5880880 Fax: 011 2865606

Website: http://www.lolcfinance.com

Swift: LOFCKLC

Directors

Mr B C G de Zylva - Non-Executive

Chairman

Mr R D Tissera - Executive Deputy

Chairman/CEO

Mrs K U Amarasinghe – Executive Director

Mr A Nissanka - Executive Director

Mrs D P Pieris – Senior Independent

Director

Mr P A Wijeratne - Independent Director Mr. K Sundararaj - Independent Director - appointed with effect from 23.07.2019.

Secretaries

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

Auditors

Ernst & Young, Chartered Accountants

Lawyers

Julius & Creasy, Attorneys-at-Law Nithya Partners

Registrars

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

Principal Activities

During the year the principal activities of the Company comprised Finance Business, Finance Leasing, Islamic Finance, Micro Finance, Foreign Currency Business including Worker Remittances, issue of Payment Cards, Money Changing Business and provision of Advances for Margin Trading in the Colombo Stock Exchange.

Bankers

Nations Trust Bank PLC
Citi Bank N.A.
Commercial Bank of Ceylon PLC
NDB Bank PLC
Rank of Coylon

Bank of Ceylon Seylan Bank PLC MCB Bank

Deutsche Bank

Hatton National Bank PLC

Pan Asia Bank PLC

Hong Kong & Shanghai Banking Corporation

Sampath Bank PLC

DFCC Bank

Peoples Bank

Cargills Bank Limited

Union Bank of Colombo PLC







