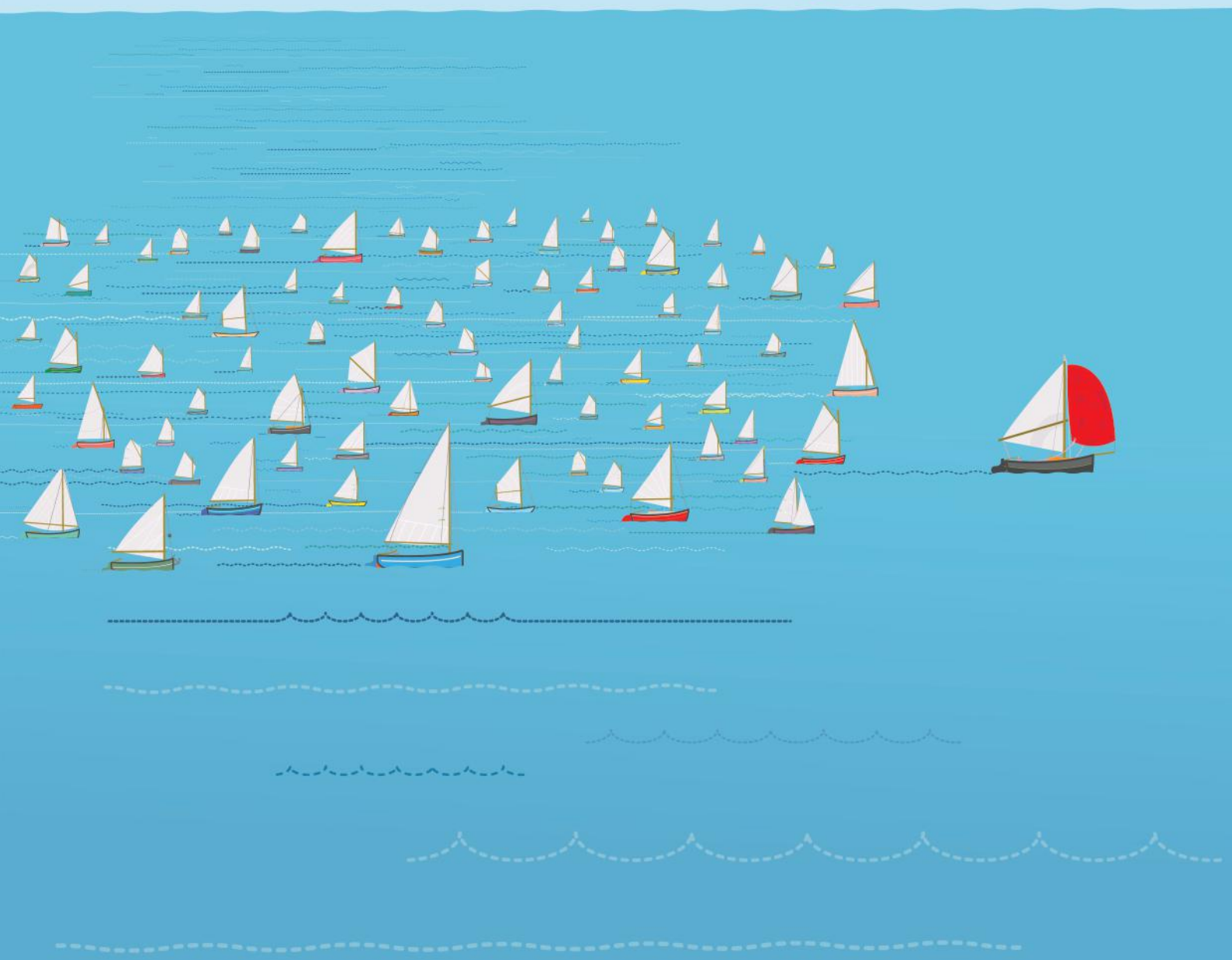


# A Decade of Pioneering Success



الفلاح  
**AL-FALAAH**  
ISLAMIC FINANCIAL SERVICES

Al-Falaah, Islamic Business Unit of LOLC Finance  
Annual Report 2017/18

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smart device to view this  
report online.

# A Decade of Pioneering Success

Al-Falaah, the Islamic Business Unit of LOLC Finance (LOLC Al-Falaah), Sri Lanka, is well established in the Islamic banking and finance industry, with a brand that is recognised across the country and a reputation for service excellence that is far superior to its competition. Our range of Shari'ah-compliant financial products and services is designed to serve the different needs of all Sri Lankan people while our islandwide branch and ATM network ensures that our valued customers have access to LOLC Al-Falaah's services at all times.

Today we celebrate a milestone of 10 years of successful operations in our corporate journey, evidence that our strategies and vision have been collaborative, meaningful and effective. We are proud of all that we achieved in the 10 years past, yet we are prouder still that so many people and communities have placed their confidence in us. For it is their loyalty and trust that keep us strong as we go into the future; continuing our mission to transform lives across the island, now and into the years that lie-ahead.



# Our Vision

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

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

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

LOLC AI-Falaah's product portfolio offers a superior range of 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 130 branches and service centres islandwide, including 7 stand-alone LOLC AI-Falaah service centres across the country.

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

The operations, of LOLC AI-Falaah are closely monitored and guided by a dedicated 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 Islamic financing.

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

# Awards



1



2



3

1 Winner of the Best Islamic Bank category for Sri Lanka in the IFN Best Banks Poll 2017.

2 Gold for Window/Unit of the Year, Silver award for the Entity of the Year and Silver for CSR Project of the Year at the Islamic Finance Forum of South Asia (IFFSA) Awards 2017.

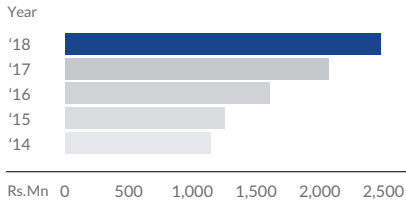
3 Al-Falaah bagged two Bronze awards for The Best Leasing Company of the Year and Social Upliftment Award at the Sri Lanka Banking and Financial Institution (SLIBFI) awards 2018.

# Financial Highlights

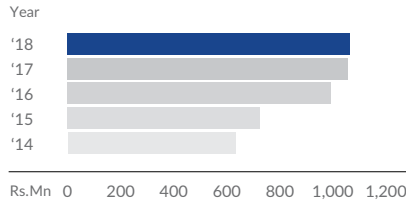
For the year ended 31st March	2018 Rs.	2017 Rs.
<b>Revenue</b>	<b>2,476,273,138</b>	2,068,594,983
Profit paid to Mudharabah/Wakala investors	1,014,111,005	558,485,895
Profit paid on other funding arrangements	257,720,738	315,581,787
Other direct expenses - Insurance / Takaful	141,530,756	137,924,984
Non distributable other income / (expenses)	34,250,326	36,065,725
Employee benefits	131,406,933	142,043,509
Provision for credit losses	161,112,998	45,476,554
Other operating expenses	223,801,786	257,500,766
Value added tax on financial services	96,472,781	97,113,745
Profit before taxation	484,366,466	550,533,468
Income tax expense	128,848,958	197,523,144
Profit for the year	355,517,509	353,010,324
<b>Assets</b>		
Cash and bank balances	3,039,427,493	315,833,572
Murabaha / Musawamah / Wakala receivables	2,728,465,115	2,832,391,243
Diminishing Musharakah receivables	5,196,286,714	4,956,192,913
Ijarah rent receivables	3,134,812,708	3,231,092,271
Investment securities	399,409,123	6,600,000
Other receivables	110,710,687	75,591,553
Investment properties	22,500,000	18,000,000
Total assets	14,631,611,839	11,435,701,552
<b>Liabilities</b>		
Placement from Banks & other Financial institutions	1,815,169,821	422,353,191
Mudharabah investments	3,956,680,398	4,184,213,235
Wakala investments	5,459,336,084	2,012,478,675
Mudharabah savings	860,562,263	484,831,430
Income tax payable	128,848,958	197,523,144
Accruals and other payables	231,660,201	242,768,438
Due to head office	155,491,769	2,223,188,604
Retained earnings	2,023,862,343	1,668,344,835
Total liabilities & owner's fund	14,631,611,839	11,435,701,552

# Financial Highlights

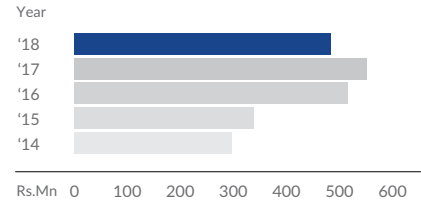
Revenue - Rs. 2,476 Mn



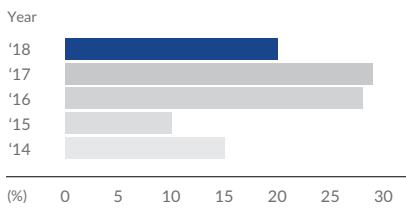
Gross Profit - Rs. 1,063 Mn



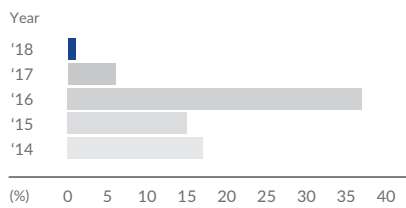
PBT - Rs. 484 Mn



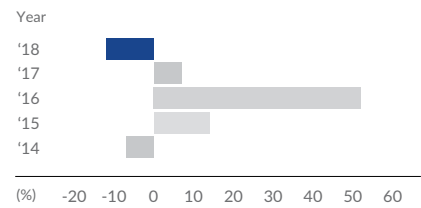
Revenue Growth - 20% ↑



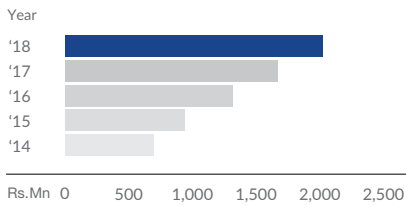
Gross Profit Growth - 1% ↑



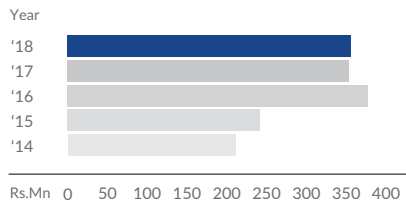
PBT Growth - 12% ↓



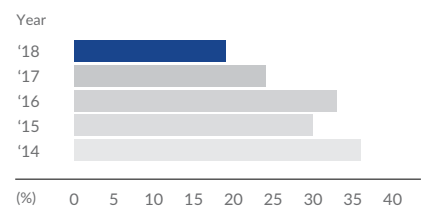
Retained Earnings - Rs. 2024 Mn



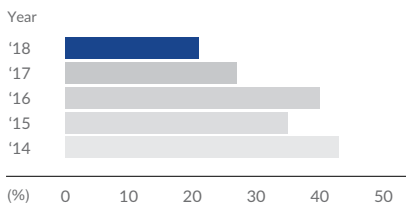
PAT - Rs. 356 Mn



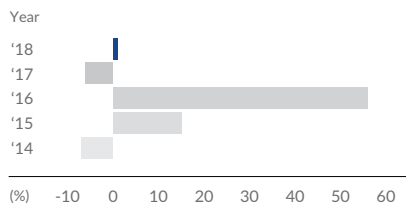
ROE - 19% ↑



Retained Earnings Growth - 21% ↑

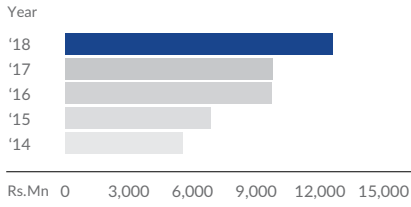


PAT Growth - 1% ↑

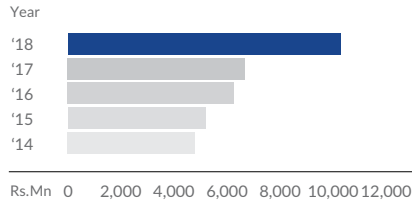




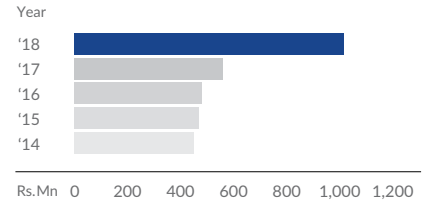
**Total Liabilities - Rs. 12,608 Mn**



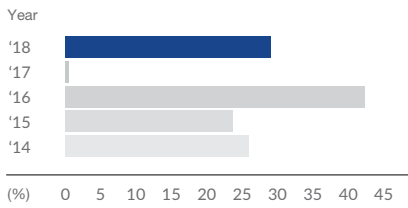
**Deposit Base - Rs.10,277 Mn**



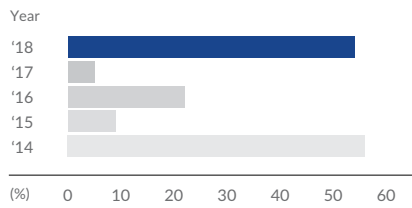
**Profit Paid to Depositors - Rs.1,014 Mn**



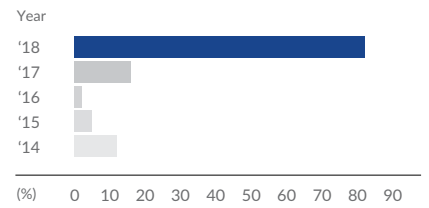
**Total Liabilities Growth - 29% ↑**



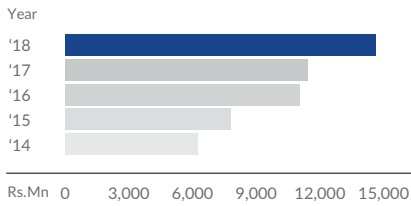
**Deposit Base Growth - 54% ↑**



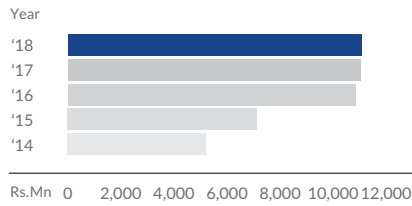
**Profit Paid to Depositors - 82% ↑**



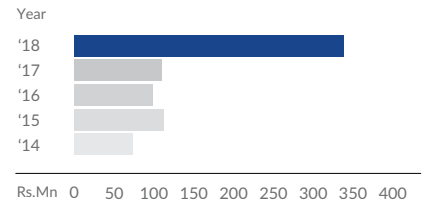
**Total Assets - Rs. 14,632 Mn**



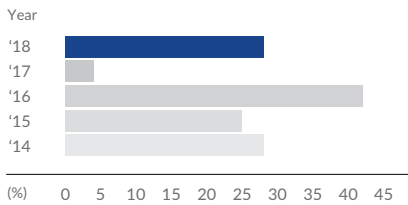
**Assets (Receivables) - 11,060 Mn**



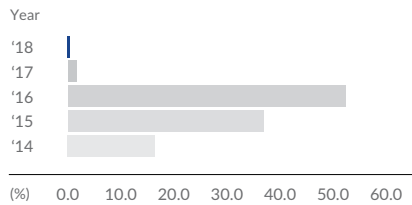
**NPL - Rs. 338 Mn**



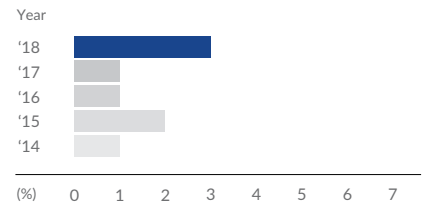
**Total Assets Growth - 28% ↑**



**Assets (Receivables) - 0.4% ↑**



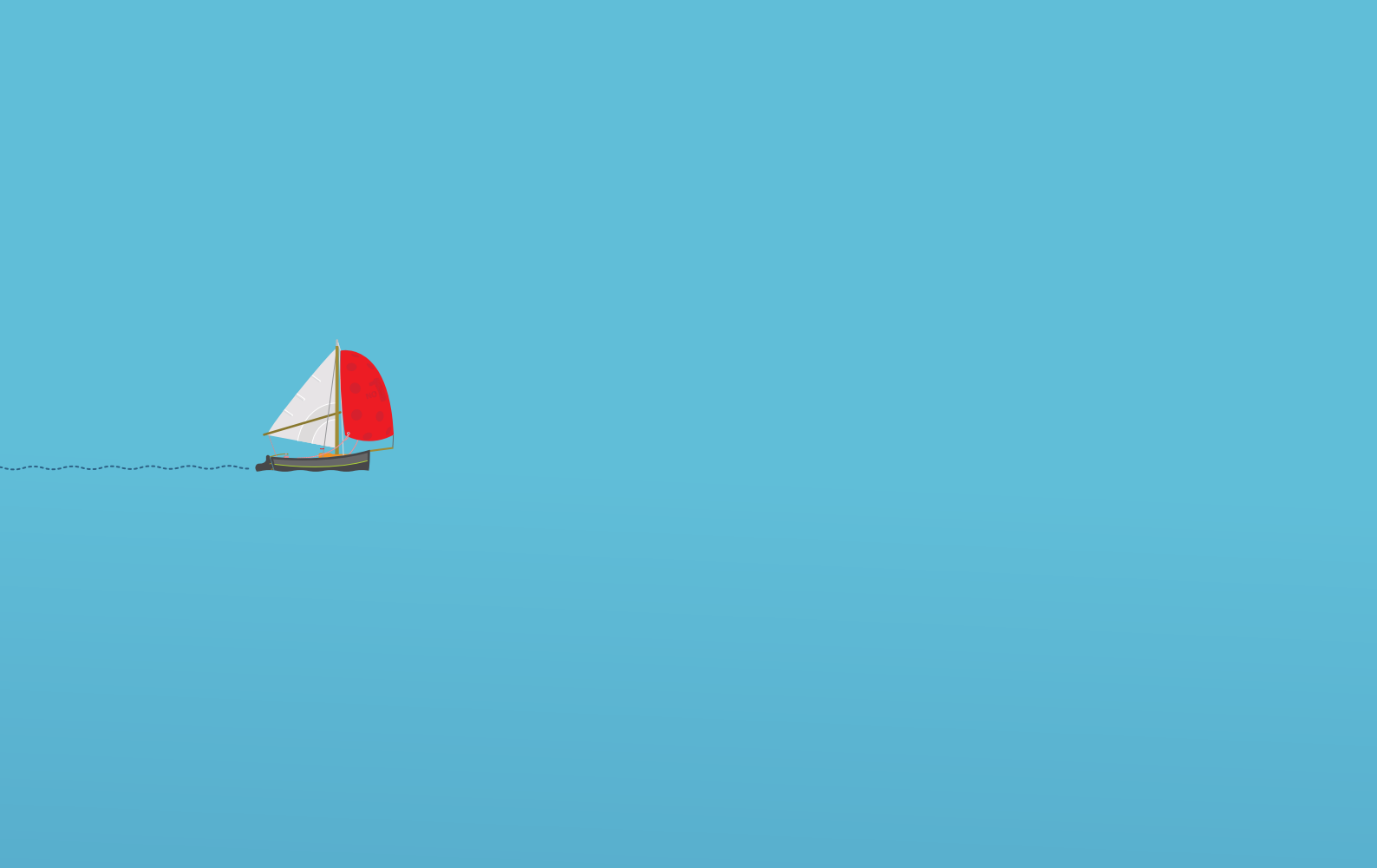
**NPL Ratio - 3% ↑**





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# Chairman's Message

## LOLC Al-Falaah operates in 130 branches in the country managed by an experienced senior management team, with knowledge in retail lending and Shari'ah principles.

It gives me great pleasure to present to you the annual report and financial statements of Al-Falaah, the Islamic Business Unit of LOLC Finance PLC (LOLC Al-Falaah), for the year ended 31st March 2018.

### MACRO-ECONOMIC REVIEW

Sri Lanka is attempting to sustain economic growth while maintaining macroeconomic stability. The government's high debt payments and civil service cadre, which have contributed to high budget deficits and low tax revenues, remain a concern. Government debt is about 75% of GDP and remains among the highest of the emerging markets. The Government will need to balance its debt repayment schedule with its requirement to maintain adequate foreign exchange reserve levels in the coming years.

Sri Lanka's economy grew 3.2% year-on-year in Q1 2018, slowing from 3.5% in the Q4 2017, due to political uncertainty and a weak currency. The growth for 2017 of 3.3% is the lowest since the economy contracted in 2001, due to a combination of tight economic policies and the Agriculture sector suffering a double whammy of drought and floods.

The Financial Sector showed improved performance as the supportive prudential measures continued to preserve stability of the financial system in 2017. The improved performance of the financial sector was broad-based and mainly contributed by the banks, other deposit-taking

financial institutions and contractual savings institutions.

The performance of the Non-Bank Financial Institution Sector moderated during 2017 with low credit growth, declining profitability and increase in non-performing loans. The slowdown in the sector was mainly due to fiscal and macro-prudential policy measures taken to curtail importation of motor vehicles, moderate economic growth and natural calamities such as floods and drought conditions that prevailed in 2017.

### SUMMARY OF FINANCIAL RESULTS

The principal activities of LOLC Al-Falaah comprised of Mudharabah and Wakala Finance (Profit Sharing Investments), Diminishing Musharakah (Partnership Financing), Murabaha (Trade Financing), Musawamah (Import Finance), Ijarah (Leasing) and Wakala Finance (Business and Working Capital Finance).

During the year ended March 31, 2018, LOLC Al-Falaah reported a net profit of Rs. 356 Mn on a total asset base of Rs. 14.63 Bn. This is a result of a robust franchise, good competitive position and a professional and experienced management team. However, it is crucial for focus on recoveries and control incremental slippages to keep NPAs within reasonable levels.

LOLC Al-Falaah operates in 130 branches in the country managed by an experienced senior management

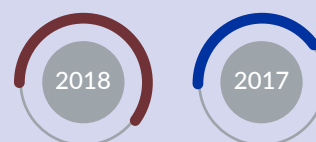
team, with knowledge in retail lending and Shari'ah principles. A prudent loan origination policy and effective loan monitoring process, provides early warning signals and helps in adjusting loan policies in line with the evolving credit trends. A prudent provisioning policy which is more stringent than the regulatory requirement is in place. LOLC Al-Falaah's asset quality was relatively moderate with gross NPA ratio at 3%. Maintaining a comfortable asset quality will be key going forward.

Return on Assets moderated to an extent on account of higher credit cost, largely on account of the increase in systemic rates; overall profitability was however adequate.

### LOOKING AHEAD

We look to the year ahead with renewed optimism. The wide array of Digital Financial Services offered will take our services literally to our customers' palms through the LOLC Real-Time application giving them the opportunity to inter alia make utility payments, transfer money (account-to-account) online real time to banks and other financial institutions.

The Launch of the LOLC Finance Credit Card and iPay; the platform beyond payment augurs well in our quest to go beyond inclusion and be within reach of each and every Sri Lankan whilst managing costs effectively.



### Revenue

# Rs. 2.476 Bn

2017: Rs. 2.068 Bn

The Launch of the LOLC Finance Credit Card and iPay; the platform beyond payment augurs well in our quest to go beyond inclusion and be within reach of each and every Sri Lankan whilst managing costs effectively.

#### APPRECIATION

I take this opportunity to thank the Shari'ah Board for their guidance and strategic insights that have been instrumental in LOLC AI-Falaah's ability to deliver growth and consistent financial results, regardless of the external shocks. I also wish to applaud the Management Team of LOLC AI-Falaah who have supported the Islamic Business Unit's success with their hard work and commitment.

In conclusion, I wish to thank our customers and all other stakeholders of LOLC AI-Falaah, for the trust and confidence placed in us and look forward to their continued support in the years ahead.



**Brindley de Zylva**  
Chairman



# Message from Group Head of Islamic Finance - LOLC

During the year under review, LOLC Al-Falaah was awarded the 'Best Islamic Bank in Sri Lanka for 2017' by Islamic Finance News (IFN), Malaysia. The Company performed exceedingly well at the Islamic Finance Forum of South Asia (IFFSA) Awards 2017

On the completion of the 2017/18 financial year, I would like to reflect on the previous year's performance, as well as to look beyond to assess a decade of LOLC Al-Falaah operations in the country. During the year ended 31st March 2018, the economic environment in the Non-Banking Financial Institutions (NBFI) industry as a whole has faced many challenges. With the GDP growth rate being as low as 3.2%, many sectors in the economy struggled to perform to their expectations, further aggravated due to the drought conditions that prevailed in the northern and eastern parts of the country.

LOLC Al-Falaah's performance could be assessed from two standpoints. The first would be a comparison with the rest of the financial services industry. The second would be a comparison with our own performance in the previous years. LOLC Al-Falaah's performance compared to the rest of the NBFI industry has been quite superior this year, especially when it comes to Non-Performing Loans (NPLs). While LOLC Al-Falaah's NPL ratio stands at 3%, the industry average is around 7%. The company's Return On Equity (ROE) was 19% in the year under review, which is yet again above the industry average, while Return On Assets (ROA) was 3%, higher as compared to the 2% prevalent in the industry during the same period.

In the period under consideration, LOLC Al-Falaah recorded Profit Before Tax of Rs. 484 Mn and Profit After Tax of Rs. 356 Mn, which makes it the most profitable Islamic Finance entity in the country. In comparison

In the period under consideration, LOLC Al-Falaah recorded Profit Before Tax of Rs. 484 Mn and Profit After Tax of Rs. 356 Mn, which makes it the most profitable Islamic Finance entity in the country.

to our previous high benchmarks, we experienced only a marginal increase in our Asset portfolio of Rs. 50 Mn, which is the result of the cautious lending policy adopted by LOLC Al-Falaah. However, the company recorded a noteworthy performance in public deposits, which grew by 54% from Rs. 6 Bn in 2016/17 to Rs. 10 Bn during the year under review. Following its success in issuing the first Corporate Sukuk (Alternative to Securitisation) in the Islamic Banking & Finance industry history of Sri Lanka in 2016, LOLC Al-Falaah raised the bar yet again in 2017/18 by securing the first Islamic Funding Line for a Window Operation of an NBFI by the Islamic Development Bank's (IDB) private sector investment arm ICD, a first in the industry's history. These deals are signature deals and trend-setters for the industry. This is not only a significant achievement for LOLC Al-Falaah, but for the country as a whole, since ICD is a subsidiary of the Islamic Development Bank, arguably the 'World Bank' of Islamic Finance.

Looking back on our 10-year journey, LOLC Al-Falaah has achieved tremendous success-contributing immensely to the LOLC Group as well as the Islamic Finance industry in Sri

Lanka. Not only has LOLC Al-Falaah grown in numbers, but it has inspired other LOLC Group companies such as LOLC Insurance and Commercial Leasing and Finance (CLC) to commence their own Islamic Finance operations.

Truly, LOLC Al-Falaah's success story was closely followed by a succession of Islamic Finance windows across the Islamic Finance sector by other banks and NBFIs, which led to a competitive but mature industry in Sri Lanka. The value and values that we built our business case on today provides the foundation of Islamic Finance across the country, which includes benchmarking against the best market pricing, distribution, service standards, products and services.



Profit Before Tax

**Rs. 484 Mn**

2017: Rs. 550 Mn

LOLC Al-Falaah has always set high standards and benchmarks since it was the pioneer in the industry, despite having no established models to follow. The Company forged high standards by looking ahead and in time has come to be admired by key industry stakeholders who have emulated and placed us at the top of the value chain in the Islamic Finance industry. During the year under review, LOLC Al-Falaah was awarded the 'Best Islamic Bank in Sri Lanka for 2017' by Islamic Finance News (IFN), Malaysia. The Company performed exceedingly well at the Islamic Finance Forum of South Asia (IFFSA) Awards 2017, where it won Gold for Window/Unit of the Year; Silver award for the Entity of the Year and another Silver for CSR Project of the Year. This was followed by winning a Bronze for 'The Best Leasing Company of the Year' and Bronze for 'Social Upliftment Award' for the Sri Lanka Banking and Financial Institution (SLIBFI) awards 2017.

The role of LOLC Al-Falaah is not limited to LOLC Group, we believe it has responsibilities towards the Islamic Finance industry in Sri Lanka. Our success story evolves from the fundamental principles of Shari'ah compliance; strict firewalls, service quality, distribution channels and highly trained and motivated staff.

Looking back on a decade of successful operations with our heads held high, we are more than ready for the inevitable challenges that the future will bring in the form of technological and Fin-tech advancements.

#### **APPRECIATION**

I would like to thank the Board of Directors of LOLC and the Shari'ah Supervisory Board (SSB) for their support and guidance. Our success is the result of exceptional performance by the staff of LOLC Al-Falaah and the adaptability of the LOLC Group to Islamic Finance business, which is a difficult combination to duplicate. Buoyed by a decade of excellence we look forward to revolutionising the industry further.



**Krishan Thilakarathne**  
Group Head of Islamic Finance - LOLC



# SSB Chairman's Message

## As one of the pioneering Islamic Finance operators in the country, LOLC Al-Falaah has established impressive benchmarks for the rest of the industry to emulate

LOLC Al Falaah's growing influence in Sri Lanka's Islamic Finance market and its rapid adoption by a growing customer base reflects the impressive strides achieved by the company over the past decade. As one of the pioneering Islamic Finance operators in the country, LOLC Al-Falaah has established impressive benchmarks for the rest of the industry to emulate. I am indeed impressed with the manner in which LOLC Al-Falaah has harnessed the Shari'ah Supervisory Board (SSB)'s wealth of knowledge about Islamic Finance in a way that benefits all the stakeholders of the Company. More importantly, the Islamic Business Unit has remained closely engaged with the Board, regularly providing updates of its compliance and performance achievements.

Compliance improvement is addressed by the quarterly Shari'ah audits carried out by the local SSB members, with reviews taking place bi-annually and annually with the presence of the entire SSB team. Finally, the SSB submits a concise Annual Audit Report to the LOLC Finance Board of Directors and its stakeholders.

In terms of the performance of LOLC Al-Falaah in FY2017/18, the market experienced a degree of stagnation due to external conditions, leading to the Company recording marginal financial growth albeit, successfully sustaining its portfolio and consolidating its position.

The encouraging factor is that globally there is no negative downturn in the realm of Islamic Finance. Globally

The SSB continued to support and guide LOLC Al-Falaah by adopting its solutions-oriented approach in guiding the company to innovate and devise new products consistent with the principle of Islamic Commercial Law.

Islamic Finance companies appear to be focusing on consolidation. In Sri Lanka, the Central Bank imposed stringent guidelines during the year under review to control credit in the market. Such measures are generally good for the Company as it allowed it to pause, consolidate and grow more strategically. The year provided the right conditions to consolidate for the future while reflecting on past growth.

The SSB continued to support and guide LOLC Al-Falaah by adopting its solutions-oriented approach in guiding the company to innovate and devise new products consistent with the principle of Islamic Commercial Law. In fact, the SSB played a key role in the structuring and review of documentation which resulted in LOLC Al-Falaah securing the 'IFN Deal of the Year for Sukuk (alternate option for Securitisation)' at the IFN Deal of the Year awarded in 2017. This achievement signifies innovation, industry value-addition, elevating local standards and international benchmarking by the Company. As the pioneering Sukuk issuer in Sri Lanka and the region, the SSB believes that it

will contribute to further develop the Islamic Finance capital market.

LOLC Al-Falaah can be credited with the introduction of novel products such as variants of the core concepts of Ijarah, Diminishing Musharakah, Murabaha and Musawamah, and on the investment side, Mudharabah and Wakala. Its capacity for product innovation has enhanced its status as one of the foremost providers of Islamic Finance in the country.

LOLC Al-Falaah has historically had the opportunity of benefitting from the rich experiences of senior and experienced staff members. I would like to acknowledge the contributions of these staff members and have hope that the Company will continue to benefit from experienced Industry experts.

Islamic Finance is here to stay and globally, its adoption has been rapid, although there is much scope for further growth. Globally, Islamic Finance assets are estimated at over US\$3 trillion. The Islamic Finance market in Sri Lanka too is very



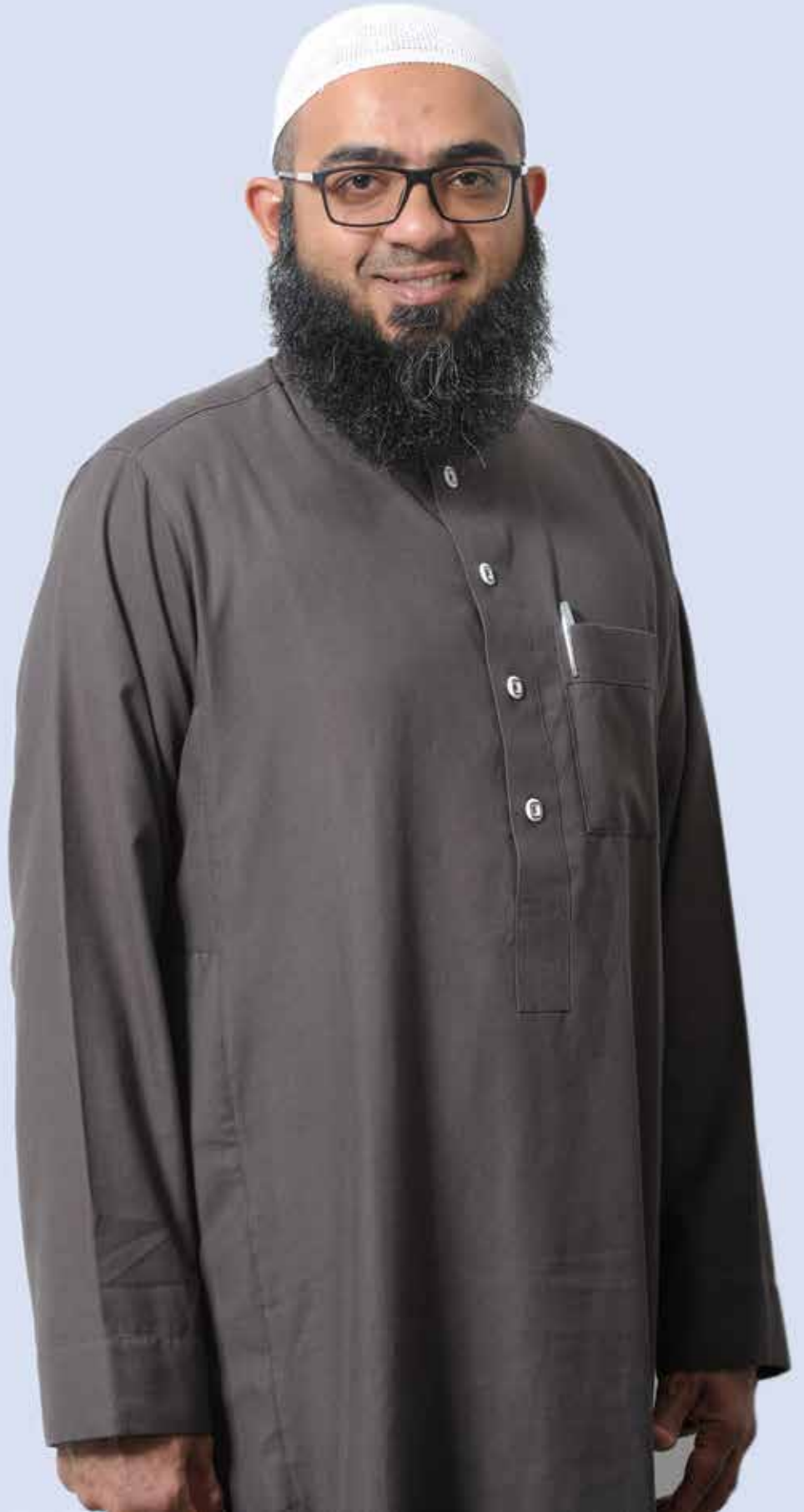
dynamic and we foresee many more opportunities for LOLC Al-Falaah to grow its market share.

#### APPRECIATION

In conclusion, I would like to thank my colleagues on the Shari'ah Supervisory Board, the Senior Management and staff of Islamic Business Unit for their dedication to promote Shari'ah compliant Islamic Financial Solutions in Sri Lanka.



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



# How We Create Value

## 3600 FINANCIAL SOLUTIONS



**MUDHARABAH**  
Fixed Deposits and Savings



**WAKALA FINANCE**  
Business & Working Capital Financing



Al-Falaah Junior Savings Accounts



**WAKALA FOR INVESTMENT**  
Term Investments



**MURABAHA**  
Trade Financing



Al-Falaah Ladies FD & Savings Accounts



**DIMINISHING MUSHARAKAH**  
Property & Project Financing



**MUSAWAMAH**  
Import Financing



Empress Discount Card



**IJARAH**  
Leasing



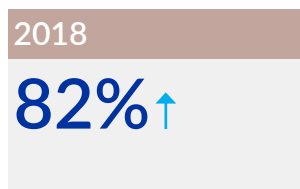
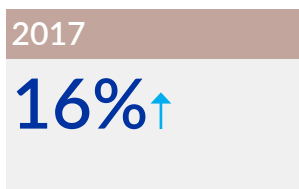
Al-Falaah Senior Citizens FD & Savings Accounts

## 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

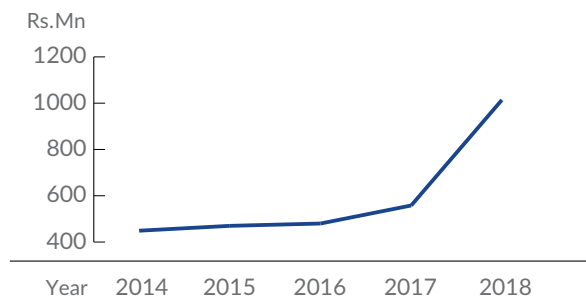
## ATTRACTIVE INVESTOR RETURNS

Profit Paid to Depositors



## CONSISTENT GROWTH YEAR ON YEAR

Profit Paid to Depositors



LOCALLY & INTERNATIONALLY RECOGNISED



Islamic Finance News (IFN)  
Global Awards, Malaysia



Sri Lanka Islamic Banking  
& Finance Industry (SLIBFI)  
Awards



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



Islamic Finance Forum of  
South Asia (IFFSA) Awards



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



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



**07**  
Dedicated Centres



**130+**  
Locations



**10,761**  
Active Customers with  
Finance Facilities



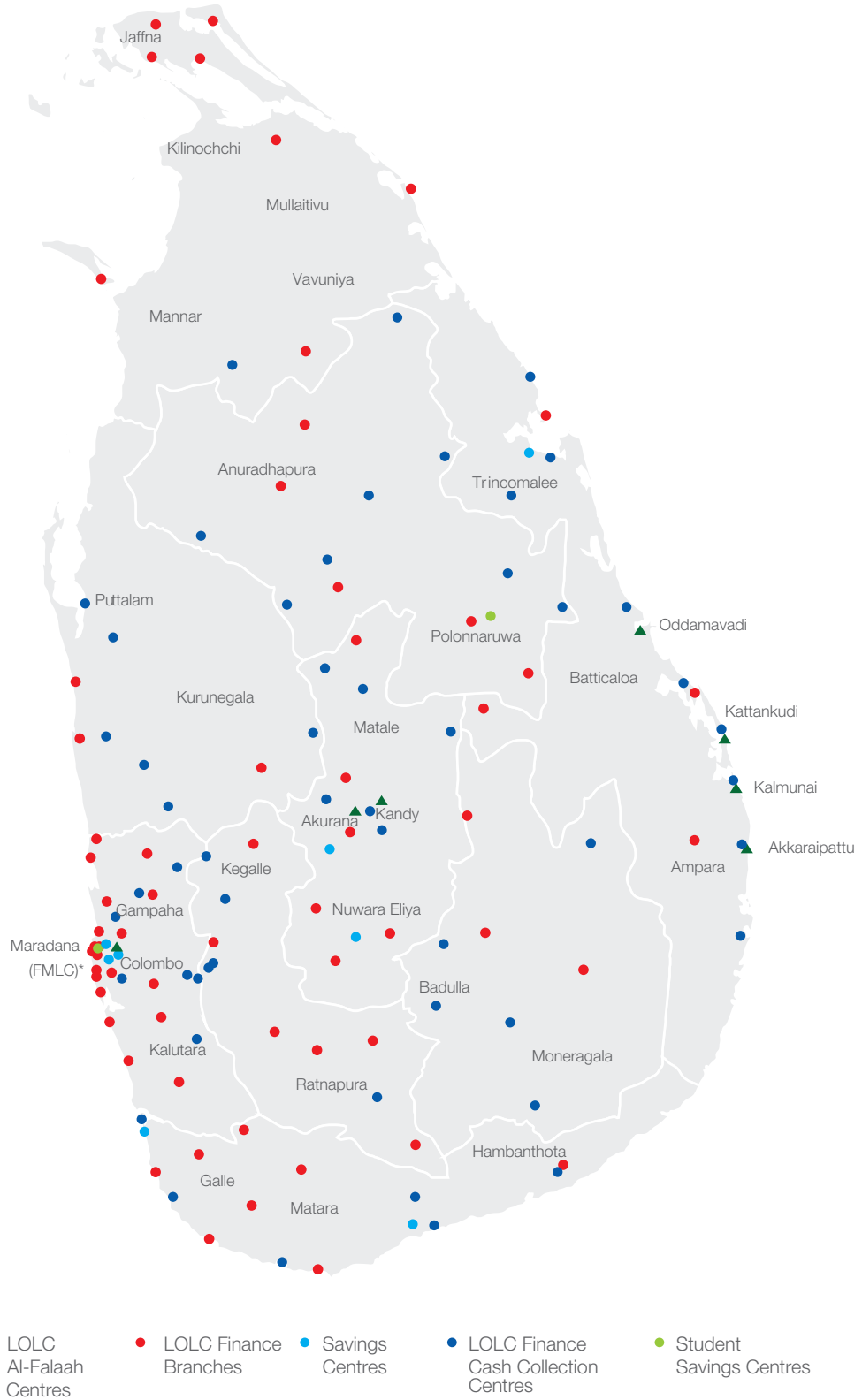
**21,963**  
Active Customers with  
Investments & Deposits



**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 : 02
- ▶ **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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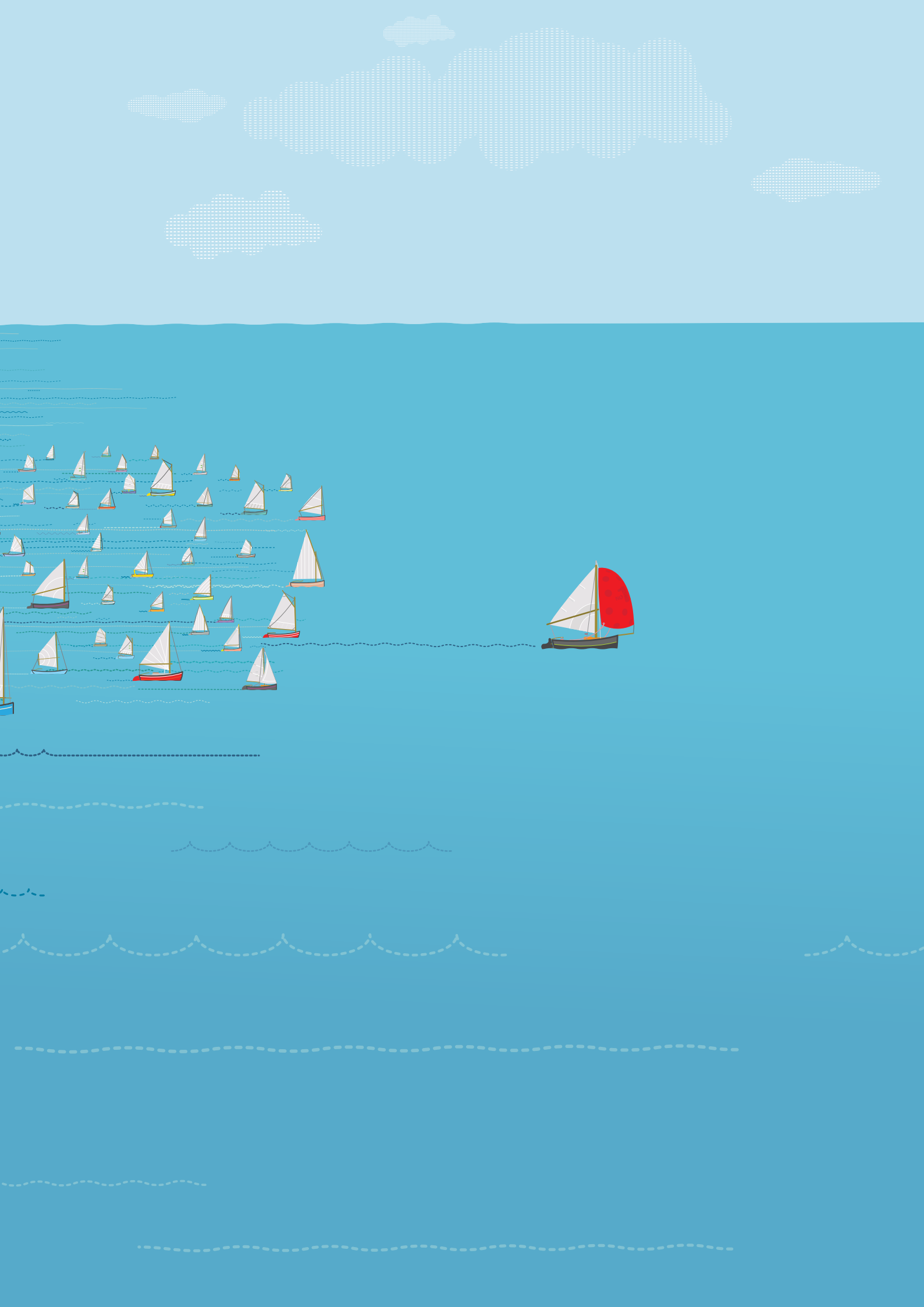
Charity Fund 30

Shari'ah Supervisory Board Members 31

Board of Directors 32

Directorships held by the Directors 35

Strategic Business Unit Team 36



# Product Review

LOLC Al-Falaah continued to demonstrate its leadership position in the market. Commemorating its 10th year in operation, LOLC Al-Falaah registered a strong performance in the year under review across all Key Performance Indicators. The Company's revenue for the year under review reached Rs.2.48 Bn, up by 20% from the Rs.2.07 Bn reported in the previous year, while Profit after Tax increased by 1% to Rs.356 Mn in 2017/18 from Rs.353 Mn in 2016/17. This notable performance was achieved despite a challenging backdrop of weak macro economic growth.

## DEPOSITS & SAVINGS

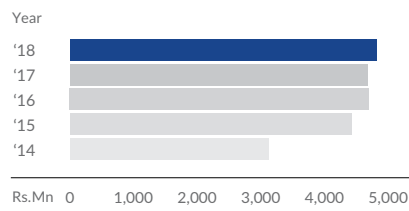
The company recorded healthy deposit growth, with the deposit base expanding by as much as 54% in the year under review. Testifying to the company's solid reputation and public trust, a steady growth in deposit volumes was observed throughout the year, enabling LOLC Al-Falaah's Deposit book to cross the 10 Bn mark and reach Rs.10.28 Bn as at 31st March 2018 from Rs.6.5 Mn in the previous year.

The Company's commitment to its investors can be evidenced by the fact that LOLC Al-Falaah paid depositors a total sum of Rs. 1,271,831,743 for the 2017/18 financial year. The Company's performance against the odds can be attributed to the extensive branch network and geographical reach of its parent, LOLC Finance, whose credentials inspire confidence amongst investors.

## MUDHARABAH

- Fixed Deposits
- Savings Accounts

## Mudharabah - Rs. 4,817 Mn



The Mudharabah financial instrument reflected a marginal growth of 3% from Rs. 4,669,044,665 in the preceding year, to reach Rs. 4,817,242,661 in the year under review. This was a notable achievement considering the high pressure operating environment of the NBFI industry during the period.

## Ladies Segment

### Al-Falaah Ladies Mudharabah Fixed Deposits & Savings Accounts & Empress Discount Card



During the year under review, we undertook several activities to popularise 'Al-Falaah Ladies' Savings Account and grow the Company's female customer base. The Empress Discount card enables cardholders to avail of exciting offers such as free medical check-ups and amazing discounts at 100 leading merchants. By offering a product focused on women, LOLC Al-Falaah is empowering them to plan their finances better and chart their financial future wisely. The Company offers customised solutions for both investors and borrowers alike.

## Junior Segment

### Al-Falaah Junior Mudharabah Savings Account



Our strategy to hold children-related events to attract new customers is proving fruitful. This year too, we held art competitions, quiz contests and sponsored sporting events along with school level promotions to grow this segment of customers and instill the savings habit for their future. We were able to grow deposits in junior accounts while enhancing knowledge about Islamic Banking principles. A plethora of attractive gifts were distributed amongst junior account holders during the year, in order to show them how much the Company values them.

## Senior Segment

### Al-Falaah Senior Mudharabah Fixed Deposits and Savings Account



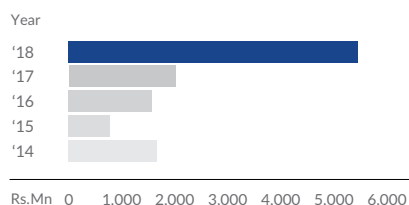
Understanding the urgent need for senior citizens to have easier access to financial security and independence, this product offers financial freedom for the elderly. In fact, our product offered the highest returns compared to conventional products aimed at the elderly.



## Corporate & Fixed Term Investor Segment

### WAKALA INVESTMENTS

Wakala Investments - Rs. 5,459 Mn



During the year, Wakala Term Investments product grew by as much as 171%, from Rs. 2,012,478,675 to reach Rs. 5,459,336,084 in the year under review. As a result of a volatile market, this fixed income product grew due to market requirements for stable financial planning. This proved to be a secure tool for financial planning for corporate and semi corporate customers who could plan ahead based on the stable income flowing in from their Wakala Investments.

### FINANCIAL ACCOMMODATIONS

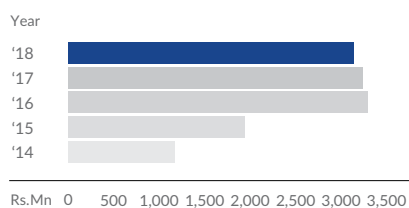
The difficult macro-economic conditions carried over from the previous year to the year under review along with a fresh set of challenges, thereby creating a constrained environment for the entire Non-Banking Finance Institutions (NBFI) industry. Despite the restraints imposed by low GDP growth in the country, LOLC Al-Falaah managed to sustain its portfolio without shrinking.

This noteworthy growth despite challenging operating conditions, underscored by rising conventional rates and a credit crunch in the market, reflects investor confidence in Al-Falaah. The failure of two finance companies during the year witnessed flight of their beleaguered customers to

more trusted finance companies such as LOLC Al-Falaah. Despite all these seemingly insurmountable challenges, LOLC Al-Falaah performed satisfactorily and outperformed the Islamic Finance industry.

### IJARAH for Leasing

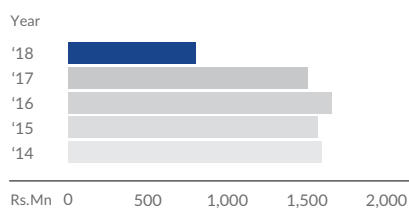
Ijarah - Rs. 3,135 Mn



The leasing side of the business witnessed a drop of 3% following the new Loan to Value ratio ruling since a majority of customers for Ijarah product seek vehicle financing. With the Loan to Value (LTV) direction introduced by the Government in the previous financial year continuing to impact Ijarah leasing business, the Company's lending portfolio registered a marginal decline of 3% in 2016/17 from Rs. 3,231,092,271 in the previous year to reach Rs. 3,134,812,708 in 2017/18. With vehicles becoming less affordable, customers are resorting to hire used cars, which was one of the reasons our loan book was brought down by half. As a trusted finance company, we believe it is but a matter of time before the situation is reversed and profitability reverts on track once again.

### MURABAHA for Trade Finance

Murabaha - Rs. 800 Mn

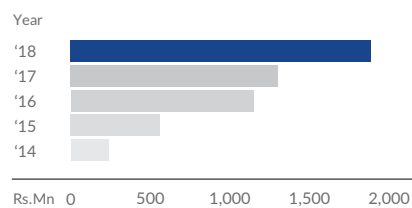


This product segment witnessed a decline in demand due to the short term nature of this trade financing product. The Company took a prudent decision to purposely drop its portfolio by 47% to eliminate unsecured accounts and instead focused on long term secured deals. The portfolio dropped from Rs. 1,507,303,926 in 2016/17 to reach Rs. 799,960,661 in the year under review.

However, compensating for the drop in Murabaha, there was a proportionate growth in Wakala Finance, which offset losses. The Company tweaked its cross selling strategy to offer Wakala Finance as a more affordable alternative to Murabaha in light of the macro economic conditions prevailing in the market.

### Wakala Finance for Business & Working Capital

Wakala Finance- Rs. 1,885 Mn

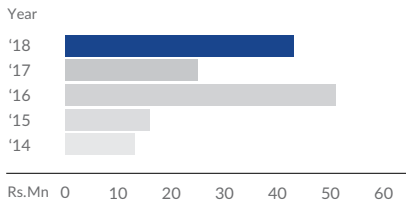


This segment of our products grew stridently by 45% during the year under review to record Rs. 1,885,476,887 as against Rs. 1,300,477,028 posted in 2016/17.

# Product Review

## MUSAWAMAH for Import Finance

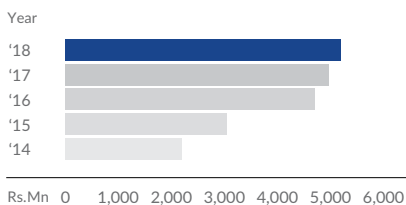
Musawamah - Rs. 43 Mn



This product segment recorded high growth of 75% from Rs. 24,610,288 in the preceding year to Rs. 43,027,567 as LOLC Al-Falaah has in its portfolio a major chunk of importers who prefer this form of import financing. LOLC Al-Falaah works closely to build relationships with companies importing commodities and supports their operations through this financial instrument.

## DIMINISHING MUSHARAKAH for Property and Project Finance

Diminishing Musharakah - Rs. 5,196 Mn



This product successfully sustained profitability despite not much lending growth witnessed during the period witnessed a slight growth of 5% to record Rs. 5,196,286,714 as compared to Rs. 4,956,192,913 achieved last year.

## PERFORMANCE OVERVIEW

The financial year under consideration proved a landmark one in many ways for LOLC Al-Falaah. Apart from completing a decade as a pioneering entity in the Islamic Finance industry, the company secured the First Islamic Funding Line for a Window Operation of an NBF by IDB's private sector investment arm, ICD a first in the history of Sri Lanka's Islamic Finance industry in 2017. This transaction is a signature deal and a trend-setter in the industry.

During the 2017/18 financial year, the Assets portfolio grew to Rs. 11,059,564,537 from Rs. 11,019,676,427 in the previous year. The Company succeeded in growing its total asset portfolio to Rs. 14,631,611,839 from Rs. 11,435,701,552 in the previous financial year. LOLC Al-Falaah products and services, and systems and processes are supervised on a daily, monthly, quarterly and annual basis by in-house and external SSB boards, instilling confidence amongst stakeholders. Overall, LOLC Al-Falaah was the most profitable entity in the Islamic Finance industry and achieved growth in deposits by leveraging on its superior skills in Shari'ah compliant financial instruments coupled with its trusted credentials.

## CUSTOMER SERVICE

Customers remain at the heart of LOLC Al-Falaah's operations and the Company continues to deliver the highest standard of customer service through innovation. Its customers enjoy access to 7 dedicated LOLC Al-Falaah centres and 130 LOLC Finance branches and Savings Centres islandwide, with the facility to make unlimited withdrawals and deposits. It is currently in the process of launching a credit card for its customers, which will go a long way in extending convenience to customers and help the company build greater loyalty to the LOLC Al-Falaah brand. The nature of LOLC Al-Falaah's Shari'ah compliant products offer investors a higher profit returns on a monthly basis on similar products in the industry. Other features such as a fully-integrated Savings Account with Pass-Book and ATM/Debit Card facilities with global access through the VISA network and LOLC Real Time online Banking offer ease of banking.

During the year, the Company continued to drive customer service training sessions for staff to better respond to customer needs. The

Company holds a wealth of staff experienced in Islamic Finance principles and engages closely with its customers through various mechanisms to ensure any grievance is promptly attended to by senior management and the SSB Board.

The merger of LOLC Finance and LOLC Micro Credit further strengthens its geographical outreach and facilitates its entry into the micro segment through the existing branch network of these two giants. This development will accrue greater benefits to LOLC Al-Falaah customers in the future.

## Awards & Accolades

The year under review has been marked by awards and accolades for the Company. LOLC Al-Falaah was awarded the 'Best Islamic Bank in Sri Lanka' in the IFN Best Banks Poll 2017. This award for the most popular brand amongst Islamic finance entities signifies LOLC Al-Falaah's market leadership, innovation and compliance. LOLC Al-Falaah also bagged two Bronze awards for 'The Best Leasing Company of the Year' and 'Social Upliftment Award' at the Sri Lanka Banking and Financial Institution (SLIBFI) Awards 2018, which is symbolic of LOLC Al-Falaah's market-leading efforts in these areas. All these accomplishments by LOLC Al-Falaah despite a challenging year reflect our strong fundamentals and pioneering expertise in Islamic Finance.

## Sustainable Approach

Apart from extending our signature Shari'ah compliant products and services, as a long-term service to the Islamic Finance industry at large, a series of public awareness programmes were conducted, supervised by the Shari'ah Supervisory Board (SSB) members from within and outside the Company. During the year, LOLC Al-Falaah held 10 events with participation of 200-250 people per event, which reflects the rising interest in this alternative financing and

banking stream. At these sessions the differences between Islamic Finance and conventional finance were debated and discussed. We are already seeing greater adoption of Islamic Finance across wide demographics and this indicates that our awareness raising sessions are bearing fruit and that Islamic Finance is not relegated to any one community but is open to all. The Company's commitment to all communities in the country is evident in the fact that the LOLC Al-Falaah Charity Fund remains focused on key pillars of education, healthcare and social upliftment projects that benefit people who need it the most, regardless of race, religion and ethnicity.

#### **Outlook for the Future**

One of the major developments that will have a positive impact on LOLC Al-Falaah is the merger between LOLC Group's micro credit company, LOLC Micro Credit Ltd. (LOMC) with LOLC Finance PLC (LOFC). With LOFC as the remaining entity, this strategic merger paves the way for LOLC Al-Falaah to enter the micro credit sector where we believe our products will make a significant difference and bring manifold benefits to customers.

LOLC Al-Falaah expects the 2018/19 year to be even tougher due to devaluation of the rupee and further taxes being imposed on the corporate sector which will affect business adversely. Despite the state of the economy, LOLC Al-Falaah's business model has ensured we have sustained growth momentum where others find none. Its consistent performance assures stakeholders that the Company will be able to sustain and emerge at the forefront once the economy picks up. LOLC Al-Falaah intends to enhance the takaful business and to improve and introduce new products.

The Company's Consumer Business Division is in the process of launching a credit card and enhancing digital banking channels for customers. LOLC Al-Falaah is placing an emphasis on fin-tech products as it is the future of banking and will determine the Company's continued success into the future.

# Corporate Governance

Good corporate governance benefits all stakeholders and contributes towards the sustainability of the Company. Your Board of Directors therefore support the principles of good 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.

## 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 and the records are maintained by the Company Secretaries.

#### **ENGAGEMENT WITH SHAREHOLDERS**

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

#### **ENGAGEMENT WITH EMPLOYEES**

LOLC Finance recognises that employee involvement is a critical pre-requisite towards ensuring

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

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

#### **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 2017. Their services were also engaged to seek: a) an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board; and b) the Company's level of adherence to the internal controls on financial reporting.

The 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 Islamic Business Unit is a business silo under LOLC Finance PLC. The risk management function comes under the scope of the Enterprise Risk Management structures of LOLC Finance PLC.

Risk Management is one of the main pillars of a good governance system and it is a necessity that it is flexible and robust enough to adopt to the dynamic risk landscape we are operating in today. The risk governance structures should be adequately receptive to capture the changes in Financial, Credit, Market operational and event risks in order to ensure that a reasonable assurance can be obtained on the risk mitigation and control mechanisms the organisation adopts to be with in its risk appetite

Risk Management at LOLC is a Group level centralised function. The risk governance structures and mechanisms adopted ensures seamless integration with the Group level policies. The central control at Group level allows for the risk management initiatives to cascade down to entities and ensure standardisation and uniformity across the group.

The Risk governance structures adopted at LOLC Finance reflect the Board level commitment and it's involvement with both the Risk Management functions and Audit functions given total independence and separation from the executive management of the organisation to ensure independent unbiased opinions on risk and controls are expressed and communicated to the Board of Management.

The above unique yet highly effective risk governance structure allows the board of management to have direct oversight over the enterprise risk management division and its sub functions of audit and risk management via the integrated risk management committee and the audit committee. This mechanism ensures that the board



is appraised of the organisational risks and internal controls in an independent and unbiased manner. This boosts the level of confidence the board has on the internal control and risk governance framework implemented and their reliability, consistency and effectiveness.

The risk governance structures implemented at LOLC Finance is a combination of Risk Management, Internal Audit and IS audit functions which forms the Enterprise Risk Management Department (ERM) where the risk management focuses on the potential and perceived risks and mitigation strategies in place while the audit function focuses on the adequacy, effectiveness, consistency and the reliability of the internal controls. The synergy between these two functions have turned out to be highly effective as it ensures efficient deployment of resources based on risk factors. In addition smooth and timely flow of risk related information between risk and audit has resulted in obtaining a reasonable assurance that the controls function as intended and identification of emerging risks at the ground and tactical level.

The Risk Management function identify possible risks which have a reasonable probability to affect the achievement of our strategic and tactical objectives by its independent reviews as well as by analysing and reviewing the periodic reporting by the risk and process owners of business and service



units. It appraises the management of the impacts on crystallisation of the identified risks and the mitigation strategies available. The Integrated risk management committee (IRMC) evaluates the possible impacts and in consultation with the risk owners decides on the best possible risk mitigation strategies and the internal controls to be adopted. The Board of Directors are kept informed through regular communications of the activities of the IRMC. Risk reporting to the board is a regular process undertaken monthly with a full review by the IRMC on a quarterly basis. If any significant changes in the risk parameters are observed the relevant stakeholders are kept apprised by way of a risk escalation communication which enables the risk owners and the management to take appropriate action on time.

We firmly believe that the best possible defense and mitigation strategy against risk is having an appropriate risk culture within the organisation and keeping true to our vision in risk management “Building an organisational Culture where Protection, Assurance, Reliability, Accountability, Transparency and Confidentiality are treasured and lasting values”, the Enterprise Risk Management department engages in a consultative capacity in new product, service developments and business process formulations and conducts in house training for staff on risk and controls. The dissemination of risk and response related knowledge to all employees is a critical success factor in our risk management strategy.

The Internal Audit constantly reviews the internal control framework and risk mitigation controls following a risk-based approach. The audit teams adopt a three-pronged strategy which consists of teams that engages in process level/department level audits, branch based audits and region based audits. The data analytic techniques are now comprehensively used for auditing purposes which had enhanced the capacity and the capability as well as completeness of the reviews.

Information Systems Audit function reviews information systems and critical system infrastructure and supports the general audits by assisting them with data analytics. In addition IS audit engages in a consultative capacity in new system developments and major system acquisitions to ensure that due process is followed and as an advisory on risk and control aspects of the system.

A Corporate Whistle-Blower Hotline and a customer feedback line is operational and both these lines 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 is dedicated for customer complaints.

All information received through these lines are treated confidentially and are inquired and followed up until resolution. The information obtained / given through these channels based on the information category and nature are shared only on a need to know basis which elevates the confidence of both the employees and the customers alike.

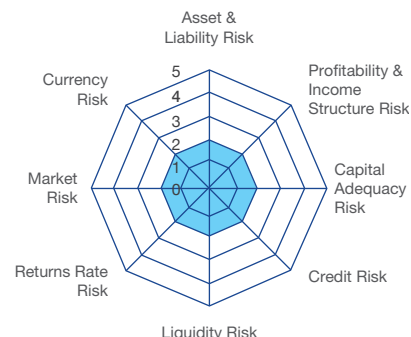
Continuous improvements are a prerequisite in any effective risk management strategy therefore ERM staff is exposed to required knowledge sharing sessions and trainings continuously. Active learning is always encouraged and supported among ERM staff. This is a necessity given the dynamic and volatile nature of the business environment today. The above strategy in combination with the internal quality assurance mechanisms and standardisation allows us to maintain consistency and uniformity of our deliverables across the organisation.

#### Risk Profile

The following is based on the perceived risk and is a high level categorisation of risk 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

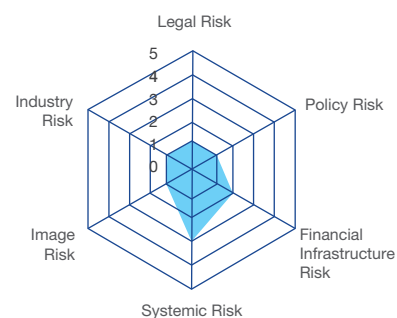
### Financial Risks



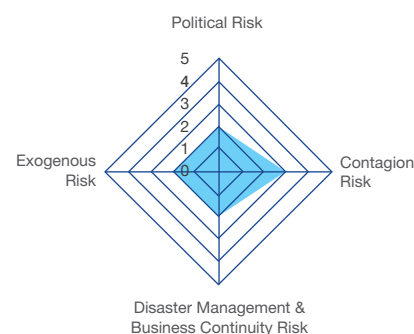
### Operational Risks



### Business Risks



### Event Risks



# Charity Fund

The Charity Fund is mandated by the Shari'ah Supervisory Board (SSB) and forms a sustainable approach to the Company's Islamic Finance operations as a means to 'give back' to society.



## Medical Needs

**Rs. 6.85 Mn**

2017: Rs. 5.64 Mn

One of the pillars of Islamic Finance is Charity; and as the pioneer of Islamic Finance in Sri Lanka, LOLC Al-Falaah has set the industry benchmark for a generous Charity Fund that enables it to empower under-served communities in an impactful manner. The Company's robust Charity Fund has been conducting yeoman's service in the areas of Medical Assistance, Education and Social Upliftment in the country, regardless of religion, race or ethnicity.

to provide aid which can help the less fortunate meet the basic needs of food, shelter and health; for example, fulfil medical needs by providing support for a variety of treatments, as also for hospitalisation and surgical expenses. A sum of Rs.8,830,354 was spent on providing medical care for beneficiaries who needed it the most during 2017/18.



## Education

**Rs. 4.25 Mn**

2017: Rs. 1.35 Mn

Operating within the Shari'ah principles for Charity, LOLC Al-Falaah delivers a positive impact on deserving beneficiaries in a transparent manner. A stringent selection and approval procedure is followed to ensure transparency and accountability at all times. The Charity Fund is mandated by the Shari'ah Supervisory Board (SSB) and forms a sustainable approach to the Company's Islamic Finance operations as a means to 'give back' to society.

Education is yet another critical area focused on by the 'Charity Fund', offering much-needed scholarships for school, university, post-graduate and professional programmes to ensure that students from economically under-privileged backgrounds continue their education and work towards a better future for themselves and their loved ones. During the year under consideration, the Charity Fund directed Rs. 1,790,555 towards educational needs in communities.



## Total Beneficiaries

**124**

2017: 96

During the year under review, the Company's 'Charity Fund' disbursed a large proportion of the company's revenue for the upliftment of society and to benefit the under-privileged sections of the community.

Social Upliftment is another critical focus area for the Company. The Charity Fund actively supports social upliftment to promote self-employment and financial independence, while also offering assistance to victims of natural disasters such as floods and drought. During the year under review, a sum of Rs. Rs.1,790,555 was disbursed for community projects. LOLC Al-Falaah is hopeful that its Charity Fund will inspire others to extend their support to various worthy causes

During 2017/18, the Charity Fund disbursed a total of Rs. Rs.13,948,740/- Mn amongst 131 beneficiaries. The Charity Fund's financial support to the under-privileged is designed to identify and respond to humanitarian requests



# 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 (Fiqh and Fatwa) from the Jami'ah Darul Uloom, Karachi, Pakistan in 2005, under the guidance of Mufti Taqi Usmani, which culminated in the submission of a thesis on the topic of Shirkat and Mudharabah. He also has an Advanced Diploma in Islamic Banking and Finance from the Centre for Islamic Economics based in Karachi, Pakistan. A leading International Consultant in Islamic Finance, Mufti Shafique Jakhura is the Chairman of the 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



MR. I C NANAYAKKARA



MR. R D TISSERA



MRS. K U AMARASINGHE



MRS. D P PIERIS



MR. P A WIJERATNE



MR. A NISSANKA

## **MR. B C G DE ZYLVA**

### **Non-Executive Chairman**

Mr. Brindley de Zylva is the Chairman of the Boards of LOLC Finance PLC and LOLC (Cambodia) PLC. He is also the Managing Director of LOLC Myanmar Micro-Finance Company Limited. He also served the LOLC Group as the MD/CEO of LOLC Finance PLC from 2003 to 2015 and Director LOLC Micro Credit in 2017/18. Prior to joining the LOLC Group, he had served the Non-Bank Financial Services Industry (NBFI) in Sri Lanka since 1984 in both Licensed Finance Companies and Specialised Leasing Companies holding Board and General Management positions. He has a wide range of expertise and experience in the NBFI sector; covering Marketing & Sales, Credit and Recovery Management, and Finance. Mr. de Zylva, a Fellow of the Sri Lanka Institute of Credit Management served as its Honorary Secretary for a period of five years between 2010 and 2015. He also served as a Member of the Council of Management of the Finance Houses Association of Sri Lanka for nine years four of which as a Vice Chairman.

He also served as a Director of the Financial Ombudsman Sri Lanka (Guarantee) Limited. These positions were relinquished in 2015. He is also a Non-Executive Director of Navajeevana Rehabilitation – Tangalle, a Non-Governmental Organisation in Sri Lanka serving the disabled.

## **MR. I C NANAYAKKARA**

### **Executive Deputy Chairman**

Mr. Ishara Nanayakkara is a prominent entrepreneur serving on the boards of many corporates and conglomerates in the region. He initially ventured into the arena of financial services with a strategic

investment in Lanka ORIX Leasing Company PLC and was appointed to the Board in 2002. Today, he is the Deputy Chairman of LOLC Group, holding directorships in many of its subsidiaries and associate companies. His vision to cater to the entire value chain of the finance sector manifested in the development of microfinance, Islamic finance, factoring through LOLC Factors, LOLC Life and General Insurance Companies and stock broking through LOLC Securities Ltd. Leveraging LOLC Group's expertise in the SME sector, the expansion into the micro sector was spearheaded by Mr. Nanayakkara, through LOLC Micro Credit Ltd., and BRAC Lanka Finance PLC. This interest in microfinance led to the growth of LOLC Group's international footprint, starting with an investment in PRASAC, the largest microfinance Company in Cambodia, followed by the inauguration of LOLC Myanmar Microfinance Company Ltd., a green field investment in Myanmar in which he was the founding Chairman, as well as his strategic involvement in LOLC Cambodia Ltd., the fifth largest microfinance company in Cambodia. Building upon his forte in microfinance, LOLC Group has further expanded its offshore portfolio with Mr. Nanayakkara serving as a Director of Pak Oman Microfinance Bank Limited, a joint venture based in Pakistan between the Governments of the Islamic Republic of Pakistan and the Sultanate of Oman. Mr. Nanayakkara's motivation to expand into various growth peripheries is further illustrated through his role as the Executive Chairman of Browns Investments PLC. Through various strategic investments, he is committed to catalysing development in the growth sectors of the Sri Lankan economy. Endorsing his entrepreneurial spirit, Mr. Ishara Nanayakkara received the

prestigious 'Young Entrepreneur of the Year' Award at the Asia Pacific Entrepreneurship Awards (APEA) in 2012. He holds a diploma in Business Accounting from Australia.

Key appointments: Deputy Chairman-Lanka ORIX Leasing Company PLC & Seylan Bank PLC, Executive Chairman-Browns Investments PLC, Chairman-LOLC Life Assurance Ltd., BRAC Lanka Finance PLC, Director-Associated Battery Manufacturers (Cey) Ltd., Sierra Construction Ltd., PRASAC, the largest microfinance company in Cambodia, LOLC Myanmar Microfinance Co. Ltd., Pak Oman MFB, LOLC Holdings (Pvt) Ltd., LOLC Asia (Pvt) Ltd., LOLC International Private Limited and LOLC Private Limited.

## **MR. R D TISSERA**

### **Executive Deputy Chairman**

Mr. Ravi Tissera joined the LOLC Group in 1993 and is a Development Finance Specialist. Mr. Tissera is the founder CEO of LOLC Micro Credit Ltd. (LOMC), Sri Lanka's largest microfinance provider. LOMC was amalgamated with LOLC Finance PLC (LOFIN) on 29th March 2018 to create Sri Lanka's largest Non-Bank Financial Institution where he will continue to serve on the Board.

He also serves on the Boards of LOLC Cambodia PLC, LOLC Myanmar Microfinance Ltd., Pak Oman Microfinance Bank Pakistan and BRAC Lanka Finance Plc. Mr. Tissera has obtained his Post Graduate in Marketing from the Chartered Institute of Marketing UK. He has also followed strategic leadership training at Harvard Business School.

During his tenure as CEO, LOMC became the only microfinance provider in Sri Lanka to receive the certification for the Client Protection

# Board of Directors

Principals from the SMART Campaign USA and also became a case study at INSEAD Business School.

## **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 Lanka ORIX Leasing Company PLC.

Other key appointments: Executive Director – Lanka ORIX Leasing Company 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, Browns Capital PLC, Green Paradise (Pvt) Ltd., Sun & Fun Resorts Ltd. and Browns Holdings Ltd.

## **MRS. D P PIERIS**

### **Independent Director**

Mrs. Priyanthi Pieris, an Attorney-at-Law of the Supreme Court of Sri Lanka, has over 38 years of experience in Corporate and Financial Law. Mrs. Pieris is also a Solicitor of England & Wales. She is currently in Private Practice.

Mrs. Pieris served on the Boards of Forbes & Walker Ltd., Forbes Ceylon Ltd, Forbes Stock Brokers Ltd., Forbes Air Services Ltd. (General Sales Agent for Emirates), Vanik Corporate Services Ltd., Office Network (Pvt) Ltd., Capital Reach (Holdings) Ltd and Associated Motorways Ltd.

Mrs. Pieris currently serves on the Boards of Associated Electrical Corporation Ltd., Abans Electricals Ltd., Asia Asset Finance PLC, PW Corporate Secretarial (Pvt) Ltd., Asian Centre for Lease Education (Pvt) Ltd., MTN Corporate Consultants (Pvt)

Ltd., Sithijaya Fund (Pvt) Ltd.

Mrs. Pieris served as the Legal Adviser to the Ministry of Finance from 2002–2004 and as Legal Consultant to the Colombo Stock Exchange from 2004–2011.

Mrs. Pieris is also a member of the Committees set up by the Securities & Exchange Commission of Sri Lanka to recommend amendments to the Takeovers & Mergers Code 1995 (as amended) and the Rule for 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 and Administration as an ex-Officio of the Central Bank of Sri Lanka. He has joined CBSL in 1991 and has worked in the Finance, Public Debt Management and Internal Audit departments till his retirement in year 2016.

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

## **MR. A NISSANKA**

### **Executive Director/Chief Executive Officer**

Mr. Nissanka counts over 25 years of experience in the Banking and Finance sector having commenced his career in 1993 with Seylan Bank PLC prior to joining LOLC Group in 1998 and having held the responsibilities of Strategic Marketing Planning, Development and Management of the Retail Channels for LOLC Finance

PLC, LOLC Micro Credit Ltd., and LOLC Insurance Ltd.

He possesses an MBA from Edith Cowan University, Australia, a Graduate Diploma from Chartered Institute of Marketing – UK (CIM), a Certified Management Accountant from the Institute of Certified Management Accountants Australia (CMA) as well as a member of Sri Lanka Institute of Marketing (SLIM).

He currently serves as a Member of the Council of Management of the Finance Houses Association of Sri Lanka, Board of Director of the Leasing Association of Sri Lanka, Deputy Chairman of the Financial Ombudsman Sri Lanka (Guarantee) Limited and Council Member of the Institute of Certified Management Accountants Australia (CMA).

# Directorships held by the Directors

Mr. B C G De Zylva	<p><b>Chairman:</b> LOLC Finance PLC LOLC (Cambodia) PLC</p> <p><b>Managing Director:</b> LOLC Myanmar Micro-Finance Company Limited</p> <p><b>Director:</b> Navajeevana Rehabilitation Tangalle Browns Machinery (Cambodia) Co. Ltd.</p>	Mrs. D P Pieris	<p><b>Chairperson:</b> PW Corporate Secretarial (Pvt) Ltd.</p> <p><b>Director:</b> 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.</p>
Mr. R D Tissera	<p><b>Deputy Chairman:</b> LOLC Finance PLC</p> <p><b>Director:</b> Sundaya Lanka (Pvt) Ltd. LOLC Micro Investments Ltd. BRAC Lanka Finance PLC LOLC Myanmar Micro Finance Co.Ltd. Pak Oman MFB LOLC Cambodia PLC Alternate Director: Seylan Bank PLC</p>	Mr. P A Wijeratne	<p><b>Director:</b> LOLC Finance PLC</p>
Mrs. K U Amarasinghe	<p><b>Director:</b> LOLC Finance PLC Lanka ORIX Leasing Co. PLC LOLC Life Assurance Limited Palm Garden Hotels PLC Eden Hotel Lanka PLC Brown &amp; Co. PLC Browns Investments PLC Riverina Resorts (Pvt) Ltd. Browns Capital PLC Browns Holdings Ltd. Green Paradise (Pvt) Ltd. Sun &amp; Fun Resorts Ltd.</p>	Mr. A Nissanka	<p><b>Director/CEO:</b> LOLC Finance PLC</p>

# Strategic Business Unit Team



KRISHAN THILAKARATNE



SHIRAZ REFAI



BUDDHIKA WEERATUNGE



IMRAN ZAROOK



SHAFIN IQBAL



RISHARD MUHAMMAD



ASH-SHAIKH FAZIL MOHIDEEN



ASH-SHAIKH ILHAM MUFARIS



ASH-SHAIKH SEYYED SAABIQ



ASH-SHAIKH UBAIDULLAH IQBAL  
(HUMAIDI)

**KRISHAN THILAKARATNE***AIB (SL)***Group Head of Islamic Finance - 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, Islamic Business 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 & 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 8 years of post-qualified experience in the finance sector commencing his career at LOLC in 2010. Currently is the head of Finance of the LOLC Finance PLC and prior to it he head the Finance division of both LOLC Micro Credit Ltd and BRAC Lanka Finance PLC.

**IMRAN ZAROOK***ADCM (SLICM), ADICM (SLICM)***Senior Executive, Recoveries Supervision - Al-Falaah, Islamic Business Unit of LOLC Finance**

Joined LOLC Group in 2015. Counts over 16 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, Islamic Business Unit of LOLC Finance**

Joined in 2014. Counts over 12 years of experience in Marketing services in the areas of New Business Development, Public Relation & Networking, and Event Management.

**RISHARD MUHAMMAD***ADCM (IBSL)***Senior Executive, Channel Marketing - Al-Falaah, Islamic Business Unit of LOLC Finance**

Joined LOLC Group in 2009. Counts over 18 years of experience in Marketing of Banking and Financial Services sectors in both local and overseas establishments.

**ASH-SHAIKH FAZIL MOHIDEEN***BA in Usoolul Deen (NALEEMI), DIB (IBSL)***Senior Officer, IBU Operations - Al-Falaah Islamic Business Unit of LOLC Finance**

Joined LOLC Group in 2014. Counts over 3 years of experience in Islamic Banking & Financial Services in both Marketing & Operational areas.

**ASH-SHAIKH ILHAM MUFARIS***BA in Usoolul Deen (NALEEMI), BA (University of Peradeniya), AAT (Passed Finalist), CCHRM.***Officer, IBU Operations - Al-Falaah Islamic Business Unit of LOLC Finance**

Joined LOLC Group in 2015. Counts over 2 years of experience in Islamic Banking & Financial Services in Operational areas.

**ASH-SHAIKH SEYYED SAABIQ***BA in Usoolul Fiqh (FATHIH), EDIBF (FGA)***Assistant, IBU Operations - Al-Falaah, Islamic Finance and 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 & Finance

**ASH-SHAIKH UBAlDULLAH IQBAL (HUMAIDI)***B.A (Hons), SEUSL, DIB (SEUSL).***In-House Shari'ah Advisor - Al-Falaah, Islamic Business 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. Currently serve Al-Falaah on a full-time permanent basis.

**AL-FALAAH LADIES BUSINESS UNIT****RINZI HUSSAIN***Dip. in IBF (SL)***Customer Service Officer - Al-Falaah, Ladies Business Unit of LOLC Finance**

Joined LOLC Group in 2014. She holds a Higher National Diploma in Business & Financial Management and a Diploma in Islamic Finance and counts over 4 years of experience in Islamic Banking and Financing.

**SHAFINAZ CAREEM***Bus.Mgt, (LSBU,UK)***Operations Assistant - Al-Falaah, Ladies Business Unit of LOLC Finance**

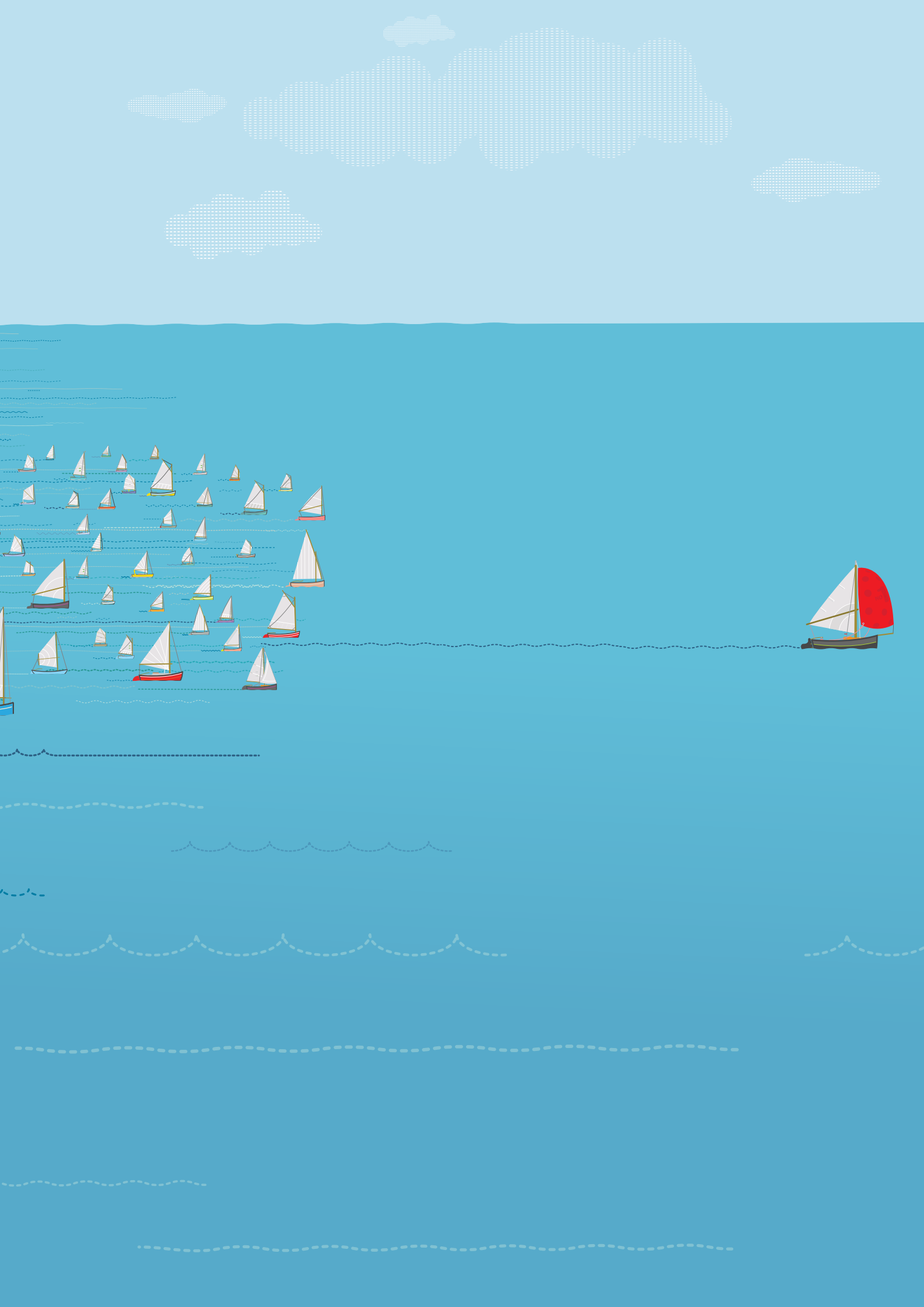
Joined LOLC Group in 2016. Reading for an external B.sc in Business Management in London Southbank University, UK. Counts 1 year of experience in the financial sector.



# Financial Statements

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# Shari'ah Supervisory Board Audit Report 2017/2018

**IN THE NAME OF ALMIGHTY ALLAH,  
THE ALL MERCIFUL, THE VERY  
MERCIFUL**

**To the Shareholders of LOLC Finance  
PLC**

By the grace of Allah, the year under review was the 10th year of Al-Falaah, the Islamic Business Unit of LOLC Finance PLC.

During the year, The Shari'ah Supervisory Board (SSB) of the Al-Falaah, Islamic Business Unit (Al-Falaah) and the management 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 Al-Falaah, as well as audited directly or indirectly through the In-house Shari'ah Supervisor (ISA), the transactions concluded by Al-Falaah during the financial year under review from April 2017 to March 2018.

We have also conducted our review to form an opinion as to whether Al-Falaah, complied with the rules and 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 Al-Falaah, conducts its business in accordance with the rules and 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 Al-Falaah, and report to you.

The following were the major developments that took place during the year under review:

1. SSB Branch Visits: The In-house Shari'ah Supervisor as well as

members of the SSB visited a number of Branches around the Island to review procedures and meet staff involved in Al-Falaah transactions.

2. SSB meetings: At least 12 Days of meetings were held by members of the SSB during the period.
3. Sukuk Product: The SSB was instrumental in the development and execution of a Securitisation Ijara Sukuk Product.
4. 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.
5. Review of existing product agreements: As part of ongoing reviews and in the effort to constantly improve, the existing Ijarah and Diminishing Musharakah agreements were reviewed and where required, certain amendments were suggested to best suit AAOIFI Standards.
6. Awards: Some of the achievements of 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 Financing Transactions
2. Murabaha 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
10. 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 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 Al-Falaah, Islamic Business Unit of LOLC Finance has adhered to Islamic commercial principles.

### **In our opinion;**

1. The overall structure of the contracts offered by Al-Falaah and their implementation during the year under review are generally in compliance with the rules of Shari'ah subject to certain observations highlighted below:
  - a. There remains an amount of charity to be disbursed to worthy recipients. This balance has accrued from late payment

penalties from customers that have undertaken to pay charity through Al-Falaah as a result of their late payment.

b. Certain aspects requiring careful monitoring pertaining to particular transactions were drawn to the attention of management.

c. The Enterprise Risk Management (ERM) Department of the company has been asked to conduct internal audits and highlight procedural discrepancies to supplement the Shari'ah Audit.

d. Management has been asked to rectify certain wording that was erroneously used in certain documents.

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

cherished tasks, make us successful in this world and in the hereafter, and to forgive our mistakes.

**ASH-SHAIKH SHAFIQUE A. JAKHURA (MUFTI)**  
Chairman-SSB

**ASH-SHAIKH FAZIL A. FAROOK**  
Member-SSB

**ASH-SHAIKH MURSHID MULAFFAR**  
Member-SSB

We beseech the Almighty Allah to bless us with the guidance to accomplish His

# 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:

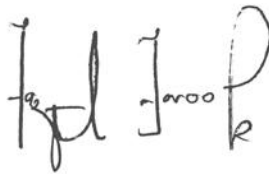
1. Having Quard-Hassanah agreement with LOLC Finance
2. Adhering only to The Shari'ah Supervisory Board of LOLC approved agreements
3. Maintain Chart of Accounts & IT systems to separately identify its transactions
4. Having separate Banking transactions
5. Periodic Audit conducted by the Shari'ah Supervisory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



**ASH-SHAIKH FAZILA A. FAROOK**  
Member-SSB



**ASH-SHAIKH MURSHID MULAFFAR**  
Member-SSB

# Independent Auditors' Report



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

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## OPINION

We have audited the statement of financial position as at 31st March 2018 and statement of comprehensive income for the year ended, and 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 2018 is prepared, in all material aspects, in accordance with the accounting policies set forth in pages 49 to 55 of the financial statement.

## BASIS FOR OPINION

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

## EMPHASIS OF MATTER - BASIS OF ACCOUNTING AND RESTRICTION ON DISTRIBUTION

We draw attention to the accounting policies set forth in pages 49 to 55 of the financial statement, which describes the basis of accounting. As a result, the financial statements may not be suitable for another purpose. Our audit work has been undertaken so that we might state to the Board of Directors of the LOLC Finance PLC, those matters that we are required to state, in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume the responsibility to anyone other than the addressee, for our audit work, for this report, or for the opinion we have formed. Our opinion is not modified in respect of this matter.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENT

Management is responsible for the preparation and fair presentation of financial statement in accordance with the accounting policies set forth in pages 49 to 55 of the financial statement, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

## 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 statement.

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

- identify and assess the risks of

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

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# Independent Auditors' Report

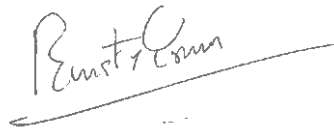
material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting 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 charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



22 June 2018  
Colombo

# Statement of Financial Position

As at 31 March 2018	Notes	2018 Rs.	2017 Rs.
<b>ASSETS</b>			
Cash and bank balances	3	3,039,427,493	315,833,572
Murabaha / Musawamah / Wakala receivables	4	2,728,465,115	2,832,391,243
Diminishing Musharakah receivables	5	5,196,286,714	4,956,192,913
Ijarah rent receivables	6	3,134,812,708	3,231,092,271
Investment securities	7	399,409,123	6,600,000
Other receivables	8	110,710,687	75,591,553
Investment properties	9	22,500,000	18,000,000
<b>Total assets</b>		<b>14,631,611,839</b>	<b>11,435,701,552</b>
<b>LIABILITIES</b>			
Placement from banks & other Financial institutions	10	1,815,169,821	422,353,191
Mudharabah investments		3,956,680,398	4,184,213,235
Wakala investments		5,459,336,084	2,012,478,675
Mudharabah savings		860,562,263	484,831,430
Income tax payable		128,848,958	197,523,144
Accruals and other payables	11	231,660,201	242,768,438
Due to head office	12	155,491,769	2,223,188,604
<b>Total liabilities</b>		<b>12,607,749,495</b>	<b>9,767,356,717</b>
<b>OWNER'S FUND</b>			
Retained earnings		2,023,862,343	1,668,344,835
Total owner's fund		2,023,862,343	1,668,344,835
Total liabilities & owner's fund		14,631,611,839	11,435,701,552

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 Thissera  
Executive Deputy Chairman



A. Nissanka  
Director / CEO

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 49 through 59.

22 June 2018  
Rajagiriya (Greater Colombo)

# Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 March 2018	Notes	2018 Rs.	2017 Rs.
Revenue	13	2,476,273,138	2,068,594,983
Profit paid to Mudharabah/Wakala investors		(1,014,111,005)	(558,485,895)
Profit paid on other funding arrangements		(257,720,738)	(315,581,787)
Other direct expenses		(141,530,756)	(137,924,984)
		1,062,910,639	1,056,602,317
Non distributable other income / (expenses)	14	34,250,326	36,065,725
<b>Total operating income</b>		<b>1,097,160,964</b>	<b>1,092,668,042</b>
Employee benefits	15	(131,406,933)	(142,043,509)
(Provision)/reversal for credit losses		(161,112,998)	(45,476,554)
Other operating expenses		(223,801,786)	(257,500,766)
<b>Profit from operations</b>	16	<b>580,839,247</b>	<b>647,647,213</b>
Value added tax on financial services		(96,472,781)	(97,113,745)
<b>Profit before taxation</b>		<b>484,366,466</b>	<b>550,533,468</b>
Income tax expense	17	(128,848,958)	(197,523,144)
<b>Profit for the year</b>		<b>355,517,509</b>	<b>353,010,324</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>355,517,509</b>	<b>353,010,324</b>

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 49 through 59.



# Cash Flow Statement

As at 31 March 2018	2018 Rs.	2017 Rs.
<b>Cash Flows From / (Used in) Operating Activities</b>		
Net Profit before Income Tax Expense	484,366,466	550,533,468
Adjustments for:		
Provision for fall/(Increase) in value of investments	1,700,000	400,000
Allowance for/(reversal of) doubtful debts	107,846,898	5,421,914
Provision for payables to clients	-	(3,000,000)
Change in fair value of investment property	2,166,000	(3,000,000)
Investment income	-	-
Profits attributable to investment made from banks & other financial institutions	257,720,738	596,189,803
Profits attributable to Mudharabah / Wakala investors	1,014,062,221	277,877,880
Operating profit before working capital changes	1,867,862,323	1,424,423,065
Change in other receivables	(35,119,132)	(23,933,257)
Change in trade and other payables	(11,108,236)	(10,411,201)
Change in amounts due to head office	(161,196,834)	195,911,171
Change in Ijarah rent receivables	88,477,979	60,930,263
Change in Murabaha / Musawamah/Wakala receivables	71,116,953	(230,803,106)
Change in Diminishing Musharakah receivables	(307,329,940)	(6,159,586)
Change in Mudharabah investments from customers	(211,187,022)	(148,701,403)
Change in Wakala investments from customers	3,382,322,357	422,107,909
Change in Mudharabah savings deposits from customers	375,730,833	18,772,652
<b>Cash used in Operations</b>	<b>5,059,569,280</b>	<b>1,702,136,507</b>
Profits paid to Mudharabah / Wakala investors	(965,872,985)	(248,229,405)
Income tax paid	(197,523,144)	(138,217,880)
<b>Net Cash Used in Operating Activities</b>	<b>3,896,173,152</b>	<b>1,315,689,221</b>
<b>Cash Flows from / (Used in) Investing Activities</b>		
Acquisition of Property, Plant & Equipment	(6,666,000)	-
Investments in Unit trust	(394,509,123)	-
<b>Net Cash Flows from Investing Activities</b>	<b>(401,175,123)</b>	<b>-</b>

# Cash Flow Statement

As at 31 March 2018	2018 Rs.	2017 Rs.
<b>Cash Flows from / (Used in) Financing Activities</b>		
Proceeds from issuance of new shares	-	-
Net proceeds from banks & other financial institutions	1,343,762,381	390,911,482
Net Proceeds from Qurd Hassan	(1,906,500,000)	(946,500,000)
Placement from banks & other financial institutions	(208,666,489)	(564,748,095)
<b>Net Cash Flows from Financing Activities</b>	<b>(771,404,107)</b>	<b>(1,120,336,613)</b>
<b>Net Increase/(decrease) in cash and cash equivalents</b>	<b>2,723,593,921</b>	<b>195,352,607</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>315,833,572</b>	<b>120,480,965</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>3,039,427,493</b>	<b>315,833,572</b>
<b>Analysis of cash and cash equivalents at the end of the period</b>		
Cash and bank balances	3,039,427,493	315,833,572
	<b>3,039,427,493</b>	<b>315,833,572</b>

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 49 through 59.

# Notes to the Financial Statements

## 1. GENERAL

LOLC Finance PLC (formerly known as Lanka ORIX 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 (Trade Financing), Ijarah (Leasing), Musawamah (Import Financing) and Wakala Financing (Business and Working Capital Finance).

## 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 22 June 2017. 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.

# Notes to the Financial Statements

## 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.

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.

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

#### 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 purpose and characteristics and the management's intention in acquiring them. 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.

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

#### 2.2.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories:

- financial assets at fair value through profit or loss;
- held-to-maturity financial assets;
- loans and receivables; and
- available-for-sale financial assets.

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

The subsequent measurement of financial assets depends on their classification.

##### *Financial assets at fair value through profit or loss*

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. 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 designated at fair value through profit or loss comprises of quoted equity instruments.

##### *Held-to-maturity financial assets*

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold it to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent held to-maturity financial assets are measured at amortised cost.

The IBU has not classified any instrument as held to maturity.

##### *Loans and Receivables*

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

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

# Notes to the Financial Statements

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

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

## **Available-for-sale financial assets**

Available-for-sale financial assets are financial assets that are not classified in any of the previous categories. Subsequent to initial recognition, they

are measured at fair value and changes therein, other than impairment losses on available-for sale equity instruments, are recognised in other comprehensive income and presented within equity in the available for sale reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the statement of profit or loss.

The IBU has not classified any instrument as available for sale.

## **2.1.2 Non-derivative financial liabilities**

Classification and Subsequent Measurement of Financial Liabilities

The IBU initially recognises non-derivative 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 & 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/Wakala advances & Diminishing Musharakah advances receivable (net of unearned income) which are in arrears for a period of 06 to 12 months.
- One hundred percent (100%) of Ijarah lease, Murabaha/ Musawamah/Wakala advances & Diminishing Musharakah advances receivable (net of unearned income) which are in arrears for a period of 12 months and more

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

Balance receivables on any terminated contracts are fully provided.

The values of the following

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

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

## 2.2 Investment property

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

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

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

# Notes to the Financial Statements

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is 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)**

Qurd 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/Wakala Income**

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

#### **2.7.2 Ijarah Income**

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

#### **2.7.3 Diminishing Musharakah Income**

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

#### **2.7.4 Profit in Suspense**

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

#### **2.7.5 Fees and other income**

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

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



Collections on contracts written off are accounted for on cash basis

#### 2.7.6 Dividends

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

#### 2.8 Expenditure Recognition

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

Expenses incurred by the 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.

# Notes to the Financial Statements

## 3. CASH AND BANK BALANCES

As at 31 March 2018	2018 Rs.	2017 Rs.
Cash & bank balances	3,039,427,493	315,833,572
	<b>3,039,427,493</b>	<b>315,833,572</b>

## 4. MURABAHA / MUSAWAMAH / WAKALA RECEIVABLES

As at 31 March 2018	2018 Rs.	2017 Rs.
Instalment receivable	3,140,709,931	3,209,917,602
Unearned income	(367,329,238)	(371,263,043)
Income in suspense	(6,626,097)	(1,422,196)
Provision for credit losses	(38,289,481)	(4,841,120)
	<b>2,728,465,115</b>	<b>2,832,391,243</b>

## 5. DIMINISHING MUSHARAKAH RECEIVABLES

As at 31 March 2018	2018 Rs.	2017 Rs.
Instalment receivable	5,334,126,060	4,999,695,860
Income in suspense	(42,987,008)	(15,886,748)
Provision for credit losses	(94,852,338)	(27,616,199)
	<b>5,196,286,714</b>	<b>4,956,192,913</b>

## 6. IJARAH RECEIVABLES

As at 31 March 2018	2018 Rs.	2017 Rs.
Rent receivables	4,196,061,457	4,226,927,403
Unearned income	(1,037,946,411)	(985,695,056)
Income in suspense	(6,692,732)	(1,332,053)
Provision for credit losses	(16,609,607)	(8,808,023)
	<b>3,134,812,708</b>	<b>3,231,092,271</b>

## 7. INVESTMENTS HELD FOR TRADING

Expo Lanka Holdings PLC

As at 31 March 2018	2018 Rs.	2017 Rs.
Cost (1,000,000 shares)	18,000,000	18,000,000
Carrying amount as at 1st April	6,600,000	7,000,000
Adjustment for change in fair value - recognised in profits	(1,700,000)	(400,000)
Carrying amount as at 31st March	4,900,000	6,600,000
<b>Investment in Unit Trusts</b>		
Original cost	335,000,000	-
Carrying amount as at 1st April	-	-
Investments during the year	1,500,000,000	-
Disposal during the year	(1,165,000,000)	-
Adjustment for change in fair value - recognised in profits	59,509,123	-
Carrying amount as at 31st March	394,509,123	-
Total investments held for trading	399,409,123	6,600,000

## 8. OTHER RECEIVABLES

Placement from banks & other financial institutions

As at 31 March 2018	2018 Rs.	2017 Rs.
Staff car advances	20,940,707	22,900,478
Insurance premium receivable	18,796,517	19,263,197
Accrued profit for Mudharabah deposits	39,041,044	-
WHT receivable	10,952,193	-
Others	20,980,225	33,427,879
	110,710,687	75,591,553

## 9. INVESTMENT PROPERTIES

As at 31 March 2018	2018 Rs.	2017 Rs.
Balance as at 1st April	18,000,000	15,000,000
Additions to Investment Properties from foreclosure of contracts	-	-
Change in fair value	4,500,000	3,000,000
Balance as at 31st March	22,500,000	18,000,000

# Notes to the Financial Statements

## 10. PLACEMENT FROM BANKS & OTHER FINANCIAL INSTITUTIONS

### 10.1 Long-term borrowings

As at 31 March 2018	2018 Rs.	2017 Rs.
Balance at the beginning of the year	-	-
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	-
Profit Payable	30,315,738	-
	1,550,315,738	-

### 10.2 Ijarah Sukuk

As at 31 March 2018	2018 Rs.	2017 Rs.
Balance at the beginning of the year	405,027,061	-
Sukuk obtained during the year	-	500,000,000
Repaid during the year	(176,237,619)	(94,972,939)
Balance at the end of the year	228,789,442	405,027,061
Profit Payable	36,064,641	17,326,130
	264,854,083	422,353,191
Liability recognised in statement of financial position	1,815,169,821	422,353,191

## 11. ACCRUALS AND OTHER PAYABLES

As at 31 March 2018	2018 Rs.	2017 Rs.
Lease equipment creditors	84,913,336	54,521,631
Refunds payable	54,251,239	104,328,094
Insurance/Takaful payable	6,784,878	15,613,306
IBU charity fund	1,690,486	3,432,829
Other miscellaneous creditors	59,648,315	-
WHT payable	1,970,349	-
Other payables	22,401,598	64,872,578
	231,660,201	242,768,438

## 12. DUE TO HEAD OFFICE

As at 31 March 2018	2018 Rs.	2017 Rs.
Loan from Head Office	-	-
Qurd Hassan	-	1,906,500,000
Current account balance due to head office	155,491,769	316,688,604
	155,491,769	2,223,188,604

### 13. REVENUE

As at 31 March 2018	2018 Rs.	2017 Rs.
Income from Ijarah receivables	705,179,750	593,485,358
Income from Diminishing Musharakah receivables	930,980,429	843,847,036
Income from Murabaha/Musawamah/Wakala receivables	598,503,207	595,254,330
Profit on terminations	58,717,318	35,684,525
Income from Mudharabah deposits	125,083,311	323,734
Profit on Unit trust	57,809,123	-
	2,476,273,138	2,068,594,983

### 14. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)

As at 31 March 2018	2018 Rs.	2017 Rs.
Takaful commission	2,968,502	26,653,279
Franchise Fee	29,531,334	-
Others	1,750,490	9,412,446
	34,250,326	36,065,725

### 15. EMPLOYEE BENEFITS

As at 31 March 2018	2018 Rs.	2017 Rs.
Salaries & other benefits	131,406,933	142,043,509
	131,406,933	142,043,509

### 16. PROFIT FROM OPERATION

Stated after charging

As at 31 March 2018	2018 Rs.	2017 Rs.
Advertising	8,112,490	6,231,428
Business promotion expenses	53,753,578	52,797,630

### 17. INCOME TAX EXPENSE

As at 31 March 2018	2018 Rs.	2017 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)	128,848,958	197,523,144
	128,848,958	197,523,144

### 18. 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 – appointed with effect from 23.04.2018

Mr R D Tissera – Executive Deputy Chairman – appointed with effect from 23.04.2018

Mrs K U Amarasinghe – Executive Director

Mrs D P Pieris – Senior Independent Director

Mr P A Wijeratne - Independent

Director – appointed with effect from 26.05.2017

Mr A Nissanka – Executive Director/ CEO

Mr I C Nanayakkara – Deputy Chairman – resigned with effect from 14.05.2018

Dr H Cabral PC – Chairman/Non Executive Director – resigned with effect from 02.02.2018

Justice R K S Suresh Chandra - Independent Director – retired with effect from 03.07.2017

## 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, 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

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

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