

Inside Out

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Corporate Information Inner Back Cover



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Inside Out

At Al-Falaah, we work to create increasing and sustainable value for the many customers and other stakeholders who place their trust in us. Today, we are pleased to report that the year under review has been a good one, as the Balance-sheet in this report will show.

We are proud that we have been successful in our vision to make our entire business process an engine to strengthen entrepreneurs and organisations seeking strong financial partnerships as well as corporate social responsibility, supporting underserved segments of society.

We have strived to serve our customers with exceptional Islamic financial solutions, proving our superiority by being awarded the Silver Award for 'Islamic Finance Entity of the Year 2015' at the 1st Islamic Finance Forum South Asia (IFFSA) Awards and also ranked as runners-up for the Best Islamic Leasing Provider Category (Overall) at the IFN Best Bank Polls 2015.

Operational and strategic superiority have been the foundations of our success, driven by our business integrity, industry expertise and commitment to social responsibility. Yet above all, we have nurtured a culture of openness and clarity, following rigorous governance policies and ensuring accountability at every level of the organisation. This is how we keep our pledge of total transparency and trustworthiness; the powerful values inherent to your Company, from inside out.

Our Vision

To be the most preferred Shari'ah compliant financial solutions 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 Al-Falaah, strictly concentrates to maintain that no element of 'Gharar' (Uncertainty) is in any transaction. Therefore, in order to adopt clear separation of in-flow and out-flow of funds, Al-Falaah maintains separate financials, systems, processes and operations in the strictest form. Al-Falaah has appointed a dedicated Shari'ah Supervisory Board (SSB) with representation of eminent local and international industry leading scholars together with an 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 Al-Falaah.

- 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.

Who We Are

“Al-Falaah’s product portfolio offers a superior range of Shari’ah compliant financial solutions.”

“Al-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, as compared to conventional financing modes, Al-Falaah gained a steady and loyal customer base. Our key differentiator is our customised and innovative product portfolio which addresses both business and socio-economic requirements of diverse market segments, whilst meeting the specialised needs of individuals.

At Al-Falaah, we’re keeping our pledge of total transparency and trustworthiness; the powerful values inherent to your company, from inside out.

Al-Falaah’s product portfolio offers a superior range of Shari’ah compliant financial solutions in areas of Profit Sharing Investment & Savings Accounts, 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 network of over 100 branches & service centres islandwide, including 7 stand-alone Al-Falaah centres across the country.

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

Financial Highlights

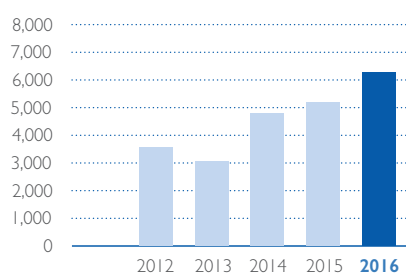
For the year ended 31st March

	2016 (LKR' 000)	2015 (LKR' 000)
Revenue	1,605,795	1,253,807
Profit paid to Mudharabah/Wakala investors	480,400	469,765
Other direct expenses - insurance	132,557	59,255
Non distributable other income / (expenses)	30,513	16,920
Employee benefits	124,866	87,765
Provision for credit losses	75,856	85,016
Other operating expenses	251,919	198,246
Value added tax on financial services	55,565	31,221
Profit before taxation	515,145	339,458
Income tax expense	138,218	97,619
Profit for the year	376,927	241,839
Assets		
Cash and bank balances	120,481	594,645
Murabaha / Musawamah receivables	2,863,475	2,141,022
Diminishing Musharaka receivables	4,692,274	3,038,760
Ijarah rent receivables	3,293,317	1,942,106
Investment in quoted shares	7,000	8,500
Other receivables	51,658	37,325
Investment properties	15,000	12,500
Total assets	11,043,205	7,774,858
Liability		
Mudharabah investments	4,230,559	4,034,438
Mudharabah savings	466,059	384,263
Profit payable on Mudharabah investments	86,885	65,928
Wakala investments	1,569,100	780,000
Profit payable on Wakala investments	7,092	2,379
Income tax payable	138,218	97,619
Accruals and other payables	256,180	237,722
Due to head office	2,973,777	1,234,102
Retained earnings	1,315,335	938,407
Total liabilities & owners fund	11,043,205	7,774,858

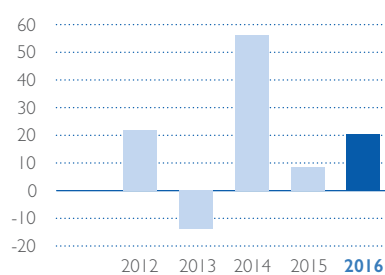
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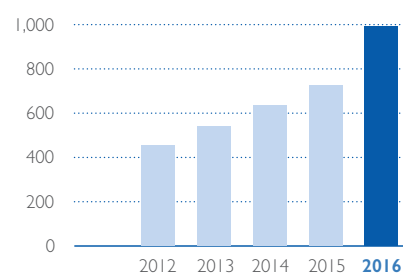
Deposit Base Growth (Rs. Mn)



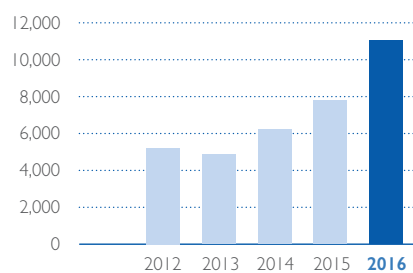
Deposit Base Growth (%)



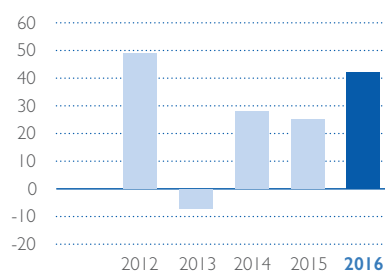
Gross Revenue (Rs. Mn)



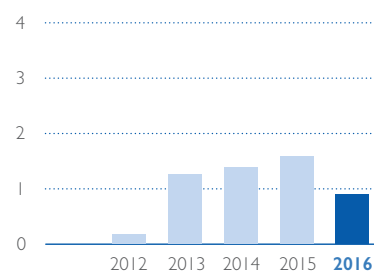
Assets Portfolio Growth (Rs. Mn)



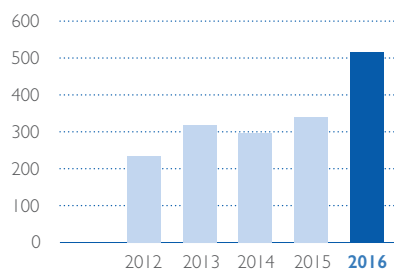
Assets Portfolio Growth (%)



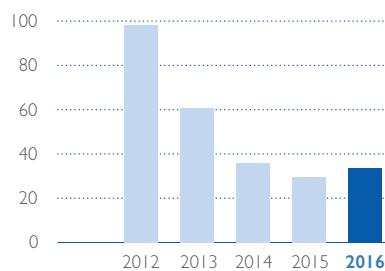
NPL Ratio (%)



PBT (Rs. Mn)



ROE (%)



5 year Growth Timeline

The company has recorded significant year on year growth over the last five years which reflects the soundness of its systems and processes, underscored by an experienced and dynamic team.

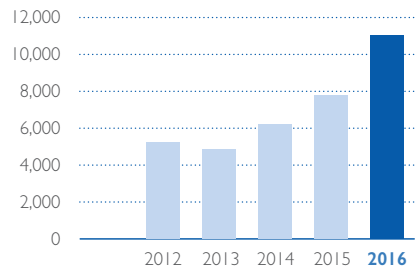
Over the last five years, Al-Falaah has made rapid strides in driving the penetration of Islamic Finance in the country through focused awareness programmes. The company's five-year growth chart reflects the company's phenomenal growth of loans and advances from Rs. 4.7 billion in 2012 to surpassing the Rs. 10 Billion mark in the year under review.

The company's deposits have witnessed strong and steady growth over the last five years – growing from Rs. 3.6 billion to Rs. 6.3 billion respectively since 2012, which reflects the noticeable rise in the adoption of Islamic Finance instruments by various

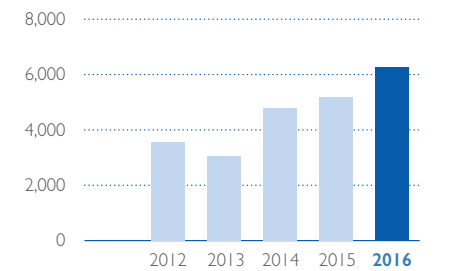
communities. As a pioneering Islamic Finance company, we believe that our efforts have played a huge role in making these finance products appeal to a wider community base.

Al-Falaah's total asset base witnessed a sharp increase in 2015/16 by as much as 42% and 20.52% increase in total deposit base as depicted in the graphic below. Over the 5 years of the company's operations, its total asset base has doubled. The company's product innovation to meet the specific needs of customers has also served to attract a rapidly-growing customer base.

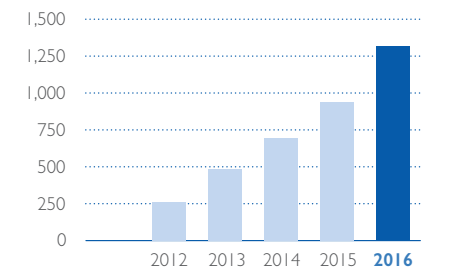
Total Assets (Rs. Mn)



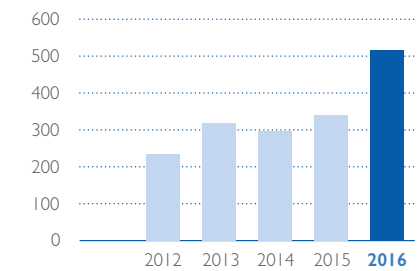
Total Deposits (Rs. Mn)



Retained Earnings (Rs. Mn)

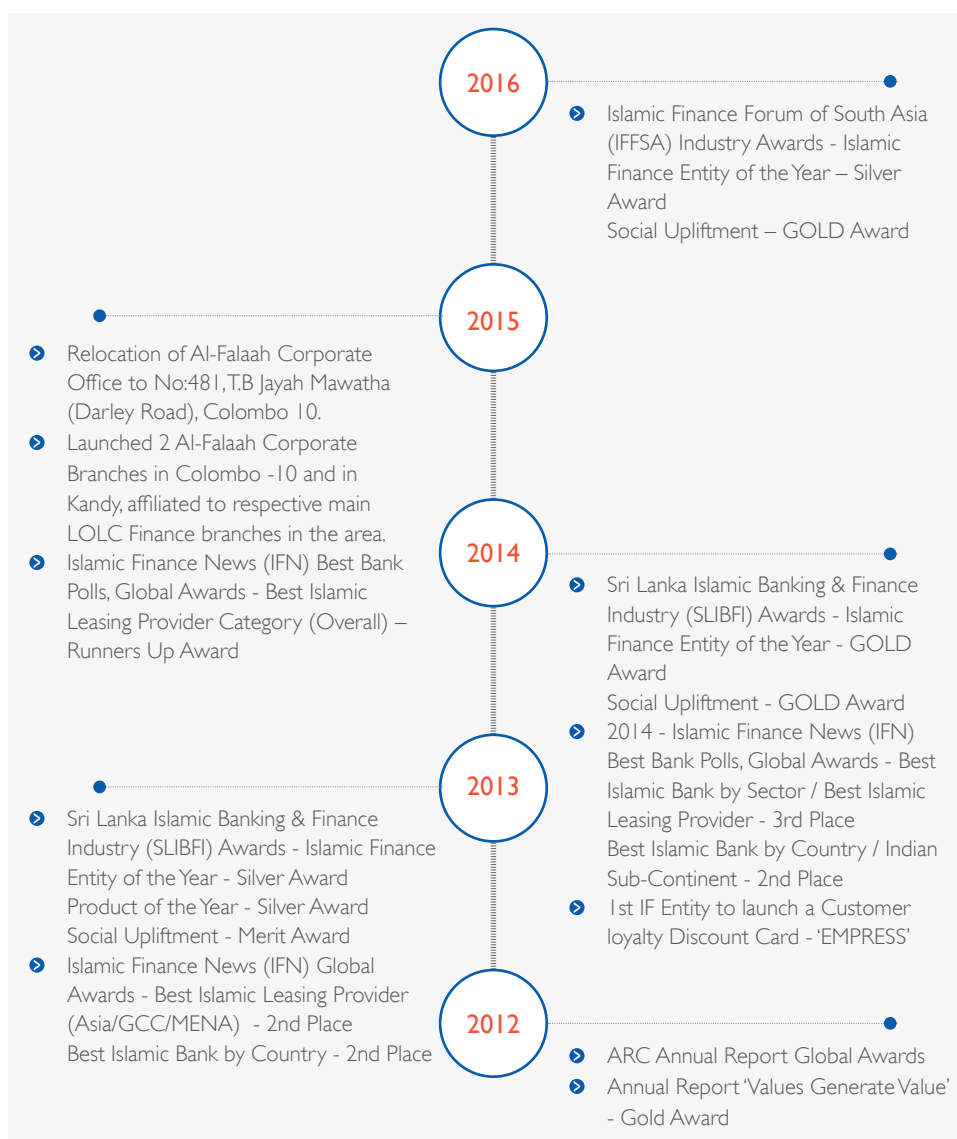
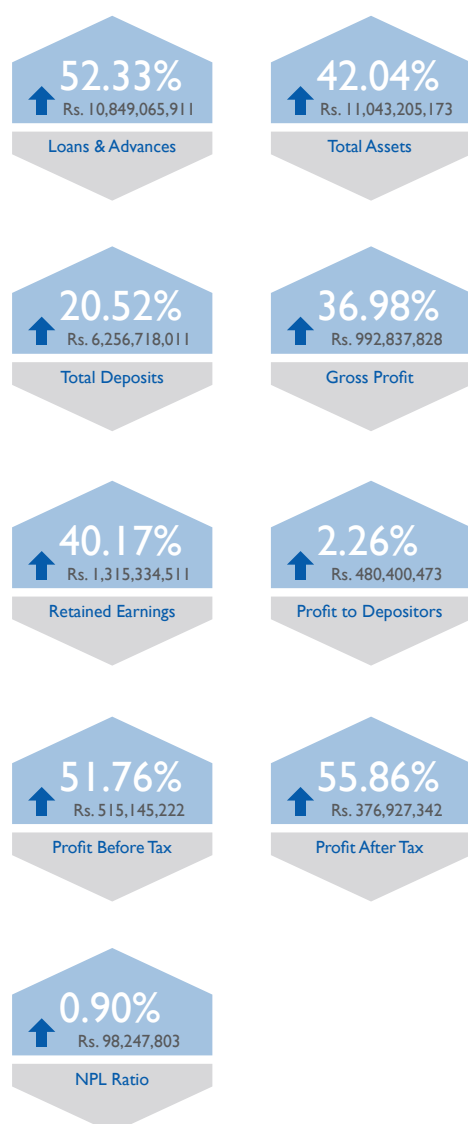


PBT (Rs. Mn)



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Accolades for 2015/16

Al-Falaah employees are true ambassadors of Islamic Finance in Sri Lanka as can be evidenced by the prestigious individual and organisational awards bestowed on them over the years.



Al-Falaah, the Islamic Business Unit of LOLC Finance received top recognition at the IFN Best Banks Poll Global Awards 2015.

Al-Falaah was adjudged runners-up in the category of "Best Islamic Leasing Provider (Overall) 2015" at the Redmoney's Annual Global Awards - Islamic Finance News (IFN) Best Banks Poll 2015.



Al-Falaah, the Islamic Business Unit of LOLC Finance won the following accolades for the Country categories at the 1st IFSA Awards (Islamic Finance Forum South Asia).

1. Islamic Finance Entity of the Year; Sri Lanka
- SILVER Award
2. Social Upliftment Award, Sri Lanka
- GOLD Award
3. Nadheer Siddeeq representing Al-Falaah Takaful of LOLC General Insurance Ltd. was adjudged;
Rising Islamic Finance Personality of the Year
- Gold Award Winner



The Al-Falaah team at the 1st IFFSA Awards night



Mr. Shiraz Refai, Assistant General Manager, Al-Falaah Islamic Business Unit of LOLC Finance receiving the Silver Award for the 'Islamic Finance Entity of the Year, Sri Lanka'.



Mr. Nadheer Siddeeq of Al-Falaah Takaful of LOLC General Insurance Limited was bestowed with the Gold Award for the 'Rising Islamic Finance Personality of the Year'.



Mr. Shiraz Refai, Assistant General Manager, Al-Falaah Islamic Business Unit of LOLC Finance receiving the Gold Award for the 'Social Upliftment Award'.

Our Branch Network

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 Centers : 01

Central Province

LOLC Finance Branches : 14
LOLC Al-Falaah Centers : 02

Eastern Province

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

Sabaragamuwa Province

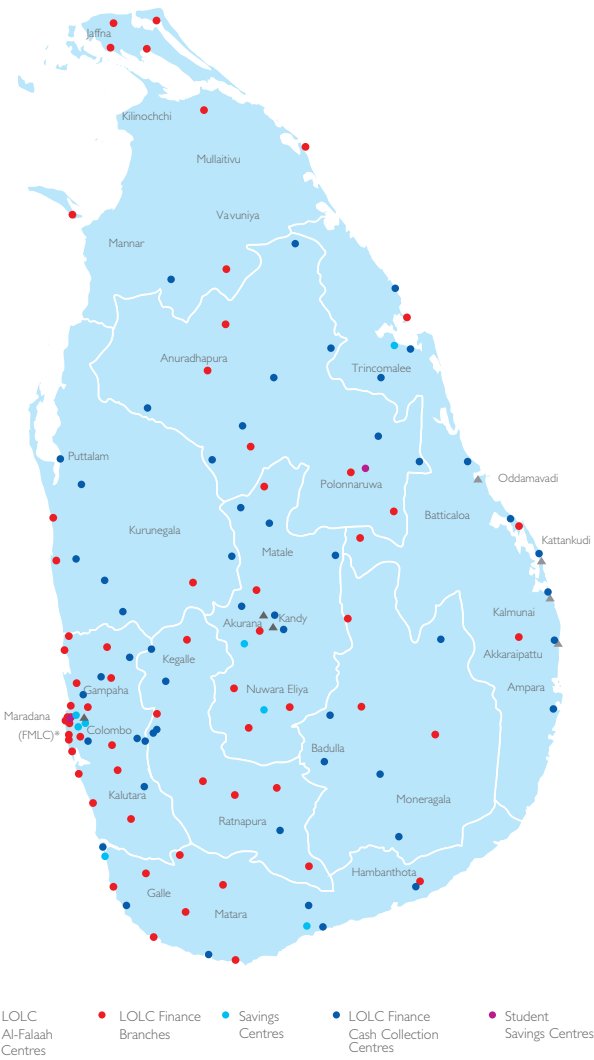
LOLC Finance Branches : 09

Uva Province

LOLC Finance Branches : 08

Southern Province

LOLC Finance Branches : 17



* FMLC - Fathima Muslim Ladies College

Executive Reviews

The company has created value for our investor base by pursuing diligent business practices, pioneering product development strategies, customised customer care and optimal utilisation of resources.

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Chairman's Message

Al-Falaah has not only established itself as the forerunner in the Islamic Finance business, but it has also forged an innovative and dynamic path for the industry that has allowed the business to prosper.

I take pride in placing before you the Annual Report and Audited Financial Statements for Al-Falaah, the Islamic Business unit of the LOLC Group. The period under review witnessed yet another successful financial performance by the company in a similar vein as the last couple of years. The company has commendably improved on its previous year's strong financial performance by recording Rs. 1,606 million revenue during the financial year under consideration.

Al-Falaah has not only established itself as the forerunner in the Islamic Finance business, but it has also forged an innovative and dynamic path for the industry that has allowed the business to prosper despite less than favourable macro economic conditions that prevailed through the year under review. The growth in our business and our rapidly expanding customer base reflects the company's ability to leverage on the strength of its credentials and sound financial management acumen to build a respectable business.

Macro Economic Conditions in 2015

Sri Lanka's economic growth fell marginally to 4.8 per cent in 2015 from 4.9 per cent in 2014 with the slow-down attributed to a slowing export

sector and foreigners repatriating their funds owing to a stronger US economy. Growth in real GDP in 2015 was largely driven by an increase in consumption demand, while investment activities made a modest contribution. Inflation rose slightly to record 2.8 per cent, compared to 2.1 per cent at the end of 2014, driven primarily by the enhanced growth of bank credit as well as higher wages for government workers and employees in other sectors of the economy. Despite substantial gains from the lower oil prices and continued positive trends in the tourism sector, slowing down of net foreign exchange inflows, including worker remittances, and capital outflows, generated an overall deficit in the balance of payments (BOP). The rupee, which remained broadly stable during most of the year, recorded a steep depreciation of 9.03% against the US dollar by year-end.

The performance of Licensed Finance Companies (LFC) and Specialised Finance Companies (SLC) sector was notable, as the sector growth continued to show positive momentum. Moreover, the low interest rate regime that prevailed in the market enabled the LFC and SLC sector to record a notable profit and maintain Non Performing Loans (NPLs) at a manageable level. Deposits grew at a

The growth in our business and our rapidly expanding customer base reflects the company's ability to leverage on the strength of its credentials and sound financial management acumen to build a respectable business.

Product Growth

52.33%



Kapila Jayawardena

Chairman
LOLC Finance PLC

Chairman's Message

In recognition of Al-Falaah's rising profile in the Sri Lankan Islamic Finance industry, the Company was adjudged the runner-up at the competitive IFN Best Bank Polls Awards 2015 in the Best Islamic Leasing Provider category, indicative of the strong financial results achieved.

Driving this upward trajectory was the growth in the Company's Mudharabah and Wakala deposits, which showed an increase by Rs. 1 Billion. Growing shareholder wealth through ethical business practices has been the hallmark of our business over the years, which makes Al-Falaah a valued partner for our investors.

slower rate however, mainly due to the competitive interest rates of the banking sector and availability of wholesale borrowings at relatively low rates from domestic financial institutions. Credit growth momentum continued, while NPL ratios improved mainly due to the fast growth in loans and advances. The overall liquidity position of LFCs and SLCs was maintained at healthy levels.

Robust Company Performance

The year under review proved historic for the company as it delivered its highest-ever Profit Before Tax (PBT) to reach Rs. 515 million. Al-Falaah's asset portfolio grew by 52% and as a result of the handsome profit earned through the year under review, the company succeeded in distributing a profit of Rs. 480 million amongst investors for the financial year. Driving this upward trajectory was the growth in the Company's Mudharabah and Wakala deposits, which showed an increase by Rs. 1 Billion. Growing shareholder wealth through ethical business practices has been the hallmark of our business over the years, which makes Al-Falaah a valued partner for our investors.

In recognition of Al-Falaah's rising profile in the Sri Lankan Islamic Finance industry, the Company was adjudged the runner-up at the competitive IFN Best Bank Polls Awards 2015 in the Best Islamic Leasing Provider category, indicative of the strong financial results achieved, as well its overwhelmingly positive public consensus. Echoing LOLC Group's dedication to social sustainability, Al-Falaah too has been conscious of maximising social benefits as the Company grows, and received the Gold Award in Social Upliftment at the Islamic Finance Forum South Asia (IFFSA) Awards held in 2016.

Al-Falaah achieved its impressive performance through innovative product development and better staff utilisation. The newly launched Wakala lending product proved particularly popular among the target market in the year under review supporting the working capital requirements of the SME sector. The company's personalised customer care services are driving revenue by attracting more customers. By leveraging on LOLC Group's islandwide network, Al-Falaah was able to net a wider customer base. This impressive progress was aided by an overall surge in The Islamic Finance industry, which grew considerably during the year

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under review and I am proud to note the swiftness with which Al-Falaah was able to leverage on this positive sentiment. The company also grew its base of retail and corporate clients successfully during the year.

Future Prospects

Islamic Finance is a growing segment in Sri Lanka's financial sector and has seen vast strides in growth over the last few years. We expect the future to be extremely positive for this business, as more and more people become aware of the unique benefits that Islamic Finance offers over traditional financial instruments. Backed by the sound fundamentals of the LOLC Group, Al-Falaah is expanding its presence and widening its customer base exponentially. The company will continue to offer enhanced customer centric products and services that fulfill Shari'ah requirements through innovation and technology backed initiatives.

Acknowledgements

I take this opportunity to express my gratitude to my fellow directors on the Board for their unstinted support. The management and staff of Al-Falaah have worked tirelessly to reach our common vision and need to be commended for

their efforts. I extend my thanks to the Shari'ah Supervisory Board (SSB) for their wise counsel to ensure Al-Falaah's services comply in full with the Shari'ah system. Al-Falaah has become a vital part of the LOLC Group and we expect it to see it generate even greater revenue for the Group.

Kapila Jayawardena

Chairman

LOLC Finance PLC

Message from Group Head of Islamic Finance - LOLC

LOLC Al-Falaah recorded yet another exceptional year across its enterprise in terms of performance, expansion of reach and brand awareness in keeping with its promise of providing a true alternate financial service to conventional finance.

It gives me pleasure to state that LOLC Al-Falaah recorded yet another exceptional year across its enterprise in terms of performance, expansion of reach and brand awareness in keeping with its promise of providing a true alternate financial service to conventional finance. A glance at the financial performance of the company during the period under consideration is a testimonial of the impressive profitability that LOLC Al-Falaah achieved in the 2015/16 financial year. The company's assets experienced a 42% growth in the year under review, eventually exceeding the Rs. 11 billion mark for the first time in the company's history. Both top line and bottom line grew by 28% and 56% respectively. Meanwhile, deposits rose by 21% and profits distributed to investors increased by 2% to surpass Rs. 480 million.

Spearheading Islamic Finance in Sri Lanka Besides the strong financial performance demonstrated by the company during the period under review, we are also proud about the many other achievements of the company that proved equally satisfying. Crowned the best Islamic Finance entity in the country, LOLC Al-Falaah bore additional responsibility of living up to the stature of this impressive title. We are cognizant of the fact that as the market leader, our business has to go

beyond our own performance in terms of taking the message of true Islamic Finance to the market and to the very people who need it the most.

The ground we covered in this regard convinces us of what has been an exceptional year for the company in all respects. We intensified market awareness programmes and during the financial period under review conducted 11 programmes in almost all regions in the country, while educating more than 2,000 participants on a one-on-one basis. We believe that these participants are now true ambassadors of Islamic Finance in Sri Lanka.

It is our belief that Islamic Finance should first appeal to the community concerned before its acceptance by others. Hence, we take the Islamic Finance message to the market while underscoring the fact that it is a viable alternate financial option to all communities and has a wider objective. It promotes socially responsible finance in a Shari'ah compliant manner. As much as it stays away from Reba (interest), Gharar (uncertainty), and from associating with activities such as gambling, tobacco, liquor, LOLC Al-Falaah has continuously developed strong firewalls with the conventional unit in terms of finance, operations, banking, IT, receipts, payments, and so on.

It is our belief that Islamic Finance should first appeal to the community concerned before its acceptance by others. Hence, we take the Islamic Finance message to the market while underscoring the fact that it is a viable alternate financial option to all communities and has a wider objective.



Krishan Thilakaratne
Group Head of Islamic Finance - LOLC

Message from Group Head of Islamic Finance - LOLC

Our efforts will be focused on creating further market awareness, developing more products, streamlining the processes to become more service-oriented and customer-friendly, and making pricing even more attractive to both investors as well as borrowers.

We believe that one of the crucial investments in taking the industry forward is the investment in human capital. Our efforts in this endeavour are three-fold and encompass recruiting and training for specialised marketing and operational staff; sponsoring and accommodating internships programmes for Shari’ah scholars; and to create market awareness among general public through awareness programmes, press and other media.

Strengthening Islamic Finance Expertise

We believe that one of the crucial investments in taking the industry forward is the investment in human capital. Our efforts in this endeavour are three-fold and encompass recruiting and training for specialised marketing and operational staff; sponsoring and accommodating internships programmes for Shari’ah scholars; and to create market awareness among general public through awareness programmes, press and other media. Our marketing staff is continuously trained and updated on developments in the Islamic Finance industry. Many of them have now received their certification as qualified Islamic Finance marketers upon successfully completing a qualifying exam to be certified Islamic Finance professionals. The unqualified Shari’ah audit report by the most eminent Shari’ah Supervisory Board (SSB) is an endorsement of the clear and transparent Islamic Finance operation run by LOLC Al-Falaah.

Future Prospects

It is our belief that the optimal time for Islamic Finance is about to commence, and we hope that the rest of the financial sector is geared for it. Our efforts will be focused on creating further market awareness, developing more products, streamlining the processes to become more service-oriented and customer-friendly, and making pricing even more attractive to both investors as well as borrowers.

LOLC Al-Falaah’s recognition, strong balance sheet, and performance have been able to get the attention of few international funding agencies and banks, and we believe that a few of these will deliver results in the near future. This will be yet another first in the country and bring in international flavour to the local Islamic Finance market.

Governance

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Assets Growth

42%

I continue to believe that Islamic Finance is more resilient to market challenges due to its strong fundamentals. On our part, we ensure that we avoid excessive lending and take precautions to see that lending is carried out only for true economic activity and not for consumption purposes, whilst also being used for the right purposes. The returns are then shared with our investors. Our bad debt provision for the year 2015/16 was 76 million, which is a reflection of our prudent lending policy.

Appreciation

I take this opportunity to thank my Board of Directors for the trust they place in Al-Falaah and for giving us freedom for continuous expansion. I would like to thank my team for the support rendered as we continue the journey in the most transparent, ethical and responsible manner in the future as well.

Krishan Thilakaratne

Group Head of Islamic Finance - LOLC

SSB Chairman's Message

Al-Falaah is proving to be a committed and illustrious Islamic Finance operator that is delivering promises to investors while operating strictly within the ambit of Shari'ah principles.

On behalf of the Shari'ah Supervisory Board (SSB), I would like to state that the 2015/16 year proved to be a rewarding one for Al-Falaah, during which the company was in full compliance with all the requirements of the SSB. Al-Falaah is proving to be a committed and illustrious Islamic Finance operator that is delivering promises to investors while operating strictly within the ambit of Shari'ah principles. As in the previous year, Al-Falaah has recorded healthy growth and reflects an enduring long-term vision for expanding Islamic Finance in the country.

Islamic finance is clearly on the rise both locally and internationally. In Sri Lanka, this alternate finance methodology is gaining ground by garnering a wider customer base. The nation needs financial sustenance to prosper and Islamic Finance could play a big role in contributing to the economic growth of the country. Islamic Finance has the capacity to help institutions and individuals grow from strength to strength in an ethical manner and this realisation has made Islamic Finance the fastest growing financial system in the world today.

We are hopeful that Al-Falaah will continue its good work and simultaneously diversify its product offerings further to cater to a wider cross section of customers. Some of the products we are keen to see introduced by Al-Falaah in the near future are housing and microfinance related financial

instruments which will jointly address some of the most pressing issues faced by the economically under privileged in the country.

Al-Falaah is planning Sri Lanka's first Sukuk Al-Ijarah issuance and we expect this 'Shari'ah-compliant' Securitisation alternative to receive a strong response in the market. The Board welcomes this move by the group which will be the pioneering Sukuk issuance in Sri Lanka and the region. The Sukuk Al-Ijarah option will contribute to further develop the Islamic Finance capital market, by not only opening a new window for companies seeking Islamic Finance but also provide a viable investment instrument for the potential Islamic investor.

We believe that Al-Falaah has the technical expertise and the credentials of its parent group LOLC to play a much larger role in the overarching objectives of Islamic Finance, which aims to bridge social and economic disparities in society by sharing resources.

Overall, Shari'ah Supervisory Board (SSB) is satisfied with the compliance demonstrated by LOLC Group's Islamic financial services arm Al-Falaah, which has demonstrated compliance with all criteria laid down by the SSB.

All products and solutions offered by Al-Falaah are in accordance with SSB guidelines. The Shari'ah

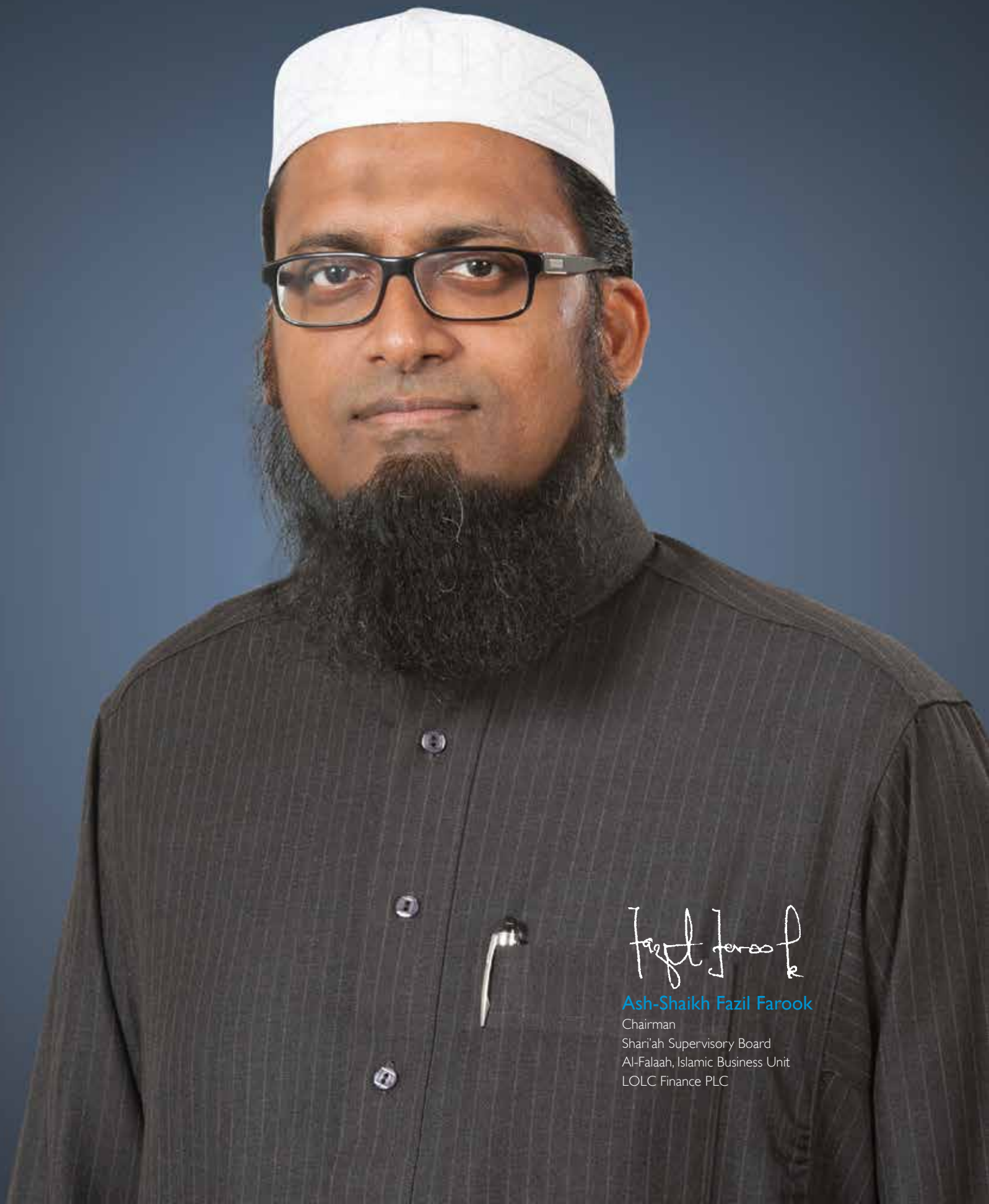
Supervisory Board proactively offered guidance to Al-Falaah during the year. Quarterly and annual audits of Al-Falaah's operations were carried out, which affirm the company's compliance with Shari'ah principles. SSB is working closely with the management and external stakeholders to ensure the appropriateness and compliance of Al-Falaah's services.

Al-Falaah has played a significant role in uplifting Islamic Finance in Sri Lanka by expanding its branch network to spread the message of this alternate financing and its benefits to all communities. Not only has Al-Falaah filled a gap in the market with Islamic Finance, but it is also building capacity in the realm of Islamic Finance that will benefit the wider industry.

I would like to take this opportunity to thank the management of LOLC and staff of Al-Falaah for practicing and promoting Islamic Finance. The company's commitment for innovation and progress of the industry is commendable.

Ash-Shaikh Fazil Farook

Chairman - Shari'ah Supervisory Board
Al-Falaah, Islamic Business Unit - LOLC Finance PLC



Fazil Farook

Ash-Shaikh Fazil Farook

Chairman

Shari'ah Supervisory Board

Al-Falaah, Islamic Business Unit

LOLC Finance PLC

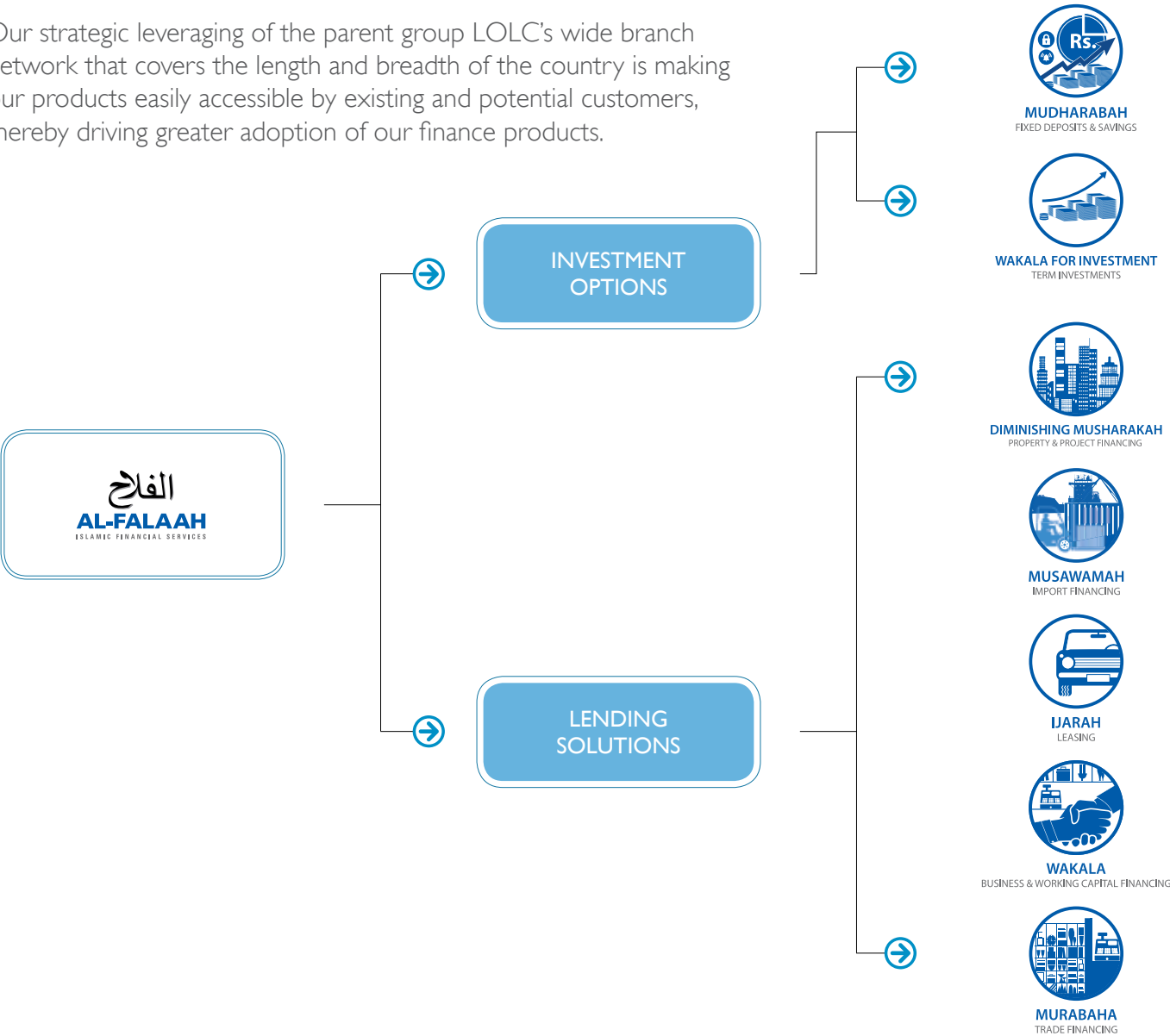
The company's comprehensive product portfolio continues to be a magnet for a wide range of investors and during the period under review, our investor base expanded significantly. Our superlative financial performance in FY 2015/16 reflects the efficacy of our products and services in fulfilling investor needs.

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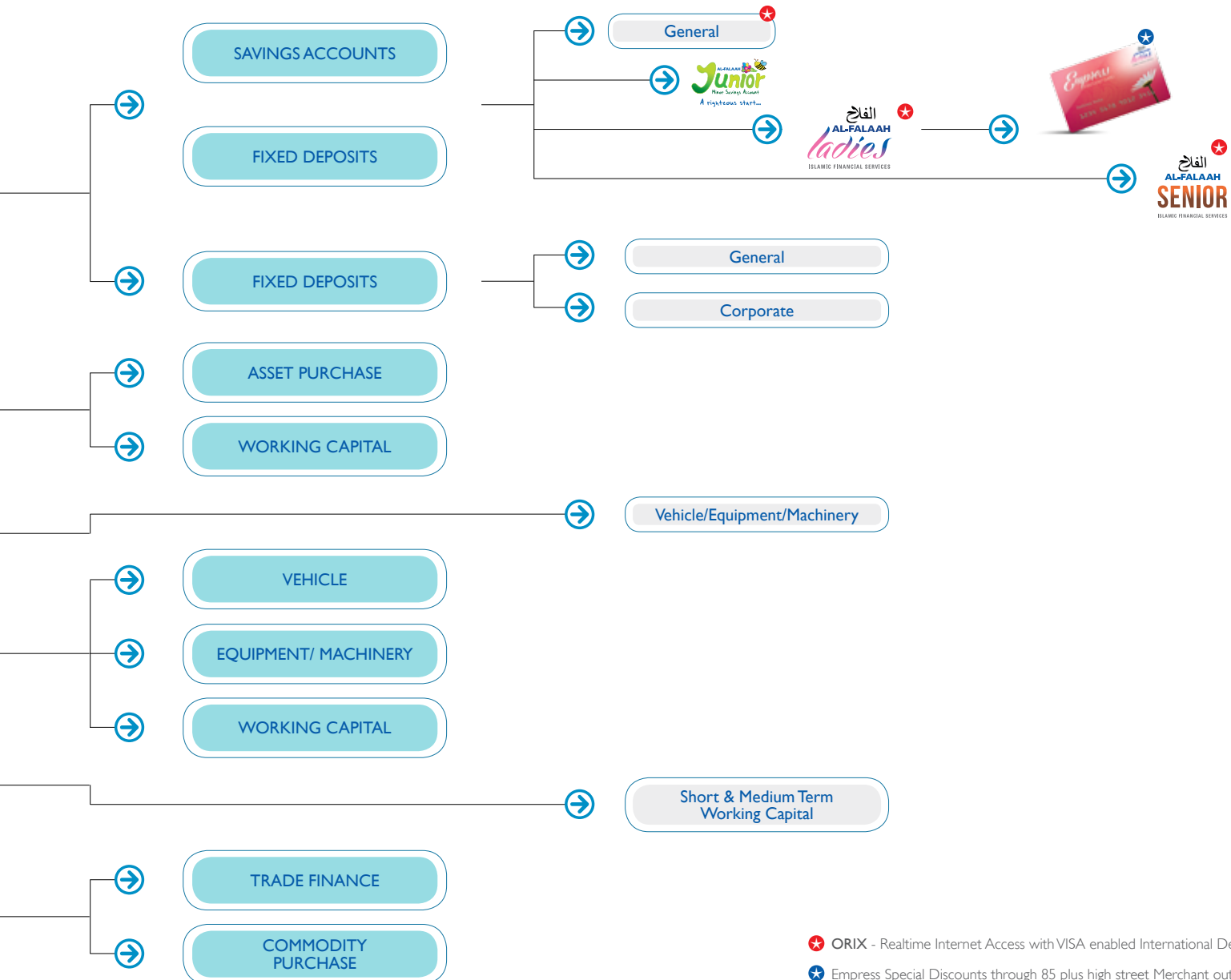
Product Map

Our strategic leveraging of the parent group LOLC’s wide branch network that covers the length and breadth of the country is making our products easily accessible by existing and potential customers, thereby driving greater adoption of our finance products.



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Product Review

Al-Falaah's wealth of experience in product development and customisation, and its ability to understand the short, medium and long term aspirations of customers has enabled it to offer pioneering financial instruments to the market.

MUDHARABAH

Mudharabah Investments

The Mudharabah investment concept is offered for Fixed-Term investment options. As a financing technique, it is a contract in which the Funds are provided by the Investor, while the business is managed by Al-Falaah. The profit is shared at pre-agreed ratios. The product portfolio sustained its value year on year, which reflects the confidence placed by the investors in the concept. However, a shift to alternate investments options offered by Al-Falaah is seen, owing to the confidence that the investors have placed in the company. The sustenance of the portfolio was achieved despite the prevalence of less-than-ideal conditions in the market due to low returns and rates across the industry.

Product Features: • Profits can be paid to a Mudharabah Savings Account maintained with Al-Falaah or to another bank account as required by the investor • Choice of investment options ranging from 1 month to 60 months term • Higher profit returns on a monthly basis than on similar products in the industry • Option of receiving profit returns on monthly, annually or at maturity basis, whichever is preferred.

Mudharabah Savings Accounts

An extension of Mudharabah investment concept, this account offers flexible savings options with an electronically updated Pass Book. During the year, capitalising on the features and benefits of the product, Al-Falaah managed to drive a sizable growth of 29%. Essentially, this account can be accessed from any branch in the company's network of channels and also via internet access. Account holders can also avail of an industry-first ATM/Debit card linked to the VISA network, thereby enabling holders to access their accounts via both local as well as international ATM networks globally.

Product Features: • Access to 7 dedicated Al-Falaah centres and over 100 LOLC Finance branches and Savings Centres islandwide • Unlimited withdrawals and deposits • Higher profit returns on a monthly basis on similar products in the industry • Fully-integrated Savings Account with Pass Book • ATM/Debit Card facilities with global access through VISA network • ORIX Realtime internet access

AL-FALAAH LADIES FINANCIAL SERVICES

Our ladies-centric products have witnessed strong growth due to focused efforts by the teams to raise awareness about the company and its products targeted specifically at women. Al-Falaah Ladies - Mudharabah Profit-Sharing Investments and Al-Falaah Ladies Savings Account are devised for ladies to invest wisely and plan finances to reap maximum benefits. Titled 'Blossom of Success', this unique business concept offers the maximum profits on 'Mudharabah Ladies' Savings and Fixed Deposits as well as tailor-made credit facilities to suit busy professionals and the self-employed.

Product Features: • A Dedicated Business Unit for ladies • Highest professional service • Access to 7 dedicated Al-Falaah centres and over 100 LOLC Finance branches and Saving centres island-wide • Attractive and exciting complimentary gifts for all 'Mudharabah Ladies' account holders and value added services for lending facilities • Tailor-made credit facilities are also available for self-employed individuals and professionals, with flexible repayment options

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'Mudharabah Ladies' Fixed Deposits

Women form the backbone of society and dispense their duties as home-makers, mothers and professionals in a selfless manner. This women-centric product from Al-Falaah salutes this inner strength and multitasking nature of women. By offering a product focused on women, we are empowering them to plan their finances better in order to plan their financial future wisely. Al-Falaah's strong credentials and financial stability are factors that are attracting this segment of investors across communities to this specialised product. This product in particular offers a choice of investment options under the profit-sharing concept. Currently, the Al-Falaah Ladies investments portfolio has grown to reach a significant Rs. 945 Million, with 2,488 accounts as at the end of the financial year under review.

Product Features: • Higher profit returns than a regular investment options • Selection of investment options between 1 to 60 months • Receiving profit returns on a monthly basis or at Maturity • Profits payable to 'Mudharabah Ladies' savings Account or to another bank Account, as preferred

'Mudharabah Ladies' Savings Account

This product demonstrated dynamic growth during the year as a result of higher demand for the product which empowers ladies with a host of benefits. The main advantage for ladies is the 'Empress' Discount card which is accepted by over 85 leading high-street merchants in Sri Lanka. The product recorded a significant growth during the year under review. 'Mudharabah Ladies' Savings Account added further flexibility and value for ladies with attractive higher profit returns.

Product Features: • Access to 7 dedicated Al-Falaah centres and over 100 LOLC Finance branches and Saving Centres island-wide • Be eligible for an Empress discount card with over 85 high-street merchant partners island-wide • Fully-integrated Savings Account with Pass Book • ATM/Debit Card facilities with global access through VISA network • ORIX Realtime internet access

AL-FALAAH JUNIOR SAVINGS ACCOUNTS

The Al-Falaah Junior savings portfolio has grown to Rs. 31 Million with 1,860 accounts during the year. Al-Falaah Junior addresses several concerns of investors with this product – it secures the financial future of children by parents and encourages financial discipline from a young age.

'Al-Falaah Junior' Savings Accounts

A minor's savings account, Al-Falaah Junior offers a comprehensive savings plan based on the Shari'ah principle of profit sharing. It offers attractive benefits, high profit returns and exciting complimentary gifts. On attaining 18 years, the child holds substantial savings in the account to pursue ambitious academic goals.

Product Features: Higher profit returns on a monthly basis • Fully-integrated Savings Account with Pass Book • Applicable only for minors under the age of 17 and below • Attractive and exciting with complimentary gifts for account holders on offer • Access to 7 dedicated Al-Falaah centres and over 100 LOLC Finance branches and Saving centres island-wide

Product Review

AL-FALAAH SENIOR INVESTMENTS & SAVINGS

Al-Falaah Senior Investments & Savings

Post retirement, many senior citizens find that their savings are not adequate to sustain the remainder of their lives comfortably and this product addresses this need felt by seniors for a generous and accommodating product that understands their concerns. The Al-Falaah's senior product extends dignity and retirement planning benefits to these valued members of society. Al-Falaah Senior investments sustained its growth momentum for the year; continuing to appeal to senior citizens as a wise investment that accrues maximum benefits. Presently there are 1,344 Al-Falaah Senior Account holders with a staggering combined investment portfolio of Rs.1,231 million. This product extends the highest profits on the Mudharabah category of investments and also offers access to services through the entire branch network.

'Al-Falaah Senior' Mudharabah Fixed Deposits

'Al-Falaah Senior' Fixed Deposits offers a choice of investment between 1 to 60 months with higher profit returns, either on a monthly basis or at maturity.

Product Features: • Option to receive profit returns on a monthly basis or at maturity • Profits payable to 'Al-Falaah Senior' savings Account or to another bank Account, as preferred.

'Al-Falaah Senior' Mudharabah Savings Account

'Al-Falaah Senior' Mudharabah Savings Account was born out of the company's understanding of customers' legitimate needs by offering flexible options for such handsome profit returns and a range of value additions. This senior focused account is a niche product and caters exclusively to definite identified needs of senior citizens, thereby empowering them to live their twilight years with dignity.

Product Features: • Access to 7 dedicated Al-Falaah centres and over 100 LOLC Finance branches and Savings centres islandwide • Fully-integrated Savings Passbook with the flexibility of unlimited deposits and withdrawals • Fully-integrated Savings Account with Pass Book • ATM/Debit Card facilities with global access through VISA network • ORIX Realtime internet access.

WAKALA TERM-INVESTMENTS

Wakala Investments constitutes a contract concluded between an investor as the principal and an entrepreneur or Al-Falaah as the agent for the investor. Under this investment contract, the company is authorised to manage the investor's funds by investing in Shari'ah compliant business activities and remunerate profits under agreed terms to the investor for a fixed management fee (Wakala Fee). Profit of the Wakala will be paid according to a mutually pre-agreed profit rate. If the agent manages to conclude a surplus (higher than agreed profit rate), he may retain it as an incentive as agreed on the Wakala Agreement.

'Wakala Term Investments'

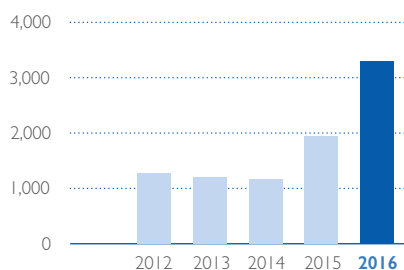
This product is extended for corporate fixed term investors who seek a fixed-return or a stable return for its investments. Favourable market conditions, strengths and synergies of the company and innovative product offering have helped drive growth in the Wakala Investments product by as much as 101% with a portfolio of Rs. 1.6 billion, further consolidated by our robust approach to business and a wider reach by increasing branch network to 100.

Product Features: • Higher profits • Highest safety and security • Long-term financial planning • Corporate fixed deposits.

FINANCING OPTIONS AND CREDIT FACILITIES

Ijarah for Leasing

Ijarah Growth (Rs. Mn)



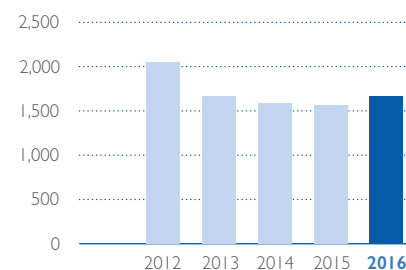
The motor vehicles industry faced severe challenges during the year with an increase in vehicle prices coupled with a rise in import duties. Despite this challenge, Al-Falaah's Ijarah for Leasing consolidated its popularity amongst customers by registering a growth of 70% to record Rs.3.3 billion comparison to Rs.1.9 billion in the previous year. Ijarah Leasing is an agreement that permits one party (the lessee) to use an asset or property owned by another party (the lessor) for an agreed-upon price over a fixed period of time. It is a form of asset finance which has

the benefit of using assets without the requirements of ownership. The lessee acquires the asset he needs without borrowing on interest and receives the benefits of use while the lessor receives the value of regular rental payments for a specified period plus the residual value of the asset. The lease may be written either for a short-term or for a long-term and its rules are similar to those governing sale because in both cases there is a transfer of one thing between two parties for valuable consideration. At the end of the agreed rental period, where lessee's obligations towards Al-Falaah is complete, we will gift the asset to you so you can enjoy the full ownership of it.

Product Features: • Service is ideal for unregistered and brand-new vehicles as well as plant, equipment and machinery/Competitive rentals • Tailor made finance options

Murabaha for Trade Finance

Murabaha Growth (Rs. Mn)



This product with a portfolio of Rs.1.7 billion is proving to be a significant contributor to the company's overall profitability as investors prefer our tailor made solution. In a Murabaha contract of sale, the company buys a specific item for a client and add a predetermined profit over the cost of the item and then sells the item to the client to repay under installments.

Product Review

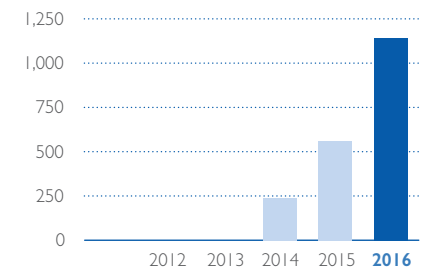
During the year, the Murabaha product recorded a growth of 6.68% over the previous year. We take pride in the fact that this product is encouraging a spirit of entrepreneurship.

Product Features:

- Assets are purchased based on market- prices, where profit margins are competitive
- Payments can be made through installment or as structured payments to suit cash flows
- Applicable only for trade finance and purchase of property, registered vehicles, plant, machinery, equipment and commodities

Wakala for Business and Working Capital Finance

Wakala Lending Growth (Rs. Mn)



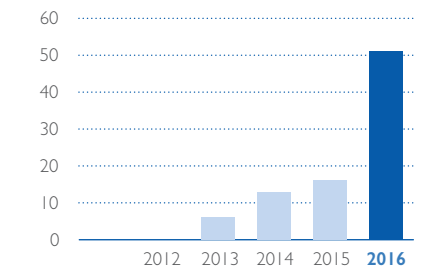
Al-Falaah's Wakala lending product continued its impressive growth momentum from the previous year by delivering another superlative financial performance by reflecting a growth of 104% to reach a value of Rs. 1.1 billion for the period. The company's depth of experience in the Wakala product and our understanding of the urgency of short-term business and working capital finance enables the Wakala team to bridge customers' finance gaps from purchase to sale. Founded on the pillars of the Wakala principle, the customer is appointed as an agent of Al-Falaah, with an undertaking that the funds invested are utilised for Shari'ah compliant business. The agent is provided with short-term finance as specified in the Wakala agreement in which repayment methods with investment and profit returns are flexible.

Product Features:

- Applicable for Trading and Manufacturing businesses
- Optimal choice for short-term Working Capital requirements
- Repayments through fixed installments or as structured payments to suit your cash-flow

Musawamah for Import Finance

Musawamah Import Finance growth (Rs. Mn)



The strident growth of this product was largely due to focused efforts by the product team to make headway in the import fraternity. Our strategies delivered a growth of 217% for the product to reach Rs. 51 million as against Rs. 16 million in the 2014/15 financial year. Musawamah usually occurs when it is difficult to determine what the cost of a particular good or service was, or when goods are comprised of a pool of products. In order to comply with Shari'ah, there are many restrictions to a Musawamah, including that the underlying asset must be in existence and in the sellers' possession at the time of the sale; sale must occur instantaneously, future sale dates are void; and the asset must be of value and usable.

Product Features:

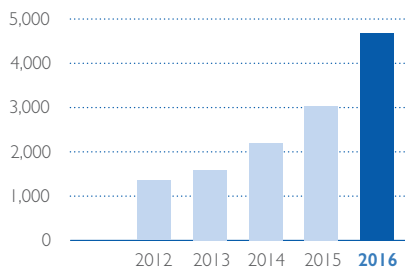
- Musawamah is the most common type of trading negotiation seen in Islamic commerce
- Widely used for import financing

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Diminishing Musharakah for Property and Project Finance

Diminishing Musharakah Growth (Rs. Mn)



Musharakah product sustained its popularity during the year, reflecting a growth of 54% as against 39% in the previous year. Recording Rs.4.7 billion during the year, the Diminishing Musharakah is being popularised as a versatile financial instrument through which the company supports the customer by providing financial security to initiate business ventures right from inception. Diminishing

Musharakah (Project/Property Finance & Working Capital) is a partnership which ultimately provides complete ownership to a partner for the purchase of shares of another partner by a redeeming mechanism agreed upon by both partners.

Applying this mechanism to property financing, we enter into a partnership with the client in order to purchase property, thereby having a de-facto common ownership of it. Periodically, the client will purchase a pre-agreed percentage of our share of the property, thereby increasing the client's ownership of the property and reducing our share by a similar amount. The ownership of the entire property will be passed on to the client upon successful completion of the agreed term.

Product Features:

- Monthly installments on a reducing balance method at an agreed fixed term
- Full ownership is transferred to you once the installments are complete
- Applicable only for instances of property purchase, property development and working capital purposes.

Al-Falaah has ensured a strong governance and risk framework to protect stakeholder interest and establish benchmarks for the rest of the industry due to its pioneering status as the leading Islamic Finance operation in the country. Our operations are in full compliance with the Shari'ah Supervisory Board requirements.

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Corporate Governance

Al-Falaah follows the corporate governance system of LOLC Finance PLC. For LOLC Finance corporate governance is about ensuring an effective, transparent and accountable management of affairs by the Board of Directors, the highest governing body, with the ultimate objective of protecting the interests of all stakeholders.

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

For LOLC Finance corporate governance is about ensuring an effective, transparent and accountable management of affairs by the Board of Directors, the highest governing body, with the ultimate objective of protecting the interests of all stakeholders. 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 Exchange Control Act, No. 24 of 1953, 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 whistleblowing 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 Justice R K S Suresh Chandra 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 fulfill

Governance

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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 main Board held twelve scheduled monthly meetings during the year.

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.

Audit Committee

The Audit Committee was established for the purpose of assisting the Board in fulfilling their responsibilities relating to financial governance. The Committee held seven meetings during the year.

Integrated Risk Management Committee

The Integrated Risk Management Committee was established to assist the Board in performing its oversight function in relation to different types of risk faced by the Company in its business operations and ensures adequacy and effectiveness of the risk management framework of the Company. The Committee held four meetings during the year.

Remuneration Committee

The Remuneration Committee was established to assist the Board in evaluating and recommending remuneration for Board Members including the Chief Executive Officer.

Nomination Committee

The Nomination Committee was established to assist the Board in assessing the skills required and recommending Director Nominees for election to the board and to nominate members to its sub-committees to effectively discharge their duties and responsibilities. The Committee held two meetings during the year.

Related Party Transaction Review Committee

On behalf of the Board, the Committee ensures that all Related Party Transactions of the Company are consistent with the Code of Best Practice on Related Party Transactions issued by the SEC. The Committee held four meetings during the year.

Shari'ah Supervisory Board

As the Company offers Islamic Financial Services, the Board is conscious of the periodic Shari'ah Audit reports submitted by the installed dedicated Shari'ah Supervisory Board (SSB). This provides comfort to customers of the Al-Falaah Islamic Business Unit and further strengthening the Board's control. Two of the three member Shari'ah Supervisory Board are key office bearing members of All Ceylon Jamiyyathul Ulama (ACJU) and are based in Sri Lanka. The remaining member is an internationally acclaimed shari'ah scholar based in South Africa.

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.

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.

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.

Corporate Governance

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 the 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.

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 August 2015. 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.

As far as the Directors are aware, the Auditors do not have any other relationship with the Company or any of its subsidiaries nor do they have any interest in contracts with the Company or any of its subsidiaries.

Enterprise Risk Management

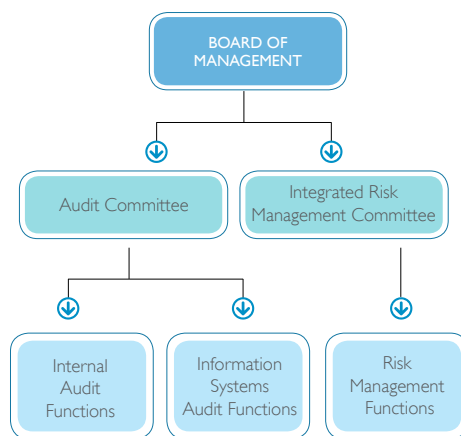
The Islamic Business Unit is a business silo under LOLC Finance PLC. The risk management function comes under the scope of the Enterprise Risk Management structures of LOLC Finance PLC.

Transforming Capacities in to Synergies

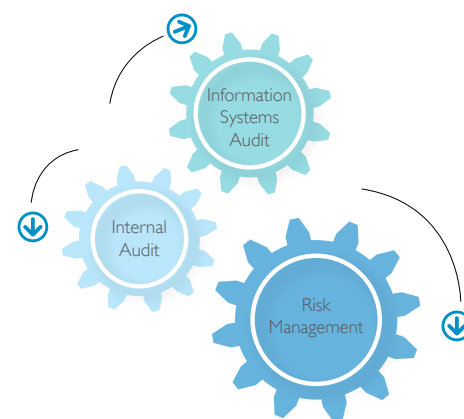
Risk Management at LOLC is a group level centralised function. The risk governance structures adopted for each entity is structured in such a way so as to retain uniformity among entities thus enabling us to replicate all risk management processes across any entity in a seamless manner. This strategy allows us to transfer our skills, knowledge and capabilities within least possible lead time thus optimising our resource utilisation.

Risk Management is an organisation wide effort and the Board of Management drives the risk governance effort via the Integrated Risk Management Committee and the Audit Committee. The functions of the Enterprise Risk Management department is centralised at the Holding Company level with risk officers appointed for each of the main companies in the group to coordinate risk management processes and efforts.

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 while the Compliance department is segregated. The Audit function and the Risk Management function works in cohesion to derive the best possible synergies which are in offer. The Risk Management function identifies possible risks which could impede the achievement of our organisational



level and operational level objectives and advises the management of possible risk mitigation strategies. The effectiveness of the internal controls implemented by the management to ensure that risks are managed within tolerable levels are reviewed by the internal audit with providing management with a reasonable assurance that the internal control frame work functions consistently as intended. Both functions draw heavily from the expertise of each other and exchange risk and internal audit related information in an effort to optimise Risk Mitigation strategies. Enterprise Risk Management department retains its total independence via the reporting line established to



the Chairman of the Board, thus allowing them to express their opinion without any bias or influence which is vital for good decision making and critical evaluation of its strategies to identify potential risks and conduct rectification of the same on time.

Enterprise Risk Management at LOLC Finance is an organisational level process, where responsibility which cascades down from the board of management to the operational level employees. With our vision in risk management "Building an organisational Culture where Protection, Assurance, Reliability, Accountability,

Enterprise Risk Management

Transparency and Confidentiality are treasured and lasting values", we always believe in empowering employees to evaluate every action, and decision taken within their scope of duty with a conscious assessment of risk. Enterprise Risk Management department believes that more the employees are aware and knowledgeable on risks the higher their ability would be to make the correct response. So with a view of enriching and enhancing the employees' perspective on risk , the Enterprise Risk Management department has plans to conduct structured training in co-ordination with the human resource function targeting staff engaged in critical operational activities in the organisation.

The complexities and the ground realities have necessitated transforming from the traditional approaches to risk management and auditing in to more dynamic and innovative methodologies. Therefore the audit strategy of centralised annual audits were transformed in to a hybrid system between the traditional annual audits and continuous field based audits. (Audit strategy takes a more aggressive approach with obtaining an all clear sign off from the auditee on rectifications and implemented controls and random follow up audits scheduled to be executed with in the next financial year).The data analytics techniques were introduced for auditing purposes which had transformed the reach of the auditors from a sample based to the review of the entire audit universe where ever appropriate. We expect the full potential of this capability to be realised within the next financial year:

Connectivity to inclusiveness

The information network whether system based or more a traditional flow of information is vital to both auditing function and risk management function. We are constantly enhancing our technical capabilities as well as the network of information sources. With the expansion of operations it has necessitated that the presence of audit is felt more at the tactical level. The field based auditors are located in six regions and this move has increased our reach tremendously and put most of the branches within the reach of the audit team as and when required. The field based reviews are done in addition to the annual branch audits carried out. The data analytics give us more in depth knowledge on the information reviewed and allow us to identify and detect anomalies in a much faster and accurate manner.

The ERM team plays a consultative role in major process design initiatives and product formulation initiatives thus ensuring that the internal control aspects are given due recognition. The same approach is adopted for ICT developments where the IS audit team does knowledge sharing on control aspects. The introduction of data analytics capabilities was successful and constant use of this capability is envisaged in the next financial year:

Correct information at the right time is vital to both risk management and audit functions and in addition to improving on the data capture mechanisms from the existing business information systems we have established other lines of communications with various stakeholders. The

whistle blower hotline is available for employees to report any irregularity while the customer feedback line is made available for customers to bring to our notice any matter which needs the attention of the management, both these communication lines are operated by ERM. Any information provided via these methods are treated confidentially and are followed up until resolution. All risk owners and sources have a compulsory reporting line to ERM where all identifiable risks need to be communicated to Enterprise Risk Management department on a monthly basis.

The risk management function draws information from sources, both internal and external. They appraise the management of the potential risks arising and recommend actions for the mitigation, avoidance or capitalising on the opportunities that arise. The risks identified and addressed are constantly monitored and any adverse movement of such risk indicators are highlighted for appropriate action at risk reports submitted monthly to the board as well as in quarterly to integrated Risk Management Committee meetings. The identified risk parameters need to be monitored constantly and consistently. Therefore we improve our risk information system capabilities continuously.

Consolidation to Growth

Continuous quality improvement is key to the success of any initiative and we are well aware of the need to fine tune the knowledge, skills and capabilities of our risk management and audit team. Both internal and external training facilities

Governance

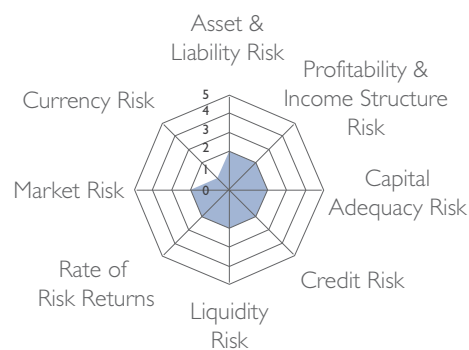
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are used for this purpose and the value it adds to the process is immense. An Internal quality management system and mechanism is now well established and this insures that all reporting done by the Enterprise Risk Management team undergo a stringent quality assurance process to ensure uniformity and consistency of its reporting.

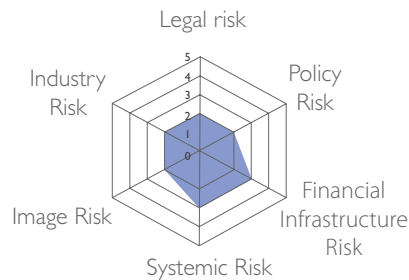
A shift in the audits towards continues reviews are expected within the next financial year and enhanced interactions with the customers too are planned as this enables us to obtain first hand information on the effectiveness of the internal control structure of our delivery channels. The automation of risk monitoring allows our risk management team to focus more on analysis forecasting and prediction of risk indicators' behaviour and we expect enhanced technical aspects in risk reporting in the next financial year. The consolidation of the initiatives we have so far undertaken is essential for us to elevate our capabilities and the potential to the next level as the risk management process matures.

*Risk Profile

Financial Risks



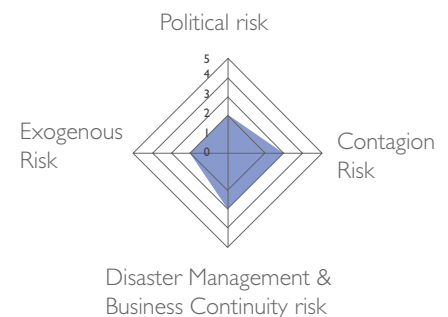
Business Risks



Operational Risks



Event Risk



Introduction	Executive Reviews	Management Discussion & Analysis
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Charity Fund

“Al-Falaah accumulates financial resources which are mandated to be disbursed for the upliftment of society.”

Islamic Finance is used for a definite purpose by Al-Falaah in accordance with Shari’ah precepts. These noble precepts inspire Al-Falaah to carry out its sense of shared responsibility to all communities to fulfil basic needs of deserving sections of society. Through its dedicated Charity Fund, which is mandated by the Shari’ah Supervisory Board (SSB) both as contingency for portfolio cleansing as well as a business commitment toward sustainable Corporate Social Responsibility (CSR), help is extended and disbursed for the upliftment of society and to benefit the under-served sections of the community with special emphasis on Education, Health and Social needs thereon. It is pertinent that majority of the funds are directed to beneficiaries outside the community justifying a sense of equality

of population distribution. A pivotal aim of the Charity Fund is also to support economically under privileged sections of society and provide succour to the people who need it the most, which helps to reduce social inequality. During 2015/16, the Charity Fund disbursed a total of Rs. 25,011,442 amongst 186 beneficiaries.

The Charity Fund’s financial support distribution to the under privileged is designed to fulfil their health needs by providing medical support for a variety of treatments on periodic need basis, as also for hospitalisation/surgical expenses.

Education is yet another crucial area addressed by the Fund, offering much-needed scholarships

from school to university level to post-graduate professional programs to ensure that students from economically under privileged backgrounds do not have to sacrifice their academic ambitions for lack of financial resources.

Social upliftment is yet another aim of the Charity Fund, which encourages and promotes self-employment and offers critical help in times of natural disasters and calamities to restore infrastructure build up post-traumatic lifestyle.

A stringent selection and approval procedure is followed to ensure transparency and accountability at all times. The Charity Fund plays a vital role to fulfil Al-Falaah’s strategy for charitable donations and giving.

Charity contributions for past 05 years

Annual Theme		Medical Needs	Education	Social Upliftment & Miscellaneous Instances
Supporting economically under privileged sections of society, the company strives to bridge the gap between the wealthier and poorer of society	2015/16	Rs.12.86 Mn	Rs. 3.85 Mn	Rs. 7.44 Mn
Al-Falaah accumulates financial resources which are mandated to be disbursed for the Upliftment of society	2014/15	Rs. 7.90 Mn	Rs. 2.30 Mn	Rs. 10.10 Mn
Al-Falaah. Disburses funds to address issues such as natural disasters, the health of the needy, assistance to the deprived in the field of education, addressing instances of social inequality and need.	2013/14	Rs. 5.91 Mn	Rs. 1.62 Mn	Rs. 10.39 Mn
Al-Falaah has been prudent to distribute the funds accumulated in charity fund	2012/13	Rs. 6.90 Mn	Rs. 0.49 Mn	Rs. 26.70 Mn
Al-Falaah, A Choice Well Fulfilled; a financial institution should integrate its Concern for Society and Environment within its Business-core.	2011/12	Rs. 4.10 Mn	Rs. 0.48 Mn	Rs. 6.60 Mn

Shari'ah Supervisory Board Members

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 Fazil M. Farook

Chairman

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

Ash-Shaikh Shafique A. Jakhura (Mufti)

Member

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

Board of Directors

A wealth of expertise and experience is reposed in the members of LOLC Finance Board of Directors who reflect some of the country’s prominent and respected business leaders with distinguished professional backgrounds.



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Board of Directors

1 Mr.W D K Jayawardena

Mr. Kapila Jayawardena was appointed to the Board as a Non-Executive Director in June 2007. He counts over thirty three years' experience in Banking, Financial Management and Corporate Management. He was also appointed as the Group Managing Director/CEO of Lanka ORIX Leasing Co., PLC in 2007. He was the former CEO/ Country Head of Citibank Sri Lanka & Maldives.

He has played a pivotal role in the banking sector contributing to the financial market reforms, development and regularly advising regulators on prudential requirements and has widespread experience in introducing innovative financial service products to the market.

LOLC Group is one of the largest conglomerates in Sri Lanka with presence in diversified industries such as Financial Services, Trading, Manufacturing, Construction, Leisure and Renewable Energy.

As an individual with extensive international and domestic financial experience, he was a key member of the following committees.

- Chairman Sri Lanka Bank's Association (SLBA) 2003/2004
- Member of the Financial Services Reforms Committee (FSRC) 2003/2004

- Director of Lanka Clear and was instrumental in completing the automated clearing project for the Sri Lankan banking industry 2004
- President of the American Chamber of Commerce Sri Lanka 2006/2007
- Member of the inaugural Sovereign Ratings team for Sri Lanka
- Member of the National Council of Economic Development (NCED)
- Board Member of the United States - Sri Lanka Fulbright Commission

Presently, he holds Chairmanship/Directorship in the following companies:

- Lanka ORIX Leasing Company PLC – Managing Director/Group CEO
- LOLC Finance PLC - Chairman
- LOLC Securities Limited - Chairman
- Eden Hotels Lanka PLC - Chairman
- Palm Garden Hotels PLC - Chairman
- LOLC General Insurance Ltd - Chairman
- LOLC Micro Credit Ltd - Director
- Commercial Leasing & Finance PLC - Director
- Brown & Company PLC - Director
- Browns Investments PLC - Director
- Seylan Bank PLC - Director
- BRAC Lanka Finance PLC - Director

- Riverina Resorts (Pvt) Ltd - Director
- Browns Capital PLC - Director
- Pussellawa Plantations Limited - Director
- Browns Hydro Power PLC - Director
- FLMC Plantations (Pvt) Ltd - Director
- LOLC International (Pvt) Ltd - Director

Qualifications: Master of Business Administration, American University of Asia

Fellow of the Institute of Bankers, Sri Lanka

Associate of the Institute of Cost and Executive Accountants, London.

Governance

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2 Mr. I C Nanayakkara

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 and the Executive Deputy Chairman of LOLC Finance PLC (previously known as Lanka ORIX Finance Company PLC), holding directorships in many of its subsidiaries and associate companies.

Backed by over a decade of professional experience in the industry, Mr. Nanayakkara holds the role of Chairman of Commercial Leasing & Finance PLC, one of Sri Lanka's leading financial service providers for over 27 years, as well as LOLC Life Assurance Limited. He is also the Deputy Chairman of Seylan Bank PLC, a premier commercial bank in the country. His vision to cater to the entire value chain of the finance sector manifested in the development of Micro Finance, Islamic Finance, factoring through LOLC Factors, LOLC Life & 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, who is the

Chairman of their Micro Credit Companies: LOLC Micro Credit Company Ltd, the only private sector microfinance institution in the country with foreign equity, PRASAC, the largest microfinance Company in Cambodia and BRAC Lanka Finance PLC. Mr. Nanayakkara's interest in microfinance led to the inauguration of LOLC Myanmar Micro Finance Company Ltd, a greenfield investment in Myanmar in which he was the founding Chairman, and currently serves as a Director. His proficiency in micro-finance in the region is further demonstrated by his involvement at strategic level in LOLC Cambodia Ltd (Previously known as Thaneakea Phum Ltd); the 5th largest micro-finance company in Cambodia. He was also recently appointed as a Director in LOLC International Private Limited.

Mr. Nanayakkara's motivation to expand into various growth peripheries is further illustrated through his role as the Executive Chairman of Brown & Company PLC and Browns Investments PLC. Browns Group is a renowned conglomerate with leading market position in trade, leisure, power generation, healthcare, manufacturing, consumer appliances and agriculture equipment. Through strategic investments, he is committed to catalysing development in the growth sectors of the Sri Lankan economy such as construction. Mr. Nanayakkara's involvement in the Boards of Agstar

Fertilizers PLC, Associated Battery Manufacturers (Cey) Ltd, Sierra Constructions Ltd and Sagasolar Power (Private) Limited reflects this business philosophy.

His passion for sustainable investment is reflected through his involvement in renewable energy, forestry and plantations. As such, Mr. Nanayakkara was also appointed as the Chairman of Browns Capital PLC (previously known as FLC Holdings PLC), Browns Hydro Power PLC (previously known as F L C Hydro Power PLC), and a Director at Pussellawa Plantations Ltd and FLMC Plantations (Pvt) Ltd, subsequent to a recent acquisition.

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.

Board of Directors

3 Mrs. K U Amarasinghe

Mrs. Kalsha Amarasinghe was appointed to the Board in March 2003. She holds an Honours Degree in Economics.

She serves on the Boards of Lanka ORIX Leasing Company PLC, LOLC Finance PLC, LOLC Micro Credit Ltd, LOLC Life Assurance Ltd, Palm Garden Hotels PLC and Eden Hotel Lanka PLC. She also serves as a Director on the Boards of Commercial Leasing & Finance PLC, Brown & Company PLC, Browns Investments PLC, Riverina Resorts (Pvt) Ltd, Browns Hydro Power PLC, Browns Capital PLC, Pussellawa Plantations Ltd, Melfort Green Teas (Private) Ltd and FLMC Plantations (Pvt) Ltd.

4 Dr. H Cabral, PC

Dr. Harsha Cabral was appointed to the Board as an Independent Director in January 2011. He was re-designated as a Non-Executive Director in August 2015 subsequent to his appointment to other Group companies.

He holds a PhD in Corporate Law from the University of Canberra, Australia and is a Senior Counsel with 28 years experience specialising in the fields of Company Law, Intellectual Property Law, Commercial Arbitration, Commercial Law and International Trade Law. He has been a President's Counsel for 10 years.

He serves in the following capacities: Member ICC International Court of Arbitration, Paris; Member, Law Commission of Sri Lanka; Member, Ministerial Committee appointed to reform Commercial Arbitration in SL; Member, Cabinet Committee on Economic Management; Member, UGC Committee on revisiting Laws on the University System on SL; Council Member, University of Colombo; UGC Nominee, PGIM (Postgraduate Institute of Medicine); Member, Board of Studies (Council of Legal Education); Member, Corporate Governance Committee (CA-SEC); Member, Board of Studies, School of Accounting & Business (CA Sri Lanka); Member, Board of Management, NSBM; Senior Lecturer & Examiner (University of Colombo); Council Member/Faculty Member/Course Director (ICLP).

He is also the Chairman of Tokyo Cement Group of Companies (largest cement company in Sri Lanka) and serves on the Boards of Diesel & Motor Engineering PLC (DIMO), Richard Pieris & Co. Distributors Ltd, Tokyo Cement Company (Lanka) PLC, Tokyo Super Cement Co (Private) Ltd, Tokyo Cement Power (Lanka) Ltd, Tokyo Eastern Cement Company Ltd, Tokyo Super Aggregate (Pvt) Ltd, Hayleys PLC, Browns Investments PLC, Alumex PLC and LOLC Life Assurance Ltd.

He is the Author of several books on Company Law & Intellectual Property Law.

He was a key member of the Advisory Commission on Company Law in Sri Lanka which drafted the Companies Act No. 07 of 2007.

He has presented papers in several fora, local and international on Company Law, Intellectual Property Law and Commercial Arbitration.

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5 Mrs. D P Pieris

Mrs. Priyanthi Pieris was appointed to the Board as an Independent Non-Executive Director in June 2012.

She is an Attorney-at-Law of the Supreme Court of Sri Lanka and has over 35 years of experience in Corporate and Financial Law. She is also a Solicitor of England & Wales.

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

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

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

She is also a member of the Committees set up by the SEC to recommend amendments to the Takeovers & Mergers Code 1995 (as amended) and the Rule for Corporate Governance.

6 Justice R K S Suresh Chandra

Justice Suresh Chandra was appointed to the Board as a Non-Executive Independent Director in July 2012 and was nominated as the Senior Independent Director in August 2015.

He was admitted to the Bar as an Advocate in 1972 after having obtained a Bachelor of Laws (LL.B.) Degree from the University of Colombo. He obtained his Master of Law (LL.M.) Degree from the University of Colombo.

He was a practitioner at the Private Bar from 1972 to 2008 and was a Consultant to several leading banks, private and public institutions. He served as a Member of the Panel of Arbitrators of the National Arbitration Centre.

He was also a Visiting Lecturer, Course Director and Examiner of the Faculty of Graduate Studies of the Colombo University, at the Open University of Sri Lanka, Moratuwa University and the Sri Lanka Law College. He was the Senior Consulting Editor of the Colombo Appellate Law Reports.

He was a Consultant to the World Bank on the Land Titling Project in Sri Lanka, a Consultant to USAID projects and was instrumental in structuring the Coir Council, the Ceramics Council and the Spice Council. He also served as a Legal Consultant

to the Tea Sourcing Partnership of London. He was the Senior Legal Consultant to the Southern Development Authority and the Board of Investments on Industrial Relations. He was a member of the National Labour Advisory Council of Sri Lanka and a member of the Labour Law Reforms Committee.

He served as the Deputy Permanent Representative of Sri Lanka to United Nations in New York in 2009.

He was appointed as a Judge of the Supreme Court of Sri Lanka in June 2010 and retired from that position in July 2012.

He is serving as a Judge of the Supreme Court in Fiji since his appointment in Fiji in 2011 and as the Resident Judge of Appeals since 2012.

He has been a Resource Person for the International Labour Organisation, the International Organisation for Migration, the Judges Training Institute of Sri Lanka and the Bar Association of Sri Lanka.

Board of Directors

7 Mr. A Nissanka

Mr. Ashan Nissanka was appointed to the Board as its Director and Chief Executive Officer in October 2015.

Mr. Nissanka counts over 22 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) 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, and as a Deputy Chairman of the Financial Ombudsman Sri Lanka (Guarantee) Limited.

Directorships held by the Directors

Mr. W D K Jayawardena

Chairman:

LOLC Securities Ltd
LOLC Finance PLC
Eden Hotel Lanka PLC
LOLC General Insurance Limited
Palm Garden Hotels PLC

Managing Director / Group CEO:

Lanka ORIX Leasing Company PLC

Director:

LOLC Micro Credit Limited
Commercial Leasing & Finance PLC
Brown & Company PLC
Browns Investments PLC
Riverina Resorts (Pvt) Ltd
BRAC Lanka Finance PLC
Seylan Bank PLC
Pussellawa Plantation Limited
Browns Capital PLC
Browns Hydro Power PLC
F L M C Plantations (Pvt) Ltd
LOLC International (Pvt) Ltd

Mr. I C Nanayakkara

Chairman:

Commercial Leasing & Finance PLC
Brown & Company PLC
LOLC Micro Credit Limited
Browns Investments PLC
BRAC Lanka Finance PLC
Browns Capital PLC
Browns Hydro Power PLC
LOLC Life Assurance Limited

Deputy Chairman:

Lanka ORIX Leasing Company PLC
LOLC Finance PLC
Seylan Bank PLC

Director:

PRASAC Micro Finance Institute
Sierra Constructions Limited
Agstar Fertilizers PLC
LOLC Myanmar Microfinance Co. Ltd
Associated Battery Manufacturers (Ceylon) Ltd
F L M C Plantations (Pvt) Ltd
Pussellawa Plantations Ltd
LOLC International (Pvt) Ltd
Sagasolar Power (Pvt) Ltd

Mrs. K U Amarasinghe

Director:

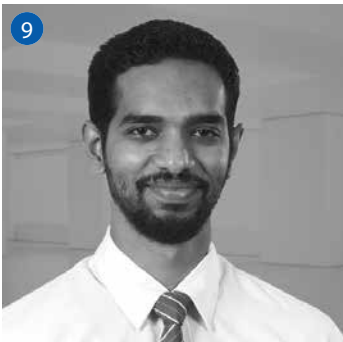
Commercial Leasing & Finance PLC
LOLC Finance PLC
Lanka ORIX Leasing Company PLC
LOLC Life Assurance Limited
LOLC Micro Credit Limited
Eden Hotel Lanka PLC
Palm Garden Hotels PLC
Brown & Company PLC
Browns Investments PLC
Riverina Resorts (Pvt) Ltd
Browns Hydro Power PLC
Browns Capital PLC
Pussellawa Plantations Ltd
Melfort Green Teas (Private) Ltd
FLMC Plantations (Pvt) Ltd

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Directorships held by the Directors

Dr. Harsha Cabral, PC	Mrs. D P Pieris	Justice R K S Suresh Chandra
Chairman: Tokyo Cement Company (Lanka) PLC Tokyo Super Cement Co (Pvt) Ltd Tokyo Cement Power Co. Ltd Tokyo Eastern Cement Company Ltd Tokyo Super Aggregate (Pvt) Ltd	Chairman: PW Corporate Secretarial (Pvt) Ltd	Director: LOLC Finance PLC
Director: Diesel & Motor Engineering PLC (DIMO) Richard Pieris & Co. Distributors Ltd Hayleys PLC LOLC Finance PLC Alumex PLC Browns Investments PLC LOLC Life Assurance Limited	Director: LOLC Finance PLC Asia Asset Finance PLC Sithijaya Fund Ltd Asian Centre for Lease Education Associated Electrical Corporation Ltd Abans Electricals PLC MTN Corporate Consultants (Pvt) Ltd	Mr. A Nissanka
		Director/ CEO: LOLC Finance PLC

Strategic Business Unit Team



Strategic Business Unit Team

1 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.

2 Ashan Nissanka

MBA, CIM (UK), MSLIM, Practising Marketer (SL)

Director/Chief Executive Officer - LOLC Finance PLC

Mr. Ashan Nissanka was appointed to the LOLC Finance Board as its Director and Chief Executive Officer in October 2015. He counts over 23 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) as well as is 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, and as a Deputy Chairman of the Financial Ombudsman Sri Lanka (Guarantee) Limited.

3 Shiraz Refai

MABE (UK), MCFI (UK), MBA (UK)

Assistant General Manager - Al-Falaah, Islamic Business Unit of LOLC Finance

Joined LOLC Group in 2006 and counts over 18 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.

4 Imraz Iqbal

FCA, MBA, ACMA

Head of Finance, LOLC Finance

Joined LOLC Group in 2010. Counts over 8 years of experience in financial services in the areas of auditing and corporate finance.

5 Ash-Shaikh Nazhan Naurooz

DUZ (SA), AFIIBI (UK), DIB (IBSL)

In-House Shari'ah Advisor - Al-Falaah, Islamic Business Unit of LOLC Finance

Joined LOLC Group in 2014, counts over 5 years of experience in teaching Islamic theological studies and 3 years of experience in Banking & Finance Services sector and coordination with the Shari'ah Supervisory Board

6 Mohamed Ramzi Majeed

MBA (FS) UK, ADMA (UK), DIB (IBSL)

Senior Executive Operations - Al-Falaah, Islamic Business Unit of LOLC Finance

Joined LOLC Group in 2010 and counts over 11 years of experience in Banking and Financial Services sector in both local and overseas establishments.

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7 Fazil Mohideen

BA in Usoolud Deen (NALEEMI), DIB (IBSL)
Officer IBU Operations, Al-Falaah, Islamic Business
Unit of LOLC Finance

Joined LOLC Group in 2014. Counts over 2
years of experience in Islamic Banking & Financial
Services in both Marketing & Operational areas.

9 Shafin Iqbal

MCIM, MBA (UK)
Senior Executive Institutional Marketing - Al-Falaah,
Islamic Business Unit of LOLC Finance

Joined in 2014. Counts over 11 years of experience
in Marketing services in the areas of New Business
Development, Public Relation & Networking, and
Event Management.

11 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 15 years
of experience in the field of customer operations/
finance including credit control, collection, recovery,
legal, risk and relationship management.

8 Ilham Mufaris

BA in Usoolud Deen (NALEEMI), BA (University of
Peradeniya), AAT (Passed Finalist), CCHRM.
Assistant-IBU Operations, Al-Falaah, Islamic Business
Unit of LOLC Finance

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

10 Rishard Muhammad

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

Joined LOLC Group in 2009. Counts over 17 years
of experience in Marketing of Banking and Financial
Services sectors in both local and overseas
establishments.

Rinzi Hussain

Customer Service Assistant -
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 3 years of experience in Islamic
Banking and Financing.

Sumaiya Hamam

Operations Assistant –
Al-Falaah, Ladies Business Unit of LOLC Finance

Joined LOLC Group in 2015. She is partly qualified
in Management Accountancy (CIMA), counts 2
years of experience in the financial sector.

Shari'ah Supervisory Board Audit Report 2015/2016

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 eighth year of Al-Falaah, the Islamic Business Unit of LOLC Finance.

During the year, The Shari'ah Supervisory Board (SSB) of the Al-Falaah, Islamic Business Unit of LOLC Finance (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 and applications introduced by Al-Falaah, as well as audited directly or indirectly, through the In-house Shari'ah Supervisor, the transactions concluded by Al-Falaah during the financial year under review from April 2015 to March 2016.

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

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. 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 all Al-Falaah transactions.
2. SSB meetings: At least 14 Days of meetings were held by members of the SSB during the period.
3. LOLC Takaful: The SSB has been instrumental in the launch of Life Takaful (Islamic Insurance) by one of the group company's, LOLC Insurance.
4. Development of New Products: The SSB is currently in the process of advising, structuring and assisting with the development of an Educational Finance Travel Finance.
5. Development of existing product agreements: The existing products (Murabaha, Ijarah, Diminishing Musharaka, Musawamah & Wakala) were reviewed and revised.

6. Introduction of Ladies Division Financing products: Murabaha and Ijarah were reviewed and approved for Ladies Financing products.

Shari'ah Audit and Compliance Review

Purpose:

To ensure that all the products and services being offered by Al-Falaah, the Islamic Business Unit of LOLC Finance adhere to the guidelines of Shari'ah.

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

1. Ijarah Financing Transactions
2. Murabaha Financing Transactions
3. Diminishing Musharakah Financing Transactions
4. Wakala Financing Transactions
5. Profit Distribution
6. Bank Statements
7. Expenditure Apportionment
8. Review of Audited Financial Statements
9. Accrual and Disposal of impermissible Income
10. Charity Fund
11. Benevolent Loans from Parent
12. Marketing and Advertising Material
13. Reconciliation of Administrative Charges on Delayed Penalties against actual Expenses incurred for recoveries.

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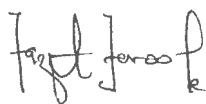
We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give us reasonable assurance that Al-Falaah, Islamic Business Unit of LOLC Finance has adhered to Islamic commercial principles.

In our opinion;

- I. 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 mainly from statutory reserve income and late payment penalties from customers who have undertaken to pay charity through Al-Falaah as a result of late payment.

- b. Certain aspects requiring careful monitoring pertaining to particular transactions were drawn to the attention of management.
 - c. The Internal Audit 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 on certain transactions.
2. The allocation of profit relating to investment accounts appears to conform to the rules and principles of Shari'ah.
 3. Al-Falaah has been advised to be more proactive with regards to staff training and client awareness programs.

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



(Ash-Shaikh) Fazil A. Farook
Chairman – SSB



(Ash-Shaikh/Mufti) Shafique A. Jakura
Member – SSB



(Ash-Shaikh) Murshid Mulaftar
Member – SSB

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.

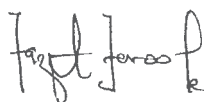
1. IJARAH - (Since 19th December 2007)
2. MURABAHA - (Since 19th December 2007)
3. MUDHARABAH - (Since 19th December 2007)
4. DIMINISHING MUSHARAKAH - (Since 28th March 2008)
5. MUSAWAMAH - (Since 30th November 2010)
6. WAKALA (Investments) - (Since 26th November 2011)
7. WAKALA (Lending) - (Since 01st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



(Ash-Shaikh/Mufti) Shafique A. Jakura
Member – SSB / Mufti



(Ash-Shaikh) Murshid Mulaffar
Member – SSB

Financial Statements

The company raised the bar yet again during the period under review by attracting international funding agencies and banks who have expressed an interest in funding the future of Al-Falaah and Islamic Banking in the country.

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Independent Auditors' Report



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INDEPENDENT AUDITORS' REPORT BOARD OF DIRECTORS OF LOLC FINANCE PLC

Report on the Special Purpose Financial Statements

We have audited the accompanying special purpose financial statements of the LOLC Finance PLC (Formerly known as Lanka ORIX Finance PLC) Islamic Business Unit ("IBU"), which comprise the statement of financial position as at 31 March 2016 and the statement of profit or loss and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by Management based on the accounting policies, as set out on pages 65 to 71 of these special purpose financial statements.

Board's Responsibility for the Special Purpose Financial Statements

Board is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with accounting policies as set out on pages 65 to 71 of these special purpose financial statements, and for such internal control as Board determines is necessary to enable the preparation of these special purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these special purpose financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in these special purpose financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of these special purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the IBU's preparation and fair presentation of these special purpose financial statements 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 IBU's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these special purpose financial statements present fairly, in all material respects, the financial position of the IBU as at 31 March 2016 and of its financial performance and cash flows for the year then ended in accordance with the accounting policies of the IBU, as set out on pages 65 to 71 of these special purpose financial statements.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1.2 to these special purpose financial statements, which describe the basis of accounting. As a result, the financial statements may not be suitable for another purpose.

27 May 2016
Colombo

Partners: A D B Talwatte 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 R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA 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 N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

A member firm of Ernst & Young Global Limited

Statement of Financial Position

As at 31 March,	Note	2016 Rs.	2015 Rs.
ASSETS			
Cash and bank balances	3	120,480,965	594,644,793
Murabaha / Musawamah /Wakala receivables	4	2,863,475,398	2,141,021,835
Diminishing Musharaka receivables	5	4,692,273,871	3,038,759,952
Ijarah rent receivables	6	3,293,316,642	1,942,105,632
Investment in quoted shares	7	7,000,000	8,500,000
Other receivables	8	51,658,296	37,325,294
Investment properties	9	15,000,000	12,500,000
Total assets		11,043,205,173	7,774,857,506
LIABILITIES			
Mudharabah investments		4,230,559,233	4,034,438,048
Mudharabah savings		466,058,778	384,263,173
Profit payable on Mudharabah investments		86,885,203	65,927,515
Wakala investments		1,569,100,000	780,000,000
Profit payable on Wakala investments		7,092,495	2,378,658
Income tax payable		138,217,880	97,619,204
Accruals and other payables	10	256,179,639	237,721,812
Due to head office	11	2,973,777,435	1,234,101,928
Total liabilities		9,727,870,662	6,836,450,338

Governance

Financial Statements

As at 31 March,	Note	2016 Rs.	2015 Rs.
OWNER'S FUND			
Retained earnings		1,315,334,511	938,407,168
Total owners fund		1,315,334,511	938,407,168
Total liabilities & owners fund		11,043,205,173	7,774,857,506

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



(Mrs.) S.S. Kotakadeniya
Chief Financial Officer

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



W.D.K. Jayawardena
Director



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 65 through 75.

27 May 2016
Rajagiriya (Greater Colombo)

Statement of Profit or Loss

Year ended 31 March,	Note	2016 Rs.	2015 Rs.
Revenue	12	1,605,795,031	1,253,806,835
Profit paid to Mudharabah/Wakala investors		(480,400,473)	(469,765,238)
Other direct expenses - insurance		(132,556,730)	(59,254,530)
		992,837,828	724,787,067
Non distributable other income / (expenses)	13	30,513,120	16,920,162
Total operating income		1,023,350,948	741,707,229
Employee benefits	14	(124,866,148)	(87,764,897)
(Provision)/reversal for credit losses		(75,855,602)	(85,016,282)
Other operating expenses		(251,918,534)	(198,246,303)
Profit from operations	15	570,710,665	370,679,747
Value added tax on financial services		(55,565,443)	(31,221,289)
Profit before taxation		515,145,222	339,458,458
Income tax expense	16	(138,217,880)	(97,619,204)
Profit for the year		376,927,342	241,839,254

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 65 through 75.

Cash Flow Statement

Year ended 31 March,	2016 Rs.	2015 Rs.
Cash Flows From / (Used in) Operating Activities		
Net Profit before Income Tax Expense	515,145,222	339,458,458
Adjustments for:		
Provision for fall/(Increase) in Value of Investments	1,500,000	200,000
Allowance for/(reversal of) Doubtful Debts	(10,272,521)	14,126,275
Provision for payables to clients	(2,500,000)	(1,500,000)
Change in Fair Value of Investment Property	(2,500,000)	(1,500,000)
Investment income	(500,104)	(43,116,803)
Profits attributable to Mudharabah / Wakala investors	480,400,473	469,765,238
Operating Profit before Working Capital Changes	981,273,070	777,433,168
Change in Other Receivables	(14,408,003)	(16,864,154)
Change in Trade and Other Payables	20,957,827	79,498,601
Change in Amounts due to Head office	(658,324,493)	363,720,396
Change in Ijarah rent receivables	(1,338,612,115)	(785,736,437)
Change in Murabaha / Musawamah receivables	(722,192,778)	(291,664,224)
Change in Diminishing Musharaka receivables	(1,656,026,078)	(857,958,334)
Change in Mudharabah investments from Customers	196,121,185	1,255,977,252
Change in Wakala investments from Customers	789,100,000	(888,500,000)
Change in Mudharabah savings Deposits from Customers	81,795,605	40,060,502
Cash used in Operations	(2,320,315,780)	(323,053,229)
Profits paid to Mudharabah / Wakala investors	(454,728,949)	(474,595,759)
Income Tax Paid	(97,619,204)	(85,875,553)
Net Cash Used in Operating Activities	(2,872,663,932)	(883,524,541)
Cash Flows from / (Used in) Investing Activities		
Profit Received	500,104	43,116,803
Net proceeds from investments in government securities	-	477,648,185
Net Cash Flows from Investing Activities	500,104	520,764,988

Cash Flow Statement

Year ended 31 March,	2016 Rs.	2015 Rs.
Cash Flows from / (Used in) Financing Activities		
Net Proceeds from Qurd hassan	2,398,000,000	455,000,000
Net Cash Flows from Financing Activities	2,398,000,000	455,000,000
Net Increase/(Decrease) in Cash and Cash Equivalents	(474,163,828)	92,240,447
Cash and Cash Equivalents at the beginning of the period	594,644,793	502,404,345
Cash and Cash Equivalents at the end of the period	120,480,965	594,644,793
Analysis of Cash and Cash equivalents at the end of the period		
Cash and Bank Balances	120,480,965	594,644,793
	120,480,965	594,644,793

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 65 through 75.

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 Jayewardanepura Mawatha, Rajagiriya.

1.1 Principal activities and nature of business

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

1.2 BASIS OF PREPARATION

1.2.1 Statement of compliance

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

The results of IBU and the financial position of the IBU form part of the financial statements of LOLC Finance PLC which is prepared in accordance with Sri Lanka Accounting Standards. LOLC Finance PLC's primary set of financial statements was authorised for issue by the Board of Directors in accordance with a resolution of the Directors passed on 27 May 2016. 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 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 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.

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.

Notes to the Financial Statements

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.

1.4.1 Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

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 to initial recognition 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.

➤ *Cash and cash equivalents*

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

➤ *Ijarah receivables*

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

➤ *Murabaha, Musawamah and Diminishing Musharaka receivables*

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

Notes to the Financial Statements

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

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

Balance receivables on any terminated contracts are fully provided.

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

➤ *Vehicles that have been repossessed by the Company*

Eighty per cent (80%) of the valuation obtained during the preceding six months from a professional valuer approved by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka

➤ *Lands & Buildings*

The value of the property on a declining basis based on the age of the facility, in case of a primary mortgage. Such value shall not exceed the value decided by a qualified professional valuer at the time of providing the accommodation.

2.2 Investment property

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

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

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

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

Determining Fair value

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

2.3 Employee benefits

2.3.1 Short-term employee benefits

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

2.3.2 Defined contribution plans

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

Notes to the Financial Statements

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 Income*

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

2.7.2 *Ijarah Income*

Profits and losses arising from 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

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Financial Statements

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

Year ended 31 March,	2016 Rs.	2015 Rs.
3 CASH AND BANK BALANCES		
Cash & bank balances	120,480,965	594,644,793
	120,480,965	594,644,793
4 MURABAHA / MUSAWAMAH / WAKALA RECEIVABLES		
Instalment receivable	3,216,664,817	2,545,480,380
Unearned income	(345,004,594)	(395,228,211)
Income in suspense	(1,311,924)	(2,096,648)
Provision for credit losses	(6,872,901)	(7,133,686)
	2,863,475,398	2,141,021,835
5 DIMINISHING MUSHARAKA RECEIVABLES		
Instalment receivable	4,726,452,526	3,066,896,047
Income in suspense	(12,065,797)	(8,535,396)
Provision for credit losses	(22,112,858)	(19,600,699)
	4,692,273,871	3,038,759,952
6 IJARAH RECEIVABLES		
Rent receivables	4,305,844,643	2,656,862,208
Unearned income	(1,002,650,815)	(690,093,847)
Income in suspense	(2,363,271)	(4,549,919)
Provision for credit losses	(7,513,915)	(20,112,810)
	3,293,316,642	1,942,105,632

Year ended 31 March,	2016 Rs.	2015 Rs.
7 INVESTMENT IN QUOTED SHARES		
Expo Lanka Holdings PLC		
Cost (1,000,000 shares)	18,000,000	18,000,000
Adjustment for fall in value of investments	(11,000,000)	(9,500,000)
	7,000,000	8,500,000
8 OTHER RECEIVABLES		
Staff car advances	23,900,153	7,795,629
Insurance premium receivable	4,973,556	2,440,209
Others	22,784,587	27,089,456
	51,658,296	37,325,294
9 INVESTMENT PROPERTIES		
Balance as at 1st April	12,500,000	11,000,000
Additions to Investment Properties from foreclosure of contracts	-	-
Change in fair value	2,500,000	1,500,000
Balance as at 31st March	15,000,000	12,500,000
10 ACCRUALS AND OTHER PAYABLES		
Lease equipment creditors	112,527,705	110,964,942
Refunds payable	74,567,524	23,451,829
Insurance payable	30,915,207	34,913,277
IBU charity fund	7,199,735	32,327,558
Other payables	30,969,468	36,064,206
	256,179,639	237,721,812

Notes to the Financial Statements

Year ended 31 March,	2016 Rs.	2015 Rs.
11 DUE TO HEAD OFFICE		
Qurd hassan	2,853,000,000	455,000,000
Current account balance due to head office	120,777,435	779,101,928
	2,973,777,435	1,234,101,928
12 REVENUE		
Income from Ijarah receivables	503,816,050	330,001,496
Income from Diminishing Musharaka receivables	665,254,234	520,073,977
Income from Murabaha/Musawamah receivables	391,462,948	363,566,123
Profit on terminations	44,873,120	30,737,137
Income from Mudarabah deposits	388,680	9,428,102
	1,605,795,031	1,253,806,835
13 NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)		
Takaful commission	30,528,896	16,229,200
Others	(15,776)	690,962
	30,513,120	16,920,162
14 EMPLOYEE BENEFITS		
Salaries & other benefits	124,866,148	87,764,897
	124,866,148	87,764,897

Year ended 31 March,	2016 Rs.	2015 Rs.
15 PROFIT FROM OPERATION		
Stated after charging		
Advertising	12,674,674	17,782,185
Business promotion expenses	36,018,342	22,986,434
16 INCOME TAX EXPENSE		
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)	138,217,880	97,619,204
	138,217,880	97,619,204

17 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.

Notes

Lined area for notes.

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 Jayewardenepura Mawatha, Rajagiriya
Tel: 011 5880880
Fax: 011 2865606
Website: <http://www.lankaorix.com>
Swift: LOFCLKLC

Directors

Mr. W D K Jayawardena

Non-Executive Chairman

Mr. I C Nanayakkara

Executive Deputy Chairman (alternate to Mrs K U Amarasinghe)

Mrs. K U Amarasinghe

Executive Director (Alternate to Mr. I C Nanayakkara)

Dr. H Cabral PC

Non Executive Director

Justice R K S Suresh Chandra

Senior Independent Director (alternate to Mrs. D P Pieris)

Mrs. D P Pieris

Independent Director (alternate to Justice R K S Suresh Chandra)

Mr. A Nissanka

Executive Director/ CEO

Secretaries

LOLC Corporate Services (Private) Limited
100/1 Sri Jayewardenepura Mawatha Rajagiriya
Tel: 011 5880354/7 011 5880880 (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
Bank of Ceylon
Seylan Bank PLC
MCB Bank
Deutsche Bank
Hatton National Bank PLC
Pan Asia Bank
Hong Kong & Shanghai Banking Corporation
Sampath Bank PLC
National Savings Bank
Peoples Bank
Cargills Bank

