



Alternate Finance

ANNUAL REPORT
2016/17



COMMERCIAL
LEASING & FINANCE

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Introduction

CLC-Islamic Finance, the the new force in Islamic Banking and Finance Industry, stepped in to business in August, 2015. Since its' inception, CLC-Islamic Finance became a dynamic player offering financial solutions to suit all customer requirements.

As per the guiding principles of the Islamic Business Division (IBD), clear separations have been made in terms of Funding, Accounting, Information Technology, Documentation & Processes and other important aspects to separate Islamic finance operation from the conventional.

As Compliance is one of the key aspects of the Islamic Business Division, it also focusses on making financial services available island-wide through more than 60 branches, offering the fastest and reliable service for their convenience, using the latest technology to complete all transactions in the most effective manner. This helped CLC-Islamic Finance to grow to greater heights within a short span of time.

2016/17 is considered the first full financial year for IBD with many milestones and this annual report present a glimpse of success we achieved through out this period.

Who We Are

Commercial Leasing and Finance PLC (CLC), a member of the LOLC Group is one of Sri Lanka's leading finance service providers offering solutions ranging from leasing, fixed deposits, savings, loans and factoring. CLC with over 25 years of excellence in redefining the finance industry in Sri Lanka has stepped towards the fastest growing Islamic Finance industry by unveiling 'CLC Islamic Finance', the Islamic Business Division of Commercial Leasing & Finance PLC.

Islamic Business Division (IBD) is a dedicated Business Unit set up under Commercial Leasing & Finance regulatory license to implement Shari'ah Compliance Finance solutions. This unit consists of trained staffs who handle Islamic Finance and the operation is inspected by an in-house Shari'ah Supervisory Board. The prime objective of IBD is to ensure Shari'ah compliancy in all business transactions. The IBD is geared to offer a vast range of Alternate Finance Solutions which suits all customer requirements.

VISION

To be the best Alternate Finance Solution provider in Sri Lanka.

MISSION

To offer Innovative financial solutions to suite all customer requirements with transparency, efficiency and reliability.

Guiding Principles

- Segregation of funds in-flow and out-flow
- Transparency in every transaction
- A fast, efficient and responsible service to all stake holders
- Be a responsible corporate citizen to society while adopting practices to serve the best to our customers.

Activities for the Year



SLIBFI Award for Emerging Islamic Finance Entity of the Year



Staff Training



Public Awareness Program



Street Promotion



Branch Ifthar Programs



SLIBFI Cricket Champions

Accolades for 2016/17

- Gold Award for Emerging Islamic Finance Entity - awarded at Sri Lanka Islamic Banking and Finance Industry Awards Night – 2016
- Gold Award for Rising Islamic Finance Personality of the Year - awarded to In House Shari’ah Advisor of IBD at Sri Lanka Islamic Banking and Finance Industry Awards Night – 2016



Ash-Shaikh Zaid Nooramith (In-House Shari’ah Advisor) accepting the Gold Award for the Rising Islamic Finance Personality of the year



Ilsam Awer (Head of IBD) and Jude Anthony (DGM-Channels) accepting the Award for the Emerging Islamic Finance Entity of the year



Financial Highlights

For the year ended 31 March	2017	2016 (08 Months)
	Rs.	Rs.
Performance indicators (Rs.)		
Revenue	343,094,649	60,664,190
Profit paid to Mudharabah/Wakala investors	10,582,834	1,519,439
Non distributable other income / (expenses)	12,749,748	7,059,715
Profit before tax	253,359,166	44,164,297
Profit after tax	147,602,926	27,405,225
New executions	2,360,866,960	1,275,311,726
Financial position		
Total assets	2,276,019,219	1,056,919,405
Net lending portfolio	2,191,322,218	1,037,849,293
Deposits from customers	423,698,654	84,632,115
Retained Earnings	175,008,152	27,405,225
Non performing ratio	0.25%	-

111%

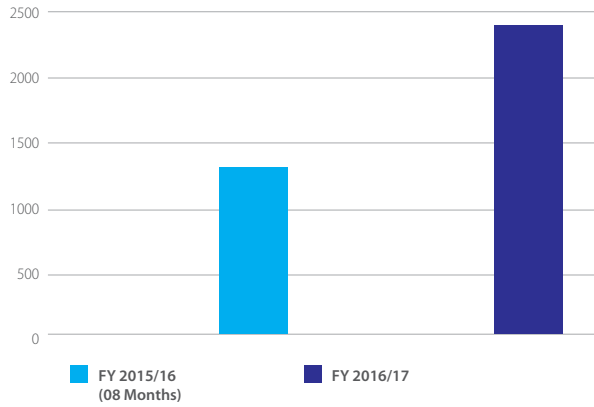
Asset Portfolio
Growth

401%

Deposit Portfolio
Growth

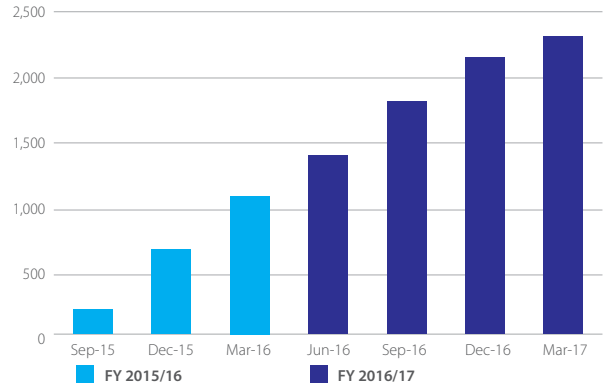
Execution

(Rs. Mn)



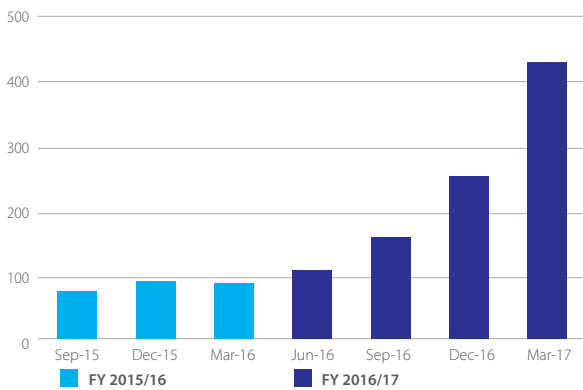
Asset Portfolio

(Rs. Mn)



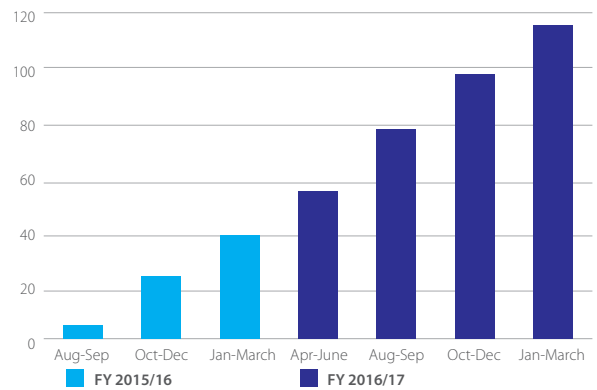
Deposit Portfolio

(Rs. Mn)



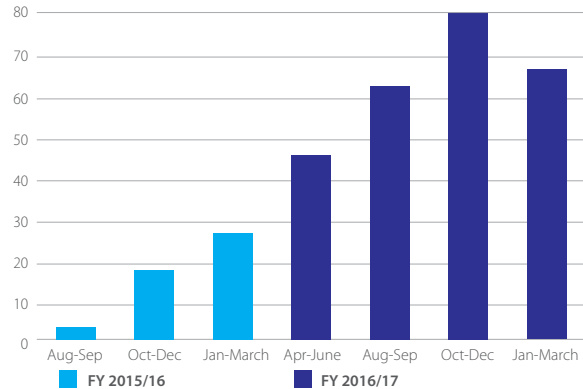
Total Income

(Rs. Mn)



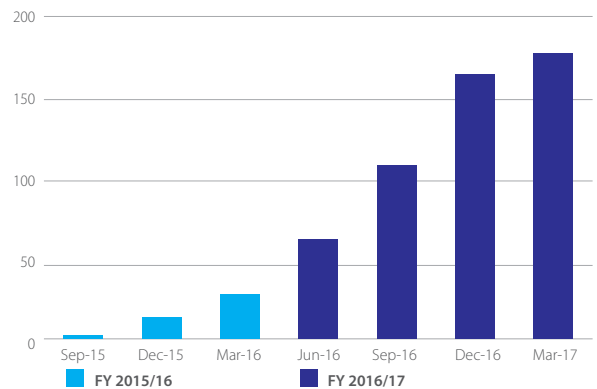
Profit Before Tax

(Rs. Mn)



Retained Income

(Rs. Mn)





CLC – Islamic Finance has created exceptional opportunities for our customers by offering a full range of financial solutions which is fully Shari’ah compliant to suit all customer requirements. Apart from compliance, we also offer many value additions for customer convenience with the use of the latest technology to ease their transactions.

Offering Islamic Finance through 60+ branches is a unique feature of CLC which gives customers access to Islamic Financial products from any part of the island.



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Chief Executive Officer's Review



CLC IBD holds a strong commitment to strictly adhere to and respect the Shari'ah principles whilst seeking avenues and opportunities to expand the Islamic Finance business for the company as well as to add value to the industry. This balance lends the company a perfect edge over competition.

The period 2016/17 marked the first full year of operations for the CLC Islamic Business Division (IBD), which proved to be a fruitful one, with gains across many fronts. CLC IBD was able to record portfolio growth of 111% and 150% growth in its customer base during this period. A critical factor in the vast strides the entity has made in the Islamic Finance market is because it extended the entire product range to customers from inception through CLC's extensive branch network.

From the outset, CLC has committed itself to conduct a fully Shari'ah compliant Islamic finance operation with the guidance of its Shari'ah Supervisory Board (SSB). The Board consists of eminent Shari'ah scholars, namely, Ash-Shaikh Fazil Farook (Chairman - SSB) who is also the Media Co-coordinator & a Member of the Banking Advisory Committee of the All Ceylon Jamiyyathul Ulama (ACJU), Ash-Shaikh Murshid Mulaffar (Member - SSB) and Ash-Shaikh/Mufthi Shafique Jakhura (Member - SSB), to ensure compliency in each transaction.

CLC IBD holds a strong commitment to strictly adhere to and respect the Shari'ah principles whilst seeking avenues and opportunities to expand the Islamic Finance business for the company as well as to add value to the industry. This balance lends the company a perfect edge over competition.

Another advantage the company has is its highly skilled staff headed by IIsam Awfer - Head of IBD at CLC. We have further obtained the services of Ash-Shaikh Zaid Nooramith, a well-known Shari'ah scholar in Sri Lanka, as the in-house Shari'ah Advisor for CLC IBD. He was recently bestowed with the Gold Award for 'Rising Islamic Finance Personality of the Year 2016' at the annual SLIBFI Awards 2016, becoming the first scholar to receive such recognition.

It is important for any institution engaged in Islamic Finance to understand the real principles of Islamic Finance before they market the products to clients. Our vision has been to train and educate our staff in true Shari'ah principles; about the difference

and impact of Islamic Finance versus conventional finance; and how to identify the market needs of our Islamic Finance client base. The Islamic Finance client base are inherently risk takers, willing to invest and borrow under Shari'ah principles. Hence, the risks and rewards of the products and the distribution have to be different. I have complete faith that the CLC IBD staff will make a significant impact on Islamic Finance in the country. We aspire not only to market our products based on faith, but on real value.

Acknowledgement

I would like to thank the Board of Directors led by the Chairman for endorsing our efforts to expand the Islamic Finance business and offer special thanks to the Shari'ah Supervisory Board for being supportive and accommodative of CLC's endeavor in excelling in this business. Further, I am aware of the efforts made by IBD in continuously training staff and improving processes. Islamic Finance still remains a niche market in Sri Lanka and we intend making full use of this market opportunity in the coming years.



Krishan Thilakaratne
Executive Director / CEO

15th June 2017
Colombo

Shari'ah Supervisory Board Chairman's Review



“One of the company’s greatest assets since it commenced operations has been its knowledgeable and professional staff, thoroughly trained in Islamic Finance principles. During the year under review, CLC IBD conducted various training programmes under the guidance of SSB. All Marketing and Operation staff had to undergo rigorous training on product concepts, with subsequent training being held at various points. In addition to the training SSB also took part in few Customer Awareness Programs organised by the CLC Islamic Finance in Colombo and suburbs to educate general public on Islamic Finance concept.”

In a bid to drive Islamic Finance to a new customer segment on a more aggressive footing and to elevate its operations onto a larger scale, the management of Commercial Leasing and Finance (CLC) took a decision to form a dedicated Islamic Business Division (IBD) named ‘CLC Islamic Finance’ in late July 2015. In order to commence the ground work of this business, the management of CLC invited Ash-Shaikh Murshid Mulaffar (Member), Ash-Shaikh/Mufthi Shafique Jakhura (Member) and myself as the Members of the Shari’ah Supervisory Board (SSB). Once the SSB was established, Ash-Shaikh Zaid Nooramith was appointed as the in-house Shari’ah Advisor to CLC to coordinate with SSB and staff of CLC Islamic Finance.

With the approval of the SSB, CLC Islamic Finance then proceeded to obtain a Quard Hassanah (Benevolent Loan) from CLC to

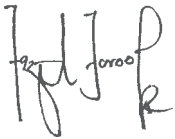
commence operations and provide the complete Shari’ah compliant product range. During the year under review, SSB approved the products namely, Mudharabah (Profit Sharing Investments & Savings); Wakala Investments (Term Investments); Ijarah (Leasing); Murabaha (Trade Finance); Diminishing Musharakah (Property and Working Capital Finance); Musawamah (Import Finance) and Wakala (Working Capital Finance) product concepts.

Furthermore, under the supervision of the SSB, CLC Islamic Finance set necessary firewalls to segregate Islamic Finance operations from the conventional prior to commencing operations as per Shari’ah principles. Clear firewalls were established to separate funds in-flow and out-flow; general ledger; IT system and documentation and processes.

One of the company's greatest assets since it commenced operations has been its knowledgeable and professional staff, thoroughly trained in Islamic Finance principles. During the year under review, CLC IBD conducted various training programmes under the guidance of SSB. All Marketing and Operation staff had to undergo rigorous training on product concepts, with subsequent training being held at various points. In addition to the training, SSB also took part in few Customer Awareness Programs organised by the CLC Islamic Finance in Colombo and suburbs to educate general public on Islamic Finance concept.

In the short time since it has been established, CLC IBD has recorded encouraging growth in terms of meeting Shari'ah guidelines in all their business transactions, customer service and staff development. As the Chairman of the SSB, I have full confidence in CLC's Management and their commitment towards ensuring Shari'ah compliancy.

Let me thank the Board of Directors and the management team of CLC IBD for their commitment and support towards the development of Islamic Finance within the company and in the country at large and we at SSB expect CLC Islamic Finance to play a significant role in the Islamic Finance market in the near future.



Ash-Shaikh Fazil Farook

Chairman – Shari'ah Supervisory Board

15th June 2017
Colombo

Product Review

CLC’s Islamic Business Division (IBD) offers dedicated Shari’ah compliant financial solutions to suit every customer requirement with a range of value added services enabling them to experience a greater convenience in their regular financial activities.



Mudharabah - Profit-Sharing Investments & Savings

An agreement made between two parties, an Investor (e.g. Fund provider/depositor) and an entrepreneur (e.g. Fund manager/ CLC) This enables the entrepreneur to carry out business projects with the profits derived from these business projects being shared between the Investor and the entrepreneur on a pre-determined ratio agreed by both parties.

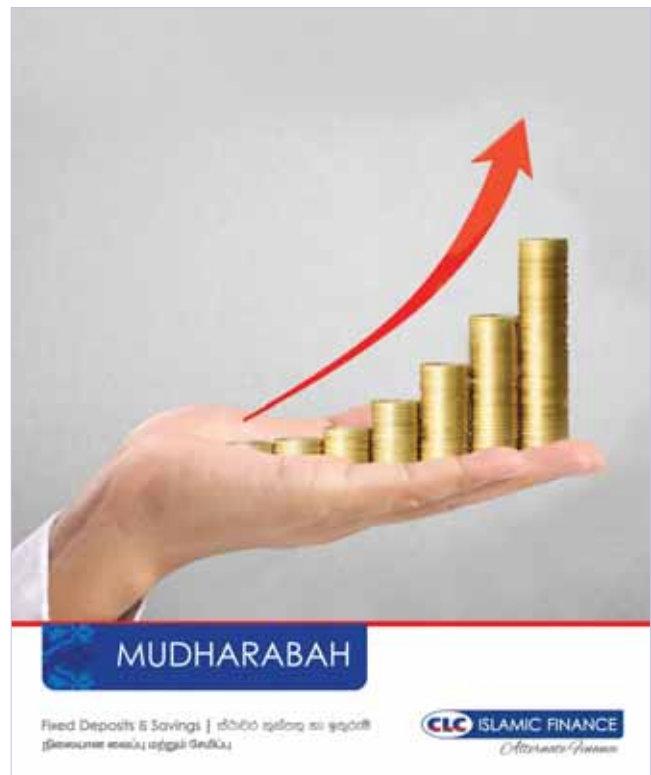
Islamic Business Division offers the below mentioned options under the concept of Mudharabah:

Mudharabah Term Deposit:

Long term investment plans starting from 1 month up to 60 months, with Profit Share Ratios between the Investor and the Fund Manager as per the Mudharabah Investment Agreement. Whilst we offer a Mudharabah Investment Certificate, the profit payments are offered on Monthly, Annual or Maturity basis.

Mudharabah Savings Accounts:

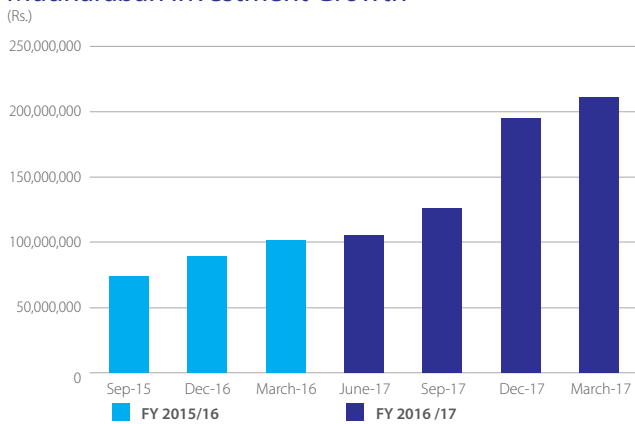
A flexible investment account which offers a Mudharabah Savings Pass book, internationally accessible ATM/Debit Card (accessible from any ATM machine island wide OR any VISA networked ATM Overseas) with fund-transfers, internet and mobile-banking facilities.



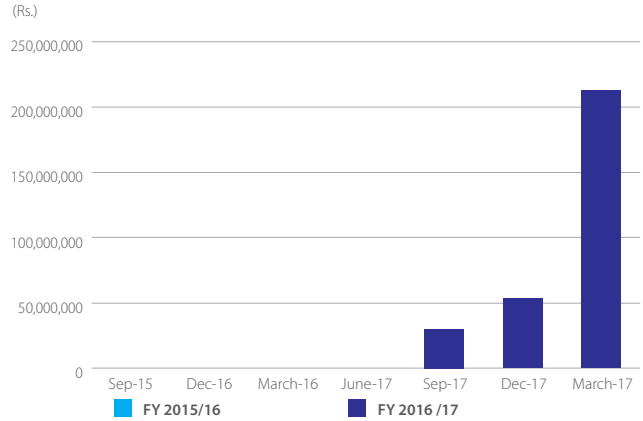
Special Features:

- Highest returns paid in the Islamic Finance Industry
- Profit paid on Monthly, Maturity or Annually
- ATM (VISA) / Debit Card for local and overseas transaction
- Internet, SMS & Mobile Banking
- Standing Order, Utility Payments and Fund Transfer facilities

Mudharabah Investment Growth



Wakala Investment Growth



Wakala Investments - Term Investments

Constitutes a contract concluded between an Investor (Fund Provider or Depositor) as the Principal and an Entrepreneur (Fund Manager of IBD, CLC) as the Agent for the Investor.

Under such investment contract, IBD of CLC 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

Fixed Term Investments / Business & Working Capital Finance
 إستثمارات أجل محددة / تمويل الأعمال و تمويل رأس المال العامل
 (Investments with specified terms / financing of business activities and financing of working capital)

CLC ISLAMIC FINANCE
 Islamic Finance

Product Review

CLC
COMMERCIAL
LEASING & FINANCE

INTRODUCES
THE WORLD OF ALTERNATE FINANCE
IN THE BOND OF BROTHERHOOD

CLC ISLAMIC FINANCE
Alternate Finance

MUDHARABAH Fixed Deposits & Savings	IJARAH Leasing
MURABAHA Trade Finance	DIMINISHING MUSHARAKA Project / Property Finance
MUSAWAMAH Import Finance	WAKALA Fixed Term Investments Business & Working Capital Finance

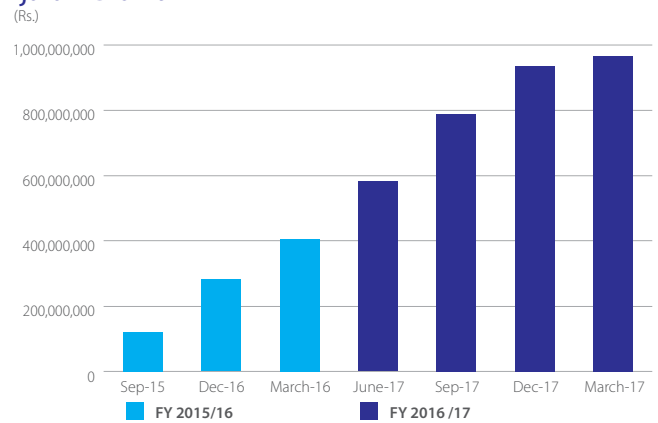
Ijarah – Leasing

An agreement under which the Lessor (CLC) leases an asset to a Lessee (Client) at an agreed rental for the usufruct of the asset by the Lessee. This is usually on a fixed term and rent as agreed by both parties. In this regard, IBD of CLC will take away your burden of capital expenditure off your business by way of Ijarah by purchasing the asset of your choice, comprehensively insuring it while you use it over the lease period. Once you have met all the rentals on time whilst enjoying the benefits of our lease, we will gift the asset to you.

Ijarah is available for:

- Unregistered Vehicles.
- Equipment & Machinery
- Registered Vehicles (for Working Capital purpose)

Ijarah Growth



IJARAH

Leasing | (إيجار) | العتمة

CLC ISLAMIC FINANCE
Alternate Finance

Diminishing Musharaka - Project/Property Finance & Working Capital

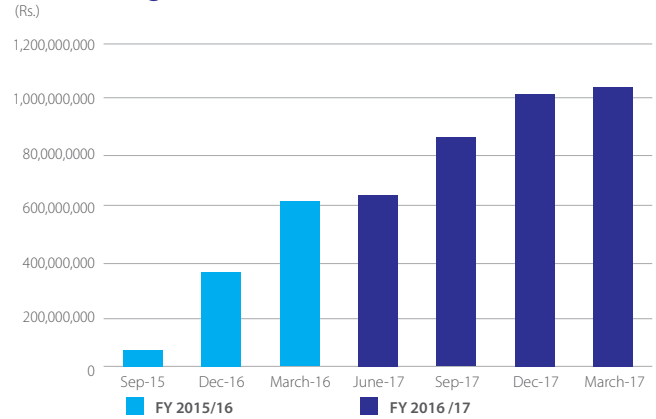
A partnership, which ultimately provides complete ownership to a partner for the purchase of shares of another partner by a redeeming mechanism agreed upon by both partners. Applying this mechanism to property financing, we enter into a partnership with the client in order to purchase property, thereby 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. IBD of CLC will join hands with you in providing the financial support you require to initiate your business venture right from its inception. The Diminishing Musharakah is a versatile financial instrument which can be and is being applied in a wide variety of business forms all over the world.



This is ideally suited for:

- Property Purchase - Vehicle / Equipment / Machinery
- Working Capital Finance

Diminishing Musharakah Growth



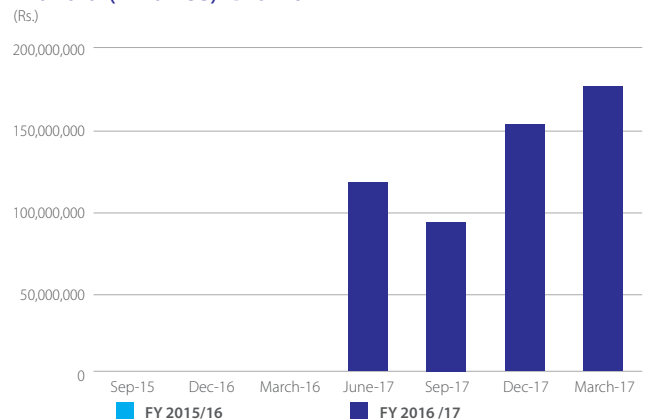
Wakala - Business and Working Capital Finance

Constitutes a contract where the Principle would be IBD of CLC (Fund Provider/Investor) who would then appoint the Client as the Agent (Entrepreneur) for the Investment. Under such investment contract, the entrepreneur 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 mutually pre-agreed profit rate. If the agent managed to conclude a surplus (higher than agreed profit rate), he may retain it as an incentive as agreed with him in the Wakala agreement.

This is ideally suited for:

- Business and Working Capital Finance

Wakala (Finance) Growth



Product Review

Murabaha - Trade Finance

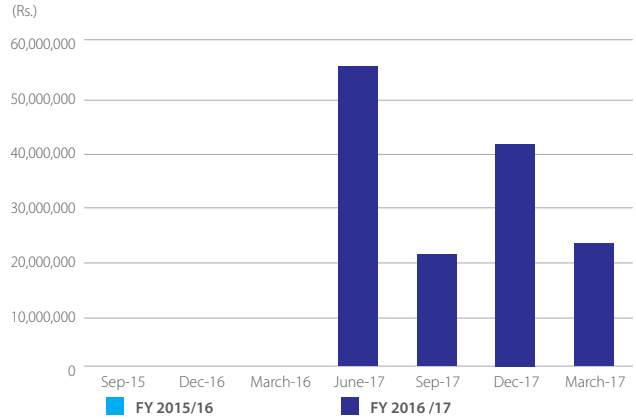
Refers to the sale of goods at a price which includes profit margin in addition to the cost. Such a contract is valid on condition that the price, other costs and profit margin of the seller are stated at the time of the agreement on the sale. IBD of CLC will help your cash-flows in your day-to-day supplier payments. Murabaha is a convenient mode of finance, which can be used to purchase trading commodity and almost any type of asset-backed financing.

Murabaha will be available for:

- Trade Finance
- Purchase of Property / Vehicles / Machinery & Equipment



Murabaha Product Growth

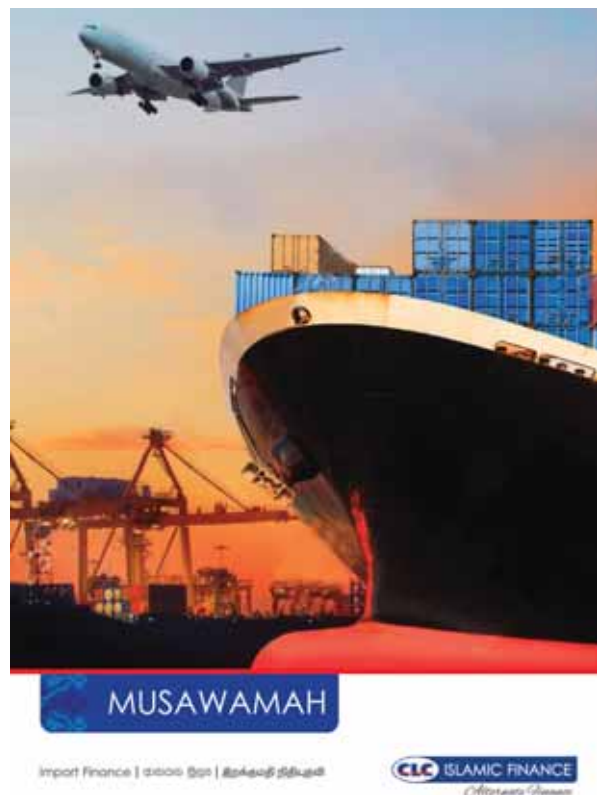


Musawamah – Import Finance

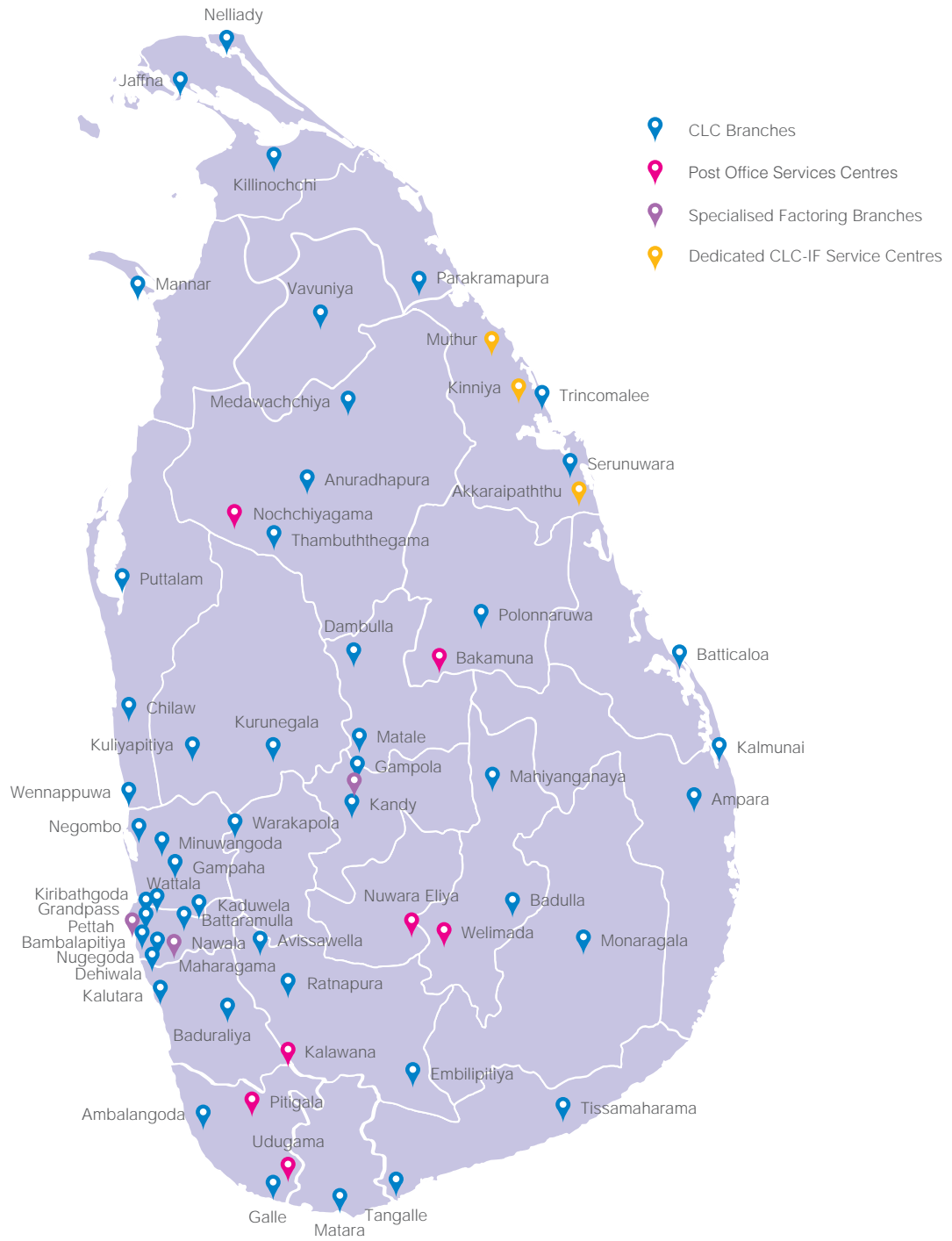
Musawamah is a trading transaction which usually occurs when it is difficult to determine the cost of a particular good or when the good is comprised of a pool of products. In order to comply with Shari'ah, the sale of the good should happen without any reference to the cost or profit. IBD of CLC will help you to bring down the consignment and help your import transactions.

Musawamah is available for:

- Import Goods
- Import Vehicles



Branch Network



Report on Corporate Governance

Commercial Leasing & Finance PLC (CLC) 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 CLC 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 CLC ensures alignment of its business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board Sub-Committees and Management.

The Corporate Governance philosophy of CLC 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.

Instruments of Governance

The Corporate Governance framework of CLC 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 CLC 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 CLC 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 CLC 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 Mr. P D J Fernando as the Senior Independent Director.

Monitoring and Evaluation by the Board

CLC has in place a number of mandatory and voluntary Board Sub-Committees to fulfil regulatory requirements and for better governance of its activities. These committees meet periodically to deliberate on matters falling within their respective charters/terms of reference and their recommendations are duly communicated to the main Board. The main Board held 12 scheduled monthly meetings during the year.

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 five 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. The Committee held one meeting during the year.

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.

Moreover, the following mechanisms in place enables the Board to oversee the accomplishment of the targets in the business plan: review the performance of CLC 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 CLC.

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, CLC 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 CLC 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.

Engagement with Shareholders

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

Engagement with Employees

CLC 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. CLC 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.

Enterprise Risk Management

The Islamic Business Division is a business silo under Commercial Leasing and Finance PLC. The risk management function comes under the scope of the Enterprise Risk Management structures of Commercial Leasing and Finance PLC.

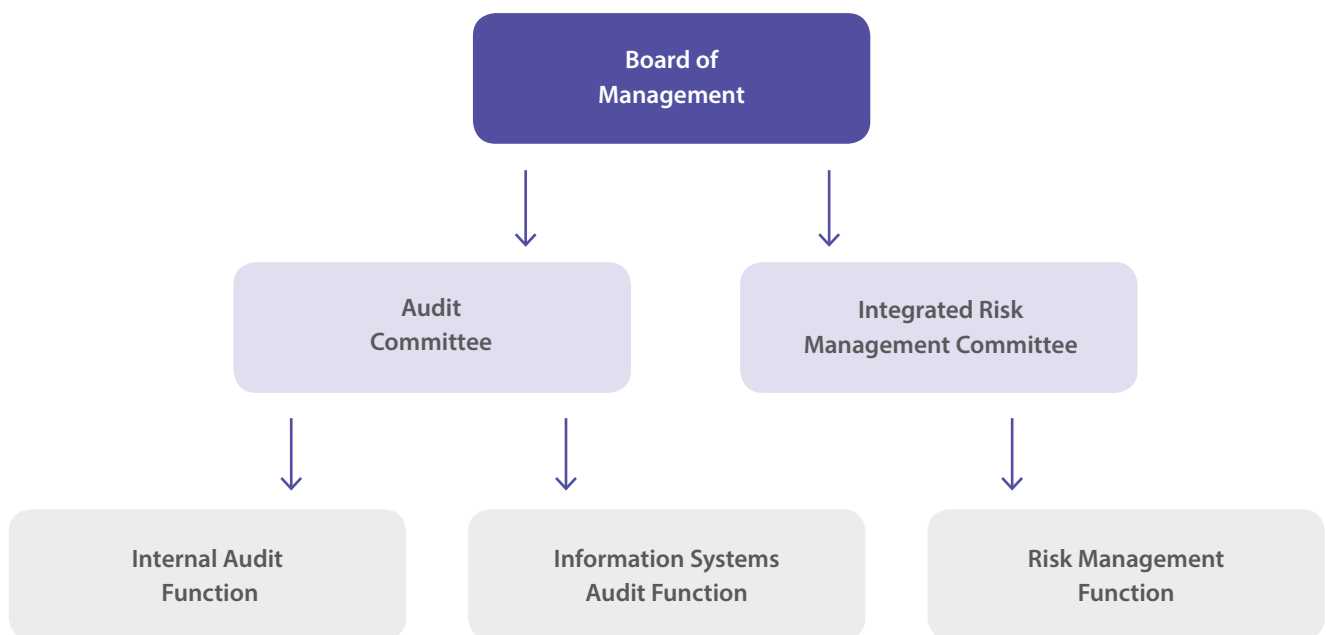
Risk Management is a dynamic and evolving process and it is imperative that it adopts to the changing business landscape. Therefore, we believe that the Risk Governance structures should be geared to respond to organisation dynamics in an efficient and effective manner. Risk Management at LOLC is a group level centralised function. The risk governance structures in place allows for group level policies and decisions taken with regard to Risk management initiatives to cascade down to entities in the group with minimum lead time and any structural changes and process level changes can be replicated at any entity in the group. This strategy allows us to optimise our resource utilisation.

The Risk governance structures adopted at Commercial Leasing & Finance PLC. (CLC) reflect the commitment for Risk management initiatives at the highest level with both the Risk Management functions and Audit functions given total independence via their operational and reporting lines

This allows the Board of Management to be appraised of the organisational risks in an unbiased manner and this boosts the confidence the Board has on the internal control structures implemented and their effectiveness. The Board of Management drives the risk governance effort via the Integrated risk management committee and the audit committee.

Risk Governance structures implemented at CLC is a combination of Risk Management, Internal Audit and IS audit functions which forms the Enterprise Risk Management Department (ERM) while the compliance department functions separately. The Audit function and the Risk Management function works in cohesion to derive the best possible synergies

The Risk Management function identify possible risks which have a reasonable probability to hinder the realisation of our strategic and tactical objectives. It appraises the Management of the impacts on crystallisation of identified risks and the mitigation strategies



available. The Integrated risk management committee (IRMC) evaluates the possible impacts and in consultation with the risk owners decides on the best possible risk mitigation strategies and the internal controls to be adopted. The Board of Directors are kept informed through regular communications of the activities of the IRMC.

Enterprise risk management is a collaborative effort of all stake holders and the views and the perception of risk and process owners are taken in to account by compulsory reporting requirements established, which requires them to submit risk related information to ERM on a monthly basis for further analysis and onward submission to the board of Directors while the IRMC is conveyed every quarter for a more detailed analysis of the risk landscape of the company.

Enterprise Risk Management at CLC is an organisation wide process where every employee has a responsibility to manage risks with in their scope of functions. Our vision in risk management “Building an organisational Culture where Protection, Assurance, Reliability, Accountability, Transparency and Confidentiality are treasured and lasting values”, require us to inculcate within all stake holders the appropriate risk culture. Enterprise risk management department firmly believes proper risk awareness facilitates the appropriate risk response. Therefore, dissemination of risk & response related knowledge to all employees is a critical success factor. The Enterprise risk management department continues to engage in structured training in co-ordination with the human resource department and other business units to enhance the knowledge and skills of staff engaged in critical operational activities in the organisation.

We strongly believe in that there are no limits to improvements and risk management process is no exception and in order to add value to the business we incorporated risk department participations in an advisory capacity for major product or process formulations to formulate appropriate risk control and internal control structures within the organisation.

The Internal Audit is entrusted with providing the management a reasonable assurance of the reliability, consistency and effectiveness of the internal control frame work. The audit teams adopt a three pronged strategy and consists of teams that engages in process level /department level audits, branch based audits and region based audits. This strategy has allowed us to maintain a more frequent presence in different level of operations

at any given time. The data analytics techniques are used for auditing purposes which facilitate the analysis of the entire audit universe rather than sampling. In the recent past CLC has moved in to micro lending and the internal audit team is also strengthened and resources were enhanced to conduct more field level audits in line with the changing business environment.

Information Systems Audit function reviews information systems and critical system infrastructure and plays a supporting role to general audits in reviewing the relevant processes and controls which are supported by computer systems.

A corporate whistle blower hotline is available for employees to report any irregularity or suspicious activities and a customer feedback line too is operational for customers to escalate any dissatisfaction of any fact which needs the attention of the management. These lines are operated by ERM and any information provided are treated confidentially. All complaints are followed up until resolution.

Continuous quality, knowledge and skill improvements are prerequisite of an effective risk management strategy and the ERM staff are continuously trained and opportunities/facilities provided for enhancement of their skills and knowledge inventory. An internal quality assurance system is well operational within the department which enable us to maintain consistent and uniformity in our processes.

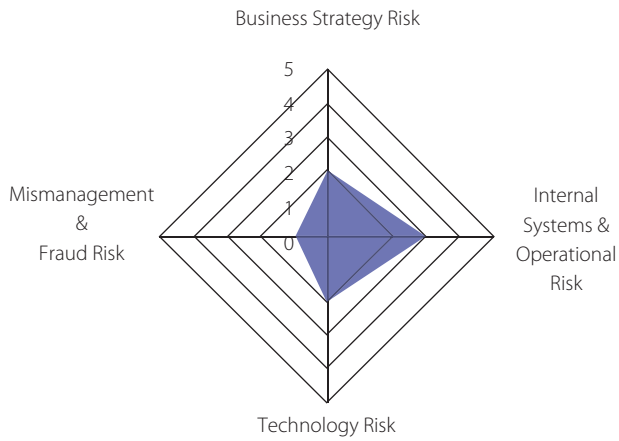
Risk Profile

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

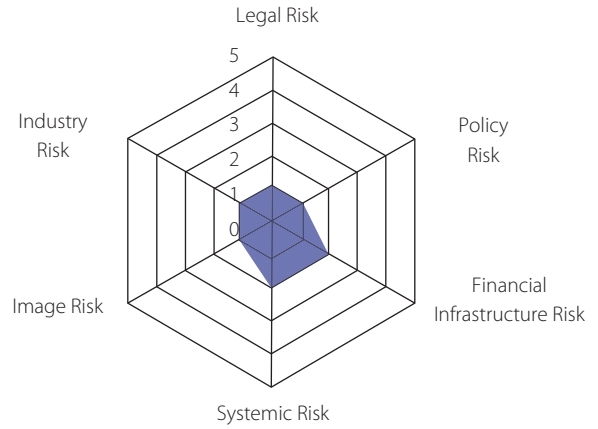
Risk Levels	Risk Score
Very High	5
High	4
Medium	3
Low	2
Very Low	1

Enterprise Risk Management

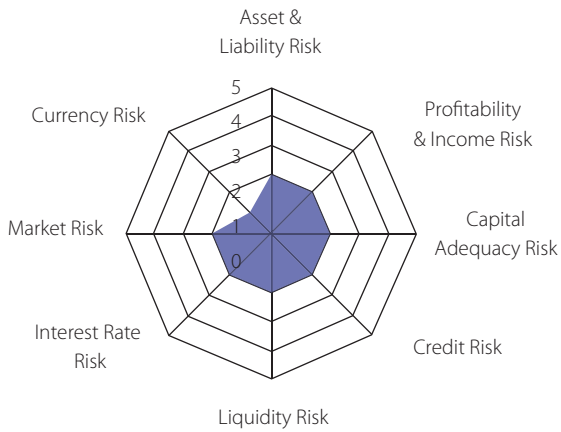
Operational Risks



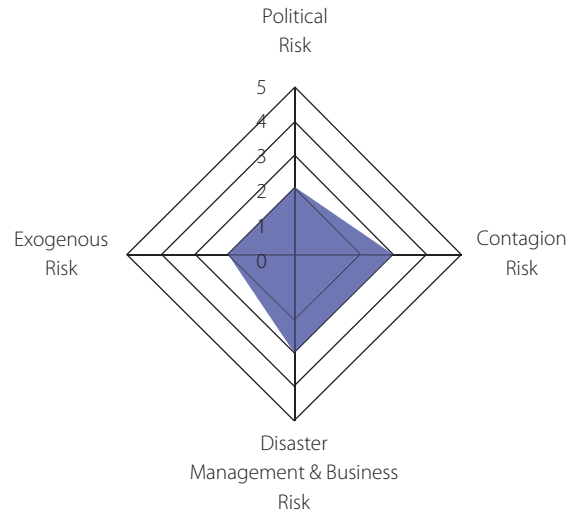
Business Risks



Financial Risks



Event Risks





One of the pillars of the Islamic Business Division of CLC is the staff who tirelessly strive towards the promotion of Islamic Finance.

Led by an effective board and a passionate management team who are dedicated towards promoting this concept to the mass and to be a role model in the Islamic Banking and Finance Industry.

The Board of Directors



1. Ishara Nanayakkara

Chairman/ Non Executive Director

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, 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 28 years, as well as LOLC Life Assurance Limited. He is also 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 Microfinance, 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, and BRAC Lanka Finance PLC. He also holds a directorship at PRASAC, the largest Microfinance Company in Cambodia. Mr. Nanayakkara's interest in Microfinance led to the inauguration of LOLC Myanmar Microfinance Company Ltd, a green field investment in Myanmar in which he was the founding Chairman, and currently serves as a Director. His proficiency in Microfinance 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 Microfinance company in Cambodia. He was also recently appointed as a director in LOLC International Private Limited & LOLC Private Limited.

Mr. Nanayakkara's motivation to expand into various growth peripheries is further illustrated through his role as the Executive Chairman of Browns Investments PLC. Through various strategic investments, he is committed to catalysing development in the growth sectors of the Sri Lankan economy. Mr. Nanayakkara's involvement in the Boards of Brown and Company PLC, Agstar Fertilizers PLC, Associated Battery Manufacturers (Cey) Ltd and Sierra Constructions Ltd, reflects this business philosophy.

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.

2. Kapila Jayawardena

Non Executive Director

Mr. Kapila Jayawardena holds an MBA in Financial Management and is a Fellow of the Institute of Bankers and an Associate Member of the Institute of Cost and Executive Accountants, London. He served as Country Head and CEO (Sri Lanka and Maldives) of Citibank NA from 1998 to 2007.

He has varied experience in the fields of Investment Banking, Banking Operations, Audit, Relationship Management, Corporate Finance, Corporate Banking and Treasury Management.

Kapila Jayawardena was appointed as the Chairman of the Sri Lanka Banks' Association (SLBA) in 2003/04. He has also served as President of the American Chamber of Commerce in Sri Lanka in 2006/2007 and was appointed to the Financial Sector Reforms Committee (FSRC) and was a member of the National Council of Economic Development (NCED). He also served as a Board Member of the United States - Sri Lanka Fulbright Commission.

He joined LOLC in the year 2007 as the Group Managing Director/CEO. He is the Chairman of the following companies and is also on the Boards of the subsidiaries of the LOLC Group.

1. Chairman - Eden Hotel Lanka PLC
2. Chairman - LOLC General Insurance Ltd
3. Chairman - LOLC Securities Ltd

In 2012, he was appointed to the Board of Browns Investments PLC and in 2013 to Seylan Bank PLC.

3. Mrs Kalsha Amarasinghe

Non Executive Director

Mrs Kalsha Amarasinghe holds an Honours Degree in Economics. She serves on the Boards of Lanka ORIX Leasing Company PLC, Brown & Co. PLC, LOLC Micro Credit Ltd, LOLC Life Assurance Limited, Palm Garden Hotels PLC, Riverina Resorts (Pvt) Ltd and Eden Hotel Lanka PLC. She also serves as a Director on the Boards of Commercial Leasing & Finance PLC, Browns Investments PLC and Browns Capital PLC.

The Board of Directors

4. Priyantha Fernando

Senior Independent Director

Mr Priyantha Fernando has more than 35 years of experience at the Central Bank where he rose to the position of the Deputy Governor. He was the Deputy Governor of the Central Bank in 2010-2011, in charge of the Financial System Stability and the Corporate Services clusters. Mr Fernando has extensive experience and expertise in the fields of Banking and the Financial Sector, particularly at the policy making levels in financial regulation and supervision, Information technology, national accounting, macro-economic analysis and statistics, finance and fund management. At the Central Bank, he was the Chairman of the Financial Stability Committee, member of the Monetary policy Committee, member of the Risk Management Committee and Chairman of the National Payment Council. He also functioned as the Secretary to the Monetary Board during 2009/2010.

He was an ex-officio board member in several regulatory organisations namely the Securities and Exchange Commission, the Insurance Board of Sri Lanka, the Chairman of the Credit Information Bureau, Institute of Bankers –Sri Lanka and has also served as a Board Member at Employers Trust Fund, Lanka Clear (Pvt) Ltd and Lanka Financial Services Bureau.

During his career, he has initiated and spearheaded several key projects of national importance, especially in the area of developing the infrastructure for the national payments and settlement system.

Mr Fernando has served a number of committees at national level covering a range of subjects representing the Central Bank.

He has been appointed the Chairman of Golden Key Credit Card Company and currently serves on the boards of the, Union Bank of Colombo PLC and is the acting Chairman, Taprobane Holdings Ltd, Ceylon Leather Products PLC, Equi Capital (Pvt) Ltd, Golden Key Hospitals Ltd, Thomas Cook Travels Sri Lanka and Imperial Institute of Higher Education.

5. Luxhman Jayaratne

Independent Director

Mr Luxhman Jayaratne has over 37 years of banking experience. He has worked in several countries in Asia, Europe and Africa, focusing on Management of Operations and Technology areas with involvement in product management. He had been directly involved in setting up Citibank in Sri Lanka, and Romania. He had also been the Head of Operations and Technology of Africa Citibank covering 14 countries before joining Union Bank of Nigeria PLC.

Mr Jayaratne specialises in operations and technology management, process regionalisation and centralisation, and Commercial Banking.

6. Krishan Thilakaratne

Executive Director / CEO

Mr Krishan Thilakaratne is the Director/ CEO of Commercial Leasing & Finance PLC, and Head of Islamic Finance of LOLC group. He also serves on the Board of Commercial Insurance Brokers (Pvt) Ltd., the largest Insurance Broker in Sri Lanka which is an Associate Company of Commercial Leasing & Finance PLC.

He previously held the positions of CEO, Lanka ORIX Factors Ltd., & CEO, Auto Finance of LOLC. He is an Associate Member of the Institute of Bankers of Sri Lanka and joined the LOLC Group in 1995.

Strategic Business Unit Team



Ihsam Awfer

AMSLIM, AFIIBI (UK), MBA (Manipal)
Head of Islamic Business Division

Joined the group in 2008. Counts over 13 years of experience in Marketing, Research, Islamic Finance Operations, Finance and etc.



Ash-Shaikh Zaid Nooramith

MA(DUI) South Africa. DIB (IBSL)
In-House Shari'ah Advisor

Joined the group in 2011. Counts over 10 years of experience in Teaching Islamic theological studies and 7 years of experience in Banking & Finance services sector and coordination with the Shari'ah Supervisory Board.



Silmy Sally

PG DIP in Mktg (UG)
Junior Executive – Channel Marketing

Joined the group in 2014. Counts over 10 years of experience in Administration, Recoveries and Marketing.



Yoonus Nazar

ACSI - UK, Dip. In Banking & Finance (IBSL), Credit Mgt (IBSL) & IF
Junior Executive – Operations

Joined the Islamic Business Division in 2016. Counts over 05 years of experience in Islamic Banking Operations and Corporate Banking from Banking and Financial institutions.

Regional Marketing Team

COLOMBO REGION



Ikram Mohamed
Dehiwala Branch



Fathima Zahra
Bambalapitiya Branch



Muhammad Sharafdeen
Borella Branch

KANDY REGION



Mohamed Faizal
Matale Branch



Mahdi Muhammad
Kandy Branch



Sabry Mohamed
Kandy Branch



Aakil Ahamed
Kandy Metro Branch

EASTERN REGION



Irsath Munaf
Ampara Branch



Mohamed Musrif
Polonnaruwa Branch



Mohamed Aslam
Batticaloa Branch

ANURADAPURA REGION



Raslan Mohamed
Serunuwara Branch



Mohamed Muneer
Trincomalee Branch

MATARA REGION



Sadik Moulana
Matara Branch

Shari'ah Supervisory Board Member Profiles

One of the key success of CLC-Islamic Finance is being compliant with Shari'ah Principles, and always adopting the rules and regulations laid by the Shari'ah Supervisory Board (SSB). The Shari'ah Supervisory Board consists of 03 eminent scholars well reputed and accepted by the industry and the community.

As members of the SSB, their primary duties are to approve all products practised by the Islamic Business Division, provide assistance to meet Shari'ah requirements in all business transactions, conduct audits on operational & financial aspects and conduct staff and public awareness programs on the subject.

Ash-Shaikh Fazil M. Farook

Chairman

Media Coordinator of All Ceylon Jamiyyathul Ulama (ACJU), council of Muslim Theologians, Colombo. Graduated in Islamic Shari'ah and completed Dhaurathul Hadith from Darul Uloom, New Castle, South Africa. A qualified scholar in Islamic Banking and Finance from the Islamic University of Malaysia. A lecturer in Al-Ain Islamic Institute and Darul Uloom Islamiyyah, Colombo. One of the leading consultants in Islamic Banking and Finance in Sri Lanka and a SSB member of leading Islamic Banking and Finance institutions in Sri Lanka.

Ash-Shaikh Murshid M. Mulaffar

Member

General Secretary of ACJU and a member of the Banking Advisory Committee of ACJU. Graduated from Darul Uloom al-Humaidhiyya, Colombo and a qualified scholar in Islamic Finance from the Center for Islamic Economics, Karachchi, Pakistan. One of the leading consultants in Islamic Banking & Finance and Takaful in Sri Lanka.

Ash-Shaikh / Mufthi Shafique A. Jakhura

Member

A Certified Shari'ah Advisor and Auditor by the Accounting and Auditing Organisation for Islamic Finance Institutions (AAOIFI), Baharain. Served in the Fatwa department preparing and issuing Islamic Juristic Rulings at the Darul Ihsan Center in Durban, South Africa. Founding member of the Center of Islamic Economic and Finance South Africa (CIEFSA). Completed Alimiyyah course at Madrasa Thaleemuddeen in Durban and specialised in Islamic Jurisprudence in Jamia Darul Uloom, Karachchi, Pakistan under the guidance of Mufthi Taqi Usmani. Leading international consultant in Islamic Banking and Finance

Product Approvals by the Shari'ah Supervisory Board

TO WHOM IT MAY CONCERN

This is to confirm that we, the members of the Shari'ah Supervisory Board (SSB) of The Islamic Business Division of Commercial Leasing and Finance PLC., after a careful examination of relevant documents, processes and review of operational procedures, have approved the following Islamic Financing products of the Islamic Business Division (IBD) of Commercial Leasing and Finance PLC (CLC).

1. **IJARAH** - (Since 27th July 2015)
2. **MURABAHA** - (Since 27th July 2015)
3. **MUDHARABAH** - (Since 27th July 2015)
4. **DIMINISHING MUSHARAKAH** - (Since 27th July 2015)
5. **MUSAWAMAH** - (Since 27th July 2015)
6. **WAKALA (Investment)** - (Since 27th July 2015)
7. **WAKALA (FINANCE)** - (Since 27th July 2015)

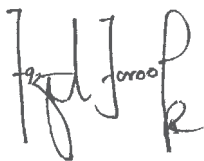
The approval has been granted after having taken into consideration the following:

1. Having Quard-Hassanah / Wakala agreement with CLC
2. Adhering only to The Shari'ah Supervisory Board 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

As members of the Shari'ah Supervisory Board of IBD-CLC, 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 CLC. The Management of Commercial Leasing and Finance PLC, is responsible for ensuring that the Islamic Business Division of CLC 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 IBD of CLC.



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



(Ash-Shaikh) Murshid M Mulaffar
(Member – SSB)



(Ash-Shaikh /Mufthi) Shafique A Jakhura
(Member –SSB)

Approval by the Central Bank of Sri Lanka



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

බැංකු නොවන මූල්‍ය ආයතන
අධීක්ෂණ දෙපාර්තමේන්තුව

வங்கியல்லாத நிதி நிறுவனங்கள்
மேற்காள்வைத் திணைக்களம்

Department of Supervision of
Non-Bank Financial Institutions

Ref: 24/03/005/0053/003



04.08.2015

Mr. Krishan Thilakarathne
Chief Executive Officer
Commercial Leasing & Finance PLC
No. 68, Baudhaloka Mawatha
Bambalapitiya
Colombo 04

Dear Sir,

Commencement of Islamic Finance Business Unit

This refers to your letters dated 08.07.2015 and 22.07.2015, our letter dated 15.07.2015 and subsequent correspondence with Ms.Nishanthi Kariyawasam, Head of Finance on the above subject.

We wish to inform you that we have no objection to the introduction of the proposed Islamic Finance Products, namely Mudharbah, Ijarah, Murabaha, Diminishing Musharaka, Musawamah and Wakala by your company, subject to the following conditions.

- a) Amend the “Mudharabah Investment” investment certificate stating the “profit sharing ratio” instead of interest rate.
- b) Operations of the Islamic Financial Products should be conducted strictly within the existing legal and regulatory framework applicable to Licensed Finance Companies (LFCs) and should always be in compliance with all the directions issued to LFCs by the Central Bank of Sri Lanka.
- c) Separate books of accounts should be maintained for the Islamic Financial Products.
- d) The funds mobilized through Islamic Finance Products should be considered by the company as deposits for the purposes of the relevant directions issued to LFCs.



8 වන මහල, අංක 30, ජනාධිපති මාවත,
කො. පො. 590, කොළඹ 01, ශ්‍රී ලංකාව.

8 ஆம் மாட, இல. 30, ஜனாதிபதி மாவத்தை,
அ. பெ. இல. 590, கொழும்பு 01, இலங்கை.

Level 8, No. 30, Janadhipathi Mawatha,
P. O. Box 590, Colombo 01, Sri Lanka.

☎ 94 11 2477500

☎ 94 11 247738/2477697

✉ secdsnbfi@cbsl.lk

🌐 www.cbsl.gov.lk

- e) The profits given to the depositor by the LFC on Mudharabah Investment Certificate should be considered as interest for the purposes of the relevant directions.
- f) Monthly returns on capital, investments and distribution of income of the Islamic Finance Products should be forwarded to this department within 15 days of the end of every month.

Yours faithfully




Director



The Islamic Business Division has marked a remarkable year with many milestones in terms of business volumes, attracting new customers, increasing income, profits and retained earnings.

This achievement was mainly due to the focus and attention made to promote Islamic Finance concept to all regions to empower the entrepreneurs and to assist other customer segments who required financial solutions.



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Independent Auditors' Report	40
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Statement of Cash Flows	44
Notes to the Financial Statements	45

Shari'ah Supervisory Board Audit Report 2016/2017

In the name of Almighty Allah, the All Merciful, the Very Merciful To the Shareholders of Commercial Leasing & Finance PLC (CLC)

By the Grace of Allah, the year under review was the first complete year of the Islamic Business Division (IBD) of CLC. During this year, the Islamic Business Division of CLC executed a variety of established Islamic banking products and transactions after due approval from the Shari'ah Supervisory Board (SSB). During the year, The SSB of the Islamic Business Division of CLC, and the management held 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 the Islamic Business Division of CLC during the financial year under review. We have also conducted our review to form an opinion as to whether the Islamic Business Division of CLC complied with the rules and principles of Shari'ah in accordance with the standards set out by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Bahrain.

The Management of CLC is responsible for ensuring that the Islamic Business Division of CLC 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 the Islamic Business Division of CLC and report to you.

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

1. **Training & Development:** During the year training programs for staff were held.
2. **Publishing of a hand book:** 'Handbook on Islamic Finance' which explained product concepts practiced in Islamic Banking and Finance Institutions.
3. **Branch Visit:** Various branch visits were conducted by the In-House Shari'ah Supervisor.
4. **Public Awareness Program:** 03 Public Awareness Programs were held.
5. **Departmental Audit:** by the In-House Shari'ah Advisor to understand and to audit functions of all supporting departments to Islamic Business Division.
6. **SSB Meetings were held:** 05 SSB Meetings were held.
7. **Awards:** IBD received recognition as 'Emerging Islamic Finance Entity of Year' at the SLIBFI Awards 2016, Sri Lanka.

Shari'ah Audit & Compliance Review

PURPOSE:

To ensure that the products and services being offered by the Islamic Business Division of CLC adhered to the guidelines of the Shari'ah, the Shari'ah Supervisory Board monitored and reviewed various operational activities of the Division.

The scope of the audit included on a test basis:

1. Mudharabah Investment Accounts
2. Ijara Financing Transactions
3. Diminishing Musharakah Financing Transactions
4. Murabaha Financing Transaction
5. Detailed Financial Statements
6. Expenditure apportionment
7. Wakala Investments and Finance
8. Accrual & Disposal of impermissible Income
9. Staff interviews
10. Profit Distribution
11. Bank Statements
12. Benevolent loans from the parent.

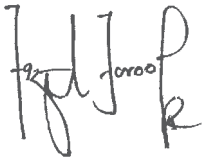
We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Islamic Business Division of CLC has not violated the Islamic commercial principles.

In our opinion;

1. The contracts, transactions and dealings entered into by IBD of CLC during the year under review are generally in compliance with the rules of Shari'ah.
2. The allocation of profits relating to investment accounts appears to confirm to the rules and principles of Shari'ah.

3. The SSB has given guidelines to the IBD regarding methodology to use in approaching and raising queries with the SSB to ensure that the SSB is given a full background to queries so that the SSB can give guidance after considering all related aspects.
4. SSB has also requested the IBD to train Internal Audit Department to conduct audits of the IBD in the future.

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) Murshid M Mulaffar
(Member – SSB)



(Ash-Shaikh /Mufthi) Shafique A Jakhura
(Member –SSB)

Independent Auditors' Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
Internet : www.kpmg.com/lk

BOARD OF DIRECTORS OF COMMERCIAL LEASING AND FINANCE PLC

Report on the Special Purpose Financial Statements

We have audited the accompanying special purpose financial statements of the Commercial Leasing and Finance PLC Islamic Business Division ("IBD"), which comprise the statement of financial position as at 31 March 2017 and the statement of comprehensive income 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 42 to 54 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 42 to 54 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 IBD'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 IBD'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.

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
M.J. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan ACA		

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA
Ms. C.T.K.N. Perera ACMA (UK)



Opinion

In our opinion, these special purpose financial statements present fairly, in all material respects, the financial position of the IBD as at 31 March 2017 and of its financial performance and cash flows for the year then ended in accordance with the accounting policies of the IBD, as set out on pages 42 to 54 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.

A handwritten signature in blue ink, appearing to be 'K. M. M.', written in a cursive style.

CHARTERED ACCOUNTANTS

Colombo
15th June 2017

Statement of Comprehensive Income

For the year ended 31 March		2017	2016
	Note	Rs.	(08 Months) Rs.
Revenue	3	343,094,649	60,664,190
Profit paid to Mudharabah/Wakala investors		(10,582,834)	(1,519,439)
Other Direct Expenses		(11,823,864)	(3,191,916)
		320,687,951	55,952,835
Non distributable other income / (expenses)	4	12,749,748	7,059,715
Total operating income		333,437,699	63,012,550
Employee Benefits	5	(6,722,668)	(813,064)
(Provision)/Reversal for credit losses	6	(5,444,348)	-
Other Operating Expenses		(30,698,188)	(12,330,630)
Profit from Operations	7	290,572,495	49,868,856
Value added tax on financial services and NBT		(37,213,329)	(5,704,559)
Profit Before tax		253,359,166	44,164,297
Income tax expense	8	(105,756,240)	(16,759,072)
Profit for the year		147,602,926	27,405,225

The above Statement of Comprehensive Income should be read in conjunction with notes, which form an integral part of these special purpose financial statements.

Statement of Financial Position

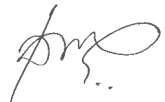
As at 31 March	Note	2017 Rs.	2016 Rs.
ASSETS			
Cash and Cash Equivalents	9	84,642,574	19,068,618
Murabaha/Musawamah Receivables	10	24,210,195	68,691,129
Diminishing Musharaka Receivables	11	1,026,979,307	454,760,241
Wakala Receivables	12	174,204,168	108,396,528
Ijarah Rent Receivables	13	965,928,548	406,001,395
Other Receivables	14	54,427	1,494
Total assets		2,276,019,219	1,056,919,405
LIABILITIES			
Mudharabah Investments		406,344,804	83,609,354
Mudharabah Savings		17,353,850	1,022,761
Accruals and Other Payables	15	56,184,042	87,371,390
Amount Due to Head Office	16	1,621,128,371	857,510,675
Total Liabilities		2,101,011,067	1,029,514,180
OWNER'S FUND			
Retained Earnings		175,008,152	27,405,225
Total owners fund		175,008,152	27,405,225
Total liabilities & owners fund		2,276,019,219	1,056,919,405

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



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

Approved and signed for and on behalf of the Board.



I.C. Nanayakkara
Chairman



D.M.D.K. Thilakeratne
Director/ CEO

Colombo,
15th June 2017

Statement of Cash Flows

For the year ended 31 March	2017	2016 (08 Months)
	Rs.	Rs.
CASH FLOW FROM/ (USED IN) OPERATING ACTIVITIES		
Profit before income tax	253,359,166	44,164,297
Adjustment for:		
Net impairment loss on financial assets	5,444,348	-
Profit paid to Mudharabah/Wakala investors	10,582,834	1,519,439
Cash flows from operating activities before working capital changes	269,386,348	45,683,736
(Increase) / Decrease in operating assets & liabilities		
(Increase)/decrease in Murabaha/Musawamah Receivables	44,480,934	(68,691,129)
(Increase)/decrease in Diminishing Musharaka Receivables	(572,219,066)	(454,760,241)
(Increase)/decrease in Wakala Receivables	(65,807,640)	(108,396,528)
(Increase)/decrease in Ijarah Rent Receivables	(565,371,501)	(406,001,395)
(Increase)/decrease in other receivables and Related party Receivables	(52,932)	(1,494)
Increase/(decrease) in Accruals and other payables	626,674,108	928,122,993
Increase/(decrease) in Mudharabah investments and savings	339,066,539	84,632,115
Cash Generated from operations	76,156,790	20,588,057
Finance cost paid	(10,582,834)	(1,519,439)
Net cash flows Generated from operating activities	65,573,956	19,068,618
Net increase in cash and cash equivalents	65,573,956	19,068,618
Cash and cash equivalents at the beginning of the year	19,068,618	-
Cash and cash equivalents at the end of the year (Note A)	84,642,574	19,068,618
Note A		
Cash in Hand and favorable bank balances	84,642,574	19,068,618
Cash and cash equivalents at the end of the year	84,642,574	19,068,618

Notes to the Financial Statements

1. GENERAL

Commercial Leasing & Finance PLC was incorporated as a Private Limited Company in April 1988 and in 1992 converted into a Public Limited Company and listed in the Colombo Stock Exchange. In 2008 with the acquisition by Lanka ORIX Leasing Company PLC, the company submitted an application to delist from Colombo Stock Exchange and it was treated as de-listed with effect from July 01, 2009.

Further to Finance Leasing Act No 56 of 2000, on 07th December 2011, the Company has obtained the License to carry on Finance Business under the Finance Business Act No 42 of 2011. Company has relisted in Colombo Stock Exchange in June 2012 in compliance with the CBSL Directions with the divestment of 10% of the stated capital.

Ordinary shares of the Company are listed on the Diri savi board of the Colombo Stock Exchange (CSE).

Commercial Leasing & Finance PLC has set up the Islamic Business Division ("IBD") which commenced its operations in July 2015, under Islamic Shari'ah Law. It is housed in the head office premises at No.68, Bauddhaloka Mawatha, Colombo 04.

1.1 Principal activities and nature of business

The principal activities of the IBD 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 IBD are prepared on based on the accounting policies explained in Note 2.

The results of IBD and the financial position of the IBD form part of the financial statements of Commercial Leasing & Finance PLC which is prepared in accordance with Sri Lanka Accounting Standards. Commercial Leasing & 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 15th June 2017. Therefore, the isolated financial statements of the IBD should be read in conjunction with the Commercial Leasing & Finance PLC's primary set of financial statements.

These Financial Statements include the following components:

- a Statement of Comprehensive Income providing the information on the financial performance of the IBD for the year under review;

- a Statement of Financial Position providing the information on the financial position of the IBD as at the year-end;
- a Statement of Cash Flows providing the information to the users, on the ability of the IBD to generate cash and cash equivalents and the needs of the IBD 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	Fair value
	at fair value through profit or loss

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

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

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

1.2.3 Materiality and Aggregation

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

1.2.4 Going Concern

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.

Notes to the Financial Statements

1.2.5 Comparative information

The accounting policies have been consistently applied by the IBD 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 IBD operates (the functional currency).

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

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

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

1.4 Significant accounting judgments, estimates and assumptions

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

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

Estimate and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

1.4.1 Fair Value Measurement

A number of the Company's (Commercial Leasing & Finance PLC including the IBD) 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 IBD 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 IBD receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.1 Financial assets and financial liabilities

2.1.1 Non-derivative financial assets

2.1.1.a Initial recognition of financial assets

Date of recognition

The IBD initially recognises receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the IBD 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 IBD 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 IBD in the management of its short-term commitments.

Notes to the Financial Statements

- ***Ijarah receivables***

The Commercial Leasing & Finance PLC's IBD 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.

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 IBD has not classified any instrument as available for sale.

2.1.2 Non-derivative financial liabilities

Classification and Subsequent Measurement of Financial Liabilities

The IBD initially recognises non-derivative financial liabilities on the date that they are originated.

The IBD 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 IBD derecognises a financial asset when the rights to receive cash flows from the asset have expired or the IBD 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.

- The IBD has transferred substantially all the risks and rewards of the asset, or
- The IBD 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;

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

Financial liabilities

The IBD 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 IBD on terms that the IBD 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 IBD, economic conditions that correlate with defaults or the disappearance of an active market for a security.

The IBD 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 Employee benefits

2.2.1 Short-term employee benefits

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

2.2.2 Defined contribution plans

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

2.3 Provisions

A provision is recognised if, as a result of a past event, the IBD 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.

Notes to the Financial Statements

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

2.4 Events occurring after the reporting date

Events after the reporting period are those events, favourable 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

SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF INCOME AND EXPENSES

2.5 Revenue Recognition

2.5.1 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.

2.5.2 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.

2.5.3 Diminishing Musharakah Income

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

2.5.4 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.

2.5.5 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.

2.5.6 Dividends

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

2.6 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 IBD for which a fee is charged from the customers, has been presented net of the related income.

2.6.1 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.

2.6.2 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.

2.7 Income Tax

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

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

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.8 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

2.9 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

For the year ended 31 March	2017	2016
	Rs.	(08 Months) Rs.
3 Revenue		
Income from Ijarah receivables	155,551,861	27,842,132
Income from Diminishing Musharaka receivables	145,674,196	26,839,831
Income from Murabaha/Musawamah receivables	6,641,584	2,701,388
Income from Wakala receivables	26,694,809	2,909,683
Profit on terminations	8,532,199	371,156
	343,094,649	60,664,190
4 Non Distributable Other Income/ (Expense)		
Takaful commission	2,905,632	1,291,056
Others	9,844,116	5,768,659
	12,749,748	7,059,715
5 Employee Benefits		
Salaries & other benefits	6,722,668	813,064
	6,722,668	813,064
6 (Provision)/Reversal for credit losses		
Murabaha/Musawamah Receivables	79,640	-
Diminishing Musharaka Receivables	2,991,408	-
Ijarah Rent Receivables	2,373,300	-
	5,444,348	-
7 Profit Before Tax		
Profit before income tax is stated after charging all expenses including the following;		
Advertising	2,087,951	3,378,278
Travelling	5,328,948	383,816
Business promotion expenses	22,166,586	7,987,673
8 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) (Note 8.1)	105,756,240	16,759,072
	105,756,240	16,759,072

For the year ended 31 March	2017	2016
	Rs.	(08 Months)
		Rs.
8.1 Numerical Reconciliation Of Accounting Profits To Income Tax Expense;		
Accounting profit before income tax	253,359,166	44,164,297
Aggregate disallowable expenses	603,760,227	151,725,967
Aggregate tax deductible expenses	(303,959,627)	(27,961,701)
Tax exempt income	(160,553,011)	(106,622,340)
(-) Allowable tax credits	(14,905,899)	(1,452,395)
Taxable profit	377,700,856	59,853,828
Income tax at 28 %	105,756,240	16,759,072
Current income tax expense	105,756,240	16,759,072
As at 31 March	2017	2016
	Rs.	Rs.
9 Cash and Bank Balances		
Cash & bank balances	84,642,574	19,068,618
	84,642,574	19,068,618
10 Murabaha Receivables		
Installment receivable	30,800,000	76,125,784
Overdue rental receivable	373,936	413,546
Unearned income	(6,963,741)	(7,848,201)
	24,210,195	68,691,129
11 Diminishing Musharaka Receivables		
Installment receivable	1,020,215,332	451,778,883
Overdue rental receivable	9,755,382	2,981,358
Provision for credit losses	(2,991,408)	-
	1,026,979,307	454,760,241
12 Wakala Receivables		
Installment receivable	196,616,072	115,746,139
Overdue rental receivable	488,450	-
Unearned income	(22,900,354)	(7,349,611)
	174,204,168	108,396,528

Notes to the Financial Statements

As at 31 March	2017	2016 (08 Months)
	Rs.	Rs.
13 Ijarah Receivables		
Rent receivables	1,294,260,595	543,222,119
Overdue rental receivable	14,771,462	3,201,109
Unearned income	(343,095,878)	(140,421,833)
Provision for credit losses	(7,631)	-
	965,928,548	406,001,395
14 Other Receivables		
Sundry Advances to Employees	54,427	1,494
	54,427	1,494
15 Accruals And Other Payables		
Lease equipment creditors	41,815,499	60,358,900
Payable for unrepresented cheques	-	23,379,193
Insurance payable	883,731	1,257,847
Other payables	13,484,812	2,375,450
	56,184,042	87,371,390
16 Amount Due to Head Office		
Qurd hassan	1,488,200,000	792,200,000
Current account balance due to head office	132,928,371	65,310,675
	1,621,128,371	857,510,675
17 Events After Reporting Date		
Subsequent to the reporting date no circumstances have arisen which would require adjustments to, or disclosure in the financial statements.		

Corporate Information

NAME OF THE COMPANY

Commercial Leasing & Finance PLC

COUNTRY OF INCORPORATION

Sri Lanka

LEGAL FORM

A quoted public company with limited liability

DATE OF INCORPORATION

22nd April 1988

COMPANY REGISTRATION NO.

PQ 131/PB/PQ

STOCK EXCHANGE LISTING

The ordinary shares of the Company were listed on the Dirige Savi Board of the Colombo Stock Exchange on 5th June 2012.

CREDIT RATING

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

REGISTERED OFFICE AND HEAD OFFICE

No. 68, Bauddhaloka Mawatha, Colombo 04.

Tel: 0114526500/526

Fax: 0114526559

Website: <http://www.clc.lk>

DIRECTORS

Mr. I C Nanayakkara

Non-Executive Chairman (r.w.e.f 16.06.2017)

Mr. W D K Jayawardena

Non-Executive Director (r.w.e.f 16.06.2017)

Mrs. K U Amarasinghe

Non-Executive Director (r.w.e.f 16.06.2017)

Mr. P D J Fernando

Senior Independent Director

Mr. L Jayaratne

Independent Non Executive Director (a.w.e.f. 22.03.2017)

Mr. D M D K Thilakaratne

Executive Director/ CEO

SECRETARIES

LOLC Corporate Services (Private) Limited

100/1 Sri Jayawardenapura Mawatha, Rajagiriya

Tel: 011 5880354/7 0115880880 (general)

AUDITORS

KPMG, 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 provision of leasing, loans, mobilising of fixed and savings deposits, Islamic financing and micro financing.

BANKERS

Bank of Ceylon

Citi Bank N A

Hatton National Bank PLC

Hongkong and Shanghai Banking Corporation Ltd

Deutsche Bank

Nation Trust Bank PLC

Commercial Bank of Ceylon PLC

NDB Bank

Seylan Bank PLC

MCB Bank

Sampath Bank PLC

DFCC Vardhana Bank

Union Bank of Colombo PLC

People's Bank

Habib Bank

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