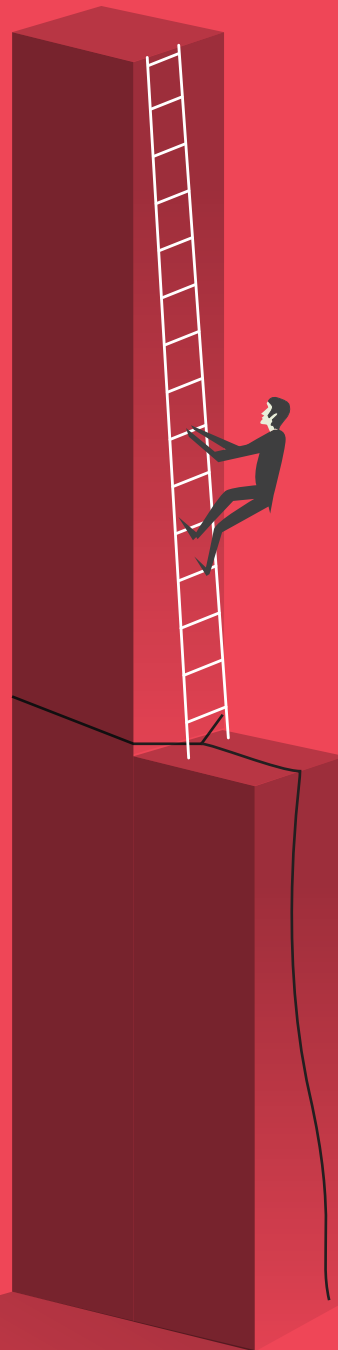




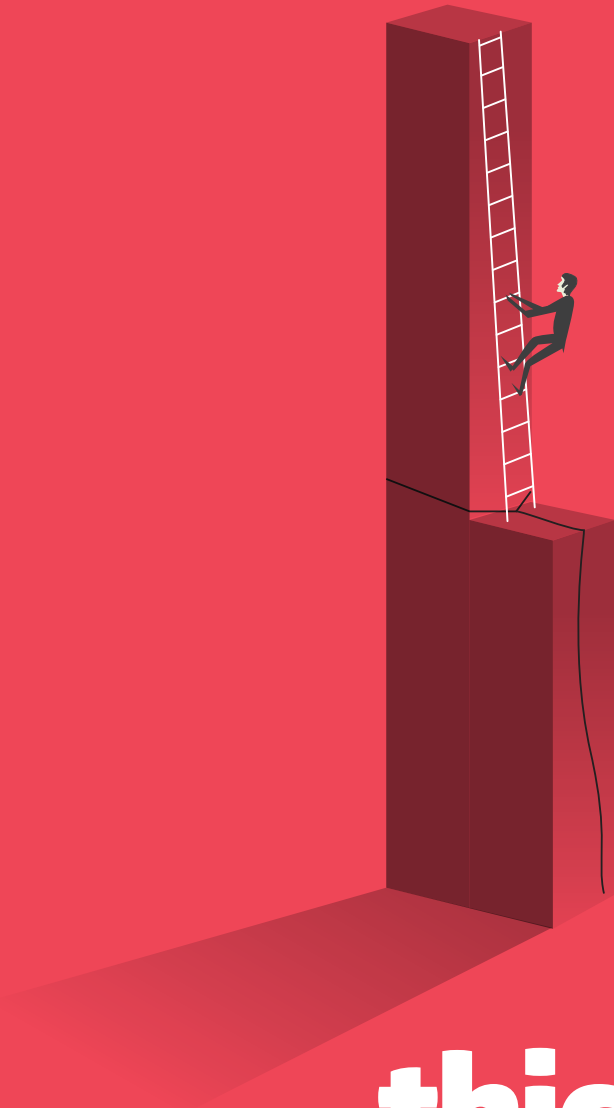
SMB LEASING PLC



through **thick** and thin

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annual report 2017



through **thick** and thin

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UNDER ALL  
CIRCUMSTANCES,  
NO MATTER  
HOW DIFFICULT.

## **Our Mission**

Our mission is to be an excellent provider of innovative financial products and services aimed at creating and enhancing the wealth of our society.

## **Our Corporate Objectives**

To provide an excellent service to our customers.

To enhance shareholder's wealth by means of stable and attractive returns.

To develop highly satisfied and motivated employees at all levels who will make an effective and efficient contribution towards the economic development of Sri Lanka.

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## About This Report

### The Company Profile

SMB Leasing PLC is a Specialised Leasing Company established in 1992 and listed on the Colombo Stock Exchange. The Company operates only in Sri Lanka with the Head Office located in Colombo. The Company is primarily engaged in providing finance leases, loan facilities and pawning. Corporate information is given on the inner back cover of this report.

### Annual Report

The Annual Report comprises reports covering the Company's operations for the financial year ended December 31, 2017. Wherever relevant, the preceding year's performance and indicators have been reflected for comparative analysis.

### Reporting framework

The annual financial statements are prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS) issued by the Institute of Chartered Accountants of Sri Lanka. Financial and non-financial information presented, where applicable, conform to the requirements of the Companies Act No. 7 of 2007, the Finance Leasing Act No. 56 of 2000 as amended by Finance Leasing (Amendment) Act No-24 of 2005 and subsequent amendments thereon, the Listing Rules of Colombo Stock Exchange, the Directions issued by the Central Bank of Sri Lanka and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

### External Assurance and Test of Compliance

The Financial Statements were audited by M/s. KPMG, Chartered Accountants and their Report is given on page 97 of this report.

### Presentation

Printed copies of this report will be posted to only those who request for the same in writing. This report in the form of a CD-ROM will be posted to all shareholders and will be made available on the official website [www.smbk.com](http://www.smbk.com) in pdf format.

### Contact

Questions and inquiries on this Annual Report 2017 and information presented therein are to be directed to:

#### **Chief Financial Officer**

SMB Leasing PLC,  
No 282/1 CBS Building,  
Galle Road, Colombo 3,  
Sri Lanka.  
Tel: +94 11 4222850  
Fax: +94 11 2574330

## Key Highlights of the Year

### NET PROFIT AFTER TAX

Rs. **37.25** Million

### INTEREST INCOME

Rs. **255** Million

### TOTAL ASSETS

Rs. **1,647** Million

### TOTAL INCOME

Rs. **315** Million

### TOTAL OPERATING INCOME

Rs. **246** Million

### NET ASSETS

Rs. **1,174** Million

## Chairman's Message

It is with great pleasure that I present to you the Annual Report and Audited Financial Statements for the year ended December 31, 2017. In our journey towards sustainable growth, we have further strengthened the foundation and core competencies of the organization in 2017 for a profound transformation in the years ahead.

Despite challenges we had to overcome, the Company recorded credible performance in the year under review, further solidifying its core business through diligent measures adopted to improve performance. Our business is based on strong fundamentals because of the support extended by the new majority shareholders who took over the business in 2011 and diligence of the Board of Directors and management which has resulted in the company recording a consistent performance over the last 5 years. Consequently, today we remain a strong, well-capitalized leasing company built on a foundation of integrity, trust, and best practices through ethical behaviour across all our business activities.

### Macro-Economic Outlook

From a macro-economic perspective, the economy had a slowdown in 2017 with cascading effects to the non-banking financial institutions (NBFI). Sri Lanka's economic grew by only 3.1 per cent last year, the lowest last 16 years. The local economy posed several challenges to our business. A weaker external sector resulted in the depreciation of the Rupee making imports more expensive. Despite the low GDP growth and other challenges, the economy has created employment opportunities that will positively impact the macro-economic indicators of the country. The long term positive implications of the tight monetary controls and key policy reforms imposed by the Government including tax reforms will pave the way for much needed fiscal consolidation and greater economic stability in the years to come which will benefit the financial sector in the country.

The specialized leasing company performance in the NBFI sector was moderate during the year with low credit growth, declining profitability and increase in non-performing loans. However, the sector remained strong, with capital maintained at healthy levels along with adequate liquidity well above the regulatory minimum levels. The NBFI sector is represented by a multitude of players. As a long-standing company in the sector,

we have always taken a proactive stance towards improving our strategic alignment with the market sentiments to drive stronger growth and deliver positive impact on shareholder value. Our company enjoys one of the most attractive capital adequacy ratios in the sector. In the year under review, we managed to sustain our portfolio which proves that we are in a position to weather economic challenges and in turn support our customers.

### Performance for the Year Under Review

As the Chairman, I welcome this opportunity to share my views on the Company's performance against the backdrop of global and local economic conditions that prevailed during the year. In the year under review SMB Leasing was able to deliver a net profit after tax of Rs. 37.2 million. Our asset base as at December 31, 2017 was valued at Rs. 1.6 billion while the total credit portfolio stood at Rs. 1.3 billion. Our total shareholder funds reached Rs. 1.2 billion with earnings per share at Rs. 0.02. The Company maintained a healthy liquidity ratio, a return on equity ratio and an outstanding capital adequacy ratio. During the year 2017, we added a new profitable product to our portfolio by introducing pawning and expanded our reach by opening a branch at Negombo. These initiatives have further strengthened the profitability of the Company

The Board is ever mindful of its statutory, fiduciary and regulatory responsibilities. Our commitment to strong and effective governance is the fundamental part of the business management. During the year, the Board welcomed two new independent non-executive directors. They bring wealth of experience from their respective fields widening the knowledge and expertise of the Board.

The Board strives to enhance shareholder value and provide a total return for their investments whilst retaining sufficient resources for business growth. Therefore, despite challenging operating attributes, the Board paid an interim dividend of Rs. 0.02 to the shareholders, underlining our commitment to reward the valuable investors who had supported us over the years. While the year under review was a year of sustainability to the Company, we are optimistic of the year ahead in which we have set targets that will take the Company to the next level.

## Future Outlook

We expect economic condition in Sri Lanka to improve steadily in 2018 and beyond. It is vital that we continue to maintain and strengthen our share in the market for the products without compromising requisite interest margins. Given the core strengths of the organization, we are responsive to the changing needs of our customers and adapt our business models accordingly to cater to those needs.

SMB Leasing will partner with a foreign bank in 2018 for a funding line to finance its business. With this strategic partnership, the Company will be able to overcome its main growth inhibitor of lack of cost effective funding lines to expand the leasing and loan portfolios. Plans are underway to have a credit line negotiated with one of our key suppliers which will facilitate a rapid growth in the lease portfolio which will allow the Company to compete on the interest rates offered to the customer and will also strengthen the asset base of the Company.

The initiatives taken in 2017 to improve the human capital, performance dimensions and process reengineering will continue in 2018 to ensure that the Company is well equipped with high caliber staff and efficient processes that will facilitate the realization of growth plans for 2018 and beyond. Though challenges remain in the current ecosystem, the planned interventions are aimed at growing the business in 2018 while continuing the unblemished track record of ethics, compliance and governance. I'm confident that my Board along with the corporate management and staff are well equipped and committed in this regard.

## Appreciation

I would like to convey my sincere appreciations to my colleagues on the Board for their insightful guidance and support extended at all times and their valued expertise shared for the betterment of the Company.

The Board is deeply saddened about the untimely demise of our fellow Director Mr. J. C. Korale on May 21, 2018. Mr. Korale was the Chairman of the Audit Committee and Related Party Transaction Review Committee and was a Director of SMB

Leasing PLC since November 2010. He will be remembered for his exceptional contribution to transform SMB Leasing PLC to its present position.

My heartfelt thanks to the CEO, Mr. Sumedha Fernando and Corporate Management who provided leadership and boundless energy to drive our strategies for growth and business excellence, and each and every member of staff whose unconditional efforts and commitment push the Company to keep broadening its horizons.

I wish to place on record my appreciation to the officials of the Central Bank of Sri Lanka for their valued good counsel and directions in building a foundation for strong ethics and good governance. I also wish to extend my sincere gratitude to the shareholders and all other stakeholders for the support and confidence placed in us.



**Ravi Wijeratne**

*Chairman*

*Colombo*

*May 30, 2018*

## Chief Executive Officer's Message

It gives me great pleasure to share with you the performance by your Company with some remarkable achievements surpassing previous highs to establish new milestones. The financial year 2017 was an exceptionally challenging one to us not due to any internal organizational factor but as a result of an unpredictable and volatile operating environment, which weighted down all financial institutions in the country. Given this operating climate I believe the financial results for the year though acceptable is certainly below potential of the Company.

While economic stability has improved in the country, the industry is under pressure from high levels of NPA which brings an element of instability to the portfolios. However, despite the low business confidence which is continuing for the last couple of years and the LTV restrictions by the CBSL, the year 2017 ended on a positive note, by sustaining healthy loan and lease portfolios. The sustainability of the portfolio in amidst these challenges in 2017 reflects the Company's strong customer base and illustrates the commitment of the sales force.

The new location of the head office with better logistical facilities and a customer friendly ambiance, facilitated increased volumes of business. The Company opened a new branch in Negombo focusing on leasing and pawning business which broke-even within 6 months and now positively impacting the Company's overall performance by generating profits.

SMBL has the highest priority for ethics, compliance and discipline which makes it a unique entity in the Sri Lanka's non-banking financial sector. The Company continues to comply with legal and regulatory requirements in 2017 maintaining the unblemished compliance record since 2012.

### Our Focus

During the year, our main focus was achieving operational efficiency, business growth and human resource development in line with the three-year strategic plan approved in 2016. An improved approach to our business model allowed us to achieve our financial goals and objectives in 2017.

The expansion into new business areas including pawning and vehicle importer financing continued in 2017 proving us an opportunity to further expand our portfolios while offering our

customers an expanded portfolio of services. All operational processes of the company have been reengineered to increase efficiency with an embedded customer focus. This has allowed the Company to adapt and drive change in the business model while facing the challenges from the operating environment and economy. With the human resources department aligning with corporate strategy in mid-2017, the staff recruitments are strategically focused on staffing all departments and functions with well qualified, experienced and competent staff who can take the organization to the next level. In line with this strategy, sales, finance, recovery and legal departments have been further strengthened with new talent with passion and commitment to achieve new heights.

Our exemplary record in Non-Performing Loan (NPL) performance over the years post 2012 was challenged in 2017 due to the prevailing market conditions. However, the recovery team followed up these facilities with rigor and dedication and as a result the Company managed to recover most of these facilities in 2018. For the remaining facilities, timely legal action has been taken on defaulters which has yielded favourable results in 2018. From the lessons learnt from the NPAs in 2017, the credit evaluation process has been further refined and strict qualifying criteria has been implemented in 2018 especially for granting of loans. Further, the recovery department has taken a proactive approach by continuously following up with customers before the outstanding days hits the NPA threshold.

It is with great appreciation and pride that I mention that a number of leading local commercial banks have come forward in offering short and medium-term fund facilities for the Company. The Company is also working with a foreign bank for a long-term strategic partnership to secure low-cost funding. A significant improvement in funding costs is inevitable if the Company is to penetrate the market.

### Financial Performance

At end 2017, SMLB recorded a profit after tax of Rs. 49.8 million after prudently providing Rs. 49.2 million as an impairment charge for loans and leases. The profitability was further adversely affected by the losses incurred by the associate

company and impairment of carrying value in two financial assets which resulted in a net profitability of Rs. 37.2 million. Most of the impairment provisions made against loans and leases in 2017 have been already collected in 2018. Despite the negative market condition for leasing, we managed to maintain a portfolio similar to 2016 which amounted to Rs. 1.3 billion and we continue to improve the portfolio further in 2018. The profit before taxes of the Company was Rs. 60.9 million and earnings per share is Rs. 0.02 for 2017. The Company's top line has increased by Rs. 48.4 million (23.47%) in the year of 2017 when compared to the year of 2016. This has consequently led to improve Total Operating Income by 14.08% in 2017. The Company declared an interim dividend of Rs 0.02 in March 2018 thereby rewarding the shareholders of the Company.

### Looking Ahead

The focus in the year 2018 will be on the bottom line to generate enhanced returns to the shareholders. To achieve this, we will focus on growing the top line and continuing expanding the lease and loan portfolios. The portfolio quality will be closely monitored to ensure sustainable expansion. It is of paramount importance that we mitigate credit concentration risk and improve asset quality with a fully diversified portfolio of loans and leases. Parallely, initiatives are taken to contain costs through productivity and efficiency improvements.

A wide range of mechanisms are embedded into the Company's overall governance, risk management and operations framework to ensure the sustainability. We foresee the future of the organization as one that encompasses smooth operations, contentment of employees, customers, the environment and society at large.

I believe the changes introduced in 2017 to our human capital aspects will see a revolution in our corporate culture, which will be focused on an ethos of building values and trust while inculcating a sense of team spirit which will lead to a gradual productivity and operational improvement across the Company. This change will propel the Company into the next phase of growth.

### Appreciation

I would like to convey my sincere appreciation to our Chairman Mr. Ravi Wijeratne and the Board of Directors for their guidance, constant support and the confidence placed in me. My gratitude also to the Governor of the Central Bank

of Sri Lanka, Director Non-Bank Financial Institutions and other regulatory bodies for the vital role they play and their contributions to the industry and to all our stakeholders and customers for their loyalty and inspiration and the opportunity to be a partner.

My heartfelt thanks to my corporate and senior management teams who provide leadership and their boundless energy to drive our strategies for growth and business excellence and each and every member of our team that make up SMBL, who continues to be the ambassadors of a legacy and bolster the Company's stature whilst staying nimble and energized enough to respond to challenging market environment.



**Sumedha Fernando**  
*Chief Executive Officer*

*May 30, 2018*

# MANAGEMENT DISCUSSION & ANALYSIS

## Economic Outlook & Business Environment

### Overview of Global Economic and Business Environment\*

World growth strengthened in 2017 to 3.8 percent, with a notable rebound in global trade. It was driven by an investment recovery in advanced economies, continued strong growth in emerging Asia, a notable upswing in emerging Europe, and signs of recovery in several commodity exporters. Global growth is expected to tick up to 3.9 percent this year and next, supported by strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the United States. The partial recovery in commodity prices should allow conditions in commodity exporters to gradually improve.

Over the medium term, global growth is projected to decline to about 3.7 percent. Once the cyclical upswing and US fiscal stimulus have run their course, prospects for advanced economies remain subdued, given their slow potential growth. In emerging market and developing economies, in contrast, growth will remain close to its 2018–19 level as the gradual recovery in commodity exporters and a projected increase in India's growth provides some offset to China's gradual slowdown and emerging Europe's return to its lower-trend growth rate. Nevertheless, 40 emerging market and developing economies are projected to grow more slowly in per capita terms than advanced economies, failing to narrow income gaps vis-à-vis the group of more prosperous countries.

Despite strong aggregate figures in the baseline forecast and buoyant market sentiment, the current momentum is not assured. Upside and downside risks are broadly balanced over the next several quarters but risks farther down the road are skewed to the downside. With still-easy financial conditions and persistently low inflation that has required protracted monetary policy accommodation, a potential further build-up of financial vulnerabilities could give way to rapid tightening of global financial conditions, denting confidence and growth. The support to growth that comes from procyclical policies, including in the United States, will eventually need to be reversed. Other risks include a shift toward inward-looking policies that harm international trade and a worsening of geopolitical tensions and strife.

### Local Environment\*\*

Sri Lanka's improvement in its macroeconomic performance was masked by inclement weather in 2017. Fiscal and monetary policy measures contributed to stabilization. However, the adverse economic impact of a prolonged drought took a toll on growth (3.1 percent) and the external sector while raising inflation (6.6 percent, annual average). A primary surplus recorded for the first time in decades, albeit small, and passing of the new Inland Revenue Act helped with the successful completion of the third review of the IMF program. However, a sharp increase in interest expenditure forced the overall deficit to slightly increase while public debt to GDP ratio marginally decreased thanks to primary surplus and relatively low currency depreciation. FDI, due mainly to the long-leasing of a port asset and a large land reclamation project along with other debt creating capital flows, helped improve the reserve cover of imports to 3.8 months of imports. The currency depreciated by 2 percent against the US Dollar.

Growth is projected to rebound in 2018 from a low base and continue to be around 4.5 percent in the medium term, driven by private consumption and investment. Inflation will stabilize at mid- single digit level as the impact of natural disasters wears off, although the upward trend in oil prices may exert some upward pressure. The external sector will continue to benefit from the GSP+ preferential access to the European Union and tourism receipts, despite the deceleration of remittances. External buffers are expected to improve, with emphasis on purchasing foreign exchange, maintaining a more market-determined exchange rate, and increased FDI. The overall fiscal deficit is projected to fall in the medium term, supported by the ongoing implementation of revenue measures. Growth should continue to translate into poverty reduction and improvement in living standards.

Political uncertainty is the key risk to an otherwise favorable medium-term outlook. External risks include lower growth in key countries that generate foreign exchange inflows to Sri Lanka. Steeper than expected global financial conditions would increase the cost of debt. It will also make rolling over the Eurobonds maturing from 2019 more difficult. Faster than expected rises in commodity prices would increase pressure

\*World Economic Outlook - April 2018 by International Monetary Fund (IMF)

\*\*Sri Lanka Overview - April 2018 by World Bank Group

on the balance of payments and make domestic fuel and electricity price reforms more difficult. On the fiscal and debt management front, risks include the delay in implementing revenue and liability management measures, and slower than expected improvement in tax administration. The increasing occurrence and impact of natural disasters could adversely impact growth, the fiscal budget and the external sector,

### **Sri Lankan Economic Overview with Relevance to Financial Sector\*\*\***

Financial sector showed improved performance as the supportive prudential measures continued to preserve stability of the financial system in 2017. The improved performance of the financial sector was broad base and mainly contributed by the banks. The banking sector continued to expand with improved business operations and risk management practices with the implementation of the applicable regulatory measures during the year. Asset growth of the banking sector remained high in the first half of the year and then gradually moderated during the second half responding to the tight monetary policy stance by the CBSL and the resultant high market interest rates. Further, according to the CBSL 2017 Annual Report, the quality of the banking sector assets has improved. This is reflected in the decline in Non-Performing Loans (NPL) ratios of majority of the banks. Accordingly, it can be noted that capital adequacy ratios and liquidity ratios of the financial sector remained at healthy levels. The CBSL report further states that, the sector resilience was improved by the notable decline in borrowing during the period as deposits sourced the funds for banking sector expansion. Banking sector profitability also improved as reflected in both the Return on Assets (ROA) and the Return on Equity (ROE) ratios, indicating the build-up of resources to mitigate potential risks in the system.

Overall, the banking sector continued to support economic growth and development through enhanced banking services and outreach, along with branch network expansion, thereby, improving financial inclusion in the country. The Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector performance moderated during the year with low credit growth, declining profitability and increase in nonperforming loans. The slowdown in the sector was mainly

due to fiscal and macroprudential policy measures taken to curtail importation of motor vehicles, moderate economic growth and natural calamities such as floods and drought conditions that prevailed in 2017. Nevertheless, the key performance indicators of the sector, including capital, liquidity and profitability, continued to be positive. The Central Bank has initiated key prudential measures with much consideration on reviving the companies with weak financial positions. It was observed that CBSL has taken necessary actions to cease or limit finance business operations of weak finance companies to safeguard depositors and the long-term stability of the financial sector. Healthy growth has been recorded by the contractual savings institutions, dominated by the Employees' Provident Fund and the Employees' Trust Fund (ETF) providing reasonable returns for their members.

According to the 2017 CBSL Annual Report, other sub sectors of the financial sector, which include the insurance sector, the primary dealers in government securities and the unit trust sector, recorded positive business performance during the period, without major stability concerns.

Financial markets remained volatile during 2017, in line with the changing local and global economic environment. Excess rupee liquidity in the money market, which declined gradually during the first half of the year, increased to a high level during the second half of the year. The undue pressure on short-term interest rates emanating from volatile liquidity conditions has been addressed through active open market operations by the Central Bank. The Sri Lankan rupee continued to depreciate gradually against the US dollar during the year, in an environment of allowing greater flexibility in exchange. Unwinding of the foreign investments in government securities market, with the expectations of an interest rate hike by the Federal Reserve Bank exerted pressure on the Sri Lankan rupee to depreciate in early 2017. However, this trend was reversed during the second half of the year with increased foreign investments in government securities, capital market and the receipt of tranche of the Extended Fund Facility by the International Monetary Fund (IMF) to Sri Lanka. Payments and settlements systems operated efficiently and smoothly while focusing on improving the convenience and safety of payments in order to facilitate the economic activities of the

country effectively. The Central Bank, being the regulator of the national payment system, has broadened the regulatory and supervisory activities during the year with the objective of ensuring the stability and soundness of the financial system to mitigate the risks associated with payment and settlement systems. The regulatory framework governing the financial system was further strengthened during the year introducing prudential measures with a view to enhancing the safety and resilience of the financial sector in Sri Lanka. Prudential measures were mainly focused on enhancing transparency, capital requirements, access to finance, liquidity and risk management frameworks. In addition, the Central Bank has established the Resolution and Enforcement Department to expedite resolution of weak financial institutions, without having to affect the stability of the financial system.

### **Performance of Non-Banking Financial Institution**

The finance companies and leasing companies' performance moderated during 2017 with low credit growth, declining profitability and increase in non-performing loans. According to CBSL, the sector expanded in 2017 with an asset growth of 11.8 per cent that represents 7.9 per cent of Sri Lanka's financial system. The sector remained strong, with capital maintained at healthy levels along with adequate liquidity buffers well above the regulatory minimum levels. The sector exhibits a shift in funding mix, as increased assets were mainly funded through deposits while borrowings of the sector declined compared to the high growth recorded during the previous year. The Central Bank took prudential measures to maintain the stability of the sector with much consideration on reviving the companies with weak financial positions..

### **Business Growth**

By the end of 2017, the sector comprised of 45 finance companies and 6 leasing companies. During the year two amalgamations took place within the NBFi Sector. Finance companies and leasing companies contributed to economic activities and development of the country throughout the year by enhancing services provided to customers and expanding its branch network. According to CBSL statistics, by end 2017,

there were 1,362 branches and 781 other outlets of the finance and leasing companies. Out of these branches, close to 70% were concentrated outside of the Western Province.

The total asset base of the sector grew moderately during the year reaching Rs. 1,355 billion by end 2017 at a growth rate of 11.8 per cent, compared to the 21.7 per cent growth reported in 2016. The assets base of the sector mainly consisted of loans and advances and accounting for over 75% of the total assets. Finance leases accounted for 50 per cent of the loans and advances followed by other secured loans which accounted for 40 per cent. The overall credit expansion indicated clear signs of slowing down the sector growth during the year 2017. The slowdown of credit growth witnessed during the year, compared to 2016 can be attributed to fiscal and macroprudential policy measures taken to curtail the importation of motor vehicles and lending towards vehicles, the moderate economic growth witnessed in the economy during the year and high interest rates that prevailed in the market. Credit growth of the NBFi sector decelerated when compared to 2016. Majority of the growth was through finance leases followed by secured loans and advances. The hire purchase portfolio contracted during 2017. However, the growth of finance lease portfolio for the year 2017 was 13 per cent, compared to the growth of 17 per cent recorded in the year 2016.

The growth of investment portfolio, which comprises investment in equities, capital market debt instruments, government securities and investment properties, slowed down during the year 2017, with a growth rate less than 6%, compared to the growth of 12% in 2016. The investments in government securities and investment in equities declined during the year and there was a notable increase in investment in unit trusts during the year. Other assets mainly comprised cash, balances with banks and financial institutions, trading stocks, and fixed assets, which showed a significant increase in 2017, largely due to increased placements in banks and financial institutions.

According to the 2017 CBSL Annual Report, customer deposits became the major portion of liabilities in 2017 and accounted for over half of the total liabilities of the sector. Sector borrowings and capital accounted for 29% and 12% respectively. The sector

has exhibited a shift in the funding mix as the expansion was largely funded through the customer deposit mobilisation. The deposits grew by approximately 30% in 2017 when compared to the growth of 10% in 2016. Time deposits accounted for a major share of total deposits, representing 95%. The sector borrowings indicated a negative growth in 2017, compared with the high growth of borrowings experienced during 2016. The increasing reliance on deposits were mainly attributed to the declining trend of deposit interest rates. The capital elements of the sector increased in 2017 mainly on account of steps taken by companies to enhance the minimum core capital to meet the Rs. 1 billion requirements by January 1 2018 as well as through the internally generated profits for the financial year 2016/17.

### Risks in the leasing sector

From a credit risk perspective, gross non-performing loans portfolio increased to Rs. 66 billion by Rs. 13 billion in 2017. This is a 24% growth and according to CBSL this is mainly due to the floods that occurred during the first half of 2017, nationwide drought and slowing down of the economy. The gross NPL ratio increased to 5.9 per cent in 2017 from 5.3 per cent reported in 2016 due to the increase in gross NPLs and decline in the growth of the loan portfolio. The total loan loss provisions increased by Rs. 7.4 billion to Rs. 42.2 billion due to the increase in the specific provisions made for NPLs. The provision coverage ratio declined to 64.0 per cent in 2017, compared to 65.7 per cent in 2016. As a result, net NPL ratio increased to 1.5 per cent in 2017 from the reported ratio of 1.2 per cent in 2016, showing signs of deterioration in the asset quality of the sector. However, with appropriate risk mitigation techniques, credit risk of the sector remained at manageable levels.

From a market risk perspective, the leasing companies continued to experience a minimal market risk due to the lower exposure to trading portfolio and foreign currency denominated exposures. From an interest rate risk perspective, due to the gradual decrease in interest rates towards the second half of the year, interest rate risk of the sector decreased. The prevailing negative mismatch in the maturity profile of the interest-bearing assets and liabilities of the sector

enabled to maintain a positive net interest margin. Equity risk of the sector remained low during the year as the exposure to equity market in the form of investment in listed shares was minimal when compared with the total assets of the sector.

From a liquidity Risk perspective, the overall statutory liquid assets available in the sector during 2017 showed a surplus of Rs. 35.5 billion as against the stipulated minimum requirement of Rs. 91.1 billion. The surplus liquid assets increased during 2017 compared to Rs. 15.4 billion in 2016 due to the contraction of lending activities of the sector. As a result, the liquid assets to total assets ratio increased to 8.9 per cent from 7.1 per cent in 2016. The liquid asset to deposits ratio was well above the statutory minimum requirement of 10% of time deposits and borrowings, and 15% of savings deposits as at end 2017.

### Profitability and Capital Resources

The net interest income of the sector increased at a slower rate than in 2016, recording a growth close to 12%. This was mainly due to the increase in interest expenses by 33% when compared to the growth of interest income of 22%. As a result, net interest margin of the sector (net interest income as a percentage of average assets) declined marginally in 2017. Non-interest income increased by 20% mainly due to the increase in default charges and other service charges, while non-interest expenses also increased by 22% affecting adversely towards sector profitability, mainly due to the increase in staff costs. The loan loss provisions made against NPLs increased by Rs. 6 billion during 2017 when compared to the provision of Rs. 7.6 billion made in 2016, which also affected the profitability in 2017. Accordingly, the sector posted a profit after tax of Rs. 25.8 billion, an 18% decline compared to the profit of Rs. 31.5 billion recorded in the year 2016, mainly due to increased funding cost and higher loan loss provisions. According to CBSL, ROA decreased by 80 basis points during the year, reporting a ratio of 3.2% and ROE declined nearly by 700 basis points, reporting a ratio of 16.1 per cent, which showed sign of stress towards the profitability of the sector.

The sector maintained its overall capital level well above the minimum requirement during the year, enhancing the resilience to any perceived adverse shocks. The total regulatory capital

improved by 25% to Rs. 145 billion mainly due to efforts taken by the companies to enhance the minimum capital requirement up to Rs. 1 billion by January 1, 2018 as required by the CBSL, coupled with increase in retained profits. The capital adequacy ratios of the sector demonstrated an increasing trend, in which core capital and total capital ratios increased to 12% and 13% respectively when compared to 11% and 12% recorded in year 2016, which was well above the minimum threshold level. SMB Leasing PLC has maintained an extremely healthy capital adequacy ratio over the last several years. According to the CBSL Annual Report, there were few companies which maintained the capital below the minimum required levels, due to weak financial positions and necessary resolution actions are currently being undertaken.

### Supervisory and Regulatory Developments

During the year 2017, the Central Bank initiated several prudential policy measures to strengthen the supervisory and regulatory framework of specialized leasing companies with the aim of enhancing the stability and soundness of the sector and increasing the customer confidence in the sector. A new prudential direction was issued to revise the LTV ratio for credit facilities in line with the national budget proposal for year 2017. Further, the minimum core capital requirement for finance companies was increased to be completed on a staggered basis, in view of strengthening the capital position of the sector and increasing the capacity to absorb unexpected internal and external shocks. Accordingly, the minimum core capital was increased from Rs. 400 million to Rs. 1.0 billion by January 1, 2018, Rs. 1.5 billion January 1, 2019, Rs. 2.0 billion by January 1, 2020 and Rs. 2.5 billion by January 1, 2021. Numerous regulatory actions were taken regarding weak finance and leasing companies during the year by CBSL. A cap on deposits and borrowings was imposed on all finance and leasing companies which have not complied with the minimum core capital requirement. SMB Leasing PLC has met with all these regulatory requirements during the year 2017.

Penalties were imposed on non-compliances identified through supervision of finance and leasing companies. Further, according to the CBSL 2017 Annual Report, a lending cap has been imposed on one finance company due to repeated

non-compliance of supervisory concerns. Initiatives are being taken to resolve distressed finance companies, largely through mergers and recapitalization through strategic investors. To streamline such regulatory actions, a resolution framework for the financial system is to be introduced by the Central Bank through the newly established Resolution and Enforcement Department.

A circular was issued by CBSL in May 2017, where finance and leasing companies could grant concessions to borrowers who have been affected by floods, adverse weather conditions and connected circumstances in terms of the national policy adopted to facilitate the rehabilitation of businesses and normal operations of such borrowers in the national interest.

### Our Plans

The Company's strategy is primarily focused on creating stakeholder value in the long term while balancing the exigencies of the short and medium term. Our strategic priorities to deliver value as depicted below is our blue print for resource allocation in driving earnings and growth. From a perspective of adding value to customers, we will continue to build on the considerable progress achieved in 2017 by enhancing our channels and growth through collaborative partnerships, using appropriate technology thus providing a robust platform for growth.

Sound corporate governance, disciplined risk management and a track record of industry benchmark NPLs post 2012 have contributed to the success of the Company. A performance culture drives excellence in all areas of operations. These attributes will be the common thread that connects all our strategic initiatives as we look to our future.

## Operational Review

### 2017 Operational Performance

Our journey for 2017 began with a strategy focused on growth and target marketing to lucrative segments within the Sri Lankan economy, whilst also leveraging on the growth of convenience concepts. Despite highly volatile margins, the hike in interest rates and dampened credit demand towards in 2017, we managed to sustain the net leasing portfolio at the same level of 2016 despite the ordinary annual capital erosion of Rs. 400 million whilst maintaining a lower NPL level.

ROE has decreased to 4% in 2017 due to the prudent impairment provisions made in 2017. The gross income of the Company improved by a noteworthy Rs. 59 million (23%) which was resulted by a strong contribution from core leasing activities with increased business volumes, which boosted the interest income to Rs. 254 million with a commendable year on year growth of 23%.

Operating income of Rs.60 million reflects healthy growth in income. Profit after tax had a degrowth of 51% in 2017 due to the impairment charge of Rs. 49 million. However, sound recovery efforts made in 2017 ensured that no new impairments will be added in 2018. Despite these challenging conditions, the Company managed to maintain similar levels of Return on Assets (ROA) and Return on Equity (ROE) when compared with 2016.

2017 was a year of sustainment for the Company with the asset base ending at Rs. 1.6 billion, signifying the ability of the Company to see through a tough year. This was possible due to the solid foundation laid by the Company over past 5 years where a sustainable portfolio was built by the Company.

The Company created value to shareholders through the payment of an interim dividend for 2017 which increased the value of shares. The dividend policy seeks to maximise shareholder wealth, maintain a consistent stream of dividend to shareholders and increase market capitalization, whilst ensuring that there is sufficient capital for planned business expansion positive trends in customer satisfaction with SMB Leasing emerging clearly as a customer centric operation.

### Transparency of Products and Services

Our policies and procedures are developed and monitored to ensure that there is transparency and customers clearly understand the terms and conditions of the financial products used by them. The staff is trained to offer products to our customers in their preferred choice of language. Our corporate website provides information that is displayed on a user-friendly interface.

### Strong HR Governance

A comprehensive policy framework clearly outlines the company's approach to managing human capital. The HR department is responsible for implementing and improving its processes and procedures to strengthen employee value creation.

### Compliance

Compliance with all regulatory requirements at all locations is mandatory and we seek to go well beyond the base requirement in managing our considerable talent pool.

### Product Performance

We managed to sustain a portfolio similar to 2016 despite extremely challenging market conditions. Key highlights of our key products are given below

#### Leasing

SMBL leases are specially designed for busy executives and entrepreneurs who are engaged in small and medium- scale businesses. This highly customer- oriented product is processed with minimum lead time and documentation.

#### Quick Cash Loans

Quick Cash is a personal loan scheme which is specially designed to solve day-to-day urgent cash requirements of public and private sector employees.

**BIZ Cash Loans**

This product offers an immediate solution to the liquidity shortages of small and medium-scale businesses. Minimum documentation and no collateral are the key features of this product.

**Term Loans**

This is a loan scheme that is designed to suit a variety of requirements by individuals and corporate customers. Unique feature of this product is the flexible repayment options offered to the customer. Housing loans and property mortgage loans are offered under this product.

**Pawning**

Pawning was introduced in 2017 and the product was launched at Head Office and the two branches in June 2017. The main target market of this newly introduced product is individual customers. Attractive interest rates and higher advance value of this product makes it very attractive to potential customers.

## Financial Review

### Company Performance

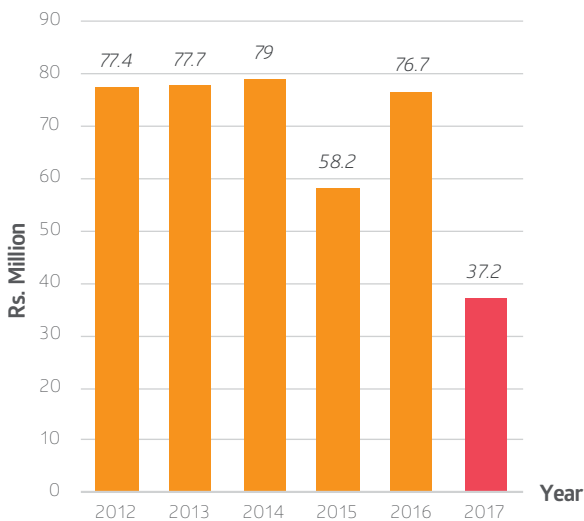
The following review provides a summary of analysis of the profitability for the year ended December 31, 2017 and the Financial Position as at December 31, 2017.

### Profitability

The Company recorded a profit before income tax of Rs. 44 million for the financial year ended December 31, 2017. This reflects a 46% decrease when compared with last financial year. The total operating income has increased by 14% in 2017. This is due to the increases in net interest income (12%), fees and commission income (1%) and other net operating income (24%). This resulted in an increase in total operating income of 2017.

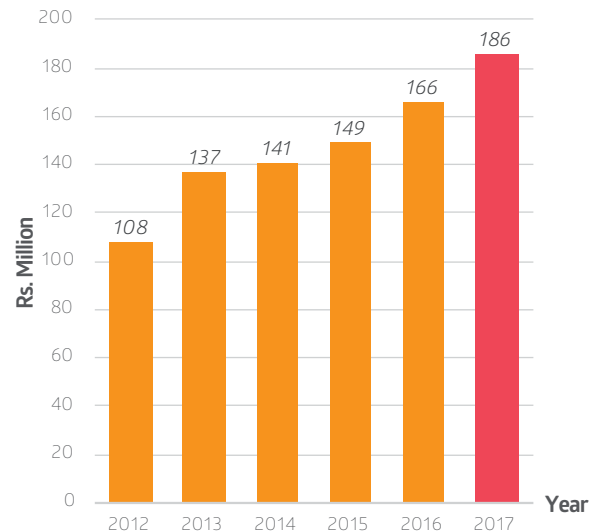
Profit after tax has decreased by 51% in 2017. This is mainly due to increase in impairment provision and decrease in value of financial investments in 2017.

### Profit after Tax



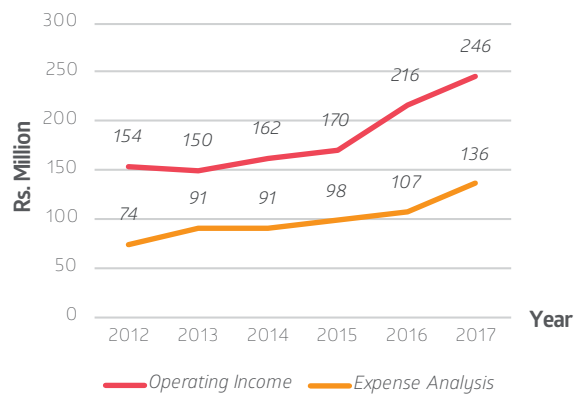
### Net Interest Income

The Company recorded a net interest income of Rs. 185.6 million against the previous year net interest income of Rs. 166 million which is a 12% increase. The Company shows a gradual improvement in net interest income during the last six years. The Company was able to sustain a portfolio similar to 2016 despite extremely challenging market conditions during the year of 2017 which contributed for this increase.



### Operating Expenses

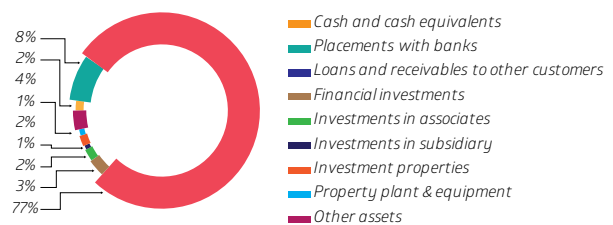
The total operating expenses increased by 27% during the year. This is due to the increase of personnel expenses (16%) and other expenses (37%).



### Total Assets

The composition of the total assets as at December 31, 2017 is as follows.

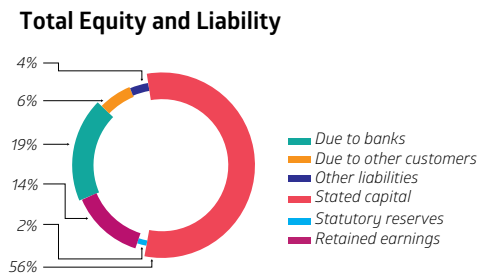
#### Total Assets



Loans and receivables accounts for 77% of the total assets followed by placements with banks of 8%. The investments in associate and subsidiary accounts for 3% of the total assets of the Company. The investment in associate company has decreased from 6% to 2% in 2017 and financial investment has increased from 0.46% to 3% in the year of 2017. This is due to recognition of SMB Real Estate Ltd and SMB Securities Ltd as financial investments in 2017 instead of associate companies due to the loss of significant influence on these two entities in the year of 2017.

### Total Equity and Liabilities

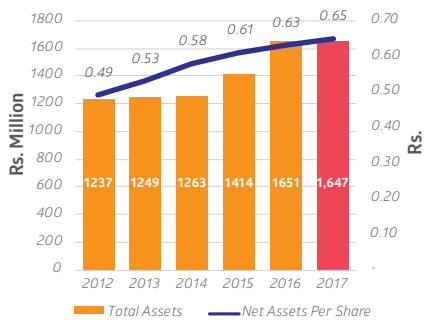
The composition of the total equity and liabilities as at December 31, 2017 is as follows.



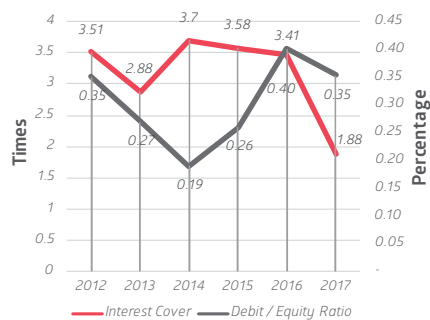
The stated capital is 56% of the total equity and liabilities. This consists of 1.8 billion fully paid ordinary shares of Rs. 919 million. The amounts due to other customers is 6% of the total equity and liabilities. This balance consists of the amounts payable on debentures and promissory notes. Retained earnings is 14% of the total equity and liabilities. Retained earnings has increased by 19% with the profit after tax of Rs. 37.25 million in 2017.

### Graphical Analysis of the Key Ratios

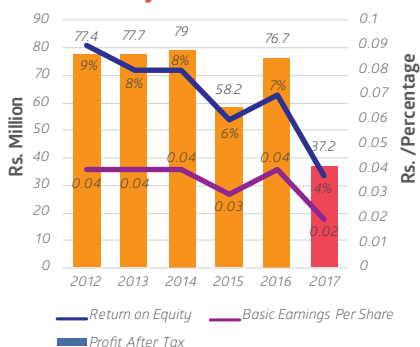
#### Net Assets Ratio



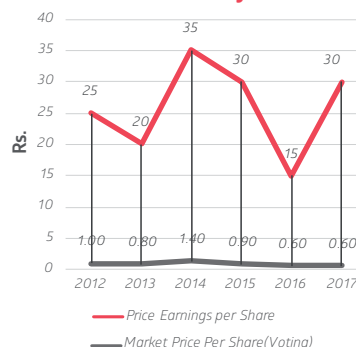
#### Gearing Ratio



#### Profitability Ratios



#### Market Price Analysis



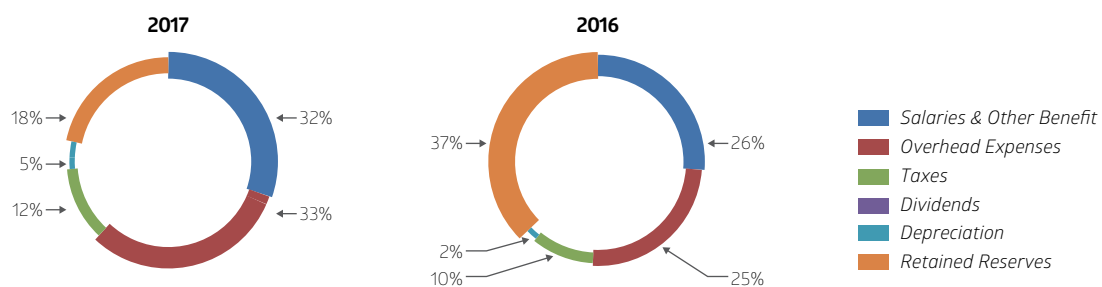
## Value Added Statement

The statement of Value Addition shows the total wealth created and how it is distributed, taking into account the amounts retained and reinvested in the Company for the replacement of assets and for business expansion.

Rs.

For the Year Ended December 31,	2017	2016
<b>Value Addition</b>		
Interest Income	254,750,912	206,318,697
Cost of Borrowings	(69,180,996)	(40,311,319)
<b>Value Added by Financial Services</b>	<b>185,569,916</b>	<b>166,007,378</b>
<b>Value Added by Financial Services</b>		
Other Income	60,512,019	49,693,318
Impairment Charge	(49,231,463)	(11,290,751)
	<b>196,850,472</b>	<b>204,409,945</b>

Distribution of Value Addition		2017		2016	
		Rs.	%	Rs.	%
To employees	Salaries & Other Benefit	62,103,977	32%	53,337,585	26%
To Service Providers	Overhead Expenses	64,443,654	33%	50,193,107	25%
To the Government	Taxes	23,668,340	12%	20,419,859	10%
To Shareholders	Dividends	-	-	-	-
To maintain Operations	Depreciation/ Write-off	9,385,665	5%	3,762,987	2%
Retained within the Business	Retained Reserves	37,248,836	18%	76,696,407	37%
		<b>196,850,472</b>	<b>100%</b>	<b>204,409,945</b>	<b>100%</b>



## Human Capital Management

### Our Vision

Human Capital consists of the skills, experience, value and work ethics of employees. The Company believes in creating a passionate and a committed workforce through trust, unity, customer focus and engagement. Building talent and bringing the best out of everyone through professional development and personal support is the core in SMBL HR philosophy.

### HR Policy Framework

In August 2017, the Board decided to align the HR Department with Corporate Strategy Function. As a result, most of the HR policies were refined in keeping pace with the changing needs of the organization and evolving work environment. The refined HR strategy focuses on:

- Implementing an objective recruitment process to ensure that high caliber staff are recruited
- Implementing a talent management framework and succession planning
- Revamping existing human resource systems and procedures
- Implementing a KPI based performance management system.

A comprehensive HR policy framework is in place to ensure that employees remain satisfied at work whilst being part of a high performing team. The framework covers numerous aspects of HR including recruitment, remuneration, training and development, performance management and grievance handling among others.

SMBL uphold the highest standards of professionalism, ethics and compliance. The Company's code of conduct outlines highest standards of corporate behavior, business ethics and integrity. Clear expectations and principles have been set in guiding professional excellence and make each employee aware of their obligations towards creating professional work environment. Each employee is aware of their obligations and rights under the code of conduct.

Building human and intellectual capital is intrinsically linked to employee retention and attraction. SMBL has created a great place to work where employees are inspired and motivated to perform at their optimum. A conducive environment that

inspires high levels of performance and motivates employees to realize their potential has been created. The management encourages bottom up strategic planning, business development and cost engineering processes.

Frequent interaction between the management and staff ensures that staff is kept engaged and motivated. Branch visits by the senior management team infuse a sense of belonging and pride. Regular meetings are held among middle and top management to discuss issues and strategies. Corporate management meetings are held at least once a week and branch managers and branch staff visit the head office at least once a month for performance reviews.

SMBL do not discriminate on the grounds of race, gender, age and any other socioeconomic factor in the recruitment, training and promotion of its employees. The Company maintains an open and supportive working culture that encourages teamwork. The health and well-being of employees is valuable for the Company, and it has put in place numerous measures to see that employees maintain a fine work-life balance to achieve personal and professional satisfaction.

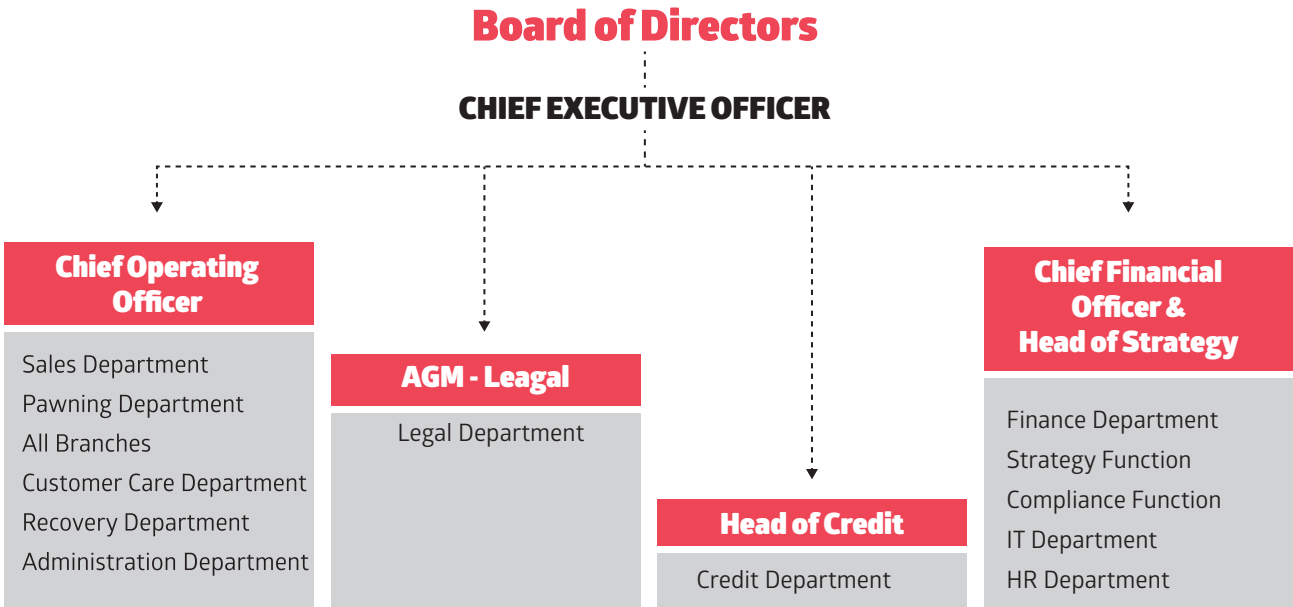
All employees are expected to display integrity at all times and to act ethically in whatever they do. The HR policies uphold equality in the workplace, giving everyone the opportunity to work in a respectful working environment. Company has adhered to labour laws and regulations and complied with all its statutory obligations.

### Our Team

A 47 strong-team comprising a diverse mix of individuals are the primary value creators for the Company. As an equal opportunity employer, our team represents both genders, all major ethnic groups in the country and generations X, Y and Z who work together in a conducive environment with dignity and mutual respect. Employees are typically engaged on full-time employment with a few on contracts where the need is likely be for a specific time.

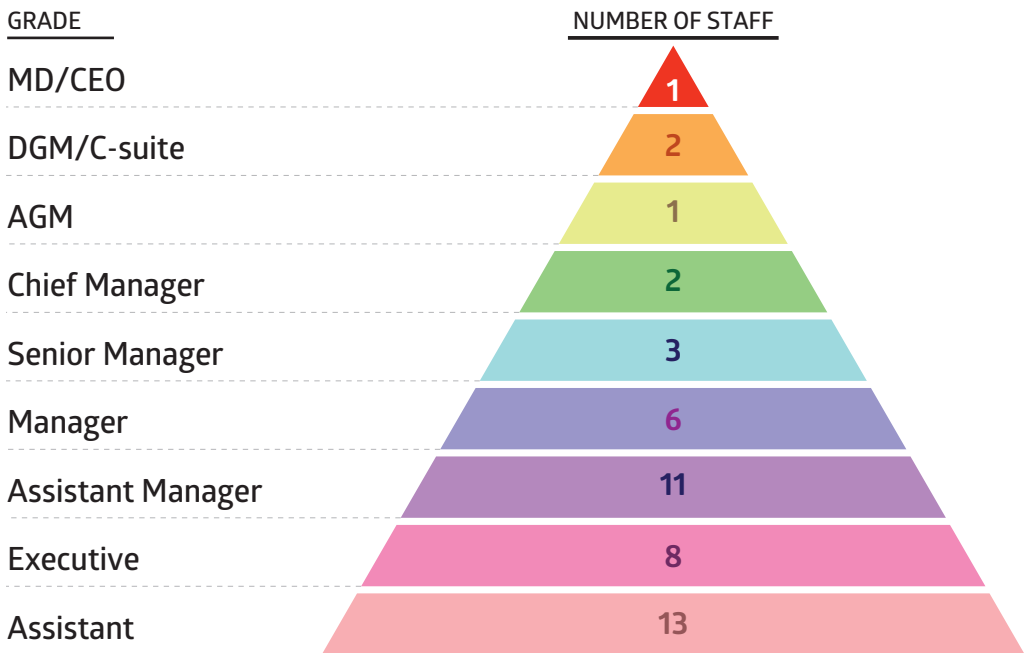
SMBL has rationalized and refined the organization structure with departments and staff grades to provide clarity on roles and responsibilities of each department/function/employee and also to ensure a formal hierarchy to facilitate strategy execution.

**High Level Organization Structure with Departmental / Functional Responsibilities**

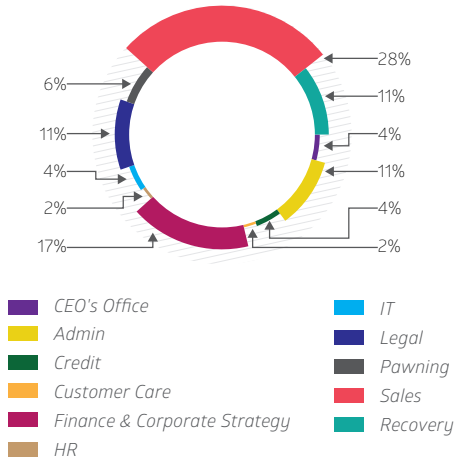


**Employee Grades**

Employee grades were incorporated to the organization structure in August 2017 so that all employees are privy career progression discussions with the human resources department. This will ensure that each employee has a clear career path in the organization and can work towards their internal career goals knowing the qualification, experience and competencies required to go to the next grade in his/her department



### Staff by Department

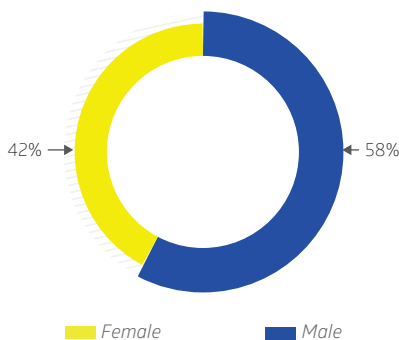


Our team as at December 31, 2017 comprises 89% permanent employees and 11% contract employees. This high percentage of permanent employees encourage them to take ownership of their deliverables within the organization.

### Employee Demographics

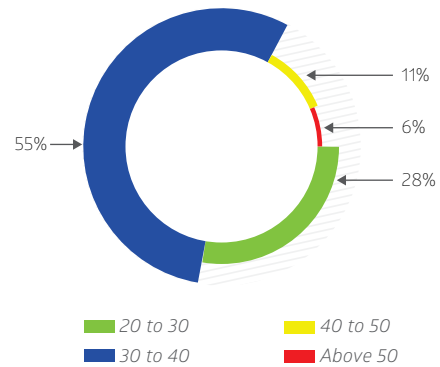
#### Gender Representation

SMBL is an equal opportunity employer and this has enabled the Company to maintain a fair balance of employees in age, gender and a balance mix of skills and experience, who contribute in creating a sustainable work environment. At present, gender-wise composition is on the path of achieving a sound balance in gender diversity with females accounting for 42% of employees. This statistic will further improve in the coming years as the Company promotes diversity and communicates the importance of inclusivity among the staff.



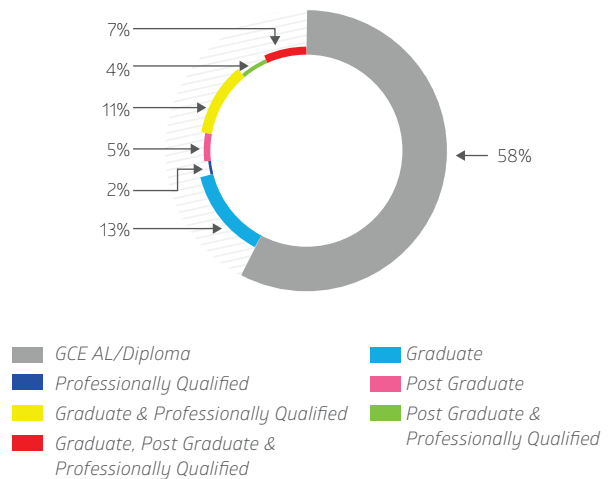
### Age of Employees

In terms of workforce age, SMBL is fortunate to have a well-balanced team comprising of 72% experienced employees who are over 30 years of age and a youth group that comprises of 28% of employees below the age of 30 years. Overall, SMBL has relatively young workforce with 83% of our total employees being below 40 years of age. The company recruited a significant number of graduates in 2017 to boost the talent pool of the Company and the management believes in nurturing and training the educated youth of Sri Lanka to take on the leadership positions in the organization in the future.



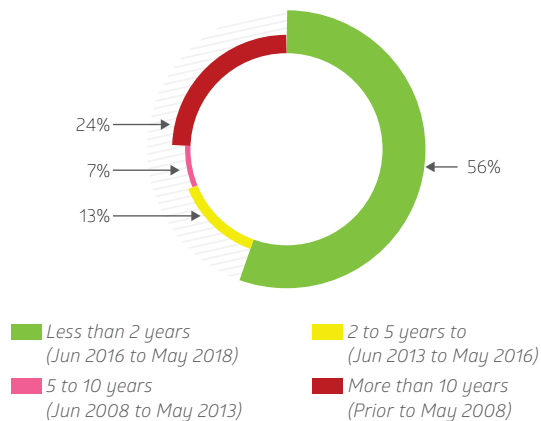
### Staff Qualifications

The qualification levels of SMBL workforce is given in the below chart. The profiles of Corporate Management, Senior Management, Executive Management and Junior Management are given on pages 30 to 33 of this report.



## Length of Service

SMBL also has a good mix between experienced long-term employees and newcomers who bring in fresh ideas.



## Recruitment

One of the primary objectives of SMBL's HR framework is to cultivate a strong productive workforce that will contribute towards organizational success. The recruitment process plays a pivotal role in this aspect. Since the HR Department was aligned with the Corporate Strategy Function in August 2017, the HR Department has implemented a competitive and a transparent recruitment process with the objective of attracting highly qualified and competent staff with hallmarks in integrity, honesty, ethics, discipline and compliance. The recruitments are done on the basis of merit and canvassing for applicants is strictly not allowed nor entertained.

When a position in the Company is vacant or when a new position is created, an advertisement is published in a suitable media, following which, applications are rapidly processed, and a short list of candidates is prepared by the HR Department by assessing their level of experience and qualifications for the post at hand. As a recruitment strategy, candidates who reside within close proximity of the workplace are given preference if they possess the required qualifications, capabilities and experience. Close proximity from home to workplace gives the employee the opportunity to feel motivated, to devote their maximum effort when doing their day-to-day work at the workplace and to have more time with their families due to less time spent on travel.

The first interview is conducted by the Human Resources Department and HR interview process is driven by one principal goal "To weed out any potentially unsafe hires". This is to ensure that the Company eliminate anyone and everyone who might even remotely end up costing the company more money, cause legal issues, not be a good cultural fit, or in any other way cause the company some type of embarrassment and/or inconvenience if recruited.

For the final interview the candidate will face a larger panel that consists of the Head of HR, Head of the recruiting department and where required the CFO/COO/CEO. The final interview for recruitments at Assistant General Manager grade is chaired by a Member of the Board of Directors while final interview for DGM/C-Suite grade recruitments is done by Remuneration committee and the Board of Directors.

Once the selection is finalized, the HR Department will issue the letter of appointment and subsequently request copies of relevant certificates from the chosen candidate. Following recruitment, all staff are updated with important details of the newly recruited employee by sending a New Staff on Board announcement. Reference letters are also sent to the referees and if necessary a verification of employment is conducted with the candidate's previous employer. Following the successful completion of this process, the candidate will be ready to join the Company.

## Training and Development

Training and development is a key priority for the Company to enhance knowledge, competencies, skills, attitudes and performance of staff. Training new recruits and existing employees is of paramount importance to the SMBL and the company has a knowledge and learning culture which has inculcated a thirst for technical and business knowledge among employees. The objective is to ensure that employees stay informed about the developments their respective profession, the industry and the local and global economy.

Within the year, employees have participated in training programs and seminars conducted by the CBSL, CA Sri Lanka, IPM, etc which covered technical and industry specific subjects and regulatory changes. In-house training programs were

arranged at the Head Office during the year for newly recruited sales staff. In addition, new recruits follow the standard induction training program. The objective of the program is to familiarize new entrants with the Company's operational processes, systems, practices, culture and values. Thereafter, the new entrants undergo a hands-on training phase, learning and improving their skills on-the-job. All staff are encouraged to continuously acquire knowledge, competencies and develop skills under the guidance of experienced mentors who serves as the foundation for talent development. SMB Leasing PLC is an approved training partner for CA Sri Lanka for Executive, Business and Corporate Levels.

Development activities played an integral role in constantly uplifting technical know-how of the workforce, equipping them with the skill sets, knowledge and experience to face the challenges and sophistication of an evolving industry. Training and development will uplift the skills of the employees, who will be able to extend a superlative service to the customers, and gain the required competitive advantage. Training and development also serves as an employee retention strategy.

### **Performance Appraisal**

Key Performance Indicators (KPIs) were further improved during the year 2017 to establish performance targets and to monitor performance of employees from 2018 onwards. SMBL conducts formal bi-annual performance appraisals across all departments to monitor staff performance against pre-defined KPI's to reward top performers. These performance measurements enable the Company to decide on bonuses, salary increments and additional training requirements. It also provides insight to management on consistently performing high achievers, to decide on future career advancements. It further allows management to take appropriate steps regarding employees with performance below expectation.

Each staff member understands that they are accountable for achieving their individual goals which in turn contribute towards the achievement of corporate objectives and the bottom line of the Company. A 'process driven' rather than a 'people driven' culture offers employees a clear sense of the targets to be achieved and the necessary tools in achieving the financial and operational accomplishments that the Company achieves year on year.

With constant evaluation and regular feedback, the management continuously looks at ways to improve and grow the talent pool which would benefit the Company in the future.

### **Perquisites & Benefits**

The remuneration policy of the Company is to ensure appropriate compensation levels are made available to all employees in the organization in order to attract and retain high-caliber staff, with the right mix of experience, skills and knowledge to deliver on the strategy of the Company and reward them in par with industry standards. In addition to an attractive remuneration, staff are eligible for the following benefits.

#### **Employees' Provident Fund (EPF)**

All employees join the Employees' Provident Fund for which the collective contribution will be as follows:

Company Contribution – 12% on the basic salary.

Employee Contribution – 8% on the basic salary.

#### **Employees' Trust Fund (ETF)**

The Company makes a contribution of 3% on the basic salary.

#### **Gratuity**

Employees are entitled to half a month's salary for each completed year of service when leaving the Company, provided an employee has worked continuously for five years and over up to the time of resignation.

#### **Bonus**

The employee may be paid an annual bonus depending on the profits made by the Company and the employee's performance. The payment of bonuses is solely decided by the Board and the Management.

#### **Medical benefits**

Employees can claim hospitalization expenses of the amount specified in the hospital and surgical expenses insurance policy.

#### **Personal accident cover**

Employees also have personal accident insurance for which payment limits will depend on the grade of the employee.

**Salary advance**

Employees who are confirmed are eligible to apply for a salary advance equal to one month's salary. It can be repaid within six months.

**Festival Advance**

Employees who are confirmed are also eligible for a festival advance equal to one month's salary which can be paid within ten months. Festival advances are granted in April and December.

**Mobile SIM**

Eligible employees are provided a mobile connection with a monthly allowance.

**Maternity leave**

The Company is also sensitive to the needs of its female employees, especially when they need time to care for their newborns. As stipulated by labour regulations, for the first two children, female employees are granted paid leave for 84 working days for which Saturday is accounted as half a day. For subsequent births, mothers are granted paid leave for 42 working days. Similarly, Saturday is accounted as half a day.

**Culture & Working Environment**

SMBL's corporate culture is one that respects individuality and one which empowers high performance and positive work ethics. SMBL foster equality and mutual respect among our team members while encouraging open communication and novel ideas. At SMBL, the work culture revolves around creating a positive and harmonious balance between work and personal life. The Board and the management require all employees to act diligently, executing their duties at all times with integrity while continuing to adhere to organizational rules and regulations. During the financial year under review, there were no reported incidences of discrimination among staff members.

SMBL adheres to the required safety standards and continued to provide staff efficient work floor structures that include individual work stations that are equipped with necessary PC systems and other corporate equipments. A spacious lunch room is provided for the staff members attached to the Head

Office. In terms of employee health and safety, necessary precautionary measures are taken to protect employees from physical hazards such as fire. SMBL being a service-oriented organization that deals primarily in financial transactions, the type of tasks carried out by our employees do not directly pose safety risk or disease related health hazards. There were no injuries to the staff while on duty in 2017.

The Company's security requirements have been outsourced to a reputed security company which provides security personnel to handle security at Head Office premises. All SMBL branches are equipped with CCTV to monitor physical activities for the safety of all employees.

**Employee Grievance**

SMBL adopt a people-centric culture across all departments which facilitate interactions between all employees. The "open door" corporate culture facilitates free flow of information and importantly allows staff grievances to be picked up early and to be resolved then and there by the senior management. Employee grievances are generally picked up directly by the respective Head of Department and resolved jointly with the assistance of the Human Resource Department.

An approved framework is in place for addressing employee grievances which ensures equitable treatment and anonymity. The human resource department is equipped with persons of the relevant expertise and experience to deal with employee grievances of significance. Grievances that cannot be resolved or any unresolved concerns are brought formerly to the attention of the HR Department and it is firstly routed upward to the respective HOD and if still unresolved it will be escalated to the Head of HR and the Chief Executive Officer to take appropriate action to address such grievances.

At the time of joining, all employees are bound to sign and accept the letter of appointment acknowledging the terms and conditions of his/her employment. A formal job description is issued to all staff upon joining, specifying the job role and responsibilities, thus eliminating any future misunderstandings. To eliminate possible grievances arising due to misunderstandings of internal rules and regulations, a copy of the Procedure Manual has been issued to all staff

which specifies standard practices and rules for employees to follow including requirements on employee conduct.

### **Management Information on Human Resources**

SMBL utilizes a Human Resource Information System (HRIS) to generate a constant stream of invaluable employee information, to better manage the workforce and to take appropriate decisions. HRIS provides a full-fledged on-line leave approval system. The attendance of all staff is monitored electronically using a thumb print attendance system. The Company has planned to upgrade the HRIS system at the end of 2018.

### **Future Plans**

The full implementation of the KPI based performance management systems reintroduced in the current financial year will take place in the new financial year. This process will contribute towards significant changes to organization culture while also boosting overall productivity, accountability and performance of the Company.

# CORPORATE STEWARDSHIP

## Board of Directors

### Mr. Ravi Wijeratne

*Chairman*

*Non-Executive Director*

Mr. Ravi Wijeratne is the Chairman / Managing Director of Rank Holdings and Rank group of companies with interest that vary from property, logistic, hydropower and wind energy, solid waste management and entertainment. Rank Container Terminals Ltd is one of the largest dry ports in Sri Lanka and handles 80% of the import cargo volume that is imported through the Port of Colombo.

Rank Entertainment Holding (Pvt) Ltd is one of the two licensed gaming companies operating in Sri Lanka and has been in operation for the past 20 years.

Mr. Wijeratne is an Accountant had obtained his qualification from the London School of Accountancy & Management in the United Kingdom.

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### Mr. Umesh Gautam

*Deputy Chairman*

*Independent Non-Executive Director*

Mr. Umesh Gautam is an engineer by profession having started his career at Ashok Leyland India over three decades ago. Currently he serves as the head of the SAARC region of Ashok Leyland India and CEO of Lanka Ashok Leyland PLC, a joint venture between the Government of Sri Lanka and Ashok Leyland India. He is also the President of the Indian CEOs Forum Sri Lanka.

Mr. Gautam joined the board of SMB Leasing PLC as a Non-Executive Director in 2010.

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### Mr. Jagath Korale

*Independent Non-Executive Senior Director*

Mr. J. C. Korale joined the Board of SMB Leasing PLC in November 2010 and holds a Bachelor of Science Degree from the University of Kelaniya and a Master of Science in Project Management from the University of Moratuwa and holds honours degree for Law from University of London.

Mr. Korale is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow member of the Chartered Institute of Management Accountants - UK. He is also an Associate Member of the Chartered Institute of Arbitrators of UK. He is also an Attorney at Law and held the position of Vice Chairman of the National Contractors Association of Sri Lanka and was a founder Director of the Advance Construction Training Academy.

Mr. Korale has extensive exposure to Finance, Audit and other industries and acts as an Independent Management Consultant and a practicing Arbitrator. Mr. Korale was appointed as a Senior Director in 2016.

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### Mr. Thilan Wijesinghe

*Independent Non-Executive Director*

Mr. T. M. Wijesinghe graduated with honours from the State University of New York and Cornell University, USA, with three BSc degrees in Business Administration, Industrial Engineering and Economics.

Having commenced his career as Senior Management Consultant at PricewaterhouseCoopers, Colombo, and Head of Planning at Sampath Bank. In 1992 Mr. T. M. Wijesinghe pursued entrepreneurial interests by co-founding Asia Capital, which became Sri Lanka's largest investment bank in terms of market capitalization. Mr. T. M. Wijesinghe was a key initiator in successfully launching the Regent Sri Lanka Fund in 1993, the first ever country fund dedicated to Sri Lankan equities. He served on the Board of this Dublin-listed company for 3 years.

Having exited his investment in Asia Capital, Mr. T. M. Wijesinghe has served as Chairman/Director General of the Board of Investment and CEO/MD of Asian Hotels Corporation PLC, Forbes & Walker Ltd and Overseas Realty PLC. Mr Wijesinghe is a co-founder of the Sri Lanka Institute of Information Technology (SLIIT), Sri Lanka's largest IT University, where he serves as a Board member for life.

Mr. T. M. Wijesinghe functions as Chairman/Shareholder of TWC Corp (Pvt) Ltd, a real estate focused investment advisory and development management company, Digital Commerce

Lanka (Pvt) Ltd, an e-commerce partnership with Dialog Axiata PLC, and Sapphirus Lanka (Pvt) Ltd, a company exporting precision manufactured sapphire to premium international jewelers. He is also on the Board of leisure companies affiliated to MJF Group, makers of Dilmah Tea and several other public and private companies. He is also the Chairman of the Public Private Partnership Unit of the Ministry of Finance.

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### **Mr. Claude Peiris**

*Non-Executive Director*

Mr. Claude Peiris is an experienced banker with over 42 years of banking experience. Former Director/ CEO of the Pan Asia Banking Corporation PLC from 2010 to 2014. He was also the Chief Operations Officer at the Nations Trust Bank. He has in-depth exposure in the areas of Credit, Operations, Risk Management, Treasury and International Trade having previously worked at Hatton National Bank, Overseas Trust Bank and Nations Trust Bank. During his term as Director/CEO of Pan Asia Bank, grew its balance sheet from Rs 19 Bn to Rs 65 Bn . The bank opened 42 new branches during the period with the customer deposits growing from Rs 15 Bn to Rs 52 Bn whilst the advances increased from Rs 10 Bn to Rs 43 Bn. More than 650 new employment opportunities were created within the Bank resulting in an increase in the staff strength from 511 to 1170. Fitch upgraded the Bank's rating from BBB- to BBB.

He also served as the Chairman of the Internal Credit Committee, Asset & Liability Committee and Internal Audit Committee. He also introduced operational guidelines and processes for the entire bank. He also was a member of the Board's Audit Committee, Credit Committee and Risk Committee. He was also a Director of the Credit Information Bureau (CRIB), Director of Lanka Clear and Sri Lanka Banker's Association.

Mr. Claude Peiris ceased to be a Director with effect from November 29, 2017 pursuant to the provisions of Section 3(4) of the Finance Leasing (Corporate Governance) Direction No 4 of 2009 issued by the Central Bank of Sri Lanka.

### **Mr. Shardha Sosa**

*Independent Non-Executive Director*

Mr. Shardha Sosa is a Fellow Member of the Chartered Institute of Management Accountants – UK, Fellow member of Certified Management Accountants of Sri Lanka and a Member of the British Computer Society with over 27 years of experience.

Starting his career in 1990 as a management trainee, has experience in the grades of Accountant, Chief Accountant and Financial Controller from 1998 to date at MJF Holdings (Dilmah Tea). Having led multi-functional teams and implementing many ERP systems, has in depth knowledge of Planning, Budgeting, Costing, Pricing, Treasury Operations, Risk Management Procedures, ERP Planning, Taxation and Investment Analysis. Has been a key figure in the development and expansion of Dilmah Tea.

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### **Mr. Saadi Wadood**

*Independent Non-Executive Director*

Mr. M. Saadi A. Wadood is an experienced lawyer who has specialized in Corporate Law. Has 20 years of experience as a lawyer after being enrolled at the Supreme Courts in 1997. Graduating (LLM Merit Pass) from the Kings College- University of London has a wide experience in handling commercial cases in the District Courts, High Courts (Commercial and Civil), Court of appeal and the Supreme Courts. Acting as a legal consultant in several companies have been a Delegate and an active member of the Bar Association of Sri Lanka for several years. Also, handles commercial arbitration work and resolutions of commercial disputes.

## Corporate Management Team

### Mr. Sumedha Fernando

*Chief Executive Officer*

Mr. Sumedha Fernando holds an MBA from University of Wales – United Kingdom and is also Member of the Certified Management Accountants (CMA), Australia.

Sumedha joined SMB Leasing PLC in 2008 as the Director Marketing (Non-Board) and then served as Chief Operating Officer before been promoted as the Chief Executive Officer in November 2010. Sumedha was instrumental in turning around the company from its loss status of 600 million in 2008 and growing the balance sheet to its 1.6 billion at present.

Having commenced his career at Mercantile Credit Ltd and Mercantile Leasing Ltd, Sumedha moved to Rajhi Bank in the Kingdom of Saudi Arabia and then worked as Country Manager in Lebanon for TML. Upon returning to Sri Lanka he rejoined Mercantile Leasing as a Senior Manager – Factoring and in 2003 moved to Orient Finance as an Assistant General Manager, a position he held until joining SMB Leasing PLC.

Sumedha counts for over 32 years' experience in the Financial Service Sector with specified expertise in leasing and factoring. He's presently serving as a Director of Financial Ombudsmen of Sri Lanka (Guarantee) Limited and as a Senior Member of the governing council of CMA (Australia), Sri Lanka Branch. He also serves as a Director of Leasing Association of Sri Lanka since 2002.

### Mr. Takura Abhayasinghe

*Chief Operating Officer*

Mr. Takura Abhayasinghe is a Member of the Chartered Institute of Marketing in United Kingdom and holds an MBA from Edith Cowan University, Australia.

Having commenced his career at Seylan Bank as a Banking Assistant, Takura was subsequently promoted as an Executive and seconded to the Hardi Express Exchange in Dubai for two years. Upon his return to Sri Lanka, he joined Pan Asia Bank PLC as a Branch Manager. Due to his outstanding performance he was soon promoted to the grades of Senior Manager, Area Manager and Head of Business Banking & Branch Sales a

position he held until joining SMB Leasing PLC in august 2017.

Takura has over 23 years' experience in commercial banking covering both local and foreign markets including 10 years at the senior management level with exposure to sales, branch operations, credit, trade finance and risk management.

### Mr. Supul Wijesinghe

*Chief Financial Officer & Head of Strategy*

Mr. Supul Wijesinghe holds a BSc in Business Administration from the University of Sri Jayewardenepura and a Masters in Accounting & Finance from the University of Kelaniya. He's a Fellow Member of the Chartered Institute of Management Accountants– United Kingdom, Fellow Member of the Association of Chartered Certified Accounts – United Kingdom and a Member of the Institute of Chartered Accountants of Sri Lanka.

Having commenced his career at PricewaterhouseCoopers (PwC) where he last served as an Assistant Manager, Supul joined The World Bank as a Financial Management Specialist and worked in Bank's operations in Sri Lanka, Maldives and Pakistan for over 5 years and then went on to join 3M, a Fortune 500 Company, as the Country Finance Head for 3M's operation in Sri Lanka, a position he held until joining SMB Leasing PLC in March 2017.

He counts for 20 years' experience in audit, risk management, financial management, strategic planning, business transformation, compliance, treasury and performance analysis.

### Ms. Ranmini Kularatne

*Assistant General Manager – Legal*

Ms. Ranmini Kularatne holds Bachelor of Law Degree from the University of Colombo and Master's Degree in Law from the University of Colombo. She's an Attorney at Law by profession.

Ranmini started her career as a Legal Officer of Sampath Bank PLC and then joined Sri Lanka Army as a Legal Officer attached

to the Army Commander's Secretariat and served in the Sri Lanka Army regular force for 8 years. Thereafter, she went on to join Orient Holdings as the Senior Manager – Legal. From 2005 to 2010 Ranmini was the Director General/CEO of the Consumer Affairs Authority of Sri Lanka. In 2011 she joined TATA as the Senior Manager – Legal & Compliance. Prior to joining SMB Leasing PLC, Ranmini worked at Sri Lanka Savings Bank as the Head of Legal.

In a legal career spanning over 30 years, she has appeared for numerous cases in High Courts, Commercial High Court, Institute of Arbitration, Court of Appeal and Supreme Court and has hands-on experience in all aspects of litigation work, drafting of deeds, settlement of legal documents, litigation involving taxation, debt recovery, drafting and preparation of appeals, compliance and good governance procedures, disciplinary action procedures, accounting and financial procedures, labour laws, arbitration, compiling annual reports, audit committee proceedings, risk committee proceedings, corporate governance principles, providing legal submissions to the Boards of Directors etc. Ranmini was a member of the committee appointed by the Government that drafted the Companies Act No 7 of 2007.

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### **Mr. Nigel Wijesinghe**

*Head of Credit*

Mr. Nigel Wijesinghe has an MBA from the Federal University of Wales in United Kingdom. He has also completed OMEGA Credit Skills in USA and Credit Evaluation at Asia Pacific Credit Association, Manila.

Nigel started his career as an Executive at Hatton National Bank was subsequently promoted to positions of Assistant Manager, Manager, Senior Manager and HNB Regional Head for Colombo Region. Thereafter, he went on to join National Bank of Umm Al Qaiwain in UAE as Manager – Credit & Risk. Then Nigel moved to Pan Oceanic Bank in Solomon Islands as the Chief Operating Officer a position which he held until joining SMB Leasing PLC.

He counts for 30 years' banking experience in operations, internal audit, risk management, credit evaluation, collection and credit management.

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## Senior Management Team

### Mr. Upul Wijesinghe

*Head of Sales*

Mr Upul Wijesinghe holds a Diploma in Hire Purchase & Lease Financing and a Certificate Course of Marketing & Financial Services from Institute of Bankers.

Upul commenced his career as a Sales officer in SMB Leasing PLC and held various positions in the organization prior to been designated as Head of Sales in 2011. Upul has over 19 years' experience in banking, leasing, hire purchase and credit management.

Executive at CTC Eagle Insurance and joined Sri Lanka Insurance as a Sales Manager. Then he moved to Union Assurance PLC as a Manager. Later he moved to Continental Insurance as a Branch Manager and went on to join Allianz Insurance as Regional Operations Head. Sanjeewa worked at SDB Bank PLC as a Sales and Marketing Manager prior to joining SMB Leasing PLC.

In a sales and marketing career spanning over 20 years, Sanjeewa has experience in sales, strategic marketing, branch operations and corporate strategic planning.

### Mr. Hiran Wickramarachchi

*Senior Operations Manager – Admin & Recovery*

Mr. Hiran Wickramarachchi holds an MBA from Cardiff Metropolitan University in United Kingdom

Hiran counts for over 12 years' experience at SMB Leasing PLC. He has served in various positions in the organization including Accountant of SMB Leasing PLC from 2009 to 2015 prior to been promoted as Senior Operations Manager in January 2016 with responsibilities over Recovery and Administration functions.

Hiran has over 17 years' experience in the finance sector including process development and internal controls, leasing, loan and pawning operations, general administration, accounting and branch operations.

### Mr. Kumar Munasinghe

*Senior Manager – Sales*

Mr. Kumar Munasinghe holds a Higher Diploma in Sales & Marketing from the Indian Institute of Management.

Kumar started his career as a Banking Assistant at Seylan Bank and then joined Lanka Orix Finance PLC as a Marketing Executive. Thereafter, he went on to join The Finance Company PLC as a Branch Manager and was subsequently promoted as a Cluster Manager. Kumar then moved to Softlogic Finance PLC as a Senior Sales Manager. Kumar worked as a Regional Sales Head at Orient Finance PLC until joining SMB Leasing PLC. Kumar has over 20 years of sales experience in leasing, loans and pawning.

### Mr. Sanjeewa Ambagahawattage

*Senior Manager – Sales*

*Negombo Branch*

Mr. Sanjeewa Ambagahawattage holds a Bachelor of Commerce Degree specialized in Marketing from the University of Sri Jayewardenepura. He's a Member of the Chartered Institute of Marketing in United Kingdom.

Sanjeewa started his career as a Business Development

## Managers

Name	Designation	Qualifications	Date Joined
Ms. Sardha Subasinghe	Manager - Loans	Diploma in Marketing	Oct 2001
Mr. Suneth De Silva	Manager - Customer Care	Diploma in Credit Management	Dec 2002
Mr. Dickson Gunathilaka	Manager - IT	Diploma in IT	May 2009
Ms. Randulani Godage	Senior Secretary	AAT Passed Finalist	Jun 2009
Ms. Niluka Perera	Accountant	MAAT, AIB, CA Sri Lanka Finalist	Jul 2011
Mr. Roshan Buultjens	Manager - Pawning	Diploma in Gemmology	Jan 2017

## Assistant Managers

Name	Designation	Qualifications	Date Joined
Mr. M Pemasiri	Branch In-charge	GCE (A/L)	Mar 2002
Mr. Madush Silva	Assistant Manager - Recovery	GCE (A/L)	Jan 2006
Mr. Prabash Ariyasinghe	Assistant Accountant	CBF	May 2006
Ms. Lochani Madushani	Assistant Manager - Legal Services	GCE (A/L)	Feb 2007
Ms. Roshalini Gnanasegar	Junior Legal Officer	LLB, Attorney at Law	Dec 2014
Ms. Sachini Wijesinghe	Assistant Accountant	BSc in Accounting (Special) First Class Honours, CIMA (UK) Passed Finalist, ACCA (UK) Passed Finalist, CA Sri Lanka Finalist	May 2017
Mr. Lankachandra Liyanage	Assistant Manager - Recovery	Diploma in Networking & Hardware Engineering	Jun 2017
Ms. Rasani Kapukotuwa	Assistant Manager - HR	BA First Class Honours, PQHRM	Sep 2017
Mr. Ananda Samarajeewa	Assistant Manager - Sales	BBM	Mar 2018
Ms. Pujani Siriwardena	Assistant Manager - Credit	BSc in Applied Accounting First Class Honours, ACCA (UK)	Apr 2018
Ms. Nipuni Weeraratne	Assistant Accountant	BSc in Accounting (Special) First Class Honours, CIMA (UK) Passed Finalist	May 2018

## Corporate Governance and Compliance

According to the requirements stated in Section 2(7) of the Finance Leasing (Corporate Governance) Direction No 4 of 2009 issued by the Central Bank of Sri Lanka and the Code of Best Practice on Corporate Governance issued jointly by Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, the Board of Directors issue this corporate governance report setting out the compliance with the CBSL Directions, Code of Best Practice on Corporate Governance and Listing Rules. Section 7:10 (a) of the Listing Rules issued by the Colombo Stock Exchange states that a statement confirming that the Company is in compliance with the corporate governance rules needs to be published in the annual report confirming compliance to corporate governance provisions of the listing rules for financial years commencing on or after April 1, 2007.

Corporate Governance is the process by which companies are directed and controlled by the Board of Directors in the best interest of the shareholders ensuring greater transparency, accuracy and timely financial reporting

SMB Leasing PLC is committed to uphold the highest standards of corporate governance and ethical conduct in all its business activities. The Board of Directors are responsible for creating and delivering sustainable stakeholder value through the management of SMB Leasing PLC's business

The disclosure will include measures adopted to protect the interest of stakeholders, the responsibility for the system of internal controls implemented by the management, the Company's commitment to ethical standards of business conduct, information of particular interest to employees, community and customers.

### Statement of Compliance

SMB Leasing PLC has placed greater focus on compliance with the regulations of regulatory bodies such as the Central Bank of Sri Lanka, Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange.

The Board ensures that the Company complies with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the

Institute of Chartered Accountants of Sri Lanka and is in line with the same unless disclosed to the contrary

According to the provisions of the Finance Leasing (Corporate Governance – Amendment) Direction No. 1 of 2013, the external auditor's certification of the compliance with the Corporate Governance Directions has been issued on May, 30, 2018

## Governance Principles and Activities

### The Board of Directors

#### Composition

The Board comprises of six Non- Executive Directors of whom five are Independent Directors. The Chairman also acts as a Non-Executive Director. All directors encompass a wide range of skills, talents and experience required to add value to enhance the business.

Composition of the Board as at December 31, 2017 was as follows.

No. of Members	6
Executive	Nil
Non Executive	6
Independent	5
Non Independent	1

#### Gender Representation

Male	6
Female	Nil

## Responsibilities of the Board

The ultimate responsibility of all operations of the Company and being accountable to the stakeholders lies with the Board of Directors. Matters reserved for the Board and the Board appointed Sub Committees and those delegated to the management are clearly defined.

The Board is involved and ensures,

- Formulating corporate strategy and strategic direction of the Company
- Monitoring the effectiveness of the Company's risk management strategy
- Compliance with regulatory and legal standards
- Reviewing the integrity of the Company's accounting and financial statements
- Approval of financial statements for publication
- Approval of budget and corporate plans
- Safeguard interest of shareholders and other stakeholders
- Making recommendations to the shareholders on changes to the Board

## Meetings

Meetings are held every month to review and evaluate the performance of the company. Special meetings are convened when necessary.

### Directors' attendance at board and board committee meetings

Name of the Director	Status	Main Board	Audit Committee	Integrated Risk Management Committee (IRMC)	Remuneration Committee	Related Party Transaction Review Committee	Nomination Committee	No of Total Meetings
Total Number of Meetings		12	18	3	1	4	1	39
Mr.H.R.S Wijeratne	NED	10	N/A	N/A	0	N/A	0	10
Mr.U Gautam	INED	10	8	1	1	4	1	25
Mr.J.C Korale	INED	11	18	1	N/A	4	N/A	34
Mr.S.N.P Palihena*	INED	1	N/A	N/A	N/A	N/A	N/A	1
Mr.T.M Wijesinghe	INED	11	N/A	N/A	1	N/A	1	13
Mr.T.C.A Peiris **	NED	1	N/A	2	N/A	N/A	N/A	3
Mr.A.T.S Sosa ***	INED	8	N/A	N/A	N/A	N/A	N/A	8
Mr.M.S.A Wadood ***	INED	7	N/A	N/A	N/A	N/A	N/A	7

Notes

\*\*\* Mr. A T S Sosa and Mr. M S A Wadood were appointed w.e.f. March 10, 2017

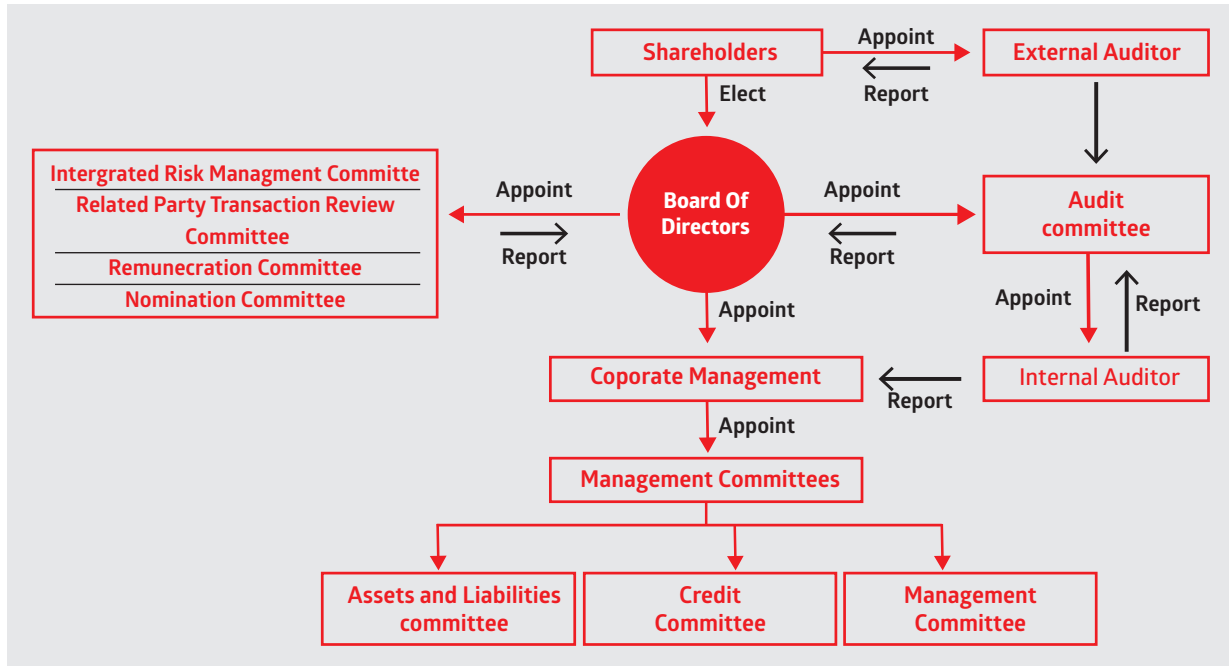
\*\* Mr. T C A Peiris was appointed w.e.f. March 29, 2017 and ceased to be a Director on November 29, 2017

\* Mr.S.N.P Palihena -ceased to be a Director w.e.f February 22, 2017

N/A- Not a Member of the Committee

## Governance Structure

The relationships among the Board of Directors, Board Sub Committees, Corporate Management, Shareholders and other Stakeholders is embedded in the Company's governance structure that is illustrated below.



### Appointments to the Board

The Company has a nomination committee for making recommendations on new appointments to the Board. New directors, including the Chairman are appointed by the Board with reference to the Article of Association. Details of new appointments are disclosed to the shareholders. Regulatory authorities are also informed as required.

### Re-election

The Articles of Association provides for one third (1/3rd) of the Directors to retire by rotation each year, with the exception of the Chairman.

### Training of New and Existing Directors

The Board acknowledges the need for continuous development and expansion of knowledge and skills of new and existing directors. Accordingly, presentations are made to the Board

from time to time regarding their duties and responsibilities and changes in industry related matters.

### Evaluation of the Board

The Board adopted the self-assessment undertaken by the Directors annually. Assessments are focused on the Board's contribution to the development, monitoring and implementation of the strategy, risk management, quality of the relationship with the management, employees, and shareholders and ensuring proper functioning of Board Sub Committees.

### Communication with Shareholders

The Company as a policy makes efforts to communicate in an equal manner in all situations to provide information to the stakeholders timely. The communication threshold is same for both positive and negative matters.

### **Means of Communication**

The Board of the Company is committed to provide a balanced report of results and progress to the shareholders and respond to questions and issues raised in a timely and consistent manner. This is achieved by the following means of communications.

### **Financial Results**

The Company reports financial results on a quarterly basis and publishes interim and annual results in accordance with the applicable laws and regulations within the statutory deadlines. This facilitates appropriate decision making to both existing and potential shareholders.

### **Website**

Our corporate website, [www.smblk.com](http://www.smblk.com) provides an additional channel for communication with shareholders and other stakeholders.

### **Shareholder Meetings**

The Company considers the Annual General Meeting (AGM) and other general meetings to be the formal opportunity

for dialogue and communication between the Company and its shareholders. The Board welcomes questions from shareholders who have an opportunity to raise issues at shareholder meetings.

### **Corporate Disclosures**

Corporate disclosures and other official news releases are communicated, from time to time, to the Colombo Stock Exchange for dissemination to the public.

### **Enquires by Shareholders**

Shareholder can raise inquiries and concerns with the Board by contacting the Company Secretary, through the following channels:

#### **PW Corporate Secretarial (Pvt) Ltd.**

*Address No: 3/17, Kynsey Road,*

*Colombo 08.*

*Email [pwcs@pwcs.lk](mailto:pwcs@pwcs.lk)*

*Telephone 011-4640360-3*

## Submission of Statutory Return

The Company's submission of statutory returns, annual accounts and statutory payments are tabled as follows:

Description	Frequency of submission	Compliance
Central Bank of Sri Lanka		
Submission of monthly returns	Monthly	Compliant
Submission of quarterly returns	Quarterly	Compliant
Submission of annual returns	Annually	Compliant
FIU reporting	For the period 1st day-15th day of a month-within seven working days, 16th day - end of a month within seven working days.	Compliant
EPF payment and return	Monthly	Compliant
ETF payment and return	Monthly	Compliant
Department of Inland Revenue		
Value Added Tax on Financial Services -Payment	Monthly	Compliant
Value Added Tax on Financial Services -Return	Bi-Annually	Compliant
Value Added Tax -Payment	For the period 1st day-15th day of a month-on or before end of the month for 16th day - end of a month -on or before 15th day of the following month	Compliant
Value Added Tax - Return	Quarterly	Compliant
Stamp Duty - Payment	Quarterly	Compliant
Stamp Duty - Return	Quarterly	Compliant
Economic Service Charge - Return	Annually	Compliant
Income Tax - Return	Annually	Compliant
Nation Building Tax - Payment	Monthly	Compliant
Nation Building Tax - Return	Quarterly	Compliant
PAYE Tax - Payment	Monthly	Compliant
PAYE Tax - Return	Annually	Compliant
Withholding Tax on Interest-Payment	Monthly	Compliant
Withholding Tax on Interest-Return	Quarterly	Compliant
Colombo Stock Exchange		
Submission of Interim Reports	Quarterly	Compliant
Submission of Annual Reports	Before 5 months ended of Financial year	Compliant
Registrar General of Companies		
Annual Accounts	Annually	Compliant
Annual Returns	Annually	Compliant
Change of Directors and Company Secretary (Form 20)	As required	Compliant
Sri Lanka Accounting & Auditing Standards Monitoring Board		
Annual Accounts	Annually	Compliant

The Company's compliance with the Finance Leasing (Corporate Governance) Direction No. 4 of 2009 issued by the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka under the Section 34 of the Finance Leasing Act No 56 of 2000 is tabulated below.

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>2. The Responsibilities of the Board of Directors</b>			
<b>2 (1) Strengthening the safety and soundness of the Company.</b>			
2 (1) (a)	Approving and overseeing the strategic objectives and corporate values and ensuring that the same is communicated throughout the Company.	Company's strategic objectives and corporate values are determined and approved by the Board of Directors. The decisions taken by the Board regarding strategic objectives and corporate values are communicated to all levels of staff through structured meetings.	Compliant
2 (1) (b)	Approving the overall business strategy of the Company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years.	Company's strategic business plan covering immediate next three years has been approved by the Board. It provides for the overall risk management policy, procedures and mechanisms with measurable goals.  The business strategy is reviewed by the Board on a regular basis with updates on the execution thereof by the management at monthly Board meetings.	Compliant
2 (1) (c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Integrated Risk Management Committee, on behalf of the Board, identifies risks and ensures implementation of appropriate systems to manage risks prudently and reports to the Board on a quarterly basis.	Compliant
2 (1) (d)	Approving a policy of communication with all stakeholders, including lenders, creditors, shareholders and borrowers.	Refer Corporate Governance, Pages from 36 to 37 for more information on the Communication Policy.	Compliant
2 (1) (e)	Reviewing the adequacy and the integrity of the Company's internal control systems and management information systems.	The Board Audit Committee, on behalf of the Board undertakes the detailed monitoring and reviewing of the internal controls and reports to the Board on its findings. Refer Director's Statement on Internal Control over Financial Statements, Page 92 for further information on internal control framework of the Company.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
2 (1) (f)	Identifying and designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.	The Board of Directors have been identified and designated as the Key Management Personnel of the Company.	Compliant
2 (1) (g)	Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel.	The key functions / responsibilities have been defined and approved by the Board and included in their respective job descriptions.	Compliant
2 (1) (h)	Ensuring that there is appropriate oversight of the affairs of the Company by Key Management Personnel, that is consistent with the Company's policy.	Affairs of the Company are reviewed and discussed by the Board at Board meetings on a monthly basis.	Compliant
2 (1) (i)	Effectiveness of the governance practices are reviewed and discussed by the Board at Board meetings on a monthly basis.	This direction is overseen by the function of the Board and the Board Nomination Committee.	Compliant
2 (1) (j)	Ensuring that the Company has an appropriate succession plan for Key Management Personnel.	The Board of Directors have considered the Senior Management Personal in relation to the succession plan and was of the view that there is no immediate necessity to identify a succession plan subject to the company's present business model These positions would be reviewed from time to time annually and as and when required and suitable steps would be taken to identify the requirement of succession.	Compliant
2 (1) (K)	Meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	The Board meets the key management personal on monthly basis and respective senior managers who are not members of the board are requested to attend by invitation to discuss specific areas.	Compliant
2 (1) (l)	Understanding the regulatory environment.	<p>On appointment, Directors are apprised comprehensively on the regulatory environment including, governance framework, policies, and processes and their responsibilities as a Director in terms of the applicable rules and regulations.</p> <p>The Board is apprised of any changes to the regulatory environment through the Integrated Risk Management Committee and also by the Company Secretary.</p>	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
2 (1) (m)	Exercising due diligence in the hiring and oversight of external auditors.	The hiring of external auditors is carried out by the Board on the recommendation of the Board Audit Committee. The Board Audit Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.	Compliant
2 (2)	Appointment of the Chairman and the Chief Executive Officer and defining and approving their functions and responsibilities.	The Chairman and CEO have been duly appointed and their functions and responsibilities have been defined and approved by the Board.	Compliant
2 (3)	Availability of a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice at the Company's expense.	Directors are permitted to seek independent professional advice as and when required. The Company Secretary facilitates this process.	Compliant
2(4)	Avoidance of conflicts of interest of Directors	Each member of the Board has a responsibility to determine whether he has a potential or actual conflict of interest in material matters which may have a bearing on his independent judgment. Directors who have an interest in a matter under discussion refrain from engaging themselves in the deliberations on that matter and abstain from voting thereon. Such abstentions from decisions are duly reordered by the Company Secretary in the minutes.	Compliant
2(5)	Availability of a formal schedule of matters specifically reserved to Company's Board for decision and control.	Company is having policy on delegation of authority. It emphasis authority level of Directors.	Compliant
2(6)	If the Company is or likely to be insolvent the Board to inform the Director - Department of Supervision of Non-Bank Financial Institutions of the Central Bank prior to taking any decisions or actions.	No such situation has arisen to-date. Directors objectively review and evaluate the financial performance and position of the Company so that any such indicator can be identified well in advance.	Not Applicable
2(7)	Inclusion of an Annual Corporate Governance Report on compliance with the corporate governance directions in the Annual Report.	The Company has placed greater focus on compliance with the regulations of the Central Bank of Sri Lanka. The Board has published an Annual Corporate Governance Report on page 39 to page 71 in this Annual Report	Compliant
2(8)	Adoption of an annual scheme of self- assessment by the Directors and maintain records of such assessments.	The Board has adopted a scheme of self- Assessment to be undertaken by each Director annually.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>3 Meetings of the Board</b>			
3(1)	Convening Board meetings at least twelve times a financial year at monthly intervals.	The Board met twelve (12) times for the financial year 2017	Compliant
3(2)	Making arrangements to enable Directors to include matters and proposals relating to promotion of the business and management of its risk in the agenda of regular Board meetings.	All directors are provided an equal opportunity to include proposals for promotion of business and management of risk in the agenda of the monthly Board meetings.	Compliant
3(3)	At least seven days of notice to be given to all Directors for regular Board meetings and reasonable notice period for other Board meetings.	Board meeting calendar for the financial year is prepared by the Company Secretary. The date of the next Board meeting is collectively agreed to, by the members present during the current Board meeting and subsequently communicated to all the members to ensure that at least 7 days' notice is given of the monthly Board meeting. Reasonable notice is given for any other special Board meeting.	Compliant
3(4)	A Director who has not attended at least two-thirds of the meetings or three consecutive Board meetings shall cease to be a Director.	Directors' attendances are monitored. Please refer Page No 91 for details on number of Board meetings held during the year and the individual attendance of the Directors. All Directors have regularly attended Board meetings.	Compliant
3(5)	Appointment of a Company Secretary.	Company has appointed PW Corporate Secretarial (Pvt) Ltd as the Company Secretary. The Company secretary advises the Board on matters relating to provisions of the Companies Act, Board procedures and other applicable rules and regulations.	Compliant
3(6)	Chairman has delegated to the Company Secretary the function of preparing the agenda for Board meetings.	The chairman had delegated the preparation of the Board Meeting agenda to the Company Secretary. The company secretary is responsible for the same.	Compliant
3(7)	Directors' access to advice and services of the Company Secretary.	All directors have access to the advice and services of the Company Secretary who is responsible to the Board to ensure that the board procedures and the applicable rules and regulations are complied with. Articles of the Company provides authority to the Board to appoint/ remove the Company Secretary.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
3(8)	The Company Secretary shall maintain the minutes of Board meetings and the minutes are open for inspection at any reasonable time on reasonable notice by any Director.	The Company Secretary maintains the minutes of Board meetings with sufficient details and the same is available for inspection by any Director.	Compliant
3(9)	Recording of minutes of Board meetings in sufficient detail to demonstrate that the Board acted with due care and prudence in performing its duties.	The Company Secretary records the proceedings of the meetings and the decisions taken there at in sufficient detail so as to satisfy all the requirements specified in this rule.	Compliant
<b>4. Composition of the Board</b>			
4(1)	The number of Directors on the Board shall not be less than five (5) and not more than nine (9).	The Board comprised of six Non-Executive Directors as at December 31, 2017	Compliant
4(2)	The total period of service of a Director other than the Director who holds the position of Executive Director or Chief Executive Officer shall not exceed nine (9) years	All the present Directors have held their positions for less than nine (9) years.	Compliant
4(3)	An employee of the Company may be appointment, elected or nominated as a Director provided that the total number of Executive Directors shall not exceed half of the number of Directors of the Board.	Employees have not been elected as Directors of the Company	Compliant
4 (4)	Number of Independent Non-Executive Directors on the Board (as per the criteria specified in this section) shall be at least one fourth of the total numbers of Directors.	Five (5) out of six (6) Directors that held office as at December 31, 2017 are Independent Non-Executive Directors.	Compliant
4(5)	Alternate Director for an Independent Non-Executive Directors should also meet the criteria for independent non-executive status of the appointer.	No alternate directors were appointed during the financial year 2017.	Compliant
4(6)	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	All Non-Executive Directors have the necessary skills and experience to bring independent and objective judgment on matters relating to strategy, performance and resources. The composition of the Board also ensures the balance between executive expediency and independent judgment.	Compliant
4(7)	Each Board meeting quorum constitute of at least one-third of Non-Executive Directors.	Each and every Board meeting held in 2017 fulfils this criteria.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
4(8)	The Independent Non-Executive Directors shall be expressly identified in all corporate communications that disclose the names of Directors of the Company. The Company shall disclose the composition of the Board, by category of directors including the name of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	The Independent Non-Executive Directors are identified in all corporate communications that contain the names of Directors of the Company.  Corporate Governance Report, published on page 34 of this Annual Report provides details of composition of the Board including the Chairman by their name and category of Directorship.	Compliant
4(9)	Availability of a formal and transparent procedure to appoint new Directors to the Board through the Nominating Committee.	The Articles of Association of the Company provides for a formal and transparent procedure applicable to the selection and appointment of Directors to the Board through the Nomination Committee	Compliant
4(10)	Directors appointed to fill casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	All the directors that held office as at December 31, 2017 have been appointed by shareholders in their AGM.	Compliant
4(11)	Disclosure of resignations/ removal of Directors to the shareholders and to the Director - Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka with reasons for resignation/removal including such Director's disagreement with the Board if any.	All resignations/ removals and appointments of Directors are informed to the Shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange. Prior approval for such resignations / removals and appointments is obtained from the Central Bank of Sri Lanka in terms of the applicable regulations.	Compliant

### 5. Criteria to assess the fitness and propriety of directors

5(1)	A person over 70 years of age shall not serve as a Director of the Company.	All Directors that held office as at December 31, 2017 are below the age of 70 years.	Compliant
5(2)	A Director of the Company shall not hold office as a Director of more than 20 companies including subsidiaries and associates of the Company.	Details of other directorships/equivalent positions held by the Directors are set out in their profiles on pages 28 to 29 of the Annual Report. Accordingly, all Directors have complied with this rule.	Compliant

### 6. Management Functions Delegated by the Board

6(1)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its function.	Company has a policy on delegation of authority which ensures that the ability of the Board as a whole to discharge its function are not reduced or hindered. Directors act according to this delegation of authority policy.	Compliant
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Section	Governance Requirement	Implementation and Compliance	Compliance Status
6(2)	Board shall review delegation of authority on a periodic basis.	The Board regularly reviews the policy on delegation of authority to ensure that they remain relevant to the needs of the Company.	Compliant
<b>7. The Chairman and the Chief Executive Officer</b>			
7(1)	The role of Chairman and Chief Executive Officer shall not be performed by the same person.	The posts of the Chairman and the Chief Executive Officer (CEO) of the Company are separated ensuring the balance of power and authority. The Chairman is a Non-Executive Director while the Chief Executive Officer is an employee of the Company	Compliant
7(2)	When the Chairman is a Non-Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director of the Company.	Chairman is a Non-Executive Director. The Chairman's role provides effective leadership and strategic insight to the issues of the Board. Mr.J.C Korale has been appointed as a Senior Director to comply with the rule. This is disclosed on Director profiles on page 28.	Compliant
7(3)	Disclosure of relationship (specified under this rule) between the Chairman and the Chief Executive Officer and relationships among members of the Board in the Corporate Governance Report.	No such relationships that require disclosure under this rule exists as at December 31, 2017.	Compliant
7(4)	Role of the Chairman	The Chairman provides leadership to the Board and is responsible for governance and the effective operations of the Board.	Compliant
7(5)	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meetings. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	The Chairman has delegated this responsibility to the Company Secretary. The monthly agenda for Board meetings is prepared by the Company Secretary under the supervision of the Chairman and sent to all Directors by the Company Secretary.	Compliant
7(6)	Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Chairman ensures, that all Directors are properly briefed on issues arising at each Board meeting.	Compliant
7(7)	Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interest of the Company.	The Chairman sets the agenda and ensures that Board deliberations are done in an objective manner and opinions of all Directors are appropriately considered in decision making thereby promoting active contributions by the individual Directors to the Board's affairs.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
7(8)	Chairman shall ensure effective contribution of Non-Executive Directors and ensure constructive relationships between Executive and Non-Executive Directors.	There were no Executive Directors in the Board for the financial year 2017.	Not Applicable
7(9)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties.	The Chairman is a Non-Executive Director who does not get involved directly in any of the executive duties of the Company and does not supervise any Key Management personnel.	Compliant
7(10)	The Chairman shall maintain effective communications with the shareholders and communicate the view of shareholders to the Board.	At general meetings, shareholders are given the opportunity to take up matters for which clarifications needed by the Chairman and the Board. In addition, matters raised by the shareholders outside general meetings are adequately clarified by the Chairman, CEO and/or any other officer	Compliant
7(11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Company's operations and business.	Chief Executive Officer is responsible for the day-to-day operations and business of the Company with the assistance of the Corporate Management and is accountable to the Board.	Compliant

## 8. Board Appointed Committees

8(1)	Presence of at least two Board Committees reporting directly to the Board such as Audit Committee, Integrated Risk Management Committee	The following Board and Sub-committees have been appointed by the Board and reports directly to the Board. <ol style="list-style-type: none"> <li>1. Audit Committee</li> <li>2. Remuneration Committee</li> <li>3. Integrated Risk Management Committee</li> <li>4. Related Party Transaction Review Committee</li> <li>5. Nomination Committee</li> </ol>	Compliant
	Each Committee appoints a secretary to arrange meetings and maintain minutes under the supervision of the Chairman such Committee.	Each Committee has a secretary that arranges its meetings, maintains minutes, records and carries out other secretarial functions under the supervision of the Chairman of the respective Committee.	
	Board shall present a report on performance, duties, functions of each Committee at the Annual General Meeting	Refer Committee reports published in this Annual Report on pages 46 to 84.	

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>8(2) Audit Committee</b>			
8(2) (a)	The Chairman of the Audit Committee shall be a Non-Executive director who possesses qualifications and experience in accountancy and or audit.	The Chairman of the Audit committee is Independent Non-Executive Director. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Institute of Chartered Management Accountants-UK He possesses over 30 years of experience in accountancy and audit.	Compliant
8(2) (b)	Majority of Board members appointed to the Committee shall be Non-Executive Directors.	Audit Committee consists of two Independent Non-Executive Directors.	Compliant
8(2) (c)	Audit Committee shall make recommendations on matters in connection with		
	(i) the appointment of the external auditor	The Committee has recommended M/s. KPMG, Chartered Accountants be reappointed as the External Auditors of the Company for the financial year 2018.	Compliant
	(ii) implementation of the Central Bank guidelines issued to external auditors	The Committee has implemented Central Bank guidelines issued to auditors.	
	(iii) application of the relevant accounting standards;	The Committee ensures that the relevant accounting standards are applied.	
	(iv) the service period, audit fee and any resignation or dismissal of the External auditor provided that the engagement of an audit partner shall not exceed five years and not to re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	The Committee has taken steps to ensure compliance to this Section.	
8(2) (d)	The Committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes.	The Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process	Compliant
8(2) (e)	The Committee shall develop and implement a Board approved policy on the engagement of an external auditor to provide non-audit services based on the criteria specified in this rule.	The Board as a general policy to discourage the engagement of external auditors for non-audit services. However, if required, non-audit services will be obtained from the external auditors with the prior approval of the Committee and the Board in full compliance with the criteria set out in this rule for such engagements.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
8(2) (f)	The Committee shall discuss and finalise the nature and scope of the audit (including all aspects set out in this rule) with the external auditors before commencing the audit.	The Auditors make a presentation at the Committee Meeting with details of the proposed audit plan and the scope. The Committee approves the engagement after ensuring that all criteria and required approval is obtained to that effect.	Compliant
8(2) (g)	Committee shall review the financial information of the Company, in order to monitor the integrity of the financial statements, annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein.	Quarterly financial statements and annual financial statements are circulated to all members of the Committee. The Committee reviews all such financial statements in detail and obtain clarifications from the management where necessary during that review. Once the Committee determines that the said financial statements are prepared according to the applicable accounting standards and the required disclosures are in place, the committee recommends the financial statements for approval by the Board of Directors.	Compliant
8(2) (h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits and any matters the auditor may wish to discuss in the absence of key management personnel if necessary.	No interim audit was conducted for the year under review. The Committee met the external auditors without the presence of management on December 19, 2017 to discuss matters arising from the final audit of 2017.	Compliant
8(2) (i)	The Committee shall review the external auditor's management letter and the management's response thereto.	Once the management letter is received, the external auditors are invited to make a presentation to the Committee. During this meeting, all findings mentioned in the management letter is discussed in detail.  Thereafter, the Committee decides on remedial action to be taken in respect of such findings.	Complied
8(2) (j)	Committee shall take the following steps with regard to the Internal Audit function of the Company.	The Company does not have an in-house Internal Audit Department. Instead, the internal audit function is outsourced to M/s. Deloitte, Chartered Accountants.	Compliant
	i) Review the adequacy of the scope, functions and resources of the Internal Audit Department	The scope of the internal audit is decided by the Committee at the beginning of the financial year based on risk and operational priorities. The Committee can call for special internal audits of any area outside the given scope if required during the year.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
	ii) Review the internal audit programme and results of the internal audit process;	The annual audit plan is prepared by the internal auditors and submitted to the Committee for approval.	Compliant
	iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	At the end of each year, the Committee assess the performance of the internal audits carried out during the year.	Compliant
	iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	The Committee agrees with the outsourced service provider on the quality of the staff members carrying out the Company internal audit.	Compliant
	v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers; provide opportunity to submit reason for resigning.	Any change to the engagement manager or engagement partner of the internal audit assignment is discussed and agreed with the Committee.	Compliant
	vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Internal auditors share their draft report with the CEO and CFO to obtain management comments for the internal audit findings and the final report is directly submitted to the Audit Committee.	Compliant
8(2) (k)	The Audit Committee shall consider the major findings of internal investigations and management's responses thereto;	All findings of internal audit along with the responses of the management are tabled and discussed at the Committee meetings.	Compliant
8(2) (l)	The Chief Financial Officer, the Chief Internal Auditor and representative of the external auditors may normally attend meetings.	The Chief Financial Officer attends Committee meetings. Since the internal audit function is outsourced, the Company does not have a Chief Internal Auditor.	Compliant
	Other Board members and the Chief Executive Officer may also attend meeting upon the invitation of the committee.	The Chief Executive Officer is invited for Committee meetings.	Compliant
	At least once in six months the committee shall meet with the external auditors without the executive directors being present.	The committee met external auditors without the presence of Corporate Management on December 19, 2017.	Compliant
8(2) (m)	Committee shall have authority to investigate any matter, access to information, obtain external professional advice and all other resources required by the Committee.	The Committee has authority over all aspects referred in this rule. Refer Audit Committee Report given on page 77 to 79 of the Annual Report for more details on this	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
8(2) (n)	The Committee shall meet regularly and record its conclusions.	The Committee had 18 meetings in 2017 and its decisions are recorded by the Company Secretary who also acts as the secretary to the Committee.	Compliant
8(2) (o)	Disclose activities of the Committee, number of meetings held and attendance of members at meetings in the Annual Report.	This information has been disclosed in the Audit Committee Report given on page 77 of the Annual Report	Compliant
8(2) (p)	The secretary to the Committee shall recording and maintain detailed minutes of the Committee meetings.	The Company Secretary is the secretary of the Committee. Detailed minutes of the Committee proceedings are recorded and Committee minutes are maintained by the Company Secretary.	Compliant
8(2) (q)	The Committee shall review the process by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.	The Committee has implemented whistle blower policy to facilitate an informal procedure by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.	Compliant
<b>8(3) Integrated Risk Management Committee (IRMC)</b>			
8(3)(a)	The Committee shall consist of at least one Non-Executive Director, Chief Executive Officer and key management personnel supervising credit, marketing operational and strategic risks.	The Committee composition is in full compliance with the provisions of this rule. Please refer Report of the IRMC on page 84 of the Annual report for the composition of the Committee.	Compliant
8(3)(b)	The Committee shall assess all risks to the Company both on individual basis as well as group basis, monthly through appropriate risk indicators and management information.	The Committee assesses all risks, i.e., credit, market, liquidity, operational and strategic risks through appropriate risk indicators.	Compliant
8(3)(c)	Committee shall review the adequacy and effectiveness of Credit Committee, Assets and Liability Committee (ALCO) and other management committees to ensure that those committees manage risks within the quantitative and qualitative limits specified by the IRMC.	ALCO and credit committee proceedings are reviewed by the IRMC and feedback is provided to members of those committees on risk limits.	Compliant
8(3)(d)	Committee shall take prompt corrective action to mitigate the effects of specific risks which are at levels beyond the prudent levels decided by the Committee.	IRMC has determined risk tolerance levels which are being timely updated considering the factors such as strategic objectives of the Company, changes in regulatory requirements and future economic conditions. Each risk category in the risk profile of the Company has been reviewed against the risk tolerance levels by the Committee at their meetings.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
8(3)(e)	Committee shall at least quarterly assess all aspects of risk management including updated business continuity plans.	The Integrated Risk Management Committee has met three (3) times during the financial year 2017. In the financial year 2016, the IRMC met two (2) times	Partly Compliant
8(3)(f)	Responsibility of the IRMC to take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Risks are identified collectively by the Risk Management Committee and Assets and Liabilities Committee (ALCO) and such decisions are taken collectively. Further, no instances of non-compliance with this rule were found in 2017	Compliant
8(3)(g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board.	The Committee Chairman updates the Board within a week of each meeting.	Compliant
8(3)(h)	The committee shall establish a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	Committee has established a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. Accountant carried out the compliance officer function for the year 2017.	Compliant

## 9. Related party transactions

9(2)	The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the relevant establishment with any person, who shall be considered as "related parties" under this rule.	A Board approved process is in place to ensure that there are no conflicts of interest in transactions with related parties, as defined in the direction. The transactions carried out with related parties during normal course of business are disclosed in Note 34 on Page 149 of the Annual Report.	Compliant
9(3)	Nature of transactions with Related Parties to which the Corporate Governance Directions apply.	Board approved process is in place to ensure the compliance. No accommodation provided to Directors and/or close relatives.	Compliant
9(4)	The Board shall ensure that the Company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to an unrelated comparable counterparty of the Company.	Board approved process is in place to ensure the compliance.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>10. Disclosures</b>			
10(1)	Board shall ensure that annual audited financial statements and periodical financial statements are prepared and published in accordance with the requirements of the regulatory and supervisory authorities and applicable accounting standards.	The Board ensured that the annual audited financial statements and periodical financial statements of the Company for the year 2017 were prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards.	Compliant
<b>10(2) Responsibility of the Board to ensure appropriate disclosures in the Annual Report</b>			
a)	A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Disclosures on the compliance with applicable accounting standards and regulatory requirements in preparation of the Annual Financial Statement have been made in the 'Directors Responsibility Statement' on page 94.	Compliant
b)	A report by the Board on the Company's internal control mechanism that confirming that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	Report by board on the effectiveness of the internal controls mechanism to ensure that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of Financial reporting, is given on 'Directors responsibility Statement'.	Compliant
c)	External auditor's certification on the effectiveness of the internal control mechanism.	External auditor has issued the certification on the effectiveness of the internal control mechanism on May 30, 2018.	Compliant
d)	Details of Directors, including names, transactions with the Company.	Details of the Directors are given on pages from 28 to 29 and Directors' transactions with the Company have been disclosed in note 34 to the Financial Statements on page 149	Compliant
e)	Fees/remuneration paid by the Company to the Directors in aggregate.	The Fees/remuneration paid to the Board of Directors is disclosed in aggregate in Note No 34.2 on page 149.	Compliant
f)	Total net accommodation outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds.	Total net accommodation in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds is given Note No 34.1 on page 149.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
	g) The aggregate values of remuneration paid by the Company to its Key Management Personnel and the aggregate values of the transactions of the Company with its Key Management Personnel during the financial year.	The aggregate values of remuneration paid by the Company to its Key Management Personnel is disclosed in Note No 34.2 Page 149.	Compliant
	h) a report containing details of compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any noncompliance.	<p>"The Annual Report of the Board of Directors on the Affairs of the Company" on pages 72 to 76 and the Corporate Governance Report on pages 39 to 71 describes the manner in which the Company has complied with prudential requirements, regulations, laws and internal controls during the year 2017.</p> <p>There was no material non-compliance to prudential requirements, regulations, laws and internal controls during 2017 affecting the Company.</p>	Compliant
	i) External Auditor's certification of the compliance with the Corporate Governance Direction in the annual corporate governance report	External auditor's certification on the effectiveness of the internal control mechanism and corporate governance has been issued by the external auditor on May 30, 2018.	Compliant

Company's adherence with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka ("Code") is tabulated below.

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>A. Directors</b>			
<b>A.1 The Board</b>			
Principle A.1	Every public company should be headed by an effective Board, which should direct, lead and control the Company.	The Company is headed by an effective Board of Directors comprised of experienced and influential individuals with diverse backgrounds and expertise as reflected in their profiles on pages from 28 to 29 of the Annual Report .	Compliant
A.1.1	Board meetings should be held at least once in every quarter of a financial year, in order to effectively execute board's responsibilities, while providing information to the board on a structured and regular basis.	The Board met twelve (12) times during the financial year 2017.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.1.2	The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed.	Board of Directors provide entrepreneurial leadership of the Company and is collectively responsible for the formulation, implementation and monitoring of business strategies of the Company, monitoring the effectiveness of the Company's risk management strategies and internal controls and compliance with ethical and legal standards.	Compliant
A.1.3	The Board collectively, and Directors individually, must act in accordance with the laws of the Country, as applicable to the business enterprise. There should be a procedure agreed by the Board of Directors, to obtain independent professional advice where necessary, at the Company's expense.	The Board collectively as well as individually complied with the laws of the country that are applicable to the Company. A process is in place for the Board to obtain independent professional advice at the expense of the Company.	Compliant
A.1.4	All Directors should have access to the advice and services of the Company Secretary, who is responsible to the Board in ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Removal of the Company Secretary should be a matter for the Board as a whole.	All Directors have access to the Company Secretary who advises the Board and ensures that applicable rules and regulations are complied with. There's no change in Company Secretary during the year under review.	Compliant
A.1.5	All Directors should bring independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of business conduct.	All directors exercise independent judgment in all decisions made by the Board.	Compliant
A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company, to ensure that the duties and responsibilities owed to the Company are satisfactorily discharged.	Every Director has dedicated adequate time and effort to the meetings of the Board and Sub- committee meetings to ensure that the duties and responsibilities are satisfactorily discharged. All Board papers are shared with the Board members at least seven days prior to the Board meetings allowing the Directors adequate time to prepare for the Board meeting	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.1.7	Training for New and Existing Directors.	Any new Director who joins the Board is given appropriate induction with regard to the affairs of the Company and laws and regulations applicable to the Company. Where required, the Corporate Management and external experts make presentation with regard to the economic and social environment to update the knowledge of any newly appointed Directors.	Compliant
<b>A.2 Chairman and the Chief Executive Officer (CEO)</b>			
Principle A.2	Chairman and CEO are two key tasks at the top of the Company. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no individual has unfettered powers of decision	The posts of the Chairman and the Chief Executive Officer (CEO) of the Company are separated ensuring the balance of power and authority. The Chairman is a Non-Executive Director while the Chief Executive Officer is an employee of the Company	Compliant
A.2.1	A decision to combine the posts of Chairman and CEO in one person should be justified and highlighted in the Annual Report.	The Roles of Chairman and CEO have not been combined.	Not Applicable
<b>A.3 Chairman's Role</b>			
Principle A.3	The Chairman's role in preserving good Corporate Governance is crucial. As the person, responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions.	The Chairman provides leadership to the Board preserving good Corporate Governance and preserve order and facilitate the effective discharge of Board functions.	Compliant
A.3.1	The Chairman should conduct Board proceedings in a proper manner.	The Chairman has conducted all Board meetings in compliance with the provisions of this rule and ensures that the Board works effectively and discharges its responsibilities and ensures that all key and appropriate issues are discussed by the Board in a timely manner.	Compliant
<b>A.4 Financial Acumen</b>			
Principle A.4	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	The Board includes members with sufficient financial acumen and knowledge including Chartered Accountants who can provide the Board with necessary guidance in conducting its business. Please refer to Director profiles on page 28.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>A.5 Board Balance</b>			
A.5 Principle	It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.	The Board for the financial year 2017 comprised of six (6) Non-Executive Directors.	Compliant
A.5.1	The Board should include Non-Executive Directors of sufficient caliber and number for their views to carry significant weight in the Board's decisions.	The current Board comprises only Non-Executive Directors and their views carry significant weight in the Board's decisions.	Compliant
A.5.2	Where the constitution of the Board of Directors includes only two Non-Executive Directors, both such Non- Executive Directors should be 'independent'.	Five out of the six Non-Executive Directors are deemed as Independent Directors (please refer page 34 of the Annual Report).	Compliant
A.5.3	For a Director to be deemed 'independent' such Director should be independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.	The independency of the Directors has been decided with full compliance to this rule.	Compliant
A.5.4	Each Non-Executive Director should submit a signed and dated declaration annually of his/ her independence or non-independence against the specified criteria set out in the Code of Best Practice on Corporate Governance	Non-Executive Directors have submitted declaration on their independency or non-independency in the required form.	Compliant
A.5.5	The Board should make a determination annually as to the independence or non-independence of each Non- Executive Director based on such a declaration made of decided criteria and other information available to the Board and should set out in the Annual Report the names of Directors determined to be 'independent'.	Based on the declarations submitted by each Board member who held office in 2017, the Board has determined that five Independent Non-Executive Directors were in the Company in 2017. The names of the Independent Directors are disclosed in the Annual report. Please refer pages from 28 to 29 of the Annual Report for profiles of the Board of Directors.	Compliant
A.5.6	If an Alternate Director is appointed by a Non- Executive Director such Alternate Director should not be an executive of the Company and such appointee should meet the criteria for Non- Executive Director	No Alternative Directors were appointed in 2017.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.5.7	In the event the Chairman and CEO is the same person, the Board should appoint one of the independent Non- Executive Directors to be the "Senior Independent Director" (SID) and disclose this appointment in the Annual Report.	Although the requirement to appoint a Senior Independent Director does not arise according to the Code of Best Practices on Corporate Governance, the Company has appointed Mr.J.C Korale as a Senior Director with effect from February 26, 2016 to comply with Section 7 (2) of the Finance Leasing (Corporate Governance) Direction No. 4 of 2009	Compliant
A.5.8	Senior Independent Director should make himself available for confidential discussions with other directors who may have concerns	The Senior Independent Director has made himself available for any confidential discussions with other Directors.	Compliant
A.5.9	The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	All Board members are Non-Executive Directors and the Chairman holds meeting with the Non- Executive Directors regularly throughout the year.	Compliant
A.5.10	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board Minutes.	All proceedings at meetings are recorded by the Company Secretaries.	Compliant

### A.6 Supply of Information

A.6 Principle	The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties	Timely and accurate information is provided to the Board to discharge its duties.	Compliant
A.6.1	Management has an obligation to provide the Board with appropriate and timely information. The Chairman should ensure all Directors are properly briefed on issues arising at Board meetings.	The management provides the Board with monthly information and all matters related to the meeting of the Board and its Sub Committees. In addition, the members of corporate management make representations to the Board Directors on important issues relating to the financial performance, strategy, risk, system and procedures. The Chairman ensures that all Directors are briefed on issues arising at Board meetings.	Compliant
A.6.2	The minutes, agenda and papers required for a Board Meeting should ordinarily be provided to Directors at least seven (7) days before the meeting, to facilitate its effective conduct.	The minutes, agenda and all other information required for the Board and its Sub Committees are submitted (7) days before the meetings.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>A.7. Appointments to the Board</b>			
A.7 Principle	There should be a formal and transparent procedure for the appointment of new Directors to the Board.	The company has appointed a Nomination Committee on January 27, 2016 for making the recommendations on new appointments to the Board. New Directors, including the Chairman are appointed by the Board by referring Articles of Association as recommended by the Nomination Committee.	Compliant
A.7.1	A Nomination Committee should be established to make recommendations to the Board on all new Board appointments. The Chairman and members of the Nomination Committee should be identified in the Annual Report.	The company has appointed a Nomination Committee for making recommendations on new appointments to the Board. The Members of the Nomination Committee are Mr. T.M. Wijesinghe (Chairman - Independent/ Non- Executive Director), Mr. H R S Wijeratne (Non- Executive Director) and Mr. U Gautam (Independent/Non-Executive Director)	Compliant
A.7.2	The Nomination Committee or in the absence of a Nomination Committee, the Board as a whole should annually assess Board-composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company.	The combined knowledge and experience of the present composition of the Board matches with the strategic demands of the Company. However, if there is a change in the directorate, the composition of the Board will be reviewed accordingly.	Compliant
A.7.3	Upon the appointment of a new Director to the Board, the Company should forthwith disclose to shareholders: a brief resume of the Director; the nature of his expertise in relevant functional areas, the names of companies in which the Director holds directorships or memberships in Board committees and whether such Director can be considered 'independent'.	All appointments of new Directors are informed to the shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange. Regulatory authorities are also informed as required.	Compliant
<b>A.8 Re-election</b>			
A.8 Principle	All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.	In terms of the Articles of Association all Directors are subject to retirement by rotation. At every AGM, the longest standing director will retire and retiring Director shall be eligible for re-election.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions in the Companies Act relating to the removal of a Director, and their re-appointment should not be automatic.	In terms of the Articles of Association all Directors are subject to retirement by rotation. At every AGM, the longest standing Director will retire and retiring Director shall be eligible for re-election.	Compliant
A.8.2	All Directors including the Chairman should be subject to election by shareholders at the first opportunity after their appointment, and to reelection thereafter at intervals of no more than three years	In terms of the Articles of Association of the Company, all Directors will be re-elected by the shareholders at the first AGM that is held soon after their initial appointment.	Compliant

### A.9 Appraisal of Board Performance

A.9 Principle	Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.	The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily.	Compliant
A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities as set out in A.1.2	The Chairman and the Board annually evaluates their performance in the discharge of key responsibilities of the Board including the performance of the Board appointed Sub-Committees.	Compliant
A.9.2	The Board should also undertake an annual self- evaluation of its own performance and that of its Committees.	The Board has adopted a scheme of self-assessment to be undertaken by each Director annually.	Compliant
A.9.3	The Board should state how performance evaluations have been conducted in the Annual Report	Please refer comment on Principle A.9.1 above and governance principles and activities on page 34.	Compliant

### A.10 Disclosure of Information in respect of Directors

A.10 Principle	Shareholders should be kept advised of relevant details in respect of the Directors.	Shareholders are kept advised of all relevant details in respect of Directors through announcement of Colombo Stock Exchange and disclosures via Annul Report.	Compliant
A.10.1	The Annual Report of the Company should set out the information in relation to each director	Please refer for information on Directors, Profile on pages 28 and 29. Director's Interest in Contracts on pages 149.	Compliant

### A.11 Appraisal of Chief Executive Officer (CEO)

A.11 Principle	The Board should be required, at least annually, to assess the performance of the CEO.	CEOs performance is appraised by the Board annually.	Compliant
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Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.11.1	At the commencement of every fiscal year, the Board in consultation with the CEO, should set, in line with the short, medium and long-term objectives of the Company, reasonable financial and non-financial targets that should be met by the CEO during the year.	The Board in consultation with the CEO determines both short term and long term targets for the company that should be met by the CEO.	Compliant
A.11.2	The performance of the CEO should be evaluated by the Board at the end of each fiscal year	Annual appraisal of the performance of the CEO is carried out by the Chairman.	Compliant

## B. Directors

### B. 1 Remuneration Procedure

Principle B1	Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.	Companies has established a formal policy on executive remuneration and for fixing the remuneration packages of individual Directors.	Compliant
B.1.1	To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board, on the Company's framework of remunerating Executive Directors.	A Remuneration Committee has been set by the Board	Compliant
B.1.2	Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman, who should be appointed by the Board.	Independent Non-Executive Director has been appointed as the Chairman of the Remuneration Committee.	Compliant
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report	This information is disclosed in the Report of the Remuneration Committee. Please refer Pages from 80 to 81	Compliant
B.1.4	The Board should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee.	The Board has decided on the remuneration of Non-Executive Directors, including members of the Remuneration Committee.	Compliant
B.1.5	The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other Executive Directors.	There were no Executive Directors in the year under review.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>B. 2 The Level and Makeup of Remuneration</b>			
B.2 Principle	Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully.	Director remunerations has been set to attract and retain the Directors needed to run the Company	Compliant
B.2.1	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors of the quality required but should avoid paying more than is necessary for this purpose.	There were no Executive Directors in the year under review.	Compliant
B.2.2	The Remuneration Committee should judge where to position levels of remuneration of the Company, relative to other Companies.	The Remuneration Committee taken into consideration market information when positioning levels of remuneration of the Company	Compliant
B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions across the Company when determining annual salary increases.	The Remuneration Committee is sensitive to remuneration and employment conditions across the Company when determining annual salary increases recommended by the Management	Compliant
B.2.4	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.	There were no Executive Directors in the year under review.	Compliant
B.2.5	Executive share options should not be offered at a discount	No share options were offered	Compliant
B.2.6	In designing schemes of performance - related remuneration, the Committee should follow the provisions set out in the Code	There are no performance related elements in remuneration. Please refer the Remuneration Committee Report on pages from 80 to 81 details of the remuneration policy of the Company.	Compliant
B.2.7	Remuneration Committees should consider what compensation commitments (including pension contributions) their Directors' contracts of service entail in the event of early termination.		Not Applicable

Section	Governance Requirement	Implementation and Compliance	Compliance Status
B.2.8	Where the initial contract does not explicitly provide for compensation commitments, the Committee should tailor their approach in early termination cases to the relevant circumstances		Not Applicable
B.2.9	Levels of remuneration for Non Executive Directors should reflect the time commitment and responsibilities of their role		Not Applicable
<b>B. 3 Disclosure of Remuneration</b>			
B.3 Principle	The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole	Report of the Remuneration Committee includes the Company's remuneration policy and details of Director Remuneration is given on page 149 of the Annual Report	Compliant
B.3.1	The Annual Report should set out the names of directors comprising the Remuneration Committee, contain a Statement of Remuneration Policy and set out the aggregate remuneration paid to Executive and Non- Executive Directors	Please refer to the Remuneration Committee Report on pages from 80 to 81 for details of the remuneration policy of the Company. Details of Director Remuneration is given on page 149 of the Annual Report. There were no Executive Directors in the Company for the year under review.	Compliant
<b>C. Relations with Shareholders</b>			
<b>C1. Constructive Use of The Annual General Meeting (AGM) and Conduct of General Meetings</b>			
C.1 Principle	Board should use the AGM to communicate with shareholders and should encourage their participation	AGMs of the Company is used to effectively communicate with shareholders. Board encourages shareholder participation at AGMs.	Compliant
C.1.1	Companies should count all proxy votes and should indicate the level of proxies lodged on each resolution, and the balance for and against the resolution and withheld, after it has been dealt with on a show of hands, except where a poll is called.	The Company has recorded all proxy votes for each resolution prior to the general meeting. All proxy votes cast at meetings are recorded by the Company Secretaries.	Compliant
C.1.2	Company should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.	Separate resolutions are passed on all substantial matters at the AGM including a separate resolution relating to the adoption of the report and accounts.	Compliant
C.1.3	The Chairman of the Board should arrange for the Chairmen of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	The Chairmen of the Audit and Remuneration Committees have been available at the Company AGM and have answered questions from the shareholders at AGMs as requested by the Chairman of the Board.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
C.14	Company should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	Notice of AGM and other related papers are sent to the shareholders as required by the Companies Act and the Articles of Association.	Compliant
C.15	A summary of the procedures governing voting at General Meetings should be circulated with every Notice of General Meeting	The Notice of Meeting and Proxy Form with instructions are supplemented to shareholders to vote at the AGM	Compliant
<b>C.2 Communication with Shareholders</b>			
C.2 Principle	The Board should implement effective communication with shareholders.	The primary mode of communication with shareholders is at the AGM. In addition, Company maintains an updated website that provides information to all stakeholders. Changes of the company are also published at the CSE.	Compliant
C.2.1	There should be a channel to reach all shareholders to disseminate information.	Company maintain an updated website that is used to disseminate financial and other information to shareholders. The website also has contract details of the Company where shareholders can provide their feedback online or via email or telephone.	Compliant
C.2.2	The policy for communication with shareholders should be disclosed	Please refer page 37 of the Corporate Governance Report for Company policy on communications with shareholders. The Company provides fair disclosure with emphasis on the integrity, accuracy, timeliness and relevance of the information provided.	Compliant
C.2.3	How the above policy is implemented should be disclosed	Shareholders are given the Annual Report from the Company either by means of a CD or in hard copy form. Shareholders may at any time request to receive the Annual Report from the Company in printed form without any charge.	Compliant
C.2.4	The contact person for such communication should be disclosed	Shareholders may, at any time, direct questions and request for publicly available information from the Company Secretary.	Compliant
C.2.5	There should be a process to make all Directors aware of major issues and concerns of shareholders.	The Company Secretary shall maintain records of all correspondence received and will deliver as soon as practicable such correspondence to the Board or individual Director/s as applicable.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
C.2.6	The person to contact in relation to shareholders' matters should be decided (the relevant person with statutory responsibilities is the Company Secretary or in his/her absence should be a member of the Board)	Company Secretary can be contacted for any queries of shareholders. Shareholders are encouraged to provide frequent feedback to the Board through the Company Secretary.	Compliant
C.2.7	The process for responding to shareholder matters should be formulated by the Board and disclosed	Please refer pages 36 to 37 of the Corporate Governance Report for Company policy on communications with shareholders.	Compliant
<b>C.3 Major and Material Transaction</b>			
C.3 Principle	In compliance with the requirements under the Companies Act, Securities and Exchange Commission law and Colombo Stock Exchange regulations; as applicable, Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter/vary the Company's net assets	During the year 2017, the Company did not engage in or commit any 'Major Transactions' which materially affected the Company's net asset base	Compliant
C.3.1	Prior to engaging in 'major related party transactions' involving the acquisition, sale or disposal of greater than one third of the value of the Company's assets, Directors should disclose to shareholders all material facts of such transaction and obtain shareholders' approval by ordinary resolution at an Extraordinary General Meeting.	Section 185 of the Companies Act requires that the Company should obtain shareholder approval by way of special resolution for such transactions. In addition, the CSE Rule on Related Party Transactions, a Board Sub Committee will be required to review all related party transactions and propose transactions exceeding this threshold for shareholder approval. However, there was no necessity for such approval during the year 2017.	Compliant
<b>D Accountability and Audit</b>			
<b>D.1 Financial Reporting</b>			
D.1 Principle	The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.	The Board has presented a balanced and understandable assessment of the Company's financial position, performance and prospects in the Annual Report	Compliant
D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	The Company has reported a true and fair view of its financial position and performance for the year ended on December 31, 2017 and at the end of each quarter of the financial year and all price sensitive information has been disclosed in a timely manner.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
D.12	The Directors' Report in the Annual Report should contain declarations by the directors to the effect set out in the Code.	Please refer Directors' Responsibility Statement on page 94 in the Annual Report.	Compliant
D.13	The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements, together with a statement by the Auditors about their reporting responsibilities. Further, the Annual Report should contain a Report on Internal Controls.	Please refer Director's Responsibility Statement on page 94 Directors' Responsibility Statement on Internal Control Over Financial Reporting on page 92 And Auditor's Report on page 97.	Compliant
D.14	The Annual Report should contain a "Management Discussion & Analysis"	Please refer pages from 10 to 26 for the Management Discussion and Analysis.	Compliant
D.15	The Directors should report that the business is a going concern	Please refer the Annual Report of the Board of Directors on pages 72 to 76.	Compliant
D.16	If the net assets of the Company fall below 50% of the value of the shareholders' funds, the directors shall forthwith summon an Extraordinary General Meeting to notify shareholders		Not Applicable
D.17	The Board should adequately disclose related party transactions in the Annual Report	Please refer Note No 34 on page 149 on Related Party Transactions.	Compliant

## D.2 Internal Control

D.2 Principle	The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets. Broadly, risk management and internal control is a process, affected by a Company's Board of Directors and management, designed to provide reasonable assurance regarding the achievement of Company's objectives.	The Board has ensured the adequacy and the integrity of the Company's internal control system to safeguard shareholders' investments and Company assets.	Compliant
D.2.1	The Directors should annually conduct a review of the risks facing the Company and the effectiveness of the system of internal controls	The adequacy and the integrity of the Company's internal control system are reviewed by the Board Audit Committee through internal audit reports and system reviews.	Compliant
D.2.2	Company should have an internal audit function	Company internal audit function is outsourced to M/s, Deloitte, Chartered Accountants.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
D.2.3	The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls, and to document to the Board and Board takes the responsibility for the disclosures on internal controls.	The Audit Committee reviewed the internal controls and procedures of the Company and the minutes of the meetings are tabled to the Board meetings. The IRMC reviews processes relating to the risk management framework of the Company and minutes of the meetings are tabled to the Board meeting subsequently.	Compliant
D.2.4	Guidance for responsibility of directors in maintaining a system of internal controls is set out in the Code	The Directors' responsibility for maintaining a sound system of internal control is given in the Directors' responsibility Statement on Internal Control over Financial Reporting on page 92 of the Annual Report.	Compliant
<b>D.3 Audit Committee</b>			
D.3 Principle	The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors	The Board has established formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles. The Board through the Audit Committee maintains an appropriate relationship with the Company's Auditors	Compliant
D.3.1	The Audit Committee should be comprised of a minimum of two independent Non-Executive Directors (in instances where a Company has only two directors on its Board) or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher.	The Audit Committee comprises of two independent non-executive directors.	Compliant
D.3.2	The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors.	Please refer to the Audit Committee Report on pages 77 to 79 for details of the duties and responsibilities of the Committee.	Compliant
D.3.3	The Audit Committee should have a written Terms of Reference, dealing clearly with its authority and duties.	The Audit Committee's Terms of Reference is stated in the Company's, The audit committee charter.	Compliant
<b>D.3.4 Disclosures</b>			
D.3.4	The names of Directors comprising the Audit Committee should be disclosed in the Annual Report. The Annual Report should contain a report by the Audit Committee mentioning a determination of the independence of the Auditors and the basis of such determination	Please refer Audit Committee Report on pages 77 to 79.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>D.4 Code of Business Conduct &amp; Ethics</b>			
D.4 Principle	Company must adopt a Code of Business Conduct and Ethics for Directors, and Key Management Personnel	Company has adopted the Code of Business Conduct and Ethics for Directors, and Key Management Personnel	Compliant
D.4.1	The existence of a Code of Business Conduct and Ethics for Directors and Key Management Personnel should be disclosed in the Annual Report with an affirmative declaration of compliance	Please refer the Annual Report of the Board of Directors on pages 72 to 76.	Compliant
D.4.2	The Chairman must affirm in the Annual Report that he is not aware of any violation of the Code	No violations have been reported during the year. Please refer the Annual Report of the Board of Directors on pages 72 to 76.	Compliant
<b>D.5 Corporate Governance Disclosures</b>			
D.5 Principle	Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.	Please refer Corporate Governance Report on Pages from 39 to 71.	Compliant
D.5.1	The Directors should include in the Company's Annual Report a Corporate Governance Report.	Please refer Corporate Governance Report on Pages from 39 to 71.	Compliant
<b>E Institutional Investors</b>			
<b>E.1 Shareholder Voting</b>			
E.1 Principle	Institutional shareholders have a responsibility to make considered use of their votes	Institutional shareholders make use of their votes to ensure their voting intentions are translated into practice.	Compliant
E.1.1	A regular and structured dialogue should be conducted with shareholders	The Annual General Meeting is used as a forum to have a structured and objective dialogue with shareholders	Compliant
<b>E.2 Evaluation of Governance Disclosures</b>			
	When evaluating governance arrangements, institutional investors should be encouraged to give due weight to all relevant factors	Institutional investors are encouraged to give weight to governing arrangements	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>F Other Investors</b>			
<b>F.1 Investing/ Divesting Decision</b>			
Principle F.1	Individual shareholders should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions	Individual shareholders investing directly in the Company are encouraged seeking independent advice in investing or divesting decisions. The Annual Report contains sufficient information for potential investors to carry out their own analysis and quarterly financial statements contains information on the progress of the Company to take decisions.	Compliant
<b>F.2 Shareholder Voting</b>			
F.2 Principle	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	Individual shareholders are encouraged to participate at the Annual General Meeting and to exercise their voting rights.	Compliant

Compliance with the Corporate Governance rules as per section 7.10 of the listing rules of the Colombo Stock Exchange

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>7.10.1 Non-Executive Directors</b>			
7.10.1	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors	All six directors of the Board are Non-Executive Directors.	Compliant
7.10.2	Independent Directors		
7.10.2(a)	Two or one-third of Non-Executive Directors, whichever is higher, should be independent.	Five out of the six Non-Executive Directors are deemed as Independent Directors. Please refer the Annual Report of the Board of Directors on pages 72 to 76.	Compliant
7.10.2(b)	The Board shall require each Non-Executive Director to submit signed declaration of independence/ non-independence annually	All Directors have been submitted annual declarations during the year.	Compliant
<b>7.10.3 Disclosures relating to directors:</b>			
7.10.3 (a)	Names of Independent Directors should be disclosed in the Annual Report	Please refer page 72 to 76 of the Annual Report of the Board of Directors.	Compliant
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report	No such determination was required to be made by the Board, as the Independent Directors of the Company met the specified criteria.	Compliant
7.10.3 (c)	A brief résumé of each Director should be published in the Annual Report including the areas of expertise	Please refer page 28 to 29 for the profiles of Board of Directors.	Compliant
7.10.3 (d)	A brief résumé of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public	When an appointment of a new director, Company immediately submits a brief resume of such Director to the CSE.	Compliant
<b>7.10.4 Criteria for determination of independency of Directors</b>			
7.10.4 (a-h)	Requirements for meeting criteria to be independence of a Non-Executive Director	All of the Independent Directors of the Company met the criteria for independency specified in this rule.	Compliant
<b>7.10.5 Remuneration Committee</b>			
	A listed company shall have a Remuneration Committee	The Company has a Remuneration Committee appointed by the Board	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
7.10.5(a)	The Remuneration Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher. One Non-Executive Director shall be appointed as Chairman of the Committee by the Board.	The Remuneration Committee comprises of two non-executive directors and one of them acts as a Chairman of the committee. Please refer the "Report of the Remuneration Committee" on pages 80 to 81	Compliant
7.10.5(b)	The Committee shall recommend to the Board the remuneration payable to the executive directors and Chief Executive Officer. The Board will make the final determination upon consideration of such recommendations.	Please refer the Report of the Remuneration Committee on pages 80 to 81.	Compliant
7.10.5(c)	The annual report should set out the names of directors comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors.	Please refer the Report of the Remuneration Committee on pages 80 to 81 for the composition of the Remuneration Committee. Total fees and remuneration paid to all Directors is disclosed on Note No 34 on page 149.	Compliant
<b>7.10.6 Audit Committee</b>			
7.10.6	A Listed Entity shall have an audit committee	Please refer the 'Audit Committee Report' on pages 77 to 79 in the Annual Report.	Compliant
7.10.6(a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors, or a majority of Independent Non-Executive Directors, whichever is higher. One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board	All the members of the Audit Committee are Non-Executive Directors. One of those Directors acts as the Chairman of the Committee.	Compliant
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.	Both the Chief Executive Officer and the Chief Financial Officer attends the meetings	Compliant
	The Chairman or one member of the Committee should be a member of a recognised professional accounting body.	The Chairman of the Audit Committee is a Fellow member of CA Sri Lanka and Fellow Member of the Chartered Institute of Management Accountants – UK. Please refer page 28 for profiles of the Audit Committee members	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
7.10.6(b)	<p>Overseeing whether the Financial Statements of the Company in accordance with Sri Lanka Accounting Standards</p> <p>Overseeing the Company's compliance with financial reporting in accordance with the regulations</p> <p>Overseeing to ensure the adequacy of Company's internal control and risk management process</p> <p>Assessment of the independence and the performance of External Auditors</p> <p>To make recommendation to the Board pertaining to the appointment, reappointment and removal of External Auditors and approve their remuneration and Terms of Engagement</p>	Please refer to the Audit Committee Report on pages 77 to 79.	Compliant
7.10.6(c)	<p>The Annual Report shall set out</p> <p>The names of the Directors who comprise the Audit Committee.</p> <p>The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.</p> <p>A report by the Audit Committee setting out the manner of compliance of the functions set out in above, during the period to which the Annual Report relates</p>	Please refer to the Audit Committee Report on pages 77 to 79.	Compliant

## Annual Report of the Board of Directors on the Affairs of the Company

The Directors of SMB Leasing PLC have pleasure in submitting their report together with the audited financial statements of the Company, Consolidated Financial Statements of the Group for the year ended December 31, 2017 and the Auditors' Report thereon. The Financial Statements were accepted and approved by the Board of Directors on May 30, 2018.

The following details set out in the report provide information required by the Companies Act No 7 of 2007 and the Listing Rules of the Colombo Stock Exchange and are guided by recommended Code of Best Practices on Corporate Governance issued by the Securities and Exchange Commission of Sri Lanka.

### Review of Performance for the year ended December 31, 2017

The operations of the Company for the year ended December 31, 2017 are reviewed in the Chairman's Message and the Chief Executive Officer's Message and in Management Discussion and Analysis report.

### Principal Activities and the Structure

SMB Leasing PLC is a Public Limited Liability Company incorporated in Sri Lanka on September 3, 1992 under the Companies Act No 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 (Reg: No PQ- 91) and registered as a Finance Leasing establishment under the Finance Leasing Act No. 56 of 2000. The Company is listed on the Main Board of the Colombo Stock Exchange since 1993.

During the year, the Principal Activity of the Company was to carry out the business of Finance Leasing, Loans and Pawning. The major shareholder of the Company is Dr. T. Senthilverl who has a direct holding of 29.75% as at December 31, 2017.

### Principal Activities of the Subsidiary

The principal activity of the Company's Subsidiary, SMB Money Brokers (Pvt) Ltd is money brokering activities.

### Principal Activities of the Associate

Kenanga Investment Corporation Ltd is engaged in investment banking related activities & providing advisory services.

### Financial Statements

The Financial Statements of the Group and the Company are given on page 98 to 103 of the Annual Report.

### Significant Accounting Policies

The significant accounting policies adopted in the preparation of Financial Statements are given on page 104 to 157 of the Annual Report.

As per the accounting policy of the Company given in Note No. 2.11.2 on page 107, the investment in Associate is accounted under the equity method and share of profit / (loss) of the Associate for each financial year is accounted in the Group Financial Statements based on audited financial statements of the Associate.

### Auditors

The Financial Statements for the year ended December 31, 2017 have been audited by Messrs. KPMG, Chartered Accountants who offer themselves for re-appointment. A resolution relating to their re-appointment and authorizing the Directors to determine their remuneration will be proposed at the Annual General Meeting. The fees paid to the Auditors are disclosed in Note No. 10.2 to on Page 127 of the Annual Report. As far as the Directors are aware, the Auditors do not have any relationship with the Company other than that of Auditors. The Auditors have provided a declaration confirming their independence.

### Auditors' Report

The Auditors' Report on the Financial Statements is given on the page 97 of the Annual Report.

## Board of Directors

The following were Directors of the Company for the year ended December 31, 2017.

Mr. H. R. S. Wijeratne (Chairman)  
 Mr. U. Gautam (Deputy Chairman)  
 Mr. J. C. Korale  
 Mr. T. M. Wijesinghe  
 Mr. A. T. S. Sosa  
 Mr. M. S. A. Wadood  
 Mr. T. C. A. Peiris\*  
 Mr. S. N. P. Palihena \*\*

\* Mr. T. C. A. Peiris ceased to be a Director with effect from November 29, 2017.

\*\* Mr. S. N. P. Palihena ceased to be a Director with effect from February 22, 2017.

## Retirement of Directors

In terms of Article 87 of the Articles of Association of the Company Mr. T. M. Wijesinghe retires and being eligible to offer himself for re-election

## Independent Directors

During the year, the following Directors were acting as the Independent Non- Executive Directors of the Company;

Mr. U. Gautam  
 Mr. J. C. Korale  
 Mr. T. M. Wijesinghe  
 Mr. A. T. S. Sosa  
 Mr. M. S. A. Wadood  
 Mr. T. C. A. Peiris\*  
 Mr. S. N. P. Palihena \*\*

\* Mr. T. C. A. Peiris ceased to be a Director with effect from November 29, 2017.

\*\* Mr. S. N. P. Palihena ceased to be a Director with effect from February 22, 2017.

## Directors Shareholdings

The shareholdings of the Directors of the Company are shown on page 88 of the Annual Report.

## Directors Interest in Contracts

The Directors of the Company have no direct or indirect interest in any contract or proposed contract with the Company, except those specified in Note 34 on page 149 of the Annual Report, which have been disclosed and declared at meetings of Directors.

## Interest Register

The Directors' interest register is maintained by the Company and relevant disclosures are made where appropriate.

## Board Sub-Committees

The Board, while assuming the overall responsibility and accountability for the management of the Company has also appointed following Board Sub- Committees to ensure more effective control over certain affairs of the Company, conforming to the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, the Listing Rules of the Colombo Stock Exchange and the Directions of the Finance Leasing Act No 56 of 2000.

- Audit Committee
- Remuneration Committee
- Integrated Risk Management Committee
- Nomination Committee
- Related Party Transaction Review Committee

Audit Committee Report is given on the pages 77 to 79 of the Annual Report. Remuneration Committee Report is given on the pages 80 to 81 of the Annual Report. Risk Committee Report is given on the page 84 of the Annual Report. Nomination Committee Report is given on the page 82 of the Annual Report. Related Party Transaction Review Committee Report is given on the page 83 of the Annual Report.

## Directors Fees and Remuneration

Directors Fees and Remuneration paid for the financial year ended December 31, 2017 is given on Note No. 34.2 on page 149 of the Annual Report.

## Directors Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company to reflect the true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRS and LKAS) and Companies Act No. 7 of 2007, unless otherwise disclosed in Notes to the Financial Statements

## Corporate Governance

The Board of Directors has acknowledged the responsibility to maintain an effective corporate governance structures and processes and to be in compliance with all relevant rules, regulations and best practices. The Company being listed on the Colombo Stock Exchange is in compliance with the Listing Rules on Corporate Governance of the Colombo Stock Exchange. In addition, the Company is substantially in compliance with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and the Direction No 4 of 2009 on Corporate Governance of the Finance Leasing Act No 56 of 2000. Company's compliance with rules on corporate governance are given in corporate governance report on pages 34 to 71.

## Risk Management and Internal Controls

The Board of Directors considers that strong internal controls are integrated to the sound management of the Company and is committed to maintain strict financial, operational and risk management controls over all activities of the Company.

## Compliance with Rules & Regulations

The Company has complied with the regulations and the directions issued by the Central Bank of Sri Lanka (CBSL) and tax and other regulations applicable to the Company and have submitted all the returns and the details to the relevant parties by the due dates. In addition, the Company complies with the Financial Transaction Reporting Act No 06 of 2006 by sending a monthly report to the Financial Intelligence Unit (FIU)

of Central Bank of Sri Lanka (CBSL). Compliance Reports have been submitted to the Board on monthly basis confirming the same.

## Going Concern

After considering the financial position as at the reporting date and considering the future prospects of the Company the Directors have a reasonable expectation that the Company has adequate resources to continue in operations in the foreseeable future. Therefore, the Directors have adopted the assumption of going concern in preparing these Financial Statements.

## Statutory Payments

The Directors confirm that to the best of their knowledge and belief, all statutory payments in relation to all relevant regulatory and statutory authorities have been paid and provided for. A statement of compliance by the Board of Directors in relation to statutory payments is included in the Directors Responsibility on Financial Reporting Statement on page 94.

## Environmental Protection

The Directors have ensured that every possible step has been taken to comply with the relevant environmental laws and regulations in the country. The Company has not engaged in any activity that is harmful or hazardous to the environment

## Financial Results of the Group

Rs Mn	2017	2016
Profit after tax	40,01	78.7
Un-appropriated profit brought forward	190.7	150.7
Profits available for appropriation	230.8	229.4
Other comprehensive income/(expense)	(0.5)	1.2
Transfers to statutory reserves	(1.9)	(3.8)
Dividend paid	-	(36.1)
Un-appropriated profit carried forward	228.4	190.7

## Group Revenue

The revenue of the group was Rs. 254 Mn (2016 - Rs. 206 Mn). An analysis of revenue based on segments is disclosed in the segmental analysis on page 157 of the Annual Report.

## Financial Investments

Financial investments mainly comprise of the investment portfolios, which have been segregated into different categories as required by Sri Lanka Accounting Standards (SLFRS and LKAS).

The amount of financial investments held by the Group as at December 31, 2017 amounted to Rs. 59.5 Mn (2016 - Rs. 12.9 Mn). A detailed description of the financial investments is disclosed in Note No16 on pages 131 to 137 of the Annual Report

## Property, Plant & Equipment

Details relating to Property, Plant & Equipment are disclosed in Note No 20 on pages 139 to 140 of the Annual Report.

## Intangible Assets

The capital expenditure on acquisition of intangible assets during the year amounted to Rs. 3.8 Mn (2016 - Nil). The carrying value of intangible assets as at the reporting date amounted to Rs. 3.7 Mn (2016- Rs. 3.3 Mn). Movement of intangible assets from the balance as at January 1, 2017 to balance as at December 31, 2017, additions and disposals made and amortization charge for the year is disclosed in the Note No 21 on page 141 of the Annual Report. Following their initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

## Fair Value of Investment Properties

The fair value of the investment property owned by the Company is stated in Note No 19.1 on page 139 of the Annual Report.

## Reserves

The reserves consist of Statutory Reserve Fund, Available for Sale Reserve and the Retained Reserves. The reserves of the group are disclosed in the Statement of Changes in Equity on page 102 and in Note No 28 to 30 on pages 143 to 144 of the Annual Report.

## Stated Capital

The Stated Capital of the Company as at December 31, 2017

was Rs 919,064,114 comprising 1,805,832,873 number of ordinary shares.

## Loan Capital

The Company had issued quoted / unquoted, unsecured, subordinated, redeemable debentures to mobilize funds to be used in the disbursement of lease and loan facilities.

## Taxation

A detailed description of the income tax rate applicable to the Company and a reconciliation of the accounting profits with the taxable profits are given in Note No 11 on pages 127 to 129 of the Annual Report.

The group policy is to provide for deferred taxation on all known temporary differences as at the reporting date on the liability method. The deferred tax details of the Company is disclosed in Note No 11.3 on pages 128 to 129 of the Annual Report.

## Donations

The donation during the year amounted to Rs.20, 000 (2016 - Nil).

## Provisions

The Directors have taken all responsible steps to ensure adequate provisioning has been made for all known liabilities. The basis adopted for provisioning is disclosed in Accounting Policy No 4.12 on page 120 of the Annual Report.

As at the date of the Report, the Directors are not aware of any circumstances, which would render inadequate the amounts provided for in the Financial Statements.

## Related Party Transactions

The Directors have disclosed the transactions with related parties in terms of the Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosures. The details of the Related Party Transactions are disclosed in Note No 34 on Page 149 of the Annual Report.

## Events After the Reporting Date

Events that have occurred after the reporting date have been disclosed in Note No 33 on page 149 of the Annual Report.

### Capital Commitments

The Capital Expenditure commitments is disclosed in Note No 32.1 on page 149 of the Annual Report.

### Contingent Liabilities

The Contingent Liabilities is disclosed in the Note No 32.2 on page 149 of the Annual Report.

### Share Information

Information relating to Earnings, Net Assets, and Market value per share and share trading is given on page 87 of the Annual Report.

### Major Shareholders

Details of the top twenty Shareholders of the Company and the percentages held by each of them are disclosed on page 87 of the Annual Report.

### The distribution and analysis of the shareholders

The details of the distribution and analysis of shareholders is given on the page 89 of the Annual Report.

### Human Resources Policy

It is the Company policy to practice equal opportunity for all employees. The Company continuously invests in training and development of staff in order to maintain a dedicated and highly motivated team to achieve service excellence.

A brief description of the Company's HR Policy and the Remuneration Methodology is given in the Human Capital Management Report on pages 20 to 26 of the Annual Report.

The Company's strength of manpower as at December 31, 2017 was 47 (2016 - 51)

### Code of Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics for all its employees and has mandated that it should be followed without any exception. The Company has also adopted Code of Conduct and Ethics for Directors. The Directors and the Key Management Personnel had declared compliance with the relevant Code of Conduct and Ethics.

### Equitable treatment to stakeholders and their interest

The Company has taken all steps to ensure the equitable treatment to all stakeholders. The Directors assure that the Company has taken necessary precautions to safeguard the interest of its stakeholders.

### Annual Report

The Board of Directors approved the Company Financial Statements together with the reviews which forms part of the Annual Report on May 30, 2018. The appropriate number of copies will be submitted to the Colombo Stock Exchange, Central Bank of Sri Lanka, Sri Lanka Accounting and Auditing Standards Monitoring Board and the Registrar of Companies within the time frame.

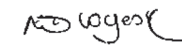
### Annual General Meeting

The Annual General Meeting will be held at the Renuka City Hotel, 328, Galle Road, Colombo 03 on June 29, 2018 at 10.00 a.m. The notice of Annual General Meeting is given on pages 160 to 165 of the Annual Report.

This report is signed for and on behalf of the Board of Directors by,



**Ravi Wijeratne**  
Chairman



**P W Corporate Secretarial (Pvt) Ltd.**  
Company Secretaries

Colombo.  
May 30, 2018

## Report of the Audit Committee

### Composition of the Committee

The Board Audit Committee (BAC) appointed by and responsible to the Board of Directors comprises of two Independent Non-Executive Directors and is in line with the Audit Committee composition requirements specified in the Finance Leasing (Corporate Governance) Direction issued by the Central Bank of Sri Lanka and the requirements in Section 7.10.6 of the listing rules issued by the Colombo Stock Exchange. All members of the Committee have a depth of financial expertise and business acumen and the Committee is conscious of the need to keep its knowledge up to date. More information on experience of and brief profiles of the committee members are given on page 28 to 29 in the Annual Report.

Name	Directorship Status	Status
Mr. J C Korale	Independent/Non-Executive Director	Chairman
Mr. U Gautam	Independent/Non-Executive Director	Member

### The Charter

The audit committee charter defines the terms of reference of the Committee and has been periodically revised by the Board of Directors to ensure that developments to the Committee's functions and concerns are adequately addressed. The Committee is responsible to the Board of Directors and reports on its activities regularly to the Board.

The functions of the Committee are geared to assist the Board of Directors in carrying out its oversight functions in relation to the accuracy and integrity of the financial statements and compliance with legal and regulatory requirements with a view to safeguarding interests of shareholders and other stakeholders. The Committee also oversees the effectiveness of the system of internal controls and independence and performance of the internal and external auditors.

### Meetings

The Committee met on eighteen (18) occasions during the financial year ended December 31, 2017. Proceedings of these meetings with adequate details of matters discussed are regularly reported to the Board of Directors.

Name	Attended / Eligible to Attend
Mr. J. C. Korale	18/18
Mr. U. Gautam	8/10

As per Section 7.10.6 (a) of the Listing Rules, the Chief Executive Officer and Chief Financial Officer attended the Committee meetings by invitation. The Company's internal auditor, Messrs. Deloitte was invited to participate in meetings where internal audit reports were discussed. The members of the management team were invited to participate in meetings as and when required. The Company's external auditor Messrs. KPMG was invited to a meeting in which the 2016 management letter was discussed.

Any individual member of the Committee had the opportunity to raise specific issues at the meetings. The undersigned was in regular contact with the Chief Executive Officer and the Chief Financial Officer on matters coming under the purview of the Committee. P W Corporate Secretarial Ltd acted as Secretaries to the BAC.

### Activities of the Committee

**Financial Reporting** – The Committee assisted the Board in its oversight on the preparation of financial statements to evidence a true and fair view on the financial position and performance of the Company. The BAC has reviewed and discussed with the management, the annual and interim financial statements prior to their release. The review included the extent of compliance with the Sri Lanka Accounting Standards, provisions of Companies Act and other legal and regulatory requirements applicable to the Company.

The Committee also reviews the effectiveness of the financial reporting systems in place to ensure reliability of the information provided in the financial statements and the accounting policies to determine the appropriateness of accounting policies and recommending changes to accounting policies where necessary. BAC also reviewed significant estimates and judgments made by the management in preparing financial statements.

**Internal Controls** – Finance Leasing (Corporate Governance) Direction requires the Committee to assess the Company's compliance with Directions issued by CBSL and the

management's internal controls over financial reporting. Section 7.10.6 b (3) of Listing Rules requires the Committee to oversee the processes to ensure that the Company's internal controls and risk management, are adequate, to meet the requirements of the Sri Lanka Auditing Standards.

The Committee is assisted by the internal and external auditors to closely monitor the procedures designed to maintain an effective internal control mechanism to provide reasonable assurance that the above requirements are being complied with thereby ensuring that the financial reporting system can be relied upon in preparation and presentation of financial statements.

A report by the Board on the Company's internal control mechanism confirming that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements is given in page 92. The external auditor's certification on the effectiveness of the internal control mechanism was issued on May 30, 2018.

**Internal Audit** – On behalf of the Committee, the internal auditor Messrs. Deloitte performs a comprehensive exercise that entails reviewing all aspects of internal controls of the Company including controls over financial reporting, operations and regulatory risks. The Committee reviews the adequacy of the scope, annual internal audit plan, functions and resources of the internal auditors and satisfy itself that the internal auditors have the necessary authority to carry out their work. The Committee provides a forum to review internal audit reports, consider the findings and recommend corrective actions to be taken by the management with a follow up monitoring mechanism that manages significant business risk and controls.

**External Audit** – The BAC is primarily responsible for making recommendations to the Board on the appointment, reappointment or removal of the external auditor in-line with professional standards and regulatory requirements. The Committee also evaluates and makes recommendations to Board regarding the external audit fee. On the recommendation

of the Board, the shareholders have approved the reappointment of Messrs. KPMG (Chartered Accountants) as the external auditor of the Company for the financial year 2017. Messrs. KPMG has been the external auditor of the Company since its inception in 1992. However, the engagement audit partner is rotated every five years.

As far as the BAC is aware, the external auditors do not have any relationship (other than that of auditors and associated therewith) with the Company. The Committee has also received a declaration from Messrs. KPMG, Chartered Accountants as required by the Company's Act No 7 of 2007, confirming that they do not have any relationship with the Company, which may have a bearing on their independence within the meaning of the Code of Best Practice on Corporate Governance issued jointly by the Securities & Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and the listing rules issued by the Securities and Exchange Commission of Sri Lanka. The Committee reviewed the non- audit services provided by the auditors to ensure that the provisions of these services do not impair their independence to the best of knowledge and belief of the Committee.

The Committee reviewed external auditors' findings in the Management Letter relating to the previous financial year (2016) together with the management responses thereto, in the presence of corporate management and relevant business heads along with the external auditor. The BAC met the external auditors in 2017 without the presence of CEO and the corporate management. This meeting provided an opportunity to the external auditor to discuss any issues, problems and reservations arose during the 2016 financial statement audit and also to ensure that there was no limitation of scope in relation to the audit and to allow disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit. The BAC concluded that there was no cause for concern.

The Committee has recommended to the Board of Directors that Messrs. KPMG, Chartered Accountants, be reappointed as the external auditors for the financial year ending December 31, 2018 subject to the approval of the shareholders at the next Annual General Meeting.

**Oversight on Regulatory Compliance** - The Committee closely scrutinizes the compliance with mandatory statutory requirements and the systems and procedures in place to ensure compliance with such requirements. The quarterly internal audit reports submitted by the internal auditor and the monthly reports submitted by the compliance officer were used by the Committee to monitor compliance with all such legal and statutory requirements.

**Ethics and Good Governance** - The Committee ensures highest standards of good governance and ensures full compliance with the applicable rules on corporate governance under the Listing Rules of the Colombo Stock Exchange. In addition, the Committee also ensures that the Company is substantially compliant with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and the CBSL Directions on corporate governance.

**Whistle Blowing** - The Committee has recommended an introduction of a whistleblower policy which intends to serve as an informal channel for the corporate risk management. An employee, who observes or notices any improper activity

or unethical practices in the Company or receives credible information of the same, may forthwith report the same to the Committee. The Committee wish to take swift and objective steps to conduct independent investigations into all such incidents that are reported through whistleblowing once due approval for the policy is obtained. The Committee has authority to investigate into any matter, including call an employee to be questioned at a meeting of the Committee and authority to obtain external professional advice as deemed necessary by the Committee.

### **Conclusion**

The Audit Committee is satisfied that the internal controls and procedures in place for assessing and managing risks are adequately designed and operate effectively and is of the view that they provide reasonable assurance that the Company's assets are safeguarded and that the financial statements of the Company are reliable. In addition, the Committee is satisfied that the Company's compliance framework provides reasonable assurance that all relevant laws, rules, regulations, codes of ethics and standards of conducts have been followed and complied with by the Company.



**U. Gautam**

*Member, Audit Committee*

*May 30, 2018*

## Report of the Remuneration Committee

### Composition of the Committee

The Remuneration Committee appointed by the Board of Directors comprises of two Non-Executive Directors and meets composition requirements stated in Section 7.10.5 of the Listing Rules issued by the Colombo Stock Exchange. The following members served on the Committee during the year 2017. More information on experience of and brief profiles of the Committee members are given on page 28 to 29 in the Annual Report.

Name of the Board sub-committee member	Directorship status	Membership status
Mr. T. M. Wijesinghe	Independent/Non-Executive Director	Chairman
Mr. U. Gautam	Independent/Non-Executive Director	Member

### Terms of Reference

The Committee operates within Board approved terms of reference and assists the Board of Directors in developing and administering fair and transparent HR procedures and policies and in implementing the overall human resources strategy of the Company.

The Committee evaluates, assesses and recommends the remuneration of Directors to the Board, interviews external applicants for DGM/C-suite grade and above and determine remuneration packages for the senior corporate management personnel based on their qualifications, experience, competency and comparable market statistics. The Committee also interviews internal candidates recommend for promotions to Chief Manager grade and above positions to ensure a consistent leadership competency framework is applied to judge the suitability of the candidates and evaluates the performance of the CEO and senior corporate management. The Committee consults the Chairman of the Board as and when required in achieving the above objectives. The Committee is authorized to seek external professional advice on matters within its purview.

### Meetings

The Committee meets when required to make recommendations to the Board on matters related to its functions. The Chairman of the Committee can convene a special meeting in the event a requirement arises. During the year 2017, the Committee formally met once to determine the bonus payable for the 2016 performance and the attendance of the members at that meetings is given below. However, the Chairman of the Committee continuously provided insights to the Board of

Directors and the Chairman of the Board when HR related matters were discussed at Board meetings.

Name	Attended / Eligible to Attend
Mr. T. M. Wijesinghe	1/1
Mr. U. Gautam	1/1

The Chief Executive Officer, Chief Financial Officer and Head of HR may be invited to participate at the sittings of the Committee meetings as and when required by the Chairman, considering the topics for deliberation at such meeting. The proceedings of the Committee meetings are regularly reported to the Board of Directors. P W Corporate Secretarial Ltd acted as Secretaries to the Committee.

### Activities of the Remuneration Committee

The activities of the Remuneration Committee during the year under review included the following.

- Making recommendations to the Board on the Company's organization structure and HR policies
- Aligning human resources department with the corporate strategy function to facilitate a human resources transformation
- Making recommendations to the Board on the selection, appointment and remuneration packages of two senior corporate management personnel.
- Ensuring employees of the Company at all levels are adequately rewarded for their performance in line with the remuneration policy of the Company

- Recommending promotions, bonuses and increments to the Board for adoption.
- Deliberate on succession planning, human capital risks and plans to mitigate them

### **Remuneration Policy**

The remuneration policy of the Company aims to attract, motivate and retain high-caliber staff with the appropriate professional, managerial and operational expertise, necessary to achieve the strategies and objectives of the Company and reward their performance commensurate with each employee's qualifications, level of experience and contribution, bearing in mind the business performance and shareholder returns.

### **Director's Remuneration**

The Board decides the remuneration of the Non-Executive Directors based on the recommendation of the Committee. All Non-Executive Directors receive a fee for attending Board meetings and Committee meetings. No performance or incentive payments are made to the Non-Executive Directors and they are not entitled to retirement benefits. The Company does not have share option plans for Directors and no Director is entitled for Company loans. The total of Directors' remuneration paid during the year under review is set out in Note 34.2 of the financial statements.



**T. M. Wijesinghe**

*Chairman, Remuneration Committee*

*May 30, 2018*

## Report of the Nomination Committee

### Composition of the Committee

The Nomination Committee appointed by the Board of Directors comprises of two Non-Executive Directors and meets composition requirements stated in the Code of Best Practice on Corporate Governance issued jointly by the Securities & Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. The following members served on the Committee during the year 2017. More information on experience of and brief profiles of the Committee members are given on page 28 to 29 in the Annual Report.

Name of the Board sub-committee member	Directorship status	Membership status
Mr. T. M. Wijesinghe	Independent/Non-Executive Director	Chairman
Mr. U. Gautam	Independent/Non-Executive Director	Member

### Terms of Reference

The Nomination Committee makes recommendations to the Board on all new Board appointments. Terms of Reference of the Nomination Committees includes the following.

- Propose appointments to the Board of Directors and provide advice and recommendations to the Board and/or the Chairman on any such appointment
- Advise the Board on qualifications, competencies and independence of Directors and relationships which have potential to give rise to conflict vis-a-vis the business of the Company.
- Consider if a Director is able to and has been adequately carrying out his or her duties as a Director, taking into consideration the number of listed company boards on which the Director is represented and other principal commitments

The Committee is authorised by the Board to seek appropriate professional advice inside and outside the Company as and when it considers necessary.

### Meetings

The Committee meets when required to make recommendations to the Board on matters related to its functions. The Chairman of the Committee can convene a special meeting in the event a requirement arises. Members of the Nomination Committee do not participate in decisions relating to their own appointment. During the year 2017, the Committee formally met once.

The Secretary of the Company, P W Corporate Secretarial Ltd

Name	Attended / Eligible to Attend
Mr. T. M. Wijesinghe	1/1
Mr. U. Gautam	1/1

acted as Secretaries to the Committee. The Minutes of the meetings of the Committee is circulated to all members of the Board.

### Activities in 2017

During the year, the Committee discussed and recommended to the Board two candidates considering their skills and diverse experience to fill vacancies on the Board. The Committee continued to work closely with the Board of Directors on matters assigned to the Committee and reported back to the Board of Directors with its recommendations.



**T. M. Wijesinghe**

Chairman, Nomination Committee

May 30, 2018

## Report of the Related Party Transactions Review Committee

### Composition of the Committee

The Related Party Transactions Review Committee appointed by the Board of Directors comprises of two Non-Executive Directors and meets composition requirements stated in Section 9 of the Listing Rules issued by the Securities and Exchange Commission of Sri Lanka. The following members served on the Committee during the year 2017. More information on experience of and brief profiles of the Committee members are given on page 28 to 29 in the Annual Report.

Name of the Board sub-committee member	Directorship status	Membership status
Mr. J. C. Korale	Independent/Non-Executive Director	Chairman
Mr. U. Gautam	Independent/Non-Executive Director	Member

### Terms of Reference

The purpose of the Committee is to provide independent review, approval and oversight of Related Party Transactions of the Company. Terms of Reference of the Related Party Transaction Committees includes the following.

- Advising the Board in making immediate market disclosures on applicable RPT as required by Section 9 of the Continuing Listing Requirements of the Colombo Stock Exchange.
- Advising the Board in making appropriate disclosures on RPT in the Annual Report as required by Section 9 of the Continuing Listing Requirements of the Colombo Stock Exchange.

The Committee is authorised by the Board to seek appropriate professional advice inside and outside the Company as and when it considers necessary.

### Meetings

The Committee meets quarterly, and minutes of all meetings are properly documented and communicated to the Board of Directors. The Chairman of the Committee can convene a special meeting in the event a requirement arises. During the year 2017, the Committee met four (4) times.

Name	Attended / Eligible to Attend
Mr. J. C. Korale	4/4
Mr. U. Gautam	4/4

The proceedings of the Committee meetings were regularly reported to the Board of Directors. The Committee is assisted by the Chief Executive Officer and Chief Financial Officer who attended the meetings of the Committee on a regular basis. The Secretary of the Company, P W Corporate Secretarial Ltd acted as Secretaries to the Committee.

### Activities in 2017

During 2017, the Committee introduced a format for management to report transactions for the review of the RPT Committee. The format is prepared in accordance with the rules pertaining to RPTs under the Listing Rules of Colombo Stock Exchange.

In the opinion of the Committee there were no transactions with Related Parties that were more favourable or preferential during the period under review and there were no non-recurrent or recurrent related party transactions that exceeded the respective thresholds as stipulated by Listing Rules of the Colombo Stock Exchange.

Details of other Related Party Transactions are given in Note No. 34 to the Financial Statements on page 149 of the Annual Report.



**U. Gautam**

Member, RPT Committee

May 30, 2018

## Report of the Integrated Risk Management Committee

The Integrated Risk Management Committee (IRMC) 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 to ensure the adequacy and effectiveness of the risk management framework of the Company. The Committee meets the composition requirements stated in the Finance Leasing (Corporate Governance) Direction No 4 of 2009 issued by the Central Bank of Sri Lanka. The committee comprises the following members.

Mr. S. N. P. Palihena* <i>Independent/Non-Executive Director</i>	Chairman
Mr. T.C.A. Peiris **	Chairman
Mr. U. Gautam ***	Chairman
Chief Executive Officer	Member
Chief Operating Officer	Member
Chief Financial Officer & Head of Strategy	Member
Assistant General Manager – Legal	Member
Head of Credit	Member
Head of Sales	Member
Senior Operations Manager – <i>Admin &amp; Recovery</i>	Member
Accountant & Compliance Officer	Member

\* Mr. S.N.P. Palihena ceased to be a Director with effect from February 22, 2017.

\*\* Mr. T.C.A. Peiris was appointed w.e.f. March 29, 2017 and ceased on November 29, 2017

\*\*\* Mr. U. Gautam appointed as the Chairman of IRMC w.e.f. December 27, 2017

### Terms of Reference

The Committee adopted the provisions of Section 8 (3) of the Finance Leasing (Corporate Governance) Direction No 4 of 2009 issued by the Central Bank of Sri Lanka as its terms of reference. A detailed approach of the Company's risk management process is given on pages 85 to 86 of the Annual Report.

### Meetings

The Committee held three meetings for the year under review. The minutes of the IRMC were tabled at the Board meetings.

### Activities of the Integrated Risk Management Committee

The Committee is responsible for:

- Identifying, assessing and managing broad risk categories, i.e., credit, market, liquidity, operational and strategic risks through risk indicators;
- Reviewing the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits;
- Taking prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Company's policies;
- Taking appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions; and
- Establishing a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations.

During the year, the Committee has reviewed the process for identification, evaluation and management of all significant risks throughout the Company and provided the necessary guidance in line with the risk appetite of the Company. The Committee submitted risk assessment reports to the Board, subsequent to each meeting within a week of each meeting, stating the risk mitigation actions pursued and seeking the Board's views. In addition, proceedings of meetings are also tabled at a subsequent meeting of the Board.

The IRMC is satisfied that the risk exposure of the Company is being appropriately managed.



**U. Gautam**

*Chairman, Integrated Risk Management Committee*

*May 30, 2018*

# Risk Management

## Integrated Risk Management

### Introduction

“Risk” the uncertainty in the Business Environment has a continuous and a rigorous impact on the Business Objectives of the Company. The Risk Management Strategy of the Company shows how effective the Company is managing the impact to its objectives caused by this uncertainty in the Business Environment.

The effectiveness of the Risk Management Strategy depends on the strength of the following activities.

- Identification of Risk
- Measurement and Evaluation of Risk
- Analysis of Risk Treatment Methods
- Selection and implementation of Risk Treatment Methods
- Monitoring performance



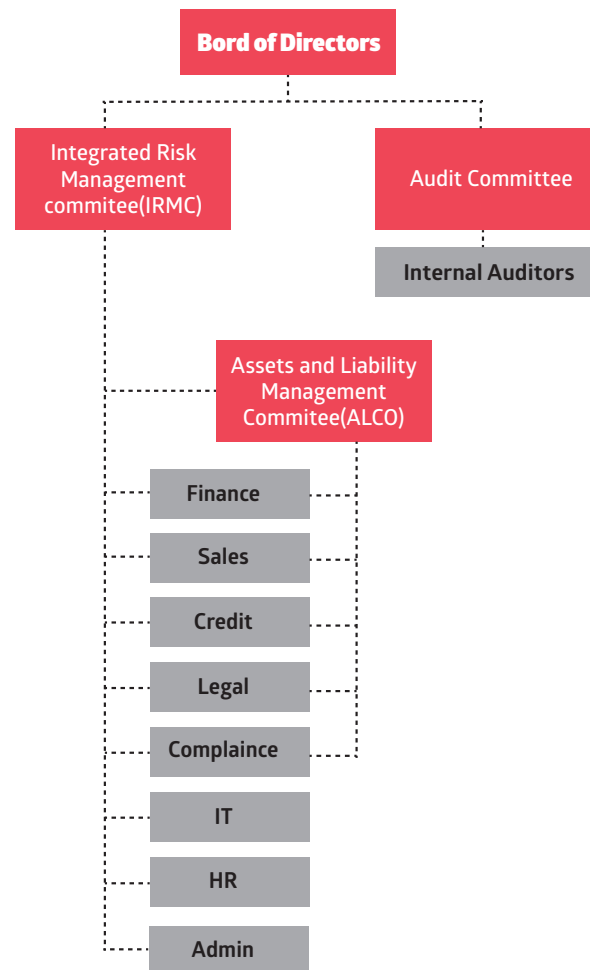
The primary responsibility for Integrated Risk Management lies with the Board of Directors. As delegated by the Board of Directors, the Integrated Risk Management Committee (IRMC) reviews and assesses the adequacy and effectiveness of the risk management policy of the Company.

The Integrated Risk Management Committee (IRMC) consists of Committee Chairman, CEO, COO, CFO and the department and functional heads. The identification, measurement and evaluation of risk routes through the Integrated Risk Management Committee (IRMC).

The risk factors are identified by the risk register which is updated at the Departmental level. These risk factors are discussed at the Integrated Risk Management Committee (IRMC) and high Risk Factors are brought to the attention of the Committee Members.

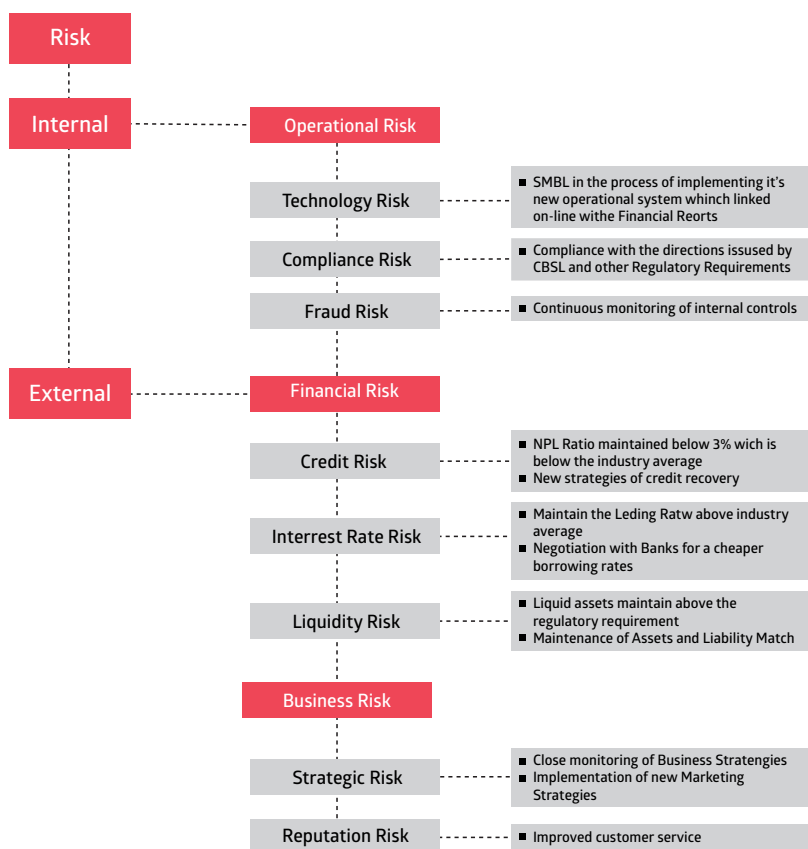
The Risk Treatment Methods are proposed and selected at the Committee and the time plan for implementation of those Risk Treatment Methods are decided by the Committee.

### The Company's Risk Management Structure



Monitoring performance are done at the departmental level and the performances are reported to the Integrated Risk Management Committee (IRMC). After evaluating the performance, if the Integrated Risk Management Committee (IRMC) feels still the risk is not mitigated and should be brought to the attention of the Board of Directors it is done via a Risk Report submitted by the Chairman of the Committee to the Board of Directors.

## SMB Leasing PLC's Risk Landscape



## Approach in 2017 for Risk Management

### Assets and Liability Management Committee (ALCO)

The ALCO functions as an independent committee. The main objective of the Committee is to evaluate the liquidity position, sources of funding and the market risk of the Company and to suggest for any remedial action and policy changes wherever needed.

The ALCO is chaired by the CEO and consist of COO, CFO and Head of Credit.

The main tasks of the Committee are as follows

- Analyze the liquidity position of the Company
- Seek and evaluate the sources of funding and the interest rates
- Analyze the lending portfolio and the interest rates
- Review the Assets and Liability Maturity Statement
- Analyze the Competitors' position

- Updating on the Rules and Regulations and the amendments thereto

Based on its assessments, the ALCO recommends to the Integrated Risk Management Committee (IRMC) on any action it deems necessary to limit or mitigate and to manage the liquidity risks of the Company.

### Audit Committee and the Internal Auditors

The Audit Committee and the Internal Auditors plays a combine role in risk management. Internal auditors carry out independent reviews of compliance with risk policies and procedures to ensure effectiveness of Risk Management procedures. In addition, the internal auditors evaluate the Internal controls of the Company. Any deviations with the laid down procedure are reported to the Audit Committee. The recommended actions for deviations and non compliances are monitored and followed up by the Internal Auditors.

## Shareholders and Investor Information

### Twenty Largest Ordinary (Voting) Shareholders as at December 31, 2017

Ordinary voting shares	2017		Comparative holdings in 2016	
	No. of Shares	%	No. of Shares	%
1 Sampath Bank PLC/Dr. T Senthilverl Seylan Bank PLC/ Dr. T. Senthilverl	268,705,956 85,805,393			
	354,511,349	29.75	354,511,349	29.75
2 Mr. H R S Wijeratne	194,882,451	16.35	194,882,451	16.35
3 Standard Chartered Bank Singapore S/A HL Bank Singapore Branch	72,916,100	6.12	72,916,100	6.12
4 Mrs. S. A. Fernando	40,452,878	3.39	40,452,878	3.39
5 Mrs. K W S H Fernando & Ms W N C Fernando	36,373,372	3.05	33,036,133	2.77
6 Mr. W K V M Fernando & Mrs S A Fernando	35,236,133	2.96	32,452,991	2.72
7 Miss. W N C Fernando	17,701,231	1.49	19,167,464	1.61
8 Seylan Bank PLC/ Jayantha Dewage	15,157,671	1.27	15,157,671	1.27
9 Mr. R Gautam	14,550,000	1.22	13,720,000	1.15
10 Ayenka Holdings (Private) Limited	14,370,000	1.21	N/Q	N/Q
11 Sinharaja Hills Plantation (Pvt) Limited	13,000,000	1.09	13,000,000	1.09
12 Hatton National Bank PLC / Arunasalam Sithampalam	12,880,242	1.08	13,380,242	1.12
13 Andaradeniya Estate (Private) Limited	11,470,674	0.96	11,470,674	0.96
14 Mr. H K Pushpakumara	9,800,000	0.82	10,170,000	0.85
15 Mr. B L Jayaratne & Dr. Y S Liyanage	7,255,995	0.61	N/Q	N/Q
16 Mr S P Kannangara (Deceased)	6,000,000	0.50	6,000,000	0.50
17 People's Leasing & Finance PLC/ Mr D M P Disanayake	5,748,599	0.48	4,245,699	0.36
18 Mrs.V R Jayasinghe	5,700,000	0.48	5,700,000	0.48
19 Mr. V R Kathiragamamatamby	5,250,000	0.44	5,250,000	0.44
20 Mr C R Perera	5,100,000	0.43	5,100,000	0.43
Total shares held by the top 20 holders - 2017	878,356,695	73.70	-	-
Balance shares held by other ordinary voting shareholders - as at 31 December 2017	313,410,077	26.30	-	-
<b>Total ordinary voting shares</b>	<b>1,191,766,772</b>	<b>100.00</b>		

### Twenty Largest Ordinary (Non Voting) Shareholders as at December 31, 2017

Ordinary Non - voting shares	2017		Comparative holdings in 2016	
	No. of Shares	%	No. of Shares	%
1 Sampath Bank PLC/Dr. T Senthilverl Seylan Bank PLC/ Dr T Senthilverl	40,171,815 7,000,000			
	47,171,815	7.68	47,171,815	7.68
2 Mr. R Gautam	40,600,000	6.61	26,793,740	4.36
3 Mr. H K Pushpakumara	23,074,999	3.76	29,944,172	4.87
4 Mr. M L A Benedict	16,645,000	2.71	16,645,000	2.71
5 Seylan Bank PLC/Jayantha Dewage	16,521,480	2.69	16,521,480	2.69
6 Mr. B L Jayaratne & Dr. Y S Liyanage	11,749,352	1.91	8,503,700	1.38
7 Waldo Mackenzie Ltd / Mr. S A Gulamhusein	11,429,880	1.86	11,429,880	1.86
8 Colombo Trust Finance PLC/K E H De Alwis	8,571,526	1.40	44,659,756	7.27
9 Pan Asia Banking Corporation / A.C Jayasinghe	8,024,101	1.31	N/Q	N/Q
10 Mr D M A Pathirana	7,000,000	1.14	N/Q	N/Q
11 Miss. V Vijayaalthchumy	6,867,956	1.12	7,198,841	1.17
12 Mr J A W Victoria	6,756,462	1.10	6,756,462	1.10
13 Miss. S Durga	6,371,674	1.04	4,914,704	0.80
14 People's Leasing & Finance PLC/L T Samarawickrama	6,000,000	0.98	6,000,000	0.97
15 Mr J Mandawala	5,650,025	0.92	N/Q	N/Q
16 People's Leasing & Finance PLC/Dr.H S De Soysa & Mrs G Soysa	5,614,598	0.91	N/Q	N/Q
17 Mr D H G U P Ubayawansa	5,427,081	0.88	N/Q	N/Q
18 Mr J J Ravindran	5,240,000	0.85	5,240,000	0.85
19 Mr W J D Benedict	5,100,000	0.83	5,100,000	0.83
20 Acuity Partners (Pvt) Limited /Mr S N M Semasinghe	4,997,932	0.80	N/Q	N/Q
Total shares held by the top 20 holders - 2017	248,813,881	40.52	-	-
Balance shares held by other ordinary non-voting shareholders - as at 31 December 2017	365,252,220	59.48	-	-
<b>Total ordinary voting shares</b>	<b>614,066,101</b>	<b>100.00</b>		

N/Q- Not qualify for Top 20 Shareholders in 2016

**Directors' Shareholding as at December 31,**

		2017		2016	
		No of Shares	% of Holdings	No of Shares	% of Holdings
Mr.H.R.S Wijeratne	Voting	194,882,451	16.35	194,882,451	16.35
	Non Voting	-	-	-	-
Mr.U Gautam	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr.J.C Korale	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr.S.N.P Palihena *	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr.T.M Wijesinghe	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr A T S Sosa	Voting	1,000	0.00	-	-
	Non Voting	-	-	-	-
Mr M S A Wadood	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr T C A Peiris**	Voting	11,000	0.00	-	-
	Non Voting	-	-	-	-

\*Mr.S.N.P Palihena - ceased to be a Director w.e.f February 22,2017

\*\*Mr.T.C.A Peiris- ceased to be a Director w.e.f November 29, 2017

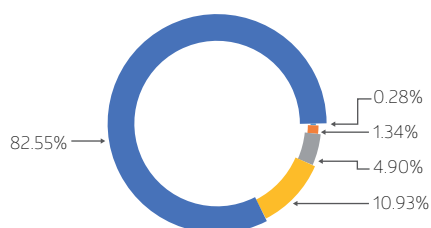
Share Information	2017	2016
<b>Book Value</b>		
Net Assets per Share-Group (Rs)	0.65	0.64
<b>Share Prices</b>		
Ordinary Shares-Voting		
Highest (Rs.)	1.00	0.90
Lowest (Rs.)	0.40	0.60
Last Traded (Rs.)	0.60	0.60
<b>Ordinary Shares-Non Voting</b>		
Highest (Rs.)	0.40	0.40
Lowest (Rs.)	0.20	0.30
Last Traded (Rs.)	0.30	0.40
<b>Earnings</b>		
Ordinary Shares		
Basic Earnings Per Share (Rs.)	0.02	0.04
Price Earning Ratio (Times)	30	14.13
<b>Frequency of Shares Traded</b>		
Number of Shares Traded		
Voting	92,842,807	107,613,097
Non Voting	43,203,635	61,724,217
<b>Number of Transactions</b>		
Voting	3,978	3,565
Non Voting	2,544	1,358
<b>Total Number of Shareholders</b>		
Voting	9,897	10,153
Non Voting	4,392	4,423
<b>Total Number of Public Shareholders</b>		
Voting	9,893	10,150
Non Voting	4,392	4,423
<b>Percentage of Public holding</b>		
Voting	83.65%	83.53%
Non Voting	100.00%	100.00%
<b>Market Capitalization</b>		
SMB Leasing PLC Value (Rs.Mn)	715	715

## Distribution of shareholders

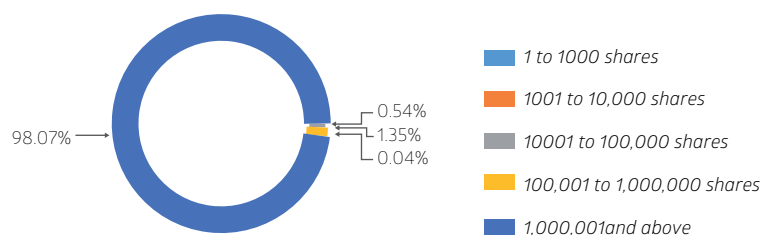
### Ordinary Voting-Shareholding as at December 31,2017

Range of Shareholdings	Resident			Non Resident			Total		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
1 to 1,000	4,635	3,126,241	0.28	10	4,325	0.00	4,645	3,130,566	0.26
1,001 to 10,000	3,255	14,772,197	1.34	6	36,590	0.04	3,261	14,808,787	1.24
10,001 to 100,000	1,497	53,940,450	4.90	12	495,341	0.54	1,509	54,435,791	4.57
100,001 to 1,000,000	396	120,307,022	10.93	3	1,233,000	1.35	399	121,540,022	10.20
1,000,000 & above	79	908,158,139	82.55	4	89,693,467	98.07	83	997,851,606	83.73
<b>Total</b>	<b>9,862</b>	<b>1,100,304,049</b>	<b>100.00</b>	<b>35</b>	<b>91,462,723</b>	<b>100.00</b>	<b>9,897</b>	<b>1,191,766,772</b>	<b>100.00</b>

Ordinary Voting - Resident



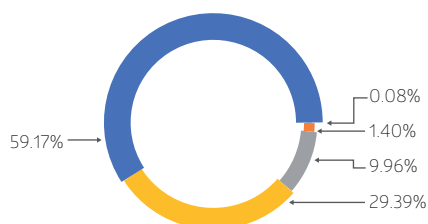
Ordinary Voting - Non Resident



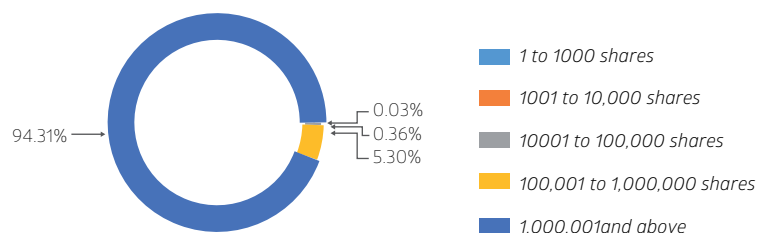
### Ordinary Non-voting Shareholding as at December 31,2017

Range of Shareholdings	Resident			Non Resident			Total		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
1 to 1,000	1,002	464,886	0.08	3	275	0.00	1,005	465,161	0.08
1,001 to 10,000	1,427	7,853,261	1.40	3	17,000	0.03	1,430	7,870,261	1.28
10,001 to 100,000	1,316	55,853,541	9.96	5	189,935	0.36	1,321	56,043,476	9.14
100,001 to 1,000,000	542	164,822,848	29.39	6	2,822,400	5.30	548	167,645,248	27.30
1,000,000 & above	82	331,818,132	59.17	6	50,223,823	94.31	88	382,041,955	62.20
<b>Total</b>	<b>4,369</b>	<b>560,812,668</b>	<b>100.00</b>	<b>23</b>	<b>53,253,433</b>	<b>100.00</b>	<b>4,392</b>	<b>614,066,101</b>	<b>100.00</b>

Ordinary Non Voting - Resident



Ordinary Non Voting - Non Resident



## Composition of Shareholders

### Ordinary Voting Shares

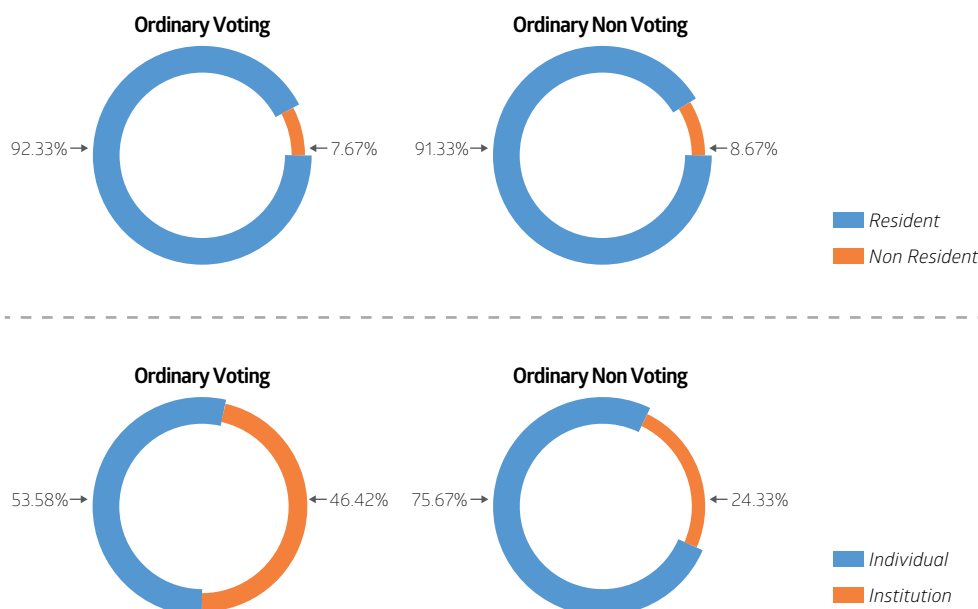
As at	December 31, 2017			December 31, 2016		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
Resident	9,862	1,100,304,049	92.33	10,119	1,099,633,449	92.27
Non-Resident	35	91,462,723	7.67	34	92,133,323	7.73
<b>Total</b>	<b>9,897</b>	<b>1,191,766,772</b>	<b>100.00</b>	<b>10,153</b>	<b>1,191,766,772</b>	<b>100.00</b>
Individual	9,701	638,577,866	53.58	9,953	657,358,877	55.16
Institution	196	553,188,906	46.42	200	534,407,895	44.84
<b>Total</b>	<b>9,897</b>	<b>1,191,766,772</b>	<b>100.00</b>	<b>10,153</b>	<b>1,191,766,772</b>	<b>100.00</b>

The percentage of Ordinary Voting Shares held by the public was 83.65% of the issued share capital as at December 31, 2017.

### Ordinary Non-Voting Shares

As at	December 31, 2017			December 31, 2016		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
Resident	4,369	560,812,691	91.33	4,400	573,828,951	93.45
Non-Resident	23	53,253,410	8.67	23	40,237,150	6.55
<b>Total</b>	<b>4,392</b>	<b>614,066,101</b>	<b>100.00</b>	<b>4,423</b>	<b>614,066,101</b>	<b>100.00</b>
Individual	4,284	464,687,556	75.67	4,322	430,808,481	70.16
Institution	108	149,378,545	24.33	101	183,257,620	29.84
<b>Total</b>	<b>4,392</b>	<b>614,066,101</b>	<b>100.00</b>	<b>4,423</b>	<b>614,066,101</b>	<b>100.00</b>

### Composition of Shareholders as at December 31, 2017



### Directors's attendance at board and board committee meetings

Name of the Director	Status	Main Board	Audit Committee	Integrated Risk Management Committee (IRMC)	Remuneration Committee	Related Party Transactions Review Committee	Nomination Committee
Total Number of Meetings		12	18	3	1	4	1
Mr.H.R.S Wijeratne	NED	10	N/A	N/A	0	N/A	0
Mr.U Gautam	INED	10	8	1	1	4	1
Mr.J.C Korale	INED	11	18	1	N/A	4	N/A
Mr.S.N.P Palihena*	INED	1	N/A	N/A	N/A	N/A	N/A
Mr.T.M Wijesinghe	INED	11	N/A	N/A	1	N/A	1
Mr.T.C.A Peiris **	NED	1	N/A	2	N/A	N/A	N/A
Mr.A.T.S Sosa ***	INED	8	N/A	N/A	N/A	N/A	N/A
Mr.M.S.A Wadood ***	INED	7	N/A	N/A	N/A	N/A	N/A

#### Notes

\* Mr.S.N.P Palihena ceased to be a Director w.e.f February 22, 2017

\*\* Mr. T C A Peiris was appointed w.e.f. March 29, 2017 and ceased on November 29, 2017

\*\*\* Mr. A T S Sosa and Mr. M S A Wadood were appointed w.e.f. March 10, 2017

N/A- Not a Member of the Committee

Mr. U Gautam was appointed to the Audit Committee w.e.f. January 25, 2017

Mr. J C Korale was appointed to the Integrated Risk Management Committee w.e.f December 27, 2017

## Directors' Responsibility Statement on Internal Control Over Financial Reporting

### RESPONSIBILITY

In line with the section 10 2(b) of the Finance Leasing (Corporate Governance) Direction No. 4 of 2009 as amended by Finance Leasing (Corporate Governance – Amendment) Direction No. 1 of 2013, the Board of Directors presents this report on internal controls over financial reporting.

The Board of Directors has overall responsibility over SMB Leasing PLC's internal control over financial reporting and reviewing its adequacy and effectiveness.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal control over financial reporting as and when there are changes to business environment or regulatory guidelines. This process is regularly reviewed by the Board.

The Board is of the view that the system of internal control over financial reporting in place is adequate to provide reasonable assurance regarding the reliability of financial reporting that the preparation of the financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the policies and procedures on risk and control, by identifying

and assessing the risks faced and in design, operation and monitoring of suitable internal controls over financial reporting to mitigate and control these risks.

Internal control over financial reporting are checked by the internal auditors of the Company for suitability of design and effectiveness on an ongoing basis. The scope, quality and reports of internal audits are reviewed by the Board Audit Committee at its monthly meetings and improvements are recommended wherever necessary.

### CONFIRMATION

Based on the above processes, the Board confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

### REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting on May 30, 2018.

By order of the Board,



**Ravi Wijeratne**

*Chairman and Non-Executive Director*



**U. Gautam**

*Deputy Chairman and Independent Non-Executive Director*

*Colombo  
May 30, 2018*

## Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS and LKAS) issued by the Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No. 07 of 2007 and Listing Rules of the Colombo Stock Exchange.

We accept responsibility for the integrity and accuracy of these financial statements. Significant accounting policies have been applied consistently. Application of significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with the Audit Committee and the external auditors. Estimates and judgements relating to the financial statements were made on a prudent and reasonable basis, in order to ensure that the financial statements are true and fair. To ensure this, our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the company were consistently followed.

We confirm that to the best of our knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial position, results of operations and cash flows of the company as of, and for, the periods presented in this annual report.

We are responsible for establishing and maintaining internal controls and procedures. We have designed such controls and procedures or caused such controls and procedures to

be designed under our supervision, to ensure that material information relating to the company is made known to us and for safeguarding the company's assets and preventing and detecting fraud and error. We have evaluated the effectiveness of the company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this annual report. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involves management or other employees.

The financial statements were audited by Messrs. KPMG, Chartered Accountants, the Independent Auditors. The Audit Committee of the Company meets periodically with the internal auditors and the external auditors to review the manner in which these auditors are performing their responsibilities and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the external auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

It is also declared and confirmed that the Company ensured compliance with the guidelines for the audit of Listed Companies where required. It is further confirmed that all statutory payments have been appropriately settled by the Company.



**Sumedha Fernando**  
*Chief Executive Officer*



**Supul Wijesinghe**  
*Chief Financial Officer*

Colombo  
May 30, 2018

## Directors' Responsibility to Financial Reporting

The Directors of the Company state below their responsibilities in relation to the Financial Statements of the Company. These differ from the Auditors' responsibilities, which are set out in their report given on page 97.

The Companies Act No. 7 of 2007 requires the Directors to prepare Financial Statements giving a true and fair view of the income of the financial year and the state of affairs of the Company as at the end of the financial year.

In preparing these Financial Statements the Directors are required to select appropriate Accounting Policies and apply them consistently, subject to any material departures being disclosed and explained and to make judgments and best estimates and to ensure Sri Lanka Accounting Standards (SLFRS /LKAS) have been followed.

The Directors are required to prepare these Financial Statements on going concern basis, unless it is not appropriate. Since the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the Financial Statements continue to be prepared on the said basis.

The Directors consider that in preparing the Financial Statements on page 98 to 103, the Company has used appropriate accounting policies, consistently applied, unless otherwise disclosed in Notes to the Financial Statements and supported by reasonable judgements and best estimates and that all accounting standards which are applicable have been followed.

The Directors also have responsibility for ensuring that the Company keeps accounting records, which disclose with reasonable accuracy, the financial position of the Company and enable them to ensure that the Financial Statements complies with the Sri Lanka Accounting Standards (SLFRS/LKAS) and the requirements of the Companies Act No. 7 of 2007.

The Directors have further responsibility that all financial and non financial requirements stipulated under the Companies Act No 7 of 2007 pertaining to Directors duties and responsibilities have been complied with.

The Directors have a general responsibility for taking such steps that are reasonably open to them, to safeguard the assets of the Company and to establish appropriate internal controls to prevent and detect fraud and other irregularities.

The Directors also confirm to the best of their knowledge, that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Company as at the reporting date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out above.

On behalf of the Board.

  
**Ravi Wijeratne**  
Chairman

Colombo  
May 30, 2018

# FINANCIAL INFORMATION

## Financial Calendar

	2017	2016
<b>Interim Financial Statements Publication to Colombo Stock Exchange (CSE)</b>		
Q1 ended March 31,(unaudited)	May 12,2017	May 11,2016
Q2 ended June 30,(unaudited)	August 08,2017	August 09,2016
Q3 ended September 30,(unaudited)	November 09,2017	November 07,2016
Q4 ended December 31,(unaudited)	February 13,2018	February 13,2017
<b>Annual Report Publication</b>		
F/Y 2016		May 31,2017
F/Y 2017	May 31,2018	
<b>Annual General Meeting (AGM)</b>		
F/Y 2016		June 28,2017
F/Y 2017	June 29,2018	

# Independent Auditors' Report



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

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## TO THE SHAREHOLDERS OF SMB LEASING PLC

### Report on the Financial Statements

We have audited the accompanying financial statements of SMB Leasing PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("Group"), which comprise the statement of financial position as at 31 December 2017, and the income statements, statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 98 to 157 of the annual report.

### Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of 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 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 the financial statements are free from material misstatement.

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

of the financial statements.

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

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above
- b) In our opinion:
  - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
  - The financial statements of the Company give a true and fair view of its financial position as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
  - The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

### CHARTERED ACCOUNTANTS

Colombo  
May 30, 2018

## Income Statement

Rs. For the year ended December 31,	Note	Company		Group	
		2017	2016	2017	2016
Interest income	6.1	254,750,912	206,318,697	254,750,912	206,318,697
Interest expenses	6.2	(69,180,996)	(40,311,319)	(69,223,696)	(41,145,823)
<b>Net interest income</b>		<b>185,569,916</b>	<b>166,007,378</b>	<b>185,527,216</b>	<b>165,172,874</b>
Fee and commission income	7.1	5,822,626	5,762,146	5,822,626	5,762,146
<b>Net interest, fee and commission income</b>		<b>191,392,542</b>	<b>171,769,524</b>	<b>191,349,842</b>	<b>170,935,020</b>
Other operating income (net)	8	54,689,393	43,931,172	118,795,513	103,563,262
<b>Total operating income</b>		<b>246,081,935</b>	<b>215,700,696</b>	<b>310,145,355</b>	<b>274,498,282</b>
Impairment charge for loans and advances	9	(49,231,463)	(11,290,751)	(49,231,463)	(11,290,751)
<b>Net operating income</b>		<b>196,850,472</b>	<b>204,409,945</b>	<b>260,913,892</b>	<b>263,207,531</b>
Personnel expenses	10.1	(62,103,977)	(53,337,585)	(90,989,136)	(83,608,987)
Other expenses	10.2	(73,829,319)	(53,956,094)	(96,376,729)	(71,747,939)
<b>Operating profit before value added tax (VAT)</b>		<b>60,917,176</b>	<b>97,116,266</b>	<b>73,548,027</b>	<b>107,850,605</b>
Value added tax (VAT) on financial services		(16,937,380)	(14,926,876)	(16,937,380)	(14,926,876)
<b>Profit before income tax</b>		<b>43,979,796</b>	<b>82,189,390</b>	<b>56,610,647</b>	<b>92,923,729</b>
Share of losses of associate Company	17.2	-	-	(4,386,020)	(4,620,052)
Income tax expense	11	(6,730,960)	(5,492,983)	(9,451,017)	(7,712,006)
<b>Profit for the year</b>		<b>37,248,836</b>	<b>76,696,407</b>	<b>42,773,610</b>	<b>80,591,671</b>
<b>Profit attributable to :</b>					
Owners of the parent		37,248,836	76,696,407	40,066,471	78,682,992
Non-controlling interest		-	-	2,707,139	1,908,679
<b>Profit for the year</b>		<b>37,248,836</b>	<b>76,696,407</b>	<b>42,773,610</b>	<b>80,591,671</b>
Basic earnings per share	12	0.02	0.04	0.02	0.04

The notes to the Financial Statements from pages 104 to 157 form an integral part of these financial statements. Figures in brackets indicate deductions.

## Statement of Profit or Loss and Other Comprehensive Income

Rs. For the year ended December 31,	Company		Group	
	2017	2016	2017	2016
<b>Profit for the year</b>	<b>37,248,836</b>	<b>76,696,407</b>	<b>42,773,610</b>	<b>80,591,671</b>
<b>Other Comprehensive Income</b>				
Actuarial (loss)/gain on Defined Benefit Plans	(73,015)	1,022,111	(1,245,465)	1,371,943
Available for sale investments - Net fair value change	-	233,505	-	233,505
Tax on Other Comprehensive Income	20,445	-	348,731	
<b>Other Comprehensive (Expense) / Income for the year (net of taxes)</b>	<b>(52,570)</b>	<b>1,255,616</b>	<b>(896,734)</b>	<b>1,605,448</b>
<b>Total Comprehensive Income for the year</b>	<b>37,196,266</b>	<b>77,952,023</b>	<b>41,876,876</b>	<b>82,197,119</b>
<b>Total Comprehensive Income attributable to:</b>				
Owners of the parent	37,196,266	77,952,023	39,583,377	80,117,022
Non-controlling interest	-	-	2,293,499	2,080,097
<b>Total Comprehensive Income for the year</b>	<b>37,196,266</b>	<b>77,952,023</b>	<b>41,876,876</b>	<b>82,197,119</b>

The notes to the Financial Statements from pages 104 to 157 form an integral part of these financial statements. Figures in brackets indicate deductions.

## Statement of Financial Position

Rs. As at December 31,	Note	Company		Group	
		2017	2016	2017	2016
<b>Assets</b>					
Cash and cash equivalents	13	30,150,456	29,957,888	32,459,012	33,123,371
Placements with banks	14	132,227,376	116,592,947	147,258,662	131,592,947
Loans and receivables	15	1,268,457,371	1,319,828,095	1,266,837,233	1,317,967,969
Financial investments	16	52,719,109	7,577,906	59,459,567	12,906,381
Investments in associates	17	37,275,414	101,451,766	37,275,414	101,451,766
Investments in subsidiary	18	12,750,000	12,750,000	-	-
Investment properties	19	33,310,000	33,310,000	40,385,250	39,897,700
Property plant & equipment	20	19,416,543	20,224,081	21,251,658	23,682,385
Intangible assets	21	1,495,232	3,258,086	3,783,760	3,305,065
Deferred tax assets	11.3	-	-	1,759,925	1,155,731
Other assets	22	59,040,259	6,014,719	70,361,873	13,745,259
<b>Total Assets</b>		<b>1,646,841,760</b>	<b>1,650,965,488</b>	<b>1,680,832,354</b>	<b>1,678,828,574</b>
<b>Liabilities</b>					
Due to Financial institutions	23	308,887,466	353,781,956	308,887,466	353,781,956
Due to other customers	24	104,932,117	99,652,392	104,932,117	99,652,392
Other borrowings	25	-	-	456,110	1,155,241
Other liabilities	26	59,436,325	61,141,554	72,160,040	71,719,238
<b>Total liabilities</b>		<b>473,255,908</b>	<b>514,575,902</b>	<b>486,435,733</b>	<b>526,308,827</b>
<b>Equity</b>					
Stated Capital	27	919,064,114	919,064,114	919,064,114	919,064,114
Statutory reserves	28	30,361,316	28,498,874	30,361,316	28,498,874
Available for sale reserve	29	233,381	233,381	233,381	233,381
Retained earnings	30	223,927,041	188,593,217	228,378,513	190,657,579
<b>Total equity attributable to equity holders of the Company</b>		<b>1,173,585,852</b>	<b>1,136,389,586</b>	<b>1,178,037,324</b>	<b>1,138,453,948</b>
Non- controlling Interests		-	-	16,359,297	14,065,799
<b>Total Equity</b>		<b>1,173,585,852</b>	<b>1,136,389,586</b>	<b>1,194,396,621</b>	<b>1,152,519,747</b>
<b>Total Equity and Liabilities</b>		<b>1,646,841,760</b>	<b>1,650,965,488</b>	<b>1,680,832,354</b>	<b>1,678,828,574</b>

The Notes to the Financial Statements from pages 104 to 157 form an integral part of these financial statements. Figures in brackets indicate deductions.

It is certified that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007.

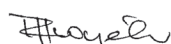


**Supul Wijesinghe**  
Chief Financial Officer



**Sumedha Fernando**  
Chief Executive Officer

The Board of Directors are responsible for the preparation and presentation of these Financial statements. Approved and signed on behalf of the Board by,



**Ravi Wijeratne**  
Chairman



**Umesh Gautam**  
Deputy Chairman

May 30, 2018

Colombo

## Statement of Changes in Equity - Company

Rs. For the year ended December 31	Stated Capital		Statutory Reserve Fund	Available for Sale Reserve	Retained Earnings	Total
	Ordinary Voting Shares	Ordinary Non-Voting Shares				
<b>Balance as at January 1, 2016</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>24,664,054</b>	<b>(124)</b>	<b>150,826,176</b>	<b>1,094,554,220</b>
Profit for the year	-	-	-	-	76,696,407	76,696,407
Other comprehensive (Expense)/income (net of tax)	-	-	-	233,505	1,022,111	1,255,616
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>233,505</b>	<b>77,718,518</b>	<b>77,952,023</b>
Transfers to Statutory Reserve	-	-	3,834,820	-	(3,834,820)	-
Dividend Paid	-	-	-	-	(36,116,657)	(36,116,657)
<b>Total transactions with equity holders</b>	<b>-</b>	<b>-</b>	<b>3,834,820</b>	<b>-</b>	<b>(39,951,477)</b>	<b>(36,116,657)</b>
<b>Balance as at December 31, 2016</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>28,498,874</b>	<b>233,381</b>	<b>188,593,217</b>	<b>1,136,389,586</b>
<b>Balance as at January 1, 2017</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>28,498,874</b>	<b>233,381</b>	<b>188,593,217</b>	<b>1,136,389,586</b>
Profit for the year	-	-	-	-	37,248,836	37,248,836
Other comprehensive Expense (net of tax)	-	-	-	-	(52,570)	(52,570)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37,196,266</b>	<b>37,196,266</b>
Transfers to Statutory Reserve	-	-	1,862,442	-	(1,862,442)	-
Dividend Paid	-	-	-	-	-	-
<b>Total transactions with equity holders</b>	<b>-</b>	<b>-</b>	<b>1,862,442</b>	<b>-</b>	<b>(1,862,442)</b>	<b>-</b>
<b>Balance as at December 31, 2017</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>30,361,316</b>	<b>233,381</b>	<b>223,927,041</b>	<b>1,173,585,852</b>

The notes to the Financial Statements from pages 104 to 157 form an integral part of these financial statements. Figures in brackets indicate deductions.

## Statement of Changes in Equity - Group

For the year ended December 31, 2017	Attributable to the Equity holders of the parent						Non Controlling Interest	Total Equity
	Stated Capital Ordinary Voting Shares	Ordinary Non- Voting Shares	Statutory Reserve Fund	Available for Sale Reserve	Retained Earnings	Total		
Balance as at January 1, 2016	708,445,963	210,618,151	24,664,054	(124)	150,725,538	1,094,453,582	11,985,703	1,106,439,285
Profit for the year	-	-	-	-	78,682,992	78,682,992	1,908,679	80,591,671
Other comprehensive (Expense)/income (net of tax)	-	-	-	233,505	1,200,526	1,434,031	171,417	1,605,448
<b>Total comprehensive income for the year</b>	-	-	-	<b>233,505</b>	<b>79,883,518</b>	<b>80,117,023</b>	<b>2,080,096</b>	<b>82,197,119</b>
Transfers to Statutory Reserve	-	-	3,834,820	-	(3,834,820)	-	-	-
Dividend Paid	-	-	-	-	(36,116,657)	(36,116,657)	-	(36,116,657)
<b>Total transactions with equity holders</b>	-	-	<b>3,834,820</b>	-	<b>(39,951,477)</b>	<b>(36,116,657)</b>	-	<b>(36,116,657)</b>
<b>Balance as at December 31, 2016</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>28,498,874</b>	<b>233,381</b>	<b>190,657,579</b>	<b>1,138,453,948</b>	<b>14,065,799</b>	<b>1,152,519,747</b>
Balance as at January 1, 2017	708,445,963	210,618,151	28,498,874	233,381	190,657,579	1,138,453,948	14,065,799	1,152,519,747
Profit for the year	-	-	-	-	40,066,471	40,066,471	2,707,139	42,773,610
Other comprehensive income / (Expense) (net of tax)	-	-	-	-	(483,095)	(483,095)	(413,641)	(896,736)
<b>Total comprehensive income for the year</b>	-	-	-	-	<b>39,583,376</b>	<b>39,583,376</b>	<b>2,293,498</b>	<b>41,876,874</b>
Transfers to Statutory Reserve	-	-	1,862,442	-	(1,862,442)	-	-	-
<b>Total transactions with equity holders</b>	-	-	<b>1,862,442</b>	-	<b>(1,862,442)</b>	-	-	-
<b>Balance as at December 31, 2017</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>30,361,316</b>	<b>233,381</b>	<b>228,378,513</b>	<b>1,178,037,324</b>	<b>16,359,297</b>	<b>1,194,396,621</b>

The notes to the Financial Statements from pages 104 to 157 form an integral part of these financial statements. Figures in brackets indicate deductions.

## Statement of Cash Flows

Rs. For the year ended December 31,	Company		Group	
	2017	2016	2017	2016
<b>Cash Flow from Operating Activities</b>				
Interest receipts	234,972,851	202,745,226	234,972,851	202,745,226
Interest payments	(54,543,796)	(44,265,641)	(54,586,496)	(45,100,145)
Fees and commission receipts	18,596,344	38,176,929	82,214,914	96,593,209
Cash payments to employees and suppliers	(106,542,489)	(89,838,921)	(158,254,177)	(140,513,231)
<b>Profit before Changes in Operating Assets</b>	<b>92,482,910</b>	<b>106,817,592</b>	<b>104,347,092</b>	<b>113,725,059</b>
Loans and receivables	25,600,520	(273,757,168)	25,360,532	(272,911,606)
Other assets	(16,184,073)	(6,208)	(19,775,147)	(924,719)
<b>Cash Generated from/(Used in) Operating Activities</b>	<b>101,899,357</b>	<b>(166,945,784)</b>	<b>109,932,477</b>	<b>(160,111,266)</b>
Tax paid	(20,504,323)	(12,044,397)	(23,111,192)	(12,781,388)
Gratuity paid	(1,353,597)	(64,042)	(1,353,597)	(790,042)
<b>Net Cash from/(Used in) Operating Activities</b>	<b>80,041,437</b>	<b>(179,054,223)</b>	<b>85,467,688</b>	<b>(173,682,697)</b>
<b>Cash Flow from Investing Activities</b>				
Net (increase)/decrease in financial investments	(6,135,762)	35,420,333	(11,167,048)	25,420,333
Acquisition of shares	-	-	(2,070,770)	-
Purchase of property, plant & equipment	(8,057,079)	(16,617,911)	(11,590,870)	(16,782,411)
Proceeds from disposal of property, plant & equipment	782,609	186,486	782,609	191,486
<b>Net Cash (Used in) / generated from Investing Activities</b>	<b>(13,410,232)</b>	<b>18,988,908</b>	<b>(24,046,079)</b>	<b>8,829,408</b>
<b>Cash Flow from Financing Activities</b>				
Increase/(Decrease) in borrowings from financial institutions	(7,426,544)	292,575,512	(7,426,544)	292,575,512
Increase/(Decrease) in other borrowings	-	-	(699,131)	(2,176,276)
Increase/(Decrease) in public borrowings	519,502	(97,967,347)	519,502	(97,967,347)
Increase/(Decrease) in other liabilities	(9,706,672)	20,529,900	(9,654,872)	21,477,180
Dividend Paid	-	(36,116,657)	-	(36,116,657)
<b>Net Cash (Used in)/ generated from Financing Activities</b>	<b>(16,613,714)</b>	<b>179,021,408</b>	<b>(17,261,045)</b>	<b>177,792,412</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>50,017,491</b>	<b>18,956,093</b>	<b>44,160,564</b>	<b>12,939,123</b>
Cash and Cash Equivalents at the beginning of the year	(16,588,088)	(35,544,181)	(8,422,605)	(21,361,728)
<b>Cash and Cash Equivalents at the end of the year (Note A)</b>	<b>33,429,403</b>	<b>(16,588,088)</b>	<b>35,737,959</b>	<b>(8,422,605)</b>
<b>Note A:</b>				
<b>Reconciliation of Cash and Cash Equivalents</b>				
Cash and cash equivalents	30,150,456	29,957,888	32,459,012	33,123,371
REPO investment with banks	3,280,000	800,000	3,280,000	5,800,000
	<b>33,430,456</b>	<b>30,757,888</b>	<b>35,739,012</b>	<b>38,923,371</b>
Bank Overdraft	(1,053)	(47,345,976)	(1,053)	(47,345,976)
<b>Cash and Cash Equivalents at the end of the year</b>	<b>33,429,403</b>	<b>(16,588,088)</b>	<b>35,737,959</b>	<b>(8,422,605)</b>

The notes to the Financial Statements from pages 104 to 157 form an integral part of these financial statements. Figures in brackets indicate deductions.

## Notes to the Financial Statements

### 1. Corporate Information

#### 1.1. Reporting Entity

SMB Leasing PLC (the 'Company'), is a Public Limited Liability Company incorporated on 3rd September 1992 and domiciled in Sri Lanka. It is a specialized leasing company under the Finance Leasing Act No 56 of 2000. The Company has a primary listing on the Colombo Stock Exchange since 1993. The Company was re-registered under the Companies Act No. 07 of 2007.

The registered office and the principal place of business of the Company is located at No 282/1, CBS Building, Galle Road, Colombo 03

#### 1.2. Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2017 comprise of SMB Leasing PLC (Parent Company), its subsidiary (together referred to as the 'Group') and the Group's interest in its associate company

#### 1.3. Number of Employees

The staff strength of the Company as at December 31, 2017 is 47 (2016 - 51).

#### 1.4. Principal Activities and Nature of Operations

##### Company

SMB Leasing PLC

The principal business activity is providing Finance Leases Loans and Pawning.

##### Subsidiary

SMB Money Brokers (Pvt) Ltd

The principal business activity is money brokering activities.

##### Associate

Kenanga Investment Corporation Ltd

The principal business activity is investment banking and providing advisory services.

The percentage of ownership is as follows;

Shareholdings in Subsidiary and Associate	Holding Percentage
SMB Money Brokers (Pvt)Ltd	50.99%
Kenanga Investment Corporation Ltd	48.99%

There were no significant changes in the nature of the principal activities of the Company and the Group during the financial year under review.

*Notes to the Financial Statements (contd.)***2. Basis of Preparation****2.1. Basis of Measurement**

The Financial Statements of the Company and the Group have been prepared on the historical cost basis except for the following items in the Statement of Financial Position:

Item	Basis of measurement	Note No.	Page
Financial Investments Available for Sale (AFS)	Fair value	16.1	131
Financial Assets held for trading (FVTPL)	Fair value	16.2	134
Defined Benefit Obligation	Liability is recognised at the present value of the defined benefit obligation, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.	26.1	142

**2.2. Statement of Compliance**

The Consolidated Financial Statements of the Group and separate Financial Statements of the Company, as at December 31, 2017 and for the year then ended, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and Finance Leasing Act No 56 of 2000 and amendments thereto and provides appropriate disclosures required by the Listing Rules of Colombo Stock Exchange.

These Consolidated Financial Statements include the following components:

An Income Statement, Statement of Profit or Loss and Other Comprehensive income providing the information on the financial performance of the Company and the Group for the year under review (Refer pages 98 to 99).

A Statement of Financial Position providing the information on the financial position of the Company and the Group as at the year end (Refer page 100):

A Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review of the Company and the Group (Refer pages 101 to 102).

A Statement of Cash Flows providing the information to the

users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilise those cash flows (Refer page 103).

Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 104 to 125).

**2.3. Responsibility for Financial Statements**

The Board of Directors is responsible for preparation and presentation of these Financial Statements of the Company and the Group as per the provision of the Companies Act No. 07 of 2007 and SLFRS and LKAS.

The Board of Directors acknowledges their responsibility as set out in the Annual Report of the Board of Directors on the Affairs of the Company, and Directors' Responsibility for Financial Reporting on pages 72 to 76 and 94 respectively.

**2.4. Approval of Financial Statements by the Board of Directors**

The Financial Statements of the Company and the Group for the year ended December 31, 2017 (including comparatives) were approved and authorised for issue in accordance with the resolution of the Board of Directors on May 30, 2018.

**2.5. Presentation of Financial Statements**

The assets and liabilities of the Company and the Group in

## Notes to the Financial Statements (contd.)

the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note No. 37 on page 156 (Current/ non-current analysis). No adjustments have been made for inflationary factors affecting the Financial Statements.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

### 2.6 Functional and Presentation Currency

The consolidated financial statements are presented in Sri Lankan Rupees (Rs.), which is the Group's and Company's functional and presentation currency. There was no change in the Group's presentation and functional currency during the year under review.

### 2.7. Materiality and Aggregation

In compliance with the Sri Lanka Accounting Standard LKAS 01 - Presentation of Financial Statements, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, unless they are immaterial.

### 2.8. Rounding

The amounts in the Financial Statements are presented in absolute values for the financial statements to be more understandable. However, in certain notes to the financial statements, figures have been rounded-off to the nearest

Rupees thousands for better presentation as permitted by the Sri Lanka Accounting Standard LKAS 01 - Presentation of Financial Statements.

### 2.9. Comparative Information

The comparative information has been restated and reclassified in order to be in line with the current year's classification and to provide a better presentation.

### 2.10. Going Concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for a foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

### 2.11 Basis of Consolidation

The consolidated financial statements comprise of financial statements of the Company, its subsidiary and its associate company for the year ended December 31, 2017.

The financial statements of the Company's subsidiary and associate are prepared for the same reporting year using consistent accounting policies.

#### 2.11.1. Subsidiary

Subsidiary is an entity that is controlled by the Group. Subsidiary is fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Intra-group balances and transactions, income, expenses and any unrealised gains arising from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements.

Non controlling interests represent the portion of profit or

*Notes to the Financial Statements (contd.)*

loss and net assets of subsidiaries not owned, directly or indirectly, by the Company.

Non controlling interests are presented separately in the consolidated income statement and within equity in the consolidated Statement of Financial Position, but separate from parent shareholders' equity.

Any losses applicable to the non-controlling interests are allocated against the interests of the non controlling interest even if this results in a deficit balance. Acquisitions of non- controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

Investment details of the Subsidiary within the Group are provided in Note No. 18 on page 138 to the financial statements. The financial statements of the Company's subsidiary are prepared for the same reporting year, using consistent accounting policies. The subsidiary of the Company has been incorporated in Sri Lanka.

**2.11.2. Associate**

Associate is an entity in which the Company has significant influence, but no control over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

Investment in associate is accounted for using the equity method and is recognised initially at cost in terms of the Sri Lanka Accounting Standard LKAS 28 - Investments in Associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized but is subjected to impairment test. The Company's investments include goodwill identified on acquisition, net of any accumulated impairment losses.

The consolidated financial statements include the Company's share of the income and expenses and equity movements of the associate, after adjustments being made to align the accounting policies with those of the group from the date that significant influence effectively commences until the date that significant influence effectively ceases.

When the Company's share of losses exceeds its interest in the Associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or made payments on behalf of the Associate. If the Associate subsequently reports profits, the Company resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Profit and losses resulting from transactions between the Company and the Associate are eliminated to the extent of the interest in the Associate. The Company discontinues the use of the equity method from the date that it ceases to have significant influence over an Associate and accounts for the investment at cost in accordance with the Sri Lanka Accounting Standard LKAS 39 - Financial Instruments: Recognition and measurement. Investment details of the Associate within the Group are provided in Note No 17 on page 137 to the financial statements.

**2.11.3. Loss of Control**

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity- accounted investee.

**2.11.4. Transactions Eliminated on Consolidation**

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

*Notes to the Financial Statements (contd.)***3. Significant Accounting Estimates and Assumptions**

The preparation of the Financial Statements of the Company and the Group in conformity with SLFRS/LKAS 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. Further, management is also required to consider key assumptions concerning the future and other key sources of estimation uncertainty at the Reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

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

The key significant accounting judgments, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in following Notes:

Critical Accounting Estimate / Judgment	Disclosure Reference	
	Note	Page
Impairment of Loans and Advances	15.5	131
Valuation of Employee Benefit Obligation - Gratuity	26.1	142
Deferred Taxation - Utilisation of Losses	11.3	128-129

**3.1. Impairment for Loans and Receivable**

The Group and Company reviews its individually significant loans and Receivables at each statement of financial position date to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance made.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and Receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, characteristic of assets, etc.), and judgments on the effect of concentrations of risks

and economic data. The impairment loss on loans and receivable is disclosed in Note No. 9 on page 126.

**3.2. Impairment for Available for Sale Investment**

The Group and Company reviews its Financial Assets classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and Receivables.

The Group and Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgments. In making these judgments, the Group and Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

**3.3. Taxation**

The Group and Company is subject to income taxes and other taxes including VAT on financial services. Significant

*Notes to the Financial Statements (contd.)*

judgment is required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The Group and Company recognized assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the income, deferred tax amounts in the period in which the determination is made.

### 3.4. Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent it is probable that future taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets

that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

### 3.5. Defined Benefit Plans

The cost of the defined benefit obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. This includes making assumptions about discount rates, future salary increments, retirement age. Due to the long-term nature of such obligation, these estimates are subjected to significant uncertainty. All assumptions are reviewed at each reporting date.

Further, details are given in Note 26.1 on page 142 to these Financial Statements.

## 4. Significant Accounting Policies

### 4.1. Financial Assets and Financial Liabilities

#### 4.1.1. Non Derivative Financial Assets

##### Initial Recognition and Measurement

All financial assets and liabilities except regular way trades are initially recognised on the trade date, i.e., the date that the Group and Company becomes a party to the contractual provisions of the instrument.

'Regular way trades' means purchases or sales of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the market place. Those trades are initially recognised on the settlement date.

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 and financial liabilities recorded at fair value through profit or loss as per the Sri Lanka Accounting Standard LKAS 39 - Financial Instruments: Recognition and Measurement.

At inception, a financial asset is classified under one of the following categories:

- i) Fair value through profit or loss (FVTPL)
- ii) Loans and receivables (L&R)
- iii) Held to maturity (HTM)
- iv) Available-for-sale (AFS)

The company & group determine the classification of its financial assets at initial recognition.

The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on the group's ability to hold. The company

### Notes to the Financial Statements (contd.)

derecognises financial assets when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Any interest in a transferred financial asset that is created or retained by the company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when and only when the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company's existing Non Derivative Financial Assets and their classifications are summarized in the below table.

Financial Asset	Category			
	FVTPL	AFS	L&R	HTM
Placements with Banks			√	
Loans and Receivables to Other Customers			√	
Investments in Unquoted Shares		√		
Investments in Quoted Shares	√	√		
Investments in Treasury Bonds				√

### Subsequent Measurement

#### a) Fair Value through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss include equities that have been acquired principally for the purpose of Trading. Financial investments held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in other operating income. Dividend income is recorded in other operating income when the right to receive the payment has been established.

#### b) Available for Sale Financial Investments(AFS)

Available for sale financial investments include investments in equity which are neither classified as held for trading nor designated at fair value through profit or loss. After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity as 'Available for Sale Reserve' through Other Comprehensive Income (OCI). When the investment is disposed off the cumulative gain or loss previously recognised in equity is

reversed and recognized in Statement of Comprehensive Income as 'Other operating income'.

Dividends earned whilst holding available for sale financial investments are recognised in the Statement of Comprehensive income as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the Income Statement under 'Impairment charges for loans and advances' and removed from the 'Available for sale reserve'.

#### c) Held to Maturity Financial Investments (HTM)

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group and Company has the intention and ability to hold till maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in other operating income in the Statement of

*Notes to the Financial Statements (contd.)*

Comprehensive Income. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income under 'impairment charges for loans and advances'.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would be reclassified as available for sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

**d) Loans and Receivables(L&R)**

Financial assets classified as loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

Those that the Group and Company intends to sell immediately or in the near term and those that, upon initial recognition, designates as at fair value through profit or loss;

Those that the Group and Company, upon initial recognition, designates as available for sale;

Those for which the Group and Company may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'Loans and receivables' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in other

operating income in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income under 'impairment charges for loans and receivables'.

**'Day 1' Difference for Staff Loans**

All staff loans granted at below market interest rates were recognised at fair value. The difference between the fair value and the amount disbursed were treated as 'day 1' difference and amortised as staff cost over the loan period by using effective interest rate (EIR). The staff loans were subsequently measured at amortised costs

**4.1.2. Non Derivative Financial Liabilities**

At the inception, the Group and Company determines the classification of its financial liabilities. Accordingly, financial liabilities are classified as:

**a) Financial liabilities at fair value through profit or loss (FVTPL);**

**b) Financial liabilities at amortised cost.**

The subsequent measurement of financial liabilities depends on their classification.

**a) Financial Liabilities at Fair Value through Profit or Loss (FVTPL)**

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes there in recognised in profit or loss.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking.

Gains or losses on liabilities held for trading are recognised in the Income Statement.

**b) Financial Liabilities at Amortised Cost**

Financial Instruments issued by the Group that are not designated at fair value through profit or loss, are classified as liabilities under 'due to other customers', where the

### *Notes to the Financial Statements (contd.)*

substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares at amortised cost using the EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process. The details of the Group's financial liabilities at amortised cost are shown in Note No. 31.1.4 on page 146 to the Financial Statements.

#### **4.1.3. 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 in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received.

If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

#### **Level 1 Valuation**

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

*Notes to the Financial Statements (contd.)***Level 2 Valuation**

If a market for a financial instrument is not active, then the Company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in income statement on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out

**Level 3 Valuation**

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the

valuation is dependent on unobservable is not recognised in Statement of Comprehensive Income immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counter party where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Company believes a third-party market participant would take them into account in pricing a transaction. Please refer fair value hierarchy disclosed in Note No. 31.3 on page 147.

**4.1.4. Reclassification of Financial Assets**

The Group does not reclassify any Financial Asset into the 'fair value through profit or loss' category after initial recognition. Also the Group does not reclassify any financial instrument out of the 'fair value through profit or loss' category if upon initial recognition it was designated as at fair value through profit or loss.

The Group reclassifies non derivative financial assets out of the 'held for trading' category and into the 'available for sale', 'loans and receivables', or 'held to maturity' categories as permitted by the Sri Lanka Accounting Standard LKAS 39 - Financial Instruments: Recognition and Measurement. In certain circumstances the Group is also permitted to reclassify financial assets out of the 'available for sale' category and into the 'loans and receivables', 'held for trading' or 'held- to- maturity' category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in Equity is amortised to profit or loss over the remaining life of the investment using the

### *Notes to the Financial Statements (contd.)*

effective interest rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Income Statement

The Group may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

#### **4.1.5. Derecognition of Financial Assets and Financial Liabilities**

##### **Financial Assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when;

The rights to receive cash flows from the asset which have expired;

The Group and Company 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 Group and Company has transferred substantially all the risks and rewards of the asset ;or

The Group and Company 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 and consideration received and any cumulative gain or loss that has been recognised is recognised in profit or loss. When the Group and Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the group's continuing involvement in the asset. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

##### **Financial Liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss

#### **4.1.6. Securities Purchased under Reverse Repurchase Agreements**

Securities purchased under agreements to re-sell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial

*Notes to the Financial Statements (contd.)*

Position reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is accrued over the life of the agreement using the EIR and recorded in Other Operating income

#### **4.1.7. Identification and measurement of Impairment of Financial Assets**

The Group assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

##### **a) Loans and Receivables (L&R)**

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual and collective basis. Impairment losses are recorded as charges to the Income Statement. The carrying amount of impaired loans on the Statement of Financial Position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

##### **b) Individually Assessed Loans and Receivables**

For all loans that are considered individually significant, the Company & Group assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. When there is objective evidence of impairment, losses are determined on individual basis.

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This

normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

##### **c) Collectively Assessed Loans and Receivables**

Impairment is assessed on a collective basis to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

The collective impairment allowance is determined after taking into account;

historical loss experience in portfolios of similar credit risk; and management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience

Loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

##### **d) Write-off of Loans and Advances**

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security.

##### **e) Renegotiated Loans**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management

*Notes to the Financial Statements (contd.)*

continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to any criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

**f) Reversals of Impairment**

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the Income Statement.

**g) Available for Sale Financial Investments (AFS)**

For available for sale financial investments, the Company & group assesses at each reporting date whether there is objective evidence that an investment is impaired.

The equity investments classified as available for sale, objective evidence include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement is removed from equity and recognised in the Income Statement. Impairment losses on equity investments are not reversed through the Income Statement; increases in the fair value after impairment are recognised in other comprehensive income.

**h) Held to Maturity Financial Assets (HTM)**

An impairment loss in respect of held-to-maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR and is recognised in profit or loss. Interest on impaired assets continues to be recognised through the unwinding of discount. When a subsequent

event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**4.1.8. Offsetting 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 realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under LKAS / SLFRS, or for gains and losses arising from a group of similar transactions

**4.2 Leasing**

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

**a) Group as a Lessee**

Leases that do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred

**4.3. Property, Plant and Equipment****4.3.1. Basis of Recognition**

Property, Plant and Equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Property, Plant and Equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be measured reliably.

*Notes to the Financial Statements (contd.)***4.3.2. Basis of Measurement**

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as a part of computer equipment.

When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment.

The Company & group apply the cost model to Property, Plant and Equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses

**4.3.3. Subsequent Costs**

The cost of replacing a part of an item of Property, Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of day to day servicing of Property, Plant and Equipment are charged to the profit or loss as incurred.

**4.3.4. Repairs & Maintenance**

Repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the company & group and the renovation replaces an identifiable part

of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

**4.3.5. Derecognition**

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the Income Statement in the year the asset is derecognised

**4.3.6. Depreciation**

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows:

Class of Asset	% Per Annum	Period
Motor vehicles	20%	5 Years
Computer hardware	20%	5 Years
Office equipment	20%	5 Years
Furniture and Fittings	20%	5 Years

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and commence to depreciate when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate

*Notes to the Financial Statements (contd.)***4.4 Intangible Assets**

The intangible assets include the value of internally developed computer software

**4.4.1. Basis of Recognition**

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably, in accordance with Sri Lanka Accounting Standard 38 - Intangible Assets.

Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

**4.4.2. Subsequent Expenditure**

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred

**4.4.3. Useful Economic Lives, Amortisation and Impairment**

The useful economic lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight- line method to write down the cost of intangible assets to their residual values over their estimated useful economic lives at the rates as specified below:

Class of Asset	% Per Annum	Period
Computer software	20%	5 years

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

**4.4.4. Derecognition**

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

**4.5. Cash and Cash Equivalents**

Cash and cash equivalents include cash in hand and balances with banks which are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. There were no cash and cash equivalent held by the Group companies that were not available for use by the Group.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

*Notes to the Financial Statements (contd.)***4.6. Investment Properties**

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

**Determining Fair Value**

External and independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment property every 3 years. In financial periods within that period the fair value is determined by the board of directors.

Investment Properties of the Group are stated at cost less provision for Impairment.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

**4.7. Impairment of Non-financial Assets**

The carrying amounts of the Group's non-financial assets are reviewed at each Reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing of an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs to sell, an appropriate

valuation model is used. These calculations are corroborated by valuation multiples, quoted share price for publicly traded subsidiaries or other available fair value indicators. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may have decreased. If such indication exists the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognised in profit or loss.

**4.8. Investments in Subsidiaries**

Investments in subsidiaries are stated at cost, net of any impairment losses which are charged to the Income Statement in the Company's Financial Statements.

**4.9. Investments in Associate**

Investment in associate is accounted for at cost in the Company's Financial Statements and under the equity method in the Consolidated Financial Statements. Under the equity method, the investment in associate is initially accounted for at cost and the carrying amount is adjusted for post acquisition changes in the Company's share of net assets of the associate, less any impairment in the Company's net investment in associate.

**4.10. Borrowings and Debt Securities Issued**

These represents the funds borrowed in the form of debentures and promissory Notes. Interest Expense is recognized in the income statement based on the Effective Interest Rate method.

*Notes to the Financial Statements (contd..)***4.11. Dividends Payable**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are recommended by and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date in accordance with the Sri Lanka Accounting Standard LKAS 10 - Events after the Reporting period.

**4.12. Provisions**

Provisions are recognised in the Statement of Financial Position when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with the Sri Lanka Accounting Standard LKAS 37 - Provision, Contingent Liabilities and Contingent Assets. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

**4.13. Employee Benefits****4.13.1. Defined Benefit Plans – Gratuity**

The Group measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan using the 'Projected Unit Credit method' (PUC) as required by the Sri Lanka Accounting Standard LKAS 19 - Employee Benefits. The Company continues to use an internally developed method to measure retirement benefit liability. The item is stated under Other Liabilities in the Statement of Financial Position.

**Recognition of Actuarial Gains and Losses**

The company recognises the total actuarial gains and losses that arise in calculating the company's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

**Funding Arrangements**

The gratuity liability is not externally funded.

**4.13.2. Defined contribution plans – Employees' Provident Fund**

The Group and employees contribute to the Employees' Provident Fund managed by the Central Bank of Sri Lanka at 12% and 8% respectively on the gross salary of each employee.

**4.13.3. Defined contribution plans – Employees' Trust Fund**

The Group contributes to the Employees' Trust Fund at 3% on the gross salary of each employee.

**4.14. Equity Reserves**

The reserves recorded in equity (Other comprehensive income) on the Group's Statement of Financial Position includes Retained Reserves and the Statutory Reserve.

Statutory Reserve Fund has been created during the year 2006 in accordance with the Finance Leasing (Amendment) Act No 24 of 2005. Accordingly, 5% of the net profit for the period is transferred to the Statutory Reserve Fund.

**4.15. Recognition of Income and Expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**a) Interest and Similar Income and Expense**

For all financial instruments measured at amortised cost, interest income or expense is recorded using the Effective

*Notes to the Financial Statements (contd..)*

Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. However, for a reclassified financial asset for which the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**b) Fee and Commission Income**

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee Income Earned from Services that are Provided over a Certain Period of Time  
Fees earned for the provision of services over a period of time are accrued over that period.

**Fee Income from Providing Transaction Services**

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as

the arrangement of the documents and inspection of vehicle are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

**c) Dividend Income**

Dividend income is recognised when the Group's right to receive the payment is established, which is generally when the shareholders approve the dividend.

**d) Income from Government Securities and Securities Purchased under Resale Agreements**

Discounts/ premium on Treasury Bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on Treasury Bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreements is recognised in the Income Statement on an accrual basis over the period of the agreement.

**e) Interest on Overdue Rentals**

Interests from overdue rentals have been accounted for on a cash basis.

**f) Recovery of Bad and Doubtful Debts Written off**

Recovery of amounts written off as bad and doubtful debts is recognised on cash basis.

**g) Gain or Losses on Disposal of Property, Plant & Equipment, Investments in Financial and Non Financial Assets**

Gains or losses resulting from the disposal of property, plant and equipment and Investments in Financial and Non Financial Assets are accounted for on cash basis in the Income Statement, in the period in which the sale occurs.

**4.16. Tax Expenses****a) Current Tax**

Current tax assets and liabilities for the current and

*Notes to the Financial Statements (contd.)*

prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto at the rates specified below. Income tax on profit from operations is calculated at the rate of 28%.

**b) Deferred Tax**

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Income Statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**c) Value Added Tax (VAT) on Financial Services**

The base for Value Added Tax computation is arrived by aggregating the accounting profit before income tax and emoluments of employees, which is adjusted for the depreciation computed on prescribed rates. During the year, the Company's total value addition was subject to a 15% Value Added Tax as per Section 25(a) of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

**d) Economic Service Charge (ESC)**

As per the provisions of the Economic Service Charge Act No. 13 of 2006 and the amendments thereto, ESC is payable

*Notes to the Financial Statements (contd..)*

on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed liability can be carried forward within the specified time period mentioned in the Act and set off against the income tax payable as per the relevant provisions in the Act.

**e) Nation Building Tax (NBT)**

As per the provisions of the Nation Building Tax Act No. 9 of 2009 and the amendments thereto, NBT should be payable at the rate of 2% on the liable turnover as per the relevant provisions of the Act.

**4.17. Earnings Per Share (EPS)**

Basic Earnings per Share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted Earnings per Share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**4.18. Segment Reporting**

The group's segmental reporting is based on Operating Segments.

A segment is a distinguishable component of the Group that is engaged in providing products and services. (Business segment, which is subject to risks and rewards that are different from those of other segments).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the Financial Statements

of the Group. Inter-segment transfers are accounted for at competitive fair market prices charged to intercompany counterparts for similar services. Such services are eliminated on consolidation.

All operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions regarding resources to be allocated to the segments and to assess its performance, and for which discrete finance information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on reasonable basis.

For management purposes, the company is organized into business units based on their products and services.

No operating segments have been aggregated to form the reportable operating segments.

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from income statement in the financial statements. The company's stated capital and retained earnings are managed on a company basis and are not allocated to individual operating segments.

Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill. The activities of the company are located mainly in Sri Lanka. Consequently, the economic environment in which the company operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

*Notes to the Financial Statements (contd.)*

Operating Segment	Category of Information	Details
Leasing	Nature of product	Leasing facilities to acquire movable properties
	Classification of products	Motor cars, buses, trucks, machinery
	Revenue derived from	<ul style="list-style-type: none"> <li>▪ Interest income</li> <li>▪ Service fee income &amp; commission income</li> </ul>
Loans	Nature of product	Loan facilities to acquire movable and immovable properties and personal loans
	Classification of products	Land, motor cars, personal loans
	Revenue derived from	<ul style="list-style-type: none"> <li>▪ Interest income</li> <li>▪ Service fee income</li> </ul>
Treasury	Nature of product	Investing activities
	Classification of products	Placement with banks, repos, treasury bonds
	Revenue derived from	<ul style="list-style-type: none"> <li>▪ Investment income and fair value gains and losses on investments</li> </ul>
Money Brokering	Nature of product	Money brokering activities
	Classification of products	Call money, forex, treasury bills, treasury bonds
	Revenue derived from	<ul style="list-style-type: none"> <li>▪ Commission income</li> <li>▪ Investment income and fair value gains losses on investments</li> </ul>

**4.19. Statement of Cash Flow**

The Statement of Cash Flow has been prepared by using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard LKAS 7 - Statement of Cash Flows, whereby operating activities, investing activities and financing activities are separately recognised. Cash and Cash Equivalents comprise of Cash in hand and Cash at Bank. Cash and Cash Equivalents as referred to in the Statement of Cash Flow are comprised of those items as explained in the Note given in the Statement of Cash Flow on page 103.

**4.20. Commitments and Contingencies**

Contingent Liabilities are possible obligations whose existence will be confirmed only by occurrence or non-occurrence of uncertain future events not wholly within the control of the Group or present obligations where the

transfer of economic benefit is not probable or cannot be readily measured, as defined in the Sri Lanka Accounting Standard- LKAS 37 - Provisions, Contingent Liabilities and Contingent Assets. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Details of the commitments and contingencies are given in Note No. 32 on page 149.

**4.21. Events Occurring After the Reporting Period**

Events occurring after the reporting period are those events that occur between the reporting date and the date when the Financial Statements are authorised for issue. All material post reporting period events have been considered and where appropriate adjustments or disclosures have been made in Note No. 33 on page 149.

**5. New SLFRS issued and not yet effective**

The Institute of Chartered Accountants of Sri Lanka has issued the following new financial reporting standards, which have been issued but not yet effective as at the Reporting date. These have not been applied in preparing these Company and Consolidated Financial Statements.

Accordingly, the following Accounting Standards have not been applied in preparing these Financial Statements and the Group plans to apply these standards on the respective effective dates:

*Notes to the Financial Statements (contd.)***SLFRS 9 - Financial Instruments**

SLFRS 9 - "Financial Instruments" replaces the existing guidance in LKAS 39 - "Financial Instrument: Recognition and Measurement". SLFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets.

SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 - Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets - i.e. measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of Held-to-maturity, Loans and receivables and Available-for-sale are removed.

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new model applies to financial assets that are not measured at FVTPL. The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.

A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carried guidance on new general hedge accounting requirements.

SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements. Effective date of SLFRS 9 has been deferred till January 01, 2018

The Company is in the process of doing a high level initial assessment of the potential impact on its Financial Statements resulting from the application of SLFRS 9.

**SLFRS 15 - Revenue from Contracts with Customers**

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure

requirements aim to enable Financial Statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities will apply five-step model to determine when to recognize revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.

It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts'.

SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2018, with early adoption permitted.

The Company does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15.

**SLFRS 16 - Leases**

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet financed leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019.

The Company will assess the potential impact on its Financial Statements resulting from the application of SLFRS 16.

## Notes to the Financial Statements (contd..)

Rs. For the year ended December 31	Company		Group	
	2017	2016	2017	2016
<b>6. Income</b>				
Interest income [Note 6.1]	254,750,912	206,318,697	254,750,912	206,318,697
Net fee and commission income [ Note 7]	5,822,626	5,762,146	5,822,626	5,762,146
Other operating income [ Note 8]	54,689,393	43,931,172	118,795,513	103,563,262
	<b>315,262,931</b>	<b>256,012,015</b>	<b>379,369,051</b>	<b>315,644,105</b>
<b>6.1 Interest income</b>				
Lease Rental receivable	139,606,624	109,406,932	139,606,624	109,406,932
Loans and advances	114,243,812	96,911,765	114,243,812	96,911,765
Pawning advances	900,476	-	900,476	-
<b>Total interest income</b>	<b>254,750,912</b>	<b>206,318,697</b>	<b>254,750,912</b>	<b>206,318,697</b>
<b>6.2 Interest expenses</b>				
Due to banks	34,574,107	21,474,273	34,616,807	21,507,523
Due to other customers	6,951,529	15,313,456	6,951,529	15,313,456
On Other borrowings	27,655,360	3,523,590	27,655,360	4,324,844
<b>Total interest expenses</b>	<b>69,180,996</b>	<b>40,311,319</b>	<b>69,223,696</b>	<b>41,145,823</b>
<b>Net interest income</b>	<b>185,569,916</b>	<b>166,007,378</b>	<b>185,527,216</b>	<b>165,172,874</b>
<b>7 Net Fee and Commission Income</b>				
<b>7.1 Fee and commission income</b>	5,822,626	5,762,146	5,822,626	5,762,146
<b>Net fee and commission income</b>	<b>5,822,626</b>	<b>5,762,146</b>	<b>5,822,626</b>	<b>5,762,146</b>
<b>8 Other Operating Income</b>				
Profit on sale of property, plant and equipment	399,881	186,486	399,881	191,486
Investment with government securities	899,041	684,205	899,041	684,205
Service charges	531,772	263,191	531,772	263,191
Recovery of loans and lease written off in prior years	1,227,041	1,390,666	1,227,041	1,390,666
Dividend Income	180,000	58,500	246,327	91,222
Interest Income on placements with banks	14,610,191	12,824,698	14,610,191	14,040,508
Money Brokering Income	-	-	64,039,793	58,378,558
Reversals of Provision for CAPM	-	28,523,426	-	28,523,426
Reversals of provision for Golden Key Eye Hospital Ltd	36,841,467	-	36,841,467	-
	<b>54,689,393</b>	<b>43,931,172</b>	<b>118,795,513</b>	<b>103,563,262</b>
<b>9 Charge for Impairment for Loans and Advances</b>				
Reversal / (Charge) of Impairment for Loans and Advances (Note 15.5)	(45,548,263)	(3,821,579)	(45,548,263)	(3,821,579)
Write-offs and disposal losses	(3,683,200)	(7,469,172)	(3,683,200)	(7,469,172)
	<b>(49,231,463)</b>	<b>(11,290,751)</b>	<b>(49,231,463)</b>	<b>(11,290,751)</b>
<b>10 Personnel and Other Expenses</b>				
<b>10.1 Personnel expenses</b>				
Salaries and Bonus	47,500,098	40,543,690	66,702,783	60,943,311
Defined Contribution Plan Costs - EPF	5,124,962	4,703,408	7,676,324	7,497,584
Defined Contribution Plan Costs - ETF	1,281,241	1,175,852	1,919,082	1,874,396
Defined Benefit Plan Cost	1,515,408	2,697,607	3,013,222	3,809,685
Others	6,682,268	4,217,028	11,677,725	9,484,011
	<b>62,103,977</b>	<b>53,337,585</b>	<b>90,989,136</b>	<b>83,608,987</b>

## Notes to the Financial Statements (contd.)

Rs. For the year ended December 31	Company		Group	
	2017	2016	2017	2016
<b>10.2 Other expenses</b>				
Auditors' Remuneration - Audit Related Services	783,332	600,000	981,332	792,500
- Non Audit Services	956,850	1,600,894	1,055,850	1,600,894
Depreciation and Amortisation	9,385,665	3,762,987	11,293,914	5,605,260
Provision for fall in value of investment in associate companies	4,386,020	4,620,052	-	-
Legal expenses	2,406,810	1,881,306	2,406,810	1,881,306
Directors' Emoluments	5,659,612	5,435,708	7,864,612	7,790,708
Premises and Equipment cost	21,663,359	14,643,278	26,539,566	16,533,122
Others	28,587,671	21,411,869	46,234,645	37,544,149
	<b>73,829,319</b>	<b>53,956,094</b>	<b>96,376,729</b>	<b>71,747,939</b>

Rs. For the year ended December 31,	Company		Group	
	2017	2016	2017	2016
<b>11 Taxation</b>				
Income Tax on profits (Note 11.1)	6,730,960	5,807,539	9,451,017	7,907,222
Adjustments in respect of prior years	-	(314,556)	55,353	(370,269)
Provision for Deferred Tax (Note 11.3)	-	-	(275,908)	41,365
Deemed Dividend Tax	-	-	166,578	133,688
	<b>6,730,960</b>	<b>5,492,983</b>	<b>9,397,040</b>	<b>7,712,006</b>

**11.1 Reconciliation of Accounting Profit and the Income Tax Expense**

Profit Before Tax & Value Added Tax on Financial Services	43,979,796	82,189,390	56,610,647	92,923,729
Aggregate Disallowed Expenses	92,929,603	40,863,729	92,653,604	40,494,072
Aggregate Allowable Expenses	(266,184,607)	(253,392,197)	(267,392,775)	(253,392,197)
Capital Portion of Lease Receivable	235,424,186	245,719,232	235,424,186	246,696,108
Aggregate Exempt/Allowable Income	(49,210,466)	(77,109,252)	(52,643,197)	(80,951,941)
Profit From the Business	56,938,512	38,270,902	64,652,465	45,769,771
Profit from other source of Income	-	-	2,000,535	-
Tax Loss claimed during the year (Note 11.2)	(32,899,370)	(17,529,692)	(32,899,370)	(17,529,692)
<b>Taxable Profit</b>	<b>24,039,142</b>	<b>20,741,210</b>	<b>33,753,630</b>	<b>28,240,079</b>
<b>Income tax expense</b>	<b>6,730,960</b>	<b>5,807,539</b>	<b>9,451,017</b>	<b>7,907,222</b>

**11.1 A Reconciliation of effective tax rate is as follows,**

	Company		Group	
	2017	%	2017	%
Accounting profit before income tax	43,979,796	-	56,610,647	-
Income tax expense at the average statutory income tax rate	12,314,343	28%	15,850,982	28%
Disallowable Expenses	26,020,289	59%	25,943,009	46%
Allowable Expenses	(74,531,690)	-169%	(74,869,977)	-132%
Capital Portion of Lease Receivable	65,918,772	150%	65,918,772	116%
Aggregate Exempt/Allowable Income	(13,778,930)	-31%	(14,740,095)	-26%
Profit from other source of Income	-	-	560,150	1%
Tax losses utilised	(9,211,824)	-21%	(9,211,824)	-16%
Current tax expense	6,730,960	15%	9,451,017	17%

## Notes to the Financial Statements (contd.)

Income Tax provision of SMB Leasing PLC has been calculated at 28% (2016-28%) on its taxable profit in terms of Inland Revenue Act No. 10 of 2006, and amendments thereto. Profits of SMB Money Brokers (Private) Limited., subsidiary of the group is liable to income tax at 28%.(2016-28%)

Rs.	Company		Group	
	2017	2016	2017	2016
<b>11.2 Accumulated Tax Losses</b>				
Balance as at January 1,	273,438,129	289,074,840	273,438,129	289,074,840
Adjustment in respect of prior years	(2,226,254)	1,892,981	(2,226,254)	1,892,981
Tax Loss claimed during the year	(32,899,370)	(17,529,692)	(32,899,370)	(17,529,692)
<b>Balance as at December 31,</b>	<b>238,312,505</b>	<b>273,438,129</b>	<b>238,312,505</b>	<b>273,438,129</b>

**11.3 Deferred Taxation****Company**

Deferred tax assets have not been recognized in respect of lease assets because it is uncertain that future taxable profits will be available against which the Company can utilize the benefits there from the deferred tax assets arising from the tax losses carried forward was recognized only to the extent of deferred tax liability.

Unrecognised Deferred Tax Asset /Liability	2017 Rs.	2016 Rs.
Balance as at January 1,	3,946,871	25,307,190
Addition / Reversal for the year	12,353,920	(21,360,319)
<b>Balance as at December 31</b>	<b>16,300,791</b>	<b>3,946,871</b>

The above unrecognized deferred tax liability is attributable to the following:

Rs.	Temporary difference 2017.12.31	Tax effect 2017.12.31	Temporary difference 2016.12.31	Tax effect 2016.12.31
On Property, Plant & Equipment	(4,766,035)	(1,334,490)	(9,569,401)	(2,679,432)
On Lease Assets	(187,512,291)	(52,503,441)	(261,720,868)	(73,281,843)
On Retirement Benefit Obligation	12,182,933	3,411,221	11,948,108	3,345,470
On Accumulated Tax Losses	238,312,505	66,727,501	273,438,129	76,562,676
	<b>58,217,112</b>	<b>16,300,791</b>	<b>14,095,968</b>	<b>3,946,871</b>

The deferred tax has been calculated at the rate of 28% (2016-28%)

**Group**

In respect of the sole subsidiary, SMB Money Brokers (Pvt) Limited a deferred tax asset has been recognized, since the Management expects adequate taxable profit in the foreseeable future. Therefore, the Group deferred tax asset includes the deferred tax asset relevant to SMB Money Brokers (Pvt) Limited.

	2017 Rs.	2016 Rs.
Balance as at January 1	1,155,731	1,197,098
Charge/ (Reversal) for the year	604,194	(41,367)
<b>Balance as at December 31,</b>	<b>1,759,925</b>	<b>1,155,731</b>

## Notes to the Financial Statements (contd.)

The above recognized deferred tax asset is attributable to the following:

Rs.	Temporary difference 31.12.2017	Tax Effect 31.12.2017	Temporary difference 31.12.2016	Tax Effect 31.12.2016
On Property, Plant & Equipment	(1,391,714)	(389,680)	(879,282)	(246,199)
On Retirement Benefit Obligation	7,677,161	2,149,605	5,006,893	1,401,930
	<b>6,285,447</b>	<b>1,759,925</b>	<b>4,127,611</b>	<b>1,155,731</b>

The deferred tax has been calculated at the rate of 28% (2016-28%)

## 12 Basic Earnings/ (Loss) Per Share

Basic Earnings per share has been calculated by dividing the profit for the year attributable to equity holders of the Company by the number of ordinary shares, as per the requirements of the Sri Lanka Accounting Standard LKAS 33 -Earnings per Share.

For the year ended December 31,	Company		Group	
	2017	2016	2017	2016
Profit attributable to equity holders of the company (Rs)	37,248,836	76,696,407	40,066,471	78,682,991
No. of Ordinary Shares outstanding during the year	1,805,832,873	1,805,832,873	1,805,832,873	1,805,832,873
<b>Basic Earnings Per Share (Rs)</b>	<b>0.02</b>	<b>0.04</b>	<b>0.02</b>	<b>0.04</b>

Rs.	Company		Group	
As at December 31,	2017	2016	2017	2016

## 13 Cash and Cash Equivalents

Cash in hand	3,695,345	2,284,940	3,710,345	2,299,940
Balances with banks	26,455,111	27,672,948	28,748,667	30,823,431
	<b>30,150,456</b>	<b>29,957,888</b>	<b>32,459,012</b>	<b>33,123,371</b>

## 14 Placements with Banks

Fixed deposits with banks	128,947,376	115,792,947	143,978,662	125,792,947
REPO investment with banks -Overnight	3,280,000	800,000	3,280,000	5,800,000
	<b>132,227,376</b>	<b>116,592,947</b>	<b>147,258,662</b>	<b>131,592,947</b>

## 15 Loans and Receivables

Gross loans and receivables (Note 15.2)	1,677,384,112	1,683,206,571	1,675,763,974	1,681,346,445
Less: Individual impairment (Note 15.5)	(370,222,856)	(324,247,536)	(370,222,856)	(324,247,536)
Collective impairment (Note 15.5)	(38,703,885)	(39,130,940)	(38,703,885)	(39,130,940)
<b>Net loans and receivables</b>	<b>1,268,457,371</b>	<b>1,319,828,095</b>	<b>1,266,837,233</b>	<b>1,317,967,969</b>

### 15.1 Net Loans and Receivables

#### 15.1.1 Loans

Gross loans receivables (Note 15.3)	757,731,624	777,231,638	756,111,486	775,371,512
Less: Individual impairment	(214,974,471)	(204,499,975)	(214,974,471)	(204,499,975)
Collective impairment	(27,725,205)	(28,415,092)	(27,725,205)	(28,415,092)
<b>Net loans and receivables</b>	<b>515,031,948</b>	<b>544,316,571</b>	<b>513,411,810</b>	<b>542,456,445</b>

## Notes to the Financial Statements (contd..)

Rs. As at December 31,	Company		Group	
	2017	2016	2017	2016
<b>15.1.2 Leases</b>				
Gross leases receivables (Note 15.4)	903,670,419	905,974,933	903,670,419	905,974,933
Less: Individual impairment	(155,248,385)	(119,747,561)	(155,248,385)	(119,747,561)
Collective impairment	(10,978,680)	(10,715,848)	(10,978,680)	(10,715,848)
<b>Net lease rental receivables</b>	<b>737,443,354</b>	<b>775,511,524</b>	<b>737,443,354</b>	<b>775,511,524</b>
<b>15.1.3 Pawning Advances receivable</b>	15,982,069	-	15,982,069	-
<b>Total net lease and loans receivables</b>	<b>1,268,457,371</b>	<b>1,319,828,095</b>	<b>1,266,837,233</b>	<b>1,317,967,969</b>
<b>15.2 Product wise analysis of loans and receivables</b>				
Lease rental receivables	903,670,419	905,974,933	903,670,419	905,974,933
Personal Loans	196,997,985	164,607,400	196,997,985	164,607,400
Staff Loans	641,806	1,083,594	641,806	1,083,594
Term Loans	322,126,719	328,382,187	322,126,719	328,382,187
Easy Payment Loans	25,007,513	31,269,277	23,387,375	29,409,157
Other Loans	212,957,601	251,889,180	212,957,601	251,889,174
Pawning advances	15,982,069	-	15,982,069	-
	<b>1,677,384,112</b>	<b>1,683,206,571</b>	<b>1,675,763,974</b>	<b>1,681,346,445</b>
<b>15.3 Sector wise analysis of loans and receivables</b>				
Industry	181,280,594	205,556,480	181,280,594	205,556,480
Agriculture	78,267,424	77,058,698	78,267,424	77,058,698
Trade	141,028,410	88,213,577	141,028,410	88,213,577
Transport	191,910,597	158,198,205	191,910,597	158,198,205
Construction	116,039,105	81,625,100	116,039,105	81,625,100
Services	482,955,047	310,764,438	481,334,909	308,904,312
Personal	134,594,597	144,590,470	134,594,597	144,590,470
Others	351,308,338	617,199,603	351,308,338	617,199,603
	<b>1,677,384,112</b>	<b>1,683,206,571</b>	<b>1,675,763,974</b>	<b>1,681,346,445</b>
<b>15.4 Gross Lease Rental Receivable</b>				
<b>Gross lease rental receivable within one year</b>				
Total lease rentals within one year from reporting date	462,254,224	527,319,582	462,254,224	527,319,582
Unearned lease Income	(100,998,287)	(102,507,318)	(100,998,287)	(102,507,318)
<b>Balance as at</b>	<b>361,255,937</b>	<b>424,812,264</b>	<b>361,255,937</b>	<b>424,812,264</b>
<b>Gross lease rental receivable after one year and five years</b>				
Total lease rentals receivable after one year from reporting date	636,108,982	585,737,873	636,108,982	585,737,873
Unearned lease Income	(117,133,523)	(123,130,179)	(117,133,523)	(123,130,179)
<b>Balance as at</b>	<b>518,975,459</b>	<b>462,607,694</b>	<b>518,975,459</b>	<b>462,607,694</b>

## Notes to the Financial Statements (contd.)

Rs. As at December 31,	Company		Group	
	2017	2016	2017	2016
<b>Gross lease rental receivable after five years</b>				
Total lease rentals receivable after five years from reporting date	24,511,873	19,331,030	24,511,873	19,331,030
Unearned lease Income	(1,072,850)	(776,055)	(1,072,850)	(776,055)
<b>Balance as at</b>	<b>23,439,023</b>	<b>18,554,975</b>	<b>23,439,023</b>	<b>18,554,975</b>
<b>Total lease rentals receivables</b>	<b>903,670,419</b>	<b>905,974,933</b>	<b>903,670,419</b>	<b>905,974,933</b>

**15.5 Movement in Individual and Collective Impairment during the year-Company / Group**

Individual Impairment	2017	2016
	Rs.	Rs.
Balance as at January 1,	324,247,536	318,428,345
Net impairment charge for the year	45,975,320	5,819,191
<b>Balance as at December 31,</b>	<b>370,222,856</b>	<b>324,247,536</b>
<b>Collective Impairment</b>		
Balance as at January 1,	39,130,940	41,128,552
Net impairment reversal for the year	(427,057)	(1,997,612)
<b>Balance as at December 31,</b>	<b>38,703,883</b>	<b>39,130,940</b>
<b>Total net impairment charge / (reversal) for the year</b>	<b>45,548,263</b>	<b>3,821,579</b>

**15.6 Collective Impairment of Loans and Receivable to Customers - Based on Aging**

Rs.	2017			2016		
	Gross Receivable	Impairment	%	Gross Receivable	Impairment	%
0-30 Days	559,389,651	20,314	0.05%	879,122,106	29,188	0.07%
31-60 Days	247,830,344	28,532	0.07%	154,124,993	19,668	0.05%
61-90 Days	116,624,862	35,510	0.09%	142,154,941	21,482	0.05%
91-120 Days	105,942,325	131,782	0.34%	42,000,265	36,022	0.09%
121-150 Days	43,824,317	26,395	0.07%	32,209,007	57,653	0.15%
151-180 Days	38,152,570	525,398	1.36%	8,786,093	33,524	0.09%
181-210 Days	3,382,297	3,814,651	9.86%	884,179	446,750	1.14%
211-240 Days	414,013	39,510	0.10%	849,868	14,553	0.04%
241-270 Days	299,630	16,599	0.04%	107,090	12,008	0.03%
271-300 Days	-	-	0.00%	202,121	32,260	0.08%
301-330 Days	84,301	25,478	0.07%	142,600	36,547	0.09%
331-360 Days	509,783	146,411	0.38%	494,421	90,232	0.23%
Above 360 Days	27,859,472	33,893,306	87.57%	38,301,054	38,301,054	97.88%
	1,144,313,565	38,703,885	100.00%	1,299,378,738	39,130,940	100.00%
<b>Net Receivable</b>		<b>1,105,609,680</b>			<b>1,260,247,797</b>	

**16 Financial Investments**

The Company's Financial Investments are summarised by Categories as follows:

Rs. As at December 31,	Company		Group	
	2017	2016	2017	2016
Available for Sale (AFS) (Note 16.1)	52,719,109	1,168,679	52,719,109	1,168,679
Fair Value Through Profit or Loss (FVTPL) (Note 16.2)	-	-	4,960,958	3,549,336
Held to Maturity (HTM) (Note 16.3)	-	6,409,227	-	6,409,227
Loans and Receivables (L&R) (Note.16.4)	-	-	1,779,500	1,779,139
<b>Total Financial Investments</b>	<b>52,719,109</b>	<b>7,577,906</b>	<b>59,459,567</b>	<b>12,906,381</b>

## Notes to the Financial Statements (contd..)

The Following Table Compares the Fair values of the Financial Investments to their Carrying Values:

As at December 31, Rs.	Company				Group			
	2017		2016		2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Available for Sale (AFS) (Note 16.1)	52,719,109	52,719,109	1,168,679	1,168,679	52,719,109	52,719,109	1,168,679	1,168,679
Fair Value Through Profit or Loss (FVTPL) (Note 16.2)	-	-	-	-	4,960,958	4,960,958	3,549,336	3,549,336
Held to Maturity (HTM) (Note 16.3)	-	-	6,409,227	6,990,031	-	-	6,409,227	6,990,031
Loans and Receivables (L&R) (Note 16.4)	-	-	-	-	1,779,500	1,860,300	1,779,139	1,860,300
<b>Total Financial Investments</b>	<b>52,719,109</b>	<b>52,719,109</b>	<b>7,577,906</b>	<b>8,158,710</b>	<b>59,459,567</b>	<b>59,540,367</b>	<b>12,906,381</b>	<b>13,568,346</b>

## 16.1 Available for Sale Investments (AFS)

### 16.1.1 Quoted Shares held by SMB Leasing PLC

Rs.	2017			2016		
	No of shares	Carrying Value	Fair Value	No of shares	Carrying Value	Fair Value
<b>Banking, Finance &amp; Insurance</b>						
The Finance Co. PLC	97	504	504	97	640	640
		<b>504</b>	<b>504</b>		<b>640</b>	<b>640</b>
<b>Manufacturing</b>						
Blue Diamond Jewelry Worldwide PLC	778,280	700,452	700,452	778,280	1,167,420	1,167,420
Metal Recyclers Colombo PLC	69	-	-	69	-	-
		<b>700,452</b>	<b>700,452</b>		<b>1,167,420</b>	<b>1,167,420</b>
<b>Land &amp; Property</b>						
Seylan Developments PLC	43	585	585	43	619	619
		<b>585</b>	<b>585</b>		<b>619</b>	<b>619</b>
<b>Carrying Amount</b>		<b>701,541</b>	<b>701,541</b>		<b>1,168,679</b>	<b>1,168,679</b>

### 16.1.2 Unquoted Shares

Rs.	2017		2016	
	No of shares	Carrying Value	No of shares	Carrying Value
Ceylinco Sports Complex Ltd.	300,000	3,000,000	300,000	3,000,000
Ceylinco Investment & Realty	100,000	1,000,000	100,000	1,000,000
Seraka Investment Ltd.	5,655,900	48,645,300	5,655,900	48,645,300
South Asian Travels	30,000	300,000	30,000	300,000
Ceylinco Savings Bank Ltd	1,189,600	11,896,000	1,189,600	11,896,000
Ceylinco Coloured Stone (Pvt) Ltd.	500,000	5,000,000	500,000	5,000,000
Openarc Global Solutions (Pvt) Ltd.	45,000	450,000	45,000	450,000
Magpek Exports Ltd	125,000	5,000,000	125,000	5,000,000
Pugoda Textiles Mills Ltd	7,500	252,525	7,500	252,525
SMB Real Estate Ltd	61,739	30,282,196	-	-
SMB Securities (Pvt) Ltd	5,000,000	50,000,000	-	-
		<b>155,826,021</b>		<b>75,543,825</b>
<b>(-) Less: Provision for Impairment</b>		<b>(103,808,453)</b>		<b>(75,543,825)</b>
<b>Carrying Amount</b>		<b>52,017,568</b>		<b>-</b>
<b>Total Carrying Amount</b>		<b>52,719,109</b>		<b>52,719,109</b>

The investment in Seraka Investment Limited is 10% Non cumulative Non Redeemable Preference Shares

*Notes to the Financial Statements (contd..)***Investments in un-quoted shares of SMB Real Estate Limited and SMB Securities (Pvt) Ltd**

SMB Leasing has made investments in SMB Real Estate Limited and SMB Securities (Pvt) Ltd. These investments are classified as available-for-sale investments and are carried at fair value as at December 31, 2017 in the Statement of Financial Position after adjusting for the 2017 fair value movements in the Statement of Comprehensive Income.

Since these companies are unquoted and therefore share prices not being available, the fair value of these two investments cannot be ascertained using share prices. Further, these two companies have informed SMB Leasing PLC that they are still in the process of finalizing their audited accounts. Therefore, SMB Leasing PLC engaged a professional and an independent valuer, Wealth Lanka Management (Pvt) Ltd to provide an objective and independent valuation of these two investments in accordance with Sri Lanka Financial Reporting Standards 13 - Fair Value Measurement. Accordingly, Wealth Lanka Management (Pvt) Ltd has used valuation techniques that are appropriate in the circumstances for which sufficient data are available to measure fair value and has provided SMB Leasing PLC with valuation of these two investments that reflects the estimated prices at which an orderly transaction to sell these two assets would take place under the current market conditions.

The Board of Directors has resolved that the carrying value reflected in the Company's financial position as at December 31, 2017 for these two investments after prudently recognizing the impairment losses in the Statement of Comprehensive Income, reflects the fair value of these two investments as at the balance sheet date.

	<b>SMB Real Estate Limited</b>	<b>SMB Securities (Pvt) Ltd</b>
Carrying value as at January 1, 2017	17,809,963	41,980,369
Carrying value as at December 31, 2017	14,830,317	37,187,251
Impairment loss recognized in 2017	2,979,646	4,793,118

The Board of Directors has further done the below analysis to test the significance and sensitivity of movements in key five variables pertaining to the carrying value of these two investments on the overall financial position of SMB Leasing PLC as at December 31, 2017.

<b>SMB Real Estate Limited</b>	<b>Total as at January 1, 2017 as per audited FS</b>	<b>Share Attributable to SMB Leasing (January 1, 2017)</b>	<b>SMB Leasing PLC Audited Balances (December 31, 2017)</b>	<b>Impact percentage to SMB Leasing PLC financials</b>
Assets	45,277,357	22,185,905	1,646,841,760	1%
Liabilities	8,930,494	4,375,942	473,255,908	1%
Equity	36,346,863	17,809,963	1,173,585,852	2%
Revenue	2,439,850	1,195,527	315,262,931	0%
Profit before tax	1,358,052	665,445	60,917,176	1%

<b>SMB Securities (Pvt) Limited</b>	<b>Total as at January 1, 2017 as per audited FS</b>	<b>Share Attributable to SMB Leasing (January 1, 2017)</b>	<b>SMB Leasing PLC Audited Balances (December 31, 2017)</b>	<b>Impact percentage to SMB Leasing PLC financials</b>
Assets	108,001,890	53,460,936	1,646,841,760	3%
Liabilities	23,193,064	11,480,567	473,255,908	2%
Equity	84,808,826	41,980,369	1,173,585,852	4%
Revenue	20,415,301	10,105,574	315,262,931	3%
Profit before tax	(573,974)	(284,117)	60,917,176	0%

## Notes to the Financial Statements (contd..)

**16.1.3 Unquoted Debentures**

Rs.	2017 Cost	2016 Cost
Ceylinco Automobiles Ltd	17,600,000	17,600,000
Provision for Impairment Loss	(17,600,000)	(17,600,000)
	-	-

**16.2 Fair Value Through Profit or Loss (FVTPL)****Held by SMB Money Brokers (Pvt) Ltd.**

Rs.	2017			2016		
	No of shares	Carrying Value	Fair Value	No of shares	Carrying Value	Fair Value
<b>Banking, Finance &amp; Insurance</b>						
Pan Asia Bank	10,000	157,000	157,000	10,000	200,000	200,000
Union Bank of Colombo PLC	35,000	462,000	462,000	35,000	539,000	539,000
Softlogic Life Insurance PLC	-	-	-	19,000	393,300	393,300
		<b>619,000</b>	<b>619,000</b>	<b>64,000</b>	<b>1,132,300</b>	<b>1,132,300</b>
<b>Land &amp; Property</b>						
Colombo Fort Land & Building PLC	30,000	570,000	570,000	22,827	456,540	456,540
Overseas Reality (Ceylon) PLC	10,000	170,000	170,000	-	-	-
		<b>740,000</b>	<b>740,000</b>		<b>456,540</b>	<b>456,540</b>
<b>Other</b>						
Asia Siyaka Commodities PLC	100,000	250,000	250,000	-	-	-
Dialog Axiata PLC	5,440	70,720	70,720	-	-	-
Ceylon Investment PLC	30,000	1,341,000	1,341,000	8,727	428,496	428,496
Dunamis Capital PLC	20,000	468,000	468,000	20,000	470,000	470,000
Browns Investments PLC	100,000	260,000	260,000	100,000	140,000	140,000
John Keels Holdings PLC	5,000	742,500	742,500	5,000	725,000	725,000
Pelawatta Sugar Industries PLC	3,000	-	-	3,000	-	-
Wattawala Plantations PLC	-	-	-	10,000	197,000	197,000
Sunshine Holdings PLC	8,241	469,738	469,738	-	-	-
		<b>3,601,958</b>	<b>3,601,958</b>		<b>1,960,496</b>	<b>1,960,496</b>
Total Quoted Shares		<b>4,960,958</b>	<b>4,960,958</b>		<b>3,549,336</b>	<b>3,549,336</b>

*Notes to the Financial Statements (contd..)*

**16.3 Held to Maturity (HTM)**

Rs.	Company		Group	
	2017	2016	2017	2016
Government of Sri Lanka Treasury Bonds	-	6,409,227	-	6,409,227
Softlogic Finance PLC - (Quoted Debenture)	-	-	-	-
	-	<b>6,409,227</b>	-	<b>6,409,227</b>

**16.4 Loans and Receivables (L&R)**

Rs.	Group	
	2017	2016
People's Leasing Finance PLC (Investment in Debentures)	1,779,500	1,779,500
Corporate Finance & Capital Market Limited (6% Non redeemable, Non participative preference shares)	10,540,000	10,500,000
	<b>12,319,500</b>	<b>12,319,500</b>
Less: Provision for impairment	(10,540,000)	(10,500,000)
	1,779,500	1,779,500

**16.5 Movement of Financial Investment**

**16.5.1 Company**

Rs.	Available-for-Sale	Held-to-Maturity
As at January 1, 2016	935,814	6,355,023
Purchases	-	-
Maturities	-	-
Disposals	-	-
Fair value Loss recorded in the Income Statement	(640)	-
Fair value Loss recorded in the Other Comprehensive Income	233,505	-
Interest Income	-	54,204
<b>As at December 31, 2016</b>	<b>1,168,679</b>	<b>6,409,227</b>
As at January 1, 2017	1,168,679	6,409,227
Purchases / Additions	59,790,332	-
Maturities	-	-
Disposals	-	(6,409,227)
Fair value Loss recorded in the Income Statement	(8,239,902)	-
Fair value Loss recorded in the Other Comprehensive Income	-	-
Interest Income	-	-
<b>As at December 31, 2017</b>	<b>52,719,109</b>	<b>-</b>

*Notes to the Financial Statements (contd..)***16.5.2 Group**

<b>Rs.</b>	<b>Available- for-Sale (AFS)</b>	<b>Fair Value Through Profit or Loss (FVTPL)</b>	<b>Held-to- Maturity (HTM)</b>	<b>Loans and Receivables (L &amp; R)</b>
As at January 1,2016	935,814	4,042,650	8,382,202	1,779,500
Purchases	-	1,524,784	-	-
Maturities	-	-	-	-
Disposals	-	(2,018,098)	(2,027,179)	(361)
Fair value Loss recorded in the Income Statement	(640)	-	-	-
Fair value Loss recorded in the Profit or loss and Other Comprehensive Income	233,505	-	-	-
Interest Income	-	-	54,204	-
<b>As at December 31, 2016</b>	<b>1,168,679</b>	<b>3,549,336</b>	<b>6,409,227</b>	<b>1,779,139</b>
As at January 1,2017	1,168,679	3,549,336	6,409,227	1,779,139
Purchases / Additions	59,790,332	2,070,769	-	-
Maturities	-	(644,698)	-	-
Disposals	-	-	(6,409,227)	-
Fair value gains/(Losses) recorded in the Income Statement	(8,239,902)	(14,449)	-	361
<b>As at December 31,2017</b>	<b>52,719,109</b>	<b>4,960,958</b>	<b>-</b>	<b>1,779,500</b>

## Notes to the Financial Statements (contd.)

**16.6 Disclosure of Financial Risk**

The Company's exposure to Credit, Currency and Interest rate risks related to investments are disclosed in Note 36 on page 150 to the Financial Statements.

**16.7 Financial Investments pledged as security**

Financial investments are not pledged as a Security as at the reporting date.

**17. Investment in Associates****17.1 Company**

Rs.	Principle Activity	2017			2016		
		Holding	No of Shares	Cost as at 2017	Holding	No of Shares	Cost as at 2016
Kenenga Investment Corporation Ltd	Investment Banking	48.99%	4,900,000	49,000,000	48.99%	4,900,000	49,000,000
SMB Real Estate Ltd.	Property Development Activities	-	-	-	49.00%	617,277	30,282,196
SMB Securities (Pvt) Limited	Stock Brokering Activities	-	-	-	49.50%	5,000,000	50,000,000
				49,000,000	-	-	129,282,196
	Less: Provision for Impairment	-	-	(11,724,586)	-	-	(27,830,430)
<b>Balance as at December 31,</b>		-	-	<b>37,275,414</b>	-	-	<b>101,451,766</b>

**17.2 Group**

	2017 Rs.	2016 Rs.
Balance as at January 1,	41,661,434	106,071,818
Share of Loss after tax	(4,386,020)	(4,620,052)
<b>Balance as at December 31,</b>	<b>37,275,414</b>	<b>101,451,766</b>

**17.3 Share of Profits/(Loss) of Associate Companies**

Kenenga Investment Corporation Ltd	(4,386,020)	(3,798,135)
SMB Real Estate Ltd.	-	(403,848)
SMB Securities (Pvt) Limited	-	(418,069)
	<b>(4,386,020)</b>	<b>(4,620,052)</b>

**17.4 Summarised Financial Information of Associate**

As at December 31, 2017 Rs.	Kenanga Investment Corporation Ltd (Un-audited)	Total
Revenue	9,506,112	9,506,112
Total Comprehensive Income/(Expenses) for the year	(8,951,061)	(8,951,061)
Total Asset	80,630,233	80,630,233
Total Equity	76,072,273	76,072,273
Total Liabilities	4,557,960	4,557,960

## Notes to the Financial Statements (contd.)

**18. Investment in Subsidiary,**

Rs.	Principle Activity	2017			2016		
		Holding	No of Shares	Carrying Value	Holding	No of Shares	Carrying Value
SMB Money Brokers(Pvt) Ltd	Money Market Activities	50.99%	1,275,000	12,750,000	50.99%	1,275,000	12,750,000
	Less: Provision for Impairment			-			-
<b>Balance as at December 31</b>				<b>12,750,000</b>			<b>12,750,000</b>

**18.1 Non Controlling Interest (NCI) in Subsidiary**

	2017 Rs.	2016 Rs.
NCI Percentage (%)	49.01%	49.01%
Total Assets	48,360,733	42,473,212
Total Liabilities	12,379,174	13,773,357
Net Assets	33,560,789	28,699,855
Carrying amount of NCI	16,359,297	14,065,799
Revenue	61,691,028	57,480,600
Profit	5,524,774	3,993,218
Total comprehensive income	(844,164)	251,879
Profit allocated to NCI	2,293,498	2,080,096

**19 Investment Properties**

Rs.	Company		Group	
	2017	2016	2017	2016
Balance as at January 1,	33,310,000	33,730,400	39,897,700	39,892,400
Disposal	-	(420,400)	-	(420,400)
Add: Fair value Gain	-	-	487,550	425,700
<b>Balance as at December 31,</b>	<b>33,310,000</b>	<b>33,310,000</b>	<b>40,385,250</b>	<b>39,897,700</b>

Note: There are no building in the above lands. There is no rental income or expenses from the above investment property.

## Notes to the Financial Statements (contd.)

**19.1 Property Location**

Rs.000	Extent (Perches)	Company				Group			
		2017		2016		2017		2016	
		Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value
Kaduwela, Malabe	123.50	32,700	94,475	32,700	94,475	32,700	94,475	32,700	94,475
Ahangama, Dikkumbura	21.00	1,204	610	1,204	610	1,204	610	1,204	610
Malabe	8.38	-	-	-	-	4,200	2,305	4,200	2,095
Ahangama	111.00	-	-	-	-	2,853	4,770	2,853	4,493
		33,904	95,085	33,904	95,085	40,957	102,160	40,957	101,673
Less: Provision for impairment		(594)	-	(594)	-	(572)	-	(1,059)	-
		<b>33,310</b>	<b>95,085</b>	<b>33,310</b>	<b>95,085</b>	<b>40,385</b>	<b>102,160</b>	<b>39,898</b>	<b>101,673</b>

**19.2 Valuation of Investment Properties**

The Company carries investment properties at cost. Market valuations of the above investment properties were carried out as at 31.03.2017 by Messrs. D.N Dhammika Baranage who is an independent valuers not connected with the Company.

These fair values have not been incorporated in the financial statements. The Directors have assessed that there is no significant change in the fair value of the properties as at 31st December 2017 when compared to the previous year.

**20 Property, Plant and Equipment****Company**

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2017 Total	2016 Total
<b>Cost / Valuation</b>						
As at January 01,	46,423,786	14,999,493	35,327,460	7,045,189	103,795,928	88,725,341
Additions for the Year	951,156	1,752,020	4,793,585	-	7,496,761	16,617,911
Disposals	-	(1,700,000)	(35,190)	-	(1,735,190)	(1,547,324)
Write off	(22,020,901)	(5,267,984)	(23,776,663)	(6,058,297)	(57,123,845)	-
<b>As at December 31,</b>	<b>25,354,041</b>	<b>9,783,529</b>	<b>16,309,192</b>	<b>986,892</b>	<b>52,433,654</b>	<b>103,795,928</b>
<b>Accumulated Depreciation</b>						
As at January 01,	44,684,189	13,105,508	18,842,961	6,939,189	83,571,847	81,503,663
Charge for the year	1,419,060	407,395	4,204,856	24,000	6,055,311	3,615,508
Disposals	-	(1,328,567)	(24,046)	-	(1,352,613)	(1,547,324)
Write off	(22,514,357)	(9,532,700)	(17,152,080)	(6,058,297)	(55,257,434)	-
<b>As at December 31,</b>	<b>23,588,892</b>	<b>2,651,636</b>	<b>5,871,691</b>	<b>904,892</b>	<b>33,017,111</b>	<b>83,571,847</b>
<b>Net book value as at December 31, 2017</b>	<b>1,765,149</b>	<b>7,131,893</b>	<b>10,437,501</b>	<b>82,000</b>	<b>19,416,543</b>	
<b>Net book value as at December 31, 2016</b>	<b>1,739,597</b>	<b>1,893,985</b>	<b>16,484,499</b>	<b>106,000</b>	<b>-</b>	<b>20,224,081</b>

## Notes to the Financial Statements (contd.)

<b>Group</b>						
<b>Rs.</b>	<b>Computer Equipment</b>	<b>Office Equipment</b>	<b>Furniture &amp; Fittings</b>	<b>Motor Vehicles</b>	<b>2017 Total</b>	<b>2016 Total</b>
<b>Cost / Valuation</b>						
As at January 01,	47,190,507	18,216,814	37,107,565	12,965,279	115,480,165	100,335,985
Additions for the Year	993,956	1,826,030	4,948,085	-	7,768,071	16,782,411
Disposals	-	(1,700,000)	(35,190)	-	(1,735,190)	(1,620,657)
Write off	(22,020,901)	(5,267,984)	(23,776,663)	(6,058,297)	(57,123,845)	-
<b>As at December 31,</b>	<b>26,163,562</b>	<b>13,074,860</b>	<b>18,243,797</b>	<b>6,906,982</b>	<b>64,389,201</b>	<b>115,497,739</b>
<b>Accumulated Depreciation</b>						
As at January 01,	45,199,994	15,635,837	19,699,702	11,262,247	91,797,780	87,986,251
Charge for the year	1,507,987	662,567	4,571,238	1,208,018	7,949,810	5,449,760
Disposals	-	(1,328,567)	(24,046)	-	(1,352,613)	(1,620,657)
Write off	(22,514,357)	(9,532,700)	(17,152,080)	(6,058,297)	(55,257,434)	-
<b>As at December 31,</b>	<b>24,193,624</b>	<b>5,437,137</b>	<b>7,094,814</b>	<b>6,411,968</b>	<b>43,137,543</b>	<b>91,815,354</b>
<b>Net book value as at December 31,2017</b>	<b>1,969,938</b>	<b>7,637,723</b>	<b>11,148,983</b>	<b>495,014</b>	<b>21,251,658</b>	<b>-</b>
<b>Net book value as at December 31,2016</b>	<b>1,990,513</b>	<b>2,580,977</b>	<b>17,407,863</b>	<b>1,703,032</b>	<b>-</b>	<b>23,682,385</b>

**20.1 Acquisition of PPE during the year**

During the financial year, the Company acquired PPE to the aggregate value of Rs.7,496,761 (2016-Rs.16,617,911)

**20.2 Capitalisation of Borrowing Cost**

There were no capitalised borrowing costs relating to the acquisition of Property, Plant and Equipment during the year. (2016- Nil)

**20.3 Fully depreciated PPE in use**

The initial cost of fully depreciated PPE which are still in use as at reporting date is as follows: .

<b>As at December 31,</b>	<b>2017</b>	<b>2016</b>
Computer Equipment	19,204,648	32,360,382
Office Equipment	656,819	12,951,342
Furniture & Fittings	2,776,096	17,962,524
Motor Vehicles	866,892	6,925,188
	<b>23,504,455</b>	<b>70,199,436</b>

**20.4 Property, Plant and Equipment pledged as security**

None of the Property, Plant and Equipment have been pledged as securities as at the reporting date.

**20.5 Permanent fall in value of Property, Plant and Equipment**

There has been no permanent fall in the value of Property, Plant and Equipment which require an impairment provision in the Financial Statements. .

**20.6 The restriction of Property, Plant and Equipment**

There are no restrictions that existed on the title of the Property, Plant and Equipment of the group as at the reporting date.

**20.7 Compensation from third parties for items of Property, Plant and Equipment**

There were no compensation received during the year from third parties for items of property, plant and equipment that were impaired, lost or given up (2016: Nil).

## Notes to the Financial Statements (contd.)

Rs.	Company		Group	
	2017	2016	2017	2016
<b>21 Intangible Assets</b>				
<b>Cost</b>				
As at January 1,	737,388	737,388	839,253	839,253
Additions for the year	1,567,500	-	3,822,799	-
<b>As at December 31,</b>	<b>2,304,888</b>	<b>737,388</b>	<b>4,662,052</b>	<b>839,253</b>
<b>Accumulated Amortisation</b>				
As at January 1,	479,302	331,824	534,188	378,689
Charge for the year	330,354	147,478	344,104	155,499
Disposals	-	-	-	-
<b>As at December 31,</b>	<b>809,656</b>	<b>479,302</b>	<b>878,292</b>	<b>534,188</b>
<b>Carrying Value as at December 31,</b>	<b>1,495,232</b>	<b>258,086</b>	<b>3,783,760</b>	<b>305,065</b>
<b>Capital Work in Progress</b>				
As at January 1,	3,000,000	3,000,000	3,000,000	3,000,000
Incurred During the Year	(3,000,000)	-	(3,000,000)	-
Capitalised During the Year	-	-	-	-
<b>As at December 31,</b>	<b>-</b>	<b>3,000,000</b>	<b>-</b>	<b>3,000,000</b>
<b>Carrying Value as at December 31,</b>	<b>1,495,232</b>	<b>3,258,086</b>	<b>3,783,760</b>	<b>3,305,065</b>

**22 Other Assets**

Deposits & Prepayments	14,786,248	1,077,766	15,561,116	1,939,592
Other Assets	44,254,011	4,936,953	54,800,757	11,805,667
	<b>59,040,259</b>	<b>6,014,719</b>	<b>70,361,873</b>	<b>13,745,259</b>

**23 Due to Financial Institutions**

Bank Borrowings	191,119,405	203,135,910	191,119,405	203,135,910
Bank Overdraft	1,053	47,345,976	1,053	47,345,976
Securitization Loans	117,767,008	103,300,070	117,767,008	103,300,070
	<b>308,887,466</b>	<b>353,781,956</b>	<b>308,887,466</b>	<b>353,781,956</b>

**23.1 Details of funding facilities - Bank Loans Details**

The table below provides details of the bank loans of the company as at December 31, 2017

Name of the bank	Granted Date	Amount Granted (Rs.)	Outstanding Amount (Rs.)
Sampath Bank	January 26, 2016	90,000,000	73,550,958
DFCC Bank	May 06, 2016	100,000,000	56,113,352
Bank of Ceylon	January 25, 2016	50,000,000	36,445,985
National Development Bank	September 29, 2017	25,000,000	25,009,110
		<b>265,000,000</b>	<b>191,119,405</b>
Bank of Ceylon securitization loan	September 13, 2016	250,000,000	117,767,008
		<b>250,000,000</b>	<b>117,767,008</b>

## Notes to the Financial Statements (contd..)

Rs.	Company		Group	
	2017	2016	2017	2016
<b>24 Due to Other Customers</b>				
Promissory Notes	95,511,389	90,825,646	95,511,389	90,825,646
Debentures	9,420,728	8,826,746	9,420,728	8,826,746
	<b>104,932,117</b>	<b>99,652,392</b>	<b>104,932,117</b>	<b>99,652,392</b>

**25 Other Borrowings**

Other Borrowings	-	-	456,110	1,155,241
	<b>-</b>	<b>-</b>	<b>456,110</b>	<b>1,155,241</b>

**26 Other Liabilities**

Accrued Expenses	8,476,975	5,462,157	8,476,975	6,033,223
Provision for Retirement benefit obligations (Note 26.1)	12,182,934	11,948,108	19,860,094	16,955,004
Other Liabilities	38,776,416	43,731,289	43,822,971	48,731,011
	<b>59,436,325</b>	<b>61,141,554</b>	<b>72,160,040</b>	<b>71,719,238</b>

Rs. As at December 31,	Company		Group	
	2017	2016	2017	2016
<b>26.1 Provision for Retirement benefit obligation</b>				
Balance as at January 1,	11,948,108	10,336,654	16,955,004	15,307,306
Provision for the year	1,515,408	2,697,607	3,013,222	3,809,684
Actuarial Loss during the year	73,015	(1,022,111)	1,245,465	(1,371,944)
Payments during the year	(1,353,597)	(64,042)	(1,353,597)	(790,042)
<b>Balance as at December 31,</b>	<b>12,182,934</b>	<b>11,948,108</b>	<b>19,860,094</b>	<b>16,955,004</b>

The following assumptions were used in valuing the retirement benefits obligation using internally developed method as required by Sri Lanka Accounting Standard LKAS 19 - Employee Benefits.

	2017	2016
Salary Increment Rate	8.00%	8.00%
Discount Rate	11.00%	12.00%
Retirement Age	55 Years	55 Years
Staff Turnover Ratio	22.00%	22.00%

**26.2 Sensitivity of Assumptions used**

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Total Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on total Comprehensive Income and employment benefit obligation for the year.

## Notes to the Financial Statements (contd.)

	Sensitivity Effect on	
	Total Comprehensive Income Increase / (Reduction)	Employment Benefit Obligation Increase / (Reduction) in the Liability
Increase in Discount Rate (1%)	1,520,878	1,520,878
Decrease in Discount Rate (1%)	1,279,567	1,279,567
Increase in Salary Increment Rate (1%)	(1,158,912)	(1,158,912)
Decrease in Salary Increment Rate (1%)	(1,279,567)	(1,279,567)

Rs.	Company		Group	
	2017	2016	2017	2016
<b>27 Stated Capital</b>				
Ordinary Voting Shares	1,136,230,554	1,136,230,554	1,136,230,554	1,136,230,554
Ordinary Non Voting Shares	419,252,881	419,252,881	419,252,881	419,252,881
Capital Reduction	(636,419,321)	(636,419,321)	(636,419,321)	(636,419,321)
	<b>919,064,114</b>	<b>919,064,114</b>	<b>919,064,114</b>	<b>919,064,114</b>

**27.1 Reconciliation of Number of Shares - Company**

As at December 31, Ordinary Voting Shares	2017 No. of shares	2016 No. of shares
As at January 1,	1,191,766,772	1,191,766,772
Issue of Shares	-	-
<b>As at December 31,</b>	<b>1,191,766,772</b>	<b>1,191,766,772</b>
<b>Ordinary Non Voting Shares</b>		
As at January 1,	614,066,101	614,066,101
Issue of Shares	-	-
<b>As at December 31,</b>	<b>614,066,101</b>	<b>614,066,101</b>
<b>Total</b>	<b>1,805,832,873</b>	<b>1,805,832,873</b>

Rs.	Company		Group	
	2017	2016	2017	2016
<b>28 Statutory Reserves</b>				
Balance as at January 1,	28,498,874	24,664,054	28,498,874	24,664,054
Transfer made during the year	1,862,442	3,834,820	1,862,442	3,834,820
<b>Balance as at December 31,</b>	<b>30,361,316</b>	<b>28,498,874</b>	<b>30,361,316</b>	<b>28,498,874</b>

The statutory Reserve has been created during the year 2006 in accordance with the Finance Leasing (Amendment) Act No. 24 of 2005 and 5% of the net profit for the period has transferred to Statutory Reserve Fund.

Rs.	Company		Group	
	2017	2016	2017	2016
<b>29 Available for Sale Reserve</b>				
Balance as at January 1,	233,381	(124)	233,381	(124)
Transfer made during the year	-	233,505	-	233,505
<b>Balance as at December 31,</b>	<b>233,381</b>	<b>233,381</b>	<b>233,381</b>	<b>233,381</b>

## Notes to the Financial Statements (contd.)

Rs.	Company		Group	
	2017	2016	2017	2016
<b>30 Retained Earnings</b>				
Balance as at January 1,	188,593,217	150,826,176	190,657,579	150,725,538
Profit for the year	37,248,836	76,696,407	40,066,471	78,682,992
Other comprehensive income	(52,570)	1,022,111	(483,095)	1,200,526
Transfers to Statutory Reserve	(1,862,442)	(3,834,820)	(1,862,442)	(3,834,820)
Dividend paid	-	(36,116,657)	-	(36,116,657)
<b>Balance as at December 31,</b>	<b>223,927,041</b>	<b>188,593,217</b>	<b>228,378,512</b>	<b>190,657,579</b>

**31 Accounting Classification and Fair Values of Financial Instruments**

Financial Instruments are measured subsequently on an ongoing basis either at Fair Value or at Amortised Cost. The summary of significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The following table analyses the carrying amounts of the financial instruments by category as defined in LKAS 39 financial instrument recognition and measurement.

**31.1 Classification of Financial Instruments****31.1.1 Assets- Company**

Rs.000	Available-for-Sale (AFS)	Loans and Receivables (L & R)	Others	2017		2016	
				Total Carrying Amount	Fair Value	Total Carrying Amount	Fair Value
<b>Financial Assets</b>							
Cash and cash equivalents	-	30,151	-	30,151	30,151	29,958	29,958
Placements with banks	-	132,227	-	132,227	132,227	116,593	116,593
Loans and receivables	-	1,268,457	-	1,268,457	1,268,457	1,319,828	1,319,828
Financial investments – Available-For-Sale	49,699	-	-	52,719	52,719	1,169	1,169
Financial investments – Held-To-Maturity	-	-	-	-	-	6,409	6,990
<b>Total Financial Assets</b>	<b>49,699</b>	<b>1,430,835</b>	<b>-</b>	<b>1,483,554</b>	<b>1,483,554</b>	<b>1,473,957</b>	<b>1,474,538</b>
<b>Non Financial Assets</b>							
Investments in associates	-	-	37,275	37,275	N/A	101,451	N/A
Investments in subsidiaries	-	-	12,750	12,750	N/A	12,750	N/A
Investment properties	-	-	33,310	33,310	N/A	33,310	N/A
Property plant & equipment	-	-	19,417	19,417	N/A	20,224	N/A
Intangible assets	-	-	1,495	1,495	N/A	3,258	N/A
Other assets	-	-	59,040	59,040	N/A	6,015	N/A
<b>Total Non Financial Assets</b>	<b>-</b>	<b>-</b>	<b>163,287</b>	<b>163,287</b>	<b>-</b>	<b>177,008</b>	<b>-</b>
<b>Total Assets</b>	<b>49,699</b>	<b>1,430,835</b>	<b>163,287</b>	<b>1,646,842</b>	<b>1,483,554</b>	<b>1,650,965</b>	<b>1,474,538</b>

Notes to the Financial Statements (contd.)

31.1.2 Liabilities - Company

	2017			2016	
	Amortised Cost	Total Carrying Amount	Fair Value	Total Carrying Amount	Fair Value
<b>Financial Liabilities</b>					
Due to financial institutions	308,888	308,888	-	353,782	353,782
Due to other customers	104,932	104,932	104,932	99,652	99,652
<b>Total Financial Liabilities</b>	<b>413,820</b>	<b>413,820</b>	<b>104,932</b>	<b>453,434</b>	<b>453,434</b>
<b>Non Financial Liabilities</b>					
Other Liabilities	59,436	59,436	N/A	61,142	N/A
<b>Total Non Financial Liabilities</b>	<b>59,436</b>	<b>59,436</b>	<b>-</b>	<b>61,142</b>	<b>-</b>
<b>Total Liabilities</b>	<b>473,256</b>	<b>473,256</b>	<b>104,932</b>	<b>514,576</b>	<b>453,434</b>

31.1.3 Assets-Group

	Available-for-Sale (AFS)	Fair Value Through Profit or Loss (FVTPL)	Loans and Receivables (L & R)	Others	2017		2016	
					Total Carrying Amount	Fair Value	Total Carrying Amount	Fair Value
<b>Financial Assets</b>								
Cash and cash equivalents	-	-	32,459	-	32,459	32,459	33,123	33,123
Placements with Banks	-	-	147,259	-	147,259	147,259	131,593	131,593
Loans and Receivables	-	-	1,266,836	-	1,266,836	1,266,836	1,317,968	1,317,968
Financial investments – Available-For-Sale	52,719	-	-	-	52,719	52,719	1,169	1,169
Financial Assets at fair value through profit or loss	-	4,961	-	-	4,961	4,961	3,549	3,549
Financial investments – Held-To-Maturity	-	-	-	-	-	-	6,409	6,990
Other financial assets	-	-	1,780	-	1,780	1,860	1,779	1,860
<b>Total Financial Assets</b>	<b>52,719</b>	<b>4,961</b>	<b>1,448,334</b>	<b>-</b>	<b>1,506,014</b>	<b>1,506,094</b>	<b>1,495,590</b>	<b>1,496,252</b>
<b>Non Financial Assets</b>								
Investments in Associates	-	-	-	37,275	37,275	N/A	101,452	N/A
Investment Properties	-	-	-	40,385	40,385	N/A	39,898	N/A
Property Plant & Equipment	-	-	-	21,252	21,252	N/A	23,682	N/A
Intangible Assets	-	-	-	3,784	3,784	N/A	3,305	N/A
Deferred tax	-	-	-	1,760	1,760	N/A	1,156	N/A
Other Assets	-	-	-	70,362	70,362	N/A	13,745	N/A
<b>Total Non Financial Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>174,818</b>	<b>174,818</b>	<b>-</b>	<b>183,238</b>	<b>-</b>
<b>Total Assets</b>	<b>52,719</b>	<b>4,961</b>	<b>1,448,336</b>	<b>174,818</b>	<b>1,680,832</b>	<b>1,506,094</b>	<b>1,678,828</b>	<b>1,496,252</b>

*Notes to the Financial Statements (contd.)***31.1.4 Liabilities - Group**

	2017			2016	
	Amortised Cost	Total Carrying Amount	Fair Value	Total Carrying Amount	Fair Value
<b>Financial Liabilities</b>					
Due to Financial Institutions	308,887	308,887	308,887	353,782	353,782
Due to other customers	104,933	104,933	104,933	99,652	99,652
Other borrowings	456	456	456	1,155	1,155
	<b>414,276</b>	<b>414,276</b>	<b>414,276</b>	<b>454,589</b>	<b>454,589</b>
<b>Non Financial Liabilities</b>					
Other Liabilities	72,160	72,160	N/A	71,719	N/A
	<b>72,160</b>	<b>72,160</b>	-	<b>71,719</b>	-
<b>Total Liabilities</b>	<b>486,436</b>	<b>486,436</b>	<b>414,276</b>	<b>526,308</b>	<b>454,589</b>

**31.2 Determination of Fair Value****a) Methodologies and Assumptions Used to Determine Fair Value**

The methodology for fair value of the Financial Assets and Liabilities and the analysis according to fair value hierarchy is provided in this note. The basis on which fair values have been arrived for various financial assets and liabilities are explained below.

**b) Assets for which Fair Value approximates Carrying Value**

For financial assets and financial liabilities that have a short-term maturity the carrying amounts approximate to their fair value.

**c) Fixed rate Financial Investments - Government Securities**

The fair value of fixed rate government securities financial assets carried at amortised cost are estimated by using weekly market rate publish by Central Bank of Sri Lanka and other fixed rate investments were measured using comparing market interest rates when they were initially recognised with current market rates for similar financial instruments.

**d) Fixed rate Financial Investments - Bank Deposits**

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

**e) Fixed rate Financial Investments - Unquoted and Quoted Debt Securities**

For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

**f) Cash and bank balances**

The carrying amount approximate to fair value due to the relatively short term maturity

**g) Other receivable and Financial liabilities**

The carrying value has been considered as the fair value due to uncertainty of the timing cash flows.

*Notes to the Financial Statements (contd.)***31.3 Determination of Fair Value and Fair Values hierarchy of Financial Investments**

The table below analyses financial instruments carried at Fair value, by level in the fair value hierarchy, the different levels have been defined as follows,

**Level 1**

Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis

**Level 2**

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

**Level 3**

Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Please refer Accounting policy Note 04 on pages 109 to 124 for more information regarding determination of fair value

Rs. 000'	Level 1	Level 2	Level 3	Total
<b>As at December 31, 2017</b>				
<b>Company</b>				
Available - for - Sale (AFS)	-	-	52,719	52,719
<b>Total Financial Investment</b>	<b>-</b>	<b>-</b>	<b>52,719</b>	<b>52,719</b>
<b>Group</b>				
Available - for - Sale (AFS)	-	-	52,719	52,719
Fair Value Through Profit or Loss (FVTPL)	4,961	-	-	4,961
<b>Total Financial Investment</b>	<b>4,961</b>	<b>-</b>	<b>52,719</b>	<b>57,680</b>
<b>As at December 31, 2016</b>				
<b>Company</b>				
Available - for - Sale (AFS)	1,169	-	-	1,169
<b>Total Financial Investment</b>	<b>1,169</b>	<b>-</b>	<b>-</b>	<b>1,169</b>
<b>Group</b>				
Available - for - Sale (AFS)	1,169	-	-	1,169
Fair Value Through Profit or Loss (FVTPL)	3,549	-	-	3,549
<b>Total Financial Investment</b>	<b>4,718</b>	<b>-</b>	<b>-</b>	<b>4,718</b>

## Notes to the Financial Statements (contd.)

**31.4 Financial instruments not measured at fair value**

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized

Rs. 000'	Level 1	Level 2	Level 3	Total
<b>As at December 31, 2017</b>				
<b>Assets - Company</b>				
Cash and cash equivalents	-	-	-	30,151
Placements with Banks	-	-	-	132,227
Loans and Receivables	-	-	-	1,268,457
Other Financial Assets	-	-	-	-
<b>Total Asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,430,835</b>

The Company has not disclosed the fair values for financial instruments such as Cash and cash equivalents, Placement with Banks and Loans and Receivables to other customers because their carrying amounts are a reasonable approximation of fair value.

Rs. 000'	Level 1	Level 2	Level 3	Total
<b>As at December 31, 2017</b>				
<b>Assets-Group</b>				
Cash and cash equivalents	-	-	-	32,460
Placements with Banks	-	-	-	147,259
Loans and Receivables	-	-	-	1,266,837
Financial investments – held-to-maturity	-	-	-	-
Other Financial Assets	1860	-	-	1860
	<b>1860</b>	<b>-</b>	<b>-</b>	<b>1,448,416</b>

The Group has not disclosed the fair values for financial instruments such as Cash and cash equivalents, Placement with Banks and Loans and Receivables to other customers because their carrying amounts are a reasonable approximation of fair value.

**31.5 Financial Liabilities**

Rs. 000'	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>As at December 31,</b>				
<b>Company</b>				
Due to financial institutions	308,888	308,888	353,782	353,782
Due to other customers	104,932	104,932	99,652	99,652
	<b>413,820</b>	<b>413,820</b>	<b>453,434</b>	<b>453,434</b>
<b>Group</b>				
Due to financial institutions	308,888	308,888	353,782	353,782
Due to other customers	104,932	104,932	99,652	99,652
Other borrowings	456	456	1,155	1,155
	<b>414,276</b>	<b>414,276</b>	<b>454,589</b>	<b>454,589</b>

The fair values of financial liabilities similar to carrying amounts since those amounts are reasonable approximation of fair values. Thus the fair-value hierarchy disclosure is not applicable.

## Notes to the Financial Statements (contd.)

**32 Commitments and Contingencies****32.1 Capital Commitment**

There are no capital commitments as at December 31, 2017

**32.2 Contingencies**

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

Except for above there are no material commitments and Contingencies as at the reporting date.

**33 Event after the reporting date**

The Company has paid an interim dividend of Rs. 0.02 per share for the year ended December 31, 2017, on April 20, 2018. Except above, no circumstances have arisen since the reporting date, which requires adjustments or disclosure in the Financial Statements.

**34 Related party disclosures****34.1 Transaction with Related Parties**

Rs. 000'	Company	Name of Director	Details of Financial Dealings	2017		2016		As a percentage of capital funds as at 31.12.2017
				Received/ Receivable (Payable/ Paid)	Capital Outstanding as at 31.12.2017	Received/ Receivable (Payable/ Paid)	Capital Outstanding as at 31.12.2016	
<b>Transaction with Associate Company</b>								
	Kenanga Investment Corporation Ltd			No Transactions		-	-	-
<b>Transaction with Subsidiary</b>								
	SMB Money Brokers (Pvt) Ltd.	Mr. T.M. Wijesinghe Mr. H.R.S Wijeratne Mr. J.C Korale	Easy Payment Loan	(240)	1,620	(240)	1,860	0.00%
<b>Transaction with other Related Companies</b>								
	Sapphirus Lanka (Pvt) Ltd	Mr. T.M. Wijesinghe	Term Loan	(1,074)	2,350	(916)	3,424	0.00%
	Grayline Cargo Terminals	Mr. H.R.S Wijeratne	Finance Lease	(723)	9,974	(660)	10,697	0.00%
			Term Loan	(2,244)	15,565	(1,146)	17,809	0.00%
	Grayline Container Terminals	Mr. H.R.S Wijeratne	Finance Lease	(512)	7,067	(467)	7,579	0.00%
			Term Loan	(56)	777	(52)	833	0.00%
	Rank Container Terminal (Pvt) Ltd	Mr. H.R.S Wijeratne	Rent	-	-	(3592)	-	-
	Lanka Ashok Layland PLC	Mr. U.Gautam	Supplier Payment	(35,902)	-	(84,467)	-	3.03%

**34.2 Transaction with key management personal**

	Company		Group	
	2017	2016	2017	2016
Directors Fees	5,659,612	5,435,708	7,864,612	7,790,708

*Notes to the Financial Statements (contd.)***35 Litigation against the company**

Litigation is a common occurrence in the financial services industry due to the nature of the business undertaken. Provision for legal matters typically require a higher degree of judgment. When matters are at an early stage, accounting judgments can be difficult because of the high degree of uncertainty involved. Group has established a formal controls and policies for managing legal claims. Once the professional advice has been obtained and the amount of loss reasonably estimated group make adjustments to the accounts for any adverse effect, if any, which the claim may have on groups financial position. As at the reporting date group had several unresolved legal claims pending judgment. However, the legal advisor of the Company is of the view that these cases will be resolved in favour of the Group and the process will probably take over three years. Accordingly no provision has been made in these financial statement.

**36 Financial Risk Management****36.1 Introduction and Overview**

The Group has exposure to the following risks from financial instruments:

- i. Liquidity Risk
- ii. Credit Risk
- iii. Operational Risk
- iv. Market Risk

**36.2 Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and overseeing of the Company's risk management framework. In discharging its governance responsibility it operates through two key committees, the Risk Management Committee and the Audit Committee. The Risk Management Committee is in the process of setting a risk framework for the company with the assistance from a consulting firm.

The Audit Committee provides its assessment on the effectiveness of internal audit and external disclosure of accounting policies and financial reporting to the Board.

**36.3 Liquidity Risk**

Liquidity risk is the risk that arises when the Company encounters difficulty in meeting obligations associated with its financial liabilities that are to be settled by delivering cash or another financial asset.

**36.3.1 Management of Liquidity Risk**

The Company's approach to managing liquidity is to ensure that funds available are adequate to meet credit demands of its customers and to enable debt instruments to be repaid on demand or upon maturity as appropriate. The Finance Division is responsible for the management of liquidity risk and funding in accordance with the approved guidelines and risk limits. The treasury and liquidity policies and compliance thereunder are reviewed and approved by the ALCO.

**36.3.2 Exposure to Liquidity Risk**

The Company monitors the following liquidity ratios to assess funding requirements.

	31.12.2017	31.12.2016
Liquid Asset Ratio (LAR)		
Average for the year	62.58%	53.60%
Maximum for the year	77.64%	68.08%
Minimum for the year	42.70%	43.17%

Liquid assets include cash and short term funds. The calculation is based on Central Bank of Sri Lanka (CBSL) Directions and guidelines.

*Notes to the Financial Statements (contd.)*

The Company also monitors the maturities of its assets and liabilities. Maturity analysis is given below.

**36.3.3 Maturity Analysis**

**36.3.3.1 Maturity Analysis - Company**

Rs. '000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	TOTAL
<b>Interest Earning Assets</b>						
Cash and cash equivalents	30,150	-	-	-	-	30,150
Placements with Banks	132,227	-	-	-	-	132,227
Loans & Receivables	273,877	324,865	622,360	42,697	4,658	1,268,458
Financial investments	-	52,719	-	-	-	52,719
	<b>436,254</b>	<b>377,584</b>	<b>622,360</b>	<b>42,697</b>	<b>4,658</b>	<b>1,483,554</b>
<b>Non Interest Earning Assets</b>						
Investment in Associate	-	-	-	-	37,275	37,275
Investment in Subsidiary	-	-	-	-	12,750	12,750
Investment Properties	-	-	-	-	33,310	33,310
Property, Plant & equipment	-	-	-	-	19,417	19,417
Intangible Assets	-	-	-	-	1,495	1,495
Other Assets	-	44,254	14,786	-	-	59,041
	-	<b>44,254</b>	<b>14,786</b>	-	<b>104,247</b>	<b>163,288</b>
<b>Total Assets</b>	<b>436,255</b>	<b>421,838</b>	<b>637,146</b>	<b>42,697</b>	<b>108,905</b>	<b>1,646,842</b>
<b>Interest bearing liabilities</b>						
Due to financial institutions	149,196	92,845	66,846	-	-	308,888
Due to other customers	103,303	686	943	-	-	104,932
Other borrowings	-	-	-	-	-	-
	<b>252,499</b>	<b>93,531</b>	<b>67,789</b>	-	-	<b>413,820</b>
<b>Non Interest bearing liabilities</b>						
Other liabilities	18,345	8,477	-	-	32,614	59,436
Shareholder's Funds	-	-	-	-	1,170,566	1,170,566
	<b>18,345</b>	<b>8,477</b>	-	-	<b>1,206,200</b>	<b>1,233,022</b>
<b>Total Liabilities &amp; Shareholders' funds</b>	<b>270,844</b>	<b>102,008</b>	<b>67,789</b>	-	<b>1,206,200</b>	<b>1,646,842</b>

## Notes to the Financial Statements (contd.)

## 36.3.3.2 Maturity Analysis - Group

Rs. '000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	TOTAL
<b>Interest Earning Assets</b>						
Cash and cash equivalents	32,459	-	-	-	-	32,459
Placements with Banks	147,259	-	-	-	-	147,259
Loans & Receivables to other customers	273,877	324,865	622,360	41,077	4,658	1,266,836
Financial investments	-	57,680	-	-	1,780	59,460
	<b>453,595</b>	<b>382,545</b>	<b>622,360</b>	<b>41,077</b>	<b>6,438</b>	<b>1,506,014</b>
<b>Non Interest Earning Assets</b>						
Investment in Associates	-	-	37,725	-	-	37,725
Investment Properties	-	-	-	-	40,385	40,385
Property, Plant & equipment	-	-	-	-	21,252	21,252
Intangible Asset	-	-	-	-	3,784	3,784
Deferred Tax Assets	-	-	-	-	1,760	1,760
Other Assets	-	55	70,307	-	-	70,362
	-	<b>55</b>	<b>107,582</b>	-	<b>67,181</b>	<b>174,818</b>
<b>Total Assets</b>	<b>453,595</b>	<b>382,600</b>	<b>729,942</b>	<b>41,077</b>	<b>73,618</b>	<b>1,680,832</b>
<b>Interest bearing liabilities</b>						
Due to financial institutions	149,196	92,845	66,846	-	-	308,887
Due to other customers	103,303	686	943	-	-	104,932
Other borrowings	-	456	-	-	-	456
	<b>252,499</b>	<b>93,987</b>	<b>67,789</b>	-	-	<b>414,275</b>
<b>Non Interest bearing liabilities</b>						
Other liabilities	20,808	8,477	-	-	42,875	72,160
Shareholders Funds	-	-	-	-	1,194,397	1,194,397
	<b>20,808</b>	<b>8,477</b>	-	-	<b>1,237,272</b>	<b>1,266,557</b>
<b>Total Liabilities &amp; Shareholders' funds</b>	<b>273,307</b>	<b>102,464</b>	<b>67,789</b>	-	<b>1,237,272</b>	<b>1,680,832</b>

*Notes to the Financial Statements (contd..)***36.4 Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers and other Companies, and investment in debt/equity securities. For risk management reporting purposes the Company considers and consolidates all elements of credit risk exposure.

**36.4.1 Management of Credit Risk**

Primarily the Credit Division manages the credit risk. There is a management credit Committee & a Board Credit Committee to review significant credit risks. The said committees are facilitated by regular audits undertaken by the Internal Auditors. Company manages credit by focusing on following stages.

**a) Loan Origination**

The loan origination process comprises initial screening and credit appraisal. The evaluation focuses on the borrower's ability to meet its obligations in a timely manner. Efforts are made to ensure consistent standards are maintained in credit approval. Collateral and guarantees form an important part of the credit risk mitigation process. A suitable internal risk rating model is in place & is an important part of the risk assessment of customers

**b) Loan Approval**

The Company has established clear guidelines for Loan approvals / renewals by adopting a committee based approval structure, where all approval signatories carry equal responsibility for credit risk. Individual credit facilities beyond a minimum threshold require Board Credit Committee approval.

**c) Credit Administration and Disbursement**

Customer care division ensures efficient and effective customer support including disbursement and settlements.

**d) Recoveries**

Overdue Loans are managed by the Recoveries Division with the support of the Legal Division. This unit is responsible for all aspects of an overdue facility, restructuring of the credit, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all recovery matters are finalised.

**e) Collateral**

The Company carries sensitivity tests to measure the value of portfolios in the event of extreme market movements on hypothetical scenarios. Management reviews the consequences of the stress tests and determines appropriate mitigating actions such as reducing exposures, reviewing and changing risk limits in order to mitigate the risks induced by potential stress. The change in weighted average interest rate of the Company will have the following effects.

*Notes to the Financial Statements (contd.)***36.4.1.e Collateral wise analysis of individual significant impaired loan and leases**

	<b>2017</b>
Secured by Motor vehicles	16,859,057
Secured by movable & immovable assets	53,574,131
Other securities	9,921,520
Clean	-
	<b>80,354,708</b>
<b>Individually significant unimpaired loans and leases</b>	
watch list	40,807,691
others	1,112,495,658
	<b>1,153,303,349</b>
<b>Collateral wise analysis of individual significant unimpaired loan and leases</b>	
Secured by Motor vehicles	575,639,986
Secured by movable & immovable assets	571,781,019
Clean	5,882,344
	<b>1,153,303,349</b>

**36.5 Operational Risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Company objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

Compliance with Company standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management & reports to the Audit Committee and to the board.

**36.6 Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

*Notes to the Financial Statements (contd.)***36.6.1 Exposure to Interest Rate Risk**

The Company carries sensitivity tests to measure the value of its portfolios in the event of extreme market movements on hypothetical scenarios. Management reviews the consequences of the stress tests and determines appropriate mitigating actions such as reducing exposures, reviewing and changing risk limits in order to mitigate the risks induced by potential stress. The change in weighted average interest rate of the Company will have the following effects.

**Loan Portfolio**

Interest Rate Shock	-2%	-1%	1%	2%
Interest Income Change	(10,753,306)	(5,376,653)	5,376,653	10,753,306
Effect on loan interest Income	-9.34%	-4.67%	4.67%	9.34%

**Lease Portfolio**

Interest Rate Shock	-2%	-1%	1%	2%
Interest Income Change	(15,129,549)	(7,564,774)	7,564,774	15,129,549
Effect on lease interest Income	-10.84%	-5.42%	5.42%	10.84%

**Total Portfolio**

Interest Rate Shock	-2%	-1%	1%	2%
Interest Income Change	(25,882,855)	(12,941,427)	12,941,427	25,882,855
Effect on interest Income	-10.16%	-5.08%	5.08%	10.16%

**Interest Expenses**

Interest Rate Shock	-2%	-1%	1%	2%
Interest Expenses Change	(8,672,539)	(4,336,270)	4,336,270	8,672,539
Effect on interest Expenses	-12.54%	-6.27%	6.27%	12.54%

## Notes to the Financial Statements (contd.)

**37 Current/ Non Current Analysis**

As at 31st December Company	2017			2016		
	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total
<b>Assets</b>						
Cash and cash equivalents	30,150	-	30,150	29,958	-	29,958
Placements with Banks	132,227	-	132,227	116,593	-	116,593
Loans and Receivables	598,742	669,715	1,268,457	549,844	769,984	1,319,828
Financial investments	52,719	-	52,719	1,169	6,409	7,578
Investments in Associate	-	37,275	37,275	-	101,452	101,452
Investments in Subsidiary	-	12,750	12,750	-	12,750	12,750
Investment Properties	-	33,310	33,310	-	33,310	33,310
Property Plant & Equipment	-	19,417	19,417	-	20,224	20,224
Intangible Assets	-	1,495	1,495	-	3,258	3,258
Deferred Tax Assets	-	-	-	-	-	-
Other Assets	44,254	14,787	59,042	4,936	1,078	6,014
<b>Total Assets</b>	<b>858,092</b>	<b>788,749</b>	<b>1,646,842</b>	<b>702,500</b>	<b>948,465</b>	<b>1,650,965</b>

<b>Liabilities</b>						
Due to financial institutions	242,041	66,846	308,887	201,254	152,528	353,782
Due to other customers	103,989	943	104,932	98,612	1,040	99,652
Other borrowings	-	-	-	-	-	-
Other Liabilities	26,822	32,615	59,437	61,142	-	61,142
<b>Total Liabilities</b>	<b>372,852</b>	<b>100,404</b>	<b>473,256</b>	<b>361,008</b>	<b>153,568</b>	<b>514,576</b>

As at December 31, Group	2017			2016		
	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total
<b>Assets</b>						
Cash and cash equivalents	32,459	-	32,459	33,123	-	33,123
Placements with Banks	147,259	-	147,259	131,593	-	131,593
Loans and Receivables	598,742	668,095	1,266,837	549,844	768,124	1,317,968
Financial investments	57,680	1,780	59,460	4,718	8,188	12,906
Investments in Associate	-	37,275	37,275	-	101,452	101,452
Investment Properties	-	40,385	40,385	-	39,898	39,898
Property Plant & Equipment	-	21,252	21,252	-	23,682	23,682
Intangible Assets	-	3,784	3,784	-	3,305	3,305
Deferred Tax Assets	-	1,760	1,760	-	1,156	1,156
Other Assets	54,8010	15,561	70,361	11,806	1,940	13,745
<b>Total Assets</b>	<b>890,940</b>	<b>789,892</b>	<b>1,680,832</b>	<b>731,084</b>	<b>947,744</b>	<b>1,678,828</b>

<b>Liabilities</b>						
Due to Financial Institutions	242,041	66,846	308,887	201,254	152,528	353,782
Due to other customers	103,989	943	104,932	98,613	1,039	99,652
Other borrowings	-	456	456	-	1,1556	1,156
Other Liabilities	72,161	-	72,161	71,719	-	71,719
<b>Total Liabilities</b>	<b>418,191</b>	<b>68,245</b>	<b>486,436</b>	<b>371,586</b>	<b>154,723</b>	<b>526,309</b>

Notes to the Financial Statements (contd.)

**38 Segment Reporting - Group**

Rs.000	Loans		Leasing		Treasury		Money Brokering		Unallocated		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>As at December 31,</b>												
<b>Business segments - Group</b>												
Revenue from external customers,												
Interest	114,244	96,912	139,607	109,407	-	-	-	-	900	-	254,751	206,319
Fee & Commission	2,271	2,060	3,551	3,702	-	-	-	-	-	-	5,822	5,762
Other operating Income	-	-	1,227	1,654	15,756	14,725	64,040	58,379	37,773	28,806	118,796	103,563
<b>Total Revenue from external customers</b>	<b>116,515</b>	<b>98,972</b>	<b>144,385</b>	<b>114,763</b>	<b>15,756</b>	<b>14,725</b>	<b>64,040</b>	<b>58,379</b>	<b>38,673</b>	<b>28,806</b>	<b>379,369</b>	<b>315,644</b>
<b>Segment result</b>	<b>46,291</b>	<b>48,427</b>	<b>57,363</b>	<b>56,154</b>	<b>6,260</b>	<b>7,205</b>	<b>25,443</b>	<b>28,565</b>	<b>15,365</b>	<b>14,095</b>	<b>150,722</b>	<b>154,446</b>
Depreciation charged for the year	(2,442)	(1,709)	(3,026)	(1,981)	(330)	(254)	(1,342)	(1,008)	(810)	(497)	(7950)	(5,450)
Interest Expense	(21,260)	(12,901)	(26,346)	(14,960)	(2,875)	(1,919)	(11,685)	(7,610)	(7,058)	(3,755)	(69,224)	(41,146)
<b>Operating Profit</b>	<b>22,589</b>	<b>33,817</b>	<b>27,991</b>	<b>39,213</b>	<b>3,055</b>	<b>5,031</b>	<b>12,415</b>	<b>19,947</b>	<b>7,497</b>	<b>9,843</b>	<b>73,548</b>	<b>107,850</b>
Share of Profit/ (Loss) of Associate Companies	-	-	-	-	-	-	-	-	(4,386)	(4,620)	(4,386)	(4,620)
Income tax expense	(2,903)	(2,418)	(3,597)	(2,804)	(393)	(360)	(1,595)	(1,426)	(963)	(704)	(9,451)	(7,712)
Value Added Tax (VAT) on financial services	-	-	-	-	-	-	-	-	(16,937)	(14,927)	(16,937)	(14,927)
Other comprehensive Income	(275)	503	(341)	584	(37)	75	(152)	297	(92)	147	(897)	1,605
<b>Total Comprehensive Income for the year</b>	<b>12,862</b>	<b>25,773</b>	<b>15,938</b>	<b>29,885</b>	<b>1,739</b>	<b>3,834</b>	<b>7,069</b>	<b>15,202</b>	<b>4,269</b>	<b>7,501</b>	<b>41,877</b>	<b>82,197</b>
<b>Segment assets</b>	<b>513,412</b>	<b>542,456</b>	<b>737,443</b>	<b>775,512</b>	<b>239,177</b>	<b>279,074</b>	<b>15,941</b>	<b>15,941</b>	<b>174,859</b>	<b>65,845</b>	<b>1,680,832</b>	<b>1,678,829</b>
<b>Segment liabilities</b>	<b>149,398</b>	<b>165,027</b>	<b>185,134</b>	<b>191,357</b>	<b>20,203</b>	<b>24,552</b>	<b>82,113</b>	<b>97,341</b>	<b>49,588</b>	<b>48,032</b>	<b>486,436</b>	<b>526,309</b>
Cash Flow from Operating Activities	26,249	(54,459)	32,528	(63,148)	3,550	(8,102)	14,427	(32,123)	8,714	(15,851)	85,468	(173,683)
Cash Flow from Investing Activities	(7,385)	2,769	(9,152)	3,210	(999)	412	(4,059)	1,633	(2,451)	806	(24,046)	8,829
Cash Flow from Financing Activities	(5,301)	55,748	(6,569)	64,642	(717)	8,294	(2,914)	32,883	(1,760)	16,226	(17,261)	177,792

## Five Year Summary-Group

(Rs.'000)	2017	2016	2015	2014	2013
<b>Operating Results</b>					
Revenue	379,369	315,644	248,644	266,814	252,487
Interest Income	254,751	206,319	177,771	172,443	182,024
Interest Expenses	(69,224)	(41,146)	(28,560)	(31,684)	(44,990)
Operating Expenses & Provision	(187,366)	(155,357)	(141,027)	(151,008)	(129,483)
Profit/Loss before taxation	73,548	107,851	81,119	106,495	102,471
Taxation & VAT	(26,388)	(22,639)	(17,796)	(17,176)	(15,308)
Profit After Taxation & VAT	42,774	80,592	60,901	86,366	73,509
Minority Interest	2,707	1,909	1,789	2,434	824
Profit/(Loss)Attributable to Shareholders	40,066	78,683	59,112	83,932	72,685
<b>As at December 31,</b>					
<b>Assets</b>					
Cash & Short Term Funds	32,459	33,123	31,447	24,835	22,979
Investments	206,718	144,499	181,402	144,358	116,778
Loans & Advance	1,266,837	1,317,968	1,052,774	921,550	929,832
Investment in Associates Co.	37,275	101,452	106,072	119,313	122,265
Investment Property	40,385	39,898	39,892	38,977	38,977
Property Plant and Equipment	21,252	23,682	12,350	16,745	19,192
Other Assets	72,122	14,901	12,238	25,079	21,968
Intangible Assets	3,784	3,305	3,406	3,553	3,706
<b>Total Assets</b>	<b>1,680,832</b>	<b>1,678,829</b>	<b>1,439,580</b>	<b>1,294,410</b>	<b>1,275,698</b>
<b>Equity &amp; Liabilities</b>					
<b>Equity</b>					
Stated Capital	919,064	919,064	919,064	919,064	919,064
Statutory Reserves	30,361	28,499	24,664	21,633	17,682
Available for sale reserve	233	233	(0)	(1,322)	19,022
Retain Earnings	228,379	190,658	150,726	108,689	9,924
Other Reserves					
<b>Liabilities</b>					
Due to financial institutions	308,887	353,782	80,409	-	18748
Due to Other Customers	104,932	99,652	201,574	198,285	196,613
Other Borrowings	456	1,155	3,332	3,077	52,040
Other Liabilities	72,160	71,719	47,826	34,916	34,869
Non-Controlling Interest	16,359	14,066	11,986	10,069	7,737
<b>Total Equity &amp; Liabilities</b>	<b>1,680,832</b>	<b>1,678,829</b>	<b>1,439,580</b>	<b>1,294,410</b>	<b>1,275,698</b>
<b>Cash Flow</b>					
Cash Flow from Operating Activities	85,468	(173,683)	(96,824)	106,539	56,209
Cash Flow from Investing Activities	(24,046)	8,829	4,556	(5,239)	(13,704)
Cash Flow from financing Activities	(17,261)	177,792	20,918	(81,074)	(48,592)
Net Increase or (Decrease)in cash and cash Equivalents	44,161	12,939	(71,351)	20,227	(6,087)
Basic Earning/(Loss) per share	0.02	0.04	0.03	0.05	0
Assets Growth (%)	12	17	11	1	1
Net Assets Growth (%)	3	4	4	7	8
Net Assets per share (Rs.)	0.65	0.63	0.61	0.58	0.58

## Decade at a Glance-Company

Rs.000	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Year ended December 31,</b>										
<b>Operating Results</b>										
Revenue	315,263	256,012	198,117	193,973	203,046	189,501	112,854	124,110	391,449	334,661
Interest Income	254,751	206,319	177,771	172,443	182,024	143,988	75,581	101,718	147,132	295,666
Interest Expenses	(69,181)	(40,311)	(28,525)	(31,647)	(44,868)	(35,600)	(47,609)	(64,732)	(166,315)	(410,293)
Operating Expenses & Provision	(185,165)	(118,584)	(96,021)	(68,634)	(66,565)	(61,567)	(76,470)	(59,805)	(66,868)	(506,301)
Profit/Loss before taxation	60,917	97,116	73,571	93,668	91,613	92,334	(11,225)	19,443	158,266	(581,933)
Vat & Taxation	(23,668)	(20,420)	(15,363)	(14,663)	(13,861)	(14,863)	(5,519)	-	-	(35,601)
Profit After Taxation & VAT	37,249	76,696	58,209	79,004	77,752	77,471	(16,744)	14,095	158,266	(618,676)
Comprehensive Income/(Expense)	37,196	77,952	56,815	77,549	76,767	75,621	(13,086)	-	-	-
<b>Assets</b>										
Cash and cash equivalents and placement with banks	162,378	146,551	183,526	145,052	116,934	119,394	480,706	368,304	7,151	134,541
Loans and Receivables	1,268,458	1,319,828	1,053,788	923,890	932,413	913,235	571,892	420,657	778,938	1,197,256
Financial investments	52,719	7,578	7,291	7,712	8,991	3,193	6,308	2,650	-	-
Investments in Associates	37,275	101,452	106,072	108,757	116,418	125,561	125,561	129,282	125,560	49,000
Investments in Subsidiaries	12,750	12,750	12,750	11,791	9,268	7,854	12,750	12,750	12,750	324,197
Investment Properties	33,310	33,310	33,730	33,730	33,730	34,324	33,120	33,120	49,016	16,316
Property Plant & Equipment	19,417	20,224	7,222	9,876	13,508	11,592	13,205	9,244	7,457	8,055
Intangible Assets	1,495	3,258	3,406	3,553	3,701	-	-	-	-	-
Other Assets	59,040	6,015	6,009	18,157	14,451	21,573	36,196	30,969	187,670	296,395
	<b>1,646,842</b>	<b>1,650,965</b>	<b>1,413,793</b>	<b>1,262,517</b>	<b>1,249,414</b>	<b>1,236,727</b>	<b>1,279,739</b>	<b>1,006,977</b>	<b>1,168,542</b>	<b>2,025,760</b>
<b>Liabilities &amp; Shareholders' Fund</b>										
Borrowings	413,820	453,434	281,983	198,285	262,229	308,788	407,360	511,245	911,725	1,976,442
Other Liabilities	59,436	61,142	37,256	26,230	26,732	44,253	94,594	77,827	327,148	261,257
Shareholders' Funds	1,173,586	1,136,390	1,094,554	1,038,002	960,453	883,686	777,785	417,905	(70,331)	(211,939)
	<b>1,646,842</b>	<b>1,650,965</b>	<b>1,413,793</b>	<b>1,262,517</b>	<b>1,249,414</b>	<b>1,236,727</b>	<b>1,279,739</b>	<b>1,006,977</b>	<b>1,168,542</b>	<b>2,025,760</b>
<b>Ratios</b>										
Income Growth (%)	23	29	(2)	(4)	(0.32)	1.64	(0.09)	(0.68)	16.97	(33.20)
Property, Plant & Equipment to Shareholders' Fund (times)	1.65	1.78	0.66	0.95	1.41	1.31	1.70	2.21	(10.60)	(3.80)
Total asset to shareholders' fund (times)	1.40	1.45	1.29	1.22	1.30	1.40	1.65	2.41	(16.61)	(9.56)
Net Assets per Share	0.65	0.63	0.61	0.57	0.53	0.49	0.56	0.30	(1.29)	(3.89)
Basic Earning/(Loss) per share	0.02	0.04	0.03	0.04	0.04	0.04	(0.01)	0.02	0.23	(11.35)



## NOTICE OF MEETING - VOTING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of S M B Leasing PLC will be held at Renuka City Hotel, 328, Galle Road, Colombo 3 on June 29, 2018 at 10.00 AM for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended December 31, 2017 together with the reports of the Directors' and Auditors' thereon.
2. To re-elect Mr. T. M. Wijesinghe, Director who retires by rotation in terms of Article 87 of the Article of Association of the Company.
3. To authorize the Directors to determine and make donations
4. To re-appoint Auditors M/s. KPMG, Chartered Accountants and to authorize the Directors to determine their remuneration.

By order of the Board

**P W CORPORATE SECRETARIAL (PVT) LTD**

*(sgd) SECRETARIES*

*Colombo*

*May 30, 2018*

### Notes

1. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his/her stead.
2. A proxy need not be a Member of the Company.
3. The completed Form of Proxy must be deposited at the registered office of the Secretaries, No.3/17, Kynsey Road, Colombo 8, not less than forty eight (48) hours before the time fixed for the meeting.

## NOTICE OF MEETING - NON VOTING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of S M B Leasing PLC will be held at Renuka City Hotel, 328, Galle Road, Colombo 3 on June 29, 2018 at 10.00 AM for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended December 31, 2017 together with the reports of the Directors' and Auditors' thereon
2. To re-elect Mr. T. M. Wijesinghe, Director who retires by rotation in terms of Article 87 of the Article of Association of the Company.
3. To authorize the Directors to determine and make donations
4. To re-appoint Auditors M/s. KPMG, Chartered Accountants and to authorize the Directors to determine their remuneration.

By order of the Board

**P W CORPORATE SECRETARIAL (PVT) LTD**

*(sgd) SECRETARIES*

*Colombo*

*May 30, 2018*

### Notes

1. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his/her stead.
2. A proxy need not be a Member of the Company.
3. The completed Form of Proxy must be deposited at the registered office of the Secretaries, No.3/17, Kynsey Road, Colombo 8, not less than forty eight (48) hours before the time fixed for the meeting.

## FORM OF PROXY - VOTING

\*I/We.....  
..... of ..... being\* a member/ members of S M B LEASING PLC, hereby appoint Mr. H R S Wijeratne of Colombo or failing him Mr. T M Wijesinghe or failing him Mr. U Gautam or failing him Mr. J C Korale or failing him Mr. A T S Sosa of failing him Mr. M S A Wadood as \*my/our Proxy to represent \*me/us and to speak and vote whether on a show of hands or on a poll for \*me/us on \*my/our behalf at the ANNUAL GENERAL MEETING OF THE COMPANY to be held on June 29, 2018 at the Renuka City Hotel, 328, Galle Road, Colombo 03 and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

- |  | FOR                      | AGAINST                  |
|--|--------------------------|--------------------------|
| 1) To receive and consider the Annual Report and Financial Statements for the Financial Year ended 31 December 2017 with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2) To re-elect as a Director Mr. T M Wijesingie who retires by Rotation in terms of Article 87 of the Articles of Association of the Company                 | <input type="checkbox"/> | <input type="checkbox"/> |
| 3) To authorize the Directors to determine and make Donations  | <input type="checkbox"/> | <input type="checkbox"/> |
| 4) To re-appoint Auditors M/s. KPMG, Chartered Accountants and to Authorize the Directors to determine their remuneration.                                   | <input type="checkbox"/> | <input type="checkbox"/> |

Signed this.....day of..... Two Thousand and Eighteen.

\*Signature/s of the shareholder (s) .....

Please provide the following details:

Shareholder's NIC No./Company Registration No. ....

Folio No./Number of shares held .....

Proxy holder's NIC No. (if not a Director) .....

**INSTRUCTIONS AS TO COMPLETION**

1. To be valid this Form of Proxy must be deposited at the Registered Office of P W Corporate Secretarial (Pvt) Ltd, No.3/17, Kynsey Road, Colombo 8, not less than 48 hours before the time appointed for the holding of the Meeting.
2. The instrument appointing a Proxy shall in the case of an individual be signed by the appointor or by his Attorney and in the case of a Company / Corporation, the Proxy Form must be executed under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association or other constitutional documents.
3. If the Proxy Form is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy if it has not already been registered with the Company.
4. The full name and address of the Proxy holder and of the Shareholder appointing the Proxy holder should be entered legibly in the Form of Proxy.

## FORM OF PROXY - (NON VOTING)

\*I/We.....  
 ..... of ..... being\* a member/ members of S M B LEASING PLC, hereby  
 appoint Mr. H R S Wijeratne of Colombo or failing him Mr. T M Wijesinghe or failing him Mr. U Gautam or  
 failing him Mr. J C Korale or failing him Mr. A T S Sosa of failing him Mr. M S A Wadood as \*my/our Proxy  
 to represent \*me/us and to speak for \*me/us on \*my/our behalf at the ANNUAL GENERAL MEETING OF  
 THE COMPANY to be held June 29, 2018 at the Renuka City Hotel, 328, Galle Road, Colombo 03 and at any  
 adjournment thereof.

Signed this.....day of..... 2018

\*Signature/s of the shareholder (s) .....

Please provide the following details:

Shareholder's NIC No./Company Registration No. ....

Folio No/Number of shares held .....

Proxy holder's NIC No. (if not a Director) .....

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3. If the Proxy Form is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy if it has not already been registered with the Company.
4. The full name and address of the Proxy holder and of the Shareholder appointing the Proxy holder should be entered legibly in the Form of Proxy.





## Corporate Information

### Statutory Status

A Public Limited Liability Company incorporated in Sri Lanka on 3/9/1992 under the Companies Act No. 17 of 1982 and subsequently re-registered under the Companies Act No. 07 of 2007.

The Company was quoted on the Colombo Stock Exchange in 1993.

Registered as a Specialized Leasing Company under the provisions of the Finance Leasing Act No. 56 of 2000.

Company Re-registration No. PQ 91

Place of Incorporation Colombo

### Board of Directors

Mr. H. R. S. Wijeratne (Chairman)

Mr. U. Gautam (Deputy Chairman)

Mr. J. C. Korale

Mr. T. M. Wijesinghe

Mr. A. T. S. Sosa

Mr. M. S. A. Wadood

Mr. T. C. A. Peiris\*

Mr. S. N. P. Palihena \*\*

\* Mr. T. C. A. Peiris ceased to be a Director with effect from November 29, 2017.

\*\* Mr. S. N. P. Palihena ceased to be a Director with effect from February 22, 2017.

### Secretaries

PW Corporate Secretarial (Pvt) Ltd No.

3/17, Kynsey Road,

Colombo 08.

### External Auditors

M/S. KPMG

Chartered Accountants

No. 32A,

Sir Mohammed Macan Marker Mawatha,

Colombo 03.

### Internal Auditors

M/S. Deloitte

Chartered Accountants

No. 11, Castale Lane,

Colombo 04.

### Tax Consultants

Amarasekara & Co

Chartered Accountants

No 12, Rotunda Gardens

Colombo 03.

### Lawyers

M/S. De Livera Associates

Attorneys-at-Law, Solicitors & Notaries Public

No. 33 1/2, Shrubbery Gardens, Colombo 04.

Shiranthi Gunawardena Associates Attorneys-at-Law & Notaries Public, No. 22/1, Elliot Plae, Colombo 08.

M/S. Ganlaths

Attorneys-at-Law and Notaries Public, M -8, Mezzanine Floor, Galadari Hotel, No. 64, Lotus

Road, Colombo 01.

### Bankers

Sampath Bank PLC

Commercial Bank of Ceylon PLC

Bank of Ceylon

DFCC Bank PLC

NDB Bank PLC

Indian Bank

Peoples Bank

### Head Office

No. 282/1, CBS Building,

Galle Road,

Colombo 3.

Telephone : 094-114222888

Fax : 094-112574330

E-mail : smbhed@slt.net.lk

Web : www.smbk.com

### Subsidiary Company

SMB Money Brokers (Pvt) Ltd.

8/A Sea View Avenue,

Colombo 3.

### Associate Company

Kenanga Investment Corporation Ltd.

4th Floor, Land Mark Building, No 385, Galle Road,

Colombo 3.

### Branches

Deniyaya Branch No. 11 A, Main Street, Deniyaya

Negombo Branch No. 15/15B, Station Road, Negombo.

