



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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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 Finance Leasing Establishment under the provisions of the Finance Leasing Act No. 56 of 2000.

Company Re-registration	No. PQ 91
Place of Incorporation	Colombo

Registered Office

No. 110, D. S. Senanayake Mawatha,
Colombo 08.

Board of Directors

Mr. U. Gautam

(Non-Executive Chairman)

Mr. M. S. I. Peiris AICM (SL)

(Executive Director)

Mr. G. C. B. Ranasinghe Certificate in Leasing (USA)

(Independent Non-Executive Director)

Mr. J. C. Korale BSc. MSc. FCA. FCMA.

(Independent Non-Executive Director)

Dr. T. Senthilverl

(Non-Executive Director)

Mr. S. N. P. Palihena FCIB(London), FIB(SL) Post Graduate Dip in
Business & Financial Administration(ICASL)

(Independent Non-Executive Director)

Mr. H. R. S. Wijeratne

(Non-Executive Director)

Secretaries

M/S Jacey & Company

No. 9/5, Thambiah Avenue,

Off Independence Avenue,

Colombo 07.

Auditors

M/s. KPMG

(Chartered Accountants)

No. 32A, Sir Mohammed Macan Marker Mawatha,

Colombo 03.

Lawyers

M/s. De Livera Associates

Attorneys-at-Law, Solicitors & Notaries Public

No. 33 ½, Shrubbery gardens, Colombo 3.

M/S Gunawardena & Ranasinghe Associates

Attorneys-at-Law & Notaries Public

No. 1056, 2nd Floor, Maradana Road, Borella, Colombo 08.

Messrs Julius & Creasy

Attorney-at-Law & Notaries Public

No. 41, Janadhipathi Mawatha, Colombo 01.

Bankers

Seylan Bank PLC

Sampath Bank PLC

People's Bank

Commercial Bank PLC

Head Office

No. 110, D. S. Senanayake Mawatha, Colombo 08

Telephone: +94-11-5222888

Fax : +94-11-5222880

Email : smbhed@sltnet.lk

Web : www.smbk.com

Subsidiary Company

SMB Money Brokers (Private) Limited.

Associate Companies

SMB Securities (Pvt) Ltd.

SMB Real Estate Ltd.

Kenanga Investment Corporation Ltd.

Branches

Deniyaya Branch

Ceylinco Building, 1st Floor,

Main Street, Deniyaya.

Mahiyanganaya Branch

No. 24, Kandy Road, Mahiyanganaya.

Financial Highlights

Performance During the Year

	Company			Group		
	2012	2011	Change %	2012	2011	Change %
	Rs.	Rs.		Rs.	Rs.	
Interest Income	143,987,716	75,580,714	90.39%	143,987,716	75,580,714	90.51%
Profit / (Loss) before Tax & VAT	93,599,132	(11,225,090)	933.84%	93,044,177	(17,999,015)	616.94%
Share of Associate Company Profit / (Loss)	-	-	-	11,399,549	(14,678,161)	-177.66%
Taxation & VAT	(14,862,981)	(5,519,099)	169.30%	(14,528,404)	(6,000,414)	142.12%
Profit / (Loss) after Tax	78,736,151	(16,744,189)	570.23%	67,116,224	(9,321,268)	820.03%

At the Year End

Lease / Loans portfolio	913,234,890	571,892,324	59.69%	910,414,890	568,832,324	60.05%
Other Assets	323,491,785	707,846,488	-54.30%	354,709,019	750,808,660	-52.76%
Total Assets	1,236,726,675	1,279,738,812	-3.36%	1,265,123,909	1,319,640,984	-4.13%

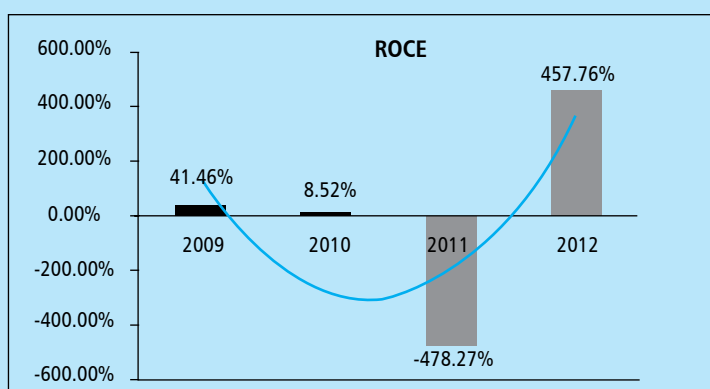
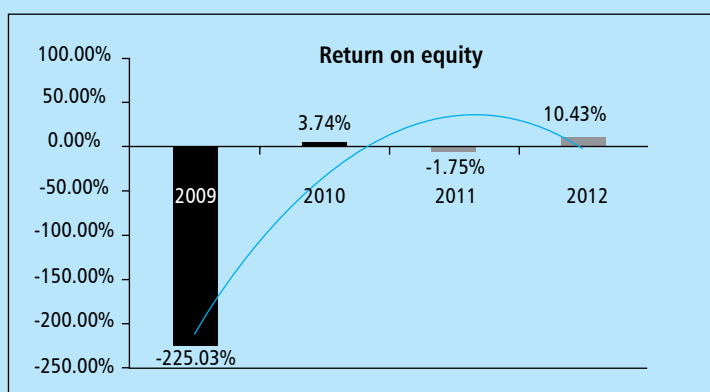
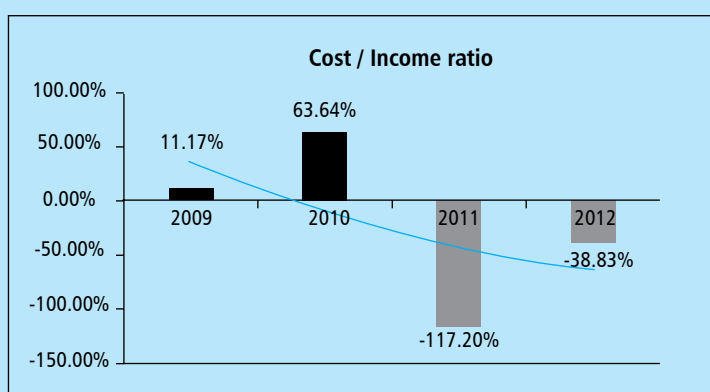
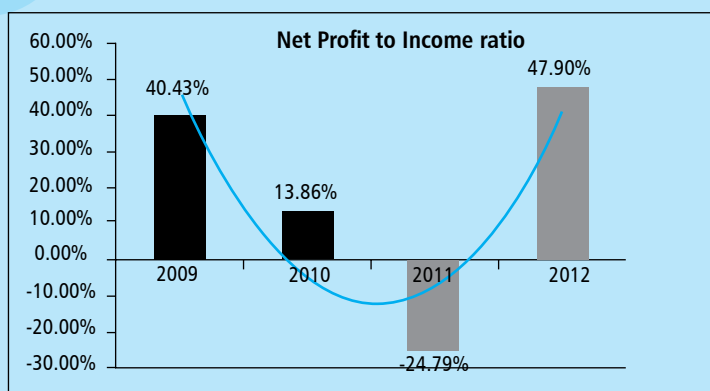
Shareholders' Funds	883,686,064	777,784,965	13.62%	900,758,667	806,477,496	11.86%
Minority Interest	-	-	-	6,914,909	7,657,705	-9.70%
Deposits & Borrowings	308,787,517	407,359,765	-24.20%	308,787,517	407,359,766	-24.20%
Debentures & Other Liabilities	44,253,094	94,594,081	-53.22%	48,662,816	98,146,017	-51.83%
Total Liabilities & Shareholders' Funds	1,236,726,675	1,279,738,812	-3.36%	1,265,123,909	1,319,640,984	-4.13%

Ratios

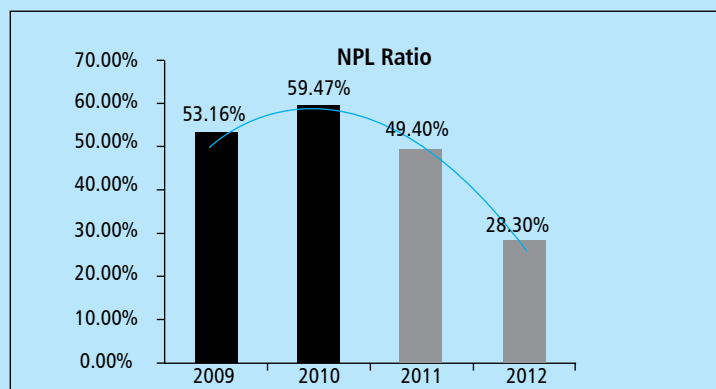
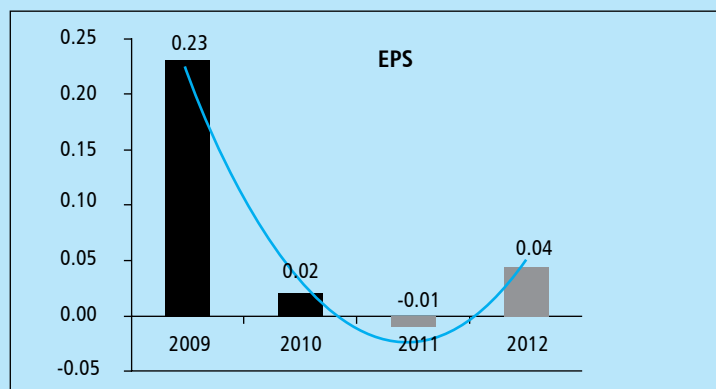
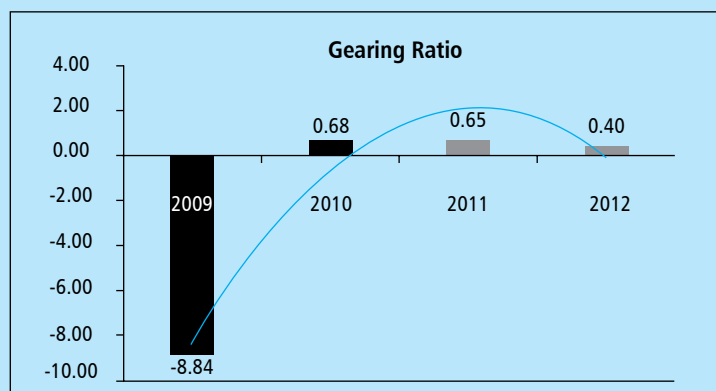
Basic Earnings / (Loss) Per Share	0.04	(0.01)	500%	0.04	(0.01)	500.00%
Interest Cover	3.59	0.29	1,137.93%	3.65	-1.43	355.24%
Net Asset Per Share	0.49	0.43	13.95%	0.50	0.45	11.11%
Cost / Income Ratio	46.56%	120.74%	-61.44%	53.79%	123.39	-56.41%
Net Profit / (Loss) to income Ratio	47.90%	(24.79%)	293.22%	35.99%	(10.46%)	444.07%

Note: Information is based on LKASs / SLFRSs.

Financial Highlights ... (CONTINUED)



Financial Highlights ... (CONTINUED)



Based on SLAS



Based on LKASs / SLFRSs.





Corporate Leaders

Chairman's Message

Dear Stakeholder,

A few years ago, SMB Leasing decided to chart a new path for itself. A path that would transform the company and give the company the foundations needed to grow, compete and achieve what its potential demanded. As we embark into 2013, it is with great pride and excitement that I say that SMB Leasing PLC is well and truly on course on a new direction. It is my pleasure to welcome you to 20th Annual General Meeting of SMB Leasing PLC and to present the Annual Report with a brief of company's activities for the year 2012.

As our fiscal year 2012 comes to an end, it has been a dynamic year for the nation as we find our way in an ever changing global landscape that is still gripping with economic, political and social uncertainty and environmental pressures.

2012 saw the economic woes in Europe continue into 2013 as countries continue to deal with sovereign debt and the associated contagion that poses considerable downside risk to the global economic outlook. According to the IMF global economic growth (Q4 annualized) fell to 3.2% in 2012 against 3.9% in 2011 with the Euro area experiencing a contraction of 0.2%. Despite the bulk share of global growth stemming from Asia, the region was not immune to slower growth from 2011 as growth in developing Asia fell to 6.6% in 2012 against 8% in 2011. Our largest neighbor, India, saw its growth fall to 4.5% from 7.9% a year earlier. The silver lining is the growing consensus that the economic outlook in 2013 notwithstanding any severe shock will be better than 2012. Locally, Sri Lanka faced its own challenges against such an adverse international backdrop. After two successive years of GDP growth above 8%, the economy in 2012 grew by 6.4%. Early in the year, policy changes were effected to curb credit expansion and devalue the currency in a bid to control imports, the trade deficit and prevent a potential balance of payments crisis. This action was deemed necessary as the low interest rates and cheap capital climate that existed saw import bills balloon out straining the countries depleting foreign reserves used to maintain the Lankan Rupees peg to the US dollar around LKR 110 level. Limits were placed on bank lending and the prevailing conditions of high interest rates and low liquidity had an adverse affect on business activity for the period.

As a result there was a fair bit of volatility which subsided with time and some of the policy changes and restrictions have now been amended or lifted as the economy re-adjusts which bodes well going forward and interest rates gradually reduce.

The leasing industry in Sri Lanka is very competitive as specialized leasing companies have had to compete with more and more entrants from finance companies and commercial banks offering leasing services due to higher margins. At the end of 2012, there were 46 Licensed Finance Companies and 13 Specialised Leasing Companies accounting for a total asset base of LKR 564bn. While 2012 saw a considerable drop in business activity, the leasing industry still carried a lot of growth momentum from 2010, and 2011 into 2012 despite rising interest rates which adversely affected the cost of capital for the firms. Many companies have had to look at cheaper international funding to mitigate such costs.

Looking ahead, the government is still focused on achieving a GDP per capita of USD 4000 by 2016 which is a very admirable ambition for the country. The year ahead already has the promise of renewed optimism as foreign direct investment trickles into the country, single digit inflation and lower interest rates may bode well for a growth above 7% and perhaps back to an 8% trajectory.

Business Performance For Year Under Review

Against such a backdrop, SMB Leasing continued its transformational momentum posting a Total Comprehensive income of 75.6mn in 2012, against a loss of LKR 13mn in 2011. Driving this growth was an uptick in business activity which led to interest income increase 90% year on year to LKR 143.9mn in 2012 from LKR 75.5mn in 2011 as a result of a growing lease/loan portfolio. Net operating income increased to LKR 165.9mn in 2012 from LKR 67mn in 2011. Most encouraging is the improvement of the net interest income margin from 37% in 2011 to over 75% in 2012 as a result of internally generated reinvested capital.

The SMB Leasing Group Net operating income increased 113% to LKR 189mn over LKR 89mn for the two comparable periods. Group total Comprehensive income stood at LKR 64mn in 2012 compared with a loss of LKR 5.6mn absorbing a LKR 11.4mn loss from associate companies.

Chairman's Message ... (CONTINUED)

Efforts to make SMB Leasing a lean operation saw operating expenses reduce to LKR 72.3mn in 2012, down 8% from LKR 78.7mn in 2011. Additionally, the year saw LKR 12mn gained in Impairment charges for loans and other losses as we strengthen our recovery process, and continually improve our risk management.

Total net loans, And receivables to other customers jumped 60% to LKR 913mn for 2012 from LKR 571mn in 2011 off improving business activity. Liabilities have shrunk by 30% to LKR 353mn driven by a 24% reduction of outstanding borrowings from LKR 406mn to LKR 309mn.

A Brand New Vision For The Future

With a renewed sense of optimism and instilled with values that will help us move forward in the years ahead, SMB Leasing will go ahead with a holistic and comprehensive strategy that will enable the company to grow and to carve a niche for itself in the financial services sector.

Our small size will be our strength, not our weakness. The core of our new strategy lies in the employees who are empowered with the skills, responsibility, and commitment to go beyond the lofty goals that have been set for them. The success we will find in leveraging our size with regard to building very close relationships with our customers will lie in the ability to tailor make financial products to fit their requirements. This customer centric approach will move beyond offering a broad spectrum of choice and deals to clients, instead SMB Leasing will tailor make a product that will suit a clients cash flows, a product that will not burden a clients ability to manage his business and a customer service that is focused on re-assessing and re-adjusting to the needs of any distressed clients or clients facing difficulties.

In trying times, we understand that sometimes all a customer requires is a helping hand to get back up as this is a story that is all too familiar to SMB Leasing having made a remarkable turnaround in the last few years. In line with growing a socially responsible and customer centric business, we have committed a growing proportion of our portfolio to small loans to customers who have need of liquidity and/or working capital to help them find their feet again or to allow them to focus on their business. We help our

customers who may otherwise not be able to obtain the necessary funds from a bank at competitive rates.

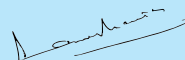
In addition, SMB Leasing will continue to build on our excellent business to business relationships that have helped us tremendously in the past few years and we look forward to forging new business partnerships to increase our customer utility and improve the coverage of services that we can provide and include.

The management has earmarked branch expansion in the future, initially targeting the more densely populated areas in the future. Management prioritizes the reinvestment of funds into business operations over any expansion plans until the situation becomes more conducive to expansion like a lower cost of capital and a saturation of demand for our services and products as a result of operating from our existing premises.

We have had the pleasure of bringing two new directors to the board, Mr. Palihena and Mr. Wijeratne who bring with them a wealth of industrial knowledge and business acumen that will add a lot of value to the business going forward.

Looking ahead, I reiterate that the strength of our business will be our staff and management who have worked tirelessly to turn the company around and bring about with it a sense of renewed optimism, motivation and an appetite for success. I thank them for the tremendous efforts they have put in against all the odds over the last year and for reigniting the spark for success that will guide this business.

Our many thanks to the stakeholders, shareholders, bankers, and auditors for their patience, belief and encouragement through the last few years. Finally we'd like to thank our customers, new and old for their loyalty, patronage, and faith they have shown thus far as we have only reached the start of a new beginning. We look forward to sharing our progress with all of you in 2013 and beyond.



Umesh Gautam
Chairman

CEO's Report

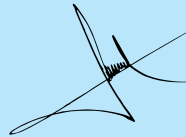
SMB Leasing PLC (SMBL) considered the financial year 2012 as a year of consolidation and recorded the most impressive results which created a platform for future growth and expansion. It is with great pleasure that we discuss the financial overview of SMBL for the year ended 2012. The report highlights the company's achievement in terms of portfolio growth, profitability and the quality of the new portfolio.

Despite the fact that the global economy is slowing down, Sri Lankan economy grew by 6.4% in the year under review. Capitalizing from the local trend, the company's net asset base grew by 14% to report Rs. 589 Million new business portfolio at the end of the financial year 2012. The Operating Profit Before Tax increased to Rs. 93 Million recording a growth of 830% compared to a loss of Rs.11.2 Million recorded in the same period of the previous year. The total Comprehensive income was increased to Rs. 75.6 Million

We are pleased to mention that the company has maintained a non performing loan ratio of 0.11% on the new portfolio which is away above the industry norms. This reflects the prudent credit criteria adopted by the management in cautiously identified focused markets of the organization.

The noteworthy performance had no doubt given us confidence for future expected expansions and growth in the focused market segments of the organization.

My sincere gratitude to the Chairman and the Board of Directors for guiding the management in the difficult period and contributing valuable directions for the company's achievement. Further, I would like to thank the Senior Management and the entire staff for their support and co-operation without which the results could have not been possible.



M. J. N. S. Fernando
Chief Executive Officer

Board of Directors

Mr. U. Gautam

Age: 58 years | Non-Executive Chairman

Mr. U. Gautam is attached to Ashok Leyland India as its Head of the SAARC Region representing Ashok Leyland India in the joint venture Lanka Ashok Leyland PLC as its CEO.

Mr. Gautam initially was on deputation in 1996 and developed a very strong market for Ashok Leyland in Sri Lanka which presently enjoys market leadership position.

By profession he is an Engineer and serves Ashok Leyland since 1978 and had held number of important assignments in the domestic market in India prior to taking up assignment in its Export Department in 1986.

No. 51, School Lane, Colombo 03.

Mr. M. S. I. Peiris – AICM (SL)

Age 44 Years | Executive Director

Mr. M. S. I. Peiris joined Seylan Merchant Bank PLC (SMB) in 1994 after being employed in two leading Financial Institutions in the Finance Company and Housing Finance Sectors in Sri Lanka. In the year 2004 he was appointed as the Director / General Manager of Seylan Merchant Leasing PLC, a subsidiary of SMB which position he held up to the time of its divestiture to Peoples Leasing Company in 2009.

Mr. Peiris presently functions as the Executive Director of SMB Leasing PLC after being invited to the said Board in 2007 as a Director. He possesses extensive experience in the financial services sector especially in the field of credit management, counting over 26 years in the industry.

Mr. Peiris is an Associate Member of the Institute of Credit Management of Sri Lanka.

No. 73, "Sunny Dale", Katukurunda Moratuwa.

Mr. G. C. B. Ranasinghe

Age: 67 years | Independent Non-Executive Director

Mr. G. C. B. Ranasinghe counts more than 25 years of experience in the leasing industry. He was a founder Director /CEO of Orient Financial Services Corporation Pvt. Ltd. from which he retired in October 2009. He has also served at Mercantile Leasing Ltd. for over 20 years in different capacities and also served as a Director of the said company. He was also a former Deputy Chairman of Leasing Association of Sri Lanka.

Mr. Ranasinghe joined the leasing industry in its formative years and has played a major role in developing leasing as an important financial instrument in the local market.

He was awarded a Certificate of Leasing by the Summer School of Leasing, Salt Lake City, Utah, USA.

No. 111/G/10, Kahanthota Road, Malabe.

Mr. J. C. Korale BSc. MSc. FCA. FCMA.

Age: 54 years | Independent Non-Executive 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 Degree from the University of Moratuwa.

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 also 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.

No. 15A, Arcadia Gardens, Rosmead Place, Colombo 07.

Board of Directors ... (CONTINUED)

Dr. T. Senthilverl

Age: 68 years | Non-Executive Director.

Dr. T. Senthilverl serves on the Boards of Amana Takaful Insurance PLC, C T Land Development PLC, C W Mackie PLC, Lanka Ceramics PLC, The Finance Co. PLC, Nawaloka Hospitals PLC, Hydro Power Free Lanka PLC, Vidullanka PLC and several subsidiaries and associate companies. He counts over four decades of active engagements in Manufacturing, Trading, Land Development, Power & Energy Sectors, Industrial Turnkey Projection, Construction and Management.

No. 28 D, Visaka Road, Colombo 04.

Mr. S. N. P. Palihena

Age 65 | Non-Executive

Mr. S. N. P. Palihena is a fellow member of The Chartered Institute of Bankers (London) and Institute of Bankers (Sri Lanka). He holds a Post Graduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka. Mr. Palihena is a banker by profession and has served this industry for over a period of and was also the former General Manager/ Chief Executive Officer of Bank of Ceylon. He also serves on the Boards of EB Creasy PLC, Muller Phipps (Ceylon) PLC, Pettah Pharmacy, Softlogic Capital PLC and on several companies connected to the Hirdaramani Group.

No 8, Lilly Avenue, Jayanthipura, Battaramulla.

Mr. H. R. S. Wijeratne

Age 54 years | Non- Executive Director

Mr. H. R. S. 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 18 years.

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

No. 14/1, Gregory's Road, Colombo 7.

Corporate Management Team

Mr. M. S. I. Peiris AICM (SL)
Executive Director

Mr. M. J. N. S. Fernando MBA (UK), Director Leasing Association of Sri Lanka
Director Financial Ombudsmen of Sri Lanka
Chief Executive Officer

Mr. P. V. Ranasinghe Dip in Fin Mgt
General Manager - Credit & Collection

Mr. P. W. K. Roshan B. Com (Sp), ACA
Head of Finance

Mr. M. Welagedara
Attorney-at-Law, Notary Public and Registered Company Secretary
Head of Legal & Human Resources

Mr. R. M. Weerackoon Msc. IT & M
Head of Information Technology

Management Discussion and Analysis

Business Activities

The Company is currently operating its Head Office in Colombo and Branches are located in Deniyaya and Mahiyanganaya.

Since November 2011, the Company commenced a joint promotion of Lanka Ashok Leyland vehicles on leasing terms with Lanka Ashok Leyland PLC. This activity strengthened and continued in a larger scale in 2012.

Subsidiary & Associate Companies

The position as at the end of 2012 is given below:

Subsidiaries – Unquoted	
SMB Money Brokers (privete) Limited	50.99% holding
Equity Accounted Investees	
SMB Real Estate Ltd	49% holding
Kenanga Investment Corporation Ltd.	49% holding
SMB Securities Pvt. Ltd.	49.5% holding
Financial Review	
Total operating income	Rs. 178 Million
Net operating income	Rs. 190 Million
Impairment Charges (Net)	Rs. 12 Million
Profit for the Year	Rs. 68 Million
Other Comprehensive (Expense)	(Rs. 3 Million)
Total Comprehensive Income	Rs. 65 Million

Human Resources

We have recognized the staff as the best asset of the organization and equipped them with knowledge and necessary skills for their professional development by providing on the job training and giving opportunities to participate in seminars, workshops and conferences etc.

Also with the limited resources, Company was able to organise few activities for the staff which resulted in motivating and building up the team spirit among themselves. As at 31st December 2012 total staff members attached to the organization were 42.

There were No reported disputes during the year pertaining to employer employee relationship.

Subsidiaries, Associates and Equity Accounted Investees

Name of The Company	Principal Activity	% Holding By SMB	Directors	Licence Obtained
Investments in Subsidiary – Unquoted				
SMB Money Brokers (Private) Limited.	Money Market Activities	50.99%	Mr. R. S. W. Senanayake Mr. N. N. Jayatillake	
Equity Accounted Investees				
SMB Securities (Pvt) Ltd.	Trading & Dealing in Equity & Debt in Colombo Stock Exchange	49.50%	Mr. R. S. W. Senanayake Mr. N. N. Jayatillake Mr. M. S. I. Peiris	Stock Broker Stock Dealers
SMB Real Estate Ltd.	Real Estate Development Activities	49.00%	Mr. R. S. W. Senanayake Mr. A. M. Jayasuriya Mr. M. S. I. Peiris Mr. N. N. Jayatillake	
Kenanga Investment Corporation Ltd.	Investment banking related activities & providing advisory services	49.00%	Mr. R. S. W. Senanayake Mr. M. S. I. Peiris Mr. L. K. Khee Dr. N. B. Razak Mr. M. M. N. Denney Mr. R. B. HJ Tik	

Risk Management

A strong and pervasive integrated risk management culture pervades the Company and provides it with the foundations to a sound process. Its framework is designed so that risk is managed in a way consistent with the Company's management philosophy.

Thus the main objectives of the company's risk management policy is to manage risk at an acceptable level, reject unacceptable risks and continuously monitor risks in order to maintain a quality portfolio.

Given below are the key risk factors that may impact the Company.

Credit Risk

This is defined as the potential for loss arising from the failure of a counter party to perform according to its contractual obligations to the Company.

To manage this risk effectively, the Company's Credit Committee will review the credit policy, monitor its credit approval limits, evaluate the facilities with large exposure and creditworthiness of the borrower. The committee also reviews portfolio performance on a regular basis and ensure loan classification on collection performance.

Market Risk

This is the risk that the value of a portfolio will decrease due to change in value of the market risk factors. These are changes in interest rates, exchange rates, equity prices, credit spreads etc.

An effective pricing policy is in place to monitor and fix the lending rates to maintain a minimum spread.

Liquidity Risk

Liquidity risk is monitored by the Asset and Liability Committee (ALCO) of the Company. The committee has introduced sound policies to minimize the risk.

Operational Risk

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems or from external events.

Reputational Risk

This is the loss of business reputation, established over a period, as a result of negative publicity or adverse market perception of the company. Reputation is often equated with the goodwill of the business.

To overcome this risk the Company, as has been in the past, will continue to meet all statutory, regulatory and compliance requirements.

Corporate Governance and Compliance

Corporate Governance is the process by which companies are directed and controlled by the Board of Directors in the best interest of the stakeholders ensuring greater transparency and better 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 businesses.

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 Companies 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 and The Colombo Stock Exchange.

The Board ensures that the Company complies with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

The following Table gives the Corporate Governance Principles and the Compliance carried out

Corporate Governance Principles	Compliance
The Boards of Directors	
Composition of the Board	<p>The Board comprises of seven Directors out of which six are non Executive Directors. The Chairman also act as a non Executive Director.</p> <p>All Directors encompass a wide range of skills, talents and experience required to add value to enhance the business.</p> <p>The profiles of the Directors are set out in pages 13 & 14</p>
Meetings	<p>Meetings are held every month to review and evaluate the performance of the company. Special meetings are convened when necessary.</p>
Responsibilities of the Board	<p>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 sub committees and those delegated to the management are clearly defined.</p> <p>The Audit Committee is a sub committee of the Board.</p> <p>The Board ensures:</p> <ul style="list-style-type: none"> * Formulating corporate strategy & strategic direction of the Company * Monitoring the effectiveness of the Company's risk management strategy * Compliance with ethical 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 * The interests of Shareholders and other stakeholders are safeguarded * Making recommendations to shareholders on the changes of the Board
Independent professional advice	<p>The Board seeks independent professional advice whenever it is necessary.</p>
Dedication of adequate time & effort for the matters of the Board and the Company	<p>Each Director brings independent judgment to bear on matters the Board is responsible for and dedicates the time and effort necessary to carry out its responsibilities.</p>

Corporate Governance and Compliance ... (CONTINUED)

Corporate Governance Principles	Compliance
Training of the Directors	Presentations are made to the Board from time to time regarding changes in industry related matters.
Company Secretary	With the resignation of SSP Corporate Services (Pvt) Ltd, the Board of Directors of the Company has appointed Jacey & Company with effect from October 2012. All Directors have access to the secretary, who is responsible to the Board to ensure that Board procedures and the applicable rules and regulations are complied with. The Articles of the Company provides that the Board may appoint or remove the secretary.
Independent Judgment	Each Director brings independent and objective judgment on the matters of the Board. The composition of the Board also ensures the balance between executive expediency and independent judgment.
Chairman's Role	The Chairman is a Non-Executive Director. The Chairman's role provides effective leadership and strategic insight to the issues of the Board.
Financial Acumen Financial acumen of the Board	The Board includes a Chartered Accountant who has the acumen and knowledge to provide the Board with necessary guidance in conducting its business.
Supply of Information Timely and accurate management information	All Directors are provided with timely, accurate and clear information on a regular basis. Requests are made for further information if necessary.
Appointments to the Board Availability of a formal and transparent procedure for new appointments	The Company does not have a nomination committee for making Recommendations on new appointments to the Board. New Directors, including the Chairman and the Deputy Chairman are appointed by the Board.
Disclosure of details of new Directors	Details of new appointments are disclosed to the shareholders on their appointment. Regulatory authorities are also informed as required.

Corporate Governance and Compliance ... (CONTINUED)

Corporate Governance Principles	Compliance
Re-election Re-election of Directors	The Articles of Association provides for 1/3rd of the directors to retire by rotation each year, with the exception of Chairman, Deputy Chairman and Executive Director
Appraisal of Board Performance	There is no formal procedure to evaluate the Board performance. Chairman ensures that the Board functions effectively and efficiently.
Appraisal of the CEO	The Board sets financial and non financial goals and objectives for the CEO and delegates the required level of authority to the management to achieve the strategic objectives.
Directors' Remuneration Remuneration Procedure	The Board of Directors determines the remuneration package of the Executive Director based on the performance of the Company.
Disclosure of Remuneration	The total remuneration of the Directors' is disclosed on page 56 of the Annual Report.
Relations With Shareholders	
Constructive use of the Annual General Meeting (AGM)	The primary mode of communication between the Company and the shareholders are the Annual Report and the Annual General Meeting. Shareholders have an opportunity to participate in company deliberations at the Annual General Meeting of the Company.
Circulation of Notice of the AGM	The Annual Report, Financial Statements and the notice of the meeting are sent to shareholders with a notice period of at least 21 calendar days (not less than 15 working days).
Major Transactions	There were no major transactions materially affecting the Consolidated Statement of Financial Position in 2012.

Corporate Governance and Compliance ... (CONTINUED)

Corporate Governance Principles

Compliance

Accountability And Audit

Financial Reporting

Statutory and regulatory reporting

The Company places great emphasis on complete disclosure of both financial and non financial information and has presented a balanced assessment of Company's position for the year ended 31st December 2012 and at each quarter. In preparing the quarterly and annual financial statements the Company has complied with Companies Act No 7 of 2007, Finance Leasing (Amendment) Act No. 24 of 2005 and is presented in conformity with Sri Lanka Accounting Standards (SLFRS / LKAS). The Company has also complied with the requirements of the regulatory authorities such as the Central Bank of Sri Lanka, Securities and Exchange Commission and Colombo Stock Exchange.

Directors Report in the Annual Report

Directors report is given on pages 28 to 30 of the Annual Report

Directors responsibility statement

The statement of Directors responsibility for financial reporting is given on page 31 of the Annual Report.

Statement of the External Auditors

The Auditors report is given on pages 32 & 33 of the Annual Report and includes their reporting responsibilities, scope for the audit and the opinion on the financial statements.

Operational and Financial Review in the Annual Report

The Operational and Financial Review is given on pages 16 of the Annual Report.

Declaration of the Board that the business is a going concern

This declaration is given on page 28 to 30 of the Annual Report.

Internal Controls

Maintaining a sound system of internal controls and risk management

The ultimate responsibility of internal controls and mitigating risks rests with the Board of Directors. Company's internal control systems and procedures are designed to eliminate possible risks and minimize any unforeseen risks while an effective disaster recovery plan is in place. A detailed risk management report is given on page 18 of the Annual Report.

Corporate Governance and Compliance ... (CONTINUED)

Corporate Governance Principles

Reviewing the effectiveness of the Internal Control System

Compliance

Regular reviews are carried out and a monthly internal audit report is submitted to the board. The Audit Committee reviews and evaluates the effectiveness of the Company's internal audit and control system.

Audit Committee and Auditors

Audit Committee consists of three Independent Non-Executive Directors. The said committee ensures that the company complies with the directions issued by the Department of Supervision of Non Bank Financial Institutions of the Central Bank of Sri Lanka.

Employees /Other Stakeholders

Rights of other Employees/ Other stakeholders

The Company is conscious of its responsibility towards its stakeholders and is focused in value addition to the Company. Stakeholders have access to relevant, sufficient and reliable information on a timely and regular basis.

Audit Committee Report

Composition Of The Committee

The Board appointed Audit Committee comprised the following Non Executive Directors of SMB Leasing PLC for the year 2012.

Mr. T. Someswaran- Chairman

Mr. J. C. Korale

Mr. G. C. B. Ranasinghe

In the latter part of the year 2012, Mr. T. Someswaran resigned from the Board of SMB Leasing PLC. In place of Mr. T. Someswaran, the Board appointed Mr. J. C. Korale as the Chairman of the Audit Committee and Mr. U. Gautam as a member of the committee. Accordingly at the end of financial year, the Audit Committee composition was as follows.

Mr. J. C. Korale - Chairman

Mr. G. C. B. Ranasinghe

Mr. U. Gautam

During the year 2012 all members of the committee worked on an honorary basis.

Meetings

During the financial year ended 31st December 2012 ten Audit Committee Meetings were held and proceedings of these meetings were reported to the Board on a regular basis. The Executive Director, Chief Executive Officer, Head of Finance and the representatives of SJMS Associates on behalf of Internal Auditors attended the meetings by invitation. The committee met with the External Auditors Messers KPMG during the year under review to discuss the application of SLFRS / LKAS and to determine in advance the time frame for the conclusion of the financial audit so that regulatory requirements are complied with Particular focus had been made for Gap Analysis and transmission are being made as a prerequisite. Further reviewing of Internal Audit Reports, revised Company Procedure Manual, and ratifying of Quarterly Financial Statements have been key functions during the year.

Role And Functions Of The Audit Committee

The role of the Audit Committee is to assist the Board of Directors in fulfilling the overall responsibility of SMB Leasing PLC and assist the Board in discharging the responsibility of the Board in terms of compliance to the laws, regulations, code of conduct and best practices with the view of safeguarding the interest of all stakeholders of the entity in an optimum manner. Representatives of the firm of Chartered Accountants executing the functions of the Internal Auditors were invited to the Audit Committee meetings convened together with the Executive Director, CEO, Head of Finance to discuss the Internal Audit Reports. Other heads of departments and senior officers were invited as and when necessary. The Audit Committee provides the forum to review internal audit reports, consider the findings, to recommend corrective actions to be taken by the Management with follow up monitoring with a view to manage significant business risk and controls. This Committee is the means by which the Board is in the continuing process of enhancing internal controls and provides a reasonable assurance that company's affairs are managed in accordance with statutory requirements and company's assets and income are properly accounted for.

Sourcing Of Internal Audit Function

With the concurrence of the Board, the Audit Committee continues to engage services of an independent firm of Chartered Accountants namely, SJMS Associates with a view of discharging Internal Audit functions independently. SJMS Associates have been carrying out periodic audits of the key areas of the business in an orderly manner and report with compliance and or explanations of the operational management.

The Audit committee recommended to re-appoint KPMG, Chartered Accountants as the External Auditor of the Company for the ensuing year.

(Sgd)

Mr. J. C. Korale

Chairman of the Audit Committee

31st May 2013

Report of the Remuneration Committee

The Remuneration Committee appointed by the Board of Directors of SMB Leasing PLC comprises of three members out of whom two are Independent Non Executive Directors and one Non Executive Director. The Committee comprises of,

Mr. G. C. B. Ranasinghe– Chairman

Mr. T. Someswaran

Dr. T. Senthilverl

During the year, Mr. T. Someswaran resigned from the Board on 20th of August 2012 and hence ceased to be a member of the committee. Mr. U. Gautam was appointed to the committee as a member in his place in the year 2013.

The principal activities of the remuneration committee is to review the remuneration of the Chief Executive officer and the Executive Director and on the basis of the assessment done by the Chief Executive officer on the rest of the staff to recommend the appropriate remuneration benefits and other payments.

The proceedings of the committee are reported to the Board of Directors who will in-turn make the final determination based on the recommendations of the committee.

The aggregate remuneration paid to the Directors including the Executive Director during the period under review is Rs. 5,563,492

(Sgd)

Mr. G C B Ranasinghe

Chairman of the Remuneration Committee

31st May 2013





Financial Reports

Annual Report of the Board of Directors on the affairs of the Company

The Directors of SMB Leasing PLC have pleasure in presenting herewith their report together with the Audited Consolidated Financial Statements for the year ended 31st December 2012 which were approved by the Directors on 31st May 2013.

Principal Activities

The principal activities of the Company are offering finance leasing and Loan facilities

Principal Activities of the Subsidiary

The principal activity of the Company's Subsidiary, namely, SMB Money Brokers (Private) Limited, is money market activities.

Principal Activities of Associates

SMB Securities (Pvt) Ltd is trading and dealing in Equity and Debt in the Colombo Stock Exchange.

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

SMB Real Estate Ltd is engaged in real estate development activities.

Review of Operations

The Chairman's Message describes the operations of the Company during the year ended 31st December 2012 and contain a fair view of the Company's affairs.

Financial Statements

The Financial Statements of the Group and the Company are given on pages 27 to 75 of the Annual Report.

Auditors' Report

The Auditor's Report on the Financial Statements is given on the pages 32 & 33 of the Annual Report.

Significant Accounting Policies

The Significant Accounting Policies adopted in the preparation of Financial Statements are given on pages 39 to 49 of the Annual Report.

Directors Remuneration

Directors Remuneration of the Company for the financial year ended 31st December 2012 are given on Note 13 to the Financial Statements on page 56.

Group Revenue

Total operating income of the group was Rs. 177 Mn (2011 – Rs. 86 Mn). An analysis of revenue based on segments is disclosed in the segmental analysis on page 75 in this report.

Property, Plant & Equipment

Details relating to Property, Plant & Equipment are disclosed in Note 25 of the Financial Statements.

Capital Expenditure

The total capital expenditure of the group incurred on the acquisition of Property, Plant & Equipment during the year which is given in Note 25 of the Financial Statements.

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 14 of the Financial Statements. It is the policy of the group to provide for deferred taxation on temporary differences at the Balance Sheet date on the liability method. The deferred tax details of the company is given in Note 14. c of the Financial Statements.

Financial Results of the Company for the Year

	31.12.2012	31.12.2011
	Rs.	Rs.
Total Operating Income	153Mn	65Mn
Impairment for loans and advance	12Mn	02Mn
Net Operating Income	165Mn	67Mn
Operating Profit / (Loss) before value added Tax	93Mn	(11Mn)
VAT on Financial Services	(03Mn)	(02Mn)
Income Tax Expense.	(12Mn)	(03Mn)
Total Comprehensive Income / (Expense)	75Mn	(13Mn)

Annual Report of the Board of Directors on the affairs of the Company ... (CONTINUED)

Investments

Detailed descriptions of the Investments made by the Company is given in the Note 18 of the Financial Statements.

Reserves

The reserves of the group are disclosed in the Statement of Changes in Equity.

Stated Capital

The stated capital as at 31st December 2012 was Rs.919 Mn. Page 66 of this report describes the details of the distribution and composition of Shareholders.

Conversion of Warrants

During the year shares to the value of Rs 408,533,139 were issued by converting the free warrants which were issued with the Ordinary Voting Shares and Ordinary Non Voting Shares through the rights issued in the year 2010.

Share Information

Information relating to Earnings, Dividends, Net Assets, and Market value per share and share trading is given on page 80 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 in page 79 on this report.

Employment

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

Directors

The following were Directors of the Company as at 31st December 2012

1. Mr. U. Gautam
2. Mr. M. S. I. Peiris
3. Mr. G. C. B. Ranasinghe
4. Mr. J. C. Korale
5. Dr. T. Senthilvel

Resignation & New Appointments

Mr. R. S. W. Senanayake who was a Non Executive Director resigned from of company w.e.f 01.03.2012

Mr. T. Someswaran who was the Chairman of SMB Leasing PLC resigned as the Chairman & Director of the company w.e.f. 20.08.2012.

Mr. U. Gautam who was the Non Executive Deputy Chairman was appointed as the Chairman of SMB Leasing PLC w.e.f. 22.08.2012

Retirement of Directors

In terms of Article 87 of the Articles of Association of the Company Mr. J. C. Korale retires and being eligible to offer himself for re-election.

In terms of Article 87 of the Articles of Association of the Company Mr. S. N. P. Paliheena retires and being eligible to offer himself for re-election.

In terms of Article 87 of the Articles of Association of the Company Mr. H. R. S. Wijeratne retires and being eligible to offer himself for re-election.

Directors Shareholdings

The shareholdings of the Directors of the Company are shown on page 82 under Shareholders Information.

Directors Interest in Shares and Debentures

Directors interest in Shares and Debentures of the Company as at 31st December 2012 are as disclosed on page 82 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 of the company, except those specified in Note 35 to the Financial Statements, which have been disclosed and declared at meetings of the Directors

Interest Register

The Directors' Interest register is maintained by the Company and relevant disclosures are made in this report.

Annual Report of the Board of Directors on the affairs of the Company ... (CONTINUED)

Board Sub Committee

Audit Committee

Presently, the following Directors serve on the Audit Committee.

Mr. J. C. Korale (Chairman of the Committee)

Mr. G. C. B. Ranasinghe

Mr. U. Gautam

The ED, CEO, Head of Finance, the Internal Auditors and External Auditors and the Secretaries of the Company attend meetings by invitation.

Statutory Payments

The directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its subsidiary, all contributions, levies and taxes payable on behalf of and in respect of the employees and all known statutory dues as at the balance sheet date have been paid or where relevant, provided for by the Company and its subsidiary.

Environmental Protection

The Board of Directors to the best of their ability takes every attempt to comply with relevant environmental laws, regulations and best practices applicable in the country.

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 Sri Lanka Accounting Standards and Companies Act No. 07 of 2007, Finance Leasing (Amendment) No. 24 of 2005 and Listing rules of the Colombo Stock Exchange.

Corporate Governance

The Board of Directors is of the view that it has focused on the necessary resources and processes to ensure that the company is compliant with the code of best practices of Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka throughout the year ended 31st December 2012. The Corporate Governance report is given on pages 19 to 23 of the Annual Report.

Risk Management

The steps taken by Company in respect of both financial and operational risks have been set out in the page 18 to this report.

Going Concern

The Directors are of the view that the company has adequate resources to continue the Company's operations in the foreseeable future. The Financial Statements are prepared based on a going concern concept.

Loan Capital

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

Events Occurring after the reporting date.

Events that have occurred after the reporting date have been disclosed in Note 38 of the Financial Statements.

Auditors

The retiring auditors M/s. KPMG, Chartered Accountants have signified their willingness to continue in office and resolution to re-appoint them as Auditors and authorizing the Directors to fix their remuneration will be proposed at the Annual General Meeting. Audit fee is disclosed on Note 13 of the Financial Statements on page 56. The Auditors have confirmed that they do not have any relationship with or interests in the company other than those disclosed above.

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



M. S. I. Peiris

Executive Director

(Sgd)

Jacey & Company

Company Secretaries

31st May 2013

Colombo

Directors' Responsibility Statement

The Financial Statements of the Company and Group for the year ended 31st December 2012 are prepared and presented in compliance with the Sri Lanka Accounting Standards Act No. 15 of 1995 issued by the Institute of Chartered Accountants of Sri Lanka and requirements of the Companies Act No. 07 of 2007.

The Board accepts responsibility for the integrity and objectivity of the Financial Statements presented. The Directors are also of the view that, in preparing these Financial Statements appropriate accounting policies and practices have been adopted consistently together with relevant Sri Lanka Accounting Standards and Directions issued by the external regulatory authorities.

The Board of Directors are responsible for taking reasonable assurance of appropriate internal control systems and accounting records which ensures that the Company's business is carried

on in an acceptable and efficient manner so as to safeguard the Company's assets, and preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on a going concern basis.

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



M. S. I. Peiris

Executive Director

31st May 2013

Independent Auditors' Report



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

Tel : + 94 - 11 542 6426
Fax: + 94 - 11 244 5872
+ 94 - 11 244 6058
+ 94 - 11 254 1249
+ 94 - 11 230 7345
Internet :www.lk.kpmg.com

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 subsidiary ("the Group"), which comprise the statement of financial position as at 31st December 2012, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and summary of significant accounting policies and other explanatory notes as set out on pages 34 to 75.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

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 plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

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

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA
R.M.D.B. Rajapakse ACA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo ACA
Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonawardene ACA

Independent Auditors' Report ... (CONTINUED)

Opinion – Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st December 2012 and the financial statements give a true and fair view of the Company's financial position as at 31st December 2012 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion – Group

The Group has recognized an amount of Rs. 1,435,168 as the share of profit of SMB Real Estate Limited , an associate of the group, as per equity method of accounting for the preparation of consolidated financial statements for the year ended 31st December 2012, based on unaudited financial statements of the company for the same year.

In our opinion, except for the effects on the financial statements of the matter referred to in the preceding paragraph, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiary dealt with thereby as at 31st December 2012, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.



Chartered Accountants

31st May 2013

Colombo.

Statement of Comprehensive Income

For The Year Ended 31st December	Note	Company		Group	
		2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Interest income	9 (a)	143,987,716	75,580,714	143,987,716	75,580,714
Interest expenses	9 (b)	(35,600,105)	(47,608,969)	(35,600,105)	(47,608,969)
Net interest income		108,387,611	27,971,745	108,387,611	27,971,745
Fee and commission income	10	4,962,156	4,033,163	4,962,156	4,033,163
Fee and commission expenses		-	-	-	-
Net fee and commission income		4,962,156	4,033,163	4,962,156	4,033,163
Gains / (Loss) on remeasuring of Investment designated at fair value through profit or loss		-	-	1,028,373	(1,039,678)
Other operating income (net)	11	40,551,926	33,240,252	62,623,068	55,854,200
Total operating income		153,901,693	65,245,160	177,001,208	86,819,430
Reversal of impairment for loans and advances	12	12,019,648	2,304,628	12,019,648	2,304,628
Net operating income		165,921,341	67,549,788	189,020,856	89,124,058
Personnel expenses		(29,812,199)	(31,815,705)	(45,635,929)	(44,948,147)
Other expenses	13	(42,510,010)	(46,959,172)	(50,340,750)	(62,174,927)
Operating profit before Value Added Tax (VAT)		93,599,132	(11,225,089)	93,044,177	(17,999,016)
Value Added Tax (VAT) on financial services		(2,738,133)	(2,371,401)	(2,738,133)	(2,371,401)
Profit/(Loss) before income tax		90,860,999	(13,596,490)	90,306,044	(20,370,417)
Share of Profit / (Loss) of Associate Companies		-	-	(11,399,549)	14,678,161
Income tax expense	14	(12,124,848)	(3,147,698)	(11,790,271)	(3,629,013)
Profit / (Loss) for the year		78,736,151	(16,744,188)	67,116,224	(9,321,269)
Profit / (Loss) attributable to:					
Owners of the parent		78,736,151	(16,744,188)	67,859,019	(8,742,951)
Non-controlling interest		-	-	(742,795)	(578,318)
Profit / (Loss) for the year		78,736,151	(16,744,188)	67,116,224	(9,321,269)
Other Comprehensive Income					
Fair value Gain / (Loss) on available-for-sale Investments		(3,115,324)	3,658,010	(3,115,324)	3,658,010
Other Comprehensive Income/(Expense) for the Year, net of Taxes		(3,115,324)	3,658,010	(3,115,324)	3,658,010
Total Comprehensive Income/(Expense) for the Year		75,620,827	(13,086,178)	64,000,900	(5,663,259)
Total Comprehensive Income/(Expense) attributable to:					
Owners of the parent		75,620,827	(13,086,178)	64,743,695	(5,084,941)
Non-controlling interest		-	-	(742,795)	(578,318)
Total Comprehensive Income/(Expense) for the Year		75,620,827	(13,086,178)	64,000,900	(5,663,259)
Basic Earnings / (Loss) Per Share	15	0.04	(0.01)	0.04	(0.01)

Figures in brackets indicate deductions.

The Notes to the Financial Statements from pages 39 to 75 form an integral part of these financial statements.


Consolidated Statement of Financial Position

As at	Note	Company			Group		
		31/12/2012 Rs.	31/12/2011 Rs.	01/01/2011 Rs.	31/12/2012 Rs.	31/12/2011 Rs.	01/01/2011 Rs.
Assets							
Cash and cash equivalents	16	10,360,220	10,152,144	2,783,990	11,137,571	10,496,075	5,521,284
Placements with Banks	17	109,033,356	470,553,769	365,520,009	110,333,356	475,789,063	369,674,131
Loans and Receivables to other customers	18	913,234,890	571,892,324	420,656,548	910,414,890	568,832,324	417,356,548
Financial investments – available-for-sale	19	3,193,154	6,308,477	2,650,467	3,193,154	6,308,477	2,650,467
Financial Assets at Fair Value Through Profit or Loss	20	-	-	-	1,649,497	3,467,883	3,588,228
Financial investments – held-to-maturity	21	-	-	-	2,644,932	2,644,932	2,827,078
Investments in Associates	22	125,561,238	125,561,238	129,282,196	143,425,526	158,425,075	153,542,872
Investments in Subsidiaries	23	7,854,472	12,750,000	12,750,000	-	-	-
Investment Properties	24	33,120,400	33,120,400	33,120,400	40,173,277	40,173,277	37,320,400
Property Plant & Equipment	25	11,591,961	13,204,585	9,244,326	12,293,298	14,347,511	10,819,571
Deferred Tax Assets	26	-	-	-	603,710	157,448	221,670
Other Assets	27	22,776,984	36,195,875	30,969,188	29,254,698	38,998,919	34,190,512
Total Assets		1,236,726,675	1,279,738,812	1,006,977,124	1,265,123,909	1,319,640,984	1,037,712,761
Liabilities							
Due to banks	28	34,465,511	66,756,679	53,254,089	34,465,511	66,756,679	53,254,089
Due to other customers	29	224,628,752	340,603,087	457,991,019	224,628,752	340,603,087	457,991,019
Other borrowings	30	49,693,254	-	-	49,693,254	-	-
Other Liabilities	31	44,253,094	94,594,081	77,827,311	48,662,816	98,146,017	79,057,314
Total Liabilities		353,040,611	501,953,847	589,072,419	357,450,333	505,505,783	590,302,422
Equity							
Stated Capital	32	919,064,114	885,097,414	1,146,950,296	919,064,114	885,097,414	1,146,950,296
Statutory Reserves	33	13,794,692	9,857,885	9,857,885	13,794,692	9,857,885	9,857,885
Accumulated losses		(53,436,438)	(118,736,063)	(738,903,476)	(36,363,837)	(90,043,532)	(717,633,865)
Other Reserves		4,263,696	1,565,729	-	4,263,696	1,565,729	-
Total equity attributable to equity holders of the Company		883,686,064	777,784,965	417,904,705	900,758,667	806,477,496	439,174,316
Non- controlling Interests		-	-	-	6,914,909	7,657,705	8,236,023
Total Equity		883,686,064	777,784,965	417,904,705	907,673,576	814,135,201	447,410,339
Total Equity and Liabilities		1,236,726,675	1,279,738,812	1,006,977,124	1,265,123,909	1,319,640,984	1,037,712,761
Contingent liabilities and Commitments	34	1,525,000	1,500,000.00	1,525,000	1,525,000	1,500,000	1,525,000


Figures in brackets indicate deductions.

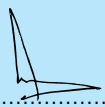
The Notes to the Financial Statements from pages 39 to 75 form an integral part of these financial statements.

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


 P. W. K Roshan
 Head of finance

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


 U. Gautam
 Chairman
 31st May 2013
 Colombo


 M. S. I. Peiris
 Executive Director

Statement of Changes in Equity

For the year ended 31st December 2012	Stated Capital		Share Application Money	Statutory Reserves		Accumulated Losses	Total
	Ordinary Voting Shares	Ordinary Non-Voting Shares		Statutory Reserve Fund	Investment Fund Account		
Company	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31st December 2010 as previously stated	770,950,296	376,000,000	-	9,857,885	-	(636,419,321)	520,388,860
Impact of adopting SLFRSs as at 1st January 2011 (Note 37)	-	-	-	-	-	(102,484,155)	(102,484,155)
Restated balance as at 1st January 2011	770,950,296	376,000,000	-	9,857,885	-	(738,903,476)	417,904,705
Balance as at 1st January 2011	770,950,296	376,000,000	-	9,857,885	-	(738,903,476)	417,904,705
Total comprehensive income							
Loss for the year	-	-	-	-	-	(16,744,188)	(16,744,188)
Other comprehensive income (net of tax)	-	-	-	-	-	3,658,010	3,658,010
Direct cost of Share Issue	-	-	-	-	-	(1,600,000)	(1,600,000)
Total comprehensive income for the year	-	-	-	-	-	(14,686,179)	(14,686,179)
Transactions with equity holders recognised directly in equity							
Transfers to Investment Fund	-	-	-	-	1,565,729	(1,565,729)	-
Share Application Money	-	-	374,566,439	-	-	-	374,566,439
Capital Reduction	(427,784,592)	(208,634,729)	-	-	-	636,419,321	-
Total transactions with equity holders	(427,784,592)	(208,634,729)	374,566,439	-	1,565,729	634,853,592	374,566,439
Balance as at 31st December 2011	343,165,704	167,365,271	374,566,439	9,857,885	1,565,729	(118,736,063)	777,784,965
Balance as at 1st January 2012	343,165,704	167,365,271	374,566,439	9,857,885	1,565,729	(118,736,063)	777,784,965
Profit for the year	-	-	-	-	-	78,736,151	78,736,151
Other comprehensive income (net of tax)	-	-	-	-	-	(3,115,324)	(3,115,324)
Total comprehensive income for the year	-	-	-	-	-	75,620,827	75,620,827
Allotment of shares during the year	365,280,259	43,252,880	(374,566,439)	-	-	-	33,966,700
Direct cost of Share Issue	-	-	-	-	-	(3,686,429)	(3,686,429)
Transfers to Statutory Reserve	-	-	-	3,936,807	-	(3,936,807)	-
Transfers to Investment Fund	-	-	-	-	2,697,967	(2,697,967)	-
Total transactions with equity holders	365,280,259	43,252,880	(374,566,439)	3,936,807	2,697,967	(10,321,203)	30,280,273
Balance as at 31st December 2012	708,445,963	210,618,151	-	13,794,692	4,263,696	(53,436,438)	883,686,064

Figures in brackets indicate deductions.

The Notes to the financial statements from pages 39 to 75 from an integral part of these financial statements.

Statement of Changes in Equity ... (CONTINUED)

For the year ended 31st December 2012

Attributable to the Equity Holders of the parent

Group	Stated Capital		Share Application Money	Statutory Reserves			Minority Interest	Total
	Ordinary Voting Shares	Ordinary Non-Voting Shares		Statutory Reserve Fund	Investment Fund Account	Accumulated Losses		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31st December 2010	770,950,296	376,000,000	-	9,857,885	-	(615,149,710)	8,236,023	549,894,494
Impact of adopting SLFRSs as at 1st January 2011 (Note 37)	-	-	-	-	-	(102,484,155)	-	(102,484,155)
Restated balance as at 1st January 2011	770,950,296	376,000,000		9,857,885	-	(717,633,865)	8,236,023	447,410,339
Balance as at 1st January 2011	770,950,296	376,000,000	-	9,857,885	-	(717,633,865)	8,236,023	447,410,339
Total comprehensive income								
Net Profit/ (Loss) for the year	-	-	-	-	-	(9,321,268)	(578,318)	(9,899,586)
Other comprehensive income (net of tax)	-	-	-	-	-	3,658,010	-	3,658,010
Direct cost of Share Issue	-	-	-	-	-	(1,600,002)	-	(1,600,002)
Total comprehensive income for the year	-	-	-	-	-	(7,263,260)	(578,318)	(7,841,578)
Transactions with equity holders recognised directly in equity								
Transfers to Investment Fund	-	-	-	-	1,565,729	(1,565,729)	-	-
Share Application Money	-	-	374,566,440	-	-	-	-	374,566,440
Capital Reduction	(427,784,592)	(208,634,729)	-	-	-	636,419,321	-	-
Total transactions with equity holders	(427,784,592)	(208,634,729)	374,566,440	-	1,565,729	634,853,592	-	374,566,440
Balance as at 31st December 2011	343,165,704	167,365,271	374,566,440	9,857,885	1,565,729	(90,043,533)	7,657,705	814,135,201
Balance as at 1st January 2012	343,165,704	167,365,271	374,566,440	9,857,885	1,565,729	(90,043,533)	7,657,705	814,135,201
Net Profit for the year	-	-	-	-	-	67,116,224	(742,795)	66,373,429
Other comprehensive income (net of tax)	-	-	-	-	-	(3,115,324)	-	(3,115,324)
Total comprehensive income for the year	-	-	-	-	-	64,000,900	(742,795)	63,258,105
Allotment of shares during the year	365,280,259	43,252,881	(374,566,440)	-	-	-	-	33,966,700
Direct cost of Share Issue	-	-	-	-	-	(3,686,430)	-	(3,686,430)
Transfers to Statutory Reserve	-	-	-	3,936,607	-	(3,936,807)	-	-
Transfers to Investment Fund	-	-	-	-	2,697,967	(2,697,967)	-	-
Total transactions with equity holders	365,280,258	43,252,881	(374,566,440)	3,830,239	2,697,967	(10,321,204)	-	30,280,270
Balance as at 31st December 2012	708,445,962	210,618,152	-	13,794,692	4,263,696	(36,363,837)	6,914,909	907,673,576

Figures in brackets indicate deductions.

The notes of the financial statements from pages 39 to 75 from an integral part of these financial statements.

Cash Flow Statements

For the year ended 31 December	Company		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Cash Flow from Operating Activities				
Interest Receipts	134,704,292	70,386,220	134,704,292	70,380,219
Interest Payments	(51,370,603)	(55,696,223)	(51,370,603)	(55,696,223)
Fees and Commission Receipts	28,668,183	31,198,415	28,668,183	59,845,325
Cash Payments to Employees and Suppliers	(63,250,451)	(65,583,665)	(63,250,451)	(91,684,036)
Profit / (Loss) before Changes in Operating Assets	48,751,421	(19,695,253)	48,751,421	(17,154,715)
Increase in Operating Assets				
Loans and receivables to other customers	(320,039,493)	(145,761,958)	(320,039,493)	(145,761,958)
Other Assets	6,917,751	(12,994,454)	8,651,170	(17,617,417)
Cash used in Operations	(264,370,321)	(178,451,665)	(262,636,902)	(180,534,090)
Tax Paid	(2,738,133)	(5,519,099)	(2,738,133)	(5,519,099)
Gratuity Paid	-	(2,649,963)	-	(2,649,963)
Net Cash used in Operating Activities	(267,108,454)	(186,620,727)	(265,375,035)	(188,703,152)
Cash Flow from Investing Activities				
Dividend Received from Associate Companies	3,600,000	6,075,000	3,600,000	6,075,000
Proceeds from Sale of Investment Securities	-	-	-	4,439,930
Purchase of Investment Securities	-	-	-	(8,523,767)
Purchase from Sale of Investment Securities	-	-	-	3,052,877
Purchase of Property, Plant & Equipments	(1,988,406)	(7,065,986)	(1,988,406)	(7,076,340)
Proceeds from Disposal of Property, Plant & Equipment	-	850,000	-	850,000
Net Cash from/(Used in) Investing Activities	1,611,594	(140,986)	1,611,594	(1,182,300)
Cash Flow from Financing Activities				
Increase/(Decrease) in Other Borrowings	49,693,253	(5,983,407)	49,693,253	(5,983,407)
Increase/(Decrease) in Liabilities	(22,637,691)	31,870,772	(22,637,691)	32,601,148
Increase/(Decrease) in Borrowings	(115,974,333)	(111,404,526)	(115,974,333)	(111,404,526)
Proceeds from Issue of Shares	33,966,700	374,566,439	33,966,700	374,566,439
Share issue expenses	(3,686,427)	(1,600,000)	(3,686,427)	(1,600,000)
Net Cash from / (used in) Financing Activities.	(58,638,498)	287,449,278	(58,638,498)	288,179,654
Net Increase / (Decrease) in Cash and Cash Equivalents	(324,135,358)	100,687,565	(322,401,939)	98,294,202
Cash and Cash Equivalents at the beginning of the year	357,907,466	257,219,901	358,251,397	259,957,195
Cash and Cash Equivalents at the end of the year (Note 16,17,28)	33,772,107	357,907,466	35,849,458	358,251,397

Notes to the Financial Statements

1 Reporting Entity

SMB Leasing PLC is a public quoted Company incorporated and operating in Sri Lanka. The consolidated Financial Statements of the group for the year ended 31st December 2012 comprises the Company and its Subsidiaries and group interest in associate Company.

The principal activities of the Company are providing Finance Leases and Loans.

SMB Leasing PLC has one subsidiary company and three associate companies. The principle activity of the subsidiary (SMB Money Brokers (Private) Limited) is Money Brokering. The associate companies are SMB Real Estate Limited, Kenanga Investment Corporation Limited and SMB Securities (Private) Limited and their principle activities are real estate development, Investment banking related activities & providing advisory services, and dealing in Equity and Debt in the Colombo Stock Exchange respectively.

The staff strength of the Company as at 31st December 2012 is 42 (2011: 44).

2 Basis Of Preparation

2.1 Statement of Compliance

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) as issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) and in compliance with the requirements of Companies Act No 7 of 2007 and Finance Leasing (Amendment) Act No. 24 of 2005 and subsequent amendments thereto.

These are the Group's first Financial Statements prepared in accordance with SLFRSs and SLFRS 1, "First-time Adoption of Sri Lanka Financial Reporting Standards" has been applied.

An explanation of how the transition to SLFRSs has affected the reported financial position and financial performance of the Group is provided in the Note 37 to the financial statements.

2.2 Basis of Measurement

The Financial Statements have been prepared on historical cost basis and applied consistently subject to the impact in Note 2.1, with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following;

- Financial instruments designated at fair value through profit or loss are measured at fair value
- Available for sale financial assets are measured at fair value
- Liability for defined benefit obligations is recognized as the present value of the defined benefit obligation.

2.3 Functional and Presentation Currency

Financial Statements are presented in Sri Lankan Rupees, which is the Group's functional currency.

2.4 Use of Estimates and Judgments

The preparation of the Financial Statements in conformity with Sri Lanka Accounting Standards (SLAS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amount may defer from these estimates.

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

Notes to the Financial Statements ... (CONTINUED)

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements are described in the related notes to the Financial Statements.

3 Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and in preparing the opening SLFRS statement of financial position at 1st January 2011 for the purposes of the transition to SLFRSs, unless otherwise indicated.

3.1 Basis of Consolidation

The Group Financial Statements includes the consolidated results, assets and liabilities of the Company and its subsidiary made up to the financial year end. The results of subsidiary are included from the date on which the Company effectively acquired control the subsidiary.

The interest of outside shareholders of the subsidiary in the net assets and their proportion of results grouped separately in the Consolidated Statement of Financial Position and the Statement of Comprehensive Income under the heading of "Non controlling interest".

3.1.1 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

3.1.2 Investments in Associates (Equity Accounted Investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3.1.3 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 unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the Financial Statements ... (CONTINUED)

3.2 Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Statement of Comprehensive Income include,

- Interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis
- Interest income on available-for-sale investment securities calculated on an effective interest basis is also included in Interest income.

3.3 Fees and Commissions

Fees and commission income and expense that are integral to the effective interest rate on financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.4 Tax Expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Notes to the Financial Statements ... (CONTINUED)

3.5 Financial Assets and Financial Liabilities

3.5.1 Initial Recognition and Measurement

The Company initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.5.2 Classification and Subsequent Measurement

3.5.2.1 Financial Assets

At inception, financial assets are classified in one of the following categories.

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held to maturity investments
- Available for sale financial assets

Group determines the classification of its financial assets at initial recognition. All financial assets are recognized at fair value plus, the directly attributable transaction cost in the case of assets not for fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset. The Group's financial assets include cash and short term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments.

3.5.2.2 Financial Liabilities

The Group initially recognizes all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortized cost or fair value through profit or loss.

3.5.3 Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows

3.5.3.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in the comprehensive income.

Notes to the Financial Statements ... (CONTINUED)

3.5.3.2 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest income in the comprehensive income. The losses arising from impairment are recognized in the comprehensive income.

3.5.3.3 Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest income in the statement of comprehensive income. The losses arising from impairment are recognized in the comprehensive income.

3.5.3.4 Available-For-Sale Financial Investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group has not designated any loan or receivable as available for sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognized in profit or loss.

3.6.1 Loans and Receivables to Other Customers

Loans and Receivables to Other Customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss.
- Those that the Group, upon initial recognition, designates as available for sale.
- Those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'Loans and Receivables to Other Customers' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized 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 amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognized in the income statement in 'Impairment for loans and Advances'.

3.6.2 Sale and Repurchase Agreements

Securities purchased under agreements to resell (reverse repos) are recorded as 'Placement with Banks'. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using EIR.

Notes to the Financial Statements ... (CONTINUED)

3.6.3 Derecognition of Financial Assets and Financial Liabilities

3.6.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognized when

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - a) The Group has transferred substantially all the risks and rewards of the asset, or
 - b) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3.6.3.2 Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 recognized in profit or loss.

3.6.4 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognized amounts and it intends either 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 SLFRSs, or for gains and losses arising from a group of similar transactions.

3.6.5 Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

3.6.6 Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group 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.

If a market for a financial instrument is not active, then the Group 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.

Notes to the Financial Statements ... (CONTINUED)

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, 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.

3.6.7 Impairment of Financial Assets

The Group assesses at each Statement of Financial Position date whether there is any objective evidence that a financial asset or a group of financial assets is 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 has 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.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.6.7.1 Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost (such as Placements with Banks, Loans and receivables to other customers as well as Financial investments –held-to-maturity), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset; it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the Statement of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Other operating income'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Group has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped based on the nature and type of the asset. It also considers credit risk characteristics such as asset collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the

Notes to the Financial Statements ... (CONTINUED)

basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3.6.7.2 Available-For-Sale Financial Investments

For available-for-sale financial investments, the Group assesses at each Statement of Financial Position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the Comprehensive Income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the Comprehensive Income, the impairment loss is reversed through Comprehensive Income.

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 recognized in the Statement of Comprehensive Income is removed from equity and recognized in the Statement of Comprehensive Income. Impairment losses on equity investments are not reversed through the Statement of Comprehensive Income; increases in the fair value after impairment are recognized in Other Comprehensive Income.

3.6.7.3 Re-negotiated 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 effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management 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 an individual or collective impairment assessment, calculated using the loan's original effective interest rate, unless there is a significant modification.

3.6.7.4 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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in Statement of Financial Position.

3.7 Cash and cash equivalents

Cash and cash equivalents as referred to in the Cash Flow Statement comprises cash on hand and amounts due from Banks on demand or with an original maturity of three months or less.

Notes to the Financial Statements ... (CONTINUED)

3.8 Property, Plant and Equipment

Recognition and Measurements

The property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Items of property, plant and equipment are recognised upon disposal or when no future economic benefits expected from its use. Any gain or loss arising on derecognition of the assets is included in the Income Statement in the year the asset is derecognised.

The cost of property, plant and equipment is the cost of purchase or construction together with any expenses incurred in bringing the assets to its working condition for its intended use.

Expenditure incurred for the purpose of acquiring, extending or improving assets of permanent nature by means of which to carry on the business or to increase the earning capacity of the business has been treated as capital expenditure.

The carrying amount of the property, plant and equipment are reviewed for impairment when events or changes in circumstances indicated that the carrying amount may not be recoverable.

Subsequent Costs/ Replacement of parts

The cost of replacing part of items of property, plant and equipments 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 recognized in Income Statement as it incurred.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of replaced part is derecognised.

Depreciation

Depreciation is provided on the assets purchased and used during the year at the following rates on the straight-line basis.

Motor Vehicles	20% per annum
Computers	20% per annum
Office Equipment & Machines	20% per annum
Furniture & Fittings	20% per annum

Depreciation of an asset begins when it is available for use and ceases at earlier of the date that the asset is classified as held for sale and the date that the asset is recognised.

Leased assets are depreciated over the shorter of the leased term and their useful lives.

3.9 Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties of the Group are stated at cost less provision for impairment.

3.10 Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for 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 units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU 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 the 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 prices for publicly traded subsidiaries or other available fair value indicators.

Notes to the Financial Statements ... (CONTINUED)

3.11 Borrowings

Borrowings include refinance borrowings, debenture borrowings, call money borrowings and borrowings from financial institutions and are shown at the gross value of the outstanding balance. Interest paid/payable on these borrowings is charged to the Comprehensive Income.

3.12 Liabilities and Provisions

Liabilities classified as current liabilities on the Statement of Financial Position are those, which fall due for payment on demand or within one year from the reporting date.

Non-current liabilities are those balances that fall due for payment after one year from the reporting date.

3.13 Employee Benefits

3.13.1 Defined Contribution Plans

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employment benefit expense in the Comprehensive Income in the periods during which services are rendered by employees.

Employees Provident Fund

The Group and employees contribute 12% and 8% respectively on the salary of each employee to the Employees' Provident Fund.

Employees Trust Fund

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

3.13.2 Defined Benefit Plans

A defined contribution plan is a post employment benefit plan other than a defined contribution plan.

Retiring Gratuity

The Retirement Benefit Plan adopted is as required under the Payment of Gratuity Act No. 12 of 1983. This item is grouped under Retirement Benefit Obligation in the Statement of Financial Position.

Provision for Gratuity on the employees of the Group is on the formula method using the Projected Unit Credit Method (PUC Method) as recommended by Sri Lanka Accounting Standard 16 (Revised 2006), "Employee Benefits" which became effective from the financial year commencing after 1st July 2007. The Group continues to use actuarial method under Sri Lanka Accounting Standard 19, "Employee Benefits" which became effective from the financial year commencing on 1st January 2012.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The liability is not externally funded.

A provision is recognized in the Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.14 Commitments and Contingent Liabilities

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 benefits is not probable or cannot be reliably measured.

Capital Commitment and Contingent Liabilities of the Group are disclosed in the respective notes to the Financial Statements.

Notes to the Financial Statements ... (CONTINUED)

3.15 Events after the Reporting Period

The materiality of the events after the reporting period has been considered and appropriate adjustments and provisions have been made in the Financial Statements wherever necessary.

3.16 Investment Fund Account

As proposed in the budget proposals of 2011 every person or partnership who is in the business of banking or financial services is required to establish and operate an Investment Fund Account.

As and when taxes are paid after 1st January 2011 the Group is required to transfer the funds to the Investment Fund Account an amount equals to;

- 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services on dates as specified in the VAT Act for payment of VAT
- 5% of the profit before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payments of tax

3.17 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance. The company's segmental reporting is based on the following operating segments: Loans, Leasing and Treasury

4 Comparative Information

The Comparative information is re-classified wherever necessary to conform with the current year's classification in order to provide a better presentation.

5 Accounting Standards Issued But Not Effective As Reporting Date

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future. Those SLFRSs will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future Financial Statements.

5.1 SLFRS 9 – Financial Instruments: Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

SLFRS 9 will be effective for financial periods beginning on or after 01st January 2015.

5.2 SLFRS 13 -Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS.

SLFRS 13 will be effective for financial periods beginning on or after 1st January 2014.

Notes to the Financial Statements ... (CONTINUED)

6 Financial Risk Management

6.1 Introduction and Overview

The Group has exposure to the following risks from financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

This note presents information about the Company's exposure to each of the above risks (except market risk), the company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

6.2 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.

6.3 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

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.

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

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.

Credit Administration and Disbursement

Customer care division ensures efficient and effective customer support including disbursement and settlements.

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.

Notes to the Financial Statements ... (CONTINUED)

6.3.1 Loans and advances to customers

The transition to fair value based accounting (LKAS 32 and 39) with effect from 01st January 2012 required to present age wise. The approach adopted was to classify loans in to individually significant exposures and other loans in to homogenous portfolios by segment / product for necessary computations as appropriate.

As at	Note	31.12.2012 Rs	31.12.2011 Rs	01.01.2011 Rs
Carrying amount at amortised cost	18	913,235	571,892	420,657
Individual Impairment		405,607	422,964	422,087
Collective Impairment		47,288	41,950	45,162
Total Impairment		452,895	464,914	467,219

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Loans and advances to customers As at	31.12.2012 Gross loan amount Rs 000	31.12.2011 Gross loan amount Rs 000	01.01.2011 Gross loan amount Rs 000
Individual Impairment			
Individual Impaired	514,028	515,707	529,367
Allowance for impairment	(405,607)	(422,964)	(422,087)
	108,421	92,743	107,280
Collectively Impaired			
Collectively impaired	852,101	521,099	358,508
Allowance for impairment	(47,288)	(41,950)	(45,132)
Carrying amount	804,813	479,149	313,376

As at	31.12.2012		31.12.2011		01.01.2011	
	Gross loans Rs 000	Impairment provision Rs 000	Gross loans Rs 000	Impairment provision Rs 000	Gross loans Rs 000	Impairment provision Rs 000
Collectively impaired comprises						
Current						
1-30 days	588,480	6,020	332,601	45	187,418	23
31-60 days	116,874	39	54,739	18	37,313	12
61-90 days	48,754	28	30,263	15	38,896	24
91-120 days	26,549	32	18,366	24	16,897	12
121-150 days	5,605	02	9,512	02	7,295	08
151-180 days	10,834	18	14,903	26	9,227	16
181-210 days	3,908	3,385	9,286	3,627	5,546	3,945
211-240 days	272	01	1,447	08	1,323	01
241-270 days	4,774	39	891	15	556	02
271-300 days	975	16	450	16	3,576	00
301-330 days	40	04	2,406	07	599	52
331-360 days	457	09	630	33	3,916	81
	44,578	37,694	45,607	38,114	45,944	40,956
	852,101	47,288	521,099	41,950	358,508	45,132

Notes to the Financial Statements ... (CONTINUED)

6.4 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.

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.

Notes to the Financial Statements ... (CONTINUED)

Exposure to Liquidity Risk

The Company monitors the following liquidity ratios to assess funding requirements.

	31.12.2012	31.12.2011
Net loans / Total assets	73.84%	44.63%
Liquid Asset Ratio (LAR)		
Average for the year	26.45%	30.00%
Maximum for the year	41.00%	46.50%
Minimum for the year	11.41%	8.99%

Liquid assets include cash and short term funds. The calculation is based on Central Bank of Sri Lanka (CBSL) Directions and guidelines.

The Company also monitors the maturities of its assets and liabilities. Maturity analysis is given in Page 65 to the financial statements.

To manage the liquidity risk arising from financial liabilities, the Company holds liquid assets comprising cash and cash equivalents generated from the the company's cash inflow.

6.5 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.

Compliance with Company standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audits are discussed with the management & reports to the Audit Committee and to the Board.

Notes to the Financial Statements ... (CONTINUED)

7 Capital Management

7.1 Capital Adequacy

The Company computes Capital Adequacy Ratio (CAR) as a ratio of its capital to its risk weighted assets.

As at 31st December 2012, SMB reported a Tier 1 ratio of 91.35% and a total CAR of 91.97 which remain comfortably above the CBSL's capital requirements.

The Company's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Company recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Capital Base

As at 31st December	2012 Rs 000	2011 Rs 000
TIER 1		
Voting ordinary shares	708,446	343,165
Non-Voting ordinary shares	210,618	167,366
Share Application Money	-	374,566
Statutory reserve fund	9,858	9,858
Published retained earnings	(47,887)	(11,959)
Eligible Tier 1 Capital	881,035	882,996
TIER II		
General provision for loan losses	5,973	-
Tier II Capital	5,973	-
Eligible Tier II capital	5,973	-
Capital Base	887,008	882,996
Risk Adjusted capital ratios		
Tier 1 (Eligible Tier 1 capital / Total risk adjusted balance) *	91.35%	110.15%
Total (Capital base / Total risk adjusted balance) **	91.97%	110.15%

* Statutory minimum 5% ** Statutory minimum 10%

Risk adjusted on and off - Balance Sheet Exposure

	Balance		Risk Weights %	Risk Adjusted Balance	
	2012 Rs Mn	2011 Rs Mn		2012 Rs Mn	2011 Rs Mn
As at 31st December					
Exposures					
Cash in hand & bank's current Accounts	10,360	397,993	0	0	0
Deposits with banks	80,336	-	20	16,067	0
Central Bank and Government Securities	28,697	-	0	0	0
Investments in shares	142,240	148,468	100	142,240	148,468
Finance Lease Accommodations	505,528	374,841	50	252,764	187,420
Term Loans Accommodations	452,273	287,199	100	452,273	287,199
Fixed Assets	11,592	13,205	100	11,592	13,205
Other Assets	89,474	165,373	100	89,474	165,373
Total risk weighted assets	1,320,500	1,387,079		964,410	801,665

Note: The above information is based on the return submitted to the Central Bank Sri Lanka.

Notes to the Financial Statements ... (CONTINUED)

For the year ended 31st December

	Company		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
8	Income			
Interest income [Note 9(a)]	143,987,716	75,580,714	143,987,716	75,580,715
Fee and commission income [Note 10]	4,962,156	4,033,163	4,962,156	4,033,163
Other operating income [Note 11]	40,551,926	33,240,252	62,623,068	55,854,200
	<u>189,501,798</u>	<u>112,854,129</u>	<u>211,572,940</u>	<u>135,468,078</u>
9	Net Interest Income			
9. (a)	Interest income			
Lease Rental Receivable	86,456,742	38,716,660	86,456,742	38,716,660
Loans and Advances	57,530,974	36,864,054	57,530,974	36,864,054
Total interest income	<u>143,987,716</u>	<u>75,580,714</u>	<u>143,987,716</u>	<u>75,580,714</u>
9. (b)	Interest expenses			
Due to banks	3,265,763	8,997,530	3,265,763	8,997,530
Due to other customers	28,974,608	38,180,556	28,974,608	38,180,556
On Other borrowings	3,005,211	430,883	3,005,211	430,883
On Refinance Loans	354,523	-	354,523	-
Total interest expenses	<u>35,600,105</u>	<u>47,608,969</u>	<u>35,600,105</u>	<u>47,608,969</u>
Net interest income	<u>108,387,611</u>	<u>27,971,745</u>	<u>108,387,611</u>	<u>27,971,745</u>
10	Net Fee and Commission Income			
Fee and commission income	4,962,156	4,033,163	4,962,156	4,033,163
Less: Fee and commission expenses	-	-	-	-
Net fee and commission income	<u>4,962,156</u>	<u>4,033,163</u>	<u>4,962,156</u>	<u>4,033,163</u>
11	Other Operating Income			
Profit on Sale of Property, Plant and Equipment	-	92,262	-	92,262
Royalty Fee	-	737,777	-	737,777
Service Charges	509,362	45,438	509,362	45,438
Recovery of loans, leases and others written off in prior years	16,834,528	7,560,939	16,834,528	7,560,939
Dividend Income	3,600,000	6,075,199	-	199
Interest Income on Placements with banks	19,608,036	18,728,637	19,608,037	18,728,636
Money Brokering Income	-	-	25,671,141	28,688,949
	<u>40,551,926</u>	<u>33,240,252</u>	<u>62,623,068</u>	<u>55,854,200</u>

Notes to the Financial Statements ... (CONTINUED)

For the year ended 31st December

	Company		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
12 Reversal of Impairment For Loans and Advances				
Reversal of Impairment For Loans and Advances	12,019,648	2,304,628	12,019,648	2,304,628
	<u>12,019,648</u>	<u>2,304,628</u>	<u>12,019,648</u>	<u>2,304,628</u>
13 Operating Expenses				
Operating expenses, among others, include the following				
Directors' Emoluments	5,563,492	5,885,645	5,563,492	5,885,645
Auditors' Emoluments - Audit Related Services	400,000	350,000	540,000	450,000
Other Audit fees	470,000	-	570,000	45,000
Depreciation	3,601,029	2,751,562	4,042,618	3,194,236
Legal expenses and professional fees	2,037,300	1,529,650	2,037,300	1,529,650
Contribution to Employees' Provident Fund	2,432,992	2,368,191	3,915,233	3,455,146
Contribution to Employees' Trust Fund	608,247	592,048	878,807	863,787

Notes to the Financial Statements ... (CONTINUED)

For the year ended 31st December	Company		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
14 Taxation				
Income Tax on profits (Note 14.a)	4,264,800	-	4,376,485	417,094
ESC written off during the year	7,860,048	3,147,698	7,860,048	3,147,698
Provision for Deferred Tax (Note 26)	-	-	(446,262)	64,222
	<u>12,124,848</u>	<u>3,147,698</u>	<u>11,790,271</u>	<u>3,629,014</u>
14. (a) Reconciliation of Accounting Profit / (Loss) and The Income Tax Expense				
Profit / (Loss) Before Taxation & Value Added Tax on Financial Services	93,599,132	(11,225,089)	93,044,177	17,999,016
Aggregate Disallowed Expenses	4,062,685	14,780,773	6,851,663	20,305,397
Aggregate Allowable Expenses	(169,281,430)	(109,448,186)	(169,770,881)	(109,200,325)
Aggregate Allowable Income	152,419,334	73,189,543	151,359,669	76,097,062
Aggregate Disallowed Income	(29,883,180)	(15,732,529)	(29,883,180)	(17,638,607)
Profit/(Loss) From Business	50,916,541	(48,435,489)	51,601,448	(48,435,489)
Profit from other source of Income	23,432,967	-	1,009,509	4,170,935
Tax Loss claimed during the year (Note 14.b)	(35,685,113)	-	(35,685,113)	-
Taxable Profit	15,231,429	-	15,630,306	4,170,935
Taxation Thereon	4,264,800	-	4,376,486	417,094

Income Tax provision of SMB Leasing PLC being quoted public company, has been calculated on its taxable profit at 28% 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 the rate of 28%, (2011-10% 2010 - 28%).

14. (b) Accumulated Tax Losses	Company		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Balance as at 1st January	415,700,370	372,575,639	415,700,370	372,575,639
Adjustment in respect of prior years	1,465,407	(5,310,758)	1,465,407	(5,310,758)
Tax Loss for the Year	-	48,435,489	-	48,435,489
Tax Loss claimed during the year	(35,685,113)	-	(35,685,113)	-
Balance as at 31st December	<u>381,480,664</u>	<u>415,700,370</u>	<u>381,480,664</u>	<u>415,700,370</u>

Notes to the Financial Statements ... (CONTINUED)

For the year ended 31st December 2012

14. (c) Deferred Tax on SMB Leasing PLC

SMB Leasing PLC has not recognised deferred tax asset since the management does not expect adequate taxable profit in the future in respect of SMB Leasing PLC. Therefore tax asset arising from the tax losses carried forward was limited only to the extent of existing temporary differences in respect of SMB Leasing PLC. However in respect of the sole subsidiary, SMB Money Brokers (Private) Limited a deferred tax asset has been recognized, since the Management expects adequate taxable profit in the future in respect of SMB Money Brokers (Private) Limited. Therefore, the Group deferred tax asset includes only the deferred tax asset relevant to SMB Money Brokers (Private) Limited.

Group	2012 Rs.	2011 Rs.	2010 Rs.
Balance as at 1st January	157,448	221,670	471,067
Charge/ (Reversal) for the year	446,262	(64,222)	(249,397)
Balance as at 31st December	603,710	157,448	221,670

The above recognized deferred tax asset is attributable to the following	Temporary difference	Tax Effect	Temporary difference	Tax Effect	Temporary difference	Tax Effect
	Rs. 31.12.2012	Rs. 31.12.2012	Rs. 31.12.2011	Rs. 31.12.2011	Rs. 31.12.2010	Rs. 31.12.2010
On Property, Plant & Equipment	184,421	51,638	127,780	12,778	245,073	68,620
On Retirement Benefit Obligation	1,971,686	552,072	1,446,697	144,670	546,606	153,050
	2,156,107	603,710	1,574,477	157,448	791,679	221,670

The deferred tax has been calculated at the rate of 28% (2011 - 10% , 2010 - 28%).

Company	2012 Rs.	2011 Rs.	2010 Rs.
Balance as at 1st January	70,680,077	68,576,879	76,575,393
Adjustments in respect of prior years	-	221,669	-
Charge/ (Reversal) for the year	(8,080,470)	1,881,530	(7,998,514)
Balance as at 31st December	62,599,607	70,680,077	68,576,879

The above unrecognized deferred tax asset is attributable to the following

	Temporary difference	Tax Effect	Temporary difference	Tax Effect	Temporary difference	Tax Effect
	Rs. 31.12.2012	Rs. 31.12.2012	Rs. 31.12.2011	Rs. 31.12.2011	Rs. 31.12.2010	Rs. 31.12.2010
On Property, Plant & Equipment	(5,808,646)	(1,626,421)	(6,197,912)	(1,735,416)	(6,105,197)	(1,709,455)
On Lease Assets	(156,292,900)	(43,762,012)	(161,422,658)	(45,198,344)	(124,171,071)	(34,767,900)
On Retirement benefit Obligation	4,190,909	1,173,454	4,349,048	1,217,733	2,618,053	733,055
On Accumulated Tax Losses	381,480,664	106,814,586	415,700,370	116,396,104	372,575,639	104,321,179
	223,570,027	62,599,607	252,428,848	70,680,077	244,917,424	68,576,879

The deferred tax has been calculated at the rate of 28%.

15 Basic Earnings / (Loss) Per Share

Basic Earnings / (Loss) per share has been calculated by dividing the profit / (Loss) 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 31st December	Company		Group	
	2012	2011	2012	2011
Profit / (Loss) attributable to equity holders of the Company (Rs)	78,736,151	(16,744,188)	67,859,019	(8,742,951)
No. of Ordinary Shares outstanding during the year	1,805,832,873	1,386,486,514	1,805,832,873	1,386,486,514
Basic Earnings / (Loss) Per Share (Rs)	0.04	(0.01)	0.04	(0.01)

Notes to the Financial Statements ... (CONTINUED)

	As at 31 December						
	Company			Group			
	31/12/2012	31/12/2011	01/01/2011	31/12/2012	31/12/2011	01/01/2011	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
16	Cash and Cash Equivalents						
Cash in hand	153,372	153,372	153,372	168,372	168,372	168,372	
Balances with banks	10,206,848	9,998,772	2,630,618	10,969,199	10,327,703	5,352,912	
	10,360,220	10,152,144	2,783,990	11,137,571	10,496,075	5,521,284	
17	Placements With Banks						
Fixed deposits with banks	80,335,959	72,713,769	67,830,009	80,335,959	75,749,063	70,684,131	
REPO investments with banks							
- Overnight	24,220,000	397,840,000	297,690,000	25,520,000	400,040,000	298,990,000	
- Monthly	4,477,397	-	-	4,477,397	-	-	
	109,033,356	470,553,769	365,520,009	110,333,356	475,789,063	369,674,131	
18	Loans and Receivables To Other Customers						
Gross loans and receivables [Note 18 b]	1,366,129,233	1,036,806,316	887,875,167	1,363,309,233	1,033,746,316	884,575,167	
Less: Individual impairment [Note 18 e]	(405,606,693)	(422,964,424)	(422,086,664)	(405,606,693)	(422,964,424)	(422,086,664)	
Collective impairment [Note 18 e]	(47,287,650)	(41,949,568)	(45,131,955)	(47,287,650)	(41,949,568)	(45,131,955)	
Net loans and receivables	913,234,890	571,892,324	420,656,548	910,414,890	568,832,324	417,356,548	
18. (a) i	Loans						
Gross loans receivables [Note 18 c]	719,312,488	538,493,575	597,879,750	716,492,488	535,433,575	594,579,750	
Less: Individual impairment	(288,436,560)	(293,259,506)	(289,055,011)	(288,436,560)	(293,259,506)	(289,055,011)	
Collective impairment	(34,565,162)	(31,023,693)	(31,035,393)	(34,565,162)	(31,023,693)	(31,035,393)	
Net loans and receivables	396,310,766	214,210,376	277,789,346	393,490,766	211,150,376	274,489,346	
18. (a) ii	Leases						
Gross leases receivables [18 d]	646,816,746	498,312,740	289,995,417	646,816,746	498,312,740	289,995,417	
Less: Individual impairment	(117,170,133)	(129,704,918)	(133,031,653)	(117,170,133)	(129,704,918)	(133,031,653)	
Collective impairment	(12,722,489)	(10,925,874)	(14,096,562)	(12,722,489)	(10,925,874)	(14,096,562)	
Net lease rental receivables	516,924,124	357,681,948	142,867,202	516,924,124	357,681,948	142,867,202	
18. (b)	Product wise analysis of loans and receivables						
Lease rental receivables	646,816,746	498,312,740	289,995,417	646,816,746	498,312,740	289,995,417	
Personal Loans	138,779,575	104,621,240	94,555,880	138,779,575	104,621,240	94,555,880	
Staff Loans	2,503,757	335,514	-	2,503,757	335,515	-	
Term Loans	284,109,311	120,481,655	166,675,188	284,109,311	120,481,655	166,675,188	
Easy Payment Loans	116,788,067	126,465,755	136,150,803	113,968,067	123,405,755	132,850,803	
Other Loans	177,131,777	186,589,412	200,497,879	177,131,777	186,589,411	200,497,879	
	1,366,129,233	1,036,806,316	887,875,167	1,363,309,233	1,033,746,316	884,575,167	
18. (c)	Industry Wise Analysis of Loans Receivables						
Agriculture	317,166,496	304,342,780	381,802,011	317,166,496	304,342,780	381,802,011	
Construction	35,547,725	-	-	35,547,725	-	-	
Industrial	1,286,250	1,816,690	23,915,190	1,286,250	1,816,690	23,915,190	
Tourism	709,799	659,530	11,957,595	709,799	659,530	11,957,595	
Trading	21,955,058	9,125,570	-	21,955,058	9,125,570	-	
Transport	53,875,132	39,849,230	6,819,826	53,875,132	39,849,230	6,819,826	
Others	288,772,028	182,699,775	173,385,128	285,952,028	179,639,775	170,085,128	
Total	719,312,488	538,493,575	597,879,750	716,492,488	535,433,575	594,579,750	

Notes to the Financial Statements ... (CONTINUED)

As at 31 December	Company			Group		
	31/12/2012	31/12/2011	01/01/2011	31/12/2012	31/12/2011	01/01/2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
18. (d) i Gross lease rental receivable within one year						
Total lease rentals within one year from reporting date	713,394,090	315,582,770	242,103,216	713,394,090	315,582,770	242,103,216
Unearned lease Income	(79,504,355)	(47,698,743)	(17,024,591)	(79,504,355)	(47,698,743)	(17,024,591)
Balance as at	633,889,735	267,884,027	225,078,625	633,889,735	267,884,027	225,078,625
18. (d) ii Gross lease rental receivable after one year and five years						
Total lease rentals receivable after one year from reporting date	10,753,370	289,798,343	79,706,038	10,753,370	289,798,343	79,706,038
Unearned lease Income	(1,362,034)	(64,676,621)	(20,096,238)	(1,362,034)	(64,676,621)	(20,096,238)
Balance as at	9,391,336	225,121,722	59,609,800	9,391,336	225,121,722	59,609,800
18. (d) iii Gross lease rental receivable after five years						
Total lease rentals receivable after five years from reporting date	4,228,577	6,827,890	6,827,890	4,228,577	6,827,890	6,827,890
Unearned lease Income	(692,902)	(1,520,898)	(1,520,898)	(692,902)	(1,520,898)	(1,520,898)
Balance as at	3,535,675	5,306,992	5,306,992	3,535,675	5,306,992	5,306,992
18. (e) Movement in Individual and Collective Impairment during the year-Company						
				2012	2011	
				Rs.	Rs.	
Individual Impairment						
Balance as at 1st January				422,964,423	422,086,664	
Net impairment charge / (reversal) for the year				(17,357,730)	877,759	
Balance as at 31st December				405,606,693	422,964,423	
Collective Impairment						
Balance as at 1st January				41,949,568	45,131,955	
Net impairment charge / (reversal) for the year				5,338,082	(3,182,387)	
Balance as at 31st December				47,287,650	41,949,568	
19 Financial Investment – Available For Sale						
	Market Value	Market Value	Market Value	Market Value	Market Value	Market Value
As at	31/12/2012	31/12/2011	01/01/2011	31/12/2012	31/12/2011	01/01/2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Quoted Shares [Note 19. a]	3,193,154	6,308,477	2,650,467	3,193,154	6,308,477	2,650,467
Unquoted Shares [Note 19. b]	-	-	-	-	-	-
Unquoted Debentures [Note 19. c]	-	-	-	-	-	-
Balance as at	3,193,154	6,308,477	2,650,467	3,193,154	6,308,477	2,650,467

Notes to the Financial Statements ... (CONTINUED)

19. a Quoted Shares

	31.12.2012		31.12.2011		01.01.2011	
	No of shares	Market Value Rs.	No of shares	Market Value Rs.	No of shares	Market Value Rs.
Held by SMB Leasing PLC.						
Banking, Finance & Insurance						
The Finance Co. PLC	97	1,814	97	3,880	97	3,764
		1,814		3,880		3,764
Manufacturing						
Blue Diamond Jewellery Worldwide PLC	778,280	3,190,948	778,280	6,304,068	778,280	2,645,981
Metal Recyclers Colombo PLC	69	-	69	-	69	-
		3,190,948		6,304,068		2,645,981
Land & Property						
Ceylinco Seylan Development PLC	43	392	43	529	43	722
		392		529		722
Carrying amount		3,193,154		6,308,477		2,650,467

19. b Unquoted Shares

	2012		2011		2010	
	No of shares	Cost Rs.	No of shares	Cost Rs.	No of shares	Cost Rs.
Ceylinco Sports Complex Ltd.	300,000	3,000,000	300,000	3,000,000	300,000	3,000,000
Ceylinco Investment & Realty Ltd.	100,000	1,000,000	100,000	1,000,000	-	1,000,000
Seraka Investment Ltd.	5,655,900	48,645,300	5,655,900	48,645,300	5,655,900	48,645,300
South Asian Travels Ltd.	30,000	300,000	30,000	300,000	30,000	300,000
MBSL Savings Bank Ltd.	1,189,600	11,896,000	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	500,000	5,000,000
Openarc Global Solutions (Pvt) Ltd.	45,000	450,000	45,000	450,000	45,000	450,000
Magpek Exports Ltd.	125,000	5,000,000	125,000	5,000,000	125,000	5,000,000
Pugoda Textiles Mills Ltd.	7,500	252,525	7,500	252,525	7,500	252,525
		75,543,825		75,543,825		75,543,825
Less, Provision for Impairment loss		(75,543,825)		(75,543,825)		(75,543,825)
Carrying amount	-	-	-	-	-	-

The investment made in the Seraka Investment Limited is 10% Non cumulative Non Redeemable Preference Shares

	2012	2011	2010
	Cost	Cost	Cost
19. c Unquoted Debentures			
Ceylinco Automobiles Ltd	17,600,000	17,600,000	17,600,000
Provision for Impairment Loss	(17,600,000)	(17,600,000)	(17,600,000)
Carrying amount	-	-	-

Notes to the Financial Statements ... (CONTINUED)

20 Financial Assets at fair Value through profit or loss

Held by SMB Money Brokers (Private) Limited.

	31.12.2012		31.12.2011		01.01.2011	
	No of shares	Market Value Rs.	No of shares	Market Value Rs.	No of shares	Market Value Rs.
Seylan Bank Plc - Non Voting	-	-	10,000	308,000	10,000	490,000
Merchant Bank of Sri Lanka PLC	-	-	14,000	554,400	14,000	641,200
Asia Capital PLC	-	-	-	-	6,000	282,000
CV Venture Fund	-	-	-	-	10,000	190,000
Vallibel One PLC	-	-	15,000	357,000	-	-
Pan Asia Bank PLC	4,400	83,600	-	-	-	-
Commercial Bank of Ceylon PLC	5,718	520,910	-	-	-	-
		604,510		1,219,400		1,603,200
Manufacturing						
ACL Plastics PLC	200	19,980	200	25,020	-	-
Brown & Co PLC	750	93,075	1,500	352,200	2,000	493,800
Bairaha Famars PLC	-	-	-	-	1,100	356,730
Tokyo Cement PLC	3,325	64,173	325	9,913	325	13,098
Hayleys Mgt-Knitting Mills PLC	-	-	7,100	202,350	7,100	227,200
Pelawatta Sugar PLC	3,000	70,500	3,000	70,500	3,000	82,200
Hemas Power PLC	-	-	-	-	4,400	129,800
C.W. Mackie & Co. PLC	-	-	4,800	429,600	-	-
Ceylon Glass Company PLC	30,000	180,000	30,000	237,000	-	-
Colonial Motors Co.	-	-	500	200,300	-	-
United Motors Lanka PLC	500	50,400	-	-	-	-
Lanka Lubricants PLC	1,600	323,200	-	-	-	-
		801,328		1,526,883		1,302,828
Land & Property						
Colombo Fort Land & Building PLC	2,100	72,660	2,100	102,900	-	-
		72,660		102,900		-
Telecommunication						
Dialoge Axiata PLC	-	-	9,000	70,200	-	106,200
		-		70,200		106,200
Hotel						
Hotel Services (Ceylon) PLC	10,000	171,000	10,000	203,000	-	-
Sunshine Holdings PLC	-	-	5,000	145,000	5,000	229,500
Renuka Holdings PLC	-	-	-	-	5,000	309,500
Walker & Greig PLC	-	-	5,000	200,500	-	-
		171,000		548,500		539,000
Hospital						
Nawaloka Hospital PLC	-	-	-	-	10,000	37,000
		-		-		37,000
Total Quoted Shares		1,649,498		3,467,883		3,588,228

	Company			Group		
	31/12/2012 Rs.	31/12/2011 Rs.	01/01/2011 Rs.	31/12/2012 Rs.	31/12/2011 Rs.	01/01/2011 Rs.
21 Financial Investment-Held to Maturity						
Peoples Leasing Finance PLC - (Pro notes)	-	-	-	-	-	190,023
Ceylinco Capital Market Ltd	-	-	-	10,000,000	10,000,000	10,000,000
Bank of Ceylon PLC - (Quoted Debenture)	-	-	-	2,644,932	2,644,932	2,637,055
Carrying Amount at Amortised Cost	-	-	-	12,644,932	12,644,932	12,827,078
Less - Provision for Impairment	-	-	-	(10,000,000)	(10,000,000)	(10,000,000)
				2,644,932	2,644,932	2,827,078

Notes to the Financial Statements ... (CONTINUED)

22 Investments In Associates

22. (a) Company	2012			2011			2010			
	Principle Activity	Holding	No of Shares	Cost as at 31/12/2012 Rs.	Holding	No of Shares	Cost as at 31/12/2011 Rs.	Holding	No of Shares	Cost as at 01/01/2011 Rs.
Kenenga Investment Corporation Limited.	Investment	49.00%	4,900,000	49,000,000	49.00%	4,900,000	49,000,000	49.00%	4,900,000	49,000,000
SMB Real Estate Limited.	Banking	49.00%	617,277	30,282,196	49.00%	617,277	30,282,196	49.00%	617,277	30,282,196
SMB Securities (Pvt) Limited.	Property Development	49.50%	5,000,000	50,000,000	49.50%	5,000,000	50,000,000	49.50%	5,000,000	50,000,000
	Stock Brokering									
	Activities		10,517,277	129,282,196		10,517,277	129,282,196		10,517,277	129,282,196
Less - Provision for Impairment				(3,720,958)			(3,720,958)			-
Balance as at				125,561,238			125,561,238			129,282,196

22. (b) Group	31/12/2012	31/12/2011	01/01/2011
	Rs.	Rs.	Rs.
Balance as at 1st January	158,425,075	153,542,872	136,703,669
Share of Profit / (Loss) after tax	(11,399,549)	14,678,161	18,809,004
Dividend Received	(3,600,000)	(6,075,000)	(1,969,801)
Provision for fall in value of Investment	-	(3,720,958)	-
Balance as at 31st December	143,425,526	158,425,075	153,542,872

22. (c) Summarised Financial Information of Associates

As at 31st December 2012	Kenanga Investment Corporation Ltd (Audited)	SMB Securities (Pvt) Ltd (Audited)	SMB Real Estate Ltd (Un Audited)	Total
	Rs.	Rs.	Rs.	Rs.
Revenue / (Loss)	14,585,926	28,083,549	6,656,529	49,326,004
Profit / (Loss) after Tax	(6,346,063)	(19,646,759)	2,934,904	(23,057,918)
Total Assets	134,805,291	125,518,719	90,968,407	351,292,417
Total Liabilities	29,516,451	19,300,575	28,747,640	77,564,666
Contingent liabilities	-	-	-	-

23 Investments In Subsidiaries

Held by SMB Leasing PLC Investments in Subsidiaries - Unquoted	2012			2011			2010		
	Holding	No of Shares	Cost as at 31/12/2012 Rs.	Holding	No of Shares	Cost as at 31/12/2011 Rs.	Holding	No of Shares	Cost as at 01/01/2011 Rs.
SMB Money Brokers (Private) Limited.	50.99%	1,275,000	12,750,000	50.99%	1,275,000	12,750,000	50.99%	1,275,000	12,750,000
	Money Market								
Provision for Impairment			(4,895,528)			-			-
Balance as at 31st December			7,854,472			12,750,000			12,750,000

24 Investment Properties

	Company				Group			
	31/12/2012	31/12/2011	01/01/2011	31/12/2012	31/12/2011	01/01/2011	31/12/2012	01/01/2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 January	33,120,400	33,120,400	49,016,000	40,173,277	37,320,400	53,216,000		
Add : Additions during the year	-	-	-	-	2,852,877	-		
Less : Disposals during the year	-	-	(15,647,000)	-	-	(15,647,000)		
Impairment provision	-	-	(248,600)	-	-	(248,600)		
Balance as at	33,120,400	33,120,400	33,120,400	40,173,277	40,173,277	37,320,400		

Note : There are no buildings in the above lands. There is no rental income or expenses from the above investment property.

Notes to the Financial Statements ... (CONTINUED)

	Company						Group						
	31/12/2012		31/12/2011		31/12/2010		31/12/2012		31/12/2011		31/12/2010		
	Extent (Perches)	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000
24 (a) Property Location													
Kaduwela, Malambe	120	32,700	34,117	32,700	32,700	32,700	32,700	32,700	34,117	32,700	32,700	32,700	32,700
Dorakumbura, Kurunegala	120	669	420	669	420	669	420	669	420	669	420	669	420
Malabe	8	-	-	-	-	-	-	4,200	4,200	4,200	4,200	4,200	4,200
Ahangama	111	-	-	-	-	-	-	2,853	2,853	2,853	2,853	-	-
Less: Provision for Impairment		(249)	-	(249)	-	(249)	-	(249)	-	(249)	-	(249)	-
		33,120	34,537	33,120	33,120	33,120	33,120	40,173	41,590	40,173	40,173	37,320	37,320

25 Property, Plant And Equipment

Company

	Computer Equipment (Rs.)	Office machine & Equipment (Rs.)	Furniture & Fittings (Rs.)	Motor Vehicles (Rs.)	31.12.12 Total (Rs.)	31.12.11 Total (Rs.)
Cost / Valuation						
As at 01st January	42,232,185	14,134,668	18,710,375	11,993,100	87,070,328	80,854,340
Additions for the Year	1,726,095	27,600	234,710	-	1,988,405	7,065,988
Disposals	-	-	-	-	-	(850,000)
As at 31st December	43,958,280	14,162,268	18,945,085	11,993,100	89,058,733	87,070,328
Accumulated Depreciation						
As at 01st January	39,957,556	11,312,579	14,163,513	8,432,095	73,865,743	71,610,014
Charge for the year	796,684	427,658	1,088,178	1,288,509	3,601,029	2,751,562
Disposals	-	-	-	-	-	(495,833)
As at 31st December	40,754,240	11,740,237	15,251,691	9,720,604	77,466,772	73,865,743
Net book value as at 31st December 2012	3,204,040	2,422,031	3,693,394	2,272,496	11,591,961	13,204,585
Net book value as at 31st December 2011	2,274,629	2,822,089	4,546,862	3,561,005	13,204,585	9,244,326

Group

	Computer Equipment (Rs.)	Office machine & Equipment (Rs.)	Furniture & Fittings (Rs.)	Motor Vehicles (Rs.)	31.12.12 Total (Rs.)	31.12.11 Total (Rs.)
Cost / Valuation						
As at 01st January	43,974,868	17,092,667	20,014,183	12,060,064	93,141,782	86,915,439
Additions for the Year	1,726,095	27,600	234,710	-	1,988,405	7,076,343
Disposals	-	-	-	-	-	(850,000)
As at 31 December	45,700,963	17,120,267	20,248,893	12,060,064	95,130,187	93,141,782
Accumulated Depreciation						
As at 01 January	41,542,463	13,753,353	15,048,503	8,449,952	78,794,271	76,095,868
Charge for the year	878,934	623,060	1,238,722	1,301,902	4,042,618	3,194,236
Disposals	-	-	-	-	-	(495,833)
As at 31 December	42,421,397	14,376,413	16,287,225	9,751,854	82,836,889	78,794,271
Net book value as at 31.12.2012	3,279,566	2,743,854	3,961,668	2,308,210	12,293,298	14,347,511
Net book value as at 31.12.2011	2,432,405	3,339,314	4,965,680	3,610,112	14,347,511	10,819,571

Notes to the Financial Statements ... (CONTINUED)

	Company			Group		
	31/12/2012 Rs.	31/12/2011 Rs.	01/01/2011 Rs.	31/12/2012 Rs.	31/12/2011 Rs.	01/01/2011 Rs.
26 Deferred Taxation						
Opening Balance	-	-	-	157,448	221,670	471,067
Reversal made during the year	-	-	-	446,262	(64,222)	(249,397)
Closing Balance	-	-	-	603,710	157,448	221,670

The above deferred tax asset has been recognised in respect of the subsidiary, SMB Money Brokers (Private) Limited since the management expects adequate taxable profits in the future in respect of the subsidiary.

	31/12/2012 Rs.	31/12/2011 Rs.	01/01/2011 Rs.	31/12/2012 Rs.	31/12/2011 Rs.	01/01/2011 Rs.
27 Other Assets						
Deposits & Prepayments	3,715,216	5,343,947	3,799,665	3,795,216	5,343,947	3,799,665
Land Stock -Real Estate	1,203,520	1,203,520	1,691,853	1,203,520	1,203,520	1,691,853
Other Assets	17,858,248	29,648,408	25,477,670	24,255,962	32,451,452	28,698,994
	22,776,984	36,195,875	30,969,188	29,254,698	38,998,919	34,190,512
28 Due To Banks						
Bank Borrowings	29,180,000	16,672,000	10,000,000	29,180,000	16,672,000	10,000,000
Bank Overdraft	5,285,511	50,084,679	43,254,089	5,285,511	50,084,679	43,254,089
	34,465,511	66,756,679	53,254,089	34,465,511	66,756,679	53,254,089
29 Due To Other Customers						
Promissory Notes	118,912,386	226,233,546	337,638,071	118,912,386	226,233,546	337,638,071
Debentures	104,942,093	109,193,093	115,176,500	104,942,093	109,193,093	115,176,500
Refinance Borrowings	774,273	5,176,448	5,176,448	774,273	5,176,448	5,176,448
	224,628,752	340,603,087	457,991,019	224,628,752	340,603,087	457,991,019
30 Other Borrowings						
Other Borrowings	49,693,254	-	-	49,693,254	-	-
	49,693,254	-	-	49,693,254	-	-
31 Other Liabilities						
Accrued Expenses	1,830,752	297,411	464,780	2,335,507	639,183	779,519
Provision for Retirement benefit obligations (Note 31 a)	4,190,909	4,349,048	2,618,053	6,407,208	5,795,744	3,164,659
Others	38,231,433	89,947,622	74,744,478	39,920,101	91,711,090	75,113,136
	44,253,094	94,594,081	77,827,311	48,662,816	98,146,017	79,057,314
31. (a) Provision for Retirement benefit obligation						
Balance as at 1st January	4,349,049	2,618,053	2,975,653	5,795,744	3,164,659	3,351,290
Provision / (Reversal) for the year	(158,140)	4,380,958	300,000	611,464	5,281,048	470,969
Payments during the year	-	(2,649,963)	(657,600)	-	(2,649,963)	(657,600)
Balance as at	4,190,909	4,349,048	2,618,053	6,407,208	5,795,744	3,164,659

The following assumptions were used in valuing the retirement defined benefits obligation using gratuity formula method as required by SLAS 16-“Employee Benefits”

	2012	2011
Salary Increment Rate	8.50%	8.50%
Discount Rate	11.00%	9.15%
Retirement Age	55 Years	55 Years

Notes to the Financial Statements ... (CONTINUED)

32	Stated Capital	Company			Group		
		31/12/2012 Rs.	31/12/2011 Rs.	01/01/2011 Rs.	31/12/2012 Rs.	31/12/2011 Rs.	01/01/2011 Rs.
	Ordinary Voting Shares	1,136,230,554	770,950,296	770,950,296	1,136,230,554	770,950,296	770,950,296
	Ordinary Non Voting Shares	419,252,881	376,000,000	376,000,000	419,252,881	376,000,000	376,000,000
	Capital Reduction	(636,419,321)	(636,419,321)	-	(636,419,321)	(636,419,321)	-
	Share Application Money (Note 32 b)	-	374,566,439	-	-	374,566,439	-
		919,064,114	885,097,414	1,146,950,296	919,064,114	885,097,414	1,146,950,296

32. (a) Reconciliation of Number of Shares - Company

	2012	2011
Ordinary Voting Shares		
Balance as at 1st January	826,486,514	826,486,514
Issue of Shares	365,280,258	-
As at 31st December	1,191,766,772	826,486,514
Ordinary Non voting Shares		
Balance as at 1st January	560,000,000	560,000,000
Issue of Shares	54,066,101	-
As at 31st December	614,066,101	560,000,000

32. (b)	Share Application Money	Company			Group		
		31/12/2012 Rs.	31/12/2011 Rs.	01/01/2011 Rs.	31/12/2012 Rs.	31/12/2011 Rs.	01/01/2011 Rs.
	Voting Ordinary Share Application-Warrants	-	332,105,128	-	-	332,105,128	-
	Non Voting Ordinary Share Application-Warrants	-	42,461,311	-	-	42,461,311	-
		-	374,566,439	-	-	374,566,439	-

33 Statutory Reserves Fund

Balance as at the beginning	9,857,885	9,857,885	1,239,777	9,857,885	9,857,885	1,239,777
Transfer made during the year	3,936,807	-	8,618,108	3,936,807	-	8,618,108
Balance as at the end	13,794,692	9,857,885	9,857,885	13,794,692	9,857,885	9,857,885

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.

34 Commitments and contingencies

In the normal course of business, the Company makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The Company has issued Rs. 1.525mn guarantees against investment as at 31st December 2012 (2011: Rs.1,500,000).

Notes to the Financial Statements ... (CONTINUED)

35	Related Party Disclosure		Amount	Amount	Amount	Amount
	Transactions with Related Parties		2012	Cap. Outstanding	2011	Cap. Outstanding
Company	Name of Director	Details of Financial Dealings	Received/ Receivable (Payable/Paid)	as at 31.12.2012	Received/ Receivable (Payable/Paid)	as at 31.12.2011
			Rs.	Rs.	Rs.	Rs.
Transaction with Associate Companies						
SMB Real Estate Ltd.	Mr. M. S. I. Peiris	Term Loan	1,413,108	9,469,000	1,413,108	9,469,000
	Mr. R. S. W. Senanayake	Debentures interest	(1,413,108)	-	(1,413,108)	-
		Investment on Debentures	-	(9,236,000)	-	(9,236,000)
SMB Kenanga Investment Corporation Ltd	Mr. M. S. I. Peiris	Dividend Income	-	-	1,896,300	-
	Mr. R. S. W. Senanayake	Royalty income	-	-	781,730	-
		Professional Fee	-	-	(489,250)	-
SMB Securities (Pvt) Ltd.	Mr. M. S. I. Peiris	Dividend Income	(3,600,000)	-	-	-
	Mr. R. S. W. Senanayake					
Transaction with Subsidiaries						
SMB Money Brokers (Private) Limited.	Mr. R. S. W. Senanayake	Investment in Promissory Notes	-	(87,719)	-	(87,719)
		Easy Payment Loan	(240,000)	2,820,056	(240,000)	3,060,026
Transaction with other Related Companies						
Ceylinco Capital Market Ltd	Mr. M. S. I. Peiris	Professional Fee	-	-	556,122	-
	Mr. R. S. W. Senanayake	Easy Payment Loan	-	4,225,387	-	4,225,387
		Proceed from Disposal of Investment in SMB Money Brokers Ltd	-	12,448,250	-	12,448,250
		Disposal Proceeds of Treasury Bonds & Others	-	5,182,076	-	5,182,076
		Others	-	6,893,100	-	6,893,100
		Holding Transfer of Kenanga Investment Corporation Ltd.	-	4,000,000	-	4,000,000
		Provision for Impairment	-	(31,943,291)	-	(32,129,625)
Ceylinco Maini (pvt)Ltd	Mr. M. S. I. Peiris	Quick Fund Loan	-	1,350,043	-	1,350,043
	Mr. R. S. W. Senanayake	Provision for Bad & Doubtful Debts	-	(1,350,043)	-	(1,350,043)
Ceylinco Automobiles Ltd	Mr. M. S. I. Peiris	Finance Lease	-	666,231	-	666,231
	Mr. R. S. W. Senanayake	Quick Cash Loan	-	16,549,925	-	16,549,924
		Other receivable	-	4,394,850	(15,150)	4,394,850
		Salaries Receivable	-	2,682,038	-	2,682,038
		Cal-Commission	-	600,000	-	600,000
		Debenture	-	17,600,000	-	17,600,000
		Provision for Impairment	-	(42,493,044)	-	(42,493,044)
The Magnum Fund	Mr. M. S. I. Peiris	Quick Cash Loan	-	1,744,976	-	1,744,976
	Mr. R. S. W. Senanayake	EP Loan Interest Income	-	1,420,384	-	1,420,384
		Quick Fund Loan	-	342,896	-	342,896
		Other receivable	-	123,868	-	123,868
		Salaries Receivable	-	2,372,300	-	2,372,300
		Provision for Impairment	-	(6,004,424)	-	(6,004,424)
Lanka Ashok Leyland PLC	Mr. U. Gautam	Other Borrowings	3,005,211	49,693,254	-	-

Notes to the Financial Statements ... (CONTINUED)

35 a. Transactions with Key Management Personnel

The Board of Directors of the Company are considered as the Key Management personnel of the Company. The Company has made following payments to the Key Management personnel during the year.

	Company		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Short-term employee benefit	5,563,492	5,885,645	5,563,492	5,885,645
Post employee benefit	-	-	-	-

36 Maturity Analysis

36.1 Maturity Analysis - Company

	Up to 3 Months Rs. 000	3 - 12 Months Rs. 000	1 - 3 years Rs. 000	3 - 5 years Rs. 000	More than 5 years Rs. 000	Total 2012 Rs. 000
Interest earning assets	10,360	-	-	-	-	10,360
Cash and cash equivalents	109,033	-	-	-	-	109,033
Placements with Banks	111,297	180,786	413,579	154,549	53,024	913,235
Loans and Receivables to other customers	3,194	-	-	-	-	3,194
Financial investments – available-for-sale	233,884	180,786	413,579	154,549	53,024	1,035,822
Non Interest earning assets	-	-	125,561	-	-	125,561
Investments in Associates	-	-	7,854	-	-	7,854
Investments in Subsidiaries	-	-	-	-	33,121	33,121
Investment Properties	-	-	-	-	11,592	11,592
Property Plant & Equipment	-	-	22,777	-	-	22,777
Other Assets	-	-	156,192	-	44,712	200,905
	233,884	180,786	569,771	154,549	97,736	1,236,727
Total Assets	18.91	14.62	46.07	12.50	7.90	100.00
Percentage - 31st December 2012	40.21	9.84	27.25	14.53	8.18	100.00
Percentage - 31st December 2011						
Interest bearing liabilities	9,972	5,745	12,504	6,245	-	34,466
Due to banks	79,857	22,282	5,243	102,160	15,087	224,629
Due to other customers	3,106	9,318	24,847	12,422	-	49,693
Other borrowings	92,935	37,345	42,594	120,827	15,087	308,788
Non Interest bearing liabilities	19,154	8,231	7,836	5,102	3,930	44,253
Other Liabilities	-	-	-	-	883,686	883,686
shareholders' funds	19,154	8,231	7,836	5,102	887,616	927,939
	112,089	45,576	50,430	125,929	902,703	1,236,727
Total Liabilities & shareholders' funds	9.06	3.69	4.08	10.18	72.99	100.00
Percentage - 31st December 2012	19.74	6.54	2.67	9.09	61.96	100.00

Notes to the Financial Statements ... (CONTINUED)

36.2 Maturity Analysis - Group	Up to 3 Months	3 - 12 Months	1 - 3 years	3 - 5 years	More than 5 years	Total 2012
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Interest earning assets						
Cash and cash equivalents	11,138	-	-	-	-	11,138
Placements with Banks	110,333	-	-	-	-	110,333
Loans and Receivables to other customers	108,477	180,786	413,579	154,549	53,024	910,415
Financial investments – available-for-sale	4,843	-	-	-	-	4,843
Financial investments – held-to-maturity	-	-	-	2,645	-	2,645
	234,791	180,786	413,579	157,194	53,024	1,039,374
Non Interest earning assets						
Investments in Associates	-	-	125,561	-	17,865	143,426
Investment Properties	-	-	-	-	40,173	40,173
Property Plant & Equipment	-	-	-	-	12,293	12,293
Deferred Tax Assets	-	-	-	-	604	604
Other Assets	-	6,477	22,777	-	-	29,254
	-	6,477	148,338	-	70,935	225,750
Total Assets	234,791	187,263	561,917	157,194	123,959	1,265,124
Percentage - 31st December 2012	18.56	14.80	44.42	12.43	9.79	100.00
Percentage - 31st December 2011	39.45	9.54	25.46	14.50	11.06	100.00
Interest bearing liabilities						
Due to banks	9,972	5,745	12,504	6,245	-	34,466
Due to other customers	79,857	22,282	5,243	102,160	15,087	224,629
Other borrowings	3,106	9,318	24,847	12,422	-	49,693
	92,935	37,345	42,594	120,827	15,087	308,788
Non Interest bearing liabilities						
Other Liabilities	23,563	8,231	7,836	5,102	3,930	48,662
shareholders' funds	-	-	-	-	907,673	907,673
	23,563	8,231	7,836	5,102	911,603	956,335
Total Liabilities & shareholders' funds	115,109	45,576	50,430	125,929	928,080	1,265,124
Percentage - 31st December 2012	9.10	3.60	3.99	9.95	73.36	100.00
Percentage - 31st December 2011	19.41	6.34	2.59	8.82	62.84	100.00

37 Explanation of transition to LKASs/SLFRSs - Company

Reconciliation of comprehensive income for the year ended 31 December 2011

	Note	Previous SLAS Rs	Effect of transition to SLFRSs Rs	SLFRS's Rs
Income		107,937,677	883,288	108,820,965
Interest income	37a,b	70,664,262	4,916,452	75,580,714
Less: Interest expenses		(47,608,969)	-	(47,608,969)
Net interest income		23,055,293	4,916,452	27,971,745
Fee and commission income	37 c	-	4,033,163	4,033,163
Less: fee and commission expenses		-	-	-
Net fee and commission income		-	4,033,163	4,033,163
Net interest, fee and commission income		23,055,293	8,949,615	32,004,908
Other operating income	37 c	37,273,415	(4,033,163)	33,240,252
Total operating income		60,328,708	4,916,452	65,245,160
Less Impairment charge/(reversal) for loans and other losses	37 a	(20,731,925)	23,036,553	2,304,628
Net operating income		39,596,783	27,953,005	67,549,788
Less:				
Operating Expenses				
Personnel expenses	37 b	(31,813,732)	(1,973)	(31,815,705)
Other Operating Expenses	37 a	(43,301,162)	(3,658,010)	(46,959,172)
		(75,114,894)	(3,659,983)	(78,774,877)
Operating profit / (Loss) before value added tax (VAT)		(35,518,111)	24,293,021	(11,225,090)
Less: Value added tax (VAT) on financial services	37 d	(3,937,130)	1,565,729	(2,371,401)
Profit Before Income Tax		(39,455,241)	25,858,750	(13,596,491)
Less: Income tax expense		(3,147,698)	-	(3,147,698)
Profit / (Loss) For The Year		(42,602,939)	25,858,750	(16,744,189)
Profit attributable to:				
Equity holders of the company		(42,602,939)	25,858,750	(16,744,189)
Profit / (Loss) For The Year		(42,602,939)	25,858,750	(16,744,189)
Other Comprehensive Income, Net Of Income Tax				
Fair value gain on available for sale Investment	37 a, e	-	3,658,010	3,658,010
Other comprehensive income for the year, net of tax			3,658,010	3,658,010
Total comprehensive income / (expense) For The Year		(42,602,939)	29,516,760	(13,086,179)

Notes to the Financial Statements

Explanation of transition to LKASs/SLFRSs - Company ... (CONTINUED)

Reconciliation of Equity - Company	Note	Previous SLAS		Effect of Transition to SLFRSs 1/1/2011		SLFRSs	
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets							
Cash in hand & Balances in Banks	33.h	297,843,372	(295,059,382)	2,783,990	407,992,144	(397,840,000)	10,152,144
Placements with and loans to other Banks & Finance Companies	33.h	67,830,009	297,690,000	365,520,009	72,713,769	397,840,000	470,553,769
Investment Securities	33.g	2,650,467	(2,650,467)	-	6,308,478	(6,308,478)	-
Loans and Advances	33.a	359,201,494	61,455,054	420,656,548	277,115,104	294,777,220	571,892,324
Lease Rentals Receivable within 1 year	33.a	99,022,418	(99,022,418)	-	138,912,106	(138,912,106)	-
Lease Rentals Receivable from 1 to 5 years	33.a	59,609,800	(59,609,800)	-	225,121,722	(225,121,722)	-
Lease Rentals Receivable after 5 years	33.g	5,306,992	(5,306,992)	-	5,306,992	(5,306,992)	-
Financial investments – available-for-sale		-	2,650,467	2,650,467	-	6,308,477	6,308,477
Investments in Subsidiary Companies		12,750,000	-	12,750,000	12,750,000	-	12,750,000
Investments in Associate Companies		129,282,196	-	129,282,196	125,561,238	-	125,561,238
Investment Properties		33,120,400	-	33,120,400	33,120,400	-	33,120,400
Property Plant & Equipment		9,244,326	-	9,244,326	13,204,585	-	13,204,585
Other Assets		30,969,187	-	30,969,188	36,165,398	30,477	36,195,875
Total Assets		1,106,830,661	(99,853,536)	1,006,977,124	1,354,271,936	(74,533,124)	1,279,738,812
Equity And Liabilities							
Liabilities							
Due to Banks	33.h	-	53,254,089	53,254,089	-	66,756,679	66,756,679
Borrowings	33.h	352,814,519	(352,814,519)	-	248,081,994	(248,081,994)	-
Due to Other Customers	33.h	-	457,991,019	457,991,019	-	340,603,087	340,603,087
Other Liabilities		77,827,311	-	77,827,311	94,594,082	-	94,594,080
Debentures	33.h	115,176,500	(115,176,500)	-	109,193,093	(109,193,093)	-
Bank Over Draft	33.h	40,623,471	(40,623,471)	-	50,084,678	(50,084,678)	-
Total Liabilities		586,441,801	2,630,618	589,072,419	501,953,847	-	501,953,846
Equity							
Stated Capital		1,146,950,296	-	1,146,950,296	510,530,975	-	510,530,975
Share Application Money		-	-	-	374,566,439	-	374,566,439
Statutory Reserves		9,857,885	-	9,857,885	9,857,885	-	9,857,885
Investment fund Reserves		-	-	-	1,565,729	-	1,565,729
Reserves		(636,419,321)	(102,484,155)	(738,903,476)	(44,202,939)	(74,533,124)	(118,736,063)
Total Equity		520,388,860	(102,484,155)	417,904,705	852,318,089	(74,533,124)	777,784,965
Total Liabilities & Shareholders' Funds		1,106,830,661	(99,853,536)	1,006,977,124	1,354,271,936	(74,533,124)	1,279,738,812

Notes to the Financial Statements

Explanation of transition to LKASs/SLFRSs ... (CONTINUED)

37.1 Explanation of transition to SLFRSs

The accounting policies set out in page 39 have been applied in preparing the financial statements for the year ended 31st December 2012, the comparative information presented in the financial statements for the year ended 31st December 2011 and in the preparation of an opening SLFRS statement of financial position as at 1st January 2011.

In preparing its opening SLFRS statement of financial position, the company has adjusted amounts reported previously in financial statements prepared in accordance with previous SLAS. An explanation of how the transition from previous SLAS to SLFRSs has affected the company's financial position, financial performance and cash flows is set out in the following tables.

37.1. (a) Impairment of Loans & Advances

The company accounted credit exposures as per CBSL guidelines in to non-performing Loans and Advances & Lease receivables. A time based provisioning policy in line with the requirement under CBSL regulations is also followed. Interest accrued but not recovered on account of non-performing Loans & Leases is reversed and interest falling due is credited to interest in suspense account.

In addition to the above, a General provision is made at 1% of the capital on newly granted loans & leases for the year 2012.

The Company charged an impairment provision for Loans and Advances in accordance with LKAS 39 - Financial Instruments - Recognition & Measurement. The Interest in Suspense made accordance with Central Bank regulations were reversed.

As per LKAS 39, Impairment of loans & Leases should be recognized only when there is a loss event causing negative impact on future cash flows. Impairment is based on incurred losses and future expected losses. Impairment assessment of individually significant Loan & lease facilities evaluated on a case by case judgmental analysis basis, using net cash flow analysis.

Individually non significant customers are tested for impairment collectively.

The impact arising from the change is summarised as follows,

	31/12/2011	01/01/2011
	Rs.	Rs.
Comprehensive Income Statement		
Impairment for loan & advances	11,379,491	-
Impairment for Lease Receivable	11,657,062	-
Interest income accrued on impaired financial assets	4,914,479	-
Adjustment before income tax	<u>27,951,032</u>	<u>-</u>
Statement of financial position		
Loans & receivable to other customers		
loan & advances	(128,960,784)	(140,340,275)
leases	(47,316,830)	(58,973,892)
Interest in suspense	91,915,533	96,830,012
Adjustment to retained earnings	<u>(90,699,910)</u>	<u>(102,484,155)</u>

33.b Loans & Advances to Employees

The company measured the staff loans granted at concessionary rates at fair value / based on the market interest rate that prevailed at the time of granting the loan. Accordingly the interest benefit accruing the staff members are treated as prepaid staff cost. The prepaid Staff cost is amortised to the statement of comprehensive income over the agreed loan period.

The impact arising from the change is summarised as follows,

	31/12/2011	01/01/2011
	Rs.	Rs.
Comprehensive Income Statement		
Interest income on staff loans	1,973	-
Amortization of prepaid staff cost	(1,973)	-
Adjustment before income tax	<u>-</u>	<u>-</u>
Statement of financial position		
Loans and receivables to other customers	(30,477)	-
Prepaid staff benefits	30,477	-
Adjustment to retained earnings	<u>-</u>	<u>-</u>

Notes to the Financial Statements

Explanation of transition to LKASs/SLFRSs ... (CONTINUED)

37.1. (c) Value Added Tax on Financial Services

In the previous year the company has erroneously charged the transfers to the Investment Fund Account (IFA) to the comprehensive income instead of the equity.

The impact arising from the change is summarised as follows:

	31/12/2011	01/01/2011
	Rs.	Rs.
Comprehensive Income Statement		
Value added Tax on Financial Services	1,565,729	-
Adjustment before income tax	<u>1,565,729</u>	<u>-</u>
Adjustment to retained earnings	<u>-</u>	<u>-</u>

37.1. (d) Fee & Commission Income

Under previous SLASs, The company recognized fee income as Other Income. As per SLFRSs, Fees earned for the provision of services are recognized as Fee & Commission Income.

The impact arising from the change is summarised as follows:

	31/12/2011	01/01/2011
	Rs.	Rs.
Statement of comprehensive income		
Other operating income	4,033,163	-
Fee and commission income	(4,033,163)	-
Adjustment before income tax	<u>-</u>	<u>-</u>
Adjustment to retained earnings	<u>-</u>	<u>-</u>

37.1. (e) Other comprehensive Income

Under SLFRSs , company reclassified diminution in value of Investment as Profit or loss from financial assets -available for sale. Under previous SLASs company recognised diminution value of Investment immediately in the Income Statement.

The impact arising from the change is summarised as follows:

	31/12/2011	01/01/2011
	Rs.	Rs.
Statement of comprehensive income		
Other Operating Expenses	(3,658,010)	-
Other comprehensive income		
Net amount transferred to profit or loss (available-for-sale financial assets)	3,658,010	-
Adjustment before income tax	<u>-</u>	<u>-</u>
Adjustment to retained earnings	<u>-</u>	<u>-</u>

37.1. (f) Due to Other Customers

Reclassification of Borrowings

Under previous SLASs, the company initially recognised the Investments at cost and the interest expenses was recognized using effective interest rate method. In accordance with SLFRSs, initial recognition of investment is at fair value.

The impact arising from the change is summarised as follows:

	31/12/2011	01/01/2011
	Rs.	Rs.
Statement of financial position		
Borrowings	(231,409,993)	(342,814,519)
Due to Other Customers	340,603,086	457,991,019
Debentures	(109,193,093)	(115,176,500)
Adjustment to the retained earnings	<u>-</u>	<u>-</u>

Notes to the Financial Statements

Explanation of transition to LKASs/SLFRSs ... (CONTINUED)

37.1. (g) Reclassification of Investment Securities

In accordance with SLFRSs, the company recognises Investment Securities as Financial Investment Available-for-sale.

The impact arising from the change is summarised as follows:

	31/12/2011	01/01/2011
	Rs.	Rs.
Statement of financial position		
Investment Securities	(6,308,478)	(2,650,467)
Financial investments – available-for-sale	6,308,478	2,650,467
Adjustment to the retained earnings	<u>-</u>	<u>-</u>

37.1. (h) Reclassification of Cash & cash equivalent & Borrowing

The company reclassified cash & cash equivalent & borrowings in assets and liabilities respectively to the related asset or the liability.

The impact arising from the change is summarised as follows:

	31/12/2011	01/01/2011
	Rs.	Rs.
Statement of financial position		
Cash and cash equivalents	(397,840,000)	(295,059,382)
Placements with banks	397,840,000	297,690,000
Due to Banks	66,756,678	53,254,089
Borrowings	(16,672,000)	(15,261,236)
Bank Over Draft	(50,084,678)	(40,623,471)
Adjustment to the retained earnings	<u>-</u>	<u>-</u>

37.1. (i) Retained earnings

Above changes decreased/ (increased) retained earnings as follows.

	Note	31/12/2011	01/01/2011
		Rs.	Rs.
Impairment of Loans & Advances	a	27,951,032	(102,484,155)
Loans & Advances to Employees	b	-	-
Value added Tax on Financial services	c	1,565,729	-
Fee & Commission Income	d	-	-
Other comprehensive income	e	-	-
Due to Other Customers	f	-	-
Reclassification of Investment Securities	g	-	-
Reclassification of Cash & cash equivalent & Borrowing	h	-	-
Adjustment to the retained earnings		<u>29,516,761</u>	<u>(102,484,155)</u>

38 Events after the Reporting Period.

There have been no events occurring after the reporting period which require adjustments to or disclosure in Financial statements.

Notes to the Financial Statements ... (CONTINUED)

39 Segment Reporting - Group	Loans		Leasing		Treasury		Eliminations/ Unallocated		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Business segments - Group										
Revenue from external customers										
Interest	57,530,974	36,864,054	86,456,742	38,716,660	-	-	-	-	143,987,716	75,580,714
Fee & Commission	1,669,255	1,889,160	2,652,509	1,251,821	640,392	892,181	-	-	4,962,156	4,033,163
Other operating Income	13,805,820	11,986,663	21,937,972	13,900,471	26,879,276	29,967,067	-	-	62,623,068	55,854,200
Total Revenue from external customers	73,006,049	50,739,877	111,047,223	53,868,952	27,519,668	30,859,248	-	-	211,572,940	135,468,077
Segment result	35,638,672	778,617	37,691,219	(2,747,332)	8,770,840	(1,934,608)	-	-	82,100,731	(3,903,322)
Depreciation charged for the year	(1,074,532)	(992,232)	(1,707,472)	(1,150,654)	(412,233)	(608,677)	-	-	(3,194,236)	(2,751,563)
Operating Profit	34,564,140	(213,615)	35,983,748	(3,897,985)	8,358,607	(2,543,285)	-	-	78,906,495	(6,654,885)
Income tax expense	(12,124,848)	(3,147,698)	-	-	334,577	(481,315)	-	-	11,790,271	3,629,013
Other comprehensive Income	(1,047,986)	1,319,102	(1,665,289)	1,529,713	(402,049)	809,193	-	-	(3,115,324)	3,658,009
Net Profit for the year	21,391,306	(2,042,211)	34,318,458	(2,368,272)	8,291,135	(1,252,777)	-	-	64,000,900	(5,663,259)
Segment assets	398,194,563	448,430,888	632,746,252	520,028,022	151,346,204	275,086,207	-	-	1,182,287,020	1,243,545,116
Less, Accumulated Depreciation	(27,866,090)	(27,440,691)	(44,280,273)	(31,821,912)	(10,690,527)	(16,833,264)	-	-	(82,836,889)	(76,095,868)
Investment in Subsidiaries	12,750,000	12,750,000	-	-	-	-	12,750,000	12,750,000	-	-
Total Assets	438,810,653	488,621,579	677,026,525	551,849,934	162,036,731	291,919,471	12,750,000	12,750,000	1,265,123,909	1,319,640,984
Segment liabilities	119,777,797	182,288,848	190,331,459	211,393,353	47,341,076	111,823,581	-	-	357,450,333	505,505,783
Shareholders Funds	303,956,700	290,821,310	482,998,716	337,254,267	113,803,251	178,401,919	-	-	900,758,667	806,477,496
Minority Interest	-	-	-	-	-	-	6,914,909	7,657,705	6,914,909	7,657,705
Total liabilities	423,734,498	473,110,158	673,330,176	548,647,621	161,144,327	290,225,500	6,914,909	7,657,705	1,265,123,909	1,319,640,984

Decade at a Glance-Company

Year ended 31st December	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)
Operating Results										
Revenue	565,768	557,668	589,173	515,425	500,998	334,661	391,449	124,110	112,854	190,919
Interest Income	424,171	506,640	541,836	434,047	424,776	295,666	147,132	101,718	75,581	143,988
Interest Expenses	(332,344)	(369,130)	(399,959)	(359,235)	(400,239)	(410,293)	(166,315)	(64,732)	(47,609)	(35,600)
Operating Expenses & Provision	(205,432)	(143,288)	(128,850)	(110,889)	(85,937)	(506,301)	(66,868)	(59,805)	(76,470)	(60,303)
Profit/Loss before taxation	10,790	22,203	30,690	31,859	2,699	(581,933)	158,266	19,443	(11,225)	93,599
Vat & Taxation	794	2,777	9,921	6,994	(2,432)	(35,601)	-	-	(5,519)	(14,863)
Profit After Taxation & VAT	9,996	19,426	20,769	24,865	267	(618,676)	158,266	14,095	(16,744)	78,736
Comprehensive Income/(Expense)	-	-	-	-	-	-	-	-	(13,086)	75,620
Assets										
Cash and cash equivalents and placement with banks	226,617	454,040	940,272	703,745	348,412	134,541	7,151	368,304	480,706	119,394
Loans and Receivables	2,212,809	2,864,161	2,553,525	2,439,865	1,949,602	1,197,256	778,938	420,657	571,892	913,235
Financial investments – available-for-sale	-	-	-	-	-	-	-	2,650	6,308	3,193
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-	-	-	-	-	-	-
Investments in Associates	-	1,200	1,200	-	49,000	49,000	125,560	129,282	125,561	125,561
Investments in Subsidiaries	97,100	112,100	154,068	314,547	319,540	324,197	12,750	12,750	12,750	7,854
Investment Properties	11,189	11,189	11,189	23,187	27,505	16,316	49,016	33,120	33,120	33,120
Property Plant & Equipment	15,811	27,098	24,132	20,983	11,947	8,055	7,457	9,244	13,205	11,592
Other Assets	222,524	123,038	108,138	118,031	227,111	296,395	187,670	30,969	36,196	22,777
	2,786,050	3,592,826	3,792,524	3,620,358	2,933,117	2,025,760	1,168,542	1,006,977	1,279,739	1,236,726
Liabilities & Shareholders' Fund										
Borrowings	2,526,373	2,919,314	2,986,232	2,769,840	2,143,489	1,976,442	911,725	511,245	407,360	308,788
Other Liabilities	119,792	514,202	513,285	443,819	382,892	261,257	327,148	77,827	94,594	44,253
Shareholders' Funds	139,885	159,310	293,007	406,699	406,736	(211,939)	(70,331)	417,905	777,785	883,685
	2,786,050	3,592,826	3,792,524	3,620,358	2,933,117	2,025,760	1,168,542	1,006,977	1,279,739	1,236,726
Income Growth (%)	19.74	-1.43	5.65	-12.52	-2.8	-33.2	16.97	(68.29)	-9.07	69.17
Property, Plant & Equipment to Shareholders' Fund (times)	11.3	17.01	8.24	5.16	2.94	-3.8	-10.6	2.21	1.70	1.31
Total asset to shareholders' fund (times)	19.92	22.55	12.94	8.9	7.21	-9.56	-16.61	2.41	1.65	1.40
Net Assets per Share	4.19	4.77	6.58	4.46	7.46	-3.89	-1.29	0.30	0.56	0.49
Basic Earning/(Loss) per share	0.17	0.3	0.58	0.51	0.005	-11.35	0.23	0.02-	(0.01)	0.04

Highlighted information is based on LKASs/SLFRSs.

Five Year Summary-Group

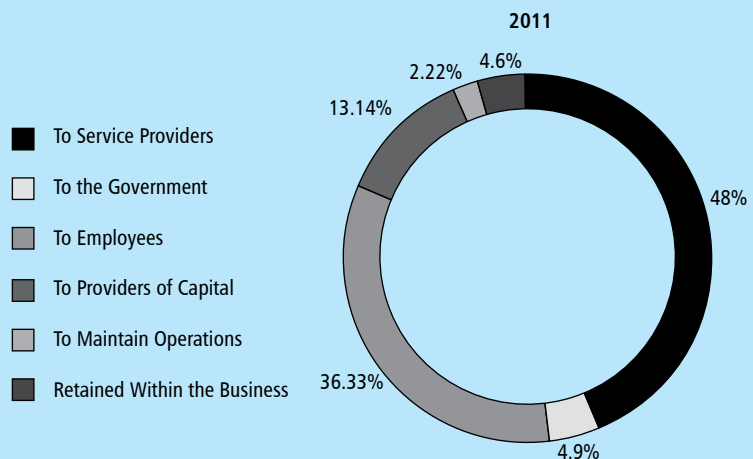
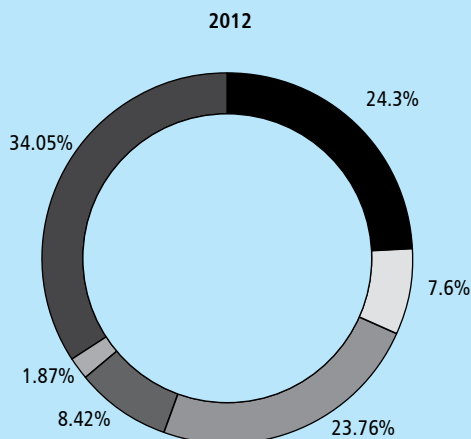
	2008 (Rs.'000)	2009 (Rs.'000)	2010 (Rs.'000)	2011 (Rs.'000)	2012 (Rs.'000)
Operating Results					
Revenue	949,473	623,059	141,000	135,468	211,572
Interest Income	859,359	378,376	102,228	75,581	143,988
Interest Expenses	(763,044)	(290,674)	(64,732)	(47,609)	(35,600)
Operating Expenses & Provision	(843,360)	(250,697)	(94,041)	(107,123)	(95,977)
Profit/Loss before taxation	(656,931)	81,687	16,148	(17,999)	93,044
Vat & Taxation	(44,513)	(1,516)	420	(6,000)	(14,528)
Profit After Taxation & VAT	(697,079)	82,229	27,315	(9,321)	64,743
Minority Interest	(8,978)	(10,950)	197	(578)	(743)
Profit/(Loss)Attributable to Shareholders	(688,101)	82,229	27,117	(5,085)	64,000
As at 31st December					
Assets					
Cash & Short Term Funds	17,636	7,244	5,521	10,496	11,138
Investments	493,701	13,236	378,740	488,210	117,821
Bills of Exchange	-	-	-	-	-
Loans & Advance	956,320	521,732	417,357	568,832	910,415
Lease Rentals Receivables	1,987,191	256,967	-	-	-
Investment in Associates Co.	54,315	136,704	153,543	158,425	143,426
Investment in Subsidiary Co.	-	-	-	-	-
Interest Receivable	325,592	81,534	-	-	-
Investment Property	16,316	53,216	37,320	40,173	40,173
Property Plant and Equipment	50,097	8,494	10,820	14,348	12,293
Other Assets	297,978	107,849	34,412	39,156	29,858
Intangible Assets	25,410	-	-	-	-
	4,224,557	1,186,976	1,037,713	1,319,641	1,265,124
Equity & Liabilities					
Equity					
Stated Capital	565,786	565,786	1,146,950	885,097	919,064
Statutory Reserves	-	-	9,858	9,858	13,795
Retained Earnings	(718,066)	(628,067)	(717,634)	(90,044)	(36,363)
Other Reserves	-	-	-	1,566	4,264
Liabilities					
Due to banks	-	-	53,254	66,757	34,466
Due to other customers	3,717,854	911,725	457,991	340,603	224,629
Other borrowings	-	329,493	-	-	49,693
Other Liabilities	584,656	-	79,057	98,146	48,662
Non- controlling Interests	74,327	8,039	8,236	7,658	6,914
	4,224,557	1,186,976	1,037,713	1,319,641	1,265,124
Cash Flow					
Cash Flow from Operating Activities	(197,132)	424,444	259,703	(118,703)	(259,486)
Cash Flow from Investing Activities	163,954	543,257	161	(1,182)	1,611
Cash Flow from financing Activities	(23,185)	(972,375)	(7,151)	288,179	(58,638)
Net Increase or (Decrease) in cash and cash Equivalents	17,636	6,642	252,713	36,946	(316,513)
Basic Earning/(Loss) per share	(12.62)	0.14	2.36	(0.01)	0.04
Assets Growth(%)	(12.25)	(71.90)	(12.58)	27.17	(4.02)
Net Assets Growth (%)	(128.42)	(59.10)	924.84	81.97	11.83
Net Assets per share	(2.79)	(1.14)	0.32	0.45	0.50

Highlighted information is based on LKAs/SLFRSs.

Value Added Statement

For the Year Ended 31st December	Company		Group	
	2012 Rs."000"	2011 Rs."000"	2012 Rs."000"	2011 Rs."000"
Value Added				
Interest and similar income	143,988	75,581	143,988	75,581
Cost of Borrowings	(19,426)	(31,353)	(19,426)	(31,353)
Other Income	45,513	37,273	68,613	58,848
Associate company profit	-	-	(11,400)	14,678
Other Comprehensive Income	(3,115)	3,658	(3,115)	3,658
Impairment for loans and other losses	12,020	2,305	12,020	2,305
	178,980	87,464	190,680	123,717
	100.0%	100.0%	100.0%	100.0%
To Service Providers				
Overhead and Support Services	38,909	44,207	46,740	59,424
	21.57%	50.5%	24.30%	48.0%
To the Government				
Taxes	14,863	5,519	14,528	6,000
	8.24%	6.3%	7.60%	4.9%
To Employees				
Salaries,Wages and Other Benefits	29,812	31,816	45,636	44,948
	16.53%	36.4%	23.76%	36.3%
To Providers of Capital				
Interest on Borrowings	16,174	16,256	16,174	16,256
	8.97%	18.6%	8.42%	13.1%
To Maintain Operations				
Depreciation	3,601	2,752	3,602	2,752
	2.00%	3.1%	1.87%	2.2%
Retained Within the Business				
Retained Profit/(Loss)	75,621	(13,086)	64,000	(5,663)
	42.70%	-15.0%	34.05%	-4.6%
	178,980	87,464	190,680	123,717
	100.0%	100.0%	100.0%	100.0%

Value Added Statement-Group



Shareholders And Investor Information

Top Twenty Shareholders

Ordinary Voting

		31st December 2012		31st December 2011	
	Name	No of Shares	%	No of Shares	%
1	Dr. T. Senthilvel	208,000,000	17.45%	212,255,824	25.68%
2	Mr. H. R. S. Wijerathne	194,882,451	16.35%	92,209,700	11.16%
3	Standard Chartered Bank Singapore S/A HL bank Singapore Branch	61,966,100	5.20%	59,345,400	7.18%
4	Seylan Bank Plc -Thirugnanasambandar Senthilvel	48,583,748	4.08%	13,780,600	1.67%
5	Miss. S. A. Fernando	48,004,878	4.03%	17,872,289	2.16%
6	Mr. W. K. V. M. Fernando	44,841,380	3.76%	12,132,190	1.47%
7	Mrs. K. W. S. H. Fernando	41,914,378	3.52%	13,853,139	1.68%
8	Miss. W. N. C. Fernando	32,321,398	2.71%	26,154,249	3.16%
9	Miss. D. D. J. Lokuge	20,587,894	1.73%		
10	Sinharaja Hills Plantation (Pvt) Ltd	20,246,863	1.70%		
11	Seylan Bank PLC / Jayantha Dewage	15,957,030	1.34%	13,357,015	1.62%
12	Mr. R. Gautam	14,490,000	1.22%	11,207,130	1.36%
13	National Development Bank PLC/ T. Senthilvel	14,000,000	1.17%	14,000,000	1.69%
14	Mr. A. Sithampalam	12,880,242	1.08%		
15	Andaradeniya Estate Private Limited	12,270,674	1.03%	6,000,000	0.73%
16	Mr. L. D. Wickramasinghe	10,000,000	0.84%		
17	First Capital Market Limited / Mr. H. A. U. Gnanathilaka	9,160,249	0.77%		
18	Associated Electrical Corporation Ltd	8,500,000	0.71%	3,700,000	0.45%
19	Mr. H. K. Pushpakumara	7,335,178	0.62%	6,806,600	0.82%
20	Mr. S. P. Kannangara	6,000,000	0.50%	3,924,200	0.47%
	Sub Total	831,942,463	69.81%	506,598,336	61.30%
	Others	359,824,309	30.19%	319,888,178	38.70%
	Total Issued Share Capital	1,191,766,772	100.00%	826,486,514	100.00%

Ordinary Non Voting

		31st December 2012		31st December 2011	
	Name	No of Shares	%	No of Shares	%
1	Mr. R. Gautam	23,300,080	3.79%	25,067,680	4.48%
2	Seylan Bank PLC/ Jayantha Dewage	14,521,480	2.36%	9,598,940	1.71%
3	Waldock Mackenzie Ltd / Mr. S. A. Gulahusein	11,429,880	1.86%	5,929,840	1.06%
4	Mr. K. E. H. De Alwis	10,565,009	1.72%		
5	Mr. C. Nayagam	9,500,000	1.55%		
6	Mr. M. L. A. Benedict	8,795,000	1.43%	4,305,000	0.77%
7	Mr. B. L. Jayaratne	8,503,700	1.38%	11,703,700	2.09%
8	Mr. J. A. W. Victoria	6,771,200	1.10%	6,771,200	1.21%
9	Dr. S. K. Shanmugam	6,091,309	0.99%		
10	Mr. H. K. Pushpakumara	6,056,000	0.99%	4,555,000	0.81%
11	Waldock Mackenzie Ltd / Mr. Lalin Tusith Samarawickrama	6,000,000	0.98%	6,000,000	1.07%
12	Mr. W. J. D. Benedict	5,100,000	0.83%		
13	Mr. J. J. Ravindran	5,040,000	0.82%	5,040,000	0.90%
14	Dr. D. Rajakanthan	5,000,000	0.81%		
15	Mrs. H. Nalika Padmasiri	4,934,100	0.80%		
16	Mr. S. Abishek	4,869,460	0.79%		
17	Mr. Diyakarage	4,500,000	0.73%		
18	Dr. C. A. Twerenbold	4,313,800	0.70%	3,813,800	0.68%
19	Miss. S. Durga	4,037,000	0.66%	4,037,000	0.72%
20	Green Olive Investment (Pvt) Ltd	3,900,000	0.64%		
	Sub Total	153,228,018	24.95%	86,822,160	15.50%
	Others	460,838,083	75.05%	473,177,840	84.50%
	Total Issued Share Capital	614,066,101	100.00%	560,000,000	100.00%

Shareholders And Investor Information

2 Stock Exchange Listing

The Stock exchange ticker symbol for SMB Leasing PLC is "SEMB"

3 Shareholder Base

The Total number of (Ordinary Voting) shareholders as at 31st December 2012 were 11,756 compared to 11,820 as at 31st December 2011

The Total number of (Ordinary Non Voting) shareholders as at 31st December 2012 were 5,664 compared to 5,280 at 31st December 2011.

4 Distribution Of Shareholders

Ordinary Voting-Shareholding as at 31st December 2012

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 1000 Shares	5,186	3,402,643	0.29	7	825	0.01	5,193	3,403,468	0.29
1001 to 10,000 Shares	3,931	18,403,979	1.55	18	76,160	1.24	3,949	18,480,139	1.55
10,001 to 100,000 Shares	2,020	71,671,154	6.05	10	550,714	8.96	2,030	72,221,868	6.06
100,001 to 1,000,000 Shares	487	142,512,949	12.02	9	3,185,469	51.83	496	145,698,418	12.23
1,000,001 & above shares	86	949,630,377	80.10	2	2,332,502	37.95	88	951,962,879	79.88
	11,710	1,185,621,102	100.00	46	6,145,670	100.00	11,756	1,191,766,772	100.00

Ordinary Non Voting-Shareholding as at 31st December 2012

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 Shares	1,011	504,744	0.08	1	100	0.00	1,012	504,844	0.08
1001 to 10,000 Shares	1,777	10,051,258	1.68	8	44,500	0.27	1,785	10,095,758	1.64
10,001 to 100,000 Shares	1,986	86,811,527	14.52	6	255,835	1.58	1,992	87,067,362	14.18
100,001 to 1,000,000 Shares	779	235,828,761	39.45	7	2,442,200	15.03	786	238,270,961	38.80
1,000,001 & above Shares	85	264,617,176	44.26	4	13,510,000	83.12	89	278,127,176	45.29
	5,638	597,813,466	100.00	26	16,252,635	100.00	5,664	614,066,101	100.00

Shareholders And Investor Information ... (CONTINUED)

5 Composition Of Shareholders

Ordinary Voting Shares	December 31,2012			December 31,2011		
	Number of shareholders	No of Shares	(%) of Holdings	Number of shareholders	No of Shares	(%) of Holdings
Resident	11,710	1,185,621,102	99.48%	11,768	747,150,553	90.40%
Non-Resident	46	6,145,670	0.52%	52	79,335,961	9.60%
Total	11,756	1,191,766,772	100.00%	11,820	826,486,514	100.00%
Individual	11,477	943,244,046	79.15%	11,517	662,249,951	80.13%
Institution	279	248,522,726	20.85%	303	164,236,563	19.87%
Total	11,756	1,191,766,772	100.00%	11,820	826,486,514	100.00%

The percentage of Ordinary Voting Shares held by the public was 60.93% of the issued share capital as at December 31,2012.

Ordinary Non Voting Shares	December 31,2012			December 31,2011		
	Number of shareholders	No of Shares	(%) of Holdings	Number of shareholders	No of Shares	(%) of Holdings
Resident	5,638	597,813,466	97.35%	5,253	522,954,500	93.38%
Non-Resident	26	16,252,635	2.65%	27	37,045,500	6.62%
Total	5,664	614,066,101	100.00%	5,280	560,000,000	100.00%
Individual	5,537	532,541,974	86.72%	5,160	450,279,995	80.41%
Institution	127	81,524,127	13.28%	120	109,720,005	19.59%
Total	5,664	614,066,101	100.00%	5,280	560,000,000	100.00%

The percentage of Ordinary Non Voting Shares held by the public was 99.99% of the issued share capital as at December 31,2012.

Directors' Shareholding

		2012		2011	
		No of Shares	% of Holdings	No of Shares	% of Holdings
Mr. R. S. W. Senanayake	Voting	62,000	0.01	62,000	0.01
	Non Voting	50,000	0.01	50,000	0.01
Mr. M. S. I Peiris	Voting	24	0.00	24	0.00
	Voting Warrants	-	-	-	-
Dr. T. Senthilverl	Voting	270,583,748	22.70	240,098,448	29.05
	Non Voting	-	-	-	-
	Voting Warrants	-	-	-	-
Share Information				2012	2011
Book Value					
Net Assets per Share-Group (Rs)				0.70	0.61
Share Prices					
Ordinary Shares-Voting					
Highest (Rs.)				1.30	3.60
Lowest (Rs.)				0.90	1.60
Last Traded (Rs.)				1.00	1.90
Ordinary Shares-Non Voting					
Highest (Rs.)				0.50	1.40
Lowest (Rs.)				0.30	0.60
Last Traded (Rs.)				0.50	0.70
Earnings					
Ordinary Shares					
Basic Earnings Per Share (Rs.)				0.04	-0.01
Price Earning Ratio (Times)				18.75	130
Frequency of Shares Traded					
Number of Shares Traded				598,303,360	2,586,478,100
Number of Transaction				18,930	69,341
Market Capitalization					
SMB Leasing PLC Value (Rs. Mn)				1,192	1,570

Notice Of Meeting

Voting

NOTICE is hereby given that the Annual General Meeting of SMB Leasing PLC will be held at the Sasakawa Hall, No 04, 22nd Lane, Colombo 03 on 28th June 2013 at 9.30 am for the following purposes;

1. To receive and consider the Audited Financial Statements for the Year Ended 31st December, 2012 together with the Reports of the Directors' and Auditors' thereon.
2. Directors,
 - (i) To re-elect Mr. J. C. Korale, Director, who retires by rotation in terms of Article 87 of the Articles of Association of the Company.
 - (ii) To elect Mr. S. N. P. Palihena, Director, who retires in terms of Article 94 of the Articles of Association of the Company.
 - (iii) To elect Mr. H. R. S. Wijeratne, Director, who retires in terms of Article 94 of the Articles of Association of the Company.
3. To re-appoint the Auditors Messrs KPMG, Chartered Accountants, to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to determine their remuneration.

BY ORDER OF THE BOARD
JACEY & COMPANY

(Sgd)
SECRETARIES

Colombo
31st May 2013

Note:

1. A Member Entitled To Attend And Vote At The Meeting Is Entitled To Appoint A Proxy To Attend And Vote In 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 M/S Jacey & Company, No. 9/5, Thambiah Avenue, Off Independence Avenue, Colombo 07 Not Less Than 48 Hours Before The Time Fixed For The Meeting.

Notice Of Meeting

Non Voting

NOTICE is hereby given that the Annual General Meeting of SMB Leasing PLC will be held at the Sasakawa Hall, No 04, 22nd Lane, Colombo 03 on 28th June 2013 at 9.30 am for the following purposes;

1. To receive and consider the Audited Financial Statements for the Year Ended 31st December, 2012 together with the Reports of the Directors' and Auditors' thereon.
2. Directors,
 - (i) To re-elect Mr. J. C. Korale, Director, who retires by rotation in terms of Article 87 of the Articles of Association of the Company.
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 - (iii) To elect Mr. H. R. S. Wijeratne, Director, who retires in terms of Article 94 of the Articles of Association of the Company.
3. To re-appoint the Auditors Messrs KPMG, Chartered Accountants, to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to determine their remuneration.

BY ORDER OF THE BOARD

JACEY & COMPANY

(Sgd)

SECRETARIES

Colombo

31st May 2013

Note:

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Form of Proxy

Voting

SMB LEASING PLC

FORM OF PROXY

I/We the undersigned
of.....
being a member/members of S M B LEASING PLC do hereby appoint.....
of.....

whom failing UMESH GAUTAM whom failing MUTHUTHANTRIGE SURATH ISIRA PEIRIS whom failing GAMINI CUDA BANDARA RANASINGHE whom failing JAGATH CHANDRAWANSA KORALE whom failing DR THIRUGNANASAMBANDAR SENTHILVERL whom failing SHANTHIKUMAR NIMAL PLACIDUS PALIHENA whom failing HEWAWASAMGE RAVINDRANATH SRILAL WIJERATNE as my/our Proxy to represent me/us and *..... to vote on my/our behalf at the ANNUAL GENERAL MEETING of the Company to be held on 28th June 2013 and at any adjournment thereof, and at every poll which may be taken in consequence thereof. I / We the undersigned hereby authorise my/our proxy to vote on my/our behalf in accordance with the preference indicated below

	For	Against
1. To receive and consider the Audited Financial Statements for the year ended 31st December, 2012 and the Reports of the Auditors' and of the Directors' thereon	<input type="checkbox"/>	<input type="checkbox"/>
2. Directors,		
i) To re-elect Mr. J. C. Korale, Director, who retires by rotation in terms of Article 87 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
ii) To elect Mr. S. N. P. Palihena, Director, who retires in terms of Article 94 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
iii) To elect Mr. H. R. S. Wijeratne, Director, who retires in terms of Article 94 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint the Auditors Messrs KPMG, Chartered Accountants, to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our hand thisday ofTwo Thousand and Thirteen .

.....
Signature of Shareholder

Notes:

If you wish your Proxy to speak at the Meeting you should insert the words **"to speak and"** in the place indicated with an asterisk and initial such insertion.

Please indicate with an "x" in the space provided how your Proxy is to vote. If there is in the view of the Proxy holder doubt (by reason of the way in which the instructions contained in the Proxy have been completed) as to the way in which the Proxy holder should vote, the Proxy holder shall vote as he thinks fit.

A Proxy holder need not be a member of the Company
Instructions as to completion appear on the reverse hereof



INSTRUCTIONS AS TO COMPLETION

1. To be valid this Form of Proxy must be deposited at the Registered Office of M/s Jacey & Company, No 9/5, Thambiah Avenue, Off Independence Avenue, Colombo 07 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

SMB LEASING PLC

FORM OF PROXY

I/We the undersigned
of.....
being a member/members of S M B LEASING PLC do hereby appoint.....
of.....

whom failing UMESH GAUTAM whom failing MUTHUTHANTRIGE SURATH ISIRA PEIRIS whom failing GAMINI CUDA BANDARA RANASINGHE whom failing JAGATH CHANDRAWANSA KORALE whom failing DR THIRUGNANASAMBANDAR SENTHILVERL whom failing SHANTHIKUMAR NIMAL PLACIDUS PALIHENA whom failing HEWAWASAMGE RAVINDRANATH SRILAL WIJERATNE as my/our Proxy to represent me/us and *..... to vote on my/our behalf at the ANNUAL GENERAL MEETING of the Company to be held on 28th June 2013 and at any adjournment thereof, and at every poll which may be taken in consequence thereof. I / We the undersigned hereby authorise my/our proxy to vote on my/our behalf in accordance with the preference indicated below

	For	Against
1. To receive and consider the Audited Financial Statements for the year ended 31st December, 2012 and the Reports of the Auditors' and of the Directors' thereon	<input type="checkbox"/>	<input type="checkbox"/>
2. Directors,		
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ii) To elect Mr. S. N. P. Palihena, Director, who retires in terms of Article 94 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
iii) To elect Mr. H. R. S. Wijeratne, Director, who retires in terms of Article 94 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint the Auditors Messrs KPMG, Chartered Accountants, to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our hand thisday ofTwo Thousand and Thirteen .

.....
Signature of Shareholder

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Please indicate with an "x" in the space provided how your Proxy is to vote. If there is in the view of the Proxy holder doubt (by reason of the way in which the instructions contained in the Proxy have been completed) as to the way in which the Proxy holder should vote, the Proxy holder shall vote as he thinks fit.

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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.