



SMB LEASING PLC
ANNUAL REPORT 2018



Restored & Renewed

Believing Beyond What You See

Our Mission

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

Our Corporate Objectives

To provide an excellent service to our customers.

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

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

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About This Report

The Company Profile

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

Annual Report

The Annual Report comprises reports covering the Company's operations for the financial year ended December 31, 2018. Wherever relevant, the preceding year's performance and indicators have been reflected for comparative analysis.

Reporting framework

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

External Assurance and Test of Compliance

The Financial Statements were audited by M/s. KPMG, Chartered Accountants and their Report is given on pages 99 to 102 of this report.

Presentation

Printed copies of this report will be posted to only those who request for the same in writing. This report in the form of a CD-ROM will be posted to all shareholders and will be made available on the official website of the Company www.smbk.com in PDF format.

Contact

Questions and inquiries on this Annual Report 2018 and information presented therein are to be directed to:

Chief Financial Officer

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Key Highlights of the Year



Chairman's Message

On behalf of the Board of Directors, it is my pleasure and privilege to present to you the Annual Report and Audited Financial Statements of SMB Leasing PLC for the financial year ended December 31, 2018.

It gives me great pride to announce a progressive and satisfying performance by the Company during the year 2018, recording the highest profit after tax since 2010. In the 2018 financial year, the Company has not only converted its previous years' impairment losses into profits, but also has emerged into a stronger position both in terms of financial stability and in terms of laying the groundwork for growth in 2019 and beyond.

This is a clear reflection of our unwavering fundamentals of integrity, trust and best practices established with the support extended by the new majority shareholders who took over the business in 2011 and our conservative business model ably supported by a committed team of professionals equipped with skills and competencies who aspire to transform this Company into a leading financial institution in the country.

Macro-Economic Outlook

The GDP recorded a growth of 3.2% in 2018 with cascading effects to the financial sector. Despite challenging market conditions both globally and domestically, the financial sector continued to expand moderately during the year without causing any major macroprudential concerns. However, credit quality of the banking sector and non-banking sector deteriorated considerably during 2018 with increased non-performing loans and advances compared to 2017 and the overall performance of the sectors also slowed down significantly during 2018 due to low credit growth and declining profitability. Other macro-economic developments converged towards pushing up the cost of funds on the one hand and discouraging credit demand from the other hand making conditions difficult for bottom line growth.

We seized this situation as a key learning opportunity to redefine and reengineer our business model and the accompanying strategy. Our commitment to succeed even amidst challenging economic conditions and intense competitive pressures made us drive strong growth and deliver positive impact on shareholder value. Success of the Company in 2018 is

attributable to the robust strategy followed by exceptionally focused execution.

Performance of the Year

SMB Leasing PLC performed exceptionally well in the backdrop of adverse global and local economic conditions demonstrating a significant growth trajectory in profitability levels. The Company reported a profit after tax of Rs. 85.7 million reflecting a 130% increase compared to last year. Our asset base also increased to 1.7 billion in 2018. The Company maintained a healthy liquidity ratio, a return on equity ratio and an outstanding capital adequacy ratio. During the year 2018, the Company adopted prudent lending policies and focused on recovery efforts resulting in a reversal of impairment provisions made in previous years thereby making positive impact to the bottom line. The business and financial performance of the Company is discussed in greater detail in the Management Discussion and Analysis Section of the Annual Report.

The Board is ever mindful of its statutory, fiduciary and regulatory responsibilities. Our commitment to uphold strong and effective corporate governance is a fundamental part of the business management. As a part of this commitment we nurture a respectful working environment for all employees of the Company with zero tolerance policy for any violation of the employee Code of Conduct. During 2018, all Board Sub-Committees conducted meetings regularly to discuss pending matters in detail and recommended necessary actions required to be taken.

The Board strives to enhance shareholder value and provide an acceptable return for their investments whilst retaining sufficient resources for business growth. Therefore, we are committed to reward the valuable investors who had supported us over the years. While the year under review was a remarkably successful year to the Company, we are optimistic of the year ahead in which we have set targets that will take the Company to the next level.

Future Outlook

We look forward to 2019 with optimism on the back of a strong 2018 performance. Despite the short term moderation in the economic growth, Sri Lanka's economic growth trajectory is

expected to gradually improve in the medium term and we believe the long term outlook remains promising. We have redefined our business model to withstand existing as well as expected economic challenges and maintain and strengthen our share in the market. In the light of the challenging economic conditions and intense competitive pressures, the Company has taken effective steps to manage costs, focus on secured lending products, maintain the requisite interest margins and further reduce NPA levels.

We have exciting business plans for the next year as we seek to deliver consistent shareholder value. SMB Leasing PLC will partner with a commercial vehicle supplier in 2019 to provide transport solutions to a selected segment of the economy and capitalise on an emerging opportunity of this segment. To ensure a viable execution of this partnership, negotiations are underway to establish a credit line with the supplier. With the synergies of this strategic partnership, the Company is expected to grow its balance sheet rapidly within a short period of time without compromising credit quality. This strategic partnership is expected to enable the Company to leverage on a larger balance sheet and an increased asset base to overcome one of our main growth inhibitors of attracting cost-effective funding lines required to further expand the business.

The initiatives taken in 2018 to strengthen the human capital, IT systems and process reengineering in all business verticals will continue in 2019 to ensure that the Company is well equipped with high caliber staff, improved IT system and efficient business and operational processes that will facilitate the attainment of growth plans of 2019 and beyond. The capacity of our team to overcome insurmountable challenges and emerge victorious and deliver improved performance with each passing year while continuing the unblemished

track record of ethics, compliance and good governance, positions the Company for continuous success in the years to come. I'm confident that my Board along with the corporate management and staff are well equipped to deliver better shareholder returns in 2019.

Appreciation

As I conclude, I wish to express my gratitude to my colleagues on the Board for their consistent support, keen participation, invaluable counsel and insightful guidance extended at all times and their valued expertise shared to drive the Company forward.

I wish to specifically commend the CEO, Mr. Sumedha Fernando and the Corporate Management team who provided exemplary leadership and boundless energy to drive our strategies for growth and business excellence. My heartfelt thanks to each and every member of the staff for their unconditional efforts, commitment and dynamism which allowed the Company to overcome challenges and restore profitability to ensure a more rewarding future for our shareholders. I look forward to their continued support in sustaining the growth trajectory of the Company in 2019 and beyond.

I wish to place on record, my appreciation to the Central Bank of Sri Lanka as the industry regulator for their continuous support and advice to direct the Company to a more sustainable future that is built on a foundation of strong ethics and good governance. I also wish to extend my sincere gratitude to the shareholders and all other stakeholders for the steadfast support and confidence placed in us.

As we persist our cognitive and evolutionary journey towards excellence, I look forward to your continued patronage in the future.



Ravi Wijeratne
Chairman

Colombo
May 30, 2019

Chief Executive Officer's Message

It gives me great pleasure to share with you the performance by your Company with some remarkable achievements surpassing previous heights to establish new milestones. The Company did exceptionally well in the financial year 2018 recording the highest profit after tax since 2010 despite challenging market conditions and unpredictable and volatile operating environment that impacted most of the financial institutions in the country. Given this status quo, I believe the financial results for the year showcases that the Company was able to successfully navigate through these challenges.

While economic stability has improved in the country, the industry is under pressure from high levels of NPA which brings an element of instability to the portfolios. However, despite the low business confidence which is continuing for few years, the year 2018 ended on a very optimistic note, setting the foundation for a great 2019 as the Company managed to grow and sustain healthy portfolios in leasing, loans and pawning. The sustainability of the portfolio amidst these challenges reflects the conservative business model of the Company and illustrates the commitment of the sales force.

The new location of the head office with better logistical facilities and a customer friendly ambiance and the newly opened branch in Negombo facilitated increased volumes of business. The Company's main focus in 2018 was on high yield products of pawning and leasing which positively impacted the Company's bottom line.

SMBL has the highest priority for ethics, compliance and discipline which makes it a unique entity in the Sri Lanka's non banking financial sector. The Company continues to comply with all legal and regulatory requirements in 2018 maintaining the unblemished compliance record demonstrated since 2012.

Our Focus

During the year, our main focus was achieving higher profits and business growth by optimising the product mix. Operational efficiency and human resource development initiatives that started last year continued to further boost the overall performance of the Company.

The expansion into new business areas including pawning continued in 2018 providing us an opportunity to further

expand our portfolios while offering our customers an expanded portfolio of services. All operational processes of the company have been reengineered to increase efficiency with an embedded customer focus. This has allowed the Company to adapt and drive change in the business model while facing the challenges from the operating environment and the economy. Human resource department aligning with corporate strategy function has made staff recruitments being done while keeping the growth trajectory of the Company in mind. At present, all departments and functions with well qualified, experienced and competent staff who can take the organization to the next level. In line with this strategy, finance, credit, sales, recovery and legal departments have been further strengthened with new talent with passion and commitment to achieve new heights.

Our exemplary record in Non-Performing Loan (NPL) performance over the years post 2012 that was challenged in 2017 due to the market conditions that prevailed during that year has been restored in 2018. NPL provisions of over Rs. 18 million that were made last year have been reversed in 2018 showcasing the efforts of the recovery team that followed up these facilities with rigor and dedication. Further, the recovery department has taken a proactive approach by continuously following up with customers before the outstanding days hits the NPA threshold. For the remaining facilities, timely legal action has been taken on defaulters which has yielded favourable results in 2018. From the lessons learnt from the past NPLs, the credit evaluation process has been refined and strict qualifying criteria has been implemented in 2018 especially for granting of loans. In addition, the Company stopped the unsecure lending product Biz Cash in 2018 as the market was not conducive to continue such a high-risk product.

It is with great appreciation and pride that I mention that a number of leading local and foreign commercial banks have come forward in offering funds of Rs.500 million for the Company in 2018. The Company continue to work closely with these financial institutions to secure further low-cost funding in the long term. A significant reduction in improvement in funding costs is essential if the Company is to further penetrate the market.

Financial Performance

At the end of 2018, SMBL recorded a profit after tax of Rs. 85.7 million which is more than double the 2017 profit after tax. This profit is after prudently providing impairment charge for loans and leases as per the new Accounting Standard SLFRS 9 that came into effect in 2018. Despite the negative market conditions for lending, we managed to increase the portfolio by 5% in 2018 and we continue to grow the net portfolio further in 2019. The operating profit before taxes of the Company surpassed Rs. 100 million in 2018 while earnings per share increased to Rs. 0.05 for 2018 when compared to Rs. 0.02 in 2017. Though the Company's top line has decreased by 3% it did not have any trickledown effect and the Company managed to compensate with an outstanding collection effort. This has consequently led to improve total comprehensive income by 157% in 2018. I wish to put on record that the Company is committed to rewarding our longstanding shareholders who have been with the Company during tough times.

Looking Ahead

The focus in the year 2019 will be on portfolio growth and improving the bottom line to generate enhanced returns to the shareholders. To achieve this, we will focus on growing the top line and continuing expanding the lease and loan portfolios. In addition, we are planning to open a City Office in Colombo mainly focused on pawning. The portfolio quality will be closely monitored to ensure sustainable expansion. We are also working on further reducing the credit concentration risk and improve asset quality with a fully diversified portfolio of loans and leases. Parallely, initiatives are taken to contain costs through productivity and efficiency improvements.

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

I believe the changes introduced in 2018 to our IT system and human capital aspects will see a revolution in our corporate culture, which will be focused on an ethos of building values and trust while inculcating a sense of team spirit which will

lead to a gradual productivity and operational improvement across the Company. This change will propel the Company into the next phase of growth.

Appreciation

I would like to convey my sincere appreciation to our Chairman Mr. Ravi Wijeratne and the Board of Directors for their guidance, constant support and the confidence placed in me. My gratitude also to the Governor of the Central Bank of Sri Lanka, Director Non-Bank Financial Institutions and other regulatory bodies for the vital role they play and their contributions to the industry and to all our stakeholders and customers for their loyalty and inspiration and the opportunity to be a partner.

The SMBL team is deeply saddened about the untimely demise of our Chief Operating Officer Mr. Takura Abeysinghe. He was an invaluable mentor and a colleague and will be missed.

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



Sumedha Fernando
Chief Executive Officer

Colombo
May 30, 2019

MANAGEMENT DISCUSSION & ANALYSIS

Economic Outlook & Business Environment

Overview of Global Economic and Business Environment*

After strong growth in 2017 and early 2018, global economic activity slowed notably in the second half of 2018, reflecting a confluence of factors affecting major economies. China's growth declined following a combination of needed regulatory tightening to rein in shadow banking and an increase in trade tensions with the United States. The euro area economy lost more momentum than expected as consumer and business confidence weakened and car production in Germany was disrupted by the introduction of new emission standards; investment dropped in Italy as sovereign spreads widened; and external demand, especially from emerging Asia, softened. Elsewhere, natural disasters hurt activity in Japan. Trade tensions increasingly took a toll on business confidence and, so, financial market sentiment worsened, with financial conditions tightening for vulnerable emerging markets in the spring of 2018 and then in advanced economies later in the year, weighing on global demand. Conditions have eased in 2019 as the US Federal Reserve signalled a more accommodative monetary policy stance and markets became more optimistic about a US-China trade deal, but they remain slightly more restrictive than in the fall.

As a result of these developments, global growth was 3.6 percent in 2018. Growth for 2018 was revised down by 0.1 percentage point relative to the October 2018 World Economic Outlook, reflecting weakness in the second half of the year, and the forecasts for 2019 and 2020 are now marked down by 0.4 percentage point and 0.1 percentage point, respectively. Improved momentum for emerging market and developing economies is projected to continue into 2020, primarily reflecting developments in economies currently experiencing macroeconomic distress, a forecast subject to notable uncertainty. By contrast, activity in advanced economies is projected to continue to slow gradually as the impact of US fiscal stimulus fades and growth tends toward the modest potential for the group. Beyond 2020, global growth is set to plateau at about 3.6 percent over the medium term, sustained by the increase in the relative size of economies, such as those of China and India, which are projected to have robust growth by comparison to slower-growing advanced and emerging

market economies. Tepid labor productivity growth and slowing expansion of the labor force amid population aging will drag advanced economy growth lower over the projection horizon.

Growth across emerging market and developing economies is projected to stabilize slightly below 5 percent, though with variations by region and country. The baseline outlook for emerging Asia remains favorable, with China's growth projected to slow gradually toward sustainable levels and convergence in frontier economies toward higher income levels. For other regions, the outlook is complicated by a combination of structural bottlenecks, slower advanced economy growth and, in some cases, high debt and tighter financial conditions. These factors, alongside subdued commodity prices and civil strife or conflict in some cases, contribute to subdued medium-term prospects for Latin America; the Middle East, North Africa, and Pakistan region; and parts of sub-Saharan Africa. In particular, convergence prospects are bleak for some 41 emerging market and developing economies, accounting for close to 10 percent of global GDP in purchasing-power-parity terms and with total population close to 1 billion, where per capita incomes are projected to fall further behind those in advanced economies over the next five years.

Local Environment**

Sri Lanka's economic growth declined to 3.2 % in 2018, down from 3.3 percent in 2017. While agriculture made a positive contribution, thanks to clement weather, a deceleration in construction depressed the contribution from industry, and services expanded at a modest rate. Inflation declined to 4.3 percent by end 2018, with the moderation brought about by lower food prices, despite currency depreciation and high oil prices in the first half of the year. Monetary policy, which remained broadly tight in response to external pressures, also helped maintain inflation low.

External sector performance was mixed. The trade deficit widened while earnings from tourism continued to grow fast, high oil prices in the first half of 2018 and increased imports of vehicles drove overall import growth. Meanwhile, worker remittances remained almost flat, and increased dividend and

*World Economic Outlook - April 2019 by International Monetary Fund (IMF)

**Sri Lanka Overview - April 2019 by World Bank Group

interest outflows exerted pressure on the current account deficit, which is expected to have widened to 3.0 percent of GDP in 2018 (from 2.6 in 2017). Debt-creating flows dominated the financial account with issuance of Eurobonds, project loans and term-financing. Nevertheless, FDI is expected to have reached an all-time high at around USD 2.0 billion in 2018, thanks to the long-term leasing of the Hambantota port.

A political controversy in the fourth quarter of 2018 affected external sector performance. Fitch, S&P and Moody's cut Sri Lanka's sovereign credit rating by one notch, and currency pressures were elevated amid capital outflows. Keeping with debt repayment, capital outflows, and market intervention by the Central Bank, gross official reserves decreased to USD 6.9 billion in December from an all-time-high of USD 9.9 billion in April 2018. Thus, reserve adequacy metrics remained weak, with foreign exchange obligations for 2019 estimated at USD 5.9 billion. The Government announced plans to issue Eurobonds, and borrow from Chinese banks, while entering into SWAP arrangements. IMF reached a staff-level agreement on the fifth review of Sri Lanka's Extended Fund Facility program in February 2019, which was delayed earlier due to the political controversy. After the announcement of the staff-level agreement with IMF, the Government raised USD 2.4 billion in Eurobonds.

Fiscal policy remained conservative. A primary surplus of 0.5 percent of GDP is expected to have been realized in 2018, thanks to tight control over expenditures. However, a sharp increase in interest expenditure is expected to have overshadowed these improvements and contributed to keep the overall deficit at 5.2 percent of GDP, marginally down from 5.5 percent in 2017.

The economy is expected to rebound, and growth to converge gradually toward 4 percent in the medium term, driven by domestic demand. Inflation is projected to stabilize around 5%. Continued fiscal consolidation, albeit slow, should bring the overall fiscal deficit and public debt on a downward path. Foreign capital inflows to government securities, and FDI should help meet external financing requirements. The recovery of domestic demand and improvements in the labor market, aided by low inflation, should boost real incomes and

lead to a further reduction in poverty. The recovery of domestic demand and improvements in the labor market, aided by low inflation, should boost real incomes and lead to a further reduction in poverty.

The challenging political environment remains a risk. On fiscal and debt management fronts, risks include a delay or reversals in efforts to strengthen revenue collection, improve tax administration, and implement liability management operations. On the external front, tighter than expected global financial conditions would increase the cost of debt and complicate endeavors to roll-over maturing Eurobonds.

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

The financial sector continued to expand moderately during the year without causing any major macroprudential concerns, amidst challenging market conditions both globally and domestically. However, credit quality of the banking sector and the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector deteriorated considerably during 2018 with increased non-performing loans and advances compared to 2017. The challenging global and domestic market conditions, unfavourable weather conditions in 2017 and slowdown of economic activities in 2018 contributed significantly to the deterioration of quality of credit. Further, overall performance of LFCs and SLCs sector slowed down significantly during 2018 due to low credit growth, declining profitability and increasing nonperforming loans. Unfavourable developments in global and domestic markets are also reflected in moderate growth recorded by other sub sectors such as insurance and primary dealers and decline in equity market activities.

The banking sector showed a moderate expansion during the year while maintaining capital and liquidity levels above the regulatory minimum requirements. The growth of the asset base of the banking sector was moderate during the first half of the year but accelerated in the second half due to high growth in credit. The expansion in credit growth was broad-based with diversified lending across major sectors of the economy. The profitability of the banking sector, as reflected by Return on Assets (ROA) ratio and Return on Equity (ROE) ratio declined

during the year mainly due to the deterioration in assets quality, rise in operating costs and increase in taxes. The Central Bank continued to strengthen the soundness of the banking sector by implementing prudential policy measures and regulations including enforcement of Basel III requirements and adoption of Sri Lanka Accounting Standards 9 (SLFRS 9) during the year.

LFCs and SLCs sector recorded a moderate expansion, with a slowdown in credit growth and profitability and a decline in asset quality. The slowdown in credit growth was mainly attributed to the fiscal and macroprudential policy measures taken by authorities to curtail import of motor vehicles with certain exceptions. Quality of assets of the LFCs and SLCs sector deteriorated as reflected in the increase in Non-Performing Loans (NPL) ratios mainly due to the unfavourable weather conditions experienced in 2017. Profitability of the sector during the period also slowed down with increased funding cost and loan loss provisions. With a view of safeguarding the financial system stability, the Central Bank continued to take appropriate prudential measures where necessary to strengthen the supervisory and regulatory framework of LFCs and SLCs and also to address the issues relating to several weak finance companies. The contractual savings institutions sector dominated by the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), other than the Approved Pension and Provident Funds recorded a moderate expansion during the year. The Insurance Sector and Primary Dealers in government securities expanded moderately during the year without causing major stability concerns. Nevertheless, a notable contraction of the Unit Trust sector was observed during the year.

Domestic money market experienced a persistent liquidity shortage during the second half of the year mainly due to foreign exchange related transactions carried out by the Central Bank and the imposition of margin requirement on Letters of Credit on motor vehicle imports. Despite, the reduction of the Statutory Reserve Ratio (SRR) by 1.50 percentage points to 6.00 per cent, from 7.50 per cent, with effect from November 16, 2018, with a view to easing the liquidity shortfall, the domestic money market continued to experience a significantly low level of liquidity at end 2018.

In response, the Central Bank further reduced the SRR by 1.00 percentage points with effect from March 1, 2019. Meanwhile, the Sri Lankan rupee depreciated significantly against the US dollar during the year in the face of four consecutive interest rate hikes by the Federal Reserve Bank of the USA and the high demand for foreign exchange from importers and reversal of some portfolio investments. The pressure on Sri Lankan rupee was further aggravated by the negative sentiment created through political instability that ensued during the last quarter of the year, followed by the International Monetary Fund (IMF) withholding the sixth tranche of the Extended Fund Facility (EFF), which was expected to be disbursed during the year. The Central Bank intervened in the forex market to curb the excessive volatility by supplying US dollars 1,120 million on net basis during the year. The Colombo Stock Exchange (CSE) recorded yet another year of poor performance during the period due to adverse developments in local and global economic environment. Then negative developments in the CSE were evident by the significant decline in share prices, market turnover, market capitalization and Price to Earning (PE) ratios throughout the year. The operations of the payments and settlement systems of the country were well maintained during the year without major concerns over safety of the payment and settlement infrastructure, and catered to the payment needs of the economy without any major disruptions.

Going forward, operating conditions of the banking industry in the medium term will be challenging due to the transition to higher capital standards under Basel III, adoption of the Sri Lanka Financial Reporting Standard (SLFRS) 9. However, in the long run, implementation of Basel III and SLFRS 9 will improve the resilience and stability of the banking sector. Also, capital levels of the LFC and SLC sector are expected to be strengthened as a result of enhanced capital requirements. Continuous strengthening of risk management framework pertaining to financial institutions are vital for improving resilience of the financial sector.

Performance of Non-Banking Financial Institution

The performance of finance companies and leasing companies were moderated during the year in terms of credit

growth, profitability and non-performing loans. Fiscal and macroprudential policy measures taken to curtail importation and credit granted for, purchasing motor vehicles negatively affected the demand for core lending products in the sector. According to 2018 CBSL Annual Report, finance and leasing companies are gradually moving away from vehicle financing to other secured lending activities. Nevertheless, the sector expanded in 2018, with an asset growth of 5.6 per cent and represented 7.6 per cent of Sri Lanka's financial sector assets by end 2018. The sector as a whole maintained capital at a healthy level along with adequate liquidity buffers above the regulatory minimum levels. The sector also exhibited a shift in the funding mix, as increased assets were mainly funded through borrowings while deposits increased slightly compared to high growth recorded during the previous year. The Central Bank continued to take prudential measures to maintain stability of the sector with much consideration on reviving several companies with weak financial positions.

Business Growth

By end of 2018 the NBFIs sector comprised of 43 finance companies and 5 leasing companies. During 2018, the expansion of total assets in the sector slowed down, recording a growth rate of 5.6% compared to the 11.8% growth reported in 2017. The asset base of the sector mainly consists of loans and advances which accounted for 79% of the sector assets. Finance leases accounted for the highest share of loans and advances, representing 53% followed by other secured loans at 38%. Lending activities of the sector showed signs of slowing down in response to fiscal and macroprudential policy measures taken to curtail importation of motor vehicles and lending towards vehicles and the slowdown in economic activities among other reasons. Credit provided by the sector grew by 7.6% when compared to the growth of 9.8% in the corresponding period of 2017. The expansion in finance leases contributed to 85% of the credit growth while 16% was through secured loans and advances.

According to the 2018 CBSL Annual Report, the investment portfolio of the sector comprises of investment in equities, capital market debt instruments, government securities and Investment properties. Investment portfolio recorded a

negative growth of 7% in 2018 which is a shift from the negative growth recorded in the year 2017. The sector showed a reliance on bank borrowings over deposits due to flexibility and negative public perception towards finance companies which reduced the funds mobilized through deposits. The growth in deposits was mainly attributed to the declining trend in deposit interest rates. The capital elements of the sector increased by 8% by the end 2018, mainly on account of the increase in capital due to steps taken by finance companies to enhance the minimum core capital to meet the Rs. 1.5 billion requirement by January 1, 2019. Other assets, mainly maintained in the form of cash, balances with banks and financial institutions, trading stocks, and fixed assets showed an increase of 3% in 2018 largely due to increased placements in banks and financial institutions.

Risks in the leasing sector

From a credit risk perspective, gross non-performing advances ratio increased to 7.7% in 2018 compared to 5.9% in 2017 which is the highest NPA ratio recorded since February 2015. The main reasons attributable to this increase are unfavorable weather conditions during 2017 and slowing down in economic activities in 2018. Further, the provision coverage ratio declined to 57% in 2018 compared to 64% reported in 2017. As a result, net NPA ratio also increased to 2.4% in 2018 from the reported ratio of 1.6% in 2017 showing signs of deterioration in the asset quality of the sector. It is expected that NPA will rise further if extreme weather conditions prevail and due to spillover effect of the Debt Relief program that was introduced by the Ministry of Finance and Mass Media in August 2018. Further, implementation of SLFRS 9 is also expected to be a challenge for credit risk of the sector.

From a market risk perspective, the sector continued to experience a minimal market risk due to the lower exposure to trading portfolio and foreign currency transactions. Along with the gradual increase in the interest rates during the year, interest rate risk of the sector slightly increased. Despite the prevailing negative mismatch in the maturity profile of the interest-bearing assets and liabilities, the sector was able to maintain a positive net interest margin. Equity risk of the sector remained low during the year as the exposure to equity market in the form of investment in listed shares was minimal at Rs.

14.3 billion, which was only 1% of the total assets of the sector.

From a liquidity risk perspective, the overall statutory liquid assets available in the sector during 2018 indicated a surplus of Rs. 25 billion as against the stipulated minimum requirement of Rs. 88 billion. However, the surplus liquid assets declined during 2018 compared to the surplus liquid assets level of Rs. 35 billion in 2017. Further, the liquid assets to total assets ratio reduced to 7.6% from 8.9% in 2017. The liquid asset to deposits ratio also was well above the statutory minimum requirement of 10% of time deposits and borrowings, and 15% of savings deposits at end December 2018.

Profitability and Capital Resources

The net interest income of the sector increased at a slower rate than in 2017, recording a growth of 6%. This was mainly due to increase in interest income by 4.3% and the growth of interest expenses by 2.9%. As a result, the net interest margin of the sector declined marginally to 7.4% in 2018 from 7.7% in 2017. However, non-interest income increased by 11.9% mainly due to increase in default charges and other service charges while non-interest expenses also increased by 1.5% adversely affecting the sector profitability. The loan loss provisions made against NPLs increased by Rs.12.4 billion during 2018 when compared to the provision of Rs. 13.5 billion made in 2017. The sector profitability declined by 17.2% compared to the profit recorded in year 2017 mainly due to increased funding cost and higher loan loss provisions. ROA also decreased by 51 basis points during the year, reporting a ratio of 2.7 per cent and ROE declined nearly by 400 basis points, reporting a ratio of 12.1 per cent which shows a sign of stress towards profitability of the sector.

The sector maintained its overall capital level well above the minimum requirement during the year enhancing the resilience to any perceived adverse shocks. According to the 2018 CBSL Annual Report, the total regulatory capital levels improved by Rs. 15.5 billion in 2018 compared to the figures reported in 2017, mainly due to the enhancement of the minimum capital requirement by the Central Bank to Rs. 1 billion from January 1, 2018. This minimum requirement is further increased to Rs. 1.5 billion by January 1, 2019. However, the sector core capital

and total risk weighted capital adequacy ratios decreased to 9.9% and 11.2% in 2018 from the reported levels of 12.4% and 13.1% in 2017 as the companies had to report risk weighted assets with a more risk sensitive focus covering credit risk and operational risk under new capital adequacy framework. The sector participants are required to maintain minimum Tier I capital adequacy ratio of 6% and total capital ratio of 10% with effect from July 1, 2018 under the new capital adequacy framework. The regulatory capital comprises of Tier I and Tier II capital of which Tier I capital contributed to 97 per cent of the total regulatory capital. Tier I capital mainly comprises of issued share capital, statutory reserve fund and published retained profits.

Supervisory and Regulatory Developments

Throughout 2018, the Central Bank initiated several policy measures to strengthen the supervisory and regulatory framework of finance and leasing companies with the aim of enhancing stability and soundness of the sector and increasing the customer protection and confidence. The "Financial Customer Protection Framework" was issued in the form of a Direction which emphasizes minimum standards for customer protection in the areas of disclosure and transparency, financial education and awareness, responsible business conduct, complaint handling and redress, equitable and fair treatment and protection of customer data and privacy. A Direction was issued to regularise the valuation procedure regarding immovable properties. Further, a new Capital Adequacy Framework was implemented with a view to fostering a strong emphasis on risk management and to encourage ongoing improvements in risk assessment capabilities of finance and leasing companies. A new Direction on "Outsourcing of Business Operations" was introduced to standardise the outsourcing arrangements by introducing a risk management guideline to manage the risk arising from outsourcing and to impose restrictions on outsourcing core business functions/ operations and activities. A new Direction on "Maximum Rate of Interest on Microfinance Loans" was introduced for finance and leasing companies with the objective of protecting customers from being charged with exorbitant interest rates for microfinance loans. LTV Ratio on vehicle imports was further revised to curtail imports requiring the sector to adopt

the new ratio with effect from October 1, 2018. A circular was issued in March 2018, where finance companies were required to obtain a credit rating from a credit rating agency acceptable to the Central Bank and required to publish such rating with effect from October 1, 2018.

Our Plans

The Company's strategy is primarily focused on creating stakeholder value in the long term while balancing the exigencies of the short and medium term. With the expectation to ease off adverse economic conditions during 2019, the Company plans to strategize the product mix to achieve a better yield in 2019. The loan products are constantly reviewed to ensure profitability targets are met. The Company intends to reduce the reliance on riskier products such as personal loans in the future.

From a perspective of adding value to customers, we will continue to build on the considerable progress achieved in the last decade by further enhancing our channels and growth through collaborative partnerships, using appropriate technology thus providing a robust platform for growth. An

expansion plan is put in place for pawning product in Negombo, Colombo and Deniyaya. The focus will be on the geographical areas with people who are expected to possess more gold jewelery with them. In addition, in order to ensure success, the product expansion plan will be facilitated by continuous monitoring and audit by head office.

The Company intends to further strengthen the credit evaluation process to minimize non-performing loans. Efforts are made to improve the collection process while maintaining high service standards. The customer portfolio will be carefully managed to minimize willful defaulters and provide assistance to those who are in genuinely difficult circumstances.

Sound corporate governance, disciplined risk management and a compliance culture have contributed to the success of the Company. There will be greater emphasis placed on staff training and empowerment in 2019 as these are vital areas that helps maintain high standards of service delivery. A performance culture will continue to drive excellence in all areas of operations. These attributes will be the common thread that connects all our strategic initiatives as we look to our future.

Financial Capital and Review

Financial Capital

Financial capital is the pool of funds available to the Company including shareholders' funds and borrowings. Financial Capital is reinvested in other capital inputs and forms a vital component of our value creation process. Accessing and adequately managing our Financial Capital is essential for ensuring sustainable growth and fulfilling our growth aspirations.

2018 Performance

The challenging business conditions coupled with the slowdown in the country's economy, brought many challenges to the industry as a whole in 2018. Despite these challenging circumstances, the Company performed commendably well in 2018 recording a profit after tax of Rs. 85.7 million, the highest ever since 2010 and continued to deliver its commitments to shareholders whilst maintaining the quality of the portfolio and other efficiency indicators. The strong improvement in the profitability was possible due to a focused implementation of a series of strategic initiatives. The 2018 performance was possible due to the solid foundation laid by the Company over past seven years during which a sustainable portfolio was built. Through the 2018 financial performance, the Company demonstrates its commitment to deliver long-term value for our shareholders by continuously increasing our net assets value over the past decade.

With highly volatile margins and increased cost of funds that dampened credit demand in 2018, the Company managed to increase the net loan and lease portfolio by over 5% while accommodating an ordinary annual capital erosion of Rs. 400 million. There was an important strategic shift in the overall business model of the Company in 2018 where the Company completely stopped the Biz Cash loans that resulted in impairment provisions in 2017 and moved towards loans with collaterals, thereby ensuring that adequate safeguards are in place in case of default.

The Company was also challenged by the upward movement in interest rates which increased the cost of funds substantially during the year. However, the bottom line impact was minimized with cost management initiatives that were successfully implemented. By rigorously pursuing the recovery and by

streamlining legal actions in a more structured manner, the Company was able to reverse impairment provision for loans and lease receivables made in previous years and thereby positively impacting the bottom line. Technology has been widely used to streamline internal operations and improve efficiency thereby providing a better service to the customer.

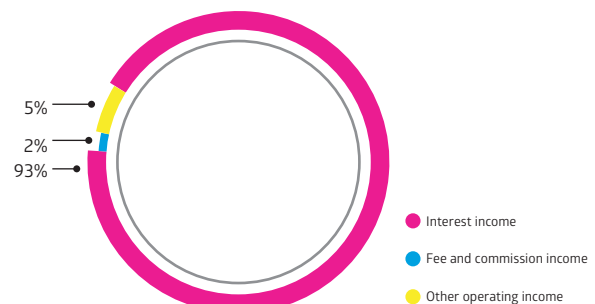
The Company managed to achieve higher levels of Return on Assets (ROA) and Return on Average Equity (ROAE) in 2018 when compared with 2017. In line with this, the Company created value to shareholders through the payment of an interim dividend in 2018 which increased the value of shares. The dividend policy seeks to maximise shareholder wealth, maintain a consistent stream of dividend to shareholders and increase market capitalization, whilst ensuring that there is sufficient capital for planned business expansion.

Income Analysis

During the year 2018, in terms of interest Income, the Company showed an overall decrease in 3% when compared to 2017. This decrease in topline performance was caused due to the reduction in the high yielding non-asset backed products. However, in 2018 there was a noteworthy increase of 812% in interest income from gold loans in 2018 when compared with 2017, supported by 171% strong growth in pawning advance portfolio to Rs. 43.4 million from Rs. 16 million.

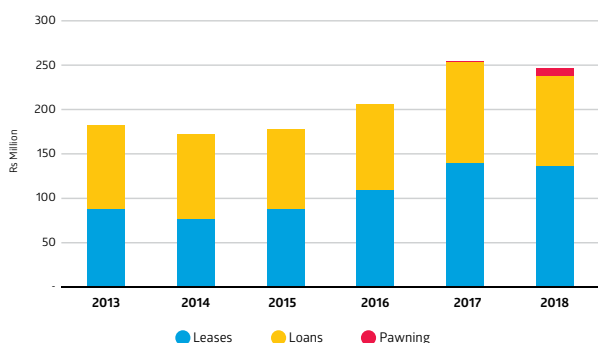
Income Components

In the year 2018, 93% of the total income of the Company has derived from interest income followed by other operating income accounted contributing to 5% of the gross income. Fee and commission income was 2% in 2018.



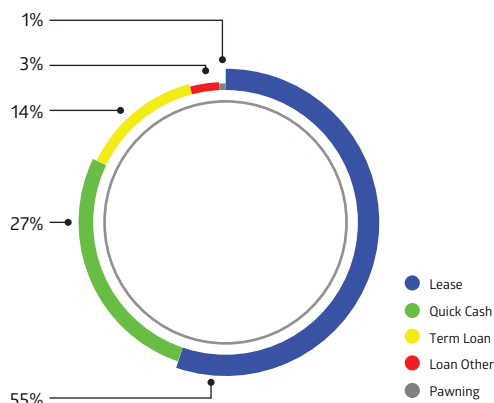
Income Growth

Although the income has grown continuously over the last six years it was sluggish during 2018.



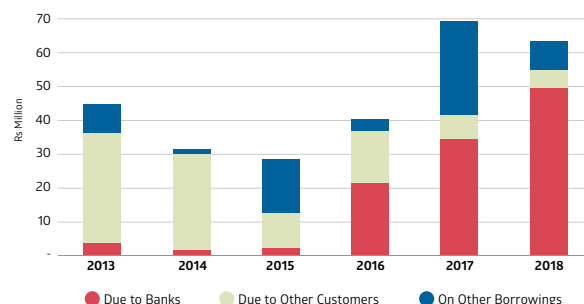
Product-wise Interest Income

Similar to last year, leasing income made the highest contribution in 2018 followed by term loans and quick cash.



Interest Expense Components

During the year 2018, the interest cost of the Company decreased by 8.4%. This is mainly due to a 70% reduction in interest expenses when compared to 2017 pertaining to a securitization obtained in 2016 that had uneven repayment installments. As a strategic focus, Company continued to borrow more from banks while negotiating longer repayment periods on equated monthly installments to keep the cost of its funding lines at manageable levels. During the past six years, focus on borrowings from other sources has reduced resulting in the corresponding reduction in the interest expenses.

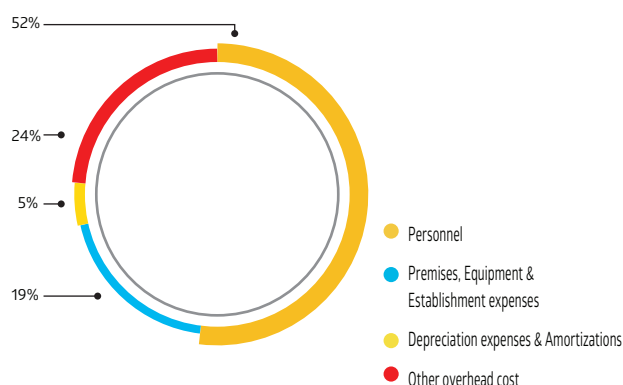


Net Interest Income

The net interest income has declined by 4% due to the reduction in the high yielding non-asset backed products. Interest income from leases and loans contracted by 3% and 11% respectively. However, interest income from pawning advances recorded robust growth of 812% to Rs. 8.2 million in 2018. Meanwhile, interest expenses also decreased by 8.4% to Rs. 63.3 million, mainly due to the decrease in interest expenses on other borrowings. As a combined effort, the Company recorded a net interest income of Rs. 182.6 million in 2018 which was marginally lower than the previous year net interest income of Rs. 185.6 million.

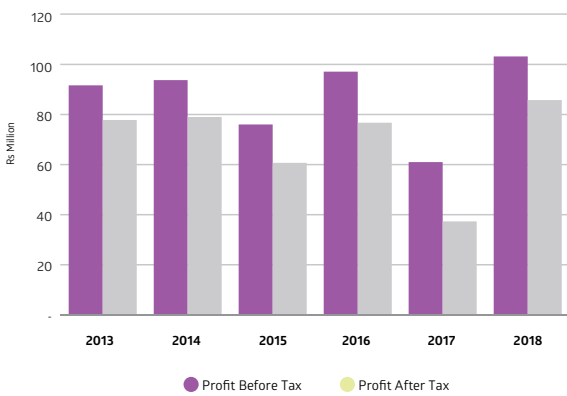
Cost Breakdown

The increase in costs was unavoidable in the face of rising cost structures in the country. However, the Company focused on cost containment and cost efficiency in 2018 and as a result, reduced the overall operating expenses by 14% compared to 2017. Further analysis of the composition of operating expenses shows that personnel costs being the largest contributor amounts to 52% of expenses followed by operational overheads of 24% and depreciation of 19%.



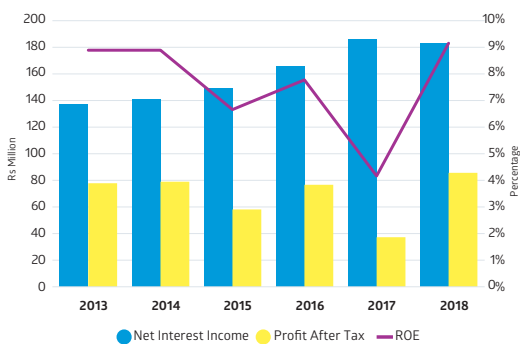
Profitability Trend

An analysis of profit before tax and profit after tax over the last six years is given below. The highest profit before tax and profit after tax during the last six years was recorded in 2018. The Company's 2018 profit after income tax of Rs. 85.7 million reflects a 130% increase when compared with last financial year. This growth in profit after tax is backed by the recovery of impairment losses incurred in previous years and decrease in personnel and other expenses by 14%.

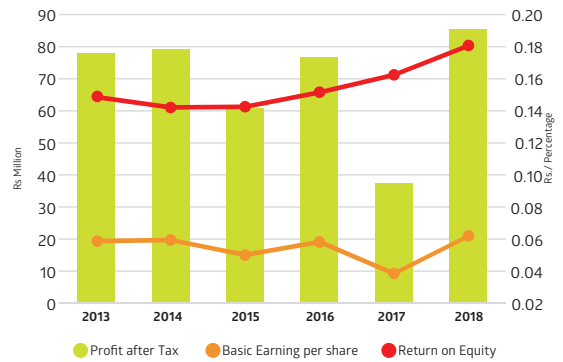


Return on Equity (ROE)

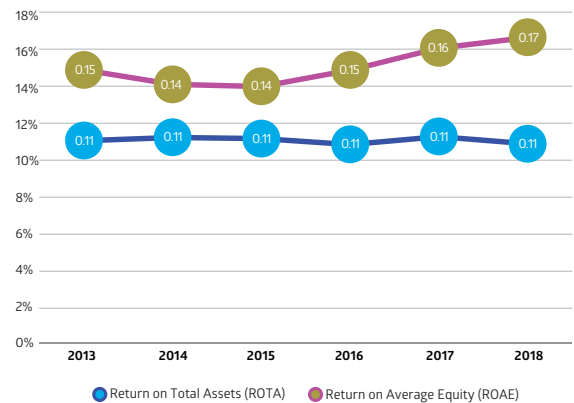
The Company recorded a Return on Equity which is double the ROE of 2017 to post a 8% return which is attributable to the increase in profit before tax.



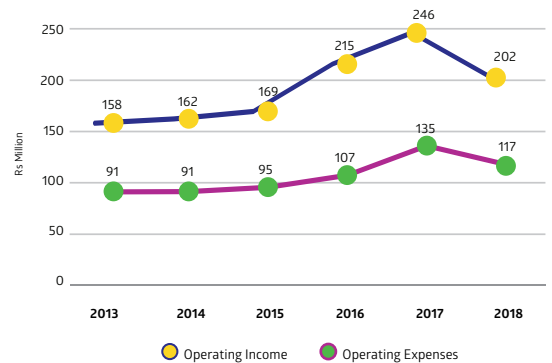
Consequently to this performance, the earnings of the shareholders have also increased ensuring sustained wealth maximization.



Over the last six years, the Company was able to earn stable returns for the shareholders.

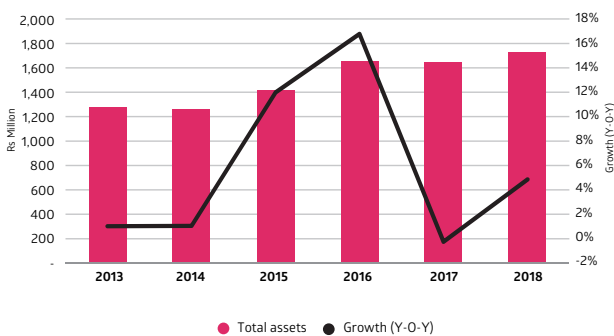


The Company has been able to keep an increasing spread between operating income and expenses despite inflationary and other economic factors.



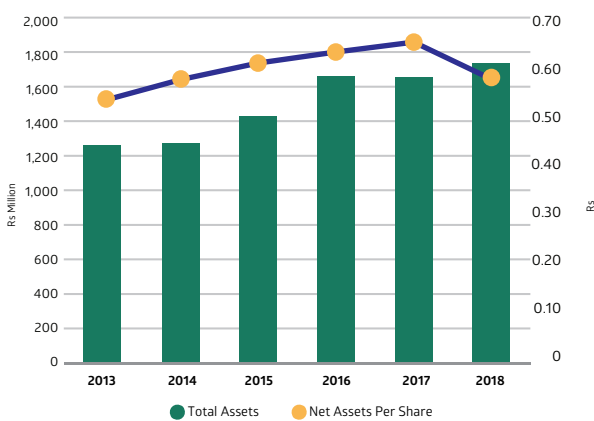
Asset Growth

The Company continued to strengthen its balance sheet while accommodating a portfolio erosion of over Rs. 400 million. The Company's total assets increased by 5.1% to Rs.1.7 billion by end of December, 2018, largely due to the strong growth in net loans and receivables portfolio, financial investments, intangible assets and improvement in cash and cash equivalent due to funds attained by means of bank loans. This is the highest asset value recorded during the last six years depicted. Though the Company recorded a decline in total assets in 2017, the Company managed to grow its total asset by 5% in 2018.



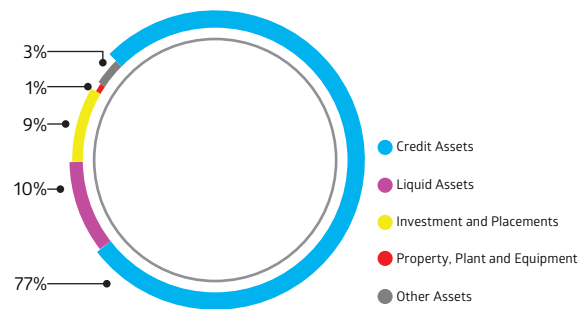
Net Asset Per Share

In 2018, the Company recorded the highest level of total asset amount while net asset per share decreased from Rs. 0.65 to Rs.0.58. The main reason for this drop in net asset per share is due to the Day 1 Provision made under SLFRS 9.



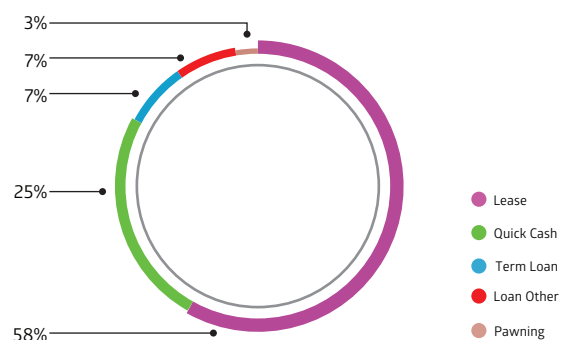
Asset Composition

The Company continued to grow its balance sheet, with total assets expanding by 5.1% to Rs. 1.7 billion million in 2018. The highest asset growth was recorded in liquid assets (+10%) followed by credit assets (+5%) signifying the net expansion of the leasing and other loan portfolios. Though the Company's balance sheet tilted more towards credit assets the liquidity position remained comfortable at end of 2018 with 10% growth in liquid assets.



Portfolio Composition

The new growth strategies implemented by aggressively moving into collateral-based lending contributed to a shift towards leases and mortgage loans in 2018. Improving the quality of the lending portfolio was a strategic priority for the year to build a solid financial foundation for the future of the Company. Therefore, while aggressively pushing new lending, the Company had intensified recovery initiatives and internal credit procedural aspects to ensure better quality of new lending.

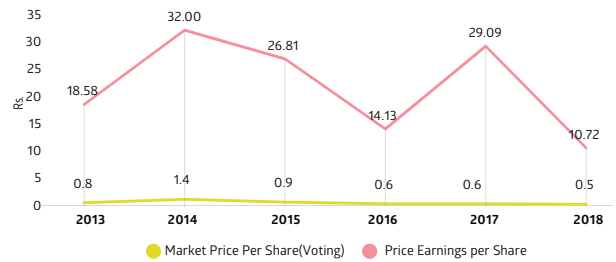


Greater focus on asset backed products saw the leasing grow by 7% despite being faced with industry headwinds and continues to be the Company’s mainstay while being 58% of the portfolio. As a result of the strategic expansion of the pawning portfolio, there was 171% growth in 2018 proving high yield. The Company deployed increased resources to this product segment and strengthened its presence in the Negombo and Deniyaya areas leading to deeper penetration.

Market Price Analysis

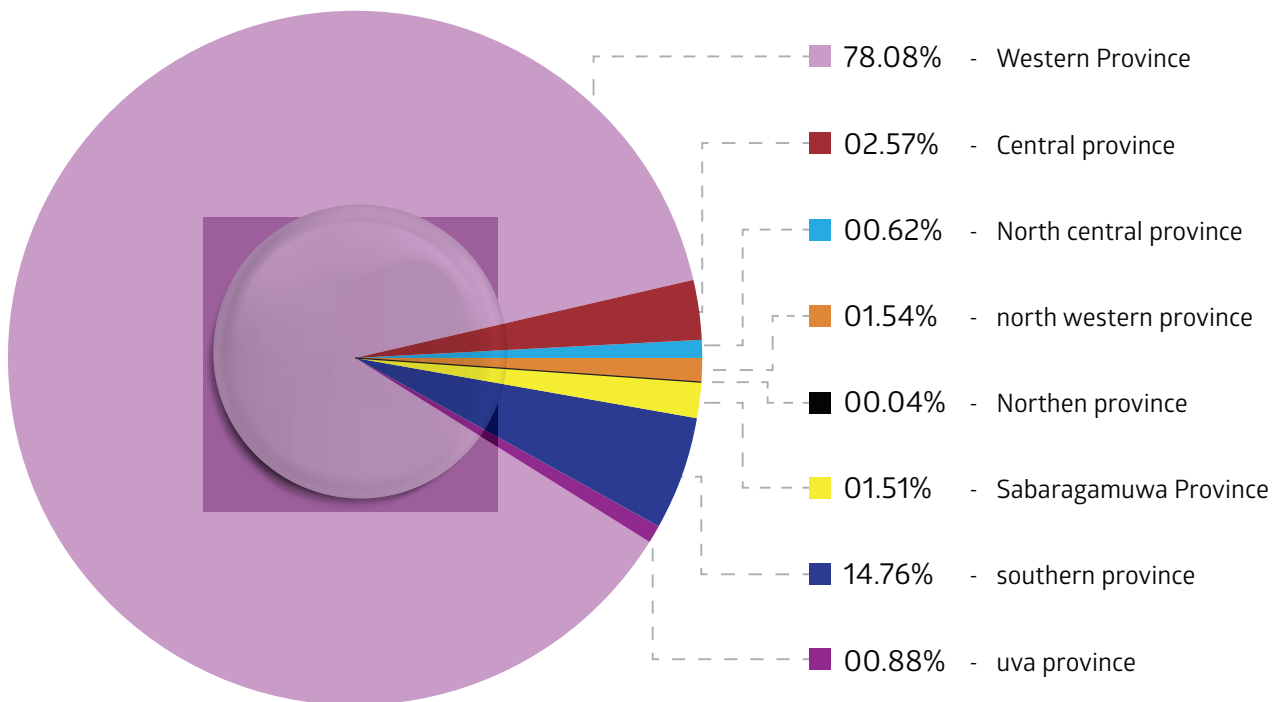
In 2018, market price per voting share dropped to 50 Cents from 60 Cents and price earnings per share dropped to 10.72

from 29.09. This decline was mainly due to the increased level of earnings per share from 20 Cents to 50 Cents in 2017 and 2018 respectively.



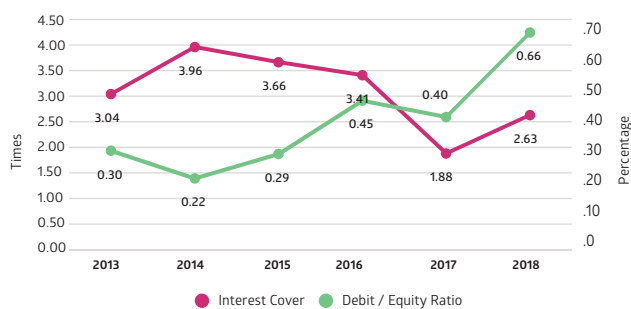
Geographical analysis of customers

Larger segment of the Company’s customers is from the Western Province which is amounting to 78%, followed closely by the Southern Province amounting to 15%. It is encouraging that our customer base has gathered momentum and dispersed over the rest of the island despite being a relatively small player in the industry. This is a testimony to the fact that our service is well accepted by a cross section of people all over the country.



Gearing

Due to the higher level of borrowings from banks, debt/equity ratio increased to 66% from 40% in 2018. However, during the 2018, interest cover ratio increased from 1.88 times to 2.63 times as a result of lower level of interest expense and increased level of earnings in 2018 when compared with 2017.



Shareholders' Funds

Shareholders' funds at the end of the year decreased by 1% and stood at Rs. 1.1 billion due to the reduction of retained earnings of Rs. 200 million for SLFRS 9 Day 1 provision.

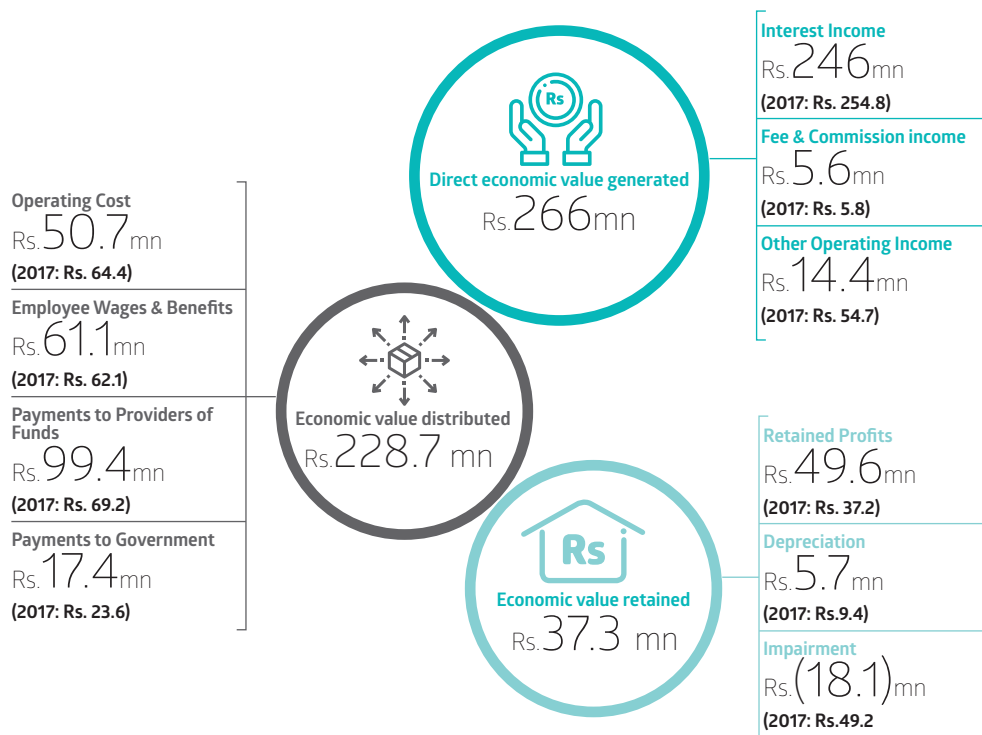
Looking Forward

The global growth outlook being positive and with expectation of a better increase in 2019 and the local economic conditions expected to be brighter in the medium, the Company is well positioned for an enhanced performance in 2019. In the face of fast-growing competition from banks and finance companies, SMB Leasing PLC has relentless focus on creating higher value for our stakeholders. The Company shall excel in the financial performance with strong focus on improving profitability within an appropriate risk appetite and to manage the cost of credit and cost efficiency with a right mix of product offering based to deliver a robust level of return to our shareholders.

Direct Economic Value Generated and Distributed

Direct economic value generated and distributed (EVG&D) presents information on the creation and distribution of economic value by the Company. This provides a basic indication of how the Company has created wealth for its stakeholders.

	2018		2017	
Generated	265,974,785	100%	315,262,931	100%
Interest Income	245,975,164		254,750,912	
Fee & Commission Income	5,587,169		5,822,626	
Other Operating Income	14,412,452		54,689,393	
Distributed	228,719,170	86%	219,396,967	70%
Operating costs	50,738,858	19%	64,443,654	21%
Employee wages and benefits	61,086,467	23%	62,103,977	20%
Payments to providers of capital				
--- Dividends to shareholders	36,116,657	14%		
--- Interest payments for borrowings	63,338,977	24%	69,180,996	22%
Payments to government				
--- VAT on Financial Services	17,438,210	7%	16,937,380	5%
--- Income Tax	-		6,730,960	2%
Retained	37,255,615	14%	95,865,964	30%
Retained Profit for the year	49,625,139	19%	37,248,836	12%
Depreciation	5,688,593	2%	9,385,665	3%
Impairment (Reversal) /Charge	(18,058,117)	-7%	49,231,463	15%



Human Capital Management

Our Vision

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

HR Policy Framework

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

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

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

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

Building human and intellectual capital is intrinsically linked to

employee retention and attraction. SMBL has created a great place to work where employees are inspired and motivated to perform at their optimum level. A conducive environment that inspires high levels of performance and motivates employees to realize their potential has been created. The management encourages bottom up strategic planning, business development and cost engineering processes.

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

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

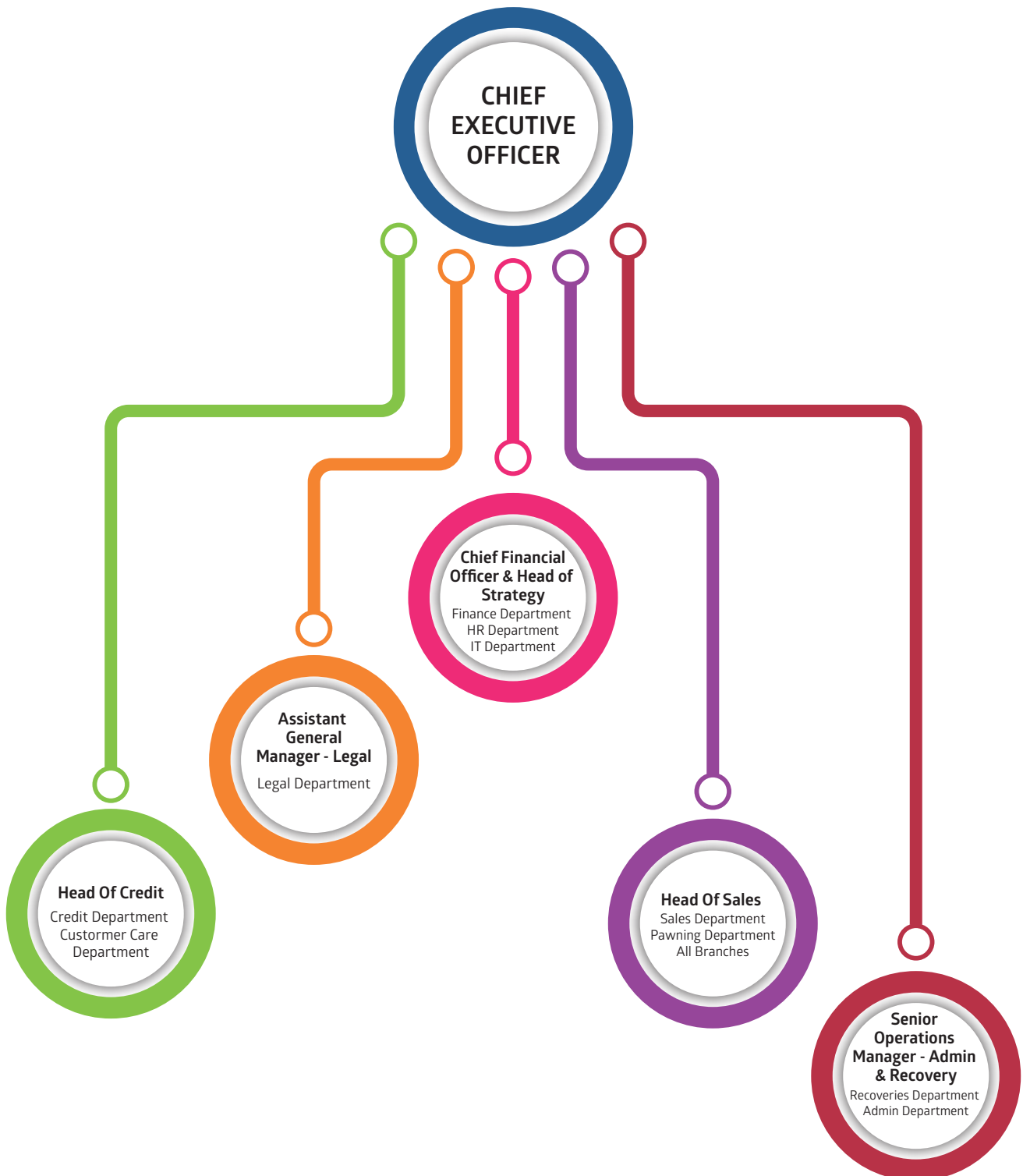
All employees are expected to display integrity at all times and to act ethically in whatever they do. The HR policies uphold equality in the workplace, giving everyone the opportunity to work in a respectful working environment. Company has adhered to labour laws and regulations and complied with all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

Our Team

A 48 strong-team comprising a diverse mix of individuals are the primary value creators for the Company. As an equal opportunity employer, our team represents both genders, all major ethnic groups in the country and generations X, Y and Z who work together in a conducive environment with dignity and mutual respect. Employees are typically engaged on full-time employment with a few on contracts where the need is likely be for a specific time.

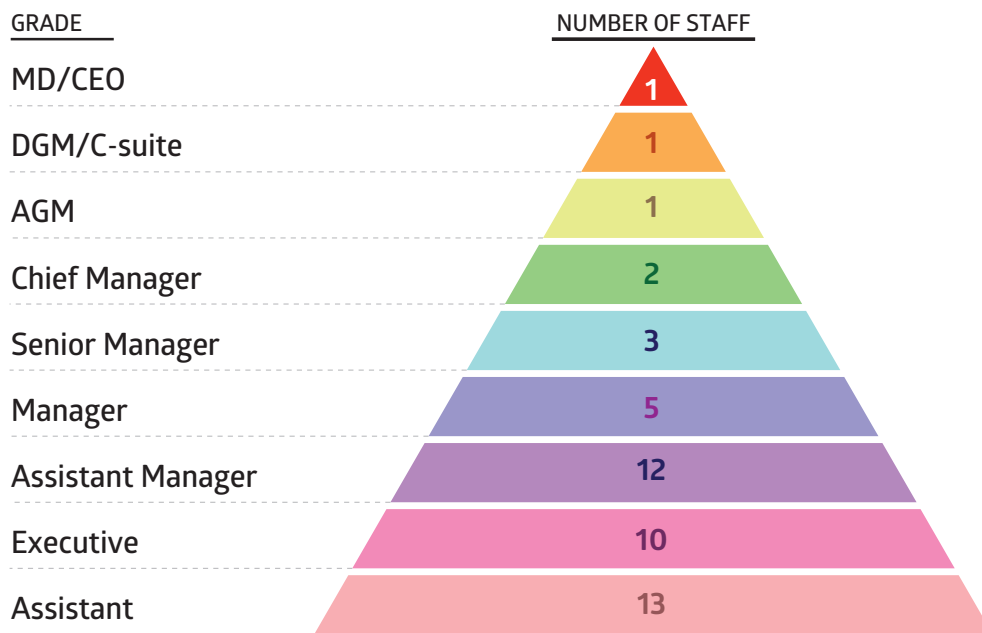
High Level Organization Structure with Departmental / Functional Responsibilities

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

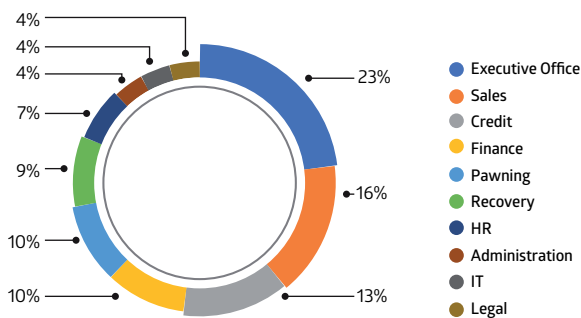


Employee Grades

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



Staff by Department

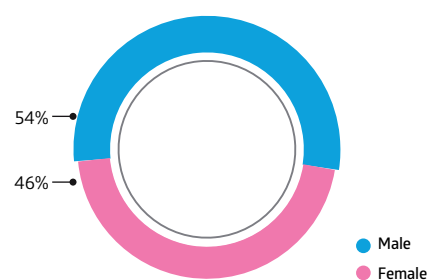


Our team as at December 31, 2018 comprises 83% permanent employees and 17% contract employees. This high percentage of permanent employees encourage them to take ownership of their deliverables within the organization.

Employee Demographics

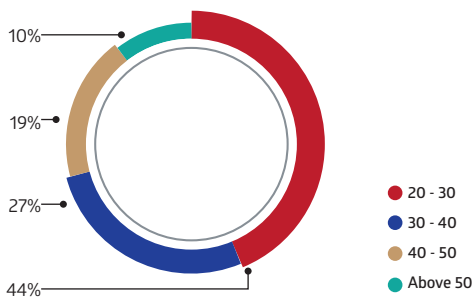
Gender Representation

SMBL is an equal opportunity employer and this has enabled the Company to maintain a fair balance of employees in age, gender and a balance mix of skills and experience, who contribute in creating a sustainable work environment. At present, gender-wise composition is on the path of achieving a sound balance in gender diversity with females accounting for 46% of employees. This statistic will further improve in the coming years as the Company promotes diversity and communicates the importance of inclusivity among the staff.



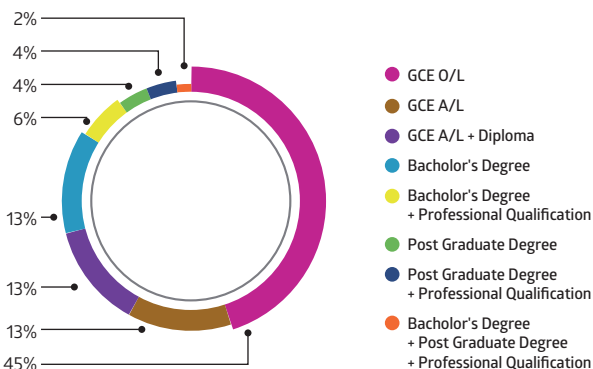
Age of Employees

In terms of workforce age, SMBL is fortunate to have a well-balanced team comprising of 56% experienced employees who are over 30 years of age and a youth group that comprises of 44% of employees below the age of 30 years. Overall, SMBL has relatively younger workforce with 63% of our total employees being below 40 years of age. The company recruited a significant number of graduates in 2018 to boost the talent pool of the Company and the management believes in nurturing and training the educated youth of Sri Lanka to take on the leadership positions in the organization in the future.



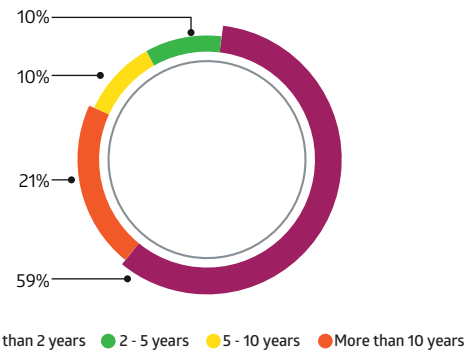
Staff Qualifications

The qualification levels of SMBL workforce is given in the below chart. The profiles of Corporate Management, Senior Management, Managers and Assistant Managers are given on pages 39 to 42 of this report.



Length of Service

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



Recruitment

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

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

The first interview is conducted by the Human Resources

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

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

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

Training and Development

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

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

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

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

Performance Appraisal

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

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

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

Perquisites & Benefits

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

Employees' Provident Fund (EPF)

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

Company Contribution – 12% on the basic salary.

Employee Contribution – 8% on the basic salary.

Employees' Trust Fund (ETF)

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

Gratuity

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

Bonus

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

Medical benefits

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

Personal accident cover

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

Salary advance

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

Festival Advance

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

Mobile SIM

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

Maternity leave

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

Culture & Working Environment

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

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

precautionary measures are taken to protect employees from physical hazards such as fire. SMBL being a service-oriented organization that deals primarily in financial transactions, the type of tasks carried out by our employees do not directly pose safety risk or disease related health hazards. There were no injuries to the staff while on duty in 2018.

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

Employee Grievance

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

An approved framework is in place for addressing employee grievances which ensures equitable treatment and anonymity. The human resource department is equipped with persons of the relevant expertise and experience to deal with employee grievances of significance. Grievances that cannot be resolved or any unresolved concerns are brought formerly to the attention of the HR Department and it is firstly routed upward

to the respective HOD and if still unresolved it will be escalated to the Head of HR and the Chief Executive Officer to take appropriate action to address such grievances.

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

Management Information on Human Resources

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

Future Plans

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

Risk Management

Integrated Risk Management

Introduction

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

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

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



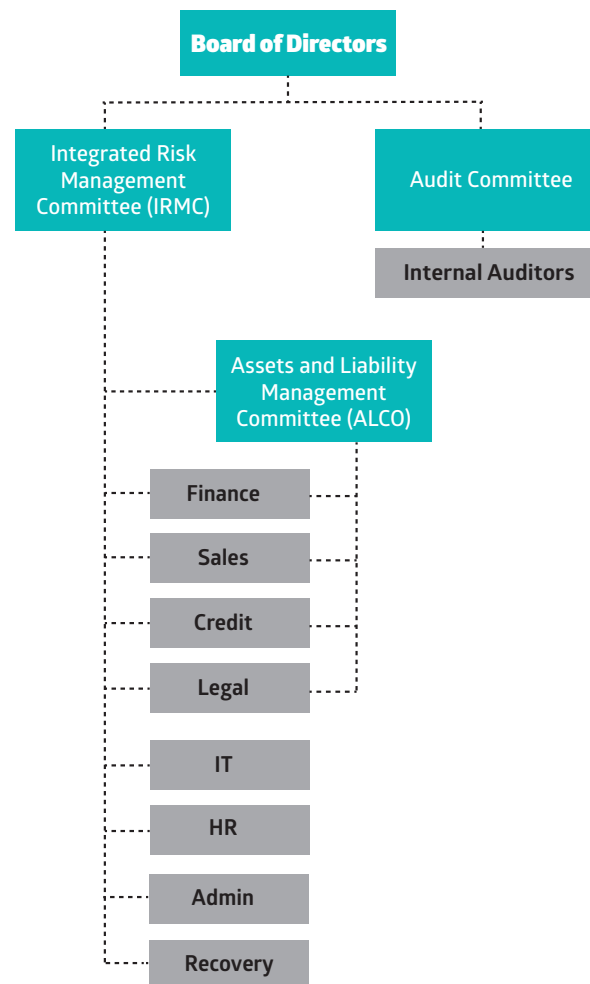
The primary responsibility for Integrated Risk Management lies with the Board of Directors. As delegated by the Board of Directors, the Integrated Risk Management Committee (IRMC) reviews and assesses the adequacy and effectiveness of the risk management policy of the Company.

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

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

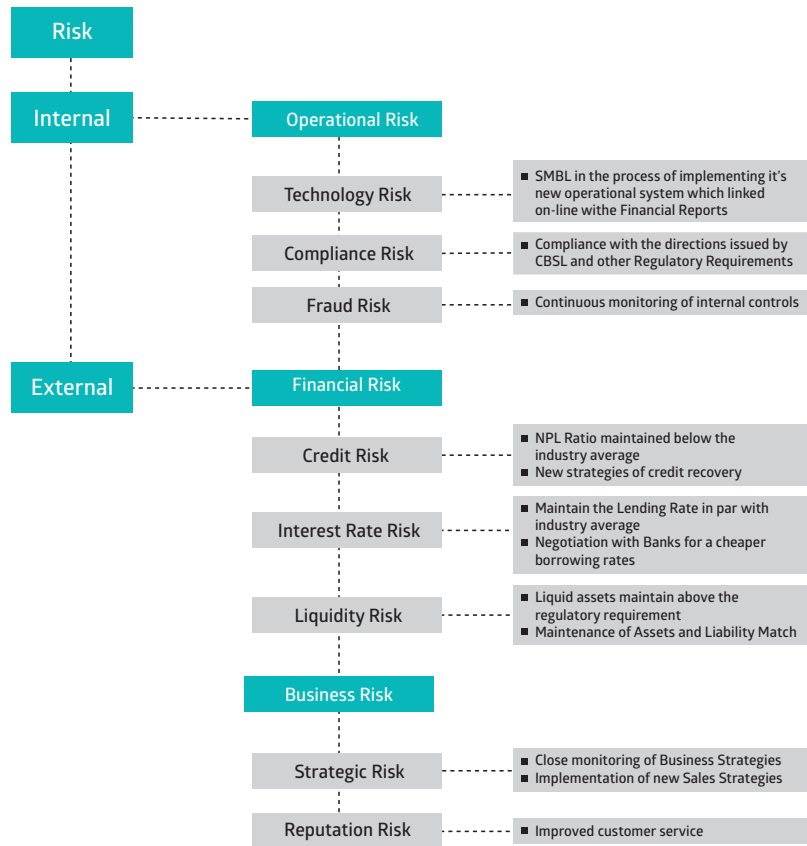
The Risk Treatment Methods are proposed and selected at the Committee and the time plan for implementation of those Risk Treatment Methods are decided by the Committee.

The Company's Risk Management Structure



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

SMB Leasing PLC's Risk Landscape



Approach in 2018 for Risk Management

Assets and Liability Management Committee (ALCO)

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

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

The main tasks of the Committee are as follows

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

- Updating on the Rules and Regulations and the amendments thereto

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

Audit Committee and the Internal Auditors

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

Shareholders and Investor Information

Twenty Largest Ordinary (Voting) Shareholders as at December 31, 2018

Ordinary voting shares	2018		Comparative holdings in 2017	
	No. of Shares	%	No. of Shares	%
1 Sampath Bank PLC/Dr. T. Senthilverl	268,705,956			
Seylan Bank PLC/ Dr. T. Senthilverl	85,805,393			
2 Mr. H. R. S. Wijeratne	194,882,451	16.35	194,882,451	16.35
3 Standard Chartered Bank Singapore S/A HL Bank Singapore Branch	94,416,100	7.92	72,916,100	6.12
4 Mrs. S. A. Fernando	47,956,558	4.02	40,452,878	3.39
5 Mr. W. Gunaratne	22,316,206	1.87	N/Q	N/Q
6 Mr. R. Gautam	17,620,000	1.48	14,550,000	1.22
7 Seylan Bank PLC/ Jayantha Dewage	15,157,671	1.27	15,157,671	1.27
8 Ayenka Holdings (Private) Limited	15,034,000	1.26	14,370,000	1.21
9 Miss. W. N. C. Fernando	13,455,879	1.13	17,701,231	1.49
10 Sinharaja Hills Plantation (Pvt) Limited	13,000,000	1.09	13,000,000	1.09
11 Hatton National Bank PLC / Arunasalam Sithampalam	12,880,242	1.08	12,880,242	1.08
12 Mr. H. K. Pushpakumara	11,943,794	1.00	9,800,000	0.82
13 Andaradeniya Estate (Private) Limited	11,470,674	0.96	11,470,674	0.96
14 Mr. W. Jinadasa	10,815,820	0.91	N/Q	N/Q
15 Mr. B. L. Jayaratne & Dr. Y. S. Liyanage	7,255,995	0.61	7,255,995	0.61
16 Mrs. K. S. Yapa	6,000,000	0.50	N/Q	N/Q
17 People's Leasing & Finance PLC/ Mr. D. M. P. Disanayake	5,748,599	0.48	5,748,599	0.48
18 Acuity Partners (Pvt) Limited / Mr. Anthony Romesh Grero	5,369,473	0.45	N/Q	N/Q
19 Mr. V. R. Kathiragamattamby (Deceased)	5,250,000	0.44	5,250,000	0.44
20 Mr. S. D. R. Arudpragasam	5,000,000	0.42	N/Q	N/Q
Total shares held by the top 20 holders - 2018	870,084,811	73.01	-	-
Balance shares held by other ordinary voting shareholders - as at December 31, 2018	321,681,961	26.99	-	-
Total ordinary voting shares	1,191,766,772	100.00		

Twenty Largest Ordinary (Non Voting) Shareholders as at December 31, 2018

Ordinary Non - voting shares	2018		Comparative holdings in 2017	
	No. of Shares	%	No. of Shares	%
1 Mr. R. Gautam	50,000,000	8.14	40,600,000	6.61
2 Sampath Bank PLC/Dr. T. Senthilverl	40,171,815			
Seylan Bank PLC/ Dr. T. Senthilverl	7,000,000			
3 Mr. H. K. Pushpakumara	24,932,072	4.06	23,074,999	3.76
4 Mr. M. L. A. Benedict	17,734,100	2.89	16,645,000	2.71
5 Seylan Bank PLC/Jayantha Dewage	16,521,480	2.69	16,521,480	2.69
6 Merchant Bank of Sri Lanka & Finance PLC / P. M. Gunawardhana	12,271,566	2.00	N/Q	N/Q
7 Mr. B. L. Jayaratne & Dr. Y. S. Liyanage	11,749,352	1.91	11,749,352	1.91
8 Waldo Mackenzie Ltd / Mr. S. A. Gulamhusein	11,429,880	1.86	11,429,880	1.86
9 Pan Asia Banking Corporation / A.C. Jayasinghe	8,024,101	1.31	8,024,101	1.31
10 Mr. D. H. G. U. P. Ubayawansa	7,269,720	1.18	5,427,081	0.88
11 Mr. J. Mandawala	6,398,026	1.04	5,650,025	0.92
12 Miss. S. Durga	6,371,674	1.04	6,371,674	1.04
13 People's Leasing & Finance PLC/L T. Samarawickrama	6,000,000	0.98	6,000,000	0.98
14 Mr. J. A. W. Victoria	5,756,462	0.94	6,756,462	1.10
15 People's Leasing & Finance PLC/Dr. H. S. De Soysa & Mrs. G. Soysa	5,614,598	0.91	5,614,598	0.91
16 Mr. J. J. Ravindran	5,240,000	0.85	5,240,000	0.85
17 Mr. W. J. D. Benedict	5,100,000	0.83	5,100,000	0.83
18 Acuity Partners (Pvt) Limited /Mr. S. N. M. Smasinghe	4,997,932	0.81	4,997,932	0.80
19 Mrs. S. Abishek	4,869,460	0.79	N/Q	N/Q
20 Mr. S. D. Divakarage	4,670,666	0.76	N/Q	N/Q
Total shares held by the top 20 holders - 2018	262,122,904	42.69	-	-
Balance shares held by other ordinary non-voting shareholders - as at December 31, 2018	351,943,197	57.31	-	-
Total ordinary non voting shares	614,066,101	100.00		

N/Q- Not qualify for Top 20 Shareholders in 2017

Directors' Shareholding as at December 31,

		2018		2017	
		No of Shares	% of Holdings	No of Shares	% of Holdings
Mr. H.R.S Wijeratne	Voting	194,882,451	16.35	194,882,451	16.35
	Non Voting	-	-	-	-
Mr. U. Gautam	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr. J. C Korale*	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr. T. M. Wijesinghe	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr. A. T. S. Sosa	Voting	1,000	0.00	1,000	0.00
	Non Voting	-	-	-	-
Mr. M. S. A. Wadood	Voting	-	-	-	-
	Non Voting	-	-	-	-

*Mr. J. C Korale - Demised on May 21, 2018

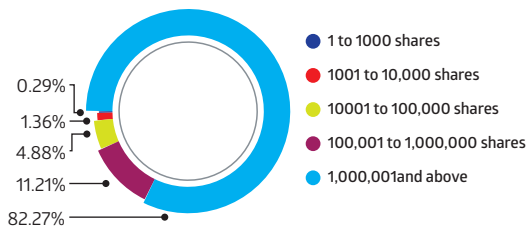
Share Information	2018	2017
Book Value		
Net Assets per Share-Group (Rs)	0.58	0.65
Share Prices		
Ordinary Shares-Voting		
Highest (Rs.)	0.60	1.00
Lowest (Rs.)	0.40	0.40
Last Traded (Rs.)	0.60	0.60
Ordinary Shares-Non Voting		
Highest (Rs.)	0.30	0.40
Lowest (Rs.)	0.20	0.20
Last Traded (Rs.)	0.20	0.30
Earnings		
Ordinary Shares		
Basic Earnings Per Share (Rs.)	0.03	0.02
Price Earning Ratio (Times)	19	30
Frequency of Shares Traded		
Number of Shares Traded		
Voting	155,675,861	92,842,807
Non Voting	58,761,802	43,203,635
Number of Transactions		
Voting	3,005	3,978
Non Voting	1,407	2,544
Total Number of Shareholders		
Voting	9,869	9,897
Non Voting	4,340	4,392
Total Number of Public Shareholders		
Voting	9,869	9,893
Non Voting	4,340	4,392
Percentage of Public holding		
Voting	83.65%	83.65%
Non Voting	100.00%	100.00%
Market Capitalization		
SMB Leasing PLC Value (Rs.Mn)	498	715

Distribution of Shareholders

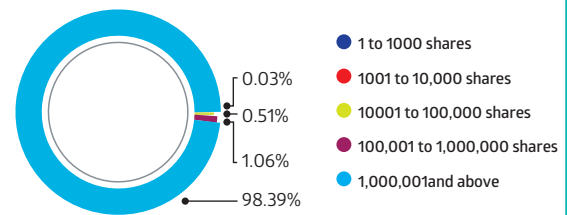
Ordinary Voting-Shareholding as at December 31,2018

Range of Shareholdings	Resident			Non Resident			Total		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
1 to 1,000	4,648	3,126,499	0.29	10	4,325	0.00	4,658	3,130,824	0.26
1,001 to 10,000	3,234	14,633,133	1.36	6	36,590	0.03	3,240	14,669,723	1.23
10,001 to 100,000	1,468	52,439,218	4.88	13	595,341	0.51	1,481	53,034,559	4.45
100,001 to 1,000,000	401	120,535,239	11.21	3	1,233,000	1.06	404	121,768,239	10.22
1,000,000 & above	82	884,899,960	82.27	4	114,263,467	98.39	86	999,163,427	83.84
Total	9,833	1,075,634,049	100.00	36	116,132,723	100.00	9,869	1,191,766,772	100.00

Ordinary Voting - Resident



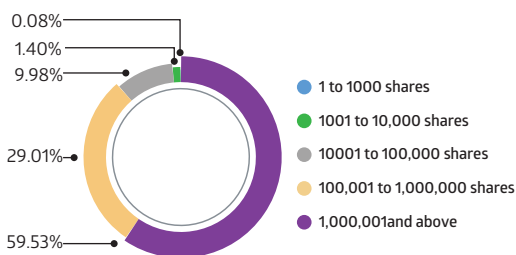
Ordinary Voting - Non Resident



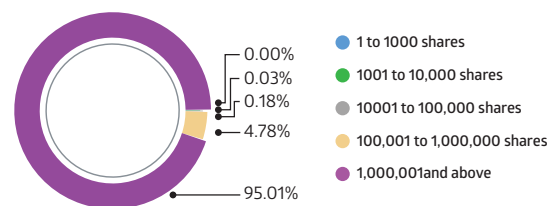
Ordinary Non-Voting Shareholding as at December 31,2018

Range of Shareholdings	Resident			Non Resident			Total		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
1 to 1,000	1,005	459,369	0.08	3	275	0.00	1,008	459,644	0.07
1,001 to 10,000	1,410	7,738,225	1.40	3	17,000	0.03	1,413	7,755,225	1.26
10,001 to 100,000	1,294	54,999,418	9.98	4	109,935	0.18	1,298	55,109,353	8.97
100,001 to 1,000,000	525	159,908,689	29.01	7	3,002,400	4.78	532	162,911,089	26.53
1,000,000 & above	83	328,206,990	59.53	6	59,623,800	95.01	89	387,830,790	63.16
Total	4,317	551,312,691	100.00	23	62,753,410	100.00	4,340	614,066,101	100.00

Ordinary Non Voting - Resident



Ordinary Non Voting - Non Resident



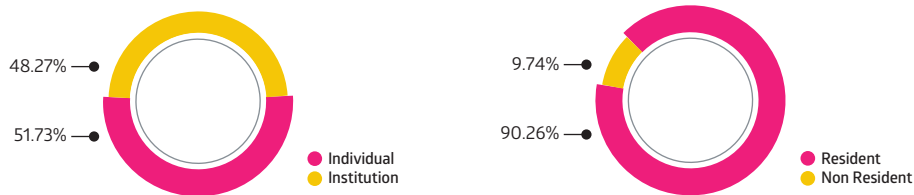
Composition of Shareholders

Ordinary Voting Shares

As at	December 31, 2018			December 31, 2017		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
Resident	9,833	1,075,634,049	90.26	9,862	1,100,304,049	92.33
Non-Resident	36	116,132,723	9.74	35	91,462,723	7.67
Total	9,869	1,191,766,772	100.00	9,897	1,191,766,772	100.00
Individual	9,686	616,453,646	51.73	9,701	638,577,866	53.58
Institution	183	575,313,126	48.27	196	553,188,906	46.42
Total	9,869	1,191,766,772	100.00	9,897	1,191,766,772	100.00

The percentage of Ordinary Voting Shares held by the public was 83.65% of the issued share capital as at December 31, 2018.

Composition of Ordinary Voting Shares as at December 31, 2018

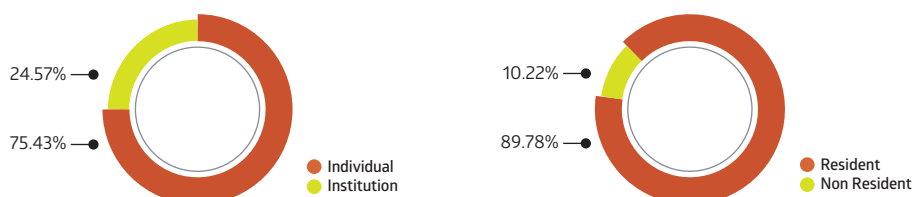


Ordinary Non-Voting Shares

As at	December 31, 2018			December 31, 2017		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
Resident	4,317	551,312,691	89.78	4,369	560,812,691	91.33
Non-Resident	23	62,753,410	10.22	23	53,253,410	8.67
Total	4,340	614,066,101	100.00	4,392	614,066,101	100.00
Individual	4,241	463,201,162	75.43	4,284	464,687,556	75.67
Institution	99	150,864,939	24.57	108	149,378,545	24.33
Total	4,340	614,066,101	100.00	4,392	614,066,101	100.00

The percentage of Ordinary Non Voting Shares held by the public was 100.00% of the issued share capital as at 31st December 2018

Composition of Ordinary Non-Voting Shares as at December 31, 2018



CORPORATE STEWARDSHIP

Board of Directors

Mr. Ravi Wijeratne

Chairman

Non-Executive Director

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

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

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

Mr. Umesh Gautam

Deputy Chairman

Independent Non-Executive Director

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

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

Mr. Thilan Wijesinghe

Independent Non-Executive Director

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

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

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

Mr. T. M. Wijesinghe functions as Chairman/Shareholder of TWCorp (Pvt) Ltd, a real estate focused investment advisory and development management company, Digital Commerce Lanka (Pvt) Ltd, an e-commerce partnership with Dialog Axiata PLC, and Sapphirus Lanka (Pvt) Ltd, a company exporting precision manufactured sapphire to premium international jewelers. He is also on the Board of leisure companies affiliated to MJF Group, makers of Dilmah Tea and several other public and private companies. He is also the Chairman of the Public Private Partnership Unit of the Ministry of Finance.

Mr. Shardha Sosa

Independent Non-Executive Director

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

Starting his career in 1990 as a management trainee, has experience in the grades of Accountant, Chief Accountant and Financial Controller from 1998 to 2015 at MJF Holdings (Dilmah Tea). He is presently the Director - Finance at Forbes & Walker (Pvt) Limited. Having led multi-functional teams and implementing many ERP systems, has in depth knowledge

of Planning, Budgeting, Costing, Pricing, Treasury Operations, Risk Management Procedures, ERP Planning, Taxation and Investment Analysis. Has been a key figure in the development and expansion of Dilmah Tea.

Mr. Saadi Wadood

Independent Non-Executive Director

Mr. Saadi Wadood is an experienced lawyer who has specialized in Corporate Law. Has 20 years of experience as a lawyer after being enrolled at the Supreme Courts in 1997. Graduating LLM with Merit Pass from the Kings College- University of London has a wide experience in handling commercial cases in the District Courts, High Courts (Commercial and Civil), Court of Appeal and the Supreme Courts. Acting as a legal consultant in several companies has been a delegate and an active member of the Bar Association of Sri Lanka for several years. Also, handles commercial arbitration work and resolutions of commercial disputes. Mr. Wadood was appointed as a Senior Director in September 2018.

Corporate Management Team

Mr. Sumedha Fernando

Chief Executive Officer

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

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

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

Sumedha counts for over 34 years' experience in the Financial Service Sector with specified expertise in leasing and factoring. He's presently serving as the Vice Chairman of the Leasing Association of Sri Lanka. He is also a Director of Financial Ombudsmen of Sri Lanka (Guarantee) Limited and as a Senior Member of the governing council of CMA (Australia), Sri Lanka Branch.

Mr. Takura Abhayasinghe

Chief Operating Officer

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

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

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

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

Mr. Supul Wijesinghe

Chief Financial Officer & Head of Strategy

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

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

He counts for 21 years' experience in audit, risk management, financial management, strategic planning, business transformation, compliance, treasury and performance analysis.

Ms. Ranmini Kularatne

Assistant General Manager – Legal

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

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

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

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

Mr. Nigel Wijesinghe

Head of Credit

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

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

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

Mr. Upul Wijesinghe

Head of Sales

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

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

Mr. Hiran Wickramarachchi

Senior Operations Manager – Admin & Recovery

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

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

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

Senior Management Team

Mr. Sanjeewa Ambagahawattage

*Senior Manager – Sales
Negombo Branch*

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

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

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

Mr. Kumar Munasinghe

Senior Manager – Sales

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

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

Managers

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

Assistant Managers

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

Corporate Governance and Compliance

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

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

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

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

Statement of Compliance

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

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

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

According to the provisions of the Finance Leasing (Corporate Governance – Amendment) Direction No. 1 of 2013, the external auditor's certification of the compliance with the Corporate Governance Directions has been issued on May 30, 2019.

Governance Principles and Activities

The Board of Directors

Composition

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

Composition of the Board as at December 31, 2018 was as follows.

No. of Members	5
Executive	Nil
Non Executive	5
Independent	4
Non Independent	1

Gender Representation

Male	5
Female	Nil

Responsibilities of the Board

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

The Board is involved and ensures,

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

Meetings

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

Directors' attendance at board and board committee meetings

Name of the Director	Status	Main Board	Audit Committee	Integrated Risk Management Committee (IRMC)	Remuneration Committee	Related Party Transaction Review Committee	Nomination Committee	No of Total Meetings
Total Number of Meetings		12	8	3	1	3	2	29
Mr.H.R.S Wijeratne	NED	10/12	N/A	N/A	1/1	N/A	2/2	13
Mr.U Gautam	INED	10/12	8/8	2/3	1/1	3/3	N/A	24
Mr.J.C Korale *	INED	4/4	6/6	1/1	N/A	1/1	N/A	12
Mr.T.M Wijesinghe	INED	10/12	N/A	N/A	0/1	N/A	N/A	10
Mr.A.T.S Sosa **	INED	10/12	2/2	2/2	N/A	N/A	2/2	16
Mr.M.S.A Wadood ***	INED	11/12	N/A	1/2	N/A	2/2	N/A	14

Notes

* Mr.J.C Korale -Demised on May 21, 2018.

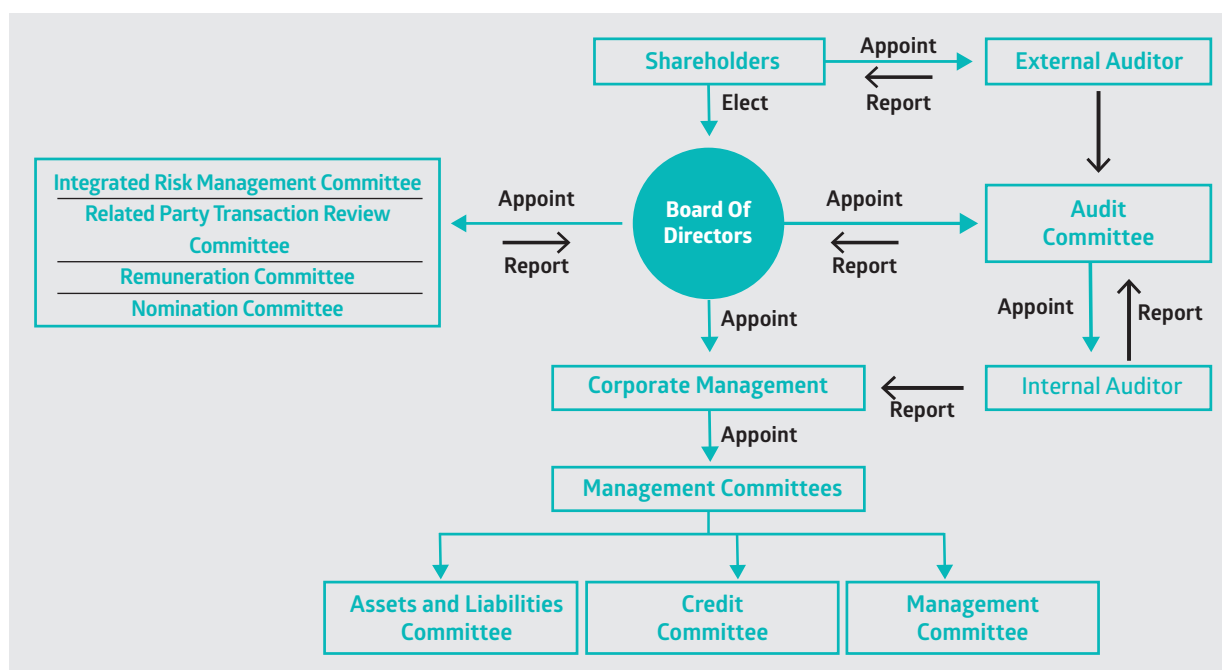
** Mr. A.T.S Sosa was appointed w.e.f May 31, 2018 to the Audit Committee and Integrated Risk Management Committee

*** Mr. M.S.A Wadood was appointed w.e.f May 31, 2018 to the Integrated Risk Management Committee and Related Party Transaction Review Committee

N/A- Not a Member of the Committee

Governance Structure

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



Appointments to the Board

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

Re-election

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

Training of New and Existing Directors

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

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

Evaluation of the Board

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

Communication with Shareholders

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

Means of Communication

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

Financial Statements

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

Website

Our corporate website, www.smblk.com provides an additional channel for communication with shareholders and other stakeholders.

Shareholder Meetings

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

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

Corporate Disclosures

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

Enquires by Shareholders

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

PW Corporate Secretarial (Pvt) Ltd.

Address No: 3/17, Kynsey Road,

Colombo 08.

Email pwcs@pwcs.lk

Telephone 011-4640360-3

Submission of Statutory Return

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

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

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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
2. The Responsibilities of the Board of Directors			
2 (1) Strengthening the safety and soundness of the Company.			
2 (1) (a)	Approving and overseeing the strategic objectives and corporate values and ensuring that the same is communicated throughout the Company.	Company's strategic objectives and corporate values are determined and approved by the Board of Directors. The decisions taken by the Board regarding strategic objectives and corporate values are communicated to all levels of staff through structured meetings.	Compliant
2 (1) (b)	Approving the overall business strategy of the Company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years.	Company's strategic business plan covering immediate next three years has been approved by the Board. It provides for the overall risk management policy, procedures and mechanisms with measurable goals. The business strategy is reviewed by the Board on a regular basis with updates on the execution thereof by the management at monthly Board meetings.	Compliant
2 (1) (c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Integrated Risk Management Committee, on behalf of the Board, identifies risks and ensures implementation of appropriate systems to manage risks prudently and reports to the Board on a quarterly basis.	Compliant
2 (1) (d)	Approving a policy of communication with all stakeholders, including lenders, creditors, shareholders and borrowers.	Refer Corporate Governance, Pages from 45 to 46 for more information on the Communication Policy.	Compliant
2 (1) (e)	Reviewing the adequacy and the integrity of the Company's internal control systems and management information systems.	The Board Audit Committee, on behalf of the Board undertakes the detailed monitoring and reviewing of the internal controls and reports to the Board on its findings. Refer Director's Statement on Internal Control over Financial Statements, Page 94 for further information on internal control framework of the Company.	Compliant

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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
2 (1) (m)	Exercising due diligence in the hiring and oversight of external auditors.	The hiring of external auditors is carried out by the Board on the recommendation of the Board Audit Committee. The Board Audit Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.	Compliant
2 (2)	Appointment of the Chairman and the Chief Executive Officer and defining and approving their functions and responsibilities.	The Chairman and CEO have been duly appointed and their functions and responsibilities have been defined and approved by the Board.	Compliant
2 (3)	Availability of a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice at the Company's expense.	Directors are permitted to seek independent professional advice as and when required. The Company Secretary facilitates this process.	Compliant
2(4)	Avoidance of conflicts of interest of Directors	Each member of the Board has a responsibility to determine whether he has a potential or actual conflict of interest in material matters which may have a bearing on his independent judgment. Directors who have an interest in a matter under discussion refrain from engaging themselves in the deliberations on that matter and abstain from voting thereon. Such abstentions from decisions are duly reordered by the Company Secretary in the minutes.	Compliant
2(5)	Availability of a formal schedule of matters specifically reserved to Company's Board for decision and control.	Company is having policy on delegation of authority. It emphasis authority level of Directors.	Compliant
2(6)	If the Company is or likely to be insolvent the Board to inform the Director - Department of Supervision of Non-Bank Financial Institutions of the Central Bank prior to taking any decisions or actions.	No such situation has arisen to-date. Directors objectively review and evaluate the financial performance and position of the Company so that any such indicator can be identified well in advance.	Not Applicable
2(7)	Inclusion of an Annual Corporate Governance Report on compliance with the corporate governance directions in the Annual Report.	The Company has placed greater focus on compliance with the regulations of the Central Bank of Sri Lanka. The Board has published an Annual Corporate Governance Report on page 43 to page 80 in this Annual Report	Compliant
2(8)	Adoption of an annual scheme of self- assessment by the Directors and maintain records of such assessments.	The Board has adopted a scheme of self- Assessment to be undertaken by each Director annually.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
3 Meetings of the Board			
3(1)	Convening Board meetings at least twelve times a financial year at monthly intervals.	The Board met twelve (12) times for the financial year 2018.	Compliant
3(2)	Making arrangements to enable Directors to include matters and proposals relating to promotion of the business and management of its risk in the agenda of regular Board meetings.	All directors are provided an equal opportunity to include proposals for promotion of business and management of risk in the agenda of the monthly Board meetings.	Compliant
3(3)	At least seven days of notice to be given to all Directors for regular Board meetings and reasonable notice period for other Board meetings.	Board meeting calendar for the financial year is prepared by the Company Secretary. The date of the next Board meeting is collectively agreed to, by the members present during the current Board meeting and subsequently communicated to all the members to ensure that at least 7 days' notice is given of the monthly Board meeting. Reasonable notice is given for any other special Board meeting.	Compliant
3(4)	A Director who has not attended at least two-thirds of the meetings or three consecutive Board meetings shall cease to be a Director.	Directors' attendances are monitored. Please refer Page No 44 for details on number of Board meetings held during the year and the individual attendance of the Directors. All Directors have regularly attended Board meetings.	Compliant
3(5)	Appointment of a Company Secretary.	Company has appointed PW Corporate Secretarial (Pvt) Ltd as the Company Secretary. The Company secretary advises the Board on matters relating to provisions of the Companies Act, Board procedures and other applicable rules and regulations.	Compliant
3(6)	Chairman has delegated to the Company Secretary the function of preparing the agenda for Board meetings.	The chairman had delegated the preparation of the Board Meeting agenda to the Company Secretary. The company secretary is responsible for the same.	Compliant
3(7)	Directors' access to advice and services of the Company Secretary.	All directors have access to the advice and services of the Company Secretary who is responsible to the Board to ensure that the board procedures and the applicable rules and regulations are complied with. Articles of the Company provides authority to the Board to appoint/ remove the Company Secretary.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
3(8)	The Company Secretary shall maintain the minutes of Board meetings and the minutes are open for inspection at any reasonable time on reasonable notice by any Director.	The Company Secretary maintains the minutes of Board meetings with sufficient details and the same is available for inspection by any Director.	Compliant
3(9)	Recording of minutes of Board meetings in sufficient detail to demonstrate that the Board acted with due care and prudence in performing its duties.	The Company Secretary records the proceedings of the meetings and the decisions taken there at in sufficient detail so as to satisfy all the requirements specified in this rule.	Compliant
4. Composition of the Board			
4(1)	The number of Directors on the Board shall not be less than five (5) and not more than nine (9).	The Board comprised of five Non-Executive Directors as at December 31, 2018.	Compliant
4(2)	The total period of service of a Director other than the Director who holds the position of Executive Director or Chief Executive Officer shall not exceed nine (9) years	All the present Directors have held their positions for less than nine (9) years.	Compliant
4(3)	An employee of the Company may be appointment, elected or nominated as a Director provided that the total number of Executive Directors shall not exceed half of the number of Directors of the Board.	Employees have not been elected as Directors of the Company	Compliant
4 (4)	Number of Independent Non-Executive Directors on the Board (as per the criteria specified in this section) shall be at least one fourth of the total numbers of Directors.	Four (4) out of five (5) Directors that held office as at December 31, 2018 are Independent Non-Executive Directors.	Compliant
4(5)	Alternate Director for an Independent Non-Executive Directors should also meet the criteria for independent non-executive status of the appointer.	No alternate directors were appointed during the financial year 2018.	Compliant
4(6)	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	All Non-Executive Directors have the necessary skills and experience to bring independent and objective judgment on matters relating to strategy, performance and resources. The composition of the Board also ensures the balance between executive expediency and independent judgment.	Compliant
4(7)	Each Board meeting quorum constitute of at least one-third of Non-Executive Directors.	Each and every Board meeting held in 2018 fulfils this criteria.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
4(8)	The Independent Non-Executive Directors shall be expressly identified in all corporate communications that disclose the names of Directors of the Company. The Company shall disclose the composition of the Board, by category of directors including the name of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	The Independent Non-Executive Directors are identified in all corporate communications that contain the names of Directors of the Company. Corporate Governance Report, published on page 43 of this Annual Report provides details of composition of the Board including the Chairman by their name and category of Directorship.	Compliant
4(9)	Availability of a formal and transparent procedure to appoint new Directors to the Board through the Nominating Committee.	The Articles of Association of the Company provides for a formal and transparent procedure applicable to the selection and appointment of Directors to the Board through the Nomination Committee	Compliant
4(10)	Directors appointed to fill casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	All the directors that held office as at December 31, 2018 have been appointed by shareholders in their AGM.	Compliant
4(11)	Disclosure of resignations/ removal of Directors to the shareholders and to the Director – Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka with reasons for resignation/removal including such Director's disagreement with the Board if any.	All resignations/ removals and appointments of Directors are informed to the Shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange. Prior approval for such resignations / removals and appointments is obtained from the Central Bank of Sri Lanka in terms of the applicable regulations.	Compliant

5. Criteria to assess the fitness and propriety of directors

5(1)	A person over 70 years of age shall not serve as a Director of the Company.	All Directors that held office as at December 31, 2018 are below the age of 70 years.	Compliant
5(2)	A Director of the Company shall not hold office as a Director of more than 20 companies including subsidiaries and associates of the Company.	Details of other directorships/equivalent positions held by the Directors are set out in their profiles on pages 37 to 38 of the Annual Report. Accordingly, all Directors have complied with this rule.	Compliant

6. Management Functions Delegated by the Board

6(1)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its function.	Company has a policy on delegation of authority which ensures that the ability of the Board as a whole to discharge its function are not reduced or hindered. Directors act according to this delegation of authority policy.	Compliant
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Section	Governance Requirement	Implementation and Compliance	Compliance Status
6(2)	Board shall review delegation of authority on a periodic basis.	The Board regularly reviews the policy on delegation of authority to ensure that they remain relevant to the needs of the Company.	Compliant
7. The Chairman and the Chief Executive Officer			
7(1)	The role of Chairman and Chief Executive Officer shall not be performed by the same person.	The posts of the Chairman and the Chief Executive Officer (CEO) of the Company are separated ensuring the balance of power and authority. The Chairman is a Non-Executive Director while the Chief Executive Officer is an employee of the Company	Compliant
7(2)	When the Chairman is a Non-Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director of the Company.	Chairman is a Non-Executive Director. The Chairman's role provides effective leadership and strategic insight to the issues of the Board. Mr. M. S. A. Wadood has been appointed as a Senior Director to comply with the rule. This is disclosed on Director profiles on page 38.	Compliant
7(3)	Disclosure of relationship (specified under this rule) between the Chairman and the Chief Executive Officer and relationships among members of the Board in the Corporate Governance Report.	No such relationships that require disclosure under this rule exists as at December 31, 2018.	Compliant
7(4)	Role of the Chairman	The Chairman provides leadership to the Board and is responsible for governance and the effective operations of the Board.	Compliant
7(5)	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meetings. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	The Chairman has delegated this responsibility to the Company Secretary. The monthly agenda for Board meetings is prepared by the Company Secretary under the supervision of the Chairman and sent to all Directors by the Company Secretary.	Compliant
7(6)	Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Chairman ensures, that all Directors are properly briefed on issues arising at each Board meeting.	Compliant
7(7)	Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interest of the Company.	The Chairman sets the agenda and ensures that Board deliberations are done in an objective manner and opinions of all Directors are appropriately considered in decision making thereby promoting active contributions by the individual Directors to the Board's affairs.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
7(8)	Chairman shall ensure effective contribution of Non-Executive Directors and ensure constructive relationships between Executive and Non-Executive Directors.	There were no Executive Directors in the Board for the financial year 2018.	Not Applicable
7(9)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties.	The Chairman is a Non-Executive Director who does not get involved directly in any of the executive duties of the Company and does not supervise any Key Management personnel.	Compliant
7(10)	The Chairman shall maintain effective communications with the shareholders and communicate the view of shareholders to the Board.	At general meetings, shareholders are given the opportunity to take up matters for which clarifications needed by the Chairman and the Board. In addition, matters raised by the shareholders outside general meetings are adequately clarified by the Chairman, CEO and/or any other officer	Compliant
7(11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Company's operations and business.	Chief Executive Officer is responsible for the day-to-day operations and business of the Company with the assistance of the Corporate Management and is accountable to the Board.	Compliant

8. Board Appointed Committees

8(1)	Presence of at least two Board Committees reporting directly to the Board such as Audit Committee, Integrated Risk Management Committee	The following Board and Sub-committees have been appointed by the Board and reports directly to the Board. <ol style="list-style-type: none"> 1. Audit Committee 2. Remuneration Committee 3. Integrated Risk Management Committee 4. Related Party Transaction Review Committee 5. Nomination Committee 	Compliant
	Each Committee appoints a secretary to arrange meetings and maintain minutes under the supervision of the Chairman such Committee.	Each Committee has a secretary that arranges its meetings, maintains minutes, records and carries out other secretarial functions under the supervision of the Chairman of the respective Committee.	
	Board shall present a report on performance, duties, functions of each Committee at the Annual General Meeting	Refer Committee reports published in this Annual Report on pages 86 to 93.	

Section	Governance Requirement	Implementation and Compliance	Compliance Status
8(2)	Audit Committee		
8(2) (a)	The Chairman of the Audit Committee shall be a Non-Executive director who possesses qualifications and experience in accountancy and or audit.	The Chairman of the Audit committee is Independent Non-Executive Director. He is a Fellow Member of the Institute of Chartered Management Accountants-UK He possesses over 30 years of experience in finance and accountancy.	Compliant
8(2) (b)	Majority of Board members appointed to the Committee shall be Non-Executive Directors.	Audit Committee consists of two Independent Non-Executive Directors.	Compliant
8(2) (c)	Audit Committee shall make recommendations on matters in connection with		
	(i) the appointment of the external auditor	The Committee has recommended M/s. KPMG, Chartered Accountants be reappointed as the External Auditors of the Company for the financial year 2019.	Compliant
	(ii) implementation of the Central Bank guidelines issued to external auditors	The Committee has implemented Central Bank guidelines issued to auditors.	
	(iii) application of the relevant accounting standards;	The Committee ensures that the relevant accounting standards are applied.	
	(iv) the service period, audit fee and any resignation or dismissal of the External auditor provided that the engagement of an audit partner shall not exceed five years and not to re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	The Committee has taken steps to ensure compliance to this Section.	
8(2) (d)	The Committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes.	The Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process	Compliant
8(2) (e)	The Committee shall develop and implement a Board approved policy on the engagement of an external auditor to provide non-audit services based on the criteria specified in this rule.	The Board as a general policy to discourage the engagement of external auditors for non-audit services. However, if required, non-audit services will be obtained from the external auditors with the prior approval of the Committee and the Board in full compliance with the criteria set out in this rule for such engagements.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
8(2) (f)	The Committee shall discuss and finalise the nature and scope of the audit (including all aspects set out in this rule) with the external auditors before commencing the audit.	The Auditors make a presentation at the Committee Meeting with details of the proposed audit plan and the scope. The Committee approves the engagement after ensuring that all criteria and required approval is obtained to that effect.	Compliant
8(2) (g)	Committee shall review the financial information of the Company, in order to monitor the integrity of the financial statements, annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein.	Quarterly financial statements and annual financial statements are circulated to all members of the Committee. The Committee reviews all such financial statements in detail and obtain clarifications from the management where necessary during that review. Once the Committee determines that the said financial statements are prepared according to the applicable accounting standards and the required disclosures are in place, the committee recommends the financial statements for approval by the Board of Directors.	Compliant
8(2) (h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits and any matters the auditor may wish to discuss in the absence of key management personnel if necessary.	No interim audit was conducted for the year under review. The Committee met the external auditors without the presence of management on May 10, 2018 to discuss the matters pertaining to the 2018 statutory audit.	Compliant
8(2) (i)	The Committee shall review the external auditor's management letter and the management's response thereto.	Once the management letter is received, the external auditors are invited to make a presentation to the Committee. During this meeting, all findings mentioned in the management letter is discussed in detail. Thereafter, the Committee decides on remedial action to be taken in respect of such findings.	Complied
8(2) (j)	Committee shall take the following steps with regard to the Internal Audit function of the Company.	The Company does not have an in-house Internal Audit Department. Instead, the internal audit function is outsourced to M/s. Deloitte, Chartered Accountants.	Compliant
	i) Review the adequacy of the scope, functions and resources of the Internal Audit Department	The scope of the internal audit is decided by the Committee at the beginning of the financial year based on risk and operational priorities. The Committee can call for special internal audits of any area outside the given scope if required during the year.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
	ii) Review the internal audit programme and results of the internal audit process;	The annual audit plan is prepared by the internal auditors and submitted to the Committee for approval.	Compliant
	iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	At the end of each year, the Committee assess the performance of the internal audits carried out during the year.	Compliant
	iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	The Committee agrees with the outsourced service provider on the quality of the staff members carrying out the Company internal audit.	Compliant
	v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers; provide opportunity to submit reason for resigning.	Any change to the engagement manager or engagement partner of the internal audit assignment is discussed and agreed with the Committee.	Compliant
	vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Internal auditors share their draft report with the CEO and CFO to obtain management comments for the internal audit findings and the final report is directly submitted to the Audit Committee.	Compliant
8(2) (k)	The Audit Committee shall consider the major findings of internal investigations and management's responses thereto;	All findings of internal audit along with the responses of the management are tabled and discussed at the Committee meetings.	Compliant
8(2) (l)	The Chief Financial Officer, the Chief Internal Auditor and representative of the external auditors may normally attend meetings.	The Chief Financial Officer attends Committee meetings. Since the internal audit function is outsourced, the Company does not have a Chief Internal Auditor.	Compliant
	Other Board members and the Chief Executive Officer may also attend meeting upon the invitation of the committee.	The Chief Executive Officer is invited for Committee meetings.	Compliant
	At least once in six months the committee shall meet with the external auditors without the executive directors being present.	The committee met external auditors without the presence of Corporate Management on May 10, 2018.	Compliant
8(2) (m)	Committee shall have authority to investigate any matter, access to information, obtain external professional advice and all other resources required by the Committee.	The Committee has authority over all aspects referred in this rule. Refer Audit Committee Report given on page 86 to 88 of the Annual Report for more details on this	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
8(2) (n)	The Committee shall meet regularly and record its conclusions.	The Committee had 8 meetings in 2018 and its decisions are recorded by the Company Secretary who also acts as the secretary to the Committee.	Compliant
8(2) (o)	Disclose activities of the Committee, number of meetings held and attendance of members at meetings in the Annual Report.	This information has been disclosed in the Audit Committee Report given on page 86 to 88 of the Annual Report	Compliant
8(2) (p)	The secretary to the Committee shall recording and maintain detailed minutes of the Committee meetings.	The Company Secretary is the secretary of the Committee. Detailed minutes of the Committee proceedings are recorded and Committee minutes are maintained by the Company Secretary.	Compliant
8(2) (q)	The Committee shall review the process by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.	The Committee has implemented whistle blower policy to facilitate an informal procedure by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.	Compliant
8(3) Integrated Risk Management Committee (IRMC)			
8(3)(a)	The Committee shall consist of at least one Non-Executive Director, Chief Executive Officer and key management personnel supervising credit, marketing operational and strategic risks.	The Committee composition is in full compliance with the provisions of this rule. Please refer Report of the IRMC on page 93 of the Annual report for the composition of the Committee.	Compliant
8(3)(b)	The Committee shall assess all risks to the Company both on individual basis as well as group basis, monthly through appropriate risk indicators and management information.	The Committee assesses all risks, i.e., credit, market, liquidity, operational and strategic risks through appropriate risk indicators.	Compliant
8(3)(c)	Committee shall review the adequacy and effectiveness of Credit Committee, Assets and Liability Committee (ALCO) and other management committees to ensure that those committees manage risks within the quantitative and qualitative limits specified by the IRMC.	ALCO and credit committee proceedings are reviewed by the IRMC and feedback is provided to members of those committees on risk limits.	Compliant
8(3)(d)	Committee shall take prompt corrective action to mitigate the effects of specific risks which are at levels beyond the prudent levels decided by the Committee.	IRMC has determined risk tolerance levels which are being timely updated considering the factors such as strategic objectives of the Company, changes in regulatory requirements and future economic conditions. Each risk category in the risk profile of the Company has been reviewed against the risk tolerance levels by the Committee at their meetings.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
8(3)(e)	Committee shall at least quarterly assess all aspects of risk management including updated business continuity plans.	The Integrated Risk Management Committee has met three (3) times during the financial year 2018. In the financial year 2017, the IRMC met three (3) times	Partly Compliant
8(3)(f)	Responsibility of the IRMC to take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Risks are identified collectively by the Risk Management Committee and Assets and Liabilities Committee (ALCO) and such decisions are taken collectively. Further, no instances of non-compliance with this rule were found in 2018.	Compliant
8(3)(g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board.	The Committee Chairman updates the Board within a week of each meeting.	Compliant
8(3)(h)	The committee shall establish a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	Committee has established a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. Accountant carried out the compliance officer function for the year 2018 and for all compliance related matters, the Accountant reports directly to the IRMC.	Compliant
9. Related party transactions			
9(2)	The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the relevant establishment with any person, who shall be considered as "related parties" under this rule.	A Board approved process is in place to ensure that there are no conflicts of interest in transactions with related parties, as defined in the direction. The transactions carried out with related parties during normal course of business are disclosed in Note 42 on Page 172 of the Annual Report.	Compliant
9(3)	Nature of transactions with Related Parties to which the Corporate Governance Directions apply.	Board approved process is in place to ensure the compliance. No accommodation provided to Directors and/or close relatives.	Compliant
9(4)	The Board shall ensure that the Company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to an unrelated comparable counterparty of the Company.	Board approved process is in place to ensure the compliance.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
10. Disclosures			
10(1)	Board shall ensure that annual audited financial statements and periodical financial statements are prepared and published in accordance with the requirements of the regulatory and supervisory authorities and applicable accounting standards.	The Board ensured that the annual audited financial statements and periodical financial statements of the Company for the year 2018 were prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards.	Compliant
10(2) Responsibility of the Board to ensure appropriate disclosures in the Annual Report			
	a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Disclosures on the compliance with applicable accounting standards and regulatory requirements in preparation of the Annual Financial Statement have been made in the 'Directors Responsibility Statement' on page 96.	Compliant
	b) A report by the Board on the Company's internal control mechanism that confirming that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	Report by board on the effectiveness of the internal controls mechanism to ensure that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of Financial reporting, is given on 'Directors responsibility Statement'.	Compliant
	c) External auditor's certification on the effectiveness of the internal control mechanism.	External auditor has issued the certification on the effectiveness of the internal control mechanism on May 30, 2019.	Compliant
	d) Details of Directors, including names, transactions with the Company.	Details of the Directors are given on pages from 37 to 38 and Directors' transactions with the Company have been disclosed in note 42 to the Financial Statements on page 172.	Compliant
	e) Fees/remuneration paid by the Company to the Directors in aggregate.	The Fees/remuneration paid to the Board of Directors is disclosed in aggregate in Note No 42.2 on page 172.	Compliant
	f) Total net accommodation outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds.	Total net accommodation in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds is given Note No 42.1 on page 172.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
	g) The aggregate values of remuneration paid by the Company to its Key Management Personnel and the aggregate values of the transactions of the Company with its Key Management Personnel during the financial year.	The aggregate values of remuneration paid by the Company to its Key Management Personnel is disclosed in Note No 42.2 Page 172.	Compliant
	h) a report containing details of compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any noncompliance.	<p>"The Annual Report of the Board of Directors on the Affairs of the Company" on pages 81 to 85 and the Corporate Governance Report on pages 43 to 80 describes the manner in which the Company has complied with prudential requirements, regulations, laws and internal controls during the year 2018.</p> <p>There was no material non-compliance to prudential requirements, regulations, laws and internal controls during 2018 affecting the Company.</p>	Compliant
	i) External Auditor's certification of the compliance with the Corporate Governance Direction in the annual corporate governance report	External auditor's certification on the effectiveness of the internal control mechanism and corporate governance has been issued by the external auditor on May 30, 2019.	Compliant

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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A. Directors			
A.1 The Board			
Principle A.1	Every public company should be headed by an effective Board, which should direct, lead and control the Company.	The Company is headed by an effective Board of Directors comprised of experienced and influential individuals with diverse backgrounds and expertise as reflected in their profiles on pages from 37 to 38 of the Annual Report .	Compliant
A.1.1	Board meetings should be held at least once in every quarter of a financial year, in order to effectively execute board's responsibilities, while providing information to the board on a structured and regular basis.	The Board met twelve (12) times during the financial year 2018.	Compliant

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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.1.7	Training for New and Existing Directors.	Any new Director who joins the Board is given appropriate induction with regard to the affairs of the Company and laws and regulations applicable to the Company. Where required, the Corporate Management and external experts make presentation with regard to the economic and social environment to update the knowledge of any newly appointed Directors.	Compliant
A.2 Chairman and the Chief Executive Officer (CEO)			
Principle A.2	Chairman and CEO are two key tasks at the top of the Company. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no individual has unfettered powers of decision	The posts of the Chairman and the Chief Executive Officer (CEO) of the Company are separated ensuring the balance of power and authority. The Chairman is a Non-Executive Director while the Chief Executive Officer is an employee of the Company	Compliant
A.2.1	A decision to combine the posts of Chairman and CEO in one person should be justified and highlighted in the Annual Report.	The Roles of Chairman and CEO have not been combined.	Not Applicable
A.3 Chairman's Role			
Principle A.3	The Chairman's role in preserving good Corporate Governance is crucial. As the person, responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions.	The Chairman provides leadership to the Board preserving good Corporate Governance and preserve order and facilitate the effective discharge of Board functions.	Compliant
A.3.1	The Chairman should conduct Board proceedings in a proper manner.	The Chairman has conducted all Board meetings in compliance with the provisions of this rule and ensures that the Board works effectively and discharges its responsibilities and ensures that all key and appropriate issues are discussed by the Board in a timely manner.	Compliant
A.4 Financial Acumen			
Principle A.4	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	The Board includes members with sufficient financial acumen and knowledge including Chartered Accountants who can provide the Board with necessary guidance in conducting its business. Please refer to Director profiles on pages from 37 to 38.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.5 Board Balance			
A.5 Principle	It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.	The Board for the financial year 2018 comprised of five (5) Non-Executive Directors.	Compliant
A.5.1	The Board should include Non-Executive Directors of sufficient caliber and number for their views to carry significant weight in the Board's decisions.	The current Board comprises only Non-Executive Directors and their views carry significant weight in the Board's decisions.	Compliant
A.5.2	Where the constitution of the Board of Directors includes only two Non-Executive Directors, both such Non- Executive Directors should be 'independent'.	Four out of the five Non-Executive Directors are deemed as Independent Directors (please refer page 43 of the Annual Report).	Compliant
A.5.3	For a Director to be deemed 'independent' such Director should be independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.	The independency of the Directors has been decided with full compliance to this rule.	Compliant
A.5.4	Each Non-Executive Director should submit a signed and dated declaration annually of his/ her independence or non-independence against the specified criteria set out in the Code of Best Practice on Corporate Governance	Non-Executive Directors have submitted declaration on their independency or non-independency in the required form.	Compliant
A.5.5	The Board should make a determination annually as to the independence or non-independence of each Non- Executive Director based on such a declaration made of decided criteria and other information available to the Board and should set out in the Annual Report the names of Directors determined to be 'independent'.	Based on the declarations submitted by each Board member who held office in 2018, the Board has determined that four Independent Non-Executive Directors were in the Company in 2018. The names of the Independent Directors are disclosed in the Annual report. Please refer pages from 37 to 38 of the Annual Report for profiles of the Board of Directors.	Compliant
A.5.6	If an Alternate Director is appointed by a Non- Executive Director such Alternate Director should not be an executive of the Company and such appointee should meet the criteria for Non- Executive Director	No Alternative Directors were appointed in 2018.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.5.7	In the event the Chairman and CEO is the same person, the Board should appoint one of the independent Non- Executive Directors to be the "Senior Independent Director" (SID) and disclose this appointment in the Annual Report.	Although the requirement to appoint a Senior Independent Director does not arise according to the Code of Best Practices on Corporate Governance, the Company has appointed Mr.J.C Korale as a Senior Director with effect from February 26, 2016 to comply with Section 7 (2) of the Finance Leasing (Corporate Governance) Direction No. 4 of 2009. After the demise of Mr. J.C Korale, Mr. M.S.A. Wadood was appointed as a Senior Director with effect from September 20, 2018.	Compliant
A.5.8	Senior Independent Director should make himself available for confidential discussions with other directors who may have concerns	The Senior Independent Director has made himself available for any confidential discussions with other Directors.	Compliant
A.5.9	The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	All Board members are Non-Executive Directors and the Chairman holds meeting with the Non- Executive Directors regularly throughout the year.	Compliant
A.5.10	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board Minutes.	All proceedings at meetings are recorded by the Company Secretaries.	Compliant
A.6 Supply of Information			
A.6 Principle	The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties	Timely and accurate information is provided to the Board to discharge its duties.	Compliant
A.6.1	Management has an obligation to provide the Board with appropriate and timely information. The Chairman should ensure all Directors are properly briefed on issues arising at Board meetings.	The management provides the Board with monthly information and all matters related to the meeting of the Board and its Sub Committees. In addition, the members of corporate management make representations to the Board Directors on important issues relating to the financial performance, strategy, risk, system and procedures. The Chairman ensures that all Directors are briefed on issues arising at Board meetings.	Compliant
A.6.2	The minutes, agenda and papers required for a Board Meeting should ordinarily be provided to Directors at least seven (7) days before the meeting, to facilitate its effective conduct.	The minutes, agenda and all other information required for the Board and its Sub Committees are submitted (7) days before the meetings.	Compliant

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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions in the Companies Act relating to the removal of a Director, and their re-appointment should not be automatic.	In terms of the Articles of Association all Directors are subject to retirement by rotation. At every AGM, the longest standing Director will retire and retiring Director shall be eligible for re-election.	Compliant
A.8.2	All Directors including the Chairman should be subject to election by shareholders at the first opportunity after their appointment, and to reelection thereafter at intervals of no more than three years	In terms of the Articles of Association of the Company, all Directors will be re-elected by the shareholders at the first AGM that is held soon after their initial appointment.	Compliant
A.9 Appraisal of Board Performance			
A.9 Principle	Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.	The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily.	Compliant
A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities as set out in A.1.2	The Chairman and the Board annually evaluates their performance in the discharge of key responsibilities of the Board including the performance of the Board appointed Sub-Committees.	Compliant
A.9.2	The Board should also undertake an annual self- evaluation of its own performance and that of its Committees.	The Board has adopted a scheme of self-assessment to be undertaken by each Director annually.	Compliant
A.9.3	The Board should state how performance evaluations have been conducted in the Annual Report	Please refer comment on Principle A.9.1 above and governance principles and activities on page 45.	Compliant
A.10 Disclosure of Information in respect of Directors			
A.10 Principle	Shareholders should be kept advised of relevant details in respect of the Directors.	Shareholders are kept advised of all relevant details in respect of Directors through announcement of Colombo Stock Exchange and disclosures via Annul Report.	Compliant
A.10.1	The Annual Report of the Company should set out the information in relation to each director	Please refer for information on Directors, Profile on pages 37 and 38. Director's Interest in Contracts on pages 172.	Compliant
A.11 Appraisal of Chief Executive Officer (CEO)			
A.11 Principle	The Board should be required, at least annually, to assess the performance of the CEO.	CEOs performance is appraised by the Board annually.	Compliant

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

B. Directors

B. 1 Remuneration Procedure

Principle B1	Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.	Companies has established a formal policy on executive remuneration and for fixing the remuneration packages of individual Directors.	Compliant
B.1.1	To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board, on the Company's framework of remunerating Executive Directors.	A Remuneration Committee has been set by the Board	Compliant
B.1.2	Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman, who should be appointed by the Board.	Independent Non-Executive Director has been appointed as the Chairman of the Remuneration Committee.	Compliant
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report	This information is disclosed in the Report of the Remuneration Committee. Please refer Pages from 89 to 90.	Compliant
B.1.4	The Board should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee.	The Board has decided on the remuneration of Non-Executive Directors, including members of the Remuneration Committee.	Compliant
B.1.5	The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other Executive Directors.	There were no Executive Directors in the year under review.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
B. 2 The Level and Makeup of Remuneration			
B.2 Principle	Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully.	Director remunerations has been set to attract and retain the Directors needed to run the Company	Compliant
B.2.1	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors of the quality required but should avoid paying more than is necessary for this purpose.	There were no Executive Directors in the year under review.	Compliant
B.2.2	The Remuneration Committee should judge where to position levels of remuneration of the Company, relative to other Companies.	The Remuneration Committee taken into consideration market information when positioning levels of remuneration of the Company	Compliant
B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions across the Company when determining annual salary increases.	The Remuneration Committee is sensitive to remuneration and employment conditions across the Company when determining annual salary increases recommended by the Management	Compliant
B.2.4	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.	There were no Executive Directors in the year under review.	Compliant
B.2.5	Executive share options should not be offered at a discount	No share options were offered	Compliant
B.2.6	In designing schemes of performance - related remuneration, the Committee should follow the provisions set out in the Code	There are no performance related elements in remuneration. Please refer the Remuneration Committee Report on pages from 89 to 90 details of the remuneration policy of the Company.	Compliant
B.2.7	Remuneration Committees should consider what compensation commitments (including pension contributions) their Directors' contracts of service entail in the event of early termination.		Not Applicable

Section	Governance Requirement	Implementation and Compliance	Compliance Status
B.2.8	Where the initial contract does not explicitly provide for compensation commitments, the Committee should tailor their approach in early termination cases to the relevant circumstances		Not Applicable
B.2.9	Levels of remuneration for Non Executive Directors should reflect the time commitment and responsibilities of their role		Not Applicable
B. 3 Disclosure of Remuneration			
B.3 Principle	The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole	Report of the Remuneration Committee includes the Company's remuneration policy and details of Director Remuneration is given on page 172 of the Annual Report	Compliant
B.3.1	The Annual Report should set out the names of directors comprising the Remuneration Committee, contain a Statement of Remuneration Policy and set out the aggregate remuneration paid to Executive and Non- Executive Directors	Please refer to the Remuneration Committee Report on pages from 89 to 90 for details of the remuneration policy of the Company. Details of Director Remuneration is given on page 172 of the Annual Report. There were no Executive Directors in the Company for the year under review.	Compliant
C. Relations with Shareholders			
C1. Constructive Use of The Annual General Meeting (AGM) and Conduct of General Meetings			
C.1 Principle	Board should use the AGM to communicate with shareholders and should encourage their participation	AGMs of the Company is used to effectively communicate with shareholders. Board encourages shareholder participation at AGMs.	Compliant
C.1.1	Companies should count all proxy votes and should indicate the level of proxies lodged on each resolution, and the balance for and against the resolution and withheld, after it has been dealt with on a show of hands, except where a poll is called.	The Company has recorded all proxy votes for each resolution prior to the general meeting. All proxy votes cast at meetings are recorded by the Company Secretaries.	Compliant
C.1.2	Company should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.	Separate resolutions are passed on all substantial matters at the AGM including a separate resolution relating to the adoption of the report and accounts.	Compliant
C.1.3	The Chairman of the Board should arrange for the Chairmen of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	The Chairmen of the Audit and Remuneration Committees have been available at the Company AGM and have answered questions from the shareholders at AGMs as requested by the Chairman of the Board.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
C.1.4	Company should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	Notice of AGM and other related papers are sent to the shareholders as required by the Companies Act and the Articles of Association.	Compliant
C.1.5	A summary of the procedures governing voting at General Meetings should be circulated with every Notice of General Meeting	The Notice of Meeting and Proxy Form with instructions are supplemented to shareholders to vote at the AGM	Compliant
C.2 Communication with Shareholders			
C.2 Principle	The Board should implement effective communication with shareholders.	The primary mode of communication with shareholders is at the AGM. In addition, Company maintains an updated website that provides information to all stakeholders. Changes of the company are also published at the CSE.	Compliant
C.2.1	There should be a channel to reach all shareholders to disseminate information.	Company maintain an updated website that is used to disseminate financial and other information to shareholders. The website also has contract details of the Company where shareholders can provide their feedback online or via email or telephone.	Compliant
C.2.2	The policy for communication with shareholders should be disclosed	Please refer page 45 of the Corporate Governance Report for Company policy on communications with shareholders. The Company provides fair disclosure with emphasis on the integrity, accuracy, timeliness and relevance of the information provided.	Compliant
C.2.3	How the above policy is implemented should be disclosed	Shareholders are given the Annual Report from the Company either by means of a CD or in hard copy form. Shareholders may at any time request to receive the Annual Report from the Company in printed form without any charge.	Compliant
C.2.4	The contact person for such communication should be disclosed	Shareholders may, at any time, direct questions and request for publicly available information from the Company Secretary.	Compliant
C.2.5	There should be a process to make all Directors aware of major issues and concerns of shareholders.	The Company Secretary shall maintain records of all correspondence received and will deliver as soon as practicable such correspondence to the Board or individual Director/s as applicable.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
C.2.6	The person to contact in relation to shareholders' matters should be decided (the relevant person with statutory responsibilities is the Company Secretary or in his/her absence should be a member of the Board)	Company Secretary can be contacted for any queries of shareholders. Shareholders are encouraged to provide frequent feedback to the Board through the Company Secretary.	Compliant
C.2.7	The process for responding to shareholder matters should be formulated by the Board and disclosed	Please refer pages 45 to 46 of the Corporate Governance Report for Company policy on communications with shareholders.	Compliant
C.3 Major and Material Transaction			
C.3 Principle	In compliance with the requirements under the Companies Act, Securities and Exchange Commission law and Colombo Stock Exchange regulations; as applicable, Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter/vary the Company's net assets	During the year 2018, the Company did not engage in or commit any 'Major Transactions' which materially affected the Company's net asset base	Compliant
C.3.1	Prior to engaging in 'major related party transactions' involving the acquisition, sale or disposal of greater than one third of the value of the Company's assets, Directors should disclose to shareholders all material facts of such transaction and obtain shareholders' approval by ordinary resolution at an Extraordinary General Meeting.	Section 185 of the Companies Act requires that the Company should obtain shareholder approval by way of special resolution for such transactions. In addition, the CSE Rule on Related Party Transactions, a Board Sub Committee will be required to review all related party transactions and propose transactions exceeding this threshold for shareholder approval. However, there was no necessity for such approval during the year 2018.	Compliant
D Accountability and Audit			
D.1 Financial Reporting			
D.1 Principle	The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.	The Board has presented a balanced and understandable assessment of the Company's financial position, performance and prospects in the Annual Report	Compliant
D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	The Company has reported a true and fair view of its financial position and performance for the year ended on December 31, 2018 and at the end of each quarter of the financial year and all price sensitive information has been disclosed in a timely manner.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
D.12	The Directors' Report in the Annual Report should contain declarations by the directors to the effect set out in the Code.	Please refer Directors' Responsibility Statement on page 96 in the Annual Report.	Compliant
D.13	The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements, together with a statement by the Auditors about their reporting responsibilities. Further, the Annual Report should contain a Report on Internal Controls.	Please refer Director's Responsibility Statement on page 96 Directors' Responsibility Statement on Internal Control Over Financial Reporting on pag 94 And Auditor's Report on pages from 99 to 102.	Compliant
D.14	The Annual Report should contain a "Management Discussion & Analysis"	Please refer pages from 10 to 35 for the Management Discussion and Analysis.	Compliant
D.15	The Directors should report that the business is a going concern	Please refer the Annual Report of the Board of Directors on pages 81 to 85.	Compliant
D.16	If the net assets of the Company fall below 50% of the value of the shareholders' funds, the directors shall forthwith summon an Extraordinary General Meeting to notify shareholders		Not Applicable
D.17	The Board should adequately disclose related party transactions in the Annual Report	Please refer Note No 42 on page 172 on Related Party Transactions.	Compliant

D.2 Internal Control

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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
D.2.3	The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls, and to document to the Board and Board takes the responsibility for the disclosures on internal controls.	The Audit Committee reviewed the internal controls and procedures of the Company and the minutes of the meetings are tabled to the Board meetings. The IRMC reviews processes relating to the risk management framework of the Company and minutes of the meetings are tabled to the Board meeting subsequently.	Compliant
D.2.4	Guidance for responsibility of directors in maintaining a system of internal controls is set out in the Code	The Directors' responsibility for maintaining a sound system of internal control is given in the Directors' responsibility Statement on Internal Control over Financial Reporting on page 94 of the Annual Report.	Compliant
D.3 Audit Committee			
D.3 Principle	The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors	The Board has established formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles. The Board through the Audit Committee maintains an appropriate relationship with the Company's Auditors	Compliant
D.3.1	The Audit Committee should be comprised of a minimum of two independent Non-Executive Directors (in instances where a Company has only two directors on its Board) or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher.	The Audit Committee comprises of two independent non-executive directors.	Compliant
D.3.2	The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors.	Please refer to the Audit Committee Report on pages 86 to 88 for details of the duties and responsibilities of the Committee.	Compliant
D.3.3	The Audit Committee should have a written Terms of Reference, dealing clearly with its authority and duties.	The Audit Committee's Terms of Reference is stated in the Company's, The audit committee charter.	Compliant
D.3.4 Disclosures			
D.3.4	The names of Directors comprising the Audit Committee should be disclosed in the Annual Report. The Annual Report should contain a report by the Audit Committee mentioning a determination of the independence of the Auditors and the basis of such determination	Please refer Audit Committee Report on pages 86 to 88.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
D.4 Code of Business Conduct & Ethics			
D.4 Principle	Company must adopt a Code of Business Conduct and Ethics for Directors, and Key Management Personnel	Company has adopted the Code of Business Conduct and Ethics for Directors, and Key Management Personnel	Compliant
D.4.1	The existence of a Code of Business Conduct and Ethics for Directors and Key Management Personnel should be disclosed in the Annual Report with an affirmative declaration of compliance	Please refer the Annual Report of the Board of Directors on pages 81 to 85.	Compliant
D.4.2	The Chairman must affirm in the Annual Report that he is not aware of any violation of the Code	No violations have been reported during the year. Please refer the Annual Report of the Board of Directors on pages 81 to 85.	Compliant
D.5 Corporate Governance Disclosures			
D.5 Principle	Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.	Please refer Corporate Governance Report on Pages from 43 to 80.	Compliant
D.5.1	The Directors should include in the Company's Annual Report a Corporate Governance Report.	Please refer Corporate Governance Report on Pages from 43 to 80.	Compliant
E Institutional Investors			
E.1 Shareholder Voting			
E.1 Principle	Institutional shareholders have a responsibility to make considered use of their votes	Institutional shareholders make use of their votes to ensure their voting intentions are translated into practice.	Compliant
E.1.1	A regular and structured dialogue should be conducted with shareholders	The Annual General Meeting is used as a forum to have a structured and objective dialogue with shareholders	Compliant
E.2 Evaluation of Governance Disclosures			
	When evaluating governance arrangements, institutional investors should be encouraged to give due weight to all relevant factors	Institutional investors are encouraged to give weight to governing arrangements	Compliant

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

Compliance with the Corporate Governance rules as per Section 7:10 of the Listing Rules of the Colombo Stock Exchange

Section	Governance Requirement	Implementation and Compliance	Compliance Status
7.10.1 Non-Executive Directors			
7.10.1	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors	All five directors of the Board are Non-Executive Directors.	Compliant
7.10.2	Independent Directors		
7.10.2(a)	Two or one-third of Non-Executive Directors, whichever is higher, should be independent.	Four out of the five Non-Executive Directors are deemed as Independent Directors. Please refer the Annual Report of the Board of Directors on pages 81 to 85.	Compliant
7.10.2(b)	The Board shall require each Non-Executive Director to submit signed declaration of independence/ non-independence annually	All Directors have been submitted annual declarations during the year.	Compliant
7.10.3 Disclosures relating to directors:			
7.10.3 (a)	Names of Independent Directors should be disclosed in the Annual Report	Please refer page 81 to 85 of the Annual Report of the Board of Directors.	Compliant
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report	No such determination was required to be made by the Board, as the Independent Directors of the Company met the specified criteria.	Compliant
7.10.3 (c)	A brief résumé of each Director should be published in the Annual Report including the areas of expertise	Please refer page 37 to 38 for the profiles of Board of Directors.	Compliant
7.10.3 (d)	A brief résumé of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public	When an appointment of a new director, Company immediately submits a brief resume of such Director to the CSE.	Compliant
7.10.4 Criteria for determination of independency of Directors			
7.10.4 (a-h)	Requirements for meeting criteria to be independence of a Non-Executive Director	All of the Independent Directors of the Company met the criteria for independency specified in this rule.	Compliant
7.10.5 Remuneration Committee			
	A listed company shall have a Remuneration Committee	The Company has a Remuneration Committee appointed by the Board	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
7.10.5(a)	The Remuneration Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher. One Non-Executive Director shall be appointed as Chairman of the Committee by the Board.	The Remuneration Committee comprises of two non-executive directors and one of them acts as a Chairman of the committee. Please refer the "Report of the Remuneration Committee" on pages 89 to 90.	Compliant
7.10.5(b)	The Committee shall recommend to the Board the remuneration payable to the executive directors and Chief Executive Officer. The Board will make the final determination upon consideration of such recommendations.	Please refer the Report of the Remuneration Committee on pages 89 to 90.	Compliant
7.10.5(c)	The annual report should set out the names of directors comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors.	Please refer the Report of the Remuneration Committee on pages 89 to 90 for the composition of the Remuneration Committee. Total fees and remuneration paid to all Directors is disclosed on Note No 42.2 on page 172.	Compliant
7.10.6 Audit Committee			
7.10.6	A Listed Entity shall have an audit committee	Please refer the 'Audit Committee Report' on pages 86 to 88 in the Annual Report.	Compliant
7.10.6(a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors, or a majority of Independent Non-Executive Directors, whichever is higher. One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board	All the members of the Audit Committee are Non-Executive Directors. One of those Directors acts as the Chairman of the Committee.	Compliant
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.	Both the Chief Executive Officer and the Chief Financial Officer attends the meetings	Compliant
	The Chairman or one member of the Committee should be a member of a recognised professional accounting body.	The Chairman of the Audit Committee is a Fellow member of the Chartered Institute of Management Accountants – UK. Please refer pages from 37 to 38 for profiles of the Audit Committee members	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
7.10.6(b)	<p>Overseeing whether the Financial Statements of the Company in accordance with Sri Lanka Accounting Standards</p> <p>Overseeing the Company's compliance with financial reporting in accordance with the regulations</p> <p>Overseeing to ensure the adequacy of Company's internal control and risk management process</p> <p>Assessment of the independence and the performance of External Auditors</p> <p>To make recommendation to the Board pertaining to the appointment, reappointment and removal of External Auditors and approve their remuneration and Terms of Engagement</p>	Please refer to the Audit Committee Report on pages 86 to 88.	Compliant
7.10.6(c)	<p>The Annual Report shall set out</p> <p>The names of the Directors who comprise the Audit Committee.</p> <p>The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.</p> <p>A report by the Audit Committee setting out the manner of compliance of the functions set out in above, during the period to which the Annual Report relates</p>	Please refer to the Audit Committee Report on pages 86 to 88.	Compliant

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

The Directors of SMB Leasing PLC have pleasure in submitting their report together with the audited financial statements of the Company, Consolidated Financial Statements of the Group for the year ended December 31, 2018 and the Auditors' Report thereon. The Financial Statements were accepted and approved by the Board of Directors on May 30, 2019.

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

Review of Performance for the year ended December 31, 2018

The operations of the Company for the year ended December 31, 2018 are reviewed in the Chairman's Message and the Chief Executive Officer's Message and in the Management Discussion and Analysis report.

Principal Activities and the Structure

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

During the year, the Principal Activity of the Company was to carry out the business of Finance Leasing, Loans and Pawning. The major shareholder of the Company is Dr. T. Senthilverl who has a direct holding of 29.75% as at December 31, 2018.

Principal Activities of the Subsidiary

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

Principal Activities of the Associate

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

Financial Statements

The Financial Statements of the Group and the Company are given on page 103 to 108 of the Annual Report.

Significant Accounting Policies

The significant accounting policies adopted in the preparation of Financial Statements are given on page 114 to 138 of the Annual Report.

As per the accounting policy of the Company given in Note No. 5.3.5 on page 134, the investment in Associate is accounted under the equity method and share of profit / (loss) of the Associate for each financial year is accounted in the Group Financial Statements based on audited financial statements of the Associate.

Auditors

The Financial Statements for the year ended December 31, 2018 have been audited by Messrs. KPMG, Chartered Accountants who offer themselves for re-appointment. A resolution relating to their re-appointment and authorizing the Directors to determine their remuneration will be proposed at the Annual General Meeting. The fees paid to the Auditors are disclosed in Note No. 14 to on page 145 of the Annual Report. As far as the Directors are aware, the Auditors do not have any relationship with the Company other than that of Auditors. The Auditors have provided a declaration confirming their independence.

Auditors' Report

The Auditors' Report on the Financial Statements is given on the pages from 99 to 102 of the Annual Report.

Board of Directors

The following were Directors of the Company for the year ended December 31, 2018.

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

* Mr. J. C. Korale demised on May 21, 2018.

Retirement of Directors

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

Independent Directors

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

Mr. U. Gautam
 Mr. J. C. Korale*
 Mr. T. M. Wijesinghe
 Mr. A. T. S. Sosa
 Mr. M. S. A. Wadood

*Mr. J. C Korale demised on May 21, 2018

Directors Shareholdings

The shareholdings of the Directors of the Company are shown on page 33 of the Annual Report.

Directors Interest in Contracts

The Directors of the Company have no direct or indirect interest in any contract or proposed contract with the Company, except those specified in Note 42.1 on page 172 of the Annual Report, which have been disclosed and declared at meetings of Directors.

Interest Register

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

Board Sub-Committees

The Board, while assuming the overall responsibility and accountability for the management of the Company has also appointed following Board Sub-Committees in 2018 to ensure more effective control over certain affairs of the Company, conforming to the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, the Listing Rules of the Colombo Stock Exchange and the Directions of the Finance Leasing Act No 56 of 2000.

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

Audit Committee Report is given on pages 86 to 88 of the Annual Report. Remuneration Committee Report is given on the pages 89 to 90 of the Annual Report. Risk Committee Report is given on page 93 of the Annual Report. Nomination Committee Report is given on the page 91 of the Annual Report. Related Party Transaction Review Committee Report is given on the page 92 of the Annual Report.

Directors Fees and Remuneration

Directors Fees and Remuneration paid for the financial year ended December 31, 2018 is given on Note No. 42.2 on page 172 of the Annual Report.

Directors Responsibility for Financial Reporting

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

Corporate Governance

The Board of Directors has acknowledged the responsibility to maintain an effective corporate governance structures and processes and to be in compliance with all relevant rules, regulations and best practices. The Company being listed on the Colombo Stock Exchange is in compliance with the Listing Rules on Corporate Governance of the Colombo Stock Exchange. In addition, the Company is substantially in compliance with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and the Direction No 4 of 2009 on Corporate Governance of the Finance Leasing Act No 56 of 2000. Company's compliance with rules on corporate governance are given in corporate governance report on pages 43 to 80.

Risk Management and Internal Controls

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

Compliance with Rules & Regulations

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

Going Concern

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

Statutory Payments

The Directors confirm that to the best of their knowledge and belief, all statutory payments in relation to all relevant regulatory and statutory authorities have been paid and provided for. A statement of compliance by the Board of Directors in relation to statutory payments is included in the Directors Responsibility on Financial Reporting Statement on page 96.

Environmental Protection

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

Financial Results of the Group

Rs Mn	2018	2017
Profit after tax	89.7	40.01
Un-appropriated profit brought forward	37.7	190.7
Profits available for appropriation	127.4	230.8
Other comprehensive income/(expense)	8.9	(0.5)
Transfers to statutory reserves	(4.3)	(1.9)
Dividend paid	(36.1)	-
Un-appropriated profit carried forward	95.9	228.4

Group Revenue

The revenue of the group was Rs. 246Mn (2017 - Rs. 254 Mn). An analysis of revenue based on segments is disclosed in the segmental analysis on page 179 of the Annual Report.

Financial Investments

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

The amount of financial investments held by the Group as at December 31, 2018 amounted to Rs. 78.1 Mn (2017 - Rs. 59.5Mn). A detailed description of the financial investments is disclosed in Note No 21 on pages 149 to 155 of the Annual Report

Property, Plant & Equipment

Details relating to Property, Plant & Equipment are disclosed in Note No 25 on pages 157 to 158 of the Annual Report.

Intangible Assets

No capital expenditure on acquisition of intangible assets during the year (2017 - Rs. 3.8 Mn). The carrying value of intangible assets as at the reporting date amounted to Rs. 4.8 Mn (2017- Rs. 3.7 Mn). Movement of intangible assets from the balance as at January 1, 2018 to balance as at December 31, 2018, additions and disposals made and amortization charge for the year is disclosed in the Note No 26 on page 159 of the Annual Report. Following their initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

Fair Value of Investment Properties

The fair value of the investment property owned by the Company is stated in Note No 24 on pages from 156 to 157 of the Annual Report.

Reserves

The reserves consist of Statutory Reserve Fund and the Retained Reserves. The reserves of the group are disclosed in the Statement of Changes in Equity on page 107 and in Note No 35 to 37 on page 163 of the Annual Report.

Stated Capital

The Stated Capital of the Company as at December 31, 2018 was Rs 919,064,114 comprising 1,805,832,873 number of ordinary shares.

Loan Capital

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

Taxation

A detailed description of the income tax rate applicable to the Company and a reconciliation of the accounting profits with the taxable profits are given in Note No 16 on pages 145 to 146 of

the Annual Report.

The group policy is to provide for deferred taxation on all known temporary differences as at the reporting date on the liability method. The deferred tax details of the Company is disclosed in Note No 27 on pages 159 to 160 of the Annual Report.

Donations

No donations were granted during the year 2018 (2017 Rs. 20,000).

Provisions

The Directors have taken all responsible steps to ensure adequate provisioning has been made for all known liabilities. The basis adopted for provisioning is disclosed in Accounting Policy No 3.2.7 on page 114 of the Annual Report.

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

Related Party Transactions

The Directors have disclosed the transactions with related parties in terms of the Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosures. The details of the Related Party Transactions are disclosed in Note No 42 on page 172 of the Annual Report.

Events After the Reporting Date

Events that have occurred after the reporting date have been disclosed in Note No 41 on page 172 of the Annual Report.

Capital Commitments

The capital expenditure commitments are disclosed in Note No 40.1 on page 172 of the Annual Report.

Contingent Liabilities

The contingent liabilities are disclosed in the Note No 40.2 on page 172 of the Annual Report.

Share Information

Information relating to Earnings, Net Assets, and Market value per share and share trading is given on page 33 of the Annual Report.

Major Shareholders

Details of the top twenty Shareholders of the Company and the percentages held by each of them are disclosed on page 32 of the Annual Report.

The distribution and analysis of the shareholders

The details of the distribution and analysis of shareholders are given on the page 34 of the Annual Report.

Human Resources Policy

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

A brief description of the Company's HR Policy and the Remuneration Methodology is given in the Human Capital Management Report on pages 23 to 29 of the Annual Report.

The Company's strength of manpower as at December 31, 2018 was 48 (2017 - 47).

Code of Conduct and Ethics

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

Equitable treatment to stakeholders and their interest

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

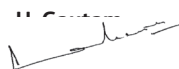
Annual Report

The Board of Directors approved the Company Financial Statements together with the reviews which forms part of the Annual Report on May 30, 2019. The appropriate number of copies will be submitted to the Colombo Stock Exchange, Central Bank of Sri Lanka, Sri Lanka Accounting and Auditing Standards Monitoring Board and the Registrar of Companies within the time frame.

Annual General Meeting

The Annual General Meeting will be held at the Renuka City Hotel, 328, Galle Road, Colombo 03 on June 27, 2019 at 9:30 a.m. The notice of Annual General Meeting is given on pages 183 and 184 of the Annual Report.

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



A. T. S. Sosa
 Director

P W Corporate Secretarial (Pvt) Ltd.

Company Secretaries

Colombo.
 May 30, 2019

Report of the Audit Committee

Composition of the Committee

The Board Audit Committee (BAC) appointed by and responsible to the Board of Directors comprises of two Independent Non-Executive Directors and is in line with the Audit Committee composition requirements specified in the Finance Leasing (Corporate Governance) Direction issued by the Central Bank of Sri Lanka and the requirements in Section 7.10.6 of the listing rules issued by the Colombo Stock Exchange. All members of the Committee have a depth of financial expertise and business acumen and the Committee is conscious of the need to keep its knowledge up to date. More information on experience of and brief profiles of the committee members are given on page 37 to 38 in the Annual Report.

Name	Directorship Status	Status
Mr. J C Korale*	Independent/Non-Executive Director	Chairman
Mr. A T S Sosa	Independent/Non-Executive Director	Chairman
Mr. U Gautam	Independent/Non-Executive Director	Member

* Mr. J. C. Korale was replaced by Mr. A. T. S. Sosa on May 31, 2018.

The Charter

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

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

Meetings

The Committee met on eight (8) occasions during the financial

year ended December 31, 2018. Proceedings of these meetings with adequate details of matters discussed are regularly reported to the Board of Directors.

Name	Attended / Eligible to Attend
Mr. J. C. Korale	6/6
Mr. A T S Sosa	2/2
Mr. U. Gautam	8/8

As per Section 7.10.6 (a) of the Listing Rules, the Chief Executive Officer and Chief Financial Officer attended the Committee meetings by invitation. The Company's internal auditor, Messrs. Deloitte was invited to participate in meetings where internal audit reports were discussed. The members of the management team were invited to participate in meetings as and when required. The Company's external auditor Messrs. KPMG was invited to a meeting on May 10, 2018 to discuss the audit engagement.

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

Activities of the Committee

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

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

Internal Controls – Finance Leasing (Corporate Governance) Direction requires the Committee to assess the Company's compliance with Directions issued by CBSL and the management's internal controls over financial reporting. Section 7.10.6 b (3) of Listing Rules requires the Committee to oversee the processes to ensure that the Company's internal controls and risk management, are adequate, to meet the requirements of the Sri Lanka Auditing Standards.

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

A report by the Board on the Company's internal control mechanism confirming that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements is given in page 94. The external auditor's certification on the effectiveness of the internal control mechanism was issued on May 30, 2019.

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

External Audit – The BAC is primarily responsible for making recommendations to the Board on the appointment, reappointment or removal of the external auditor in-line with

professional standards and regulatory requirements. The Committee also evaluates and makes recommendations to Board regarding the external audit fee. On the recommendation of the Board, the shareholders have approved the reappointment of Messrs. KPMG (Chartered Accountants) as the external auditor of the Company for the financial year 2018. Messrs. KPMG has been the external auditor of the Company since its inception in 1992. However, the engagement audit partner is rotated every five years.

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

The BAC met the external auditors in 2018 without the presence of CEO and the corporate management. This meeting provided an opportunity to the external auditor to discuss any issues, problems and reservations arose during the 2017 financial statement audit and also to ensure that there was no limitation of scope in relation to the audit and to allow disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit. The BAC concluded that there was no cause for concern.

The Committee has recommended to the Board of Directors that Messrs. KPMG, Chartered Accountants, be reappointed as the external auditors for the financial year ending December 31, 2019 subject to the approval of the shareholders at the next Annual General Meeting.

Oversight on Regulatory Compliance - The Committee closely scrutinizes the compliance with mandatory statutory

requirements and the systems and procedures in place to ensure compliance with such requirements. The quarterly internal audit reports submitted by the internal auditor and the monthly reports submitted by the compliance officer were used by the Committee to monitor compliance with all such legal and statutory requirements.

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

Whistle Blowing - The Committee has recommended an introduction of a whistleblower policy which intends to serve as an informal channel for the corporate risk management. An employee, who observes or notices any improper activity or unethical practices in the Company or receives credible information of the same, may forthwith report the same

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

Conclusion

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



A. T. S. Sosa

Chairman, Audit Committee

May 30, 2019

Report of the Remuneration Committee

Composition of the Committee

The Remuneration Committee appointed by the Board of Directors comprises of two Non-Executive Directors and meets composition requirements stated in Section 7.10.5 of the Listing Rules issued by the Colombo Stock Exchange. The following members served on the Committee during the year 2018. More information on experience of and brief profiles of the Committee members are given on page 37 to 38 in the Annual Report.

Name of the Board sub-committee member	Directorship status	Membership status
Mr. T. M. Wijesinghe*	Independent/Non-Executive Director	Chairman
Mr. H. R. S. Wijeratne*	Non-Executive Director	Chairman
Mr. M. S. A. Wadood**	Independent/Non-Executive Director	Member
Mr. U. Gautam**	Independent/Non-Executive Director	Member

* Mr. H. R. S. Wijeratne replaced Mr. T. M. Wijesinghe on May 31, 2018

** Mr. M. S. A. Wadood replaced Mr. U. Gautam on May 31, 2018

Terms of Reference

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

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

Meetings

The Committee meets when required to make recommendations to the Board on matters related to its functions. The Chairman of the Committee can convene a special meeting in the event a requirement arises. During the year 2018, the Committee formally met once to determine the bonus payable for the

2017 performance and the attendance of the members at that meetings is given below. However, the Chairman of the Committee continuously provided insights to the Board of Directors when HR related matters were discussed at Board meetings.

Name	Attended / Eligible to Attend
Mr. T. M. Wijesinghe	0/1
Mr. H. R. S. Wijeratne	1/1
Mr. U. Gautam	1/1

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

Activities of the Remuneration Committee

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

- Making recommendations to the Board on the Company's organization structure and HR policies
- Aligning human resources department with the corporate strategy function to facilitate a human resources transformation

- Ensuring employees of the Company at all levels are adequately rewarded for their performance in line with the remuneration policy of the Company
- Recommending promotions, bonuses and increments to the Board for adoption.
- Deliberate on succession planning, human capital risks and plans to mitigate them

Remuneration Policy

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

Director's Remuneration

The Board decides the remuneration of the Non-Executive Directors based on the recommendation of the Committee. All Non-Executive Directors receive a fee for attending Board meetings and Committee meetings. No performance or incentive payments are made to the Non-Executive Directors and they are not entitled to retirement benefits. The Company does not have share option plans for Directors and no Director is entitled for Company loans. The total of Directors' remuneration paid during the year under review is set out in Note 42.2 of the Financial Statements on page 172 of the Annual Report.



H. R. S. Wijeratne

Chairman, Remuneration Committee

May 30, 2019

Report of the Nomination Committee

Composition of the Committee

The Nomination Committee appointed by the Board of Directors comprises of two Non-Executive Directors and meets composition requirements stated in the Code of Best Practice on Corporate Governance issued jointly by the Securities & Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. The following members served on the Committee during the year 2018. More information on experience of and brief profiles of the Committee members are given on page 37 to 38 in the Annual Report.

Name of the Board sub-committee member	Directorship status	Membership status
Mr. T. M. Wijesinghe*	Independent/Non-Executive Director	Chairman
Mr. H. R. S. Wijeratne*	Non-Executive Director	Chairman
Mr. U. Gautam**	Independent/Non-Executive Director	Member
Mr. A. T. S. Sosa**	Independent/Non-Executive Director	Member

* Mr. H. R. S. Wijeratne replaced Mr. T. M. Wijesinghe on May 31, 2018.

** Mr. A. T. S. Sosa replaced Mr. U. Gautam on May 31, 2018.

Terms of Reference

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

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

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

Meetings

The Committee meets when required to make recommendations to the Board on matters related to its functions. The Chairman of the Committee can convene a special meeting in the event a

requirement arises. Members of the Nomination Committee do not participate in decisions relating to their own appointment. During the year 2018, the Committee formally met twice.

The Secretary of the Company, P W Corporate Secretarial Ltd acted as Secretaries to the Committee. The Minutes of the meetings of the Committee is circulated to all members of the Board.

Name	Attended / Eligible to Attend
Mr. T. M. Wijesinghe	0/0
Mr. H. R. S. Wijeratne	2/2
Mr. U. Gautam	0/0
Mr. A. T. S. Sosa	2/2

Activities in 2018

During the year, the Committee discussed on finding a suitable replacement for Mr. J.C. Korale. The Committee continued to work closely with the Board of Directors on matters assigned to the Committee and reported back to the Board of Directors with its recommendations.



H. R. S. Wijeratne

Chairman, Nomination Committee

May 30, 2019

Report of the Related Party Transactions Review Committee

Composition of the Committee

The Related Party Transactions Review Committee appointed by the Board of Directors comprises of two Non-Executive Directors and meets composition requirements stated in Section 9 of the Listing Rules issued by the Securities and Exchange Commission of Sri Lanka. The following members served on the Committee during the year 2018. More information on experience and brief profiles of the Committee members are given on page 37 to 38 in the Annual Report.

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

* Mr. M. S. A. Wadood replaced Mr. J. C. Korale on May 31, 2018

Terms of Reference

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

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

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

Meetings

The Committee meets regularly and minutes of all meetings are properly documented and communicated to the Board of Directors. The Chairman of the Committee can convene a special meeting in the event a requirement arises. During the year 2018, the Committee met three (3) times.

The proceedings of the Committee meetings were regularly reported to the Board of Directors. The Committee is assisted by the Chief Executive Officer and Chief Financial Officer who

attended the meetings of the Committee on a regular basis. The Secretary of the Company, P W Corporate Secretarial Ltd acted as Secretaries to the Committee.

Name	Attended / Eligible to Attend
Mr. J. C. Korale	1/1
Mr. M. S. A. Wadood	2/2
Mr. U. Gautam	3/3

Activities in 2018

During 2018, the Committee periodically reviewed all potential related party transactions in accordance with the rules pertaining to RPTs under the Listing Rules of Colombo Stock Exchange.

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

Details of other Related Party Transactions are given in Note No. 42 to the Financial Statements on page 172 of the Annual Report.



M. S. A. Wadood
Chairman, RPT Committee
May 30, 2019

Report of the Integrated Risk Management Committee

The Integrated Risk Management Committee (IRMC) was established to assist the Board in performing its oversight function in relation to different types of risk faced by the Company in its business operations and to ensure the adequacy and effectiveness of the risk management framework of the Company. The Committee meets the composition requirements stated in the Finance Leasing (Corporate Governance) Direction No 4 of 2009 issued by the Central Bank of Sri Lanka. The committee comprises the following members.

Mr. U. Gautam	Chairman
Mr. A. T. S. Sosa	Member
Chief Executive Officer	Member
Chief Operating Officer	Member
Chief Financial Officer & Head of Strategy	Member
Assistant General Manager – Legal	Member
Head of Credit	Member
Head of Sales	Member
Senior Operations Manager – Admin & Recovery	Member
Compliance Officer	Member

Terms of Reference

The Committee adopted the provisions of Section 8 (3) of the Finance Leasing (Corporate Governance) Direction No 4 of 2009 issued by the Central Bank of Sri Lanka as its terms of reference. A detailed approach of the Company's risk management process is given on pages 30 to 31 of the Annual Report.

Meetings

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

Activities of the Integrated Risk Management Committee

The Committee is responsible for:

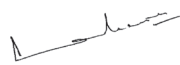
- Identifying, assessing and managing broad risk categories, i.e., credit, market, liquidity, operational and strategic risks through risk indicators;
- Reviewing the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to

address specific risks and to manage those risks within quantitative and qualitative risk limits;

- Taking prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Company's policies;
- Taking appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions; and
- Establishing a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations.

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

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



U. Gautam

Chairman, Integrated Risk Management Committee

May 30, 2019

Directors' Responsibility Statement on Internal Control Over Financial Reporting

RESPONSIBILITY

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

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

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

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

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

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

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

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting on May 30, 2019.

By order of the Board,



U. Gautam

Deputy Chairman and Independent Non-Executive Director



A. T. S. Sosa

Independent Non-Executive Director

Colombo

May 30, 2019

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

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

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

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

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

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

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

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



Sumedha Fernando
Chief Executive Officer



Supul Wijesinghe
Chief Financial Officer

Colombo
May 30, 2019

Directors' Responsibility to Financial Reporting

The Directors of the Company state below their responsibilities in relation to the Financial Statements of the Company. These differ from the Auditors' responsibilities, which are set out in their report given on page 99 to 102.

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

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

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

The Directors consider that in preparing the Financial Statements on page 103 to 108, the Company has used appropriate accounting policies, consistently applied, unless otherwise disclosed in Notes to the Financial Statements and supported by reasonable judgements and best estimates and that all accounting standards which are applicable have been followed.

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

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

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

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

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

On behalf of the Board.



U. Gautam

Deputy Chairman and Independent Non-Executive Director

Colombo

May 30, 2019

FINANCIAL INFORMATION

Financial Calendar

	2018	2017
Interim Financial Statements Publication to Colombo Stock Exchange (CSE)		
Q1 ended March 31,(unaudited)	May 15, 2018	May 12, 2017
Q2 ended June 30,(unaudited)	August 15, 2018	August 08, 2017
Q3 ended September 30,(unaudited)	November 09, 2018	November 09, 2017
Q4 ended December 31,(unaudited)	February 13, 2019	February 13, 2018
Annual Report Publication		
F/Y 2017		May 31, 2018
F/Y 2018	May 31, 2019	
Annual General Meeting (AGM)		
F/Y 2017		June 29, 2018
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To the Shareholders of SMB Leasing PLC Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SMB Leasing PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

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

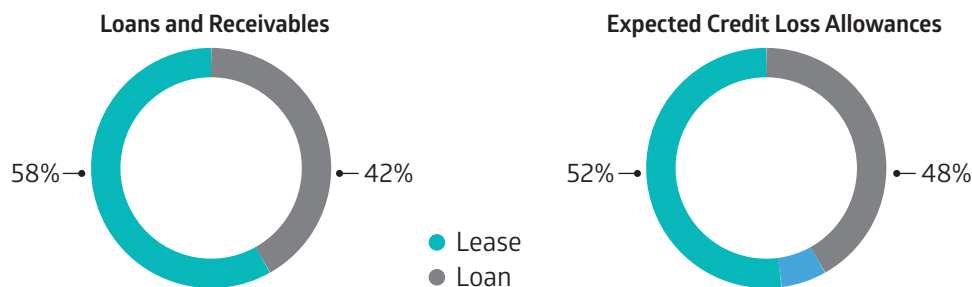
Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Company financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Company financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Impairment of loans and receivables to customers and transition impact on the adoption of SLFRS 9 – "Financial Instruments"

Refer to the accounting policies in the Financial Statements: Impairment of Loans and Receivables to customers, "Note 4 and 20" to the Financial Statements: Significant Accounting Judgments and Estimates, "Note 3.2.2" to the Financial Statements.

Composition of Loans and receivables and Expected Credit Loss Allowances;



Risk Description	Our responses
<p>The company has recognized impairment provision of Rs.322,541,016 on loans and receivables to customers amounting to Rs1,655,312,331 as at 31 December 2018.</p> <p>Impairment of loans and receivables to customers is a subjective area due to the level of judgment applied by management in determining impairment allowances.</p> <p>From the Group's perspective, the portfolios which gave rise to the greatest uncertainty in determining impairment allowances for loans and receivables to customers were those where impairments were derived from internally developed statistical models, where the loans and receivables to customers were unsecured or where the loans and receivables to customers were subject to potential collateral shortfalls.</p> <p>The determination of the allowance for expected credit losses is heavily dependent on the external macro environment and statistical, internal credit risk management models. The Group's expected credit losses for loans and receivables to customers are derived from the statistical models which are based on internally computed data comprising qualitative and quantitative factors including past due information and also incorporating forward looking information.</p> <p>We identified assessing impairment of loans and receivables to customers as a key audit matter because there is a high degree of complexity and judgment involved for the Company in estimating individual and collective credit impairment provisions against these loans. These features resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> ■ Assessing the design, implementation and operating effectiveness of key internal controls over the approval of new lending facilities against the Company lending policies, recording, monitoring of counter party credit quality and restructuring of loans and receivables to customers, the process of the measurement of impairment allowances for loans and receivables to customers with the assistance of our own IRM specialist. ■ Challenging the validity of the models used and assumptions adopted in Group or Company calculation of the impairment allowances by critically assessing: <ul style="list-style-type: none"> ■ Input parameters involving management judgment; ■ the overdue statistical data for the loan and receivable portfolios; and ■ Historical loss parameters used. ■ Considering, as part of the procedures above, the nature of and reasons for any revisions to the key assumptions and input parameters in the models, the consistency of judgment applied in the use of economic factors and forward looking information and assessing key internal controls over the input of underlying data into the models. ■ Assessing the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the account to a non-performing loan ■ Re-performing credit assessments for the selected impaired loans and receivables by assessing the forecast of recoverable cash flows through inquiry, applying judgment and our own research. We evaluated the timing and means of realization of collateral and considered other sources of repayment asserted by management. We also evaluated the consistency of management's application of key assumptions and compared them with our own data sources. Where available, we made use of post reporting date information to evaluate credit quality with hindsight; ■ Assessing the impairment of loans and receivables to customers disclosures and transition disclosures in the financial statements with reference to the requirements of SLFRS 9.

2. IT systems and controls over financial reporting

Risk Description	Our responses
<p>Automated accounting procedures and IT environment controls, which include IT governance, controls over program development and changes, access to programs and data and IT operations, are required to be designed and to operate effectively to ensure accurate financial reporting in particular areas of importance are system calculations, logic regarding significant accounts, including interest calculations, interfaces between business management systems and accounting systems.</p> <p>We identified IT systems and controls over financial reporting as a key audit matter because the Group's financial accounting and reporting systems are fundamentally reliant on complex IT systems and control processes which are driven by significant transaction volumes caused by the size of the customer base.</p>	<p>Our audit procedures included:</p> <p>We used our own IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included:</p> <ul style="list-style-type: none"> ■ assessing the design, implementation and operating effectiveness of key internal controls over the continued integrity of all major IT systems fundamental to dealing with the financial data, particularly financial reporting; ■ examining the framework of governance over the Group's IT organization and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required; ■ evaluating the design, implementation and operating effectiveness of the significant accounts-related IT process controls by assessing the operating effectiveness of IT Application Controls, assessing the operating effectiveness of certain automated controls and system calculations which are relevant to the Group's compliance activities. ■ Assessing the availability and stability of key operating systems, taking into consideration the rapid development of businesses types and transactions volumes as well as IT projects that have a significant impact on business continuity. ■ Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access right; ■ Testing preventative controls designed to enforce segregation of duties between users within particular systems;

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3707.



CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

May 30, 2019

Income Statement

Rs. For the year ended December 31,	Note	Company		Group	
		2018	2017	2018	2017
Interest income	8	245,975,164	254,750,912	245,975,164	254,750,912
Interest expenses	9	(63,338,977)	(69,180,996)	(63,377,267)	(69,223,696)
Net interest income		182,636,187	185,569,916	182,597,897	185,527,216
Fee and commission income	10	5,587,169	5,822,626	5,587,169	5,822,626
Net interest, fee and commission income		188,223,356	191,392,542	188,185,066	191,349,842
Other operating income (net)	11	14,412,452	54,689,393	93,591,328	118,795,513
Total operating income		202,635,808	246,081,935	281,776,394	310,145,355
Allowance for expected credit loss - (Charge)/ Reversal	12	18,058,117	(49,231,463)	18,058,117	(49,231,463)
Net operating income		220,693,925	196,850,472	299,834,511	260,913,892
Personnel expenses	13	(61,086,467)	(62,103,977)	(101,083,348)	(90,989,136)
Other expenses	14	(56,427,452)	(73,829,319)	(86,107,870)	(96,376,729)
Operating profit before value added tax (VAT)		103,180,006	60,917,176	112,643,293	73,548,027
Value added tax (VAT) on financial services	15	(17,438,210)	(16,937,380)	(17,438,210)	(16,937,380)
Profit before income tax		85,741,796	43,979,796	95,205,083	56,610,647
Share of profit/(losses) of associate companies	22.2	-	-	20,120	(4,386,020)
Income tax expense	16	-	(6,730,960)	(1,745,309)	(9,451,017)
Profit for the year		85,741,796	37,248,836	93,479,894	42,773,610
Profit attributable to :					
Owners of the parent		85,741,796	37,248,836	89,688,226	40,066,471
Non-controlling interest	38	-	-	3,791,668	2,707,139
Profit for the year		85,741,796	37,248,836	93,479,894	42,773,610
Basic earnings per share	17	0.05	0.02	0.05	0.02

The notes to the Financial Statements from pages 109 to 179 form an integral part of these financial statements. Figures in brackets indicate deductions.

Statement of Profit or Loss and Other Comprehensive Income

Rs. For the year ended December 31,	Company		Group	
	2018	2017	2018	2017
Profit for the year	85,741,796	37,248,836	93,479,894	42,773,610
Other Comprehensive Income				
Actuarial gain/(loss) on defined benefit plans	613,023	(73,015)	(2,437,702)	(1,245,465)
Equity investments at FVOCI – net change in fair value	9,391,266	-	9,391,266	-
Tax on other comprehensive income	-	20,445	854,203	348,731
Other comprehensive income / (Expense) for the year (net of taxes)	10,004,289	(52,570)	7,807,767	(896,734)
Total comprehensive income for the Year	95,746,085	37,196,266	101,287,661	41,876,876
Total comprehensive income attributable to:				
Owners of the parent	95,746,086	37,196,266	98,572,290	39,583,377
Non-controlling interest	-	-	2,715,372	2,293,499
Total comprehensive income for the Year	95,746,085	37,196,266	101,287,661	41,876,876

The notes to the Financial Statements from pages 109 to 179 form an integral part of these financial statements. Figures in brackets indicate deductions.

Statement of Financial Position

Rs. As at December 31,	Note	Company		Group	
		2018	2017	2018	2017
Assets					
Cash and cash equivalents	18	41,832,633	30,150,456	44,944,945	32,459,012
Placements with banks	19	136,152,648	132,227,376	153,678,748	147,258,662
Financial assets at amortised cost-loans and receivables to other customers	20	1,332,771,315	1,268,457,371	1,331,391,165	1,266,837,233
Financial investments	21	61,797,975	52,719,109	75,300,999	59,459,567
Investments in associates	22	37,295,534	37,275,414	37,295,534	37,275,414
Investments in subsidiaries	23	12,750,000	12,750,000	-	-
Investment properties	24	33,310,000	33,310,000	42,628,900	40,385,250
Property plant & equipment	25	14,725,606	19,416,543	24,386,608	21,251,658
Intangible assets	26	3,111,127	1,495,232	4,822,079	3,783,760
Deferred tax assets	27	-	-	2,258,717	1,759,925
Other assets	28	54,262,126	59,040,259	64,427,645	70,361,873
Total assets		1,728,008,964	1,646,841,760	1,781,135,340	1,680,832,354
Liabilities					
Due to financial institutions	29	529,658,613	308,887,466	529,658,613	308,887,466
Due to other customers	30	109,010,737	104,932,117	109,010,737	104,932,117
Other borrowings	31	-	-	-	456,110
Retirement benefit obligations	32	11,752,802	12,182,934	24,933,428	19,860,094
Other liabilities	33	40,635,834	47,253,391	43,689,240	52,299,946
Total liabilities		691,057,986	473,255,908	707,292,018	486,435,733
Equity					
Stated capital	34	919,064,114	919,064,114	919,064,114	919,064,114
Statutory reserves	35	34,648,406	30,361,316	34,648,406	30,361,316
Available for sale reserve	36	-	233,381	-	233,381
Retained earnings	37	83,238,458	223,927,041	95,891,533	228,378,513
Total equity attributable to equity holders of the Company		1,036,950,978	1,173,585,852	1,049,604,053	1,178,037,324
Non- controlling Interests	38	-	-	24,239,269	16,359,297
Total Equity		1,036,950,978	1,173,585,852	1,073,843,322	1,194,396,621
Total Equity and Liabilities		1,728,008,964	1,646,841,760	1,781,135,340	1,680,832,354

The Notes to the Financial Statements from pages 109 to 179 form an integral part of these financial statements. Figures in brackets indicate deductions.

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


Supul Wijesinghe
Chief Financial Officer


Sumedha Fernando
Chief Executive Officer

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


Umesh Gautam
Deputy Chairman


Shardha Sosa
Director

May 30, 2019
Colombo

Statement of Changes in Equity - Company

Rs. For the year ended December 31, 2018	Stated Capital		Statutory Reserve Fund	Available for Sale Reserve	Retained Earnings	Total
	Ordinary Voting Shares	Ordinary Non-Voting Shares				
Balance as at January 1, 2017	708,445,963	210,618,151	28,498,874	233,381	188,593,217	1,136,389,586
Profit for the year	-	-	-	-	37,248,836	37,248,836
Other comprehensive income (net of tax)	-	-	-	-	(52,570)	(52,570)
Total comprehensive income for the year	-	-	-	-	37,196,266	37,196,266
Transfers to statutory reserve	-	-	1,862,442	-	(1,862,442)	-
Dividend Paid	-	-	-	-	-	-
Total transactions with equity holders	-	-	1,862,442	-	(1,862,442)	-
Balance as at December 31, 2017	708,445,963	210,618,151	30,361,316	233,381	223,927,041	1,173,585,852
Balance as at January 1, 2018	708,445,963	210,618,151	30,361,316	233,381	223,927,041	1,173,585,852
Impact of adopting SLFRS 9 - "Financial Instruments" as at January 1, 2018 (Note 7)	-	-	-	(233,381)	(196,030,921)	(196,264,302)
Restated balance as at January 1, 2018	708,445,963	210,618,151	30,361,316	-	27,896,120	977,321,550
Profit for the year	-	-	-	-	85,741,796	85,741,796
Other comprehensive income (net of tax)	-	-	-	-	10,004,289	10,004,289
Total comprehensive income for the year	-	-	-	-	95,746,085	95,746,085
Transfers to statutory reserve	-	-	4,287,090	-	(4,287,090)	-
Dividend Paid	-	-	-	-	(36,116,657)	(36,116,657)
Total transactions with equity holders	-	-	4,287,090	-	(40,403,747)	(36,116,657)
Balance as at December 31, 2018	708,445,963	210,618,151	34,648,406	-	83,238,458	1,036,950,978

The notes to the Financial Statements from pages 109 to 179 form an integral part of these financial statements. Figures in brackets indicate deductions.

Statement of Changes in Equity - Group

Rs. For the year ended December 31, 2018	Attributable to the Equity holders of the parent						Non Controlling Interest	Total Equity
	Stated Capital Ordinary Voting Shares	Ordinary Non- Voting Shares	Statutory Reserve Fund	Available for Sale Reserve	Retained Earnings	Total		
Balance as at January 1, 2017	708,445,963	210,618,151	28,498,874	233,381	190,657,579	1,138,453,948	14,065,799	1,152,519,747
Profit for the year	-	-	-	-	40,066,471	40,066,471	2,707,139	42,773,610
Other comprehensive income (net of tax)	-	-	-	-	(483,095)	(483,095)	(413,641)	(896,736)
Total comprehensive income for the year	-	-	-	-	39,583,376	39,583,376	2,293,498	41,876,874
Transfers to statutory reserve	-	-	1,862,442	-	(1,862,442)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-
Total transactions with equity holders	-	-	1,862,442	-	(1,862,442)	-	-	-
Balance as at December 31, 2017	708,445,963	210,618,151	30,361,316	233,381	228,378,513	1,178,037,324	16,359,297	1,194,396,621
Balance as at January 1, 2018	708,445,963	210,618,151	30,361,316	233,381	228,378,513	1,178,037,324	16,359,297	1,194,396,621
Impact of adopting SLFRS 9 - "Financial Instruments" as at January 1, 2018 (Note 7)	-	-	-	(233,381)	(190,655,523)	(190,888,904)	5,164,600	(185,724,304)
Restated balance as at January 1, 2018	708,445,963	210,618,151	30,361,316	-	37,722,990	987,148,420	21,523,897	1,008,672,317
Profit for the year	-	-	-	-	89,688,227	89,688,227	3,791,668	93,479,895
Other comprehensive income (net of tax)	-	-	-	-	8,884,063	8,884,063	(1,076,296)	7,807,767
Total comprehensive income for the year	-	-	-	-	98,572,290	98,572,290	2,715,372	101,287,662
Transfers to statutory reserve	-	-	4,287,090	-	(4,287,090)	-	-	-
Dividend paid	-	-	-	-	(36,116,657)	(36,116,657)	-	(36,116,657)
Total transactions with equity holders	-	-	4,287,090	-	(40,403,747)	(36,116,657)	-	(36,116,657)
Balance as at December 31, 2018	708,445,963	210,618,151	34,648,406	-	95,891,533	1,049,604,053	24,239,269	1,073,843,322

The notes to the Financial Statements from pages 109 to 179 form an integral part of these financial statements. Figures in brackets indicate deductions.

Statement of Cash Flows

Rs. For the year ended December 31,	Company		Group	
	2018	2017	2018	2017
Cash flow from operating activities				
Interest receipts	258,058,419	234,972,851	258,058,419	234,972,851
Interest payments	(70,907,457)	(54,543,796)	(70,945,747)	(54,586,496)
Fees and commission receipts	23,494,198	18,596,344	95,199,812	82,214,914
Cash payments to employees and suppliers	(372,643,177)	(106,542,489)	(434,181,576)	(158,254,177)
Profit before changes in operating assets	(161,998,017)	92,482,910	(151,869,092)	104,347,092
Loans and receivables	6,458,321	25,600,520	6,218,333	25,360,532
Other assets	4,778,134	(16,184,073)	5,934,228	(19,775,147)
Cash (used)/generated in operating activities	(150,761,562)	101,899,357	(139,716,531)	109,932,477
Tax paid	(15,074,110)	(20,504,323)	(18,458,597)	(23,111,192)
Gratuity paid	(1,487,046)	(1,353,597)	(1,487,046)	(1,353,597)
Net cash (used in) /generated from operating activities	(167,322,718)	80,041,437	(159,662,174)	85,467,688
Cash flow from investing activities				
Net (increase)/decrease in financial investments	(5,174,571)	(6,135,762)	(5,169,385)	(11,167,048)
Acquisition of shares	-	-	4,206,303	(2,070,770)
Purchase of property, plant & equipment	(2,673,551)	(8,057,079)	(12,133,050)	(11,590,870)
Proceeds from disposal of property, plant & equipment	-	782,609	5,000,000	782,609
Net cash used in investing activities	(7,848,122)	(13,410,232)	(8,096,132)	(24,046,079)
Cash flow from financing activities				
Increase/(decrease) in borrowings from financial institutions	161,652,578	(7,426,544)	161,652,578	(7,426,544)
Increase/(decrease) in other borrowings	-	-	(456,110)	(699,131)
Increase/(decrease) in public borrowings	(339,000)	519,502	(339,000)	519,502
Increase/(decrease) in other liabilities	(11,096,774)	(9,706,672)	(14,749,441)	(9,654,872)
Dividend paid	(36,116,657)	-	(36,116,657)	-
Net cash generated from / (used in) financing activities	114,100,147	(16,613,714)	109,991,370	(17,261,045)
Net (decrease) / increase in cash and cash equivalents	(61,070,693)	50,017,491	(57,766,937)	44,160,564
Cash and cash equivalents at the beginning of the year	33,429,403	(16,588,088)	35,737,959	(8,422,605)
Cash and cash equivalents at the end of the year	(27,641,290)	33,429,403	(22,028,978)	35,737,959
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	41,832,633	30,150,456	44,944,945	32,459,012
Repo investment with banks	1,631,800	3,280,000	4,131,800	3,280,000
	43,464,433	33,430,456	49,076,745	35,739,012
Bank overdraft	(71,105,723)	(1,053)	(71,105,723)	(1,053)
Cash and cash equivalents	(27,641,290)	33,429,403	(22,028,978)	35,737,959

The notes to the Financial Statements from pages 109 to 179 form an integral part of these financial statements. Figures in brackets indicate deductions.

Notes to the Financial Statements

1. Corporate Information

1.1. Reporting entity

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

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

1.2. Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2018 comprise of SMB Leasing PLC (Parent Company), its subsidiary (together referred to as the 'Group') and the Group's interest in its associate company.

1.3. Number of Employees

The staff strength of the Company as at December 31, 2018 is 48 (2017 - 47).

1.4. Principal Activities and Nature of Operations

Company – SMB Leasing PLC

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

Subsidiary – SMB Money Brokers (Pvt) Ltd

The principal business activity is money brokering activities.

Associate – Kenanga Investment Corporation Ltd

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

The percentage of ownership is as follows:

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

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

2. Basis of Accounting

2.1. Statement of compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Company as at December 31, 2018 and for the year then ended, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No 7 of 2007 and the Finance Leasing Act No 56 of 2000 and amendments thereto and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting. These SLFRSs and LKASs are available at www.casrilanka.com

The Company did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of the Financial Statements. Details of the Company's Significant Accounting Policies followed during the year are given in Notes 4 to 5 on pages 114 to 138.

2.2. Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of the Financial Statements of the Group and the Company as per the provisions of the Companies Act No. 7 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the Annual Report of the Board of Directors, Statement of Directors' Responsibility and the certification on the Statement of Financial Position on pages 96 and 105 respectively.

These Financial Statements include the following components:

A. An Income Statement and a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the Company for the year under review. (Refer pages 103 to 104)

Notes to the Financial Statements (contd..)

B. A Statement of Financial Position (SOFP) providing the information on the financial position of the Group and the Company as at the year end. (Refer page 105)

C. A Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Company. (Refer pages 106 to 107)

D. A Statement of Cash Flows providing the information to the users, on the ability of the Group and the Company to generate cash and cash equivalents and utilisation of those cash flows. (Refer page 108)

E. Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. (Refer pages 109 to 179)

2.3. Approval of Financial Statements by the Board of Directors

The Financial Statements of the Group and the Company for the year ended December 31, 2018 (including comparatives for 2017), were approved and authorised for issue in accordance with the resolution of the Board of Directors on May 29, 2019.

2.4. Basis of measurement

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

Item	Basis of Measurement	Note No	Page No
Financial assets measured at fair value through profit or loss (FVTPL)	Fair Value	21.1	150
Quoted equity investments measured at fair value through profit or loss (FVTPL)	Fair Value	21.1	150
Unquoted equity investments measured at fair value through other comprehensive income (FVOCI)	Fair Value	21.2	151
Defined Benefit Obligation	Liability is recognised at the present value of the defined benefit obligation, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.	32	161 -162

2.5. Going concern basis of accounting

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

2.6. Functional and presentation currency

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

in the Group's presentation and functional currency during the year under review.

2.7. Presentation of Financial Statements

The assets and liabilities of the Company and the Group presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis on recovery or settlement within 12 months after the reporting date (current) and after more than 12 months from the Reporting date (non current) is presented in Note 45 on pages 178 (Current/Non-current Analysis) No adjustments have been made for inflationary factors affecting the Financial Statements.

Notes to the Financial Statements (contd.)

2.8. Rounding

The amounts in the Financial Statements are presented in absolute values for the financial statements to be more understandable. However, in certain notes to the financial statements, figures have been rounded-off to the nearest Rupees thousands for better presentation as permitted by the Sri Lanka Accounting Standard LKAS 01 - Presentation of Financial Statements.

2.9. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

2.10. Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by the LKAS 1 and amendments to the LKAS 1 on "Disclosure Initiative" which was effective from January 1, 2016.

Notes to the Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial Statements of the Company and the Group. Understandability of the Financial Statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

2.11. Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability.

The presentation and classification of the Financial Statements of the previous year are amended, where

relevant for better presentation and to be comparable with those of the current year. The Company/Group has not restated the comparative information for 2017 for financial instruments within the scope of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" (SLFRS 9). Therefore, the comparative information for 2017 is reported under Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments: Recognition and Measurement" (LKAS 39) and is not comparable to the information presented for 2018. Differences arising from adoption of SLFRS 9 have been recognised directly in equity as of January 1, 2018 and are disclosed in Note 07 on pages from 140 to 143 .

3. Use of significant accounting judgements and assumptions and estimates

In preparing the Financial Statements of the Company and the Group in conformity with SLFRSs and LKASs, the management has made judgements, estimates and assumptions which affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Accounting judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively. Significant areas of critical accounting judgements, assumptions and estimation uncertainty, in applying Accounting Policies that have most significant effects on the amounts recognised in the Financial Statements of the Company and the Group are as follows.

3.1. Significant accounting judgements

Information about accounting judgements made in applying Accounting Policies that have the most significant effects on the amounts recognised in these Financial Statements are included in Notes 3.1.1 to 3.1.2 below.

3.1.1. Determination of control over investees

Management applies its judgement to determine whether the control indicators set out in Note 5.1.3.4 on page 125 indicates that the Company controls the investees.

3.1.2. Classification of financial assets and liabilities

As per SLFRS 9, the Significant Accounting Policies of the Company provides scope for financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the criteria given in Note 4.1.1 on pages 114 to 116.

3.2. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are included in Notes 3.2.1 to 3.2.7 below.

3.2.1. Fair Value of financial instruments

The fair values of financial assets and financial liabilities recognised on the Statement of Financial Position, for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish their fair values. The Company measures fair value using the fair value hierarchy that reflects the significance of inputs used in making measurements. Methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 39.5 and 39.6 on page 169 and 170 respectively.

3.2.2. Impairment losses on financial assets

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

Accordingly, the Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

A collective impairment provision is established for:

- Groups of homogeneous loans and leases that are not considered individually significant; and
- Groups of assets that are individually significant but that

Notes to the Financial Statements (contd.)

were not found to be individually impaired.

As per SLFRS 9, the Company's Expected Credit Loss (ECL) calculations are outputs of a complex model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- The Company's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life time expected credit loss (LTECL) basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of a ECL model, including the various statistical formulas and the choice of inputs;
- Determination of associations between macro-economic inputs and the effect on Probability of Default (PDs), Exposure At Default (EAD) and Loss Given Default (LGD)

3.2.3. Impairment of non- financial assets

The carrying amounts of the Group's non- financial assets, other than investment property and deferred tax assets, are reviewed at each Reporting date to determine whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash- generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash -generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share price for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at

each reporting date as to whether there is any indication that previously recognised impairment losses may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation/ amortisation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognised in profit or loss.

3.2.4. Useful lifetime of the property, plant and equipment

The Company reviews the residual values, useful lives and methods of depreciation of Property, Plant and Equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty. Refer Note 5.3.8 on pages from 135 to 136 .

3.2.5. Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available and can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. Refer Note 27 on pages from 159 to 160 .

3.2.6. Defined benefit obligation

The cost of the defined benefit obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. This includes making assumptions about discount rates, future salary increments, retirement age. Due to the long-term nature of such obligation, these estimates are subjected to significant uncertainty. All assumptions are reviewed at each reporting date. Refer Note 32 on pages from 161 to 162 .

3.2.7. Provisions for liabilities, commitments and contingencies

The Company receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost

ultimately depend on the due processes in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgements in applying Accounting Policies other than those stated above that have significant effects on the amounts recognised in the Consolidated Financial Statements are described in Notes 5.1.3 on page 125.

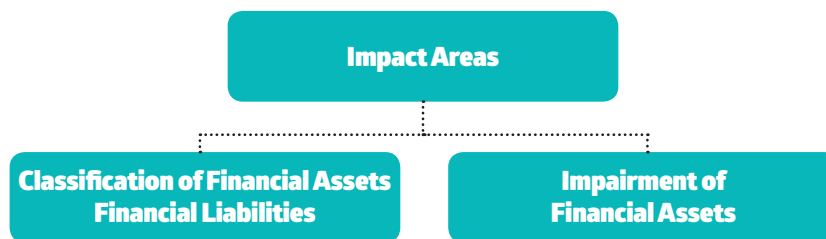
4. Changes in Significant Accounting Policies

The Company has consistently applied the Accounting Policies as set out in Notes 5 on pages 119 to 138 all periods presented in these Financial Statements, except for the changes arising out of transition to SLFRS 7, SLFRS 9 and SLFRS 15.

The Company has applied SLFRS 9, SLFRS 7 and SLFRS 15, which are effective for the annual reporting periods beginning on or after January 1, 2018, for the first time. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not effective.

4.1. SLFRS 9 – Financial Instruments

SLFRS 9 issued in December 2014 replaced LKAS 39 and is applicable for annual reporting periods beginning on or after January 1, 2018. In accordance with the option given in SLFRS 9 not to restate the comparatives, the Company and the Group have not restated comparative information for 2017 for financial instruments within the scope of SLFRS 9. Therefore, comparative information for 2017 is reported under LKAS 39 and is not comparable with the information presented for 2018. The nature and effects of the key changes to the Group's accounting policies resulting from its adoption of SLFRS 9 – "Financial Instruments" are summarised below:



Differences arising from the adoption of SLFRS 9 have been recognised directly in equity as of January 1, 2018 and are disclosed in Note 07 on pages from 140 to 143.

4.1.1. Changes to classification and measurement

To determine their classification and measurement category, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' cash flow characteristics.

Notes to the Financial Statements (contd.)

Classification and measurement categories as specified in LKAS 39 for financial assets (FVTPL, HTM, L&R and AFS) have been replaced by:

- A.** Financial assets measured at amortised cost
- B.** Financial assets measured at Fair value through other comprehensive income (FVOCI)
- C.** Financial assets measured at Fair value through profit or loss (FVTPL)

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments measured at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments

Investments in equity instruments are always measured at fair value. Equity instruments are those that meet the definition of "equity" from the perspective of the issuer as defined in LKAS 32 – "Financial instrument: Recognition & measurement". For all other equity instruments, management has the ability to make an irrevocable election

on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. There is no recycling of amounts from OCI to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements. However, the entity might transfer the cumulative gain or loss within equity.

All the equity instrument for which the irrevocable option is not made should be measured at fair value through profit or loss.

Other

All other financial assets are classified as financial assets measured at FVTPL.

The following assessments have been made on the basis of the facts and circumstances that existed at the transition date; i.e. January 1, 2018.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- For financial liabilities designated at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

Notes to the Financial Statements (contd..)

Changes to the classification and measurement of financial assets after application of SLFRS 9 – “Financial Instruments” is given below:

LKAS 39	SLFRS 9 – Treatment
Financial assets that are classified as held-for-trading measured at fair value	Measured at FVTPL
Loans and receivables to customers measured at amortised cost	Measured at amortised cost
Held-to-maturity investment securities measured at amortised cost	Measured at amortised cost
Quoted equity securities classified as available for sale	Measured at FVTPL
Unquoted equity securities classified as available for sale	Irrevocably elected to present subsequent changes in fair value in OCI.

The Company’s classification of its financial assets and liabilities is given in Note 39 on pages from 165 to 171 . The quantitative impact of applying SLFRS 9 as at January 1, 2018 is disclosed in Note 07 on pages from 140 to 143.

4.1.2. Changes to the impairment calculation

The adoption of SLFRS 9 has fundamentally changed the Company’s accounting for loan loss impairments by replacing the incurred loss approach under LKAS 39 with a forward looking expected credit loss (ECL) approach. SLFRS 9 requires the Company to record an allowance for ECLs for all loans and other financial assets not held at FVTPL. Under SLFRS 9, credit losses are recognised earlier than under LKAS 39.

The allowance is based on the ECLs associated with the PD in the next twelve months unless there has been a significant increase in credit risk since origination. Lifetime expected credit loss is provided for financial assets for which the credit risk has increased significantly from initial recognition and the credit impaired assets subsequent to initial recognition.

Key changes in the Group’s accounting policy for expected

losses of financial assets are listed below:

The Group applies three-stage approach to measuring expected credit losses (ECL) on Loans and receivables and other financial assets measured at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under LKAS 39 - “Financial Instruments: Recognition and Measurement”.

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in impairment model prescribed in SLFRS 9 – “Financial Instruments” which uses combination of both qualitative factors and backstop based on delinquency. Group consider that a significant increase in credit risk occurs no later than when an asset is equal or more than 90 days past due. Where there is a significant increase in credit risk Group uses lifetime ECL model to assess loss allowances instead of 12-month ECL model.

The indications of credit impairments are as similar to LKAS 39 – “Financial Instruments: Recognition and Measurement”. The Group considers the indications of credit default does not occur equal or later than 180 days which is in line with the regulatory definition of default.

The key inputs used for measurement of ECL is likely to be the term structures of the following variables:

Probability of Default (PD) - PD estimates are estimates at a certain date, which are calculated based on statistical

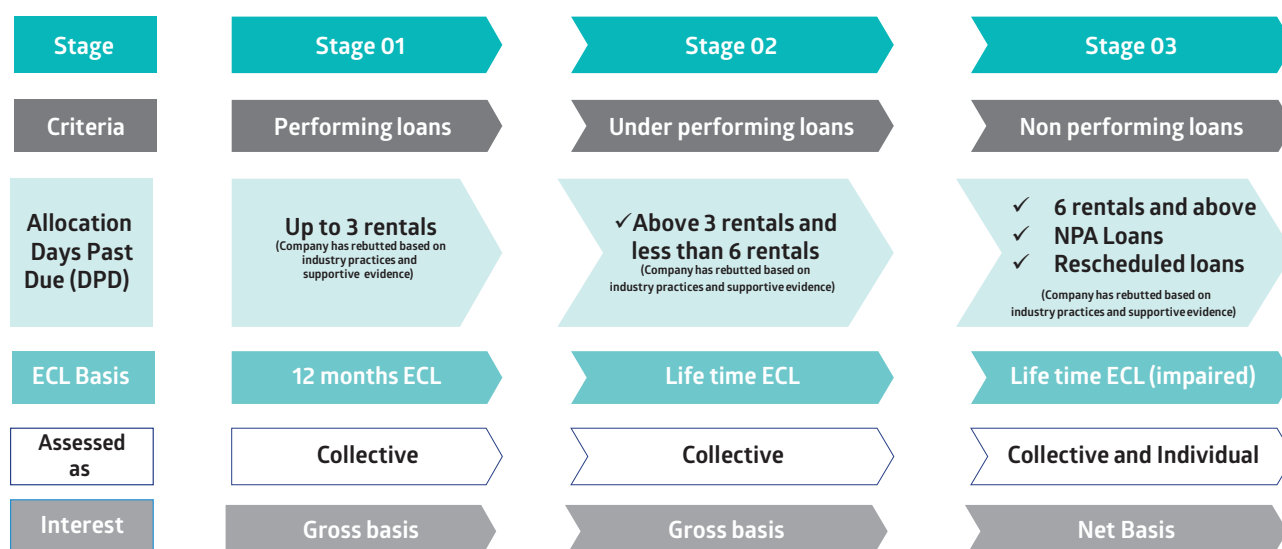
Notes to the Financial Statements (contd.)

models, and assessed using various categories based on homogeneous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Group forecast PD by incorporating forward looking economic variables (Unemployment, GDP growth, inflation, interest rate and using lag effect of these variables).

Loss Given Default (LGD) - LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

Exposure at default (EAD) - EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

Group has used these parameters from internally developed statistical models using historical data. All inputs were adjusted to reflect forward-looking information and future economic scenarios. The below is diagram reflects the Company's approach for ECL calculations.



The new model of ECL applies to other financial assets measured at amortised cost as well. Group measures loss allowance at an amount equal to life time ECL, except those investments that are determined to have low credit risk at the reporting date. The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade". The Group uses information from external credit agencies as inputs to the ECL calculation and adjust to reflect forward looking information and economic scenarios.

Details of the Company's impairment method are disclosed in Note 5.2.5 on pages from 127 to 130.

4.2. SLFRS 7 (Revised) – Financial Instruments: Disclosures

The Group adopted SLFRS 7 together with SLFRS 9, effective from January 1, 2018. Changes including transition disclosures as shown in Note 7 on pages from 140 to 143 together with detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are disclosed as per the requirements of the Standards in Note 4.1.2 pages from 116 to 117.

4.3. SLFRS 15 – Revenue from contracts with customers

SLFRS 15 replaces revenue recognition guidance, including LKAS 18 on “Revenue”, LKAS 11 on “Construction Contracts” and IFRIC 13 on “Customer Loyalty Programmes” and is effective for annual reporting periods beginning on or after January 1, 2018.

SLFRS 15 provides a comprehensive framework for determining whether, how much, and when revenue is recognised. SLFRS 15 requires new qualitative and quantitative disclosure aimed at enabling users of Financial Statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities are required to apply five-step model to determine when to recognise revenue and at what amount. The model specifies that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount at which the entity expects to be entitled.

There is no significant impact on the Financial Statement of the Company and the Group resulting from the application of SLFRS 15.

*Notes to the Financial Statements (contd.)***5. Significant accounting policies**

The Significant Accounting Policies set out below have been applied consistently to all periods presented in the Financial Statements of the Company and Group except as specified in Note 2.4 on page 110. These Accounting Policies have been applied consistently by the Company and the Group.

Summary of Significant Accounting Policies	Policy Note No	Page	FS Note No	Page
Significant Accounting Policies – General				
Fair Value Measurement	5.1.11	120	39.5	169
Classification of Financial Assets and Liabilities	5.1.1	120	39	165
Fair Value Measurement of Assets and Liabilities	5.1.2	123	39.6	170
Consolidated Financial Statements	5.1.3	125	-	-
Significant accounting policies – Recognition of income and expense				
Revenue	5.2.1	126	8,10,11	144
Net Interest Income	5.2.2	126	9	144
Fee and Commission Income	5.2.3	127	10	144
Other Operating Income	5.2.4	127	11	144
Impairment Charges on Financial Assets	5.2.5	127	12	144
Personnel Expenses	5.2.6	130	13	145
Other Expenses	5.2.7	130	14	145
Economic Service Charge (ESC)	5.2.8	130	-	-
Nation Building Tax (NBT) on financial services	5.2.9	130	-	-
Value Added Tax (VAT) on financial services	5.2.10	130	15	145
Income Tax	5.2.11	130	16	145
Earnings Per Share	5.2.12	131	17	146
Significant accounting policies – Recognition of assets and liabilities				
Cash and Cash Equivalents	5.3.1	131	18	147
Placements with Banks	5.3.2	131	19	147
Loans and Receivables	5.3.3	132	20	147
Financial Assets	5.3.4	134	21	149
Investment in Associate	5.3.5	134	22	155
Investment in Subsidiary	5.3.6	134	23	156
Investment Property	5.3.7	134	24	156
Property, Plant and Equipment	5.3.8	135	25	157
Intangible Assets	5.3.9	136	26	159
Other Assets	5.3.10	136	28	160
Due to Financial Institutions	5.3.11	136	29	160
Due to Customers	5.3.12	137	30	161
Retirement Benefit Obligations	5.3.13	137	32	161
Other Liabilities	5.3.14	137	33	162
Statutory Reserve	5.3.15	137	35	163

Notes to the Financial Statements (contd.)

Summary of Significant Accounting Policies	Policy Note No	Page	FS Note No	Page
Significant Accounting Policies – Statement of Cash Flows				
Statement of Cash Flows	5.4.1	137	-	-
Significant Accounting Policies – Other				
Commitments and Contingencies	5.5.2/5.5.3	137	40	172
Events that Occurred after the Reporting Date	5.5.1	137	41	172
Segmental Analysis	5.5.4	137	46	179
Maturity Analysis	5.5.5	139	44.3.3	174

5.1. Significant Accounting Policies – General

5.1.1. Classification of Financial Assets and Liabilities

The Group has elected to adopt SLFRS 9 – “Financial Instruments” issued in July 2014 with a date of initial application of January 1, 2018. The requirement of SLFRS 9 – “Financial Instruments” represent a significant change from LKAS 39 – “Financial Instruments: Recognition and Measurement”.

The Nature and effect of the key classification changes of financial assets and liabilities which affecting to the Group’s accounting policies are given below:

5.1.1.1. Recognition and initial measurement

The Group initially recognises loans and receivables, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on 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 transaction costs. For an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Day 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on valuation technique whose variables include only data from observable markets the Group recognises the difference between transaction price

and fair value in interest income and respective expenses. In case where fair value is determined using data which is not observable, the difference between the transaction price and model value is recognised in the Statement of Profit or Loss when the input becomes observable or when the instrument is derecognised.

The Day 1 loss arising in the case of loans granted to employees at concessionary rates under uniform applicable schemes is deferred and amortised using effective interest rates over the remaining service period of the employees or tenure of the loan whichever is shorter. The subsequent measurement of financial assets depends on their classification.

5.1.1.2. Classification

A. Financial Assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

Notes to the Financial Statements (contd.)

- the asset is held within a business model whose objective is achieved by both collecting;
- Contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified and measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

B. Financial liabilities

The Group classifies its financial liabilities other than loan commitments, as measured at amortised cost or FVTPL.

*Notes to the Financial Statements (contd.)***5.1.1.3. Reclassifications**

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

5.1.1.4. Derecognition**A. Financial Assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From January 1, 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognised as investment securities and carried at FVOCI. Gains or losses on securitisation are recorded in other revenue. Before January 1, 2018, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

B. Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

5.1.1.5. Modifications of financial assets and financial liabilities**A. Financial assets**

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

Notes to the Financial Statements (contd.)

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre- modification interest rate.

B. Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

5.1.1.6. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

5.1.2. Fair Value Measurement of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an

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

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

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

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

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

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

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date

Notes to the Financial Statements (contd.)

on which the amount could be required to be paid. The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Valuation Models

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using:

- quoted market prices in active markets for similar instruments;
- quoted prices for identical or similar instruments in markets that are considered less than active; or
- other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable.

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar

instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premier used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and simple financial instruments. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value and management uses judgement to select the most appropriate point in the range.

The Group's methodology for valuing these asset-backed securities uses a discounted cash flow technique that takes into account the probability of default and loss severity by considering the original underwriting criteria, vintage borrower attributes, LTV ratios, expected house price movements and expected prepayment rates. These features are used to estimate expected cash flows, which are then allocated using the "waterfall" applicable to the security and discounted at a risk-adjusted rate. The discounted cash flow technique is often used by market participants to price asset-backed securities. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

Notes to the Financial Statements (contd.)

5.1.3. Consolidated Financial Statements

5.1.3.1. Basis of consolidation

The Group's Financial Statements comprise of, Consolidated Financial Statements of the Company and its subsidiary in terms of the Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" (SLFRS 10) and the proportionate share of the profit or loss and net assets of its Associates in terms of the Sri Lanka Accounting Standard – LKAS 28 on "Investments in Associates and Joint Ventures" (LKAS 28). The financial statements of the Company's subsidiary and associate are prepared for a common financial year which ends on December 31 using consistent accounting policies.

5.1.3.2. Subsidiary

Subsidiary is an entity that is controlled by the Group. Subsidiary is fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Investment details of the Subsidiary within the Group are provided in Note No. 23 on page 156 to the financial statements.

When the Company loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity related to the subsidiary. Any resulting gain or loss arising on the loss of control is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently, it is accounted for as an Associate or as a Financial Investment depending on the level of influence retained.

There are no significant restrictions on the ability of the subsidiary to transfer funds to the Parent (the company) in the form of cash dividend or repayment of loans and advances. The subsidiary of the Company has been incorporated in Sri Lanka.

5.1.3.3. Non-controlling interests

Non-controlling interests (NCI) represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Company. NCI are presented

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

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

5.1.3.4. Associate

Associate is an entity in which the Company has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of the other entity unless it can be clearly demonstrated that despite having more than 20% hold in an entity, the Company has no significant influence over the entity evidenced by any one or more of the following.

- No representation on the Board of the entity
- No participation in policy making process or dividend distribution process of the entity
- No participation in budget preparation or other key operational aspects of the entity
- No transactions with the entity in the financial year
- No interchange management personnel
- Management accounts of the entity is not shared with the Company

Investment in associate is accounted for using the equity method and is recognised initially at cost, in terms of Sri Lanka Accounting Standards – LKAS 28 on "Investments in Associates and Joint Ventures". Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized but is subjected to impairment test. The Company's investments include goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Company's share of the income and expenses and equity movements of the associate after adjustments to align the Accounting Policies with those of the group from the date that significant influence effectively commences until the date that significant influence ceases.

Notes to the Financial Statements (contd.)

Accordingly, under the Equity Method, investments in associate is carried at cost plus post-acquisition changes in the Company's share of net assets of the associate and is reported as a separate line item in the Statement of Financial Position. The income statement reflects the Company's share of the results of operations of the associates. Any change in OCI of the associate is presented as part of the group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the group recognises its share of any changes, when applicable, in equity through OCI. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in associate.

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

The Company discontinues the use of the Equity Method from the date that it ceases to have significant influence over an associate and accounts for such investments in accordance with the Sri Lanka Accounting Standard – SLFRS 9 on “Financial Instruments. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

After application of the Equity Method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognises the loss as “Share of profit of Associate” in the income statement.

Investment details of the Associate within the Group are provided in Note 22 on page 155 to the financial statements.

5.1.3.5. Transactions Eliminated on Consolidation

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

5.1.4. Material gains or losses, provisional values or error corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

5.2. Significant accounting policies – Recognition of income and expense**5.2.1. Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the Group and the revenue can be reliably measured. Income from early settlement and overdue rentals have been accounted for on a cash basis

5.2.2. Net Interest Income

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

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based

Notes to the Financial Statements (contd.)

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

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

5.2.3. Fee and Commission Income

Fees and commission that are integral to the effective interest rate on financial asset or liability are included in the effective interest rate of respective asset or liability. Fees and commission income, including commission, service fees are recognised as the related services are performed.

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

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

5.2.3.1. Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the documents and inspection of vehicle are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

5.2.4. Other Operating Income

5.2.4.1. Gain or Losses on Disposal of Property, Plant & Equipment

Gains/losses from sale of property, plant & equipment is recognised in the period in which the sale occurs and is

classified as other income/expense.

5.2.4.2. Dividend Income

Dividend income is recognised when the Group's right to receive the payment is established, which is generally when the shareholders approve the dividend income from equity investments at FVTPL is recognised in the Statement of Profit or Loss on an accrual basis when the Group's right to receive the dividend is established.

5.2.4.3. Income from Government Securities and Securities Purchased under Resale Agreements

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

5.2.4.4. Recovery of Bad and Doubtful Debts Written off

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

5.2.5. Expected Credit Losses on Financial Assets

The Company recognises loss allowance using Expected Credit Losses (ECL) on loans and receivables to customers and other financial assets measured at amortised cost model using dual measurement approach which the loss allowance is measured as either 12-month expected credit losses or lifetime expected credit losses.

The Company recognises loss allowances for ECL on loans and receivables other financial assets measured at amortised cost. Accordingly, this note covers expected loss allowances for –

- Loans and receivables from customers
- Placements with banks

5.2.5.1. Loans and receivables from customers

For loans and advances above a predefined threshold, the Group individually assesses for significant increase in credit risk. If a particular loan is credit impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future

cash flows. If the Group determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments along with the remaining portfolio.

Segmentation of the portfolio is done based on homogeneous characteristics. However, segmentation needs to be done to the extent for which representative sample data is available to estimate PD using transition matrix. (need to combine where sample size is not adequate)

Segmentation

Lease – Machinery

Lease – Other

Loan – Other

Loan – QC

Pawning

Other Investments

The Company computes ECL using three main components; a probability of default (PD), a loss given default (LGD), and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from internally developed statistical models and historical data are then adjusted to reflect forward-looking information.

- PD – The probability of default represents the likelihood of a borrower defaulting on its financial obligation (as per “definition of default and credit impaired” on Significant Accounting Policy Balance Sheet Note 20 below) either over the next 12 months (12mPD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due is the primary input into the determination of the term structure of PD for exposures. Days past due are determined by counting the number of days since the due date. The Group employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted

Notes to the Financial Statements (contd.)

counterparties. They are calculated on a discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a percentage of the EAD.

- EAD – The exposure at default represents the expected exposure in the event of a default. The Group estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. For all other loans EAD is considered for default events over the lifetime of the financial instrument.

The Company measures loss allowances using both lifetime ECL and 12-month ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is equal more than 90 days past due.

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such
- as realising security (if any is held); or
- the financial asset is equal or more than 180 days past due.

12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk

Notes to the Financial Statements (contd.)

Measurement of ECL

ECL are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECL are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised are credit impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the

existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Other financial assets measured at amortised cost

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade". This policy is applicable to deposits with licensed commercial banks measured at amortised cost

5.2.5.2. Placements with banks

Deposits with licensed commercial banks comprises the fixed deposits with licensed commercial banks which are measured initially at fair value plus transaction costs and subsequently measured at amortised cost using EIR. The Company recognises loss allowances for ECL on assets subsequently measured at amortised cost. Company measures loss allowance at an amount equal to lifetime ECL, except financial investments that are determined to have low credit risk at the reporting date.

5.2.6. Personnel expenses

Personnel expenses include salaries and bonus, terminal benefit charges and other employee related expenses. The provision for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

5.2.7. Other expenses

All the expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency, has been charged to the income statement in arriving at the profit for the year under other expenses.

5.2.8. Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006 and the amendments thereto, ESC is payable at 0.50% on "Liable Turnover" and deductible from the income tax liability. Any unclaimed liability can be carried forward within the specified time period mentioned in the Act and set off against the income tax payable as per the relevant provisions in the Act.

5.2.9. Nation Building Tax (NBT) on financial services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No. 09 of 2009 and subsequent amendments thereto. NBT on financial services is calculated based on the value addition used for the purpose of VAT on financial services.

NBT on financial services rate applied during the financial year ended December 31, 2018 was 2%.

5.2.10. Value Added Tax (VAT) on financial services

VAT on financial services is calculated in accordance with the Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation is the accounting profit before VAT and income tax adjusted for economic depreciation and benefits paid to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits. VAT on financial services rate applied during the financial year ended December 31, 2018 was 15%.

5.2.11. Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

Current Tax

Current tax is the expected tax payable on the taxable income for the year. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date and any adjustment to tax payable in respect of previous years. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto at the rates specified below. Income tax on profit from operations is calculated at the rate of 28%.

Deferred Tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

5.2.12. Earnings Per Share (EPS)

The Company computes basic and diluted EPS for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period as per the requirements of the Sri Lanka Accounting Standard LKAS 33 -Earnings per Share.

Diluted EPS is computed by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the

effects of all dilutive potential ordinary shares.

5.2.13. Dividend Per Share

Provision for final dividend is recognised at the time the dividend is recommended and declared by the Board of Directors and approved by the shareholders. However interim cash dividend is recognised when the Board approves such dividend in accordance with Companies Act No. 07 of 2007.

5.3. Significant accounting policies – Recognition of assets and liabilities

5.3.1. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and balances with banks which are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position. Bank overdraft that are repayable on demand and form an integral part of the Company's cash resources and it is only included as a component of cash equivalents for the purpose of the Cash Flow Statements

5.3.2. Placements with Banks

Deposits with licensed commercial banks comprise of fixed deposits with licensed commercial banks and securities purchased under agreements to re-sell.

Fixed deposits with licensed commercial banks are measured initially at fair value plus transaction costs and subsequently measured at amortised cost using EIR. Amortised cost is calculated by taking into account any discount or premium on acquisition and other fees and cost that are an integral part of EIR. The Company recognises loss allowances for ECL on assets subsequently measured at amortised cost. Company measures loss allowance at an amount equal to lifetime ECL, except financial investments that are determined to have low credit risk at the reporting date.

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

by the Company. The difference between the purchase and resale prices is accrued over the life of the agreement using the EIR and recorded in Other Operating income

5.3.3. Loans and Receivables

As per SLFRS 9, "Loans and advances to customers" are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

The Company initially recognises loans and advances to customers on the date on which they are originated. The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments. From January 1, 2018 as per SLFRS 9, the Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

As per SLFRS 9, all financial assets other than those classified at amortised cost or FVOCI are classified as measured at Fair value through profit or loss (FVTPL). Accordingly, loans and receivables from customers are measured at FVTPL. Financial assets designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value.

As per SLFRS 9, the Group records an allowance for expected credit losses for loans and other credit facilities to customers measured at amortised cost. SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

- Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from

default events possible within next 12 months (12M ECL).

- Stage 2: If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Group records an allowance for LTECL. Refer Note 20 for a description on how the Group determines when a significant increase in credit risk has occurred.
- Stage 3: If a financial asset is credit impaired, it is moved to Stage 3 and the Group recognises an allowance for LTECL, with probability of default at 100%.

The key assumptions, judgements and estimates adopted by the Group in addressing the requirements of SLFRS 9 is given below.

Significant increase in credit risk

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in expected credit loss model prescribed in SLFRS 9 – "Financial Instruments". When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and expert credit assessment and including forward looking information. The criteria for determining whether credit risk has increased significantly vary by portfolio and include qualitative factors, including a backstop based on delinquency.

The Group considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 90 days past due rebutting the presumption in the SLFRS 9 permitted in accordance with the provisions of SLFRS 9. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

Definition of Default

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the borrower is past due equal more than 180 days on any material credit obligation to the Company.

In determination of default the Company largely aligns with the regulatory definition of default which is 180 days and above. In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative – e.g., breaches of covenant;
- quantitative – e.g., overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

In assessing whether a borrower is in default, the Company reviews its individually significant loans and advances above a predefined threshold at each reporting date. The Company considers non performing credit facilities/customers with one or more of the following indicators and assessed accordingly in ECL computations.

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of the customer.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of the customer

When the value of collateral is significantly reduced and/or realisability of collateral is doubtful.

- When a customer is subject to litigation, that significantly affects the performance of the credit facility.
- Frequent changes in the senior management of an institutional customer.

- When the customer is deceased/insolvent.
- When the Company is unable to contact or find the customer
- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year

Expected Credit Loss (ECL)

The Company calculates ECL either on a collective or an individual basis. Those financial assets for which, the Company determines that no provision is required under individual impairment are then collectively assessed for ECL.

For the purpose of ECL calculation on collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to other customers are grouped into homogeneous portfolios, based on a combination of product characteristics.

The Company computes ECL using three main components; a probability of default (PD), a loss given default (LGD), and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from internally developed statistical models and historical data are then adjusted to reflect forward-looking information.

- PD – The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12mPD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due is the primary input into the determination of the term structure of PD for exposures. Days past due are determined by counting the number of days since the due date. The Group employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. They are calculated on a

discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a percentage of the EAD.

- EAD – The exposure at default represents the expected exposure in the event of a default. The Group estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. For all other loans EAD is considered for default events over the lifetime of the financial instrument.

The Company measures loss allowances using both lifetime ECL and 12-month ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward looking information.

Collateral valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as real estate, gold, repossessed vehicles and repossessed machinery. When computing the ECL for individually significant loans, the discounted value of respective collateral is taken into consideration. The Company's policy is to carry collaterals repossessed at fair value at the repossession date and such assets will be disposed at the earliest possible opportunity.

5.3.4. Financial Investments

Financial investments consist of investments in quoted and non-quoted shares. Quoted equity securities classified under available-for-Sale investments as per LKAS - 39 "Financial Instruments: Recognition and Measurement" has been reclassified to financial assets measured at FVTPL. For unquoted equity investments Group has irrevocably elect to present subsequent changes in FVOCI.

Unquoted Equity Investments at FVOCI

Upon initial recognition, the Company elected to classify irrevocably some all non quoted equity investments held for strategic purpose, as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 "Financial Instruments: Presentation" and are not held for trading. Gains and losses on these equity instruments are never recycled to profit or loss instead directly transferred to retained earnings at the time of derecognition. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment and comprise quoted and unquoted shares that had been previously classified as Available for sale under LKAS 39.

5.3.5. Investment in Associate

Investment in associate is accounted for at cost in the Company's Financial Statements and under the equity method in the Consolidated Financial Statements. Under the equity method, the investment in associate is initially accounted at cost and the carrying amount is adjusted for post-acquisition changes in the Company's share of net assets of the associate, less any impairment in the Company's net investment in associate. Refer Note 22. on Page155.

5.3.6. Investment in Subsidiary

Investments in subsidiary is stated at cost, net of any impairment losses which are charged to the Income Statement in the Company's Financial Statements. Refer Note 23 on Page 156.

5.3.7. Investment Property

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

Determining Fair Value

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

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

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

5.3.8. Property, Plant and Equipment

Basis of Recognition

Property, Plant and Equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year. Property, Plant and Equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be measured reliably.

Basis of Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as a part of computer equipment. When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment. The Company & group apply the cost model to Property, Plant and Equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses

Subsequent Costs

The cost of replacing a part of an item of Property, Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost

can be measured reliably. The cost of day to day servicing of Property, Plant and Equipment are charged to the profit or loss as incurred.

Repairs & Maintenance

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

Derecognition

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

Depreciation

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

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

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

useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

5.3.9. Intangible Assets

The intangible assets include the value of computer software developed inhouse in partnership with a vendor.

Basis of Recognition

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably, in accordance with Sri Lanka Accounting Standard 38 - Intangible Assets. Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent Expenditure

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

Useful Economic Lives, Amortisation and Impairment

The useful economic lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in

the expense category consistent with the function of the intangible asset.

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

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

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

Derecognition

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

5.3.10. Other Assets

Other assets mainly comprise of refundable deposits, prepayments, performance bank guarantee, receivable from escrow agreement and other advances carried at historical cost.

5.3.11. Due to Financial Institutions

This represents loans and overdraft facilities from licensed commercial banks. These facilities are initially recognised at fair value net of transaction cost. Subsequent to initial recognition, borrowings are measured at their amortised cost using the effective interest method. Amortised cost is computed by taking into account any discount or premium identified at initial recognition which are an integral part of EIR. Interest paid/payable on these borrowings are recognised in Profit or Loss.

5.3.12. Due to Other Customers

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

5.3.13. Retirement Benefit Obligations

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

The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs. The gratuity liability is not externally funded.

5.3.14. Other Liabilities

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Other liabilities mainly comprise accrued expenses, supplier payables, insurance payable, consent motion advance, EPF/ETF/PAYE payables, etc.

5.3.15. Statutory Reserve

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

5.4. Significant accounting policies – Statement of Cash Flows

5.4.1. Statement of Cash Flows

The Statement of Cash Flow has been prepared by using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard LKAS 7 – Statement of Cash Flows, whereby operating activities, investing activities and financing activities are separately recognised.

Cash and Cash Equivalents comprise of Cash in hand and Cash at Bank. Cash and Cash Equivalents as referred to in the Statement of Cash Flow are comprised of those items as explained in the Note given in the Statement of Cash Flow on page 108.

5.5. Significant accounting policies – Other

5.5.1. Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in Note 41 on page 172, where necessary.

5.5.2. Capital Commitments

During 2018, the Company did not enter into any contract that will give rise to capital expenses in the future.

5.5.3. Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events on present obligations where the transfer of economic benefit is not probable or can't be reliably measured.

Summary cases against the Company have been disclosed in the Note 43 on Page 173 to the Financial Statements. However, based on the available information and the available legal advice, the Company do not expect the outcome of any action to have any material effect on the financial position of the Company.

5.5.4. Operating segments

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

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the Financial Statements of the Group. Inter-segment transfers are accounted for at competitive fair market prices charged to intercompany counterparts for similar services. Such services are eliminated on consolidation.

All operating results are reviewed regularly by the Chief

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

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

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

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

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

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

Details of the 5.5.4. Operating Segments are given in Note No. 46 on page179.

5.5.5. Maturity Analysis

The Company has disclosed an analysis of assets and liabilities in to relevant maturity baskets based on the remaining period as at the Reporting date to the contractual maturity date.

Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets, liabilities and share holders' funds are given in Note 44.3.3 of Page 174.

6. New accounting standards issued but not yet effective

6.1. Sri Lanka Financial Reporting Standard (SLFRS) 16 – Leases

SLFRS 16 – Leases which has been issued but not yet effective as at the reporting date, has not been applied in preparing these Consolidated Financial Statements. SLFRS 16 is effective for annual Reporting periods beginning on or after January 1, 2019 and the Company plans to apply this standard on the respective effective date.

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.

The Company will assess the potential impact on its Financial Statements resulting from the application of SLFRS 16 and apply this standard on the respective effective date.

Notes to the Financial Statements (contd.)

7 TRANSITION TO SLFRS 9 – “FINANCIAL INSTRUMENTS”**7.1 Impact of Adopting SLFRS 9 on Opening Balance**

The following table summarises the impact, net of tax, of transition to SLFRS 9 - “Financial Instruments” on the opening balance of reserves and retained earnings.

Company	Retained Earnings Rs.	Available for Sale Reserve Rs.
Closing balance as per LKAS 39 (January 1, 2018)	223,927,041	233,381
Impact on reclassification and remeasurments		
Classification of available for sale financial investments as financial assets measured at FVOCI	233,381	(233,381)
Impact on recognition of expected credit losses		
Expected credit losses under SLFRS 9 for		
Placements with banks	(965)	-
Loans and receivables	(196,263,338)	-
Opening balance as per SLFRS 9 Initial Application (January 1, 2018)	27,896,119	-

Group	Retained Earnings Rs.	Available for Sale Reserve Rs.	Non Controlling Interest
Closing balance as per LKAS 39 (January 1, 2018)	228,378,513	233,381	16,359,297
Impact on reclassification and remeasurments			
Classification of available for sale financial investments as financial assets measured at FVOCI	233,381	(233,381)	-
Classification of investments in CAPM preference shares as financial assets measured at FVTPL	5,375,400	-	5,164,600
Impact on recognition of expected credit losses			
Expected credit losses under SLFRS 9 for			
Placements with banks	(965)	-	-
Loans and receivables	(196,263,338)	-	-
Opening balance as per SLFRS 9 Initial Application (January 1, 2018)	37,722,991	-	21,523,897

Notes to the Financial Statements (contd.)

7.2 Classification and Measurement of Financial Assets and Financial Liabilities

The following table below explain the original measurement categories under LKAS 39 and the new measurement categories under SLFRS 9 for each class of the Group's Financial assets and Financial liabilities as at January 1, 2018.

Company	Note	Original Classification Under LKAS 39	New Classification Under SLFRS 9	Original Carrying Amount Under LKAS 39 Rs.	New Carrying Amount Under SLFRS 9 Rs.
Financial Assets					
Cash and cash equivalents	18	Loans and receivables	Measured at amortised cost	30,150,456	30,150,456
Placements with banks	19	Held to maturity	Measured at amortised cost	128,947,376	128,946,411
Loans and receivables	20	Loans and receivables	Measured at amortised cost	1,268,457,371	1,072,194,033
Financial investments	21	Available for sale	Measured at FVTPL *	701,541	701,541
Financial investments	21	Available for sale	Measured at FVOCI	52,017,568	52,017,568
Total Financial Assets				1,480,274,312	1,284,010,009

* Quoted equity instruments that were classified under available for sale have been categorized under financial assets measured at FVTPL

Financial liabilities					
Due to financial institutions	29	Other financial liabilities	Other financial liabilities	308,887,466	308,887,466
Due to other customers	30	Other financial liabilities	Other financial liabilities	104,932,117	104,932,117
Total financial liabilities				413,819,583	413,819,583

Group	Note	Original Classification Under LKAS 39	New Classification Under SLFRS 9	Original Carrying Amount Under LKAS 39 Rs.	New Carrying Amount Under SLFRS 9 Rs.
Financial assets					
Cash and cash equivalents	18	Loans and receivables	Measured at amortised cost	32,459,012	32,459,012
Placements with banks	19	Held to maturity	Measured at amortised cost	143,978,662	143,977,697
Loans and receivables	20	Loans and receivables	Measured at amortised cost	1,266,837,233	1,070,573,895
Financial investments	21	Available for sale	Measured at FVTPL *	5,662,499	5,662,499
Financial investments	21	Available for sale	Measured at FVOCI	52,017,568	52,017,568
Investment in CAPM Preference shares	21.4	Loans and receivables	Measured at FVTPL	-	10,540,000
Total financial assets				1,500,954,974	1,315,230,671
Financial liabilities					
Due to financial institutions	29	Other financial liabilities	Other financial liabilities	308,887,466	308,887,466
Due to other customers	30	Other financial liabilities	Other financial liabilities	104,932,117	104,932,117
Total financial liabilities				413,819,583	413,819,583

7.3 Reconciliation of Carrying Amounts of Financial Assets under LKAS 39 to SLFRS 9

The following table reconciles the carrying amounts of financial assets under LKAS 39 to the carrying amounts under SLFRS 9 on transition to SLFRS 9 on January 1, 2018.

Company	LKAS 39 Carrying amount at December 31, 2018 Rs.	Reclassification Rs.	Remeasurement Rs.	SLFRS 9 Carrying amount at January 1, 2018 Rs.
Financial assets				
Financial assets at amortised cost				
Cash and cash equivalents				
Brought forward: loans and receivables	30,150,456	-	-	-
Remeasurement/reclassification	-	-	-	-
Carried forward: measured at amortised cost	-	-	-	30,150,456
Placements with banks				
Brought forward: held to maturity	128,947,376	-	-	-
Remeasurement/reclassification	-	-	(965)	-
Carried forward: measured at amortised cost	-	-	-	128,946,411
Loans and receivables				
Brought forward: loans and receivables	1,268,457,371	-	-	-
Remeasurement/reclassification	-	-	(196,263,338)	-
Carried forward: measured at amortised cost	-	-	-	1,072,194,033
Total financial assets at amortised cost	1,427,555,203	-	(196,264,303)	1,231,290,900
Financial assets at FVTPL				
Financial investments				
Brought forward: available for sale	701,541	-	-	-
Remeasurement/reclassification	-	-	-	-
Carried forward: FVTPL	-	-	-	701,541
Total financial assets at FVTPL	701,541	-	-	701,541
Financial assets at FVOCI				
Financial investments				
Brought forward: available for sale	52,017,568	-	-	-
Remeasurement/reclassification	-	-	-	-
Carried forward: FVOCI	-	-	-	52,017,568
Total financial assets at FVOCI	52,017,568	-	-	52,017,568

Group	LKAS 39 Carrying amount at December 31, 2018 Rs.	Reclassification Rs.	Remeasurement Rs.	SLFRS 9 Carrying amount at January 1, 2018 Rs.
Financial assets				
Financial assets at amortised cost				
Cash and cash equivalents				
Brought forward: loans and receivables	32,459,012	-	-	-
Remeasurement/reclassification	-	-	-	-
Carried forward: measured at amortised cost	-	-	-	32,459,012
Placements with banks				
Brought forward: held to maturity	143,978,662	-	-	-
Remeasurement/reclassification	-	-	(965)	-
Carried forward: measured at amortised cost	-	-	-	143,977,697
Loans and receivables				
Brought forward: loans and receivables	1,266,837,233	-	-	-
Remeasurement/reclassification	-	-	(196,263,338)	-
Carried forward: measured at amortised cost	-	-	-	1,070,573,895
Total financial assets at amortised cost	1,443,274,907	-	(196,264,303)	1,247,010,604
Financial assets at FVTPL				
Financial investments				
Brought forward: available for sale	5,662,499	-	-	-
Remeasurement/reclassification	-	-	-	-
Carried forward: FVTPL	-	-	-	5,662,499
Investment in CAPM preference shares				
Brought forward: loans and receivables	-	-	-	-
Remeasurement/reclassification	-	-	10,540,000	-
Carried forward: FVTPL	-	-	-	10,540,000
Total financial assets at FVTPL	5,662,499	-	10,540,000	16,202,499
Financial assets at FVOCI				
Financial investments				
Brought forward: available for sale	52,017,568	-	-	-
Remeasurement/reclassification	-	-	-	-
Carried forward: FVOCI	-	-	-	52,017,568
Total financial assets at FVOCI	52,017,568	-	-	52,017,568

Notes to the Financial Statements (contd..)

Rs. For the year ended December 31	Company		Group	
	2018	2017	2018	2017
Income				
Interest income [Note 8]	245,975,164	254,750,912	245,975,164	254,750,912
Fee and commission income [Note 10]	5,587,169	5,822,626	5,587,169	5,822,626
Other operating income [Note 11]	14,412,452	54,689,393	93,591,328	118,795,513
	265,974,785	315,262,931	345,153,661	379,369,051

8 Interest income

Lease rental receivable	135,889,822	139,606,624	135,889,822	139,606,624
Loans and advances	101,870,477	114,243,812	101,870,477	114,243,812
Pawning advances	8,214,865	900,476	8,214,865	900,476
Total interest income	245,975,164	254,750,912	245,975,164	254,750,912

9 Interest expenses

Due to banks	49,802,240	34,574,107	49,840,530	34,616,807
Due to other customers	5,112,984	6,951,529	5,112,984	6,951,529
On Other borrowings	8,423,753	27,655,360	8,423,753	27,655,360
Total interest expenses	63,338,977	69,180,996	63,377,267	69,223,696
Net interest income	182,636,187	185,569,916	182,597,897	185,527,216

10 Net Fee and Commission Income

Fee and commission income	5,587,169	5,822,626	5,587,169	5,822,626
Net fee and commission income	5,587,169	5,822,626	5,587,169	5,822,626

11 Other Operating Income

Profit on sale of property, plant and equipment	-	399,881	5,000,000	399,881
Investment with government securities	572,758	899,041	572,758	899,041
Service charges	410,360	531,772	410,360	531,772
Recovery of loans and lease written off in prior years	641,503	1,227,041	641,503	1,227,041
Dividend income	179,478	180,000	294,432	246,327
Interest income on placements with banks	12,552,606	14,610,191	12,552,606	14,610,191
Money brokering income	-	-	73,854,430	64,039,793
Profit on pawning auction	35,627	-	35,627	-
Reversals of provision for golden key eye hospital ltd	-	36,841,467	-	36,841,467
Profit on sale of shares	-	-	229,612	-
Provision reversals for value of investment associate company	20,120	-	-	-
	14,412,452	54,689,393	93,591,328	118,795,513

12 Allowance for expected credit loss - (Charge)/ Reversal

Allowance for expected credit loss for loans and advances (Note 20.5)	282,649,063	(45,548,263)	282,649,063	(45,548,263)
Allowance for expected credit loss for placement with banks	(201,601)	-	(201,601)	-
Write-offs and disposal losses	(264,389,345)	(3,683,200)	(264,389,345)	(3,683,200)
	18,058,117	(49,231,463)	18,058,117	(49,231,463)

Notes to the Financial Statements (contd.)

Rs. For the year ended December 31	Company		Group	
	2018	2017	2018	2017
13 Personnel and Other Expenses				
Personnel expenses				
Salaries and bonus	44,398,400	47,500,098	70,230,920	66,702,783
Defined contribution plan costs - EPF	4,953,392	5,124,962	8,239,234	7,676,324
Defined contribution plan costs - ETF	1,238,348	1,281,241	2,059,809	1,919,082
Defined benefit plan cost	1,669,937	1,515,408	4,122,678	3,013,222
Others	8,826,390	6,682,268	16,430,707	11,677,725
	61,086,467	62,103,977	101,083,348	90,989,136
14 Other expenses				
Auditors' remuneration - Audit related services	960,433	783,332	1,200,433	981,332
- Non audit services	255,045	956,850	255,045	1,055,850
Depreciation and amortisation	5,688,593	9,385,665	7,899,780	11,293,914
Provision for fall in value of investment associate company	-	4,386,020	-	-
Legal expenses	2,010,853	2,406,810	2,010,853	2,406,810
Directors' emoluments	4,623,774	5,659,612	6,523,774	7,864,612
Premises and equipment cost	22,903,601	21,663,359	27,906,279	26,539,566
Others	19,985,153	28,587,671	40,311,706	46,234,645
	56,427,452	73,829,319	86,107,870	96,376,729
15 Value added tax (VAT) on financial services				
Value added tax on financial services	17,438,210	16,937,380	17,438,210	16,937,380
	17,438,210	16,937,380	17,438,210	16,937,380
16 Taxation				
Income tax on profits (note 16.1)	-	6,730,960	1,389,898	9,504,995
Adjustments in respect of prior years	-	-	-	55,352
Provision / (Reversals) for deferred tax (Note 27.1)	-	-	355,411	(275,908)
Deemed dividend tax	-	-	-	166,578
	-	6,730,960	1,745,309	9,451,017
16.1 Reconciliation of Accounting Profit and the Income Tax Expense				
Profit before tax & value added tax on financial services	85,741,796	43,979,796	95,205,083	56,610,647
Aggregate disallowed expenses	14,759,945	92,929,603	19,443,994	92,846,383
Aggregate allowable expenses	(343,143,255)	(266,184,607)	(344,999,488)	(267,392,775)
Capital portion of lease receivable	205,950,702	235,424,186	205,950,702	235,424,186
Aggregate exempt/allowable income	6,229,022	(49,210,466)	(3,318,062)	(52,643,197)
Profit from the business	(30,461,790)	56,938,512	(27,717,771)	64,845,244
Profit from other source of income	-	-	2,219,902	2,000,535
Tax loss claimed during the year (Note 16.3)	30,461,790	(32,899,370)	30,461,790	(32,899,370)
Taxable profit	-	24,039,142	4,963,921	33,946,409
Income tax expense	-	6,730,960	1,389,898	9,504,995

16.2 A Reconciliation of effective tax rate is as follows,

A reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate for the year ended December 31, 2018 is given below:

Rs. For the year ended December 31,	Company		Group	
	2018	2017	2018	2017
Accounting profit before income tax	85,741,796	43,979,796	95,205,083	56,610,647
Income tax expense at the average statutory income tax rate @ 28%	24,007,703	12,314,343	26,657,423	15,850,981
Tax effect of disallowable expenses	4,132,785	26,020,289	5,444,318	25,996,987
Tax effect of allowable expenses	(96,080,111)	(74,531,690)	(96,599,857)	(74,869,977)
Capital portion of lease receivable	57,666,197	65,918,772	57,666,197	65,918,772
Tax effect of aggregate exempt/allowable income	1,744,126	(13,778,930)	(929,057)	(14,740,095)
Tax effect of profit from other source of income	-	-	621,573	560,150
Tax effect of tax losses claimed during the year	8,529,301	(9,211,824)	8,529,301	(9,211,824)
Income tax expense for the year	0	6,730,960	1,389,898	9,504,995
Effective tax rate	0.00%	15.30%	1.46%	16.79%

Income Tax provision of SMB Leasing PLC has been calculated at 28% (2017-28%) on its taxable profit in terms of Inland Revenue Act No. 24 of 2017, and amendments thereto. Profits of SMB Money Brokers (Private) Limited., subsidiary of the group is liable to income tax at 28%.(2017-28%)

Rs.	Company		Group	
	2018	2017	2018	2017
16.3 Accumulated Tax Losses				
Balance as at January 1,	238,312,505	273,438,129	238,312,505	273,438,129
Adjustment in respect of prior years	(75,695,288)	(2,226,254)	(75,695,288)	(2,226,254)
Tax Loss claimed during the year	30,461,790	(32,899,370)	30,461,790	(32,899,370)
Balance as at December 31,	193,079,007	238,312,505	193,079,007	238,312,505

17 Earnings Per Share

Basic Earnings Per Share

Basic Earnings per share has been calculated by dividing the profit for the year attributable to equity holders of the company by the number of ordinary shares, as per the requirements of the Sri Lanka Accounting Standard LKAS 33 -Earnings per Share.

For the year ended December 31,	Company		Group	
	2018	2017	2018	2017
Profit attributable to equity holders of the company (Rs)	85,741,796	37,248,836	89,688,226	40,066,471
No. Of ordinary shares outstanding during the year	1,805,832,873	1,805,832,873	1,805,832,873	1,805,832,873
Basic earnings per share (Rs)	0.05	0.02	0.05	0.02

Diluted Earnings Per Share

There were no potentially dilutive ordinary shares as at December 31, 2018 and there have been no transactions involving ordinary shares or potential ordinary shares as at the reporting date which would require restatement of EPS.

Rs. As at December 31,	Company		Group	
	2018	2017	2018	2017

18 Cash and Cash Equivalents

Cash in hand	7,328,237	3,695,345	7,343,237	3,710,345
Balances with banks	34,504,396	26,455,111	37,601,708	28,748,667
	41,832,633	30,150,456	44,944,945	32,459,012

19 Placements with Banks

Fixed deposits with banks	134,723,414	128,947,376	149,749,514	143,978,662
REPO investment with banks - overnight	1,631,800	3,280,000	4,131,800	3,280,000
Gross placements with banks	136,355,214	132,227,376	153,881,314	147,258,662
Less: Allowance for expected credit loss - (Charge)/ reversal	(202,566)	-	(202,566)	-
Net placements with banks	136,152,648	132,227,376	153,678,748	147,258,662

20 Financial assets at amortised cost- Loans and Receivables to Other Customers

Gross loans and receivables	-	1,677,384,112	-	1,675,763,974
Stage 1	956,864,721	-	955,484,571	-
Stage 2	311,898,177	-	311,898,177	-
Stage 3	386,549,433	-	386,549,433	-
	1,655,312,331	1,677,384,112	1,653,932,181	1,675,763,974
Less: Provision for impairment				
Stage 1	(35,861,086)	-	(35,861,086)	-
Stage 2	(67,294,564)	-	(67,294,564)	-
Stage 3	(219,385,366)	-	(219,385,366)	-
	(322,541,016)	-	(322,541,016)	-
Less: Provision for individual impairment	-	(370,222,856)	-	(370,222,856)
Less: Provision for Collective impairment	-	(38,703,885)	-	(38,703,885)
		(408,926,741)		(408,926,741)
Net loans and advances	1,332,771,315	1,268,457,371	1,331,391,165	1,266,837,233

20.1.1 Loans

Gross loans receivables	-	757,731,622	-	756,111,486
Stage 1	313,330,353	-	311,950,203	-
Stage 2	188,301,586	-	188,301,586	-
Stage 3	147,686,194	-	147,686,194	-
	649,318,133	757,731,622	647,937,983	756,111,486
Less: Provision for impairment				
Stage 1	(17,178,570)	-	(17,178,570)	-
Stage 2	(48,121,055)	-	(48,121,055)	-
Stage 3	(89,410,191)	-	(89,410,191)	-
	(154,709,816)	-	(154,709,816)	-
Less: Provision for individual impairment	-	(214,974,471)	-	(214,974,471)
Less: Provision for Collective impairment	-	(27,725,205)	-	(27,725,205)
		(242,699,676)		(242,699,676)
Net loans receivable	494,608,317	515,031,947	493,228,167	513,411,810

Notes to the Financial Statements (contd.)

Rs. As at December 31,	Company		Group	
	2018	2017	2018	2017
20.1.2 Leases				
Gross lease receivables		903,670,420		903,670,420
Stage 1	600,175,408	-	600,175,408	-
Stage 2	123,596,591	-	123,596,591	-
Stage 3	238,863,238	-	238,863,238	-
	962,635,237	903,670,420	962,635,237	903,670,420
Less: Provision for impairment				
Stage 1	(18,679,171)	-	(18,679,171)	-
Stage 2	(19,173,509)	-	(19,173,509)	-
Stage 3	(129,975,175)	-	(129,975,175)	-
	(167,827,855)	-	(167,827,855)	-
Less: Provision for individual impairment	-	(155,248,385)	-	(155,248,385)
Less: Provision for collective impairment	-	(10,978,680)	-	(10,978,680)
	-	(166,227,065)	-	(166,227,065)
Net lease receivable	794,807,382	737,443,355	794,807,382	737,443,355
20.1.3 Pawning Advances receivable				
Pawning advances receivables				
Stage 1	43,358,961	15,982,068	43,358,961	15,982,068
Less: Provision for impairment				
Stage 1	(3,345)	-	(3,345)	-
Net pawning receivables	43,355,616	15,982,068	43,355,616	15,982,068
20.2 Product wise analysis of loans and receivables				
Lease rental receivables	962,635,237	903,670,420	962,635,237	903,670,419
Personal loans	125,768,179	157,025,351	125,768,179	196,997,985
Staff loans	170,424	641,806	170,424	641,806
Term loans	409,512,297	322,126,717	409,512,297	322,126,719
Easy payment loans	20,781,596	25,007,512	19,401,446	23,387,375
Other loans	93,085,637	252,930,236	93,085,637	212,957,601
Pawning advances	43,358,961	15,982,068	43,358,961	15,982,068
	1,655,312,331	1,677,384,110	1,653,932,181	1,675,763,973
20.3 Sector wise analysis of loans and receivables				
Industry	138,230,678	181,280,594	138,230,678	181,280,594
Agriculture	75,235,029	78,267,424	75,235,029	78,267,424
Trade	148,085,128	141,028,410	148,085,128	141,028,410
Transport	468,232,058	191,910,597	468,232,058	191,910,597
Construction	69,633,280	116,039,105	69,633,280	116,039,105
Services	404,447,922	482,955,044	403,067,772	481,334,909
Personal	196,605,565	134,594,597	196,605,565	134,594,597
Others	154,842,671	351,308,339	154,842,671	351,308,337
	1,655,312,331	1,677,384,110	1,653,932,181	1,675,763,973

Notes to the Financial Statements (contd.)

Rs.	Company		Group	
	2018	2017	2018	2017
20.4 Gross lease rental receivable				
20.4.1 Gross lease rental receivable within one year				
Total lease rentals within one year from reporting date	468,429,723	462,254,224	468,429,723	462,254,224
Unearned lease Income	(115,977,017)	(100,998,287)	(115,977,017)	(100,998,287)
Balance as at December 31,	352,452,706	361,255,937	352,452,706	361,255,937
20.4.2 Gross lease rental receivable after one year and five years				
Total lease rentals receivable after one year from reporting date	723,256,683	636,108,982	723,256,683	636,108,982
Unearned lease Income	(150,098,513)	(117,133,523)	(150,098,513)	(117,133,523)
Balance as at December 31,	573,158,170	518,975,459	573,158,170	518,975,459
20.4.3 Gross lease rental receivable after five years				
Total lease rentals receivable after five years from reporting date	38,089,913	24,511,873	38,089,913	24,511,873
Unearned lease Income	(1,065,551)	(1,072,850)	(1,065,551)	(1,072,850)
Balance as at December 31,	37,024,362	23,439,023	37,024,362	23,439,023
Total lease rentals receivables	962,635,238	903,670,419	962,635,238	903,670,419

20.5 Movement in Individual and Collective Impairment during the year-Company / Group

Rs.	Individual Impairment	Collective Impairment	2017 Total
Balance as at January 1,	324,247,536	39,130,941	363,378,477
Net impairment charge / (reversal) for the year	45,975,320	(427,056)	45,548,264
Balance as at December 31,	370,222,856	38,703,885	408,926,741

Rs.	Stage 1	Stage 2	Stage 3	2018 Total
Balance as at January 1,	32,269,185	30,279,517	542,641,377	605,190,079
Charge to the income statement	3,591,901	37,015,047	(323,256,011)	(282,649,063)
Balance as at December 31,	35,861,086	67,294,564	219,385,366	322,541,016

21 Financial Investments

The Company's financial investments are summarised by Categories as follows:

Rs.	Company		Group	
	2018	2017	2018	2017
As at December 31,				
Available for sale (AFS) (Note 21.3)	-	52,719,109	-	52,719,109
Fair value through profit or loss (FVTPL) (Note 21.1)	389,140	-	3,352,164	4,960,958
Fair value through other comprehensive income (FVTOCI) (Note 21.2)	61,408,835	-	61,408,835	-
Other financial assets (Note 21.4)	-	-	10,540,000	1,779,500
Total financial investments	61,797,975	52,719,109	75,300,999	59,459,567

Notes to the Financial Statements (contd..)

The Following Table Compares the Fair values of the Financial Investments to their Carrying Values:

As at December 31, Rs.	Company				Group			
	2018		2017		2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Available for sale (AFS) (Note 21.3)	-	-	52,719,109	52,719,109	-	-	52,719,109	52,719,109
Fair value through profit or loss (FVTPL) (Note 21.1 / 21.2)	389,140	389,140	-	-	3,352,164	3,352,164	4,960,958	4,960,958
Fair value through other comprehensive income (FVTOCI) (Note 21.2)	61,408,835	61,408,835	-	-	61,408,835	61,408,835	-	-
Other financial assets (Note 21.4)	-	-	-	-	10,540,000	10,540,000	1,779,500	1,779,500
Total financial investments	61,797,975	61,797,975	52,719,109	52,719,109	75,300,999	75,300,999	59,459,567	59,459,567

21.1 Fair Value Through Profit or Loss (FVTPL)

21.1.1 Quoted Shares held by SMB Leasing PLC

As at December 31, Rs.	2018		
	No of shares	Carrying Value	Fair Value
Banking, Finance & Insurance			
The Finance Co. PLC	97	-	-
		-	-
Manufacturing			
Blue Diamond Jewelry Worldwide PLC	778,280	389,140	389,140
Metal Recyclers Colombo PLC	69	-	-
		389,140	389,140
Land & Property			
Seylan Developments PLC	43	-	-
		-	-
Carrying Amount		389,140	389,140

21.1.2 Quoted Shares held by SMB Money Brokers (Pvt) Ltd.

As at December 31, Rs.	2018			2017		
	No of shares	Carrying Value	Fair Value	No of shares	Carrying Value	Fair Value
Banking, Finance & Insurance						
Pan Asia Bank	10,000	148,000	148,000	10,000	157,000	157,000
Union Bank of Ceylon Ltd.	35,000	385,000	385,000	35,000	462,000	462,000
		533,000	533,000		619,000	619,000
Land & Property						
Colombo Fort Land & Building PLC	30,000	450,000	450,000	30,000	570,000	570,000
People's Leasing & Finance PLC	10,000	163,000	163,000	10,000	170,000	170,000
		613,000	613,000		740,000	740,000
Other						
Asia Siyaka Commodities PLC	100,000	200,000	200,000	100,000	250,000	250,000
Dialog Axiata PLC	-	-	-	5,440	70,720	70,720
Ceylon Investment PLC	30,000	1,170,000	1,170,000	30,000	1,341,000	1,341,000
Dunamis Capital PLC	-	-	-	20,000	468,000	468,000
Browns Investments PLC	-	-	-	100,000	260,000	260,000
John Keels Holdings PLC	-	-	-	5,000	742,500	742,500
Pelawatta Sugar Industries PLC	3,000	-	-	3,000	-	-
Wattawala Plantations PLC	-	-	-	-	-	-
Sunshine Holdings PLC	8,309	447,024	447,024	8,241	469,738	469,738
		1,817,024	1,817,024		3,601,958	3,601,958
Total Quoted Shares		2,963,024	2,963,024		4,960,958	4,960,958
Carrying Amount		3,352,164	3,352,164		4,960,958	4,960,958

21.2 Fair value through other comprehensive income (FVTOCI)

21.2.1 Unquoted Shares held by SMB Leasing PLC

As at December 31, Rs.	2018	
	No of shares	Carrying Value
Ceylinco Sports Complex Ltd.	300,000	3,000,000
Ceylinco Investment & Realty	100,000	1,000,000
Seraka Investment Ltd.	5,655,900	48,645,300
South Asian Travels	30,000	300,000
Ceylinco Savings Bank Ltd	1,189,600	11,896,000
Ceylinco Coloured Stone (Pvt) Ltd.	500,000	5,000,000
Openarc Global Solutions (Pvt) Ltd.	45,000	450,000
Magpek Exports Ltd	125,000	5,000,000
Pugoda Textiles Mills Ltd	7,500	252,525
SMB Real Estate Ltd	61,739	30,282,196
SMB Securities (Pvt) Ltd	5,000,000	50,000,000
		155,826,021
Less: Provision for Impairment		(94,417,186)
Carrying Amount		61,408,835

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

21.2.2 Unquoted Debentures held by SMB Leasing PLC

Rs.	2018 Cost
Ceylinco Automobiles Ltd	17,600,000
Provision for Impairment Loss	(17,600,000)
	-

Investments in un-quoted shares of SMB Real Estate Limited and SMB Securities (Pvt) Ltd

SMB Leasing has made investments in SMB Real Estate Limited and SMB Securities (Pvt) Ltd. These investments are classified as Fair Value Through Other Comprehensive Income (FVTOCI) and are carried at fair value as at December 31, 2018 in the Statement of Financial Position after adjusting for the 2018 fair value movements in the Statement of Comprehensive Income

Since these companies are unquoted and therefore share prices not being available, the fair value of these two investments cannot be ascertained using share prices. Further, audited financial statements of these two companies for the year ended December 31, 2018 were not available at the date of approving the 2018 financial statements of SMB Leasing PLC. Therefore, SMB Leasing PLC engaged a professional and an independent valuer, SAFE Holdings (Pvt) Ltd to provide an objective and independent valuation of these two investments in accordance with Sri Lanka Financial Reporting Standards 13 - Fair Value Measurement. Accordingly, SAFE Holdings (Pvt) Ltd has used valuation techniques that are appropriate in the circumstances for which sufficient data are available to measure fair value and has provided SMB Leasing PLC with valuation of these two investments that reflects the estimated prices at which an orderly transaction to sell these two assets would take place under the current market conditions.

The Board of Directors has resolved that the carrying value reflected in the Company's financial position as at December 31, 2018 for these two investments after prudently recognizing the impairment losses in the Statement of Comprehensive Income, reflects the fair value of these two investments as at the balance sheet date.

	SMB Real Estate Limited	SMB Securities (Pvt) Ltd
Carrying value as at January 1, 2018 based on audited financial statements	14,830,317	37,187,252
Carrying value as at December 31, 2018 based on independent third party valuation	14,825,629	46,583,206
Impairment loss /(gain) recognized in 2018 audited financial statements	4,688	(9,395,954)

The Board of Directors has further done the below analysis to test the significance and sensitivity of movements in key five variables pertaining to the carrying value of these two investments on the overall financial position of SMB Leasing PLC as at December 31, 2018 and concluded that there is no material impact on the financial position of SMB Leasing PLC.

SMB Real Estate Limited	Total as at January 1, 2018 as per audited FS	Share Attributable to SMB Leasing PLC (January 1, 2018)	SMB Leasing PLC Audited Balances (December 31, 2018)	Impact Percentage to SMB Leasing PLC financials
Assets	69,347,438	17,156,556	1,730,786,981	1.0%
Liabilities	8,466,820	2,094,691	691,057,986	0.3%
Equity	60,880,618	15,061,865	1,039,728,995	1.4%
Revenue	774,925	191,716	265,974,784	0.1%
Profit / (loss) before tax	(5,767,311)	(1,426,833)	103,180,006	-1.4%

SMB Securities (Pvt) Ltd	Total as at January 1, 2018 as per audited FS	Share Attributable to SMB Leasing PLC (January 1, 2018)	SMB Leasing PLC Audited Balances (December 31, 2018)	Impact Percentage to SMB Leasing PLC financials
Assets	135,666,464	47,428,996	1,730,786,981	2.7%
Liabilities	30,982,808	10,831,590	691,057,986	1.6%
Equity	104,683,656	36,597,406	1,039,728,995	3.5%
Revenue	16,214,539	5,668,603	265,974,785	2.1%
Profit / (loss) before tax	(9,739,825)	(3,405,043)	103,180,006	-3.3%

Notes to the Financial Statements (contd.)

21.3 Available for sale (AFS)**Quoted Shares held by SMB Leasing PLC**

Rs.	2017		
	No of shares	Carrying Value	Fair Value
Banking, Finance & Insurance			
The Finance Co. PLC	97	504	504
		504	504
Manufacturing			
Blue Diamond Jewelry Worldwide PLC	778,280	700,452	700,452
Metal Recyclers Colombo PLC	69	-	-
		700,452	700,452
Land & Property			
Seylan Developments PLC	43	585	585
		585	585
Carrying Amount		701,541	701,541

Unquoted Shares held by SMB Leasing PLC

Rs.	2017	
	No of shares	Carrying Value
Ceylinco Sports Complex Ltd.	300,000	3,000,000
The Standard Credit finance Ltd.	100,000	1,000,000
Seraka Investment Ltd.	5,655,900	48,645,300
South Asian Travels	30,000	300,000
Ceylinco Savings Bank Ltd	1,189,600	11,896,000
Ceylinco Coloured Stone (Pvt) Ltd.	500,000	5,000,000
Openarc Global Solutions (Pvt) Ltd.	45,000	450,000
Magpek Exports Ltd	125,000	5,000,000
Pugoda Textiles Mills Ltd	7,500	252,525
SMB Real Estate Ltd	61,739	30,282,196
SMB Securities (Pvt) Ltd	5,000,000	50,000,000
		155,826,021
(-) Less: Provision for Impairment		(103,808,453)
Carrying Amount		52,017,568

Unquoted Debentures held by SMB Leasing PLC

Rs.	2017 Cost
Ceylinco Automobiles Ltd	17,600,000
Provision for Impairment Loss	(17,600,000)
	-
Total Carrying Amount	52,719,109

21.4 Other Financial Assets

Rs.	Group	
	2018	2017
People's Leasing Finance PLC (Investment in Debentures)	-	1,779,500
Corporate Finance & Capital Market Limited (6% Non redeemable, Non participative preference shares)	10,540,000	10,540,000
	10,540,000	12,319,500
Less: Provision for impairment	-	(10,540,000)
	10,540,000	1,779,500

21.5 Movement of Financial Investment

2018 Rs.	Company			Group		
	Fair Value Through Profit or Loss (FVTPL)	Fair Value Through Other Comprehensive Income (FVTOCI)	Other Financial Assets	Fair Value Through Profit or Loss (FVTPL)	Fair Value Through Other Comprehensive Income (FVTOCI)	Other Financial Assets
21.5.1 As at January 1, 2018	701,541	52,017,568	-	5,662,499	52,017,568	1,779,500
Purchases	-	-	-	-	-	-
Maturities	-	-	-	-	-	-
Disposals	-	-	-	(1,997,934)	-	(1,779,500)
Fair value (loss)/gain recorded in the Income Statement	(312,401)	-	-	(312,401)	-	10,540,000
Fair value (loss)/gain recorded in the other comprehensive income	-	9,391,266	-	-	9,391,266	-
Interest income	-	-	-	-	-	-
As at December 31, 2018	389,140	61,408,834	-	3,352,164	61,408,834	10,540,000
2017 Rs.	Company			Group		
	Available For Sale (AFS)	Fair Value Through Profit of Loss (FVTPL)	Loans and Receivables (L&R)	Available For Sale (AFS)	Fair Value Through Profit of Loss (FVTPL)	Loans and Receivables (L&R)
21.5.2 As at January 1, 2017	1,168,679	3,549,336	1,779,139	1,168,679	3,549,336	1,779,139
Purchases	59,790,332	2,070,769	-	59,790,332	2,070,769	-
Maturities	-	(644,698)	-	-	(644,698)	-
Disposals	-	-	-	-	-	-
Fair value (loss)/gain recorded in the income statement	(8,239,902)	(14,449)	361	(8,239,902)	(14,449)	361
Fair value (loss)/gain recorded in the other comprehensive income	-	-	-	-	-	-
Interest income	-	-	-	-	-	-
As at December 31, 2017	52,719,109	4,960,958	1,779,500	52,719,109	4,960,958	1,779,500

Notes to the Financial Statements (contd.)

21.6 Disclosure of Financial Risk

The Company's exposure to Credit, Currency and Interest rate risks related to investments are disclosed in Note 44 on page 173 to the Financial Statements.

21.7 Financial Investments pledged as security

Financial investments are not pledged as a Security as at the reporting date.

22. Investment in Associates**22.1 Company**

Rs.	Principle Activity	2018			2017		
		Holding	No of Shares	Cost as at 2018	Holding	No of Shares	Cost as at 2017
Kenenga Investment Corporation Ltd	Investment Banking	48.99%	4,900,000	49,000,000	48.99%	4,900,000	49,000,000
	Less: Provision for Impairment	-	-	(11,704,466)	-	-	(11,724,586)
	Balance as at December 31,	-	-	37,295,534	-	-	37,275,414

22.2 Group

	2018 Rs.	2017 Rs.
Balance as at January 1,	37,275,414	41,661,434
Share of profit/(Loss) after tax (Note 22.3)	20,120	(4,386,020)
Balance as at December 31,	37,295,534	37,275,414

22.3 Share of Profits/(Loss) of Associate Companies

As at December 31, 2018	2018 Rs.	2017 Rs.
Kenenga Investment Corporation Ltd	20,120	(4,386,020)
	20,120	(4,386,020)

22.4 Summarised Financial Information of Associate

As at December 31, 2018	Kenanga Investment Corporation Ltd (Audited)	Total
Rs.		
Revenue	8,025,064	8,025,064
Total comprehensive income/(expenses) for the year	41,060	41,060
Total asset	80,331,889	80,331,889
Total equity	76,113,334	76,113,334
Total liabilities	4,218,555	4,218,555

Notes to the Financial Statements (contd..)

23. Investment in Subsidiary

Rs.	Principle Activity	2018			2017		
		Holding	No of Shares	Carrying Value	Holding	No of Shares	Carrying Value
SMB Money Brokers(Pvt) Ltd	Money Market Activities	50.99%	1,275,000	12,750,000	50.99%	1,275,000	12,750,000
	Less: Provision for impairment			-			-
Balance as at December 31				12,750,000	12,750,000		

23.1 Summarised Financial Information of Subsidiary

As at December 31, 2018 Rs.	SMB Money Brokers (pvt) Ltd (Audited)	Total
Revenue	69,575,161	69,575,161
Total comprehensive income/(expenses) for the year	5,541,576	5,541,576
Total asset	67,256,526	67,256,526
Total equity	52,063,135	52,063,135
Total liabilities	15,193,391	15,193,391

24 Investment Properties

Rs.	Company		Group	
	2018	2017	2018	2017
Balance as at January 1,	33,310,000	33,310,000	40,385,250	39,897,700
Disposal	-	-	-	-
Add: Fair value Gain	-	-	2,243,650	487,550
Balance as at December 31,	33,310,000	33,310,000	42,628,900	40,385,250

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

24.1 Property Location

Rs.000 ‘	Extent (Perches)	Company				Group			
		2018		2017		2018		2017	
		Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value
Kaduwela, Malabe	123.50	32,700	94,475	32,700	94,475	32,700	94,475	32,700	94,475
Ahangama, Dikkumbura	21.00	1,204	610	1,204	610	1,204	610	1,204	610
Malabe	8.38	-	-	-	-	4,200	2,514	4,200	2,305
Ahangama	111.00	-	-	-	-	2,853	6,805	2,853	4,770
		33,904	95,085	33,904	95,085	40,957	104,404	40,957	102,160
Less: (Provision) Reversals for impairment		(594)	-	(594)	-	1,672	-	(572)	-
		33,310	95,085	33,310	95,085	42,629	104,404	40,385	102,160

*Notes to the Financial Statements (contd.)***24.2 Valuation of Investment Properties**

The Company carries investment properties at cost. Market valuations of the above investment properties were carried out as at March 31, 2017 by Messrs. D.N Dhammika Baranage who is an independent valuers not connected with the Company.

These fair values have not been incorporated in the financial statements. The directors have assessed that there is no significant change in the fair value of the properties as at December 31, 2018 when compared to the previous year.

25 Property, Plant and Equipment**Company**

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2018 Total	2017 Total
Cost / Valuation						
As at January 1,	25,354,041	9,783,528	16,309,192	986,892	52,433,653	103,795,928
Additions for the year	109,000	385,300	139,250	-	633,550	7,496,761
Disposals	-	(109,000)	-	-	(109,000)	(1,735,190)
Write off	-	-	-	-	-	(57,123,845)
As at December 31,	25,463,041	10,059,828	16,448,442	986,892	52,958,203	52,433,654
Accumulated Depreciation						
As at January 1,	23,588,893	2,651,633	5,871,690	904,893	33,017,109	83,571,847
Charge for the year	664,604	1,854,820	2,721,064	24,000	5,264,488	6,055,311
Disposals	-	(49,000)	-	-	(49,000)	(1,352,613)
Write off	-	-	-	-	-	(55,257,434)
As at December 31,	24,253,497	4,457,453	8,592,754	928,893	38,232,597	33,017,111
Net book value as at December 31, 2018	1,209,544	5,602,375	7,855,688	57,999	14,725,606	
Net book value as at December 31, 2017	1,765,148	7,131,895	10,437,502	81,999	-	19,416,543

Notes to the Financial Statements (contd.)

Group

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2018 Total	2017 Total
Cost / Valuation						
As at January 1,	26,163,562	13,074,860	18,243,797	6,906,982	64,389,201	115,480,165
Additions for the year	387,500	666,299	139,250	8,900,000	10,093,049	7,768,071
Disposals	-	(109,000)	-	(5,700,000)	(5,809,000)	(1,735,190)
Write off	-	-	-	-	-	(57,123,845)
As at December 31,	26,551,062	13,632,159	18,383,047	10,106,982	68,673,250	64,389,201
Accumulated Depreciation						
Balance as at January 1,	24,193,624	5,437,137	7,094,814	6,411,968	43,137,543	91,797,780
Charge for the year	780,634	2,143,467	3,091,987	882,011	6,898,099	7,949,810
Disposals	-	(49,000)	-	(5,700,000)	(5,749,000)	(1,352,613)
Write off	-	-	-	-	-	(55,257,434)
As at December 31,	24,974,258	7,531,604	10,186,801	1,593,979	44,286,642	43,137,543
Net book value as at December 31, 2018	1,576,804	6,100,555	8,196,246	8,513,003	24,386,608	
Net book value as at December 31, 2017	1,969,938	7,637,723	11,148,983	495,014	-	21,251,658

25.1 Acquisition of PPE during the year

During the financial year, the Company acquired PPE to the aggregate value of Rs.633,550 (2017-Rs.7,496,761)

25.2 Capitalisation of Borrowing Cost

There were no capitalised borrowing costs relating to the acquisition of Property, Plant and Equipment during the year. (2017- Nil)

25.3 Fully depreciated PPE in use

The initial cost of fully depreciated PPE which are still in use as at reporting date is as follows: .

As at December 31,	2018	2017
Computer equipment	23,873,093	19,204,648
Office equipment	787,719	656,819
Furniture & fittings	2,797,396	2,776,096
Motor vehicles	866,892	866,892
	28,325,100	23,504,455

25.4 Property, Plant and Equipment pledged as security

None of the Property, Plant and Equipment have been pledged as securities as at the reporting date.

25.5 Permanent fall in value of Property, Plant and Equipment

There has been no permanent fall in the value of Property, Plant and Equipment which require a impairment provision in the financial statements.

25.6 The restriction of Property, Plant and Equipment

There are no restrictions that existed on the title of the Property, Plant and Equipment of the group as at the reporting date.

25.7 Compensation from third parties for items of Property, Plant and Equipment

There were no compensation received during the year from third parties for items of property, plant and equipment that were impaired, lost or given up (2017: Nil).

Notes to the Financial Statements (contd.)

Rs.	Company		Group	
	2018	2017	2018	2017
26 Intangible Assets				
Cost				
As at January 1,	2,304,888	737,388	4,662,052	839,253
Additions for the year	-	1,567,500	-	3,822,799
As at December 31,	2,304,888	2,304,888	4,662,052	4,662,052
Accumulated Amortisation				
As at January 1,	809,656	479,302	878,292	534,188
Charge for the year	424,105	330,354	1,001,681	344,104
Disposals	-	-	-	-
As at December 31,	1,233,761	809,656	1,879,973	878,292
Carrying Value as at December 31,	1,071,127	1,495,232	2,782,079	3,783,760
Capital Work in Progress				
As at January 1,	-	3,000,000	-	3,000,000
Incurred during the year	2,040,000	(3,000,000)	2,040,000	(3,000,000)
Capitalised during the year	-	-	-	-
As at December 31,	2,040,000	-	2,040,000	-
Carrying Value as at December 31,	3,111,127	1,495,232	4,822,079	3,783,760

27 Deferred tax assets**Company**

Deferred tax assets have not been recognized in respect of lease assets because it is uncertain that future taxable profits will be available against which the company can utilize the benefits therefore the deferred tax assets arising from the tax losses carried forward was recognized only to the extent of deferred tax liability.

Unrecognised Deferred Tax Asset /Liability	2018 Rs.	2017 Rs.
Balance as at January 1,	16,300,791	3,946,871
Reversal for the year	(7,641,286)	12,353,920
Balance as at December 31,	8,659,505	16,300,791

The above unrecognised deferred tax liability is attributable to the following:

Rs.	Temporary difference 31.12.2018	Tax effect 31.12.2018	Temporary difference 31.12.2017	Tax effect 31.12.2017
On property, plant & equipment	(7,489,879)	(2,097,166)	(4,766,035)	(1,334,490)
On lease assets	(166,415,130)	(46,596,236)	(187,512,291)	(52,503,441)
On retirement benefit obligation	11,752,802	3,290,785	12,182,933	3,411,221
On accumulated tax losses	193,079,007	54,062,122	238,312,505	66,727,501
	30,926,800	8,659,505	58,217,112	16,300,791

The deferred tax has been calculated at the rate of 28% (2017-28%)

Notes to the Financial Statements (contd..)

Group

In respect of the sole subsidiary, SMB Money Brokers (Pvt) Limited a deferred tax asset has been recognized, since the Management expects adequate taxable profit in the foreseeable future. Therefore, the Group deferred tax asset includes the deferred tax asset relevant to SMB Money Brokers (Pvt) Limited.

	2018 Rs.	2017 Rs.
Balance as at January 1,	1,759,925	1,155,731
Reversals for the year (Note 27.1)	498,792	604,194
Balance as at December 31,	2,258,717	1,759,925

27.1 (Charge)/ Reversals recognized in

	2018 Rs.	2017 Rs.
Statement of profit or loss	(355,411)	275,908
Other comprehensive income	854,203	328,286
Balance as at December 31,	498,792	604,194

The above recognized deferred tax asset is attributable to the following:

Rs.	Temporary difference 31.12.2018	Tax Effect 31.12.2018	Temporary difference 31.12.2017	Tax Effect 31.12.2017
On property, plant & equipment	(1,161,757)	(325,292)	(1,391,714)	(389,680)
On retirement benefit obligation	13,180,629	3,690,576	7,677,161	2,149,605
Revaluation gain on investment property	(3,952,025)	(1,106,567)	-	-
	8,066,847	2,258,717	6,285,447	1,759,925

The deferred tax has been calculated at the rate of 28% (2017-28%)

As at December 31, Rs.	Company		Group	
	2018	2017	2018	2017

28 Other Assets

Deposits & prepayments	11,827,729	14,786,248	15,598,357	15,561,116
Other assets	42,434,397	44,254,011	48,829,288	54,800,757
	54,262,126	59,040,259	64,427,645	70,361,873

29 Due to Financial Institutions

Bank borrowings	455,288,034	191,119,405	455,288,034	191,119,405
Bank overdraft	71,105,723	1,053	71,105,723	1,053
Securitization loans	3,264,856	117,767,008	3,264,856	117,767,008
	529,658,613	308,887,466	529,658,613	308,887,466

Notes to the Financial Statements (contd..)

29.1 Details of funding facilities - Bank Loans Details

The below table provides details of the bank loans of the company as at December 31, 2018

Name of the bank	Granted Date	Amount Granted (Rs.)	Outstanding Amount (Rs.)
Sampath Bank	January 26, 2016	90,000,000	49,749,875
DFCC Bank	November 30, 2018	30,000,000	30,359,560
Bank of Ceylon	January 25, 2016	50,000,000	14,595,174
National Development Bank	November 28, 2018	25,000,000	25,305,651
Indian Bank Loan 01	February 27, 2018	100,000,000	74,999,998
Indian Bank Loan 02	August 28, 2018	200,000,000	177,777,776
Indian Bank Loan 03	October 30, 2018	85,000,000	82,500,000
		580,000,000	455,288,034
Bank of Ceylon securitization loan	September 29, 2017	250,000,000	3,264,856
		250,000,000	3,264,856

Rs.	Company		Group	
	2018	2017	2018	2017

30 Due to Other Customers

Promissory notes	99,838,009	95,511,389	99,838,009	95,511,389
Debentures	9,172,728	9,420,728	9,172,728	9,420,728
Balance as at December 31,	109,010,737	104,932,117	109,010,737	104,932,117

31 Other Borrowings

Other borrowings	-	-	-	456,110
Balance as at December 31,	-	-	-	456,110

32 Retirement benefit obligations

Provision for retirement benefit obligations (Note 32.1)	11,752,802	12,182,934	24,933,428	19,860,094
Balance as at December 31,	11,752,802	12,182,934	24,933,428	19,860,094

32.1 Provision for Retirement benefit obligation

Balance as at January 1,	12,182,934	11,948,108	19,860,094	16,955,004
Provision for the year	1,669,937	1,515,408	4,122,678	3,013,222
Actuarial (Gain) /Loss during the year	(613,023)	73,015	2,437,702	1,245,465
Payments during the year	(1,487,046)	(1,353,597)	(1,487,046)	(1,353,597)
Balance as at December 31,	11,752,802	12,182,934	24,933,428	19,860,094

Notes to the Financial Statements (contd.)

The following assumptions were used in valuing the retirement benefits obligation using internally developed method as required by Sri Lanka Accounting Standard LKAS 19 - Employee Benefits.

	2018	2017
Salary increment rate	14.00%	8.00%
Discount rate	11.00%	11.00%
Retirement age	55 Years	55 Years
Staff turnover factor	20.00%	22.00%

32.2 Sensitivity of Assumptions used

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the total comprehensive income and statement of financial position is the effect of the assumed changes in discount rate and salary increment rate on total comprehensive income and employment benefit obligation for the year.

	Sensitivity Effect on	
	Total Comprehensive Income Increase / (Reduction)	Employment Benefit Obligation Increase / (Reduction) in the Liability
Increase in discount rate (1%)	295,736	(353,750)
Decrease in discount rate (1%)	(310,941)	372,029
Increase in salary increment rate (1%)	(299,860)	353,770
Decrease in salary increment rate (1%)	290,628	(347,641)

Rs.	Company		Group	
	2018	2017	2018	2017

33 Other Liabilities

Accrued expenses	10,541,740	8,476,975	10,541,740	8,476,975
Other liabilities	30,094,094	38,776,416	33,147,500	43,822,971
Balance as at December 31,	40,635,834	47,253,391	43,689,240	52,299,946

Rs.	Company		Group	
	2018	2017	2018	2017

34 Stated Capital

Ordinary voting shares	1,136,230,554	1,136,230,554	1,136,230,554	1,136,230,554
Ordinary non voting shares	419,252,881	419,252,881	419,252,881	419,252,881
Capital reduction	(636,419,321)	(636,419,321)	(636,419,321)	(636,419,321)
Balance as at December 31,	919,064,114	919,064,114	919,064,114	919,064,114

Notes to the Financial Statements (contd.)

34.1 Reconciliation of Number of Shares - Company

	2018	2017
Ordinary Voting Shares	No. of shares	No. of shares
As at January 1,	1,191,766,772	1,191,766,772
Issue of shares	-	-
As at December 31,	1,191,766,772	1,191,766,772
Ordinary Non Voting Shares		
As at January 1,	614,066,101	614,066,101
Issue of shares	-	-
As at December 31,	614,066,101	614,066,101
Total	1,805,832,873	1,805,832,873

Rs.	Company		Group	
	2018	2017	2018	2017

35 Statutory Reserves Fund

Balance as at January 1,	30,361,316	28,498,874	30,361,316	28,498,874
Transfer made during the year	4,287,090	1,862,442	4,287,090	1,862,442
Balance as at December 31,	34,648,406	30,361,316	34,648,406	30,361,316

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

Rs.	Company		Group	
	2018	2017	2018	2017

36 Available for Sale Reserve

Balance as at January 1,	233,381	233,381	233,381	233,381
Transfer made to equity during the year	(233,381)	-	(233,381)	-
Balance as at December 31,	-	233,381	-	233,381

37 Retained Earnings

Balance as at January 1,	223,927,041	188,593,217	228,378,513	190,657,579
Impact of adopting SLFRS 9 - "Financial Instruments" as at January 1, 2018	(196,030,921)	-	(190,655,523)	-
Profit for the year	85,741,796	37,248,836	89,688,227	40,066,471
Other comprehensive income	10,004,289	(52,570)	8,884,063	(483,095)
Transfers to statutory reserve	(4,287,090)	(1,862,442)	(4,287,090)	(1,862,442)
Dividend paid	(36,116,657)	-	(36,116,657)	-
Balance as at December 31,	83,238,458	223,927,041	95,891,533	228,378,513

*Notes to the Financial Statements (contd..)***38 Non- controlling Interests**

Rs.	2018	2017
Balance as at January 1,	16,359,297	14,065,799
Impact of adopting SLFRS 9 - "Financial Instruments"	5,164,600	-
Restated balance as at the beginning of the year	21,523,897	14,065,799
Profit for the year	3,791,668	2,707,139
Other comprehensive income for the year	(1,076,296)	(413,641)
Balance as at December 31,	24,239,269	16,359,297

38.1 Reconciliation of Non Controlling Interest (NCI) in subsidiary

As at December 31,	2018	2017
	Rs.	Rs.
NCI percentage (%)	49.01%	49.01%
Total assets	67,256,526	48,360,733
Total liabilities	15,193,391	12,379,174
Net assets	49,642,365	33,560,789
Carrying amount of NCI	24,239,269	16,359,297
Revenue	69,575,161	61,691,028
Profit	7,738,098	5,524,774
Total comprehensive income	(2,196,522)	(844,164)
Profit allocated to NCI	2,715,372	2,293,498

Notes to the Financial Statements (contd..)

39 Classification of Financial Instruments**39.1 Asset - Company**

39.1.1	As at December 31, 2018	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVOCI)	Others	Total Rs.000
Financial Assets						
	Cash and cash equivalents	-	41,833	-	-	41,833
	Placements with banks	-	136,153	-	-	136,153
	Financial assets at amortised cost-loans and receivables to other customers	-	1,332,771	-	-	1,332,771
	Fair value through profit or loss (FVTPL)	389	-	-	-	389
	Fair value through other comprehensive income (FVTOCI)	-	-	61,409	-	61,409
	Total financial assets	389	1,510,757	61,409	-	1,572,555
Non Financial Assets						
	Investments in associates	-	-	-	37,295	37,295
	Investments in subsidiaries	-	-	-	12,750	12,750
	Investment properties	-	-	-	33,310	33,310
	Property plant & equipment	-	-	-	14,726	14,726
	Intangible assets	-	-	-	3,111	3,111
	Other assets	-	-	-	54,262	54,262
	Total non financial assets	-	-	-	155,454	155,454
	Total assets	389	1,510,757	61,409	155,454	1,728,009

Notes to the Financial Statements (contd..)

39.1.2	As at December 31, 2017 Rs.000 ‘	Available- for-Sale (AFS)	Fair Value Through Profit or Loss (FVTPL)	Loans and Receivables (L & R)	Others	Total
Financial Assets						
	Cash and cash equivalents	-	-	30,151	-	30,151
	Placements with banks	-	-	132,227	-	132,227
	Loans and receivables	-	-	1,268,457	-	1,268,457
	Financial investments – Available-For-Sale	52,719	-	-	-	52,719
	Total Financial Assets	52,719	-	1,430,835	-	1,483,554
Non Financial Assets						
	Investments in associates	-	-	-	37,275	37,275
	Investments in subsidiaries	-	-	-	12,750	12,750
	Investment properties	-	-	-	33,310	33,310
	Property plant & equipment	-	-	-	19,417	19,417
	Intangible assets	-	-	-	1,495	1,495
	Other assets	-	-	-	59,040	59,040
	Total Non Financial Assets	-	-	-	163,287	163,287
	Total Assets	52,719	-	1,430,835	163,287	1,646,841

39.2 Liabilities - Company

39.2.1	As at December 31, 2018 Rs.000 ‘	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVOCI)	Total
Financial Liabilities					
	Due to financial institutions	-	529,659	-	529,659
	Due to other customers	-	109,011	-	109,011
		-	638,670	-	638,670
Non Financial Liabilities					
	Other liabilities	-	52,389	-	52,389
		-	52,389	-	52,389
	Total Liabilities	-	691,059	-	691,059

39.2.2	As at December 31, 2017 Rs.000 ‘		Amortised Cost	Total
Financial Liabilities				
	Due to financial institutions		308,888	308,888
	Due to other customers		104,932	104,932
			413,820	413,820
Non Financial Liabilities				
	Other liabilities		59,436	59,436
			59,436	59,436
	Total Liabilities		473,256	473,256

Notes to the Financial Statements (contd.)

39.3 Asset-Group

39.3.1 As at December 31, 2018 Rs.000 ‘	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVOCI)	Others	Total
Financial Assets					
Cash and cash equivalents	-	44,945	-	-	44,945
Placements with banks	-	153,679	-	-	153,679
Financial assets at amortised cost-loans and receivables to other customers	-	1,331,391	-	-	1,331,391
Fair value through profit or loss (FVTPL)	3,352	-	-	-	3,352
Fair value through other comprehensive income (FVTOCI)	-	-	61,409	-	61,409
Other financial assets	-	10,540	-	-	10,540
Total Financial Assets	3,352	1,540,555	61,409		1,605,316
Non Financial Assets					
Investments in associate	-	-	-	37,295	37,295
Investment properties	-	-	-	42,629	42,629
Property plant & equipment	-	-	-	24,387	24,387
Intangible assets	-	-	-	4,822	4,822
Deferred tax assets	-	-	-	2,259	2,259
Other assets	-	-	-	64,427	64,427
Total Non Financial Assets	-	-	-	175,819	175,819
Total Assets	3,352	1,540,555	61,409	175,819	1,781,135

Notes to the Financial Statements (contd..)

39.3.2	As at December 31, 2017 Rs.000 ‘	Available- for-Sale (AFS)	Fair Value Through Profit or Loss (FVTPL)	Loans and Receivables (L & R)	Others	Total
Financial Assets						
	Cash and cash equivalents	-	-	32,459	-	32,459
	Placements with banks	-	-	147,258	-	147,258
	Loans and receivables to other customers	-	-	1,266,837	-	1,266,837
	Financial investments – Available-For-Sale	52,719	-	-	-	52,719
	Financial assets at fair value through profit or loss	-	4,961	-	-	4,961
	Financial investments – Held-To-Maturity	-	-	-	-	-
	Other financial assets	-	-	1,780	-	1,780
	Total Financial Assets	52,719	4,961	1,448,334	-	1,506,014
Non Financial Assets						
	Investments in associate	-	-	-	37,275	37,275
	Investment properties	-	-	-	40,385	40,385
	Property plant & equipment	-	-	-	21,252	21,252
	Intangible assets	-	-	-	3,784	3,784
	Deferred tax assets	-	-	-	1,760	1,760
	Other assets	-	-	-	70,362	70,362
	Total Non Financial Assets	-	-	-	174,818	174,818
	Total Assets	52,719	4,961	1,448,334	174,818	1,680,832

39.4 Liabilities - Group

39.4.1	As at December 31, 2018 Rs.000 ‘	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVOCI)	Total
Financial Liabilities					
	Due to financial institutions	-	529,659	-	529,659
	Due to other customers	-	109,011	-	109,011
	Other borrowings	-	-	-	-
		-	638,670	-	638,670
Non Financial Liabilities					
	Other liabilities	-	68,623	-	68,623
		-	68,623	-	68,623
	Total Liabilities	-	707,293	-	707,293

Notes to the Financial Statements (contd..)

39.4.2	As at December 31, 2017 Rs.000 '	Amortised Cost	Total
Financial Liabilities			
	Due to financial institutions	308,887	308,887
	Due to other customers	104,932	104,932
	Other borrowings	456	456
		414,275	414,275
Non Financial Liabilities			
	Other liabilities	72,160	72,160
		72,160	72,160
	Total Liabilities	486,435	486,435

39.5 DETERMINATION OF FAIR VALUE**a) Methodologies and Assumptions Used to Determine Fair Value**

The methodology for fair value of the Financial Assets and Liabilities and the analysis according to fair value hierarchy is provided in this note. The basis on which fair values have been arrived for various financial assets and liabilities are explained below.

b) Assets for which Fair Value approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity the carrying amounts approximate to their fair value.

c) Fixed rate Financial Investments - Government Securities

The fair value of fixed rate government securities financial assets carried at amortised cost are estimated by using weekly market rate publish by Central Bank of Sri Lanka and other fixed rate investments were measured using comparing market interest rates when they were initially recognised with current market rates for similar financial instruments.

d) Fixed rate Financial Investments - Bank Deposits

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

e) Fixed rate Financial Investments - Unquoted and Quoted Debt Securities

For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

f) Cash and bank balances

The carrying amount approximate to fair value due to the relatively short term maturity.

g) Other receivable and Financial liabilities

The carrying value has been considered as the fair value due to uncertainty of the timing cash flows.

Notes to the Financial Statements (contd..)

39.6 Determination of Fair Value and Fair Values hierarchy of Financial Investments

Please refer Accounting policy Note 5.1.2 on page 123 for more information regarding determination of fair value

As at December 31, 2018 Rs. 000'	Level 1	Level 2	Level 3	Total
Company				
Fair value through profit or loss (FVTPL)	389	-	-	389
Fair value through other comprehensive income (FVTOCI)	-	-	61,409	61,409
Total Financial Investment	389	-	61,409	61,798
Group				
Fair value through profit or loss (FVTPL)	3,352	-	-	3,352
Fair value through other comprehensive income (FVTOCI)	-	-	61,409	61,409
Other financial assets	-	-	10,540	10,540
Total Financial Investment	3,352	-	71,949	75,301
As at 31 December 2017 Rs. 000'				
Company				
Available - for - Sale (AFS)	-	-	52,719	52,719
Total Financial Investment	-	-	52,719	52,719
Group				
Available - for - Sale (AFS)	-	-	52,719	52,719
Fair Value Through Profit or Loss (FVTPL)	4,961	-	-	4,961
Total Financial Investment	4,961	-	52,719	57,680

Notes to the Financial Statements (contd.)

39.7 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized

As at December 31, 2018 Rs. 000'	Level 1	Level 2	Level 3	Total
Assets - Company				
Cash and cash equivalents	-	-	-	41,833
Placements with banks	-	-	-	136,153
Financial assets at amortised cost-loans and receivables to other customers	-	-	-	1,332,771
Total Asset	-	-	-	1,510,757

The Company has not disclosed the fair values for financial instruments such as Cash and cash equivalents, Placement with Banks and Loans and Receivables to other customers because their carrying amounts are a reasonable approximation of fair value.

As at December 31, 2018 Rs. 000'	Level 1	Level 2	Level 3	Total
Assets-Group				
Cash and cash equivalents	-	-	-	44,945
Placements with banks	-	-	-	153,679
Financial assets at amortised cost-loans and receivables to other customers	-	-	-	1,331,391
Other financial assets	-	-	-	10,540
	-	-	-	1,540,555

The Group has not disclosed the fair values for financial instruments such as Cash and cash equivalents, Placement with Banks and Loans and Receivables to other customers because their carrying amounts are a reasonable approximation of fair value.

39.8 Financial Liabilities

As at December 31, 2018 Rs. 000'	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Company				
Due to financial institutions	529,659	529,659	308,887	308,887
Due to other customers	109,011	109,011	104,932	104,932
Other borrowings	-	-	-	-
	638,670	638,670	413,819	413,819
Group				
Due to financial institutions	529,659	529,659	308,887	308,887
Due to other customers	109,011	109,011	104,932	104,932
Other borrowings	-	-	456	456
	638,670	638,670	414,275	414,275

The fair values of financial liabilities similar to carrying amounts since those amounts are reasonable approximation of fair values. Thus the fair-value hierarchy disclosure is not applicable.

Notes to the Financial Statements (contd..)

40 Commitments and Contingencies**40.1 Capital Commitment**

There are no capital commitments as at December 31, 2018

40.2 Contingencies

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

Except for above there are no material commitments and Contingencies as at the reporting date.

41 Event after the reporting date

There have been no events subsequent to the reporting date which require adjustment or disclosure to the financial statements.

42 Related party disclosures**42.1 Transaction with Related Parties**

Company Rs. 000'	Name of Director	Details of Financial Dealings	2018		2017		As a percentage of capital funds as at 31.12.2018
			Received/Receivable (Payable/Paid)	Capital Outstanding as at 31.12.2018	Received/Receivable (Payable/Paid)	Capital Outstanding as at 31.12.2017	
Transaction with Associate Company							
Kenanga Investment Corporation Ltd			No Transactions		-	-	-
Transaction with Subsidiary							
SMB Money Broker (Pvt) Ltd	Mr. T.M. Wijesinghe	Easy Payment Loan	(240)	1,380	(240)	1,620	0.00%
	Mr. H.R.S. Wijeratne	-	-	-	-	-	0.00%
		-	-	-	-	-	0.00%
Transaction with other Related Companies							
Sapphirus Lanka (Pvt) Ltd	Mr. T.M. Wijesinghe	Term Loan	(1,253)	1,097	(1,074)	2,350	0.00%
Grayline Cargo Terminals	Mr. H.R.S. Wijeratne	Finance Lease	(1,071)	8,903	(723)	9,974	0.00%
		Term Loan	(2,716)	12,849	(2,244)	15,565	0.00%
Grayline Container Terminals	Mr. H.R.S. Wijeratne	Finance Lease	(759)	6,308	(512)	7,067	0.00%
		Term Loan	(83)	694	(56)	777	0.00%
Lanka Ashok Layland PLC	Mr. U.Gautam	Supplier Payment	(206,333)	-	(35,902)	-	0.00%

42.2 Transaction with key management personnel

	Company		Group	
	2018	2017	2018	2017
Directors fee	4,623,774	5,659,612	6,523,774	7,864,612

*Notes to the Financial Statements (contd..)***43 Litigation against the Company**

Litigation is a common occurrence in the financial services industry due to the nature of the business undertaken. Provision for legal matters typically require a higher degree of judgment. When matters are at an early stage, accounting judgments can be difficult because of the high degree of uncertainty involved. Group has established a formal controls and policies for managing legal claims. Once the professional advice has been obtained and the amount of loss reasonably estimated, the Group make adjustments to the accounts for any adverse effect, if any, which the claim may have on the group's financial position. As at the reporting date group had several unresolved legal claims pending judgment. However, the legal advisor of the Company is of the view that these cases will be resolved in favour of the Group and the process will probably take over three years. Accordingly no provision has been made in these financial statement.

44 Financial Risk Management**44.1 Introduction and Overview**

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

- i. Liquidity Risk
- ii. Credit Risk
- iii. Operational Risk
- iv. Market Risk

44.2 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.

44.3 Liquidity Risk

Liquidity risk is the risk that arises when the Company encounters difficulty in meeting obligations associated with its financial liabilities that are to be settled by delivering cash or another financial asset.

44.3.1 Management of Liquidity Risk

The Company's approach to managing liquidity is to ensure that funds available are adequate to meet credit demands of its customers and to enable debt instruments to be repaid on demand or upon maturity as appropriate. The Finance division is responsible for the management of liquidity risk and funding in accordance with the approved guidelines and risk limits. The treasury and liquidity policies and compliance thereunder are reviewed and approved by the ALCO.

44.3.2 Exposure to Liquidity Risk

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

	31.12.2018	31.12.2017
Liquid Asset Ratio (LAR)		
Average for the year	65.49%	62.58%
Maximum for the year	91.05%	77.64%
Minimum for the year	43.04%	42.70%

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

Notes to the Financial Statements (contd.)

The Company also monitors the maturities of its assets and liabilities. Maturity analysis is given below.

44.3.3 Maturity Analysis**44.3.3.1 Maturity Analysis - Company**

Rs. '000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	TOTAL
Interest Earning Assets						
Cash and cash equivalents	41,833	-	-	-	-	41,833
Placements with banks	1,632	134,521	-	-	-	136,153
Loans & receivables to other customers	283,185	303,126	652,025	83,437	10,998	1,332,771
Financial investments	-	-	-	-	61,798	61,798
	326,650	437,647	652,025	83,437	72,796	1,572,555
Non Interest Earning Assets						
Investment in associate	-	-	-	-	37,296	37,296
Investment in subsidiary	-	-	-	-	12,750	12,750
Investment properties	-	-	-	-	33,310	33,310
Property, plant & equipment	-	-	-	-	14,725	14,725
Intangible assets	-	-	-	-	3,111	3,111
Other assets	-	42,434	11,828	-	-	54,262
	-	42,434	11,828	-	101,192	155,454
Total Assets	326,650	480,081	663,853	83,437	176,766	1,730,787
Interest bearing liabilities						
Due to banks	173,393	118,770	237,496	-	-	529,659
Due to other customers	108,747	5	259	-	-	109,011
Other borrowings	-	-	-	-	-	-
	282,140	118,775	237,755	-	-	638,670
Non Interest bearing liabilities						
Retirement benefit obligations	-	-	-	11,752	-	11,752
Other liabilities	18,011	10,542	-	-	12,083	40,636
Shareholders funds	-	-	-	-	1,036,951	1,036,951
	18,011	10,542	-	11,752	1,049,034	1,089,339
Total Liabilities & Shareholders' funds	300,151	129,317	237,755	11,752	1,049,034	1,728,009

Notes to the Financial Statements (contd.)

44.3.3.2 Maturity Analysis - Group

Rs. '000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	TOTAL
Interest Earning Assets						
Cash and cash equivalents	44,945	-	-	-	-	44,945
Placements with banks	4,132	134,521	15,026	-	-	153,679
Loans & receivables to other customers	283,125	302,946	651,305	83,017	10,998	1,331,391
Financial investments	-	3,352	-	-	71,949	75,301
	332,202	440,819	666,331	83,017	82,947	1,605,316
Non Interest Earning Assets						
Investment in associates	-	-	-	-	37,295	37,295
Investment properties	-	-	-	-	42,629	42,629
Property, plant & equipment	-	-	-	-	24,387	24,387
Intangible asset	-	-	-	-	4,822	4,822
Deferred tax assets	-	-	-	-	2,259	2,259
Other assets	-	48,829	15,598	-	-	64,427
	-	48,829	15,598	-	111,392	175,819
Total Assets	332,202	489,648	681,929	83,017	197,117	1,783,913
Interest bearing liabilities						
Due to financial institutions	173,393	118,770	237,496	-	-	529,659
Due to other customers	108,747	5	259	-	-	109,011
Other borrowings	-	-	-	-	-	-
	282,140	118,775	237,755	-	-	638,670
Non Interest bearing liabilities						
Retirement benefit obligations	-	-	-	24,933	-	24,933
Other liabilities	18,624	10,542	-	-	14,524	43,689
Shareholders funds	-	-	-	-	1,073,843	1,073,843
	18,624	10,542	-	24,933	1,088,367	1,142,465
Total Liabilities & Shareholders' funds	300,764	129,317	237,755	24,933	1,088,367	1,781,135

44.4 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers and other Companies, and investment in debt/equity securities. For risk management reporting purposes the Company considers and consolidates all elements of credit risk exposure.

44.4.1 Management of Credit Risk

Primarily the Credit Division manages the credit risk. There is a management credit Committee & a Board Credit Committee to review significant credit risks. The said committees are facilitated by regular audits undertaken by the Internal Auditors. Company manages credit by focusing on following stages.

Notes to the Financial Statements (contd..)

a) Loan Origination

The loan origination process comprises initial screening and credit appraisal. The evaluation focuses on the borrower's ability to meet its obligations in a timely manner. Efforts are made to ensure consistent standards are maintained in credit approval. Collateral and guarantees form an important part of the credit risk mitigation process. A suitable internal risk rating model is in place and is an important part of the risk assessment of customers

b) Loan Approval

The Company has established clear guidelines for Loan approvals / renewals by adopting a committee based approval structure, where all approval signatories carry equal responsibility for credit risk. Individual credit facilities beyond a minimum threshold require Board Credit Committee approval.

c) Credit Administration and Disbursement

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

d) Recoveries

Overdue Loans are managed by the Recoveries Division with the support of the Legal Division. This unit is responsible for all aspects of an overdue facility, restructuring of the credit, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all recovery matters are finalised.

e) Collateral

The company carries sensitivity tests to measure the values of portfolios in the event of extreme market movements on hypothetical scenarios. Management reviews the consequences of the stress tests and determines appropriate mitigating actions such as reducing exposures, reviewing and changing risk limits in order to mitigate the risk induced by potential stress. The change in weighted average interest rate of the company will have the following effects.

44.4.1.e Collateral wise analysis of individual significant impaired loan and leases	2018
Secured by motor vehicles	55,850,828
Secured by movable & immovable assets	141,156,797
Other securities	4,632,643
Clean	-
	201,640,268
Individually significant unimpaired loans and leases	
watch list	24,806,142
others	1,238,746,907
	1,263,553,049
Collateral wise analysis of individual significant unimpaired loan and leases	
Secured by motor vehicles	799,919,373
Secured by movable & immovable assets	462,270,458
Clean	1,363,218
	1,263,553,049

*Notes to the Financial Statements (contd.)***44.5 Operational Risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Company objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

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

44.6 Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

44.6.1 Exposure to Interest Rate Risk

The Company carries sensitivity tests to measure the value of its portfolios in the event of extreme market movements on hypothetical scenarios. Management reviews the consequences of the stress tests and determines appropriate mitigating actions such as reducing exposures, reviewing and changing risk limits in order to mitigate the risks induced by potential stress. The change in weighted average interest rate of the Company will have the following effects.

Loan Portfolio

Interest rate shock	-2%	-1%	1%	2%
Interest income change	(10,689,779)	(5,344,890)	5,344,890	10,689,779
Effect on loan interest income	-9.71%	-4.86%	4.86%	9.71%

Lease Portfolio

Interest rate shock	-2%	-1%	1%	2%
Interest income change	(15,322,507)	(7,661,254)	7,661,254	15,322,507
Effect on lease interest income	-11.28%	-5.64%	5.64%	11.28%

Total Portfolio

Interest rate shock	-2%	-1%	1%	2%
Interest income change	(26,012,287)	(13,006,143)	13,006,143	26,012,287
Effect on interest income	-10.58%	-5.29%	5.29%	10.58%

Interest Expenses

Interest rate shock	-2%	-1%	1%	2%
Interest expenses change	(10,524,889)	(5,262,445)	5,262,445	10,524,889
Effect on interest expenses	-16.62%	-8.31%	8.31%	16.62%

Notes to the Financial Statements (contd.)

45 Current/ Non Current Analysis

As at December 31,L Rs .000'	2018			2017		
	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total
Company						
Assets						
Cash and cash equivalents	41,833	-	41,833	30,150	-	30,150
Placements with banks	136,153	-	136,153	132,227	-	132,227
Financial assets at amortised cost-loans and receivables to other customers	586,311	746,460	1,332,771	598,742	669,715	1,268,457
Financial investments	-	61,798	61,798	52,719	-	52,719
Investments in associates	-	37,295	37,295	-	37,275	37,275
Investments in subsidiaries	-	12,750	12,750	-	12,750	12,750
Investment properties	-	33,310	33,310	-	33,310	33,310
Property plant & equipment	-	14,726	14,726	-	19,417	19,417
Intangible assets	-	3,111	3,111	-	1,495	1,495
Deferred tax assets	-	-	-	-	-	-
Other assets	42,434	11,828	54,262	44,254	14,787	59,042
Total Assets	806,731	921,278	1,728,009	858,092	788,748	1,646,842
Liabilities						
Due to banks	292,163	237,496	529,659	242,041	66,846	308,887
Due to other customers	108,752	259	109,011	103,989	943	104,932
Other borrowings	-	-	-	-	-	-
Retirement benefit obligations	-	11,753	11,753	-	12,183	12,183
Other Liabilities	28,552	12,083	40,635	26,822	20,432	47,254
Total Liabilities	429,467	261,591	691,058	372,852	100,404	473,256
Group						
Assets						
Cash and cash equivalents	44,945	-	44,945	32,459	-	32,459
Placements with banks	153,679	-	153,679	147,259	-	147,259
Financial assets at amortised cost-loans and receivables to other customers	586,071	745,320	1,331,391	598,742	668,095	1,266,837
Financial investments	-	75,301	75,301	57,680	1,780	59,460
Investments in associates	-	37,296	37,296	-	37,275	37,275
Investment properties	-	42,629	42,629	-	40,385	40,385
Property plant & equipment	-	24,387	24,387	-	21,252	21,252
Intangible assets	-	4,822	4,822	-	3,784	3,784
Deferred tax assets	-	2,259	2,259	-	1,760	1,760
Other assets	48,829	15,598	64,427	54,801	15,561	70,362
Total Assets	833,524	947,611	1,781,135	890,941	789,892	1,680,833
Liabilities						
Due to Financial Institutions	292,163	237,496	529,659	242,041	66,846	308,887
Due to other customers	108,752	259	109,011	103,989	943	104,932
Other borrowings	-	-	-	-	456	456
Retirement benefit obligations	-	24,933	24,933	-	19,860	19,860
Other Liabilities	43,689	-	43,689	52,300	-	52,300
Total Liabilities	444,604	262,688	707,292	418,190	68,245	486,435

Notes to the Financial Statements (contd.)

46 Segment Reporting - Group

As at December 31, Rs.000	Loans		Leasing		Treasury		Money Brokering		Unallocated		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Business segments - Group												
Revenue from external customers,												
Interest	101,870	114,244	135,890	139,607	-	-	-	-	8,215	900	245,975	254,751
Fee & commission	1,916	2,271	3,671	3,551	-	-	-	-	-	-	5,587	5,822
Other operating income	25	-	617	1,227	13,420	15,756	73,854	64,040	5,676	37,773	93,591	118,796
Total Revenue from external customers	103,811	116,515	140,178	144,385	13,420	15,756	73,854	64,040	13,891	38,673	345,153	379,369
Segment result	55,016	46,291	74,289	57,363	7,112	6,260	39,140	25,443	7,362	15,365	182,919	150,722
Depreciation charged for the year	(2,075)	(2,442)	(2,802)	(3,026)	(268)	(330)	(1,476)	(1,342)	(278)	(810)	(6,898)	(7,950)
Interest expense	(19,062)	(21,260)	(25,739)	(26,346)	(2,464)	(2,875)	(13,561)	(11,685)	(2,551)	(7,057)	(63,377)	(69,224)
Operating Profit	33,879	22,589	45,748	27,991	4,380	3,055	24,103	12,416	4,533	7,498	112,644	73,548
Share of Profit/ (Loss) of Associate Companies									20	(4,386)	20	(4,386)
Income tax expense	(525)	(2,903)	(709)	(3,597)	(68)	(393)	(373)	(1,595)	(70)	(963)	(1,745)	(9,451)
Value Added Tax (VAT) on financial services	-	-	-	-	-	-	-	-	(17,438)	(16,937)	(17,438)	(16,937)
Other comprehensive Income	2,348	(275)	3,171	(341)	304	(37)	1,671	(151)	314	(91)	7,808	(897)
Total Comprehensive Income for the Year	35,702	19,411	48,209	24,053	4,616	2,625	25,401	10,670	(12,641)	(14,879)	101,288	41,877
Segment assets	536,584	513,412	794,807	737,443	273,925	239,177	23,796	15,941	152,023	174,859	1,781,135	1,680,832
Segment liabilities	212,731	149,398	287,254	185,134	27,500	20,203	151,343	82,113	28,466	49,588	707,294	486,096
Cash Flow from Operating Activities	(48,021)	26,249	(64,844)	32,528	(6,208)	3,550	(34,164)	14,427	(6,426)	8,714	(159,663)	85,468
Cash Flow from Investing Activities	(2,435)	(7,385)	(3,288)	(9,152)	(315)	(999)	(1,732)	(4,059)	(326)	(2,451)	(8,096)	(24,046)
Cash Flow from Financing Activities	33,082	(5,301)	44,671	(6,569)	4,277	(717)	23,535	(2,914)	4,427	(1,760)	109,992	(17,261)

Five Year Summary-Group

(Rs.'000)	2018	2017	2016	2015	2014
Operating Results					
Revenue	345,154	379,369	315,644	248,644	266,814
Interest income	245,975	254,751	206,319	177,771	172,443
Interest expenses	(63,377)	(69,224)	(41,146)	(28,560)	(31,684)
Operating expenses & provision	(187,191)	(187,366)	(155,357)	(141,027)	(151,008)
Profit/Loss before taxation	112,643	73,548	107,851	81,119	106,495
Taxation & VAT	(19,184)	(26,388)	(22,639)	(17,796)	(17,176)
Profit after taxation & VAT	93,480	42,774	80,592	60,901	86,366
Minority interest	3,792	2,707	1,909	1,789	2,434
Profit/(Loss) attributable to shareholders	89,688	40,066	78,683	59,112	83,932
As at December 31,					
Assets					
Cash & short term funds	44,945	32,459	33,123	31,447	24,835
Investments	228,980	206,718	144,499	181,402	144,358
Loans & advance	1,331,391	1,266,837	1,317,968	1,052,774	921,550
Investment in associates Co.	37,296	37,275	101,452	106,072	119,313
Investment property	42,629	40,385	39,898	39,892	38,977
Property plant and equipment	24,387	21,252	23,682	12,350	16,745
Other assets	66,686	72,122	14,901	12,238	25,079
Intangible assets	4,822	3,784	3,305	3,406	3,553
Total Assets	1,781,135	1,680,832	1,678,829	1,439,580	1,294,410
Equity & Liabilities					
Equity					
Stated capital	919,064	919,064	919,064	919,064	919,064
Statutory reserves	34,648	30,361	28,499	24,664	21,633
Available for sale reserve	-	233	233	(0)	(1,322)
Retain earnings	95,892	228,379	190,658	150,726	108,689
Other reserves					
Liabilities					
Due to banks	529,659	308,887	353,782	80,409	-
Due to other customers	109,011	104,932	99,652	201,574	198,285
Other borrowings	-	456	1,155	3,332	3,077
Other liabilities	68,623	72,160	71,719	47,826	34,916
Non-controlling interest	24,239	16,359	14,066	11,986	10,069
Total Equity & Liabilities	1,781,135	1,680,832	1,678,829	1,439,580	1,294,410
Cash Flow					
Cash flow from operating activities	(159,662)	85,468	(173,683)	(96,824)	106,539
Cash flow from investing activities	(8,096)	(24,046)	8,829	4,556	(5,239)
Cash flow from financing activities	110,331	(17,261)	177,792	20,918	(81,074)
Net increase or (decrease)in cash and cash equivalents	(57,767)	44,161	12,939	(71,351)	20,227
Basic earning/(loss) per share	0.05	0.02	0.04	0.03	0.05
Assets growth (%)	6	0.12	17	11	1
Net assets growth (%)	(11)	3	4	4	9
Net assets per share (Rs.)	0.58	0.65	0.63	0.61	0.58

Decade at a Glance-Company

Rs.000	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Operating Results										
Revenue	265,975	315,263	256,012	198,117	193,973	203,046	189,501	112,854	124,110	391,449
Interest income	245,975	254,751	206,319	177,771	172,443	182,024	143,988	75,581	101,718	147,132
Interest expenses	(63,339)	(69,181)	(40,311)	(28,525)	(31,647)	(44,868)	(35,600)	(47,609)	(64,732)	(166,315)
Operating expenses & provision	(99,456)	(185,165)	(118,584)	(96,021)	(68,634)	(66,565)	(61,567)	(76,470)	(59,805)	(66,868)
Profit/loss before taxation	103,180	60,917	97,116	73,571	93,668	91,613	92,334	(11,225)	19,443	158,266
Vat & taxation	(17,438)	(23,668)	(20,420)	(15,363)	(14,663)	(13,861)	(14,863)	(5,519)	-	-
Profit After Taxation & VAT	85,742	37,249	76,696	58,209	79,004	77,752	77,471	(16,744)	14,095	158,266
Comprehensive income/(expense)	95,746	37,196	77,952	56,815	77,549	76,767	75,621	(13,086)	-	-
Assets										
Cash and cash equivalents and placement with banks	177,985	162,378	146,551	183,526	145,052	116,934	119,394	480,706	368,304	7,151
Loans and receivables	1,332,771	1,268,457	1,319,828	1,053,788	923,890	932,413	913,235	571,892	420,657	778,938
Financial investments	61,798	52,719	7,578	7,291	7,712	8,991	3,193	6,308	2,650	-
Investments in associates	37,296	37,275	101,452	106,072	108,757	116,418	125,561	125,561	129,282	125,560
Investments in subsidiaries	12,750	12,750	12,750	12,750	11,791	9,268	7,854	12,750	12,750	12,750
Investment properties	33,310	33,310	33,310	33,730	33,730	33,730	34,324	33,120	33,120	49,016
Property plant & equipment	14,726	19,417	20,224	7,222	9,876	13,508	11,592	13,205	9,244	7,457
Intangible assets	3,111	1,495	3,258	3,406	3,553	3,701	-	-	-	-
Other assets	54,262	59,040	6,015	6,009	18,157	14,451	21,573	36,196	30,969	187,670
	1,728,009	1,646,842	1,650,965	1,413,793	1,262,517	1,249,414	1,236,727	1,279,739	1,006,977	1,168,542
Liabilities & Shareholders' Fund										
Borrowings	638,669	413,820	453,434	281,983	198,285	262,229	308,788	407,360	511,245	911,725
Retirement benefit obligations	11,753	12,183	11,948	10,336	7,088	5,570	4,190	4,349	2,618	2,976
Other liabilities	40,636	47,253	49,194	26,920	19,142	21,162	40,063	90,245	75,209	324,172
Shareholders' funds	1,036,951	1,173,586	1,136,390	1,094,554	1,038,002	960,453	883,686	777,785	417,905	(70,331)
	1,728,009	1,646,842	1,650,965	1,413,793	1,262,517	1,249,414	1,236,727	1,279,739	1,006,977	1,168,542
Ratios										
Income growth (%)	(16)	23	29	2	(4)	7	68	(9)	(68)	17
Property, plant & equipment to shareholders' fund (times)	1.42	1.65	1.78	0.66	0.95	1.41	1.31	1.70	2.21	(10.60)
Total asset to shareholders' fund (times)	1.67	1.40	1.45	1.29	1.22	1.30	1.40	1.65	2.41	(16.61)
Net assets per share	0.57	0.65	0.63	0.61	0.57	0.53	0.49	0.56	0.30	(1.29)
Basic earning/(loss) per share	0.05	0.02	0.04	0.03	0.04	0.04	0.04	(0.01)	0.02	0.23

NOTICE OF MEETING - VOTING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of S M B Leasing PLC will be held at Renuka City Hotel, 328, Galle Road, Colombo 3 on June 27, 2019 at 9.30 AM for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended December 31, 2018 together with the reports of the Directors' and Auditors' thereon.
2. To re-elect Mr. A. T. S. Sosa, Director who retires by rotation in terms of Article 87 of the Article of Association of the Company.
3. To authorize the Directors to determine and make donations.
4. To re-appoint Auditors M/s. KPMG, Chartered Accountants and to authorize the Directors to determine their remuneration.

By order of the Board

P W CORPORATE SECRETARIAL (PVT) LTD

(sgd) SECRETARIES

Colombo

May 30, 2019

Notes

1. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his/her stead.
2. A proxy need not be a Member of the Company.
3. The completed Form of Proxy must be deposited at the registered office of the Secretaries, No.3/17, Kynsey Road, Colombo 8, not less than forty eight (48) hours before the time fixed for the meeting.

NOTICE OF MEETING - NON VOTING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of S M B Leasing PLC will be held at Renuka City Hotel, 328, Galle Road, Colombo 3 on June 27, 2019 at 9.30 AM for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended December 31, 2018 together with the reports of the Directors' and Auditors' thereon.
2. To re-elect Mr. A. T. S. Sosa, Director who retires by rotation in terms of Article 87 of the Article of Association of the Company.
3. To authorize the Directors to determine and make donations.
4. To re-appoint Auditors M/s. KPMG, Chartered Accountants and to authorize the Directors to determine their remuneration.

By order of the Board

P W CORPORATE SECRETARIAL (PVT) LTD

(sgd) SECRETARIES

Colombo

May 30, 2019

Notes

1. A Member entitled to attend the meeting is entitled to appoint a proxy to attend on his/her stead.
2. A proxy need not be a Member of the Company.
3. The completed Form of Proxy must be deposited at the registered office of the Secretaries, No.3/17, Kynsey Road, Colombo 8, not less than forty eight (48) hours before the time fixed for the meeting.

FORM OF PROXY - VOTING

*I/We.....
..... of being* a member/ members of S M B LEASING PLC, hereby appoint Mr. H R S Wijeratne of Colombo or failing him Mr. U Gautam or failing him Mr. T M Wijesinghe or failing him Mr. A T S Sosa or failing him Mr. M S A Wadood as *my/our Proxy to represent *me/us and to speak and vote whether on a show of hands or on a poll for *me/us on *my/our behalf at the ANNUAL GENERAL MEETING OF THE COMPANY to be held 9.30 AM on June 27, 2019 at the Renuka City Hotel, 328, Galle Road, Colombo 03 and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

- | | FOR | AGAINST |
|--|--------------------------|--------------------------|
| 1) To receive and consider the Annual Report and Financial Statements for the Financial Year ended 31 December 2018 with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2) To re-elect as a Director Mr. A T S Sosa who retires by Rotation in terms of Article 87 of the Articles of Association of the Company | <input type="checkbox"/> | <input type="checkbox"/> |
| 3) To authorize the Directors to determine and make Donations | <input type="checkbox"/> | <input type="checkbox"/> |
| 4) To re-appoint Auditors M/s. KPMG, Chartered Accountants and to Authorize the Directors to determine their remuneration. | <input type="checkbox"/> | <input type="checkbox"/> |

Signed this.....day of..... Two Thousand and Nineteen.

*Signature/s of the shareholder (s)

Please provide the following details:

Shareholder's NIC No./Company Registration No.

Folio No/Number of shares held

Proxy holder's NIC No. (if not a Director)

INSTRUCTIONS AS TO COMPLETION

1. To be valid this Form of Proxy must be deposited at the Registered Office of P W Corporate Secretarial (Pvt) Ltd, No.3/17, Kynsey Road, Colombo 8, not less than 48 hours before the time appointed for the holding of the Meeting.
2. The instrument appointing a Proxy shall in the case of an individual be signed by the appointor or by his Attorney and in the case of a Company / Corporation, the Proxy Form must be executed under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association or other constitutional documents.
3. If the Proxy Form is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy if it has not already been registered with the Company.
4. The full name and address of the Proxy holder and of the Shareholder appointing the Proxy holder should be entered legibly in the Form of Proxy.

FORM OF PROXY - (NON VOTING)

*I/We.....
 of being* a member/ members of S M B LEASING PLC, hereby appoint
 Mr. H R S Wijeratne of Colombo or failing him Mr. U Gautam or failing him Mr. T M Wijesinghe or failing
 him Mr. A T S Sosa of failing him Mr. M S A Wadood as *my/our Proxy to represent *me/us and to speak
 for *me/us on *my/our behalf at the ANNUAL GENERAL MEETING OF THE COMPANY to be held 9.30 AM
 on June 27, 2019 at the Renuka City Hotel, 328, Galle Road, Colombo 03 and at any adjournment thereof,

Signed this.....day of..... Two Thousand and Nineteen.

*Signature/s of the shareholder (s)

Please provide the following details:	
Shareholder's NIC No./Company Registration No.
Folio No/Number of shares held
Proxy holder's NIC No. (if not a Director)

INSTRUCTIONS AS TO COMPLETION

1. To be valid this Form of Proxy must be deposited at the Registered Office of P W Corporate Secretarial (Pvt) Ltd, No.3/17, Kynsey Road, Colombo 8, not less than 48 hours before the time appointed for the holding of the Meeting.
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3. If the Proxy Form is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy if it has not already been registered with the Company.
4. The full name and address of the Proxy holder and of the Shareholder appointing the Proxy holder should be entered legibly in the Form of Proxy.

NOTES

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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 Specialized Leasing Company under the provisions of the Finance Leasing Act No. 56 of 2000.

Company Re-registration No. PQ 91

Place of Incorporation Colombo

Board of Directors

Mr. H. R. S. Wijeratne (Chairman)

Mr. U. Gautam (Deputy Chairman)

Mr. J. C. Korale*

Mr. T. M. Wijesinghe

Mr. A. T. S. Sosa

Mr. M. S. A. Wadood

* Mr. J. C. Korale demised on May 21, 2018.

Secretaries

PW Corporate Secretarial (Pvt) Ltd.

No. 3/17, Kynsey Road,

Colombo 08.

External Auditors

M/S. KPMG

Chartered Accountants

No. 32A,

Sir Mohammed Macan Marker Mawatha,

Colombo 03.

Internal Auditors

M/S. Deloitte

Chartered Accountants

No. 11, Castle Lane,

Colombo 04.

Tax Consultants

Amarasekara & Co

Chartered Accountants

No 12, Rotunda Gardens

Colombo 03.

Lawyers

M/S. De Livera Associates

Attorneys-at-Law, Solicitors & Notaries Public

No. 33 1/2, Shrubbery Gardens, Colombo 04.

Shiranthi Gunawardena Associates Attorneys-at-Law & Notaries Public, No. 22/1, Elliot Place, Colombo 08.

M/S. Ganlaths

Attorneys-at-Law and Notaries Public, M -8, Mezzanine Floor,

Galadari Hotel, No. 64, Lotus

Road, Colombo 01.

Bankers

Sampath Bank PLC

Commercial Bank of Ceylon PLC

Bank of Ceylon

DFCC Bank PLC

NDB Bank PLC

Indian Bank

Peoples Bank

Head Office

No. 282/1, CBS Building,

Galle Road,

Colombo 3.

Telephone : 094-114222888

Fax : 094-112574330

E-mail : smbhed@slt.net.lk

Web : www.smbk.com

Subsidiary Company

SMB Money Brokers (Pvt) Ltd.

8/A Sea View Avenue,

Colombo 3.

Associate Company

Kenanga Investment Corporation Ltd.

4th Floor, Land Mark Building, No 385, Galle Road,

Colombo 3.

Branches

Deniyaya Branch No. 11 A, Main Street, Deniyaya

Negombo Branch No. 15/15B, Station Road, Negombo.

