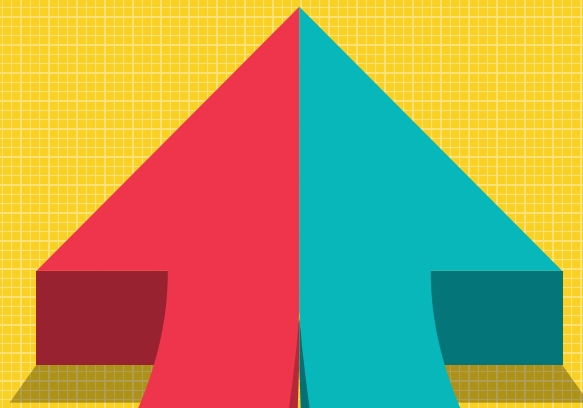




SMB LEASING PLC

# Consolidated Growth



A N N U A L R E P O R T 2 0 1 9





## 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 shareholders' 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, mortgage loans, personal loans and gold loans. 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, 2019. 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 084 to 088 of this report.

### Presentation

Printed copies of this report will be posted to only those who request for the same in writing. This report will be made available on the official website of the Company [www.smbk.com](http://www.smbk.com) in PDF format.

### Contact

Questions and inquiries on this Annual Report 2019 and information presented therein are to be directed to:

#### Finance Manager

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No 282/1 CBS Building,  
Galle Road, Colombo 3,  
Sri Lanka.  
Tel: +94 11 4222851  
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# Key highlights of the year

Profit after tax

Rs. 8.67 Mn

Total Assets

Rs. 1,635 Mn

Interest Income

Rs. 264 Mn

Net Assets per share

Rs. 0.59

Operating Income

Rs. 209 Mn

Basic Earnings per Share

Rs. 0.01

Impairment (charges) /Reversal

Rs. 70.81 Mn

Loans and Advances

Rs. 1,204 Mn

Shareholders' Funds

Rs. 1,056 Mn

Total Liabilities

Rs. 578 Mn

Statutory Reserves

Rs. 35.08 Mn

Retained Earnings

Rs. 82.38 Mn

## 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, 2019.

This was a year that tested the resilience of businesses across all industries amidst the tough operating environment that prevailed due to economic and political volatility. Our company persisted with its growth efforts despite the tough market conditions and remained profitable.

We continue to reflect on 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 mere growth of 2.7% in 2019 reflecting global pressures, muted sentiments following the Easter Sunday attacks and unfavorable weather conditions. Credit growth was lackluster through out the year while creating cashflow pressures and declining business confidence across key industry sectors led to a broad-based increase in impairments.

This situation provided us an 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 sustained the profitability status of the Company and deliver positive impact on shareholder value. The endurance of the Company in 2019 is attributable to the exceptionally focused execution of the persist strategy adopted.

### Performance of the Year

Moderate economic conditions coupled with the political instability towards the later part of 2019 led to an industry-wide deterioration in portfolio quality. In this volatile operating environment, the burden of higher NPLs proved to be a major stress factor that negatively affected the confidence as well as the profitability of the sector in 2019. It is remarkable that even in this backdrop, SMB Leasing PLC recorded a growth in its Interest Income of 7% to Rs. 264 million.

Despite, unfavorable economic and business conditions, the Company managed to record a profit after tax of Rs. 8.7 million in the year under discussion. In addition, to the above parameters, in 2019 the Company managed to retain its growth momentum in the gold loans interest income recording a noteworthy increase of 61% when compared with 2018 which was resulted by the 69% strong growth in pawning advance portfolio to Rs. 73.4 million from Rs. 43.4 million.

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 2019, 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 challenging 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 are confident that today SMB Leasing PLC is well prepared to confront the challenges and take advantage of the opportunities to grow our core business. The emphasis is to carve out a greater share of the niche market in the secured lending category by leveraging on our unique product portfolio. While we remain committed to growing shareholder wealth and enhancing profitability to remain strong as ever. SME industry is the backbone of Sri Lanka's economy and it has been badly hit by 2019 Easter Sunday attacks and COVID-19 pandemic in 2020. We hope to contribute to the revival of the SME sector in 2020 by extending financing to sustainable projects to uphold and encourage the spirit of entrepreneurship.

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 due to COVID-19 pandemic 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 Non-Performing Advance (NPA) levels.

### 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 Chief Executive Officer 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 continue its journey towards a more rewarding future for our shareholders. I look forward to their continued support in sustaining the growth

trajectory of the Company in 2020 and beyond.

I wish to thank Mr. Umesh Gautam our Deputy Chairman who retired in September 2019 after serving the Company for nine years for his immeasurable contribution to the Company and its success at present and the steady support to the Board and management. A special word of thanks to our former CEO Mr. Sumedha Fernando, who retired on December 31, 2019 after a nine-year stint with the Company. Sumedha, has been a driving force behind the success of the Company since 2010. I wish both of them well as they go on to take on new challenges in the coming years.

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*  
*September 16, 2020*

## Chief Executive Officer's Message

I would like to begin this note by expressing the Company's sincere appreciation to my predecessor Mr. Sumedha Fernando who retired on December 31, 2019 after rendering 9 years of service to SMB Leasing PLC. I would like to extend my gratitude to Mr. Fernando on a personal note for the invaluable guidance and support extended to me and for facilitating a smooth transfer of duties and responsibilities.

### Our Team

We have a highly dedicated team with an admirable attitude and commitment which in my view is the biggest strength of the Company. Our team strives for excellence in order to create value for our shareholders whilst maintaining an ethical and respectful work environment fulfilling all statutory, fiduciary and regulatory responsibilities.

As disclosed in the Human Capital Report, honesty, integrity, fairness, responsibility, transparency and accountability plays an integral role in our work culture. During 2019 we continued to be focused on developing and sustaining talent and will continue to develop our human capital in order to amplify the performance and growth of the Company.

### Our Focus

During the year, our main focus was sustaining the portfolios achieved last year given the economic setback due to Easter Sunday attack and the uncertainty that surrounded the November 2019 election by optimising the product mix. 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 expansion of the pawning portfolio continued in 2019 providing us modest yield while offering customers an outstanding service.

Operational efficiency and human resource development initiatives continue to further boost the overall performance of the Company. 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. Staff recruitments have been done keeping the growth trajectory of the Company in mind. In line with this strategy, finance, credit, sales, recovery and legal departments have been further strengthened with new talent in 2019.

We continue to work with leading local and foreign commercial banks to secure further low-cost funding in the long term. A significant reduction in improvement in funding costs is essential for the Company is to further penetrate the market.

With the Company taking a conscious decision to scale back on lending activities in 2019, the focus on managing credit quality increased. The credit evaluation process was refined and strict qualifying criteria was implemented and this was coupled by a post credit monitoring mechanism.

While we were not in a position to control the impacts arising out of the external environment, the Company became more resilient to these forces and we adopted a consolidation strategy which provided an opportunity to strengthen our defenses. Recovery strategies post Easter Sunday attack took a proactive approach by continuously following up with customers before the outstanding days hits the NPL threshold.

### 2019 Performance at a Glance

In the highly challenging environment of the financial year of 2019, I am pleased to report that SMB Leasing PLC has sustained a creditable financial performance. The economy of the country took a heavy toll in the months that followed the Easter Sunday attack with many sectors such as tourism, leisure and transport facing the brunt of the impact. Furthermore, given the uncertainty surrounding the November 2019 election, the GDP growth of the country was less than 3%.

After a rapid growth in 2018, the Company stepped back from the aggressive growth path and adopted a consolidation approach in 2019 to be in line with the market

sentiments. At the end of 2019, the Company recorded a total comprehensive profit of Rs. 19.4 million in the backdrop of uncertainty, market volatility, increased taxation, and modest economic growth. 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 sustain our loan and lease portfolios and grow the pawning portfolio by 70% with robust and prudent asset and liability management strategies adopted. The Company's top line grew by 7% which demonstrated our resilience to challenges encountered.

Our exemplary record in Non-Performing Loan (NPL) performance over the years post 2012 was challenged in 2019 due to the market and economic conditions that prevailed in the year resulting in a NPL provisions of over Rs. 70 million. The profit after tax in 2019 was further declined due to the increase in taxation on financial services. We have taken steps in 2020 to flatten the NPAs with an outstanding collection effort. It is expected to improve both top line and bottom line in future. Timely inhouse legal action has been taken on defaulters which will yield favourable results in 2020 and beyond.

### Remaining compliant

As we continue towards expansion and growth, the Company's intense scrutiny and focus on regulatory aspects of business remain tighter than ever. In 2019, we continue to work closely with auditors and regulators to ensure compliance in every aspect of our operations.

### Looking Ahead

Year 2020 will go down in history as one of the most challenging years for the entire world and it will be a crucial period for Sri Lanka economy as well. The Central Bank and the World Bank have both projected an economic contraction in 2020. It is important that the economy gradually settles in and recommence a steady growth pace in order to set the tone for the next few years. The recovery of sectors such as tourism and

leisure will be vital for economic growth and to restore investor confidence. A private sector credit demand revival should materialize to foster business for the financial sector.

While COVID-19 gave rise to widespread negative impacts globally, Sri Lanka was fortunate that immediate action to contain the spread of the pandemic was taken by its leadership. SMB Leasing PLC team responded to the COVID-19 challenge by prioritizing the health and safety of our staff and customers and we ensured uninterrupted service during curfew and lockdown period. I am pleased to report that we are one of the first financial institutions in the country to complete granting of debt moratoriums to our valued customers at a setback in interest income for 2020. We recommenced our lending operations in June and will be working on strategic plan with specific targets and goals for 2020 to navigate the changing macroeconomic and regulatory landscapes.

As we face another challenging period of post-COVID recovery, a key aspect of our growth strategy will be to develop a state of art information systems to improve the speed of response to our customers and enhance customer satisfaction. We also plan to penetrate to uncharted geographical areas backed by our talented human capital. We are committed to further strengthen internal processes and governance framework that provides stability, prudence and effective oversight to maintain the Company's unblemished track record and reputation as one of the most stable and ethical financial institutions in the country.

We are fortified by a sustainable business model, talented and dedicated people at every level of the organization, an effective and clear strategy, ethical and respectful working culture with integrity and transparency at its core. I believe that this solid platform, the Company will continue to create long-term value for our shareholders and propel the Company into the next phase of growth. The Company is committed to rewarding our longstanding shareholders who have been with the Company during tough times.

## Reaching out to say Thank You

I would like to convey my sincere appreciation to our Chairman Mr. Ravi Wijeratne and the Board of Directors for their invaluable advice, guidance, constant support and the confidence placed in me. My heartfelt thanks to my Corporate Management team for their positive attitude, creativity, boundless energy, continuous counsel and advice which has enriched the decisions taken at the top management to drive our strategies for growth and business excellence. I wish to thank the branch managers who continue 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. I am grateful to all our team members for their commitment and dedication and to the families of all employees for the support extended to make our journey a success.

I would like to extend my heartfelt gratitude to our customers for their loyal patronage and shareholders for their unwavering support.

My gratitude is extended to the financial and other regulatory authorities including Central Bank of Sri Lanka, Colombo Stock Exchange, Sri Lanka Accounting and Auditing Standards Monitoring Board for their support and cooperation.

As we navigate through an uncertain future, we remain focused on delivering value to our shareholders on our journey towards sustainable growth.



**Supul Wijesinghe**  
Chief Executive Officer

Colombo  
September 16, 2020

# **MANAGEMENT DISCUSSION & ANALYSIS**

## Economic Outlook & Business Environment

### Overview of Global Economic Environment\*

The COVID-19 pandemic is inflicting high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus. The health crisis is therefore having a severe impact on economic activity. As a result of the pandemic, the global economy is projected to contract sharply by 3% in 2020, much worse than during the 2008–09 financial crisis. In a baseline scenario, which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound, the global economy is projected to grow by 5.8% in 2021 as economic activity normalizes, helped by policy support.

There is extreme uncertainty around the global growth forecast. The economic fallout depends on factors that interact in ways that are hard to predict, including the pathway of the pandemic, the intensity and efficacy of containment efforts, the extent of supply disruptions, the repercussions of the dramatic tightening in global financial market conditions, shifts in spending patterns, behavioral changes, confidence effects, and volatile commodity prices. Many countries face a multi-layered crisis comprising a health shock, domestic economic disruptions, plummeting external demand, capital flow reversals, and a collapse in commodity prices. Risks of a worse outcome predominate.

Effective policies are essential to forestall worse outcomes. The immediate priority is to contain the fallout from the COVID-19 outbreak, especially by increasing health care expenditures to strengthen the capacity and resources of the health care sector while adopting measures that reduce contagion. Economic policies will also need to cushion the impact of the decline in activity on people, firms, and the financial system; reduce persistent scarring effects from the unavoidable severe slowdown; and ensure

that the economic recovery can begin quickly once the pandemic fades.

Many emerging market and developing economies have begun providing significant fiscal support to heavily impacted sectors and workers. Economies facing financing constraints to combat the pandemic and its effects may require external support. Broad-based fiscal stimulus can preempt a steeper decline in confidence, lift aggregate demand, and avert an even deeper downturn. But it would most likely be more effective once the outbreak fades and people are able to move about freely.

The significant actions of central banks in recent past include monetary stimulus and liquidity facilities to reduce systemic stress. These actions have supported confidence and contribute to limiting the amplification of the shock, thus ensuring that the economy is better placed to recover. Strong multilateral cooperation is essential to overcome the effects of the pandemic, including to help financially constrained countries facing twin health and funding shocks, and for channeling aid to countries with weak health care systems.

### Local Environment \*\*

The COVID-19 outbreak has substantially weakened the economic outlook as it exacerbated an already challenging macroeconomic situation of low growth rates and significant fiscal pressures. Inflation remained benign amid weak demand. Annual average inflation measured by the Colombo Consumer Price Index was 4.7 percent in June 2020. Muted inflation and the outbreak of COVID-19 prompted the Central Bank to ease monetary policy several times in the first half of 2020.

The external current account deficit is estimated to have narrowed to 2.2 percent of GDP in 2019, due to a reduction in imports, despite the slowdown in tourism receipts. The issuance of international sovereign bonds (USD 4.4 billion) helped debt repayment. However, reserves are low

relative to short-term external liabilities. The exchange rate remained broadly stable despite depreciation pressures in March and April 2020.

Fiscal accounts deteriorated in 2019. Tax revenues fell due to weak collection of VAT, excise, and import taxes. Meanwhile, expenditures increased due to relief packages adopted after the Easter Sunday attacks and the implementation of expansionary budget proposals in an election year. These factors increased the budget deficit increased to 6.8 percent of GDP.

With a view to raise growth in the medium-term, the new government announced a growth stimulus package in December 2019. It includes tax cuts, increasing the annual VAT registration threshold and debt relief for small and medium enterprises. COVID-19 is likely to worsen fiscal accounts through reduced revenues and increased expenditures related to further fiscal stimulus.

The economy is expected to contract by 3.2 percent in 2020 as the outbreak dampens export earnings, private consumption and investment. The external current account deficit is expected to remain benign thanks to the reduction in oil prices and a deceleration of imports, which will largely offset the reduction in receipts from garment exports, tourism and remittances. Public investment could be reduced to mitigate the impact of revenue shortfalls and create space for additional recurrent expenditures under the stimulus package and for COVID-19 related expenses.

The slowdown in economic activity may trigger sharp jobs and earnings losses. Informal workers who comprise a significant percentage of the workforce and are particularly vulnerable. Social-distancing measures will directly impact services sector activities and extended travel restrictions will hurt tourism. Construction activities slowed down at the start of the year 2020 due to a shortfall of workers and projects are at risk of being stalled. The apparel industry,

\* *World Economic Outlook - April 2020 by International Monetary Fund (IMF)*

\*\* *Sri Lanka Overview - July 2020 by World Bank Group*

which accounts for about half a million jobs has announced significant job cuts due to low global demand and a shortage of raw materials.

Meanwhile, agricultural production is expected to be largely undisrupted, amid government efforts to ramp up domestic production and import substitution. Remittances will fall in response to the global slowdown as well as the recent drop in oil prices, which will adversely impact some poor households. Cash support to beneficiaries of various social protection programs have been announced in response to the fallout from the COVID-19 outbreak.

The immediate challenge is to contain the domestic spread of COVID-19. A prolonged outbreak could lead to further movement restrictions and deeper disruptions in economic and labor market activities. Small and Medium Enterprises will struggle to survive. Sri Lanka is vulnerable to uncertain global financial conditions as the repayment profile requires frequent access to financial markets. A high deficit and rising debt levels could further deteriorate debt dynamics and negatively impact market sentiments.

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

The financial sector expansion and performance slowed down during the year 2019 compared to the previous year mainly due to subdued economic activities and the uncertainty caused by the Easter Sunday attacks and the political instability which prevailed during the year. Banks and other financial institutions, the major segment of the financial sector, exhibited resilience amidst a challenging business environment prevailed both global and domestic contexts, by maintaining capital and liquidity well above the regulatory minimum requirements.

In line with subdued economic activities of the country, the total assets of the banking sector recorded a lower growth in 2019 compared to 2018. The lower growth in

banking sector assets was an outcome of low demand for loans and advances and tightened credit screening by banks due to increasing NPLs. Lower demand for credit resulted in more funds being moved towards risk-free investments such as Treasury bills and Treasury bonds. As a result, year-on-year growth in investments increased considerably. The increase in holdings of risk-free and highly liquid government securities resulted in improvements in the capital adequacy and liquid asset ratios of the banking sector that facilitated to enhance the resilience of the banking sector with regard to unforeseen risks.

Meanwhile, asset quality recorded its lowest level since 2014 while, the profitability of the banking sector, as reflected by the return on assets and equity declined significantly during the year mainly due to the deterioration in assets quality, rise in operating costs and increase in taxes.

The year 2019 was challenging for the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector which showed only a marginal expansion in the asset base while performance of the sector deteriorated with negative credit growth, declining profitability and increase in NPLs. However, the sector as a whole, maintained capital and liquidity buffers well above the regulatory minimum levels. Meanwhile, the NPL ratio increased significantly at the end of 2019, on a year-on-year basis, showing signs of deterioration in the asset quality of the sector.

This was mainly due to slowdown in the economic activities, loss of investor confidence and declined lending activities of the sector. The NPL ratio is expected to rise further with the implementation of Sri Lanka Financial Reporting Standard (SLFRS) 9. The profitability of the sector declined significantly during the year 2019 compared to 2018, mainly due to increased non-interest expenses and higher loan loss provisions against the increasing NPLs.

The Colombo Stock Exchange showed

mixed developments during 2019 amidst adverse developments in domestic and global environments. The market recorded improvements in terms of All Share Price Index (ASPI), market capitalisation, Price Earnings Ratio (PER) and market capitalisation as a percentage of GDP in 2019 while S&P SL 20 index declined during the year and foreign outflow from CSE continued during 2019 albeit at a lower rate than 2018.

Going forward, operations of the banking and non-banking sectors will be challenging in terms of risk management. The increasing trend of NPL ratio and bearing additional provisions for new NPLs have already become challenging to the banking and non-banking sectors. End of the moratoria, which were granted to the tourism and small and medium enterprises in 2019, will upwardly push the NPL ratio and provision requirements of the banking and non-banking sectors. Further, adverse economic impacts of the COVID-19 pandemic would reflect in the financial sector, during the year 2020. Both banking and non-banking sectors are under immense pressure to provide more relief to adversely affected economic sectors due to this pandemic as there is limited fiscal space available to provide such relief to the affected stakeholders of the economy. Therefore, maintaining the stability of the financial sector will be a challenging task in the medium term.

## Performance of Non-Bank Financial Institutions

The non-banking financial institution (NBFIs) sector performance deteriorated during the year, with negative credit growth, declining profitability and increase in NPLs. The slowdown in the sector was mainly due to subdued economic activities, prevailed political uncertainty, lack of investor confidence and security concerns created by the Easter Sunday attacks. Total assets of the sector stood at Rs. 1,432.7 billion by end-December 2019, representing 7.6 per cent of Sri Lanka's financial system. The

\*\*\* 2019 Annual Report - Central Bank of Sri Lanka

sector as a whole remained stable, with capital maintained at healthy levels along with adequate liquidity buffers well above the regulatory minimum levels. Deposits dominated the funding mix, as increased assets were mainly funded through deposits, while borrowings of the sector largely declined compared to the previous year.

At end-2019, the NBFIs sector contributed to the economy by providing enhanced services to the customers and expanding its branch network, thereby promoting financial inclusion in the country. Further technology based products/ services have been introduced to facilitate financial inclusion.

Total asset base of the sector stood at Rs. 1,432.7 billion, which expanded marginally by 0.1 per cent during the year, compared to 5.6 per cent growth reported in 2018. The asset base of the sector mainly consisted of loans and advances which accounted for 77% of the total assets. Finance leases accounted for the major part, representing 53% of the gross loans and advances, followed by other secured loans, representing 37%.

Lending Activities of the sector showed signs of slowing down during 2019. This has been in response to macroprudential policy measures to curtail importation of motor vehicles and lending towards vehicles such as the directions of LTV ratios for credit facilities granted in respect of motor vehicles, prevailed higher market interest rates on lending, sluggish economic and commercial activities due to loss of business confidence which resulted from political instability in the run up to the presidential election and negative sentiments caused by the Easter Sunday attacks. Credit provided by the NBFIs sector declined by 3% to Rs. 1,102.7 billion, compared to the growth of 7.6% in the corresponding period of 2018. Loans and advances portfolio of product categories such as finance leases, secured loans and hire purchases contracted, while pawning advances increased by Rs. 15.5 billion and loans against deposits increased by Rs. 0.6 billion. The investment portfolio of NBFIs comprises investments in equities, capital market debt instruments, government securities and investment properties.

Capital position improved due to the enhancement of regulatory capital requirements. The equity capital of the sector increased by 10.6% which stood at Rs. 203.2 billion by end-2019, mainly on account of the increase in capital due to the steps taken by finance companies to enhance the minimum core capital to meet Rs. 2.0 billion requirements by 1 January 2020.

The credit Risk of the NBFIs sector was reflected through the gross non-performing advances ratio increase to 10.65 at end of 2019 reflecting deterioration in the asset quality of the sector. This is mainly due to the slowing down in economic activities due to the Easter Sunday attacks, declined lending activities of the sector and spillover effects of the Debt Relief Program. The provision coverage ratio slightly deteriorated to 56.6% by end of 2019, compared to 57% reported at end of 2018. With the implementation of SLFRS 9, NPA will rise further which would highlight the significant credit risk of the sector.

The sector continued to experience minimum equity risk. However, in essence, the sector is considered to be largely exposed to interest rate risk.

In response to the maximum interest rates on deposits and debt instruments imposed on finance companies, cost of funds declined and lending rates also reduced to some extent with the new loans and advances granted. Accordingly, interest rate risk of the sector decelerated with the prevailing negative mismatch in the maturity profile of the interest-bearing assets and liabilities.

Equity risk of the sector remained low during the year as exposure to the equity market in the form of investment in listed shares held for trading was minimal at Rs. 14.0 billion, which was only 1% of the total assets of the sector.

The sector maintained adequate liquidity buffers well above the regulatory minimum levels. The overall regulatory liquid assets available in the sector at end-December 2019 indicated a surplus of Rs. 41.6 billion as against the stipulated minimum requirement of Rs. 89.8 billion. The liquidity ratio increased to 11.3% at the end of 2019,

compared to 9.6 per cent recorded at end-December 2018.

Net interest income of the sector during the year was Rs. 117.4 billion, which increased by 7.9%. This was due to the combined effects of increased interest income by 7.6 per cent and increased interest expenses by 7.4%. Net interest margin of the sector increased to 7.7% per cent in 2019 from 7.4% in 2018, due to the combined effects of increased net interest income and increased average assets.

Non-interest income increased by 3.4% mainly due to increase in default charges and other service charges, while noninterest expenses increased by 15.5% affecting sector profitability in an adverse manner. Non-interest expenses increased mainly due to increased administrative expenses and loss on valuation/ disposal of repossessed items. The loan loss provisions made against NPAs during the year was Rs. 30.2 billion, which increased by 16.25 when compared to the provision made in 2018.

The sector posted a profit after tax of Rs. 14.5 billion, a decline of 31.9% per cent compared to the profit recorded in year 2018, mainly due to increased non-interest expenses and higher loan loss provisions. ROA also decreased reporting a ratio of 2.2%, and ROE decreased by reporting a ratio of 7.5% which shows signs of stress in the sector profitability.

The sector remained resilient with capital maintained at healthy levels during the year. The total regulatory capital levels improved by Rs. 22.3 billion in 2019, compared to the figures reported in 2018, mainly due to the enhancement of minimum capital requirement by the Central Bank to Rs. 2.0 billion by January 2020 and Rs. 2.5 billion by January 2021.

## Supervisory and Regulatory Developments

Throughout 2019, the Central Bank introduced several policy measures and prudential regulations to further strengthen the supervisory and regulatory framework of NBFIs for enhancing the soundness of

the sector to preserve customer confidence. A Direction was issued to introduce maximum interest rates on deposits and debt instruments of the NBFIs, considering the high real interest rates on deposits and high rates on lending products observed in the economy and the need to strengthen and expedite monetary policy transmission through the financial system, while enhancing credit flows to the real economy.

The existing LTV Direction issued to LFCs was revised to incorporate the 2019 Budget proposals by allowing higher LTV ratios for light trucks. The earlier 70 per cent LTV ratio in respect to light trucks was revised to an increased ratio of 90 per cent.

The existing Direction on Valuation of Immovable Properties issued to NBFIs was revised. The eligibility criteria for valuers was updated and the frequency of valuation for different categories of assets classes was amended. Accordingly, valuation of residential property which is occupied by the borrower for residential purposes obtained as collateral against loans and advances that are non-performing, shall be carried out in a less than five years frequency, and in respect to all other credit facilities, the valuation shall be carried out in a less than four years frequency. Valuation of immovable property obtained as collateral against loans and advances which are performing, shall be made at the time of initial granting and at a time of any subsequent enhancement of credit facilities. Revaluation of land, and land

& building which are purchased or acquired for the purpose of conducting business which are measured and disclosed in accordance with LKAS stability and 16: Property, Plant and Equipment, and those purchased or acquired as NBFIs investments which are measured and disclosed in accordance with LKAS 40: Investment Property, shall be made in line with the internal policies or depending on any significant volatile changes in fair value.

A Circular was issued to NBFIs in view of mitigating the adverse impact on the tourism sector due to the Easter Sunday attacks. This enabled these institutions to grant a moratorium to individuals and entities who have registered with the Sri Lanka Tourism Development Authority or any other authority/agency to provide services to the tourism sector.

## 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. As the adverse economic effects of Easter Sunday attacks and COVID-19 is expected to continue in 2020, the Company plans to strategise the product mix to achieve a better yield in 2020 and stay resilient. 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 mainly to promote the pawning product in new geographical areas with people who are expected to possess more gold jewellery 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 2020 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.

### 2019 Performance

The challenging business conditions coupled with the slowdown in the country's economy, brought many challenges to the industry as a whole in 2019. Despite these challenging circumstances, the Company performed adequately well in 2019 recording a profit after tax of Rs. 8.67 million and continued to deliver its commitments to shareholders whilst maintaining the quality of the portfolio and other efficiency indicators. Despite the multifaceted headwinds, the recorded profitability was possible due to a focused implementation of a series of strategic initiatives. The 2019 performance was possible due to the solid foundation laid by the Company over past decade during which a sustainable portfolio was built. Through the 2019 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.

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. Technology has been widely used to streamline internal operations and improve efficiency thereby providing a better service to the customer.

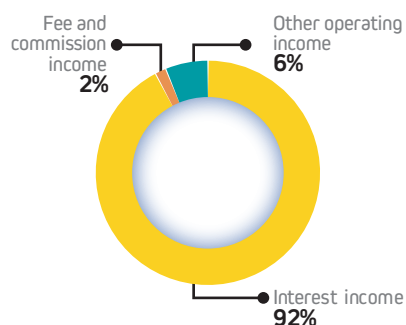
### Income Analysis

The year 2019 showed sluggish improvement in the company's topline by recording an increase of 7% to Rs. 264 million compared to Rs. 246 million in 2018. Despite the challenging business environment, the increase of the topline is

driven by the growth of all three portfolios leases, loans and gold loans. However, in 2019 the Company managed to retain its growth momentum in the gold loans interest income recording a noteworthy increase of 61% when compared with 2018 which was resulted by the 69% strong growth in pawning advance portfolio to Rs. 73.4 million from Rs. 43.4 million.

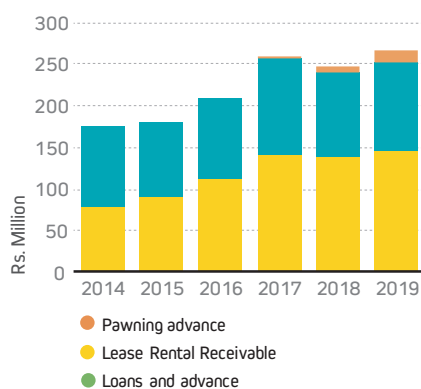
### Income Components

Generally, an extensive proportion of the total income comprises of the interest income. The income proposition recorded for 2019 is at 92% is from interest income, other operating income is at 6% and the fee and commission income is at 2%. It was observed there is no major shift in the income composition of the Company.



### Income Growth

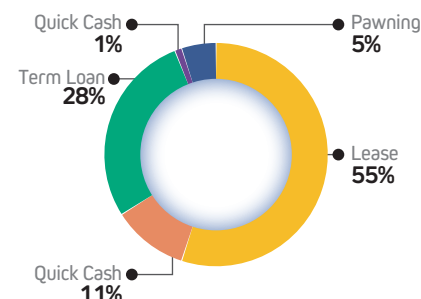
Despite the multifaceted headwinds, the Company has retained its income growth momentum over the last six years with a sluggish growth in 2019.



### Product-wise Interest Income

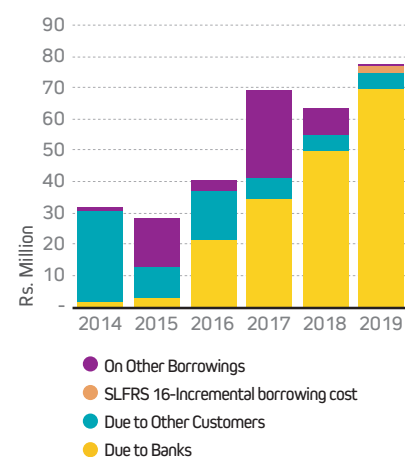
There are no major shifts in the product composition in 2019. Similar to last

year, leasing income made the highest contribution in 2019 followed by term loans and quick cash interest income.



### Interest Expense Components

The total interest expense grew by 22% during the period. Majority of the 2019 loan and lease disbursements were funded through bank loans and as a result the largest portion of the interest expense was on bank loans amounting to Rs. 69.6 million. As a strategic focus, the Company continued to borrow more from banks while negotiating longer repayment periods on equated monthly instalments to keep the cost of its funding lines at manageable levels. During the past six years, focus on borrowings from other sources has reduced and the Company has stopped obtaining securitization which has led to uneven repayment terms in the past which has adversely affected the Company's cash flows. In addition to the above, due to the adoption of the SLFRS 16 a component of interest expense on right of use asset Rs. 2.1 million which is 3% out of the total interest expense has also been included in the interest expense of 2019.

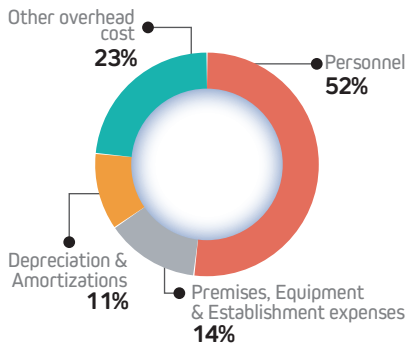


## Net Interest Income

Interest expense increased by a significant 22% relative to 7% growth in interest income to Rs. 264 million, driven by Rs. 17.9 million increase in leasing, loans and pawning portfolios and higher funding costs due to the upward trajectory of interest rates. Resultantly, net interest income grew up only by a 2.2% to Rs. 186.7 million during the year, due to the backdrop of lower macroeconomic activity that prevailed during the year.

## Cost Breakdown

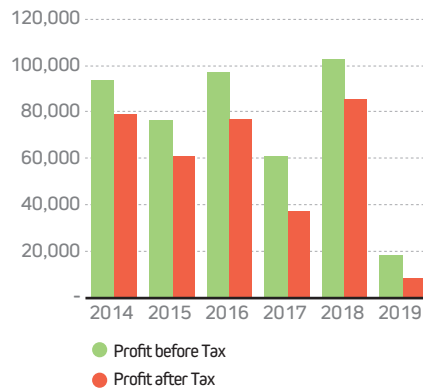
With the challenging economic conditions in the country the rising cost structures were inevitable to the Company's operational dynamics. As a result, the operational expense increase was limited to 4.2% with the heavily focused cost containment done by the management. The rigorous cost monitoring initiatives and improvements to technology are expected to facilitate for cost savings in the future.



## Profitability Trend

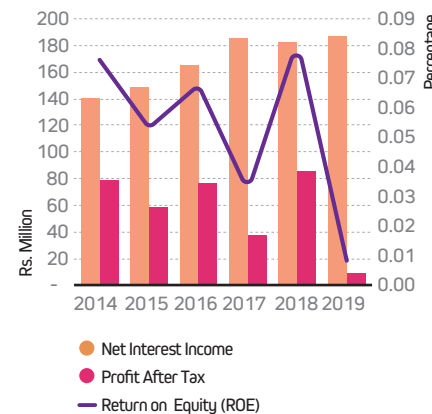
An analysis of profit before tax and profit after tax over the last six years is given below. The Company reported a profit for the year of Rs. 8.7 million for the year 2019 even though the result was less than the budget due to challenging economic and business conditions which prevailed during the year. Our financial performance benefited from 7% increase in the interest income and 11% increase in the non-interest income. The interest income for the year was Rs. 264 million and the non-interest income was Rs. 22.1 million. As a result, our total operating income recorded a solid growth of 3% in 2019 to Rs. 208.9 million. However, the sharp

increase in credit loss expenses eroded the net operating income to Rs. 138 million in 2019.

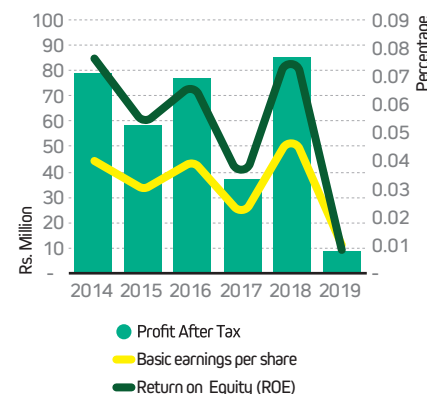


## Return on Equity (ROE)

Return on equity measured using profit after tax, declined from 8% in 2018 to 1% in 2019.

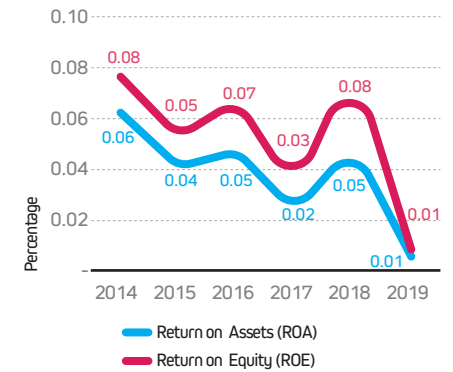


Consequently, to this performance, the earnings of the shareholders have also kept at a positive level ensuring sustained wealth maximization.

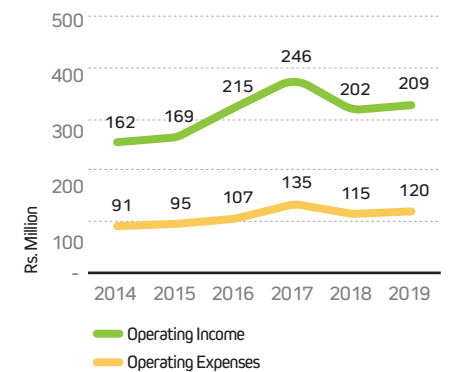


Over the last six years, the Company was able to earn stable returns for the

shareholders. However, in 2019 there is a decrease in earnings due to the adaptation of expected credit loss model which significantly changed the impairment provision fundamentals of the Company.

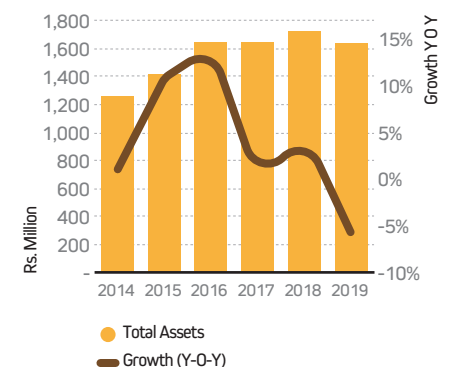


The Company has been able to keep an increasing spread between operating income and expenses despite inflationary and other economic factors.



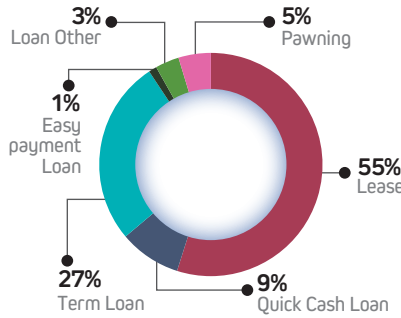
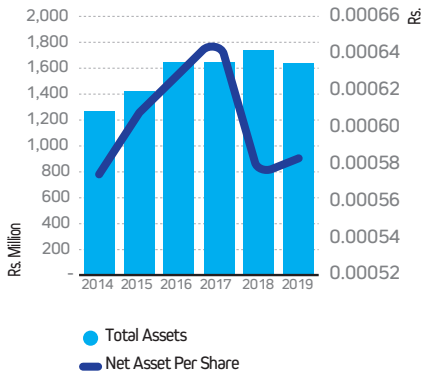
## Asset Growth

The Company's total assets decreased by 5.7% to Rs. 1.63 billion by end of December, 2019 compared with Rs. 1.72 billion by end of December, 2018 due to the conservative policy adopted when disbursing facilities to customers under the slowdown in economic growth, muted earnings, high NPLs and liquidity constraints.



### Net Asset Per Share

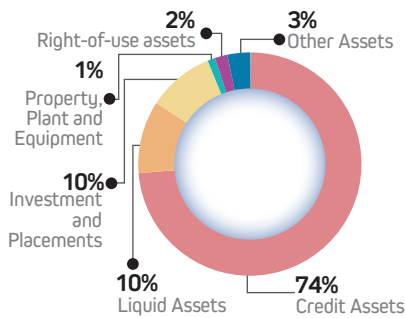
In 2019, net asset per share increased from Rs. 0.57 to Rs.0.59 in the mid of extremely adverse economic and market conditions.



Leasing continues to be company’s mainstay while being 55% of the portfolio and greater focus is placed on granting asset backed facilities to maintain high standards of credit quality. In 2019 company deployed increased resources to expand the Quick Cash portfolio and the pawning portfolio. Compared to 2018 in 2019 Quick Cash portfolio has grown by a moderate 14% to 139.9 million and pawning by a significant 69% to 73.4 million. Also, the Company strengthened its presence in the Negombo and Deniyaya areas leading to deeper penetration.

### Asset Composition

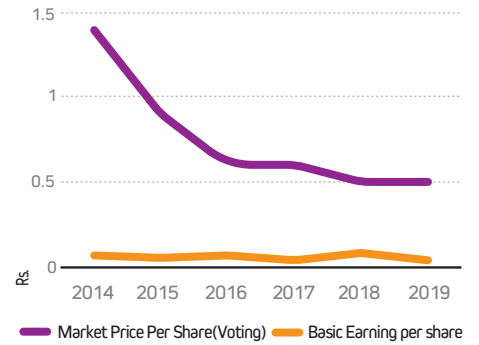
The Company’s asset composition didn’t have any major shifts from 2018 except for slight dips in credit assets, liquid assets and other assets. A new asset is included in 2019 due to the recognition of the Rs. 30 million right of use asset that resulted from the adoption of SLFRS 16. Though the Company’s balance sheet tilted more towards credit assets, the liquidity position remained comfortable at the end of 2019.



The new growth strategies implemented for 2019 were extensively centered on collateral-based lending. 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.

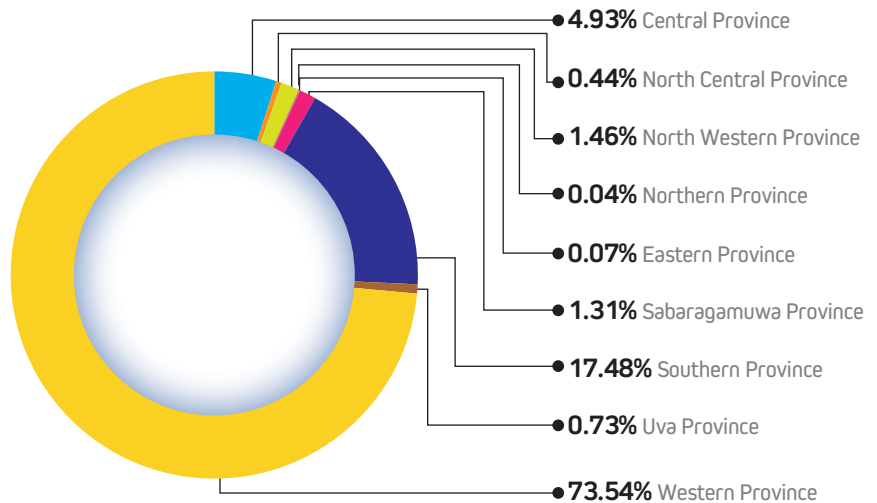
### Market Price Analysis

In 2019, market price per voting share increased from 60 Cents from 70 Cents and price earnings per share increased to 110 from 18.96. This incline was mainly due to the decreased level of earnings per share from 5 Cents to 1 Cent in 2018 and 2019 respectively.



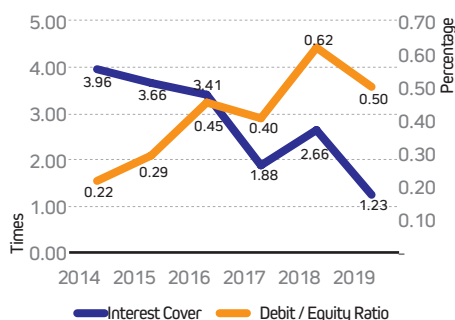
### Geographical analysis of customers

Larger segment of the Company’s customers is from the Western Province which is amounting to 73%, followed closely by the Southern Province amounting to 17%. 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

In 2019 debt/equity ratio decreased to 50% from 62% in 2018. Further, during the 2019, interest cover ratio decreased from 2.63 times to 1.23 times as a result of lower level of interest expense and increased level of earnings in 2019 when compared with 2018.



## Shareholders' Funds

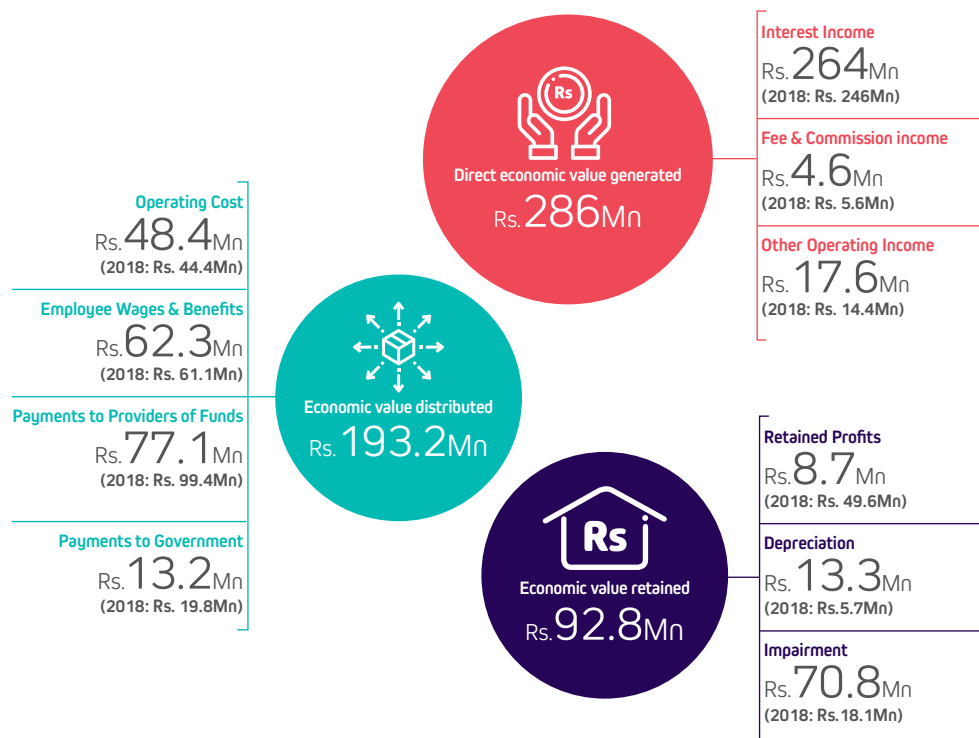
Shareholders' funds at the end of the year increased by 2% and stood at Rs. 1,056 million. Retained earnings for the period grew by 12% to Rs. 82.38 million. SMB Leasing PLC continues to focus on creating value to shareholders who are a critical stakeholder of the Company. The successful achievement of growth over the past years, and further progress made during the financial year under review despite the company considering this one of the most challenging years of operations showcases our commitment to achieve success always without compromising on our ethical business practices and while maintaining financial stability of business operations to continue into the future.

## Looking Forward

Going by its performance in 2019, the Company was well poised to deliver stronger growth in 2020 through greater customer engagement and focused marketing efforts. However, amidst the emerging developments from the impact of the COVID-19 pandemic, the Company foresees some shortfalls in meeting strategies and making progress in the short to medium terms. However, strength of our strategies and future plans bodes well for recovery and growth of the Company in the long term. While managing fluctuating operating conditions amidst economic disruptions, SMB Leasing PLC will also continue to focus on meeting the required financial compliances and new regulatory requirements as set out to maintain our standing as a leading leasing company in the industry.

## Direct Economic Value Generated and Distributed

Direct economic value generated and distributed (DEVG&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.



	2019		2018	
<b>Generated</b>	<b>286,010,475</b>	<b>100%</b>	<b>265,974,785</b>	<b>100%</b>
Interest income	263,851,434		245,975,164	
Fee & commission income	4,600,963		5,587,169	
Other operating income	17,558,078		14,412,452	
<b>Distributed</b>	<b>193,212,767</b>	<b>68%</b>	<b>228,719,169</b>	<b>86%</b>
Operating costs	44,390,261	16%	48,415,042	18%
Employee wages and benefits	62,264,147	22%	61,086,467	23%
<b>Payments to providers of capital</b>				
- Dividends to shareholders	-	-	36,116,657	14%
- Interest payments for borrowings	77,119,258	27%	63,338,977	24%
<b>Payments to government</b>				
- Tax on financial services	13,208,106	5%	19,762,026	7%
- Income tax	(3,769,004)	-1%	-	-
<b>Retained</b>	<b>92,797,708</b>	<b>32%</b>	<b>37,255,615</b>	<b>14%</b>
Retained profit for the year	8,665,069	3%	49,625,139	19%
Depreciation	13,325,744	5%	5,688,593	2%
Impairment (reversal) /charge	70,806,894	25%	-18,058,117	-7%

## 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

HR policy framework has been 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.

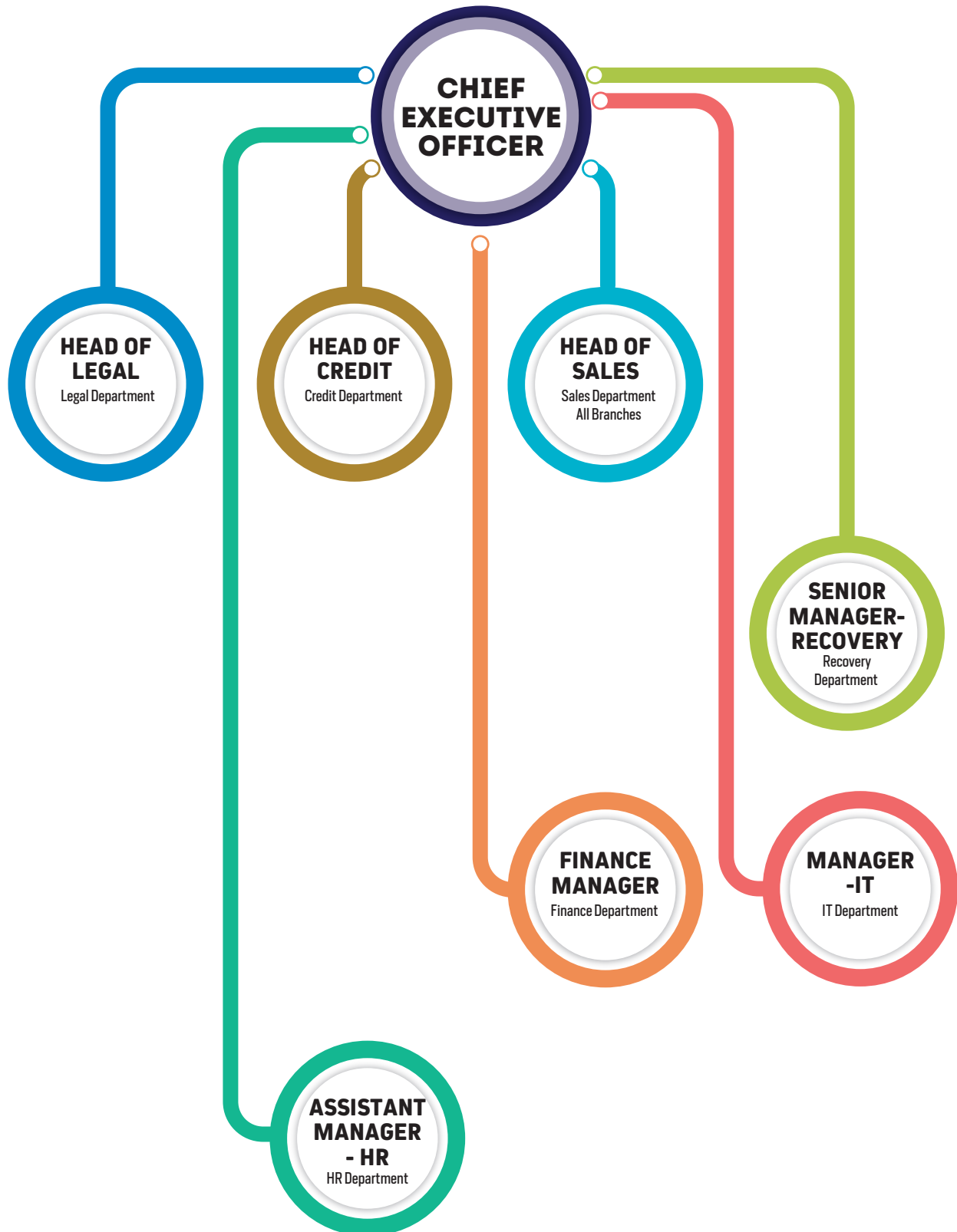
All employees are expected to display integrity at all times and to act ethically in whatever they do. The HR policies uphold equality in the workplace, giving everyone the opportunity to work in a respectful working environment. Company has adhered to labour laws and regulations and complied with all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

### Our Team

A 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 fulltime employment with a few on contracts where the need is likely be for a specific time.

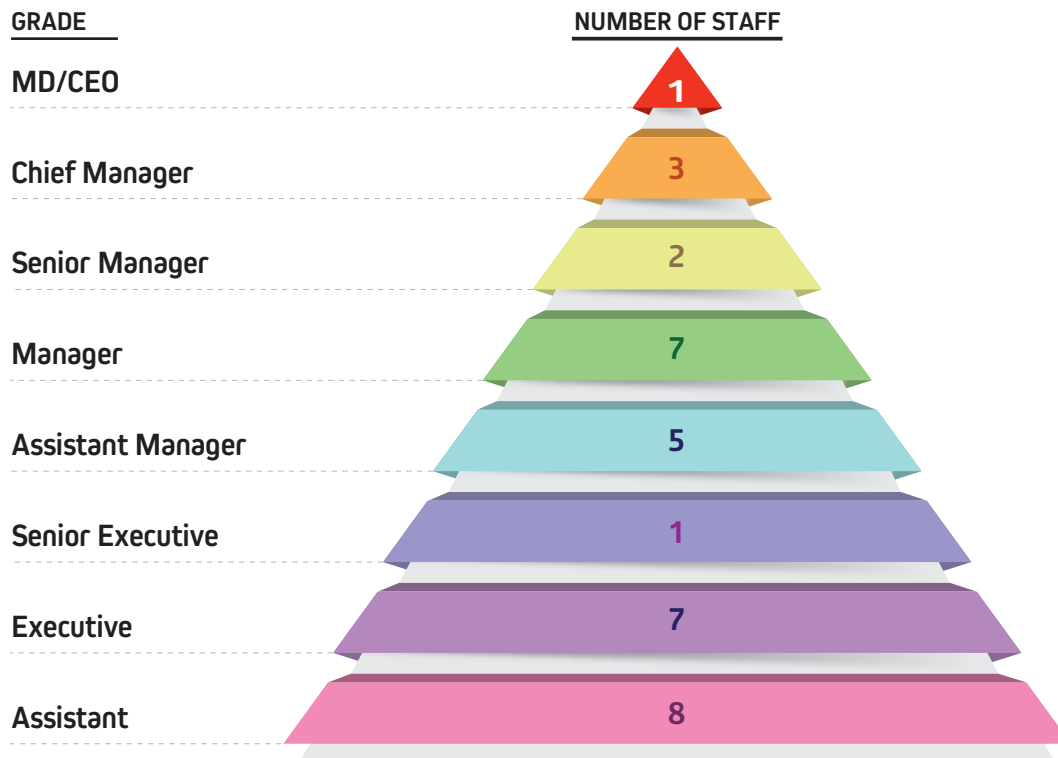
## High Level Organization Structure with Departmental / Functional Responsibilities

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.



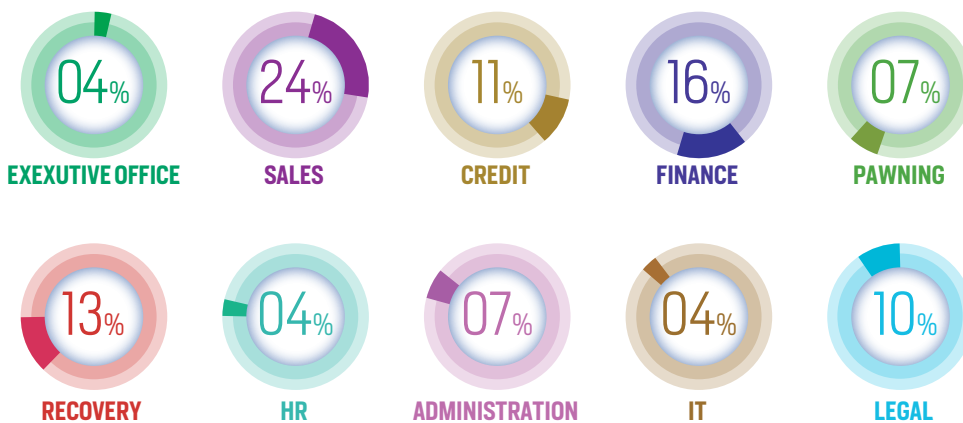
## Employee Grades

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.



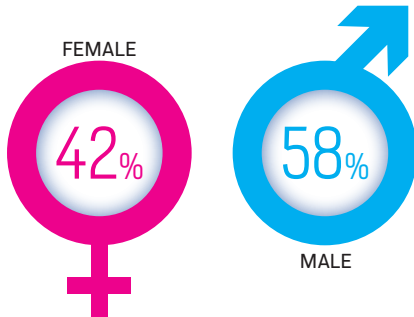
## Staff by Department

Our team as at December 31, 2019 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.



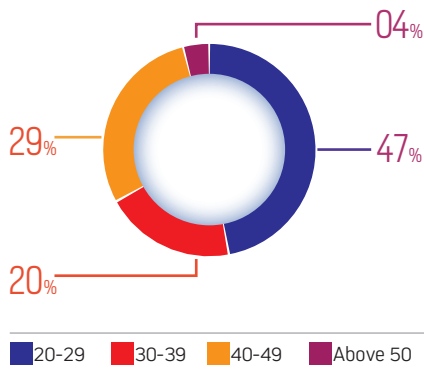
## Employee Demographics

### Gender Representation



SMBL is an equal opportunity employer and this has enabled the Company to maintain a fair balance of employees in Credit 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.

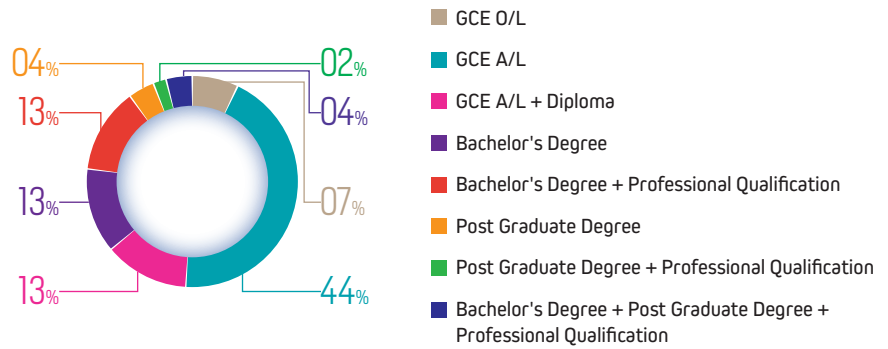
### Age of Employees



In terms of workforce age, SMBL is fortunate to have a wellbalanced 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 the recent past to boost the talent pool of the Company and the management believes in nurturing and

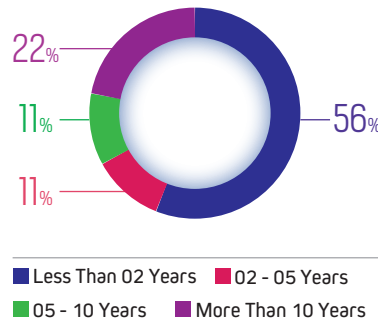
training the educated youth of Sri Lanka to take on the leadership positions in the organization in the future.

### 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 to 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 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 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) are incorporated into performance targets to monitor performance of employees. SMBL conducts formal annual performance appraisals across all departments to monitor staff performance against pre-defined KPIs 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 a worldwide personal accident insurance paid by the company.

### Salary advance

Employees who are confirmed are eligible to

apply for a salary advance up to one month's salary.

### 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 fosters 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 2019.

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 adopts a people-centric culture across all departments which facilitates 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



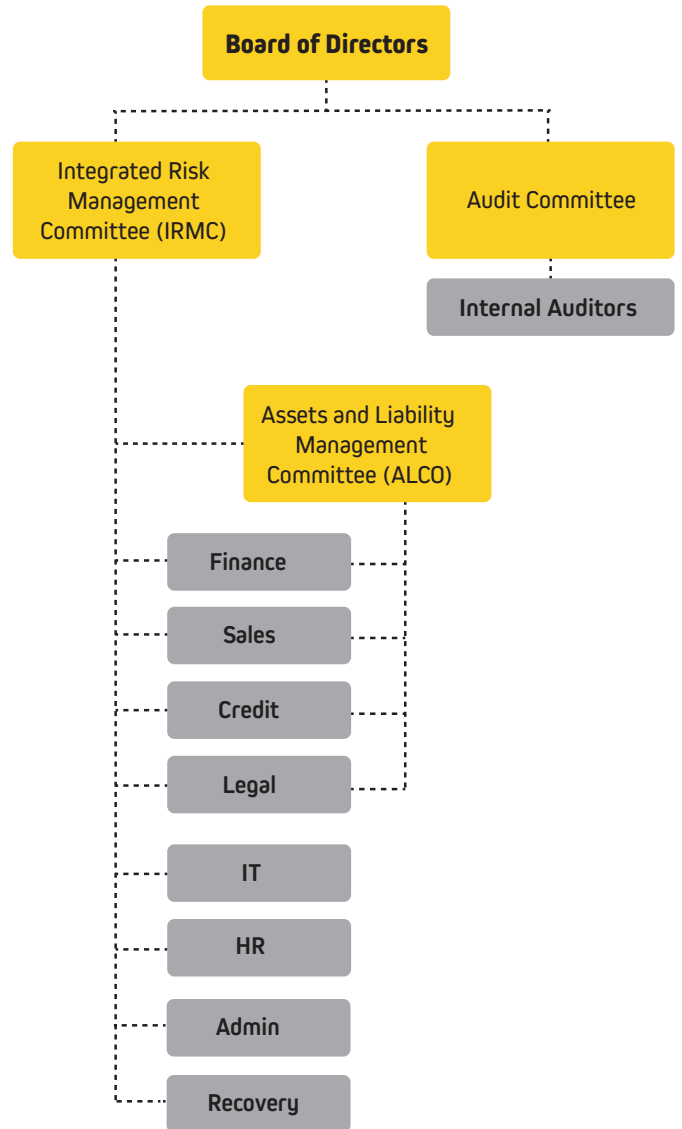
The primary responsibility for Integrated Risk Management lies with the Board of Directors. As delegated by the Board of Directors, the Integrated Risk Management Committee (IRMC) reviews and assesses the adequacy and effectiveness of the risk management policy of the Company.

The Integrated Risk Management Committee (IRMC) consists of Committee Chairman, CEO, CFO, Compliance Officer 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.

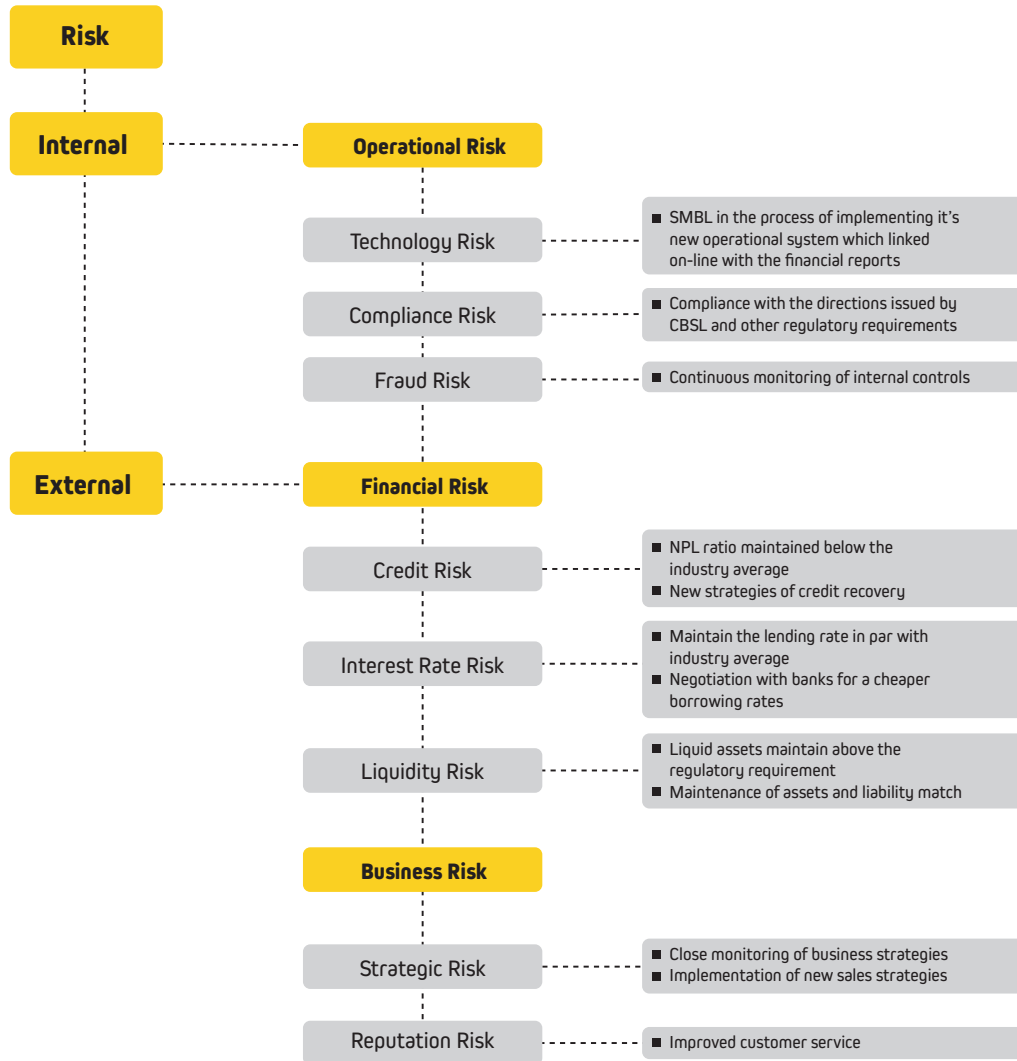
### The Company’s Risk Management Structure



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 2019 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 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 Investors Information

### Twenty Largest Ordinary (Voting) Shareholders as at December 31, 2019

Ordinary voting shares	2019		Comparative holdings of the top 20 holders in 2018	
	No. of Shares	%	No. of Shares	%
1 Sampath Bank PLC/Dr. T Senthilverl	268,705,956	22.55	354,511,349	29.75
2 Mr. H. R. S Wijeratne	194,882,451	16.35	194,882,451	16.35
3 Standard Chartered Bank Singapore S/A HL Bank Singapore Branch	94,416,100	7.92	94,416,100	7.92
4 Seylan Bank PLC/Senthilverl Holdings (Pvt) Ltd	85,805,393	7.20	N/Q	N/Q
5 Mrs. S. A. Fernando	27,127,552	2.28	47,956,558	4.02
6 Sampath Bank PLC/Mr. Arunasalam Sithampalam	25,000,000	2.10	N/Q	N/Q
7 Mr. W. Gunaratne	20,316,206	1.70	22,316,206	1.87
8 Mr. R. Gautam	17,670,000	1.48	17,620,000	1.48
9 Commercial Bank of Ceylon / Andaradeniya Estate (Private) Limited	16,470,674	1.38	N/Q	N/Q
10 Seylan Bank PLC/ Jayantha Dewage	15,157,671	1.27	15,157,671	1.27
11 Mr. H. K. Pushpakumara	13,771,909	1.16	11,943,794	1.00
12 Sinharaja Hills Plantation (Pvt) Limited	13,000,000	1.09	13,000,000	1.09
13 Mr. B. L. Jayaratne & Dr. Y. S. Liyanage	12,992,895	1.09	7,255,995	0.61
14 Hatton National Bank PLC / Arunasalam Sithampalam	12,880,242	1.08	12,880,242	1.08
15 Miss. W. N. C. Fernando	11,855,879	0.99	13,455,879	1.13
16 Sampath Bank PLC/Capital Trust Holdings Limited	11,089,524	0.93	N/Q	N/Q
17 Mr W. Jinadasa	10,815,820	0.91	10,815,820	0.91
18 Mr. S. D. R. Arudpragasam	7,000,000	0.59	5,000,000	0.42
19 Mr. R. E. Rambukwella	6,270,415	0.53	N/Q	N/Q
20 Mrs. K. S. Yapa	6,000,000	0.50	6,000,000	0.50
<b>Total shares held by the top 20 holders – 2019</b>	<b>871,228,687</b>	<b>73.10</b>	-	-
Balance shares held by other ordinary voting shareholders – as at December 31, 2019	320,538,085	26.90	-	-
<b>Total ordinary voting shares,</b>	<b>1,191,766,772</b>	<b>100.00</b>	-	-

### Twenty Largest Ordinary (Non Voting) Shareholders as at December 31, 2019

Ordinary non-voting shares	2019		Comparative holdings of the top 20 holders in 2018	
	No. of Shares	%	No. of Shares	%
1 Mr. R. Gautam	52,200,000	8.50	50,000,000	8.14
2 Sampath Bank PLC/Dr. T. Senthilverl	40,171,815	6.54	47,171,815	7.68
3 Mr. H. K. Pushpakumara	27,795,728	4.53	24,932,072	4.06
4 Mr. M. L. A. Benedict	17,734,100	2.89	17,734,100	2.89
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	12,271,566	2.00
7 Waddock Mackenzie Ltd / Mr. S. A. Gulamhusein	11,429,880	1.86	11,429,880	1.86
8 Hatton National Bank PLC/Anjula Chamila Jayasinghe	8,469,815	1.38	N/Q	N/Q
9 Seylan Bank PLC/Senthilverl Holdings (Pvt) Ltd	6,987,400	1.14	N/Q	N/Q
10 Miss. S. Durga	6,371,674	1.04	6,371,674	1.04
11 People's Leasing & Finance PLC/Dr. H. S. De Soysa & Mrs. G. Soysa	6,114,598	1.00	5,614,598	0.91
12 DFCC Bank PLC/T. L. Samarawickrama	6,000,000	0.98	N/Q	N/Q
13 Mr. S. D. Divakarage	5,670,666	0.92	4,670,666	0.76
14 Seylan Bank Limited/Ruwan Prasanna Sugathadasa	5,589,995	0.91	N/Q	N/Q
15 Mr. J. J. Ravindran	5,240,000	0.85	5,240,000	0.85
16 Mr. J. A. W. Victoria	5,145,289	0.84	5,756,462	0.94
17 Mr. W. J. D. Benedict	5,100,000	0.83	5,100,000	0.83
18 Acuity Partners (Pvt) Ltd / Mr. S. N. M. Semasinghe	4,997,932	0.81	4,997,932	0.81
19 Sampath Bank PLC / Mr. Abishek Sithampalam	4,869,460	0.79	N/Q	N/Q
20 Mr D. H. G. U. P. Ubayawansha	4,513,892	0.74	7,269,720	1.18
<b>Total shares held by the top 20 holders – 2019</b>	<b>253,195,290</b>	<b>41.23</b>	-	-
Balance shares held by other ordinary non-voting shareholders – as at 31 December 2019	360,870,811	58.77	-	-
<b>Total ordinary voting shares</b>	<b>614,066,101</b>	<b>100.00</b>	-	-

N/Q- Not qualify for Top 20 Shareholders in 2018

## Directors' and CEO's Shareholding as at December 31, 2019

Name	Position	Type of share	2019		2018	
			No. of Shares	% of Holdings	No. of Shares	% of Holdings
Mr. H. R. S. Wijeratne	Chairman - NED	Voting	194,882,451	16.35	194,882,451	16.35
		Non Voting	-	-	-	-
Mr. U. Gautam *	INED	Voting	-	-	-	-
		Non Voting	-	-	-	-
Mr. T. M. Wijesinghe	INED	Voting	-	-	-	-
		Non Voting	-	-	-	-
Mr. A. T. S. Sosa	INED	Voting	1,000	0.00	1,000	0.00
		Non Voting	-	-	-	-
Mr. M. S. A. Wadoo	INED	Voting	-	-	-	-
		Non Voting	-	-	-	-
Mr. L. Abeyasinghe**	INED	Voting	-	-	-	-
		Non Voting	-	-	-	-
Mr. M. J. N. S. Fernando ***	CEO	Voting	3,940	0.00	3,940	0.00
		Non Voting	-	-	-	-
Mr. S. C. Wijesinghe ****	CEO	Voting	-	-	-	-
		Non Voting	-	-	-	-

\* Mr.U Gautam -ceased to be a Director w.e.f September 29, 2019

\*\* Mr.L.Abeyasinghe was appointed with effect from October 21,2019

\*\*\* Mr.M.J.N.S Fernando was resigned with effect from December 31,2019

\*\*\*\* Mr.S.C Wijesinghe was appointed as CEO with effect from January 1,2020

NED - Non-Executive Director

INED - Independent Non-Executive Director

## Share Information

	2019	2018
<b>Book Value</b>		
Net Assets per Share-Group (Rs)	0.59	0.58
<b>Share Prices</b>		
<b>Ordinary Shares-Voting</b>		
Highest (Rs.)	0.70	0.60
Lowest (Rs.)	0.40	0.40
Last Traded (Rs.)	0.50	0.50
<b>Ordinary Shares-Non Voting</b>		
Highest (Rs.)	0.40	0.30
Lowest (Rs.)	0.20	0.20
Last Traded (Rs.)	0.30	0.20
<b>Earnings</b>		
Basic Earnings Per Share (Rs.)	0.01	0.05
Price Earning Ratio (Times)	110.00	18.96
Dividend per share	-	0.02
Dividend pay out ratio	-	0.42
<b>Frequency of Shares Traded</b>		
Number of Shares Traded		
Voting	232,094,876	155,675,861
Non Voting	106,856,429	58,761,802
<b>Number of Transactions</b>		
Voting	3,473	3,005
Non Voting	2,104	1,407
<b>Total Number of Shareholders</b>		
Voting	9,766	9,869
Non Voting	4,343	4,340
<b>Total Number of Public Shareholders</b>		
Voting	9,763	9,866
Non Voting	4,343	4,340
<b>Percentage of Public holding</b>		
Voting	83.65%	83.65%
Non Voting	100.00%	100.00%
<b>Float adjusted market capitalization</b>		
SMB Leasing PLC Value (Rs.Million)	498	498
<b>Solvency and Debt Capital</b>		
Debt to equity ratio (Times) -Group	0.48	0.59
Tier 1 capital ratio (%)	48.23	52.91
Total capital ratio (%)	45.72	52.91
Interest cover (Times) -Group	1.28	2.81
Current ratio (Times) -Group	2.4	1.8

### Minimum Public Holding Requirement -

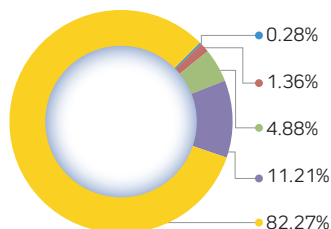
The company is in compliance with Option 5 of Section 7.13.1 (a) of the Listing Rules of the Colombo Stock Exchange pertaining to minimum public holding.

## Distribution of shareholders

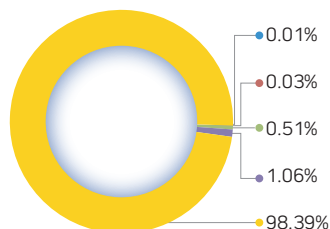
### Ordinary Voting-Shareholding as at December 31,2019

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	4,657	3,126,499	0.28	10	4,325	0.01	4,667	3,130,824	0.26
1,001 to 10,000	3,199	14,633,133	1.36	6	36,590	0.03	3,205	14,669,723	1.23
10,001 to 100,000	1,419	52,439,218	4.88	13	595,341	0.51	1,432	53,034,559	4.45
100,001 to 1,000,000	373	120,535,239	11.21	3	1,233,000	1.06	376	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
<b>Total</b>	<b>9,730</b>	<b>1,075,634,049</b>	<b>100.00</b>	<b>36</b>	<b>116,132,723</b>	<b>100.00</b>	<b>9,766</b>	<b>1,191,766,772</b>	<b>100.00</b>

Ordinary Voting- Resident



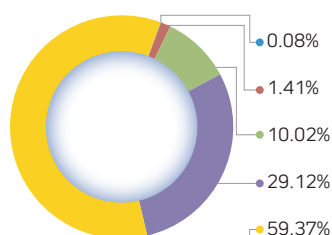
Ordinary Voting- Non Resident



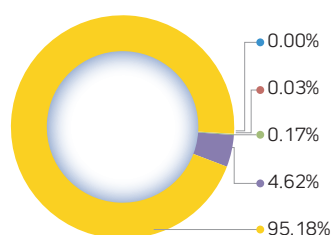
### Ordinary Non-voting Shareholding as at December 31,2019

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	1,019	459,369	0.08	3	275	0.00	1,022	459,644	0.07
1,001 to 10,000	1,412	7,738,225	1.41	3	17,000	0.03	1,415	7,755,225	1.26
10,001 to 100,000	1,294	54,999,418	10.02	4	109,935	0.17	1,298	55,109,353	8.97
100,001 to 1,000,000	508	159,908,689	29.12	7	3,002,400	4.62	515	162,911,089	26.53
1,000,000 & above	87	326,006,990	59.37	6	61,823,800	95.18	93	387,830,790	63.16
<b>Total</b>	<b>4,320</b>	<b>549,112,691</b>	<b>100.00</b>	<b>23</b>	<b>64,953,410</b>	<b>100.00</b>	<b>4,343</b>	<b>614,066,101</b>	<b>100.00</b>

Ordinary Non Voting- Resident



Ordinary Non Voting- Non-Resident

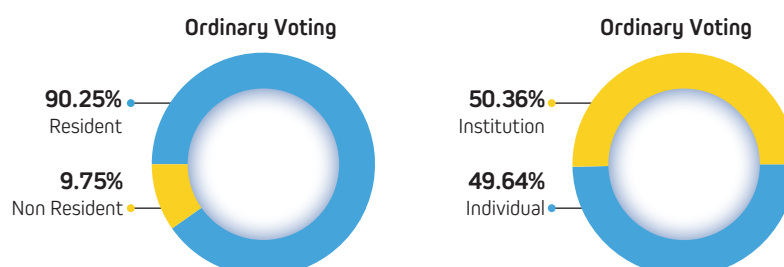


## Composition of Shareholders

### Ordinary Voting Shares

	31.12.2019			31.12.2018		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
Resident	9,730	1,075,584,049	90.25	9,833	1,075,634,049	90.26
Non-Resident	36	116,182,723	9.75	36	116,132,723	9.74
<b>Total</b>	<b>9,766</b>	<b>1,191,766,772</b>	<b>100.00</b>	<b>9,869</b>	<b>1,191,766,772</b>	<b>100.00</b>
Individual	9,588	591,645,753	49.64	9,686	616,453,646	51.73
Institution	178	600,121,019	50.36	183	575,313,126	48.27
<b>Total</b>	<b>9,766</b>	<b>1,191,766,772</b>	<b>100.00</b>	<b>9,869</b>	<b>1,191,766,772</b>	<b>100.00</b>

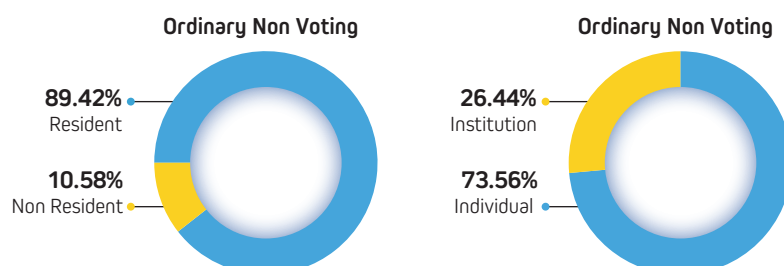
The percentage of Ordinary Voting Shares held by the public was 83.65% of the issued share capital as at December 31, 2019



### Ordinary Non-Voting Shares

	31.12.2019			31.12.2018		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
Resident	4,320	549,112,691	89.42	4,317	551,312,691	89.78
Non-Resident	23	64,953,410	10.58	23	62,753,410	10.22
<b>Total</b>	<b>4,343</b>	<b>614,066,101</b>	<b>100.00</b>	<b>4,340</b>	<b>614,066,101</b>	<b>100.00</b>
Individual	4,242	451,681,087	73.56	4,241	463,201,162	75.43
Institution	101	162,385,014	26.44	99	150,864,939	24.57
<b>Total</b>	<b>4,343</b>	<b>614,066,101</b>	<b>100.00</b>	<b>4,340</b>	<b>614,066,101</b>	<b>100.00</b>

The percentage of Ordinary Non Voting Shares held by the public was 100.00% of the issued share capital as at 31st December 2019.



# **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. Gautam ceased to be a Director with effect from September 29, 2019 pursuant to the provisions of Section 4(2) of the Finance Leasing (Corporate Governance) Direction No. 4 of 2009 issued by the Central Bank of Sri Lanka.

### 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.

### Mr. Shardha Sosa Independent Non-Executive Director

Mr. Shardha Sosa is an Associate 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. He 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 Court 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.

## Board of Directors

### **Mr. Lolitha Abeysinghe**

#### **Independent Non-Executive Director**

Mr. Lolitha Abeysinghe is the Managing Director of Chelinaa Capital Corporation. He has a Masters Degree in Business Administration and a Diploma in Marketing. He is also a Fellow at Toronto Centre, Canada in Securities Regulations. Mr. Abeysinghe is also a former Commissioner of the Securities and Exchange Commission of Sri Lanka.

Mr. Abeysinghe joined the Board of SMB Leasing PLC as an Independent Non-Executive Director in 2019.

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## 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.

Mr. 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. Mr. 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, Mr. 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.

Mr. Sumedha counts for over 34 years' experience in the Financial Service Sector with specified expertise in leasing and factoring.

Mr. Sumedha Fernando retired from SMB Leasing PLC on December 31, 2019.

### Mr. Supul Wijesinghe Chief Executive Officer

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 is a Fellow Member of the Chartered Institute of Management Accountants – United Kingdom, Fellow Member of the Association of Chartered Certified Accountants – 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, Mr. Supul joined The World Bank as a Financial Management Specialist and worked in Bank's operations in Sri Lanka, Maldives and Pakistan for over 6 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 as the Chief Financial Officer & Head of Strategy. He was appointed as the Chief Executive Officer with effect from January 1, 2020.

Mr. Supul counts for over 22 years' experience in audit, risk management, financial management, strategic planning, business transformation, compliance, treasury, and performance analysis. He is presently serving as a Director of Financial Ombudsmen of Sri Lanka (Guarantee) Limited

### 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.

Mr. 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. 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.

### Ms. Ayesha Weerakondarachchi Head of Legal

Ms. Ayesha is an Attorney-at-Law by profession. She is also a Notary Public for the judicial zone of Colombo, Company Secretary and a Commissioner for Oaths.

Ms. Ayesha started her career as the Associate Lawyer at Paul Ratnayake Associates in 2005 and was promoted as an Instructing Attorney in 2007. In 2010, Ms. Ayesha moved to UK and joined Palis Solicitors in London where she handled legal matters relating to immigration and housing. After working in UK for over 5 years she returned to Sri Lanka in 2015 and joined Daya Group (Pvt) Ltd as the Group Legal Officer. Prior to joining SMB Leasing PLC in December 2019, Ms. Ayesha worked as the Group Head of Legal at IWS Holdings Group.

In a legal career spanning over 15 years, Ms. Ayesha has appeared for numerous cases in Magistrate's Courts, District Courts, 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, debt recovery, drafting and preparation of appeals, labour laws, arbitration and providing legal submissions to the Boards of Directors.

### 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.

Mr. 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 20 years' experience in banking, leasing, hire purchase and credit management.

### **Mr. Harsha Kahingala** **Senior Manager – Recovery**

Mr. Harsha has a Diploma in Banking and Finance from the Institute of Bankers of Sri Lanka.

Mr. Harsha started his career in 1994 at Sampath Bank PLC as a Junior Executive and was subsequently promoted to the positions of Branch Operations Officer, Executive – Recoveries and Branch Manager. In 2008 he joined Commercial Bank International (CBI) in Dubai as Manager – Credit Documentation. In 2019 Mr. Harsha joined SMB Leasing PLC as Senior Manager – Recovery.

In a career spanning over 25 years, Mr. Harsha has experience in collections, recovery, business process reengineering and credit administration.

### **Ms. Thanuja Wimalasiri** **Finance Manager**

Ms. Thanuja holds a MBA from the Postgraduate Institute of Management (PIM) and an Associate Member of the Chartered Institute of Management Accountants (CIMA) – United Kingdom. Also, she is a Bachelor of Science (Bsc) from the University of Colombo.

Ms. Thanuja started her career in 2006 as an Accounts Associate at WNS and then moved to Gateway Group as a Senior Accounts Executive. In 2008 Ms. Thanuja moved to Dialog Axiata PLC as a Finance Executive and in 2012 she joined to Maga Neguma Road Construction (Pvt) Limited as a Finance Manager. She was promoted as a Senior Finance Manager in charge of corporate planning and strategy in 2017, a position which she held till joining SMB Leasing PLC in 2019.

Ms. Thanuja has over 14 years' experience in accounting, financial management, corporate planning and strategy.

### **Ms. Niluka Perera** **Manager – Compliance**

Ms. Niluka is an Associate Member of the Institute of Bankers of Sri Lanka and holds a Certificate in Business Accounting from the Institute of Chartered Accountants of Sri Lanka. Also, she is an Associate Member of the Association of Accounting Technicians of Sri Lanka.

Ms. Niluka started her career at KPMG where she last served as a Senior in Charge and joined SMB Leasing PLC in 2011 as an Assistant Accountant. In 2017 she was promoted as an Accountant. In January 2020, Ms. Niluka was designated as Manager – Compliance and serves as the dedicated compliance officer of the Company.

She has over 14 years' experience in auditing, accounting, financial management, banking, compliance, risk management and taxation.

### **Mr. Dickson Gunathilake** **Manager – Information Technology**

Mr. Dickson has a Diploma in AS 400 Operating System, SQL 400, Query 400 & IMAS 400 from Golden Key Software Solutions Ltd. Mr. Dickson started his career in 1992 as a Data Controller at Golden Key Credit Card and was promoted to the positions of Computer Operator, System Operator, Data Processing Executive and Senior Data Processing Executive. Then he moved to Golden Key Software Solutions Ltd as a Software QA Engineer in 2005 and was promoted to the position of Senior Software QA Engineer. Mr. Dickson joined Seylan Merchant Bank in May 2009 as Assistant Manager – IT. He was promoted as Manager – IT of SMB Leasing PLC in 2016.

He has over 28 years' experience in credit card operations, data processing, software projects, system implementation, quality assurance, pawning systems, AS400, IMAS, eIMAS, InBank and SkyBank.

### **Ms. Rasani Kapukotuwa** **Assistant Manager – Human Resources**

Ms. Rasani holds a Bachelor of Arts Degree from the University of Kelaniya with First Class Honours and is an Associate Member of the Chartered Institute of Personnel Management (CIPM). Ms. Rasani started her career in 2008 at National Olympic Committee of Sri Lanka as an Executive Officer and then moved to Distilleries Company of Sri Lanka PLC in 2013 as a Junior Human Resources Executive and was promoted to the position of Human Resources Executive. Ms. Rasani joined SMB Leasing PLC in 2017 as Assistant Manager – Human Resources.

She counts for over 10 years' experience in human resources management including recruitment, performance management, training and development, compensation, employee relations and strategic human resources planning and implementation. Ms. Rasani was a key member in the organizational transformation that was initiated in 2017 by the HR Department based on a Board decision to align the HR Department with Corporate Strategy Function which redefined the HR policies, organizational culture and working environment.

## Branch Management

### Mr. Kumar Munasinghe

#### Senior Manager – Deniyaya Branch

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

Mr. 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. Mr. Kumar then moved to Softlogic Finance PLC as a Senior Sales Manager. Mr. Kumar worked as a Regional Sales Head at Orient Finance PLC until joining SMB Leasing PLC. Mr. Kumar has over 21 years of sales experience in leasing, loans and pawning.

### Mr. Roshan Buultjens

#### Manager – City Office Branch/Manager – Pawning

Mr. Roshan holds a Diploma in Gemology from the Association of Gemology in Sri Lanka.

Mr. Roshan started his career in 1995 at Swarna Mahal Jewellers (Pvt) Ltd and moved to Ceylinco Diamond Trading in 2006. Thereafter he joined The Standard Credit Finance Ltd as an Assistant Manager in 2010. Prior to joining SMB Leasing PLC in 2017, Mr. Roshan worked as an Assistant Manager at Multi Finance PLC.

Mr. Roshan has over 23 years' experience in pawning and gold loans

### Mr. Prasanna Herath

#### Branch in Charge – Negombo Branch

Mr. Prasanna started his career in 2000 with Darley Butler & Company as a Sales Representative. In 2006, he joined Seylan Merchant Leasing PLC as Assistant Business Promotion Executive and left services in 2009 as Branch In-Charge of Kelaniya Branch. In 2010 he joined Wins Technology Lanka (Pvt) Ltd as a Sales Executive and was subsequently promoted to the position of Assistant Manager. He joined SMB Leasing PLC in April 2019 as Branch In-Charge of the Negombo Branch.

## 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 September 16, 2020.





## Governance Principles and Activities

### The Board of Directors



#### Composition

The Board comprises of five Non- Executive Directors of whom four 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, 2019 was as follows.

<b>No. of Members</b>	5	
<b>Executive</b>	Nil	—
<b>Non Executive</b>	5	
<b>Independent</b>	4	
<b>Non Independent</b>	1	




#### Gender Representation

 <b>Male</b>	5	
 <b>Female</b>	Nil	—

#### Board composition by age as at December 31, 2019

<b>41-50 years</b>	1	
<b>51-60 years</b>	4	

#### Board composition by length of tenure as at December 31, 2019

<b>0-2 years</b>	3	
<b>3-4 years</b>	1	
<b>5-6 years</b>	1	

#### Professional Experience

<b>Accounting and finance</b>	2	
<b>Management accounting</b>	1	
<b>Corporate law</b>	1	
<b>HR and administration</b>	1	

## 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		13	8	2	1	4	1	29
Mr.H.R.S Wijeratne	NED	13/13	N/A	N/A	N/A	N/A	1/1	14
Mr.U Gautam *	INED	9/11	6/6	2/2	1/1	3/3	N/A	21
Mr.T.M Wijesinghe	INED	13/13	N/A	N/A	N/A	N/A	N/A	13
Mr.A.T.S Sosa****	INED	12/13	8/8	2/2	N/A	1/1	1/1	24
Mr.M.S.A Wadood ***	INED	13/13	4/4	N/A	1/1	4/4	N/A	22
Mr.L Abeyasinghe **	INED	1/2	0/2	N/A	N/A	N/A	N/A	1

\*Mr.U Gautam - ceased to be a Director w.e.f September 29,2019

\*\*Mr.L.Abeyasinghe was appointed w.e.f October 21,2019 and was appointed w.e.f October 23,2019 to the Audit Committee

\*\*\*Mr.M.S.A Wadood was appointed w.e.f July 18,2019 to the Audit Committee

\*\*\*\*Mr.A.T.S Sosa replaced Mr.U.Gautam on January 29, 2020 to Related Party Transaction Review Committee

N/A-Not a Member of the Committee

NED - Non-Executive Director

INED - Independent Non-Executive Director

## Governance Framework

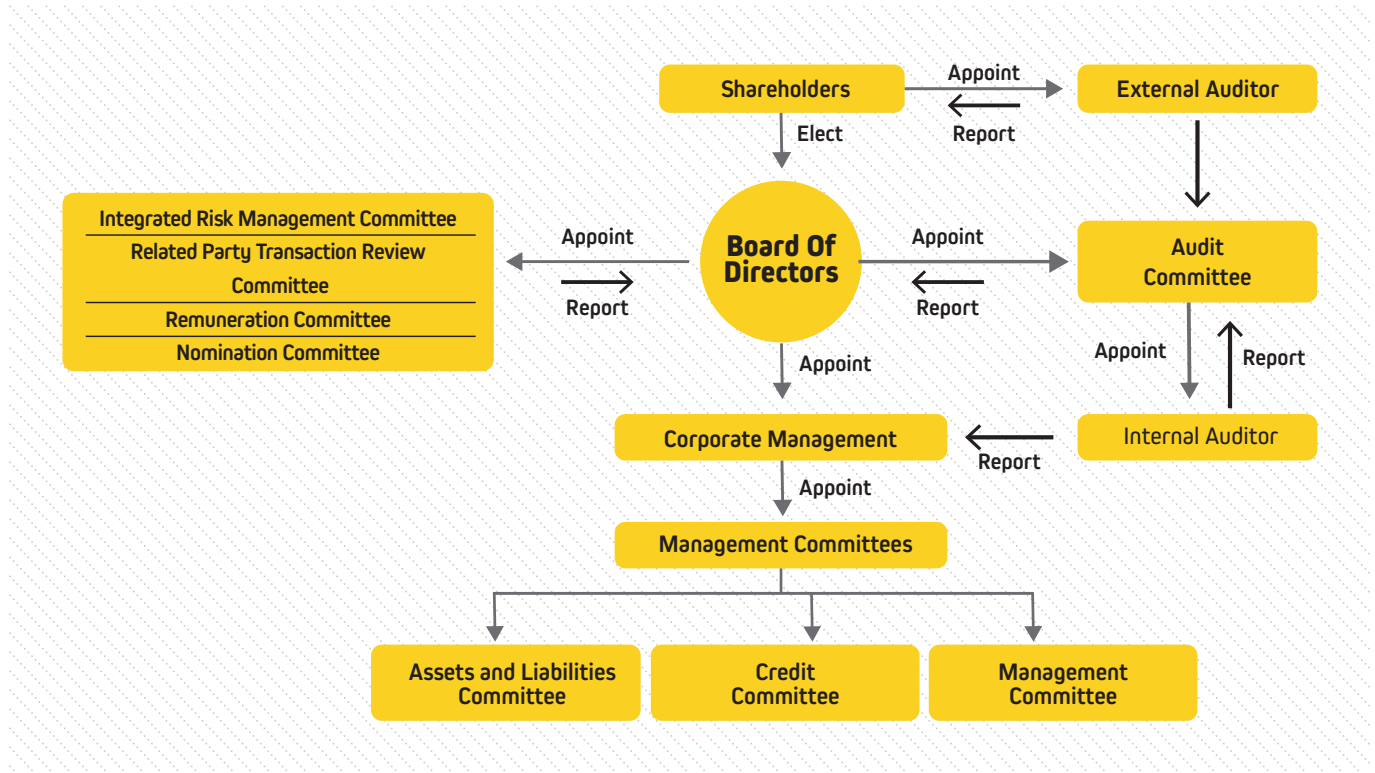
Our governance framework is secured on i) competent leadership, ii) effective internal controls, (iii) a strong risk culture and (iv) accountability to shareholders.

We believe that it is crucial to have a good balance between continuity and fresh perspectives on the Board. Our Board plays a key role in setting our governance standards to meet our stakeholders' expectation. Our leadership model ensures an appropriate balance of power, accountability and independence in decision-making.



## 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.smbk.com](http://www.smbk.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:

P W Corporate Secretarial (Pvt) Ltd.

Address No: 3/17, Kynsey Road,  
Colombo 08.

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

Telephone 011-4640360-3

## Submission of Statutory Return

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

Description	Frequency of submission	Compliance
<b>Central Bank of Sri Lanka</b>		
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
<b>Department of Inland Revenue</b>		
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
<b>Colombo Stock Exchange</b>		
Submission of Interim Reports	Quarterly	Compliant
Submission of Annual Reports	Before 5 months ended of Financial year	Compliant
<b>Registrar General of Companies</b>		
Annual Accounts	Annually	Compliant
Annual Returns	Annually	Compliant
Change of Directors and Company Secretary (Form 20)	As required	Compliant
<b>Sri Lanka Accounting &amp; Auditing Standards Monitoring Board</b>		
Annual Accounts	Annually	Compliant

## Compliance with the Finance Leasing Direction

The Company's compliance with the Finance Leasing (Corporate Governance) Direction No. 4 of 2009 and No. 1 of 2013-amendment issued by the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka under the Section 34 of the Finance Leasing Act No 56 of 2000 is tabulated below.

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>2. The Responsibilities of the Board of Directors</b>			
<b>2 (1) Strengthening the safety and soundness of the Company.</b>			
2 (1) (a)	Approving and overseeing the strategic objectives and corporate values and ensuring that the same is communicated throughout the Company.	Company's strategic objectives and corporate values are determined and approved by the Board of Directors. The decisions taken by the Board regarding strategic objectives and corporate values are communicated to all levels of staff through structured meetings.	Compliant
2 (1) (b)	Approving the overall business strategy of the Company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years.	Company's strategic business plan covering immediate next three years has been approved by the Board. It provides for the overall risk management policy, procedures and mechanisms with measurable goals.  The business strategy is reviewed by the Board on a regular basis with updates on the execution thereof by the management at monthly Board meetings.	Compliant
2 (1) (c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Integrated Risk Management Committee, on behalf of the Board, identifies risks and ensures implementation of appropriate systems to manage risks prudently and reports to the Board on a quarterly basis.	Compliant
2 (1) (d)	Approving a policy of communication with all stakeholders, including lenders, creditors, shareholders and borrowers.	Refer Corporate Governance, Pages from 038 to 068 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 079 for further information on internal control framework of the Company.	Compliant
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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
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.	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.  The Board is apprised of any changes to the regulatory environment through the Integrated Risk Management Committee and also by the Company Secretary.	Compliant
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 reordereed by the Company Secretary in the minutes.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
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 038 to page 068 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

### 3. Meetings of the Board

3(1)	Convening Board meetings at least twelve times a financial year at monthly intervals.	The Board met thirteen (13) times for the financial year 2019.	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 039 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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
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
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, 2019.	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, 2019 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 2019.	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 2019 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 039 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, 2019 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, 2019 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 033 to 034 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 Personal 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
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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>7. The Chairman and the Chief Executive Officer</b>			
7(1)	The role of Chairman and Chief Executive Officer shall not be performed by the same person.	The posts of the Chairman and the Chief Executive Officer (CEO) of the Company are separated ensuring the balance of power and authority. The Chairman is a Non-Executive Director while the Chief Executive Officer is an employee of the Company	Compliant
7(2)	When the Chairman is a Non-Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director of the Company.	Chairman is a Non-Executive Director. The Chairman's role provides effective leadership and strategic insight to the issues of the Board. Mr. M. S. A. Wadood has been appointed as a Senior Director to comply with the rule. This is disclosed on Director profiles on page 033.	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, 2019.	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
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 2019.	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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
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. 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 073 to 078.	

### 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 Member of the Institute of Chartered Management Accountants-UK He possesses over 30 years of experience in finance and accountancy.	Compliant
(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.	Compliant
(iii)	application of the relevant accounting standards;	The Committee ensures that the relevant accounting standards are applied.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
	(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.	Compliant
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
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 January 22, 2020 to discuss the matters pertaining to the 2019 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.	Compliant
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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
8(2) (j) 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
	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 January 22, 2020.	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 073 to 074 of the Annual Report for more details on this	Compliant
8(2) (n)	The Committee shall meet regularly and record its conclusions	The Committee had 8 meetings in 2019 and its decisions are recorded by the Company Secretary who also acts as the secretary to the Committee.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
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 073 to 074 of the Annual Report	Compliant
8(2) (p)	The secretary to the Committee shall recording and maintain detailed minutes of the Committee meetings.	The Company Secretary is the secretary of the Committee. Detailed minutes of the Committee proceedings are recorded and Committee minutes are maintained by the Company Secretary.	Compliant
8(2) (q)	The Committee shall review the process by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.	The Committee has implemented whistle blower policy to facilitate an informal procedure by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.	Compliant
<b>8(3) Integrated Risk Management Committee (IRMC)</b>			
8(3)(a)	The Committee shall consist of at least one Non-Executive Director, Chief Executive Officer and key management personnel supervising credit, marketing operational and strategic risks.	The Committee composition is in full compliance with the provisions of this rule. Please refer Report of the IRMC on page 078 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
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 two (2) times during the financial year 2019. In the financial year 2018, 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 2019.	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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
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 2019 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 41 on Pages from 142 to 143 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
9.3.2 (a)	Non-recurrent Related party transactions exceeding 10% of the equity or 5% of the total assets of the entity as per Audited Financial Statements, whichever is lower	There were no non-recurrent transactions exceeding 10% of the equity or 5% of the total assets	Compliant
9.3.2 (b)	Recurrent Related party transactions exceeding 10% of the gross revenue/income as per Audited Financial Statements	There were no recurrent transactions exceeding 10% of the gross revenue/income  The details of the recurrent transactions during the Financial year 2019 are disclosed under "Note 41 - Related Party Disclosure" of the Financial Statements	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

## 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 2019 were prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards.	Compliant
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Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>10(2) Responsibility of the Board to ensure appropriate disclosures in the Annual Report</b>			
	a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Disclosures on the compliance with applicable accounting standards and regulatory requirements in preparation of the Annual Financial Statement have been made in the 'Directors Responsibility Statement' on page 081.	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 September 16, 2020.	Compliant
	d) Details of Directors, including names, transactions with the Company.	Details of the Directors are given on pages from 033 to 034 and Directors' transactions with the Company have been disclosed in note 41.2.1 to the Financial Statements on page 143.	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 41.2.1 on page 143.	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 41 on page 142.	Compliant
	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 41.2 Page 143.	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 069 to 072 and the Corporate Governance Report on pages 038 to 068 describes the manner in which the Company has complied with prudential requirements, regulations, laws and internal controls during the year 2019.</p> <p>There was no material non-compliance to prudential requirements, regulations, laws and internal controls during 2019 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 September 16, 2020.	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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>A. Directors</b>			
<b>A.1 The Board</b>			
Principle	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 033 to 034 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 thirteen (13) times during the financial year 2019.	Compliant
A.1.2	The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed.	Board of Directors provide entrepreneurial leadership of the Company and is collectively responsible for the formulation, implementation and monitoring of business strategies of the Company, monitoring the effectiveness of the Company's risk management strategies and internal controls and compliance with ethical and legal standards.	Compliant
A.1.3	The Board collectively, and Directors individually, must act in accordance with the laws of the Country, as applicable to the business enterprise. There should be a procedure agreed by the Board of Directors, to obtain independent professional advice where necessary, at the Company's expense.	The Board collectively as well as individually complied with the laws of the country that are applicable to the Company. A process is in place for the Board to obtain independent professional advice at the expense of the Company.	Compliant
A.1.4	All Directors should have access to the advice and services of the Company Secretary, who is responsible to the Board in ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Removal of the Company Secretary should be a matter for the Board as a whole.	All Directors have access to the Company Secretary who advises the Board and ensures that applicable rules and regulations are complied with. There's no change in Company Secretary during the year under review.	Compliant
A.1.5	All Directors should bring independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of business conduct.	All directors exercise independent judgment in all decisions made by the Board.	Compliant
A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company, to ensure that the duties and responsibilities owed to the Company are satisfactorily discharged.	Every Director has dedicated adequate time and effort to the meetings of the Board and Sub-committee meetings to ensure that the duties and responsibilities are satisfactorily discharged. All Board papers are shared with the Board members at least seven days prior to the Board meetings allowing the Directors adequate time to prepare for the Board meeting	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.1.7	Training for New and Existing Directors.	Any new Director who joins the Board is given appropriate induction with regard to the affairs of the Company and laws and regulations applicable to the Company. Where required, the Corporate Management and external experts make presentation with regard to the economic and social environment to update the knowledge of any newly appointed Directors.	Compliant
<b>A.2 Chairman and the Chief Executive Officer (CEO)</b>			
Principle A.2	Chairman and CEO are two key tasks at the top of the Company. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no individual has unfettered powers of decision	The posts of the Chairman and the Chief Executive Officer (CEO) of the Company are separated ensuring the balance of power and authority. The Chairman is a Non-Executive Director while the Chief Executive Officer is an employee of the Company	Compliant
A.2.1	A decision to combine the posts of Chairman and CEO in one person should be justified and highlighted in the Annual Report.	The Roles of Chairman and CEO have not been combined.	Compliant
<b>A.3 Chairman's Role</b>			
Principle A.3	The Chairman's role in preserving good Corporate Governance is crucial. As the person, responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions.	The Chairman provides leadership to the Board preserving good Corporate Governance and preserve order and facilitate the effective discharge of Board functions.	Compliant
A.3.1	The Chairman should conduct Board proceedings in a proper manner	The Chairman has conducted all Board meetings in compliance with the provisions of this rule and ensures that the Board works effectively and discharges its responsibilities and ensures that all key and appropriate issues are discussed by the Board in a timely manner.	Compliant
<b>A.4 Financial Acumen</b>			
Principle A.4	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	The Board includes members with sufficient financial acumen and knowledge including Chartered Accountants who can provide the Board with necessary guidance in conducting its business. Please refer to Director profiles on pages from 033 to 034.	Compliant
<b>A.5 Board Balance</b>			
Principle A.5	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 2019 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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
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 038 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.5.4	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 2019, the Board has determined that four Independent Non-Executive Directors were in the Company in 2019. The names of the Independent Directors are disclosed in the Annual report. Please refer pages from 033 to 034 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 2019.	Compliant
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. M.S.A. Wadood as a Senior Director with effect from September 20, 2018 to comply with Section 7 (2) of the Finance Leasing (Corporate Governance) Direction No. 4 of 2009.	Compliant
A.5.8	Senior Independent Director should make himself available for confidential discussions with other directors who may have concerns	The Senior Independent Director has made himself available for any confidential Discussions with other Directors.	Compliant
A.5.9	The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	All Board members are Non-Executive Directors and the Chairman holds meeting with the Non- Executive Directors regularly throughout the year.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
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

Principle A.6	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

## A.7. Appointments to the Board

Principle A.7	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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.7.3	Upon the appointment of a new Director to the Board, the Company should forthwith disclose to shareholders: a brief resume of the Director; the nature of his expertise in relevant functional areas, the names of companies in which the Director holds directorships or memberships in Board committees and whether such Director can be considered 'independent'.	All appointments of new Directors are informed to the shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange. Regulatory authorities are also informed as required.	Compliant
<b>A.8 Re-election</b>			
Principle A.8	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
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
<b>A.9 Appraisal of Board Performance</b>			
Principle A.9	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 038.	Compliant
<b>A.10 Disclosure of Information in respect of Directors</b>			
Principle A.10	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 Annual 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 033 and 034. Director's Interest in Contracts on pages 143.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>A.11 Appraisal of Chief Executive Officer (CEO)</b>			
Principle A.11	The Board should be required, at least annually, to assess the performance of the CEO.	CEOs performance is appraised by the Board annually.	Compliant
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>B. Directors</b>			
<b>B. 1 Remuneration Procedure</b>			
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 Page 075.	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
<b>B. 2 The Level and Makeup of Remuneration</b>			
Principle B2	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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
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 page 075 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
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

Principle B3	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 143 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 page 075 for details of the remuneration policy of the Company. Details of Director Remuneration is given on page 143 of the Annual Report. There were no Executive Directors in the Company for the year under review.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>C. Relations with Shareholders</b>			
<b>C1. Constructive Use of The Annual General Meeting (AGM) and Conduct of General Meetings</b>			
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
C1.1	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
C1.2	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
C1.3	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
C1.4	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
C1.5	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
<b>C2. Communication with Shareholders</b>			
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 040 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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
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
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 038 to 068 of the Corporate Governance Report for Company policy on communications with shareholders.	Compliant

### C.3 Major and Material Transaction

Principle	In compliance with the requirements under the	During the year 2019, the Company did not engage in	Compliant
C.3	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	or commit any 'Major Transactions' which materially affected the Company's net asset base	
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 2019.	Compliant

## D Accountability and Audit

### D.1 Financial Reporting

Principle	The Board should present a balanced and	The Board has presented a balanced and	Compliant
D.1	understandable assessment of the Company's financial position, performance and prospects.	understandable assessment of the Company's financial position, performance and prospects in the Annual Report	
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, 2019 and at the end of each quarter of the financial year and all price sensitive information has been disclosed in a timely manner.	Compliant
D.1.2	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 081 in the Annual Report.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
D.1.3	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 081 Directors' Responsibility Statement on Internal Control Over Financial Reporting on page 079 And Auditor's Report on pages from 084 to 088.	Compliant
D.1.4	The Annual Report should contain a "Management Discussion & Analysis"	Please refer pages from 010 to 031 for the Management Discussion and Analysis.	Compliant
D.1.5	The Directors should report that the business is a going concern	Please refer the Annual Report of the Board of Directors on pages 033 to 034.	Compliant
D.1.6	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.1.7	The Board should adequately disclose related party transactions in the Annual Report	Please refer Note No. 41 on pages from 142 to 143 on Related Party Transactions.	Compliant

## D.2 Internal Control

Principle D.2	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
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 081 of the Annual Report.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>D.3 Audit Committee</b>			
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 three 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 073 to 074 for details of the duties and responsibilities of the Committee.	Compliant
D.3.3	The Audit Committee should have a written Terms of Reference, dealing clearly with its authority and duties.	The Audit Committee's Terms of Reference is stated in the Company's, The audit committee charter.	Compliant
<b>D.4 Disclosures</b>			
Principle	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 073 to 074.	Compliant
D.4			
<b>D.5 Code of Business Conduct &amp; Ethics</b>			
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.5.1	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 069 to 072.	Compliant
D.5.2	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 033 to 034.	Compliant
<b>D.6 Corporate Governance Disclosures</b>			
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 038 to 068.	Compliant
D.6			
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 038 to 068.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>E. Institutional Investors</b>			
<b>E.1 Shareholder Voting</b>			
Principle E.1	Institutional shareholders have a responsibility to make considered use of their votes	Institutional shareholders make use of their votes to ensure their voting intentions are translated into practice.	Compliant
E.1.1	A regular and structured dialogue should be conducted with shareholders	The Annual General Meeting is used as a forum to have a structured and objective dialogue with shareholders	Compliant
<b>E.2 Evaluation of Governance Disclosures</b>			
	When evaluating governance arrangements, institutional investors should be encouraged to give due weight to all relevant factors	Institutional investors are encouraged to give weight to governing arrangements	Compliant

## 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
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### F.2 Shareholder Voting

Principle F.2	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
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## Compliance with Corporate Governance rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>7.10.1 Non-Executive Directors</b>			
7.10.1	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors	All five directors of the Board are Non- Executive Directors.	Compliant
<b>7.10.2 Independent Directors</b>			
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 069 to 072.	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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
<b>7.10.3 Disclosures relating to directors:</b>			
7.10.3 (a)	Names of Independent Directors should be disclosed in the Annual Report	Please refer page 069 to 072 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 pages from 033 to 034 for the profiles of Board of Directors.	Compliant
7.10.3 (d)	A brief résumé of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public	When an appointment of a new director, Company immediately submits a brief resume of such Director to the CSE.	Compliant
<b>7.10.4 Criteria for determination of independency of Directors</b>			
7.10.4	(a-h) Requirements for meeting criteria to be independence of a Non-Executive Director	All of the Independent Directors of the Company met the criteria for independency specified in this rule.	Compliant
<b>7.10.5 Remuneration Committee</b>			
7.10.5	A listed company shall have a Remuneration Committee	The Company has a Remuneration Committee appointed by the Board	Compliant
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 page 075.	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 page 075.	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 page 075 for the composition of the Remuneration Committee. Total fees and remuneration paid to all Directors is disclosed on Note No 41.2.1 on page 143.	Compliant
<b>7.10.6 Audit Committee</b>			
7.10.6	A Listed Entity shall have an audit committee	Please refer the 'Audit Committee Report' on pages 073 to 074 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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
7.10.6(a)	<p>The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.</p> <p>The Chairman or one member of the Committee should be a member of a recognised professional accounting body.</p>	<p>Both the Chief Executive Officer and the Chief Financial Officer attends the meetings</p> <p>The Chairman of the Audit Committee is a member of the Chartered Institute of Management Accountants – UK. Please refer pages from 033 to 034 for profiles of the Audit Committee members</p>	Compliant
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 073 to 074.	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 073 to 074.	Compliant

## Compliance with Requirements on Disclosures in the Annual Report in Rule 9.3.2 of the Listing Rules

Section	Governance Requirement	Implementation and Compliance	Compliance Status
9.3.2 (a)	Non-recurrent Related party transactions exceeding 10% of the equity or 5% of the total assets of the entity as per Audited Financial Statements, whichever is lower	There were no non-recurrent transactions exceeding 10% of the equity or 5% of the total assets	Compliant
9.3.2 (b)	Recurrent Related party transactions exceeding 10% of the gross revenue/income as per Audited Financial Statements	<p>There were no recurrent transactions exceeding 10% of the gross revenue/income</p> <p>The details of the recurrent transactions during the Financial year 2019 are disclosed under "Note 41 - Related Party Disclosure" on pages from 142 to 143 of the Financial Statements</p>	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, 2019 and the Auditors' Report thereon. The Financial Statements were accepted and approved by the Board of Directors on September 16, 2020.

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, 2019

The operations of the Company for the year ended December 31, 2019 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. Senthilvel who has a direct holding of 22.55% as at December 31, 2019.

## 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 089 to 094 of the Annual Report.

## Significant Accounting Policies

The significant accounting policies adopted in the preparation of Financial Statements are given on page 098 to 116 of the Annual Report.

As per the accounting policy of the Company given in Note No. 5.3.5 on page 111, 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, 2019 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. 13 to on page 118 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 084 to 088 of the Annual Report.

## Board of Directors

The following were Directors of the Company for the year ended December 31, 2019

Mr. H. R. S. Wijeratne (Chairman)  
Mr. U. Gautam\* (Deputy Chairman)  
Mr. T. M. Wijesinghe  
Mr. A. T. S. Sosa  
Mr. M. S. A. Wadood  
Mr. L. Abeysinghe\*\*

\* Mr. U. Gautam retired from the Board according to the provisions of Corporate Governance Direction No. 04 of 2009 issued by the Central Bank of Sri Lanka.

\*\*Mr. L. Abeysinghe was appointed to the Board on October 21, 2019.

## Retirement of Directors

In terms of Articles 87 and 91 of the Articles of Association of the Company Mr. M.S. A. Wadood and Mr. L. Abeysinghe retire and being eligible to offer themselves 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. T. M. Wijesinghe  
Mr. A. T. S. Sosa  
Mr. M. S. A. Wadood  
Mr. L. Abeysinghe\*\*

\*Mr. U. Gautam retired on September 29, 2019

\*\*Mr. L. Abeysinghe was appointed to the Board on October 21, 2019.

## Directors Shareholdings

The shareholdings of the Directors of the Company are shown on page 028 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 No.41.2.1 on page 143 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 2019 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 073 to 074 of the Annual Report. Remuneration Committee Report is given on the page 075 of the Annual Report. Risk Committee Report is given on page 078 of the Annual Report. Nomination Committee Report is given on the page 076 of the Annual Report. Related Party Transaction Review Committee Report is given on the page 077 of the Annual Report.

## Directors Fees and Remuneration

Directors Fees and Remuneration paid for the financial year ended December 31, 2019 is given on Note No. 41.2.1 on page 143 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 038 to 068.

## 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 081.

## 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	2019	2018
Profit after tax	10.7	89.7
Un-appropriated profit brought forward	85.9	37.5
Profits available for appropriation	96.6	127.2
Other comprehensive income/(expense)	0.9	0.5
Transfers to statutory reserves	(0.4)	(4.3)
Dividend paid	-	(36.1)
Un-appropriated profit carried forward	97.1	86.3

## Group Revenue

The revenue of the group was Rs.264 million (2018 - Rs.246 million). An analysis of revenue based on segments is disclosed in the segmental analysis on page 152 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, 2019 amounted to Rs.86.1 million (2018 - Rs.75.3 million). A detailed description of the financial investments is disclosed in Note No.20 on pages 123 to 126 of the Annual Report.

## Property, Plant & Equipment

Details relating to Property, Plant & Equipment are disclosed in Note No.24 on pages 129 to 131 of the Annual Report.

## Intangible Assets

No capital expenditure on acquisition of intangible assets during the year (2018 - Rs.NIL). The carrying value of intangible assets as at the reporting date amounted to Rs. 6.1 million (2018- Rs. 4.8 million). Movement of intangible assets from the balance as at January 1, 2019 to balance as at December 31, 2019, additions and disposals made and amortization charge for the year is disclosed in the Note No.26 on page 132 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.23 on pages from 127 to 128 of the Annual Report.

## Reserves

The reserves consist of Statutory Reserve Fund, Fair Value Reserve and the Retained Reserves. The reserves of the group are disclosed in the Statement of Changes in Equity on page 093 and in Note No. 34 to 36 on from pages 136 to 137 of the Annual Report.

## Stated Capital

The Stated Capital of the Company as at December 31, 2019 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.15 on pages 119 to 120 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 119 to 120 of the Annual Report.

## Donations

No donations were granted during the year 2019 (2018 - NIL).

## Provisions

The Directors have taken all responsible steps to ensure adequate provisioning has been made for all known liabilities. The basis adopted for provisioning is disclosed in Accounting Policy No.3.2.7 on page 098 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 Board wish to declare that the Company has complied with the Section 9 of the Listing Rules of CSE and accordingly 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.41 on pages from 142 to 143 of the Annual Report. Apart from such disclosed transactions, the Company had no other related party transactions for the year 2019.

## Events After the Reporting Date

Events that have occurred after the reporting date have been disclosed in Note No.40 on page 142 of the Annual Report.

## Capital Commitments

The capital expenditure commitments are disclosed in Note No.39.1 on page 142 of the Annual Report.

## Contingent Liabilities

The contingent liabilities are disclosed in the Note No.39.2 on page 142 of the Annual Report.

## Share Information

Information relating to Earnings, Net Assets, and Market value per share and share trading is given on page 029 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 027 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 030 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 019 to 024 of the Annual Report.

The Company's strength of manpower as at December 31, 2019 was 45 (2018 – 48).

## Code of Conduct and Ethics

The Board has approved a Human Resource Policy and Procedure Manual which includes a Code of Business Conduct 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 September 16, 2020. 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.

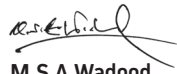
## Annual General Meeting

Taking into consideration the current regulations/restrictions prevailing in the country due to the Covid- 19 Pandemic the Board of Directors has decided to hold the Annual General Meeting as a virtual meeting on October 22, 2020 at 3.00 p.m. in line with the Guidelines issued by the Colombo Stock Exchange for hosting of virtual AGMs. The notice of Annual General Meeting is given on pages 155 and 156 of the Annual Report. In addition the Notice of Meeting, Request Form for an Annual Report Hard Copy, Guidelines and the Registration Process for the Virtual AGM, Registration Form for the Virtual AGM and Proxy Forms are available on the Company's website.

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



**A. T. S. Sosa**  
Director



**M.S.A Wadood**  
Director



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

Colombo.  
September 16, 2020

## 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 033 to 034 in the Annual Report.

Name	Directorship Status	Status
Mr. A.T.S. Sosa	Independent/Non-Executive Director	Chairman
Mr. U. Gautam *	Independent/Non-Executive Director	Member
Mr. M.S.A. Wadood**	Independent/Non-Executive Director	Member
Mr. L. Abeyasinghe**	Independent/Non-Executive Director	Member

\* Mr. U. Gautam was retired on September 29, 2019.

\*\*Appointed on October 23, 2019

### 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, 2019. Proceedings of these meetings with adequate details of matters discussed are regularly reported to the Board of Directors.

Name	Attended / Eligible to Attend
Mr. A.T.S. Sosa	8/8
Mr. U. Gautam	6/6
Mr. M.S.A. Wadood	4/4
Mr. L. Abeyasinghe	0/2

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 January 22, 2020 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 079 The external auditor's certification on the effectiveness of the internal control mechanism was issued on September 16, 2020.

**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 2019. 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 2019 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 2018 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 re-appointed as the external auditors for the financial year ending December 31, 2020 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 Board has approved a whistle blower 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 shall take swift and objective steps to conduct independent investigations into all such incidents that are reported through whistleblowing mechanism. 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  
September 16, 2020

## 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 2019. More information on experience of and brief profiles of the Committee members are given on page 033 to 034 in the Annual Report.

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

\* Mr. U. Gautam was replaced by Mr. T. M. Wijesinghe on January 29, 2020

\*\* Appointed on January 29, 2020

### 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 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 2019, the Committee formally met once to determine the bonus payable for the 2018 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. U. Gautam	1/1
Mr. M.S.A. Wadood	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 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.

### Directors' 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 No. 41.2.1 of the Financial Statements on page 143 of the Annual Report.



**T. M. Wijesinghe**  
Chairman, Remuneration Committee  
September 16, 2020

## 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 2019. More information on experience of and brief profiles of the Committee members are given on page 033 to 034 in the Annual Report.

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

### Terms of Reference

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

- Propose appointments to the Board of Directors and provide advice and recommendations to the Board and/ or the Chairman on any such appointment
- Advise the Board on qualifications, competencies and independence of Directors and relationships which have potential to give rise to conflict vis-à-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 2019, the Committee formally met once.

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. H. R. S. Wijeratne	1/1
Mr. A. T. S. Sosa	1/1

### Activities in 2019

During the year, the Committee recommended the appointment of Mr. L. Abeysinghe to the Board. The Committee continued to work closely with the Board of Directors on matters assigned to the Committee and reported back to the Board of Directors with its recommendations.



**H. R. S. Wijeratne**  
Chairman, Nomination Committee  
September 16, 2020

# 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 2019. More information on experience and brief profiles of the Committee members are given on page 033 to 034 in the Annual Report.

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

\* Retired on September 29, 2019

\*\*Appointed w.e.f January 29, 2020

## 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. M. S. A. Wadood	4/4
Mr. U. Gautam	3/3
Mr. A.T.S. Sosa	1/1
Mr. T.M. Wijesinghe	0/0

## Activities in 2019

During 2019, 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. 41 to the Financial Statements on pages from 142 to 143 of the Annual Report.

## Declaration

The declaration by the Board of Directors in the annual report that no related party transactions other than the recurrent transactions disclosed under "Note 41 – Related Party Disclosures" of the Financial Statements is contained in the Annual Report of the Board of Directors on the Affairs of the Company is given on pages 069 to 072 .



**M. S. A. Wadood**  
Chairman, RPT Committee  
September 16, 2020

## 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. M. S. A. Wadood	INED & Chairman
Mr. U. Gautam*	INED & Chairman
Mr. A. T. S. Sosa	INED & Member
Mr. T. M. Wijesinghe	INED & Member
Chief Executive Officer	Member
Manager - Compliance	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

\*Retired on September 29, 2019

INED – Independent Non-Executive Director

### 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 025 to 026 of the Annual Report.

### Meetings

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

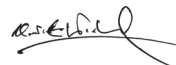
### Activities of the Integrated Risk Management Committee

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.



**M.S.A Wadood**  
Chairman, Integrated Risk Management Committee  
September 16, 2020

# 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.

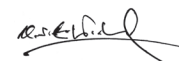
## Confirmation

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 September 16, 2020.

By order of the Board,



**M. S. A. Wadood**  
Independent Non-Executive Director



**A. T. S. Sosa**  
Independent Non-Executive Director  
Colombo  
September 16, 2020

## Chief Executive Officer's and Finance Manager'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.



**Supul Wijesinghe**  
Chief Executive Officer



**Thanuja Wimalasiri**  
Finance Manager

Colombo  
September 16, 2020

## 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 084 to 088.

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 089 to 094, 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.



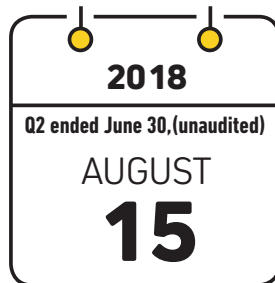
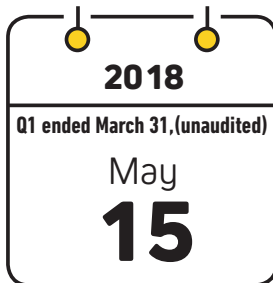
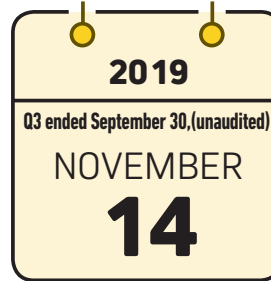
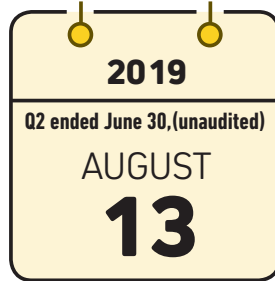
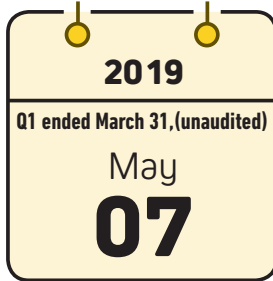
**A. T. S. Sosa**  
*Independent Non-Executive Director*

*Colombo*  
*September 16, 2020*

# **FINANCIAL REPORTS**

## Financial Calendar

### Interim Financial Statements Publication to Colombo Stock Exchange (CSE)



### Annual Report Publication



### Annual General Meeting (AGM)



# Independent Auditor's Report



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

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

## 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 December 31, 2019, 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 December 31, 2019, 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.

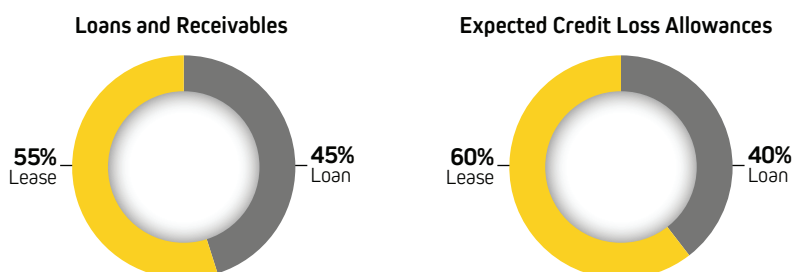
#### Key Audit Matters

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 and lease receivables to customers

Refer to the accounting policies in the Financial Statements: Impairment of Loans and Receivables to Customers, "Note 5.3.3 and 19" to the Financial Statements: Significant Accounting Judgments and Estimates, "Note 3.2.2" to the Financial Statements.

Composition of Loans and receivables to customers and Expected Credit Loss Allowances;



#### Risk Description

The Group has recognized impairment provision of Rs.360,486,719 on loans and receivables to customers amounting to Rs.1,563,601,691 as at December 31, 2019.

Impairment of loans and receivables to customers is a subjective area due to the level of judgment applied by management in determining impairment allowances.

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

#### Our responses

Our audit procedures included:

- Assessing the design, implementation and operating effectiveness of key internal controls over the approval of new lending facilities against the Group 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.

Risk Description	Our responses
<p>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 Group 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>	<ul style="list-style-type: none"> <li>■ Challenging the validity of the models used and assumptions adopted in Group or Company calculation of the impairment allowances with the assistance of our own KPMG specialist and assessed the reasonableness by critically assessing: <ul style="list-style-type: none"> <li>■ Input parameters involving management judgment;</li> <li>■ the overdue statistical data for the loan and receivable portfolios; and</li> <li>■ Historical loss parameters used.</li> </ul> </li> </ul> <p>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.</p> <ul style="list-style-type: none"> <li>■ 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;</li> <li>■ 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;</li> <li>■ 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.</li> </ul>

## 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"> <li>■ 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;</li> <li>■ 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;</li> </ul>

Risk Description	Our responses
	<ul style="list-style-type: none"> <li>■ 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.</li> <li>■ 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.</li> <li>■ 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;</li> <li>■ Testing preventative controls designed to enforce segregation of duties between users within particular systems;</li> </ul>

### 3. Management assessment of material uncertainty relating to impact of COVID-19

Risk Description	Our responses
<p>The financial statements have been prepared on a going concern basis. In adopting the going concern basis of preparation of the financial statements, the directors have reviewed the Group's cash flow projections for the next 12 months, prepared by the management. The cash flow projections were based on management's assumptions and estimation of future cash inflows and outflows, also taking into consideration the impact of COVID-19 global pandemic.</p> <p>Note 40 to the financial statements, described the impact of COVID-19 outbreak to the current year financial statements and possible effects to the Group's future prospects, performance and cash flows. Further, the management considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.</p> <p>We identified the management assessment of the COVID 19 event as a key audit matter because the cash flow projections referred to above involves consideration of future events and circumstances which are inherently uncertain, and effect of those uncertainties may significantly impact the resulting accounting estimates. Therefore, the assessment requires the exercise of significant management judgement in assessing future cash inflows and outflows which could be subject to potential management bias.</p>	<p>Our audit procedures included,</p> <ul style="list-style-type: none"> <li>■ Assessing the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.</li> <li>■ Obtaining the Group's cash flow projections covering period of not less than twelve months from the reporting period end date and challenging these key assumptions used in preparing the projections.</li> <li>■ Evaluating the sensitivity of the projected available cash by considering downside scenarios together with reasonably plausible changes to the key assumptions and considering whether there were any indicators of management bias in the selection of the assumptions.</li> <li>■ Inspecting the facility agreements for the Group's long-term loans to identify any financial covenants or similar terms and assessing the implication of these on the Group's liquidity.</li> <li>■ Assessing the adequacy of disclosures in the financial statements in relation to the going concern basis of accounting with reference to the requirements of the prevailing accounting standards.</li> </ul>

## 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.



**CHARERED ACCOUNTANTS**

*Colombo, Sri Lanka*

*September 16, 2020*

## Income Statement

Rs. For the year ended December 31,	Note	Company		Group	
		2019	2018	2019	2018
Interest income	7	263,851,434	245,975,164	263,851,434	245,975,164
Interest expenses	8	(77,119,258)	(63,338,977)	(77,416,383)	(63,377,267)
<b>Net interest income</b>		<b>186,732,176</b>	<b>182,636,187</b>	<b>186,435,051</b>	<b>182,597,897</b>
Fee and commission income	9	4,600,963	5,587,169	4,600,963	5,587,169
<b>Net interest, fee and commission income</b>		<b>191,333,139</b>	<b>188,223,356</b>	<b>191,036,014</b>	<b>188,185,066</b>
Other operating income (net)	10	17,558,078	14,412,452	90,589,364	93,591,328
<b>Total operating income</b>		<b>208,891,217</b>	<b>202,635,808</b>	<b>281,625,378</b>	<b>281,776,394</b>
Allowance for expected credit loss - (Charge)/ Reversal	11	(70,806,894)	18,058,117	(70,806,894)	18,058,117
<b>Net operating income</b>		<b>138,084,323</b>	<b>220,693,925</b>	<b>210,818,484</b>	<b>299,834,511</b>
Personnel expenses	12	(62,264,147)	(61,086,467)	(107,852,856)	(101,083,348)
Other expenses	13	(57,716,005)	(54,103,636)	(81,049,737)	(83,784,054)
<b>Operating profit before taxes on financial services</b>		<b>18,104,171</b>	<b>105,503,822</b>	<b>21,915,891</b>	<b>114,967,109</b>
Taxes on financial services	14	(13,208,106)	(19,762,026)	(13,208,106)	(19,762,026)
<b>Profit before income tax</b>		<b>4,896,065</b>	<b>85,741,796</b>	<b>8,707,785</b>	<b>95,205,083</b>
Share of profit/(losses) of associate companies	21.2	-	-	2,079,365	20,120
Income tax expense	15	3,769,004	-	1,886,743	(1,745,309)
<b>Profit for the year</b>		<b>8,665,069</b>	<b>85,741,796</b>	<b>12,673,893</b>	<b>93,479,894</b>
<b>Profit attributable to :</b>					
Owners of the parent		8,665,069	85,741,796	10,709,581	89,688,226
Non-controlling interest	37	-	-	1,964,312	3,791,668
<b>Profit for the year</b>		<b>8,665,069</b>	<b>85,741,796</b>	<b>12,673,893</b>	<b>93,479,894</b>
Basic earnings per share	16	0.01	0.05	0.01	0.05

The notes to the Financial Statements from pages 095 to 152 form an integral part of these financial statements.

Figures in brackets indicate deductions.

## Statement of Profit or Loss and Other Comprehensive Income

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Profit for the year	8,665,069	85,741,796	12,673,893	93,479,894
<b>Other Comprehensive Income</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Actuarial gain/(loss) on defined benefit plans	530,442	613,023	1,672,910	(2,437,702)
Equity investments at FVOCI – net change in fair value	10,295,299	9,391,266	10,295,299	9,391,266
Tax on other comprehensive income	-	-	(319,891)	854,203
<b>Other comprehensive income/(expense) for the year (net of taxes)</b>	<b>10,825,741</b>	<b>10,004,289</b>	<b>11,648,318</b>	<b>7,807,767</b>
<b>Total comprehensive income for the year</b>	<b>19,490,810</b>	<b>95,746,085</b>	<b>24,322,211</b>	<b>101,287,661</b>
<b>Total comprehensive income attributable to:</b>				
Owners of the parent	19,490,810	95,746,085	21,954,837	98,572,289
Non-controlling interest	-	-	2,367,374	2,715,372
<b>Total comprehensive income for the year</b>	<b>19,490,810</b>	<b>95,746,085</b>	<b>24,322,211</b>	<b>101,287,661</b>

The notes to the Financial Statements from pages 095 to 152 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	
		2019	2018	2019	2018
<b>Assets</b>					
Cash and cash equivalents	17	25,125,100	41,832,633	31,350,414	44,944,945
Placements with banks	18	146,884,671	136,152,648	161,910,188	153,678,748
Financial assets at amortised cost-loans and receivables to other customers	19	1,204,255,134	1,332,771,315	1,203,114,972	1,331,391,165
Financial investments	20	72,248,930	61,797,975	86,154,359	75,300,999
Investments in associate	21	39,374,899	37,295,534	39,374,899	37,295,534
Investments in subsidiary	22	12,750,000	12,750,000	-	-
Investment properties	23	33,310,000	33,310,000	44,066,900	42,628,900
Property plant & equipment	24	12,838,275	14,725,606	20,308,585	24,386,608
Right-of-use assets	25	30,037,250	-	31,031,728	-
Intangible assets	26	5,041,627	3,111,127	6,175,003	4,822,079
Deferred tax assets	27	-	-	2,598,364	2,258,717
Other assets	28	52,937,389	54,262,126	68,639,937	64,427,645
<b>Total assets</b>		<b>1,634,803,275</b>	<b>1,728,008,964</b>	<b>1,694,725,349</b>	<b>1,781,135,340</b>
<b>Liabilities</b>					
Due to financial institutions	29	415,217,136	529,658,613	415,217,136	529,658,613
Due to other customers	30	113,561,379	109,010,737	113,561,379	109,010,737
Retirement benefit obligations	31	7,581,973	11,752,802	22,110,387	24,933,428
Lease liabilities	25	21,402,119	-	22,452,776	-
Other liabilities	32	20,598,880	40,635,834	23,837,320	43,689,240
<b>Total liabilities</b>		<b>578,361,487</b>	<b>691,057,986</b>	<b>597,178,998</b>	<b>707,292,018</b>
<b>Equity</b>					
Stated capital	33	919,064,114	919,064,114	919,064,114	919,064,114
Statutory reserves	34	35,081,659	34,648,406	35,081,659	34,648,406
Fair value reserve	35	19,919,946	9,624,647	19,919,946	9,624,647
Retained earnings	36	82,376,069	73,613,811	97,177,388	86,266,886
<b>Total equity attributable to equity holders of the Company</b>		<b>1,056,441,788</b>	<b>1,036,950,978</b>	<b>1,071,243,107</b>	<b>1,049,604,053</b>
Non- controlling interests	37	-	-	26,303,244	24,239,269
<b>Total equity</b>		<b>1,056,441,788</b>	<b>1,036,950,978</b>	<b>1,097,546,351</b>	<b>1,073,843,322</b>
<b>Total equity and liabilities</b>		<b>1,634,803,275</b>	<b>1,728,008,964</b>	<b>1,694,725,349</b>	<b>1,781,135,340</b>

The notes to the Financial Statements from pages 095 to 152 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.



**Thanuja Wimalasiri**  
Finance Manager



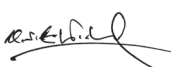
**Supul Wijesinghe**  
Chief Executive Officer

The Board of Directors are responsible for the preparation and presentation of these financial statements.

Approved and signed on behalf of the Board by,



**Shardha Sosa**  
Director



**Saadi Wadood**  
Director

Colombo  
September 16, 2020

## Statement of Changes in Equity - Company

Rs.	Stated Capital			Statutory Reserve Fund	Available for Sale Reserve	Fair Value Reserve	Retained Earnings	Total
	Ordinary Voting Shares	Ordinary Non-Voting Shares						
<b>Balance as at January 1, 2018</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>30,361,316</b>	<b>233,381</b>	<b>-</b>	<b>223,927,041</b>	<b>1,173,585,852</b>	
Impact of adopting SLFRS 9 – “Financial Instruments” as at January 1, 2018	-	-	-	(233,381)	233,381	(196,264,302)	(196,264,302)	
<b>Restated balance as at January 1, 2018</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>30,361,316</b>	<b>-</b>	<b>233,381</b>	<b>27,662,739</b>	<b>977,321,550</b>	
Profit for the year	-	-	-	-	-	85,741,796	85,741,796	
Other comprehensive income (net of tax)	-	-	-	-	9,391,266	613,023	10,004,289	
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,391,266</b>	<b>86,354,819</b>	<b>95,746,085</b>	
Transfers to statutory reserve	-	-	4,287,090	-	-	(4,287,090)	-	
Dividend paid	-	-	-	-	-	(36,116,657)	(36,116,657)	
<b>Total transactions with equity holders</b>	<b>-</b>	<b>-</b>	<b>4,287,090</b>	<b>-</b>	<b>-</b>	<b>(40,403,747)</b>	<b>(36,116,657)</b>	
<b>Balance as at December 31, 2018</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>34,648,406</b>	<b>-</b>	<b>9,624,647</b>	<b>73,613,811</b>	<b>1,036,950,978</b>	
<b>Balance as at January 1, 2019</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>34,648,406</b>	<b>-</b>	<b>9,624,647</b>	<b>73,613,811</b>	<b>1,036,950,978</b>	
Profit for the year	-	-	-	-	-	8,665,069	8,665,069	
Other comprehensive income (net of tax)	-	-	-	-	10,295,299	530,442	10,825,741	
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,295,299</b>	<b>9,195,511</b>	<b>19,490,810</b>	
Transfers to statutory reserve	-	-	433,253	-	-	(433,253)	-	
Dividend paid	-	-	-	-	-	-	-	
<b>Total transactions with equity holders</b>	<b>-</b>	<b>-</b>	<b>433,253</b>	<b>-</b>	<b>-</b>	<b>(433,253)</b>	<b>-</b>	
<b>Balance as at December 31, 2019</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>35,081,659</b>	<b>-</b>	<b>19,919,946</b>	<b>82,376,069</b>	<b>1,056,441,788</b>	

The notes to the Financial Statements from pages 095 to 152 form an integral part of these financial statements.

Figures in brackets indicate deductions.

## Statement of Changes in Equity - Group

Rs.	Attributable to the Equity holders of the parent									
	Stated Capital						Retained Earnings	Total	Non Controlling	
	Ordinary Voting Shares	Ordinary Non-Voting Shares	Statutory Reserve Fund	Available for Sale Reserve	Fair Value Reserve	Interest			Total Equity	
<b>Balance as at January 1,2018</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>30,361,316</b>	<b>233,381</b>	<b>-</b>	<b>228,378,513</b>	<b>1,178,037,324</b>	<b>16,359,297</b>	<b>1,194,396,621</b>	
Impact of adopting SLFRS 9 - "Financial Instruments" as at January 1,2018	-	-	-	(233,381)	233,381	(190,888,903)	(190,888,903)	5,164,600	(185,724,303)	
<b>Restated balance as at January 1,2018</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>30,361,316</b>	<b>-</b>	<b>233,381</b>	<b>37,489,610</b>	<b>987,148,421</b>	<b>21,523,897</b>	<b>1,008,672,318</b>	
Profit for the year	-	-	-	-	-	89,688,226	89,688,226	3,791,668	93,479,894	
Other comprehensive income (net of tax)	-	-	-	-	9,391,266	(507,203)	8,884,063	(1,076,296)	7,807,767	
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,391,266</b>	<b>89,181,023</b>	<b>98,572,289</b>	<b>2,715,372</b>	<b>101,287,661</b>	
Transfers to statutory reserve	-	-	4,287,090	-	-	(4,287,090)	-	-	-	
Dividend paid	-	-	-	-	-	(36,116,657)	(36,116,657)	-	(36,116,657)	
<b>Total transactions with equity holders</b>	<b>-</b>	<b>-</b>	<b>4,287,090</b>	<b>-</b>	<b>-</b>	<b>(40,403,747)</b>	<b>(36,116,657)</b>	<b>-</b>	<b>(36,116,657)</b>	
<b>Balance as at December 31,2018</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>34,648,406</b>	<b>-</b>	<b>9,624,647</b>	<b>86,266,886</b>	<b>1,049,604,053</b>	<b>24,239,269</b>	<b>1,073,843,322</b>	
<b>Balance as at January 1,2019</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>34,648,406</b>	<b>-</b>	<b>9,624,647</b>	<b>86,266,886</b>	<b>1,049,604,053</b>	<b>24,239,269</b>	<b>1,073,843,322</b>	
Impact of adopting SLFRS 16 - "Leases" as at January 1,2019	-	-	-	-	-	(315,783)	(315,783)	(303,399)	(619,182)	
<b>Restated balance as at January 1,2019</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>34,648,406</b>	<b>-</b>	<b>9,624,647</b>	<b>85,951,103</b>	<b>1,049,288,270</b>	<b>23,935,870</b>	<b>1,073,224,140</b>	
Profit for the year	-	-	-	-	-	10,709,581	10,709,581	1,964,312	12,673,893	
Other comprehensive income (net of tax)	-	-	-	-	10,295,299	949,957	11,245,256	403,062	11,648,318	
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,295,299</b>	<b>11,659,538</b>	<b>21,954,837</b>	<b>2,367,374</b>	<b>24,322,211</b>	
Transfers to statutory reserve	-	-	433,253	-	-	(433,253)	-	-	-	
Dividend paid	-	-	-	-	-	-	-	-	-	
<b>Total transactions with equity holders</b>	<b>-</b>	<b>-</b>	<b>433,253</b>	<b>-</b>	<b>-</b>	<b>(433,253)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Balance as at December 31,2019</b>	<b>708,445,963</b>	<b>210,618,151</b>	<b>35,081,659</b>	<b>-</b>	<b>19,919,946</b>	<b>97,177,388</b>	<b>1,071,243,107</b>	<b>26,303,244</b>	<b>1,097,546,351</b>	

The notes to the Financial Statements from pages 095 to 152 form an integral part of these financial statements.

Figures in brackets indicate deductions.

## Statement of Cash Flows

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
<b>Cash flow from operating activities</b>				
Interest receipts	247,550,791	258,058,419	247,550,791	258,058,419
Interest payments	(69,681,891)	(70,907,457)	(69,720,166)	(70,945,747)
Fees and commission receipts	21,131,156	23,494,198	94,340,761	95,199,812
Cash payments to employees and suppliers	(113,317,520)	(372,643,177)	(174,769,289)	(434,181,576)
<b>Profit before changes in operating assets</b>	<b>85,682,536</b>	<b>(161,998,017)</b>	<b>97,402,097</b>	<b>(151,869,092)</b>
Loans and receivables	72,500,670	6,458,321	72,260,682	6,218,333
Other assets	4,828,169	4,778,134	(1,368,860)	5,934,228
<b>Cash generated from/(used in) operating activities</b>	<b>163,011,375</b>	<b>(150,761,562)</b>	<b>168,293,919</b>	<b>(139,716,531)</b>
Tax paid	(19,746,121)	(15,074,110)	(22,614,787)	(18,458,597)
Gratuity paid	(5,780,430)	(1,487,046)	(6,105,430)	(1,487,046)
<b>Net cash generated from/(used in) operating activities</b>	<b>137,484,824</b>	<b>(167,322,718)</b>	<b>139,573,702</b>	<b>(159,662,174)</b>
<b>Cash flow from investing activities</b>				
Increase in financial investments	(12,540,000)	(5,174,571)	(12,540,000)	(5,169,385)
Acquisition of shares	-	-	-	4,206,303
Purchase of property, plant & equipment	(5,607,323)	(2,673,551)	(5,867,774)	(12,133,050)
Dividend received	563,300	-	624,524	-
Proceeds from disposal of property, plant & equipment	-	-	-	5,000,000
<b>Net cash used in investing activities</b>	<b>(17,584,023)</b>	<b>(7,848,122)</b>	<b>(17,783,250)</b>	<b>(8,096,132)</b>
<b>Cash flow from financing activities</b>				
Increase/(decrease) in borrowings from financial institutions	(88,294,111)	161,652,578	(88,294,110)	161,652,578
Increase/(decrease) in other borrowings	-	-	-	(456,110)
Increase/(decrease) in public borrowings	(52,898)	(339,000)	(52,898)	(339,000)
Increase/(decrease) in lease liabilities	(13,043,432)	-	(14,910,104)	-
Increase/(decrease) in other liabilities	(9,920,212)	(11,096,774)	(9,330,191)	(14,749,441)
Dividend paid	-	(36,116,657)	-	(36,116,657)
<b>Net cash (used in)/generated from financing activities</b>	<b>(111,310,653)</b>	<b>114,100,147</b>	<b>(112,587,303)</b>	<b>109,991,370</b>
<b>Net increase /(decrease) in cash and cash equivalents</b>	<b>8,590,148</b>	<b>(61,070,693)</b>	<b>9,203,150</b>	<b>(57,766,937)</b>
Cash and cash equivalents at the beginning of the year	(27,641,290)	33,429,403	(22,028,978)	35,737,959
<b>Cash and cash equivalents at the end of the year</b>	<b>(19,051,142)</b>	<b>(27,641,290)</b>	<b>(12,825,828)</b>	<b>(22,028,978)</b>
<b>Reconciliation of cash and cash equivalents</b>				
Cash and cash equivalents	25,125,100	41,832,633	31,350,414	44,944,945
Repo investment with banks	85,000	1,631,800	85,000	4,131,800
	<b>25,210,100</b>	<b>43,464,433</b>	<b>31,435,414</b>	<b>49,076,745</b>
Bank overdraft	(44,261,242)	(71,105,723)	(44,261,242)	(71,105,723)
<b>Cash and cash equivalents</b>	<b>(19,051,142)</b>	<b>(27,641,290)</b>	<b>(12,825,828)</b>	<b>(22,028,978)</b>

The notes to the Financial Statements from pages 095 to 152 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, 2019 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, 2019 is 45 (2018 – 48).

### 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, 2019 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](http://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 098 to 116.

This is the first set of annual financial statements in which SLFRS 16 - "Leases" has been applied. The related changes to significant accounting policies are described in Note 4.

### 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 081 and 091 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 089 to 090)

**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 091)

**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 092 to 093)

**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 094)

**E.** Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. (Refer pages 095 to 152)

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

### 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, 2019 (including comparatives for 2018), were approved and authorised for issue in accordance with the resolution of the Board of Directors on September 16, 2020.

### 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	20.1	124
Quoted equity investments measured at fair value through profit or loss (FVTPL)	Fair Value	20.1	124
Unquoted equity investments measured at fair value through other comprehensive income (FVOCI)	Fair Value	20.2	125
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.	31	134

### 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. Further details are provided in Note 40.1 on page 142.

### 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 44 on pages 151 (Current/Non-current Analysis) No adjustments have been made for inflationary factors affecting the Financial Statements.

### 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.

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 Group has applied SLFRS 16 using the modified retrospective approach from January 1, 2019, without restating comparatives for 2018 reporting period, as permitted under the specific transitional provisions in the standard. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

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

### 3. Use of Significant Accounting Judgements, 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 104 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 5.3.3 on pages 109 to 111.

#### 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 Group 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 38.5 and 38.6 on page 140 respectively.

##### 3.2.2. Impairment losses on financial assets

The measurement of impairment losses both under SLFRS 9 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 Group 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 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 Group'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

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

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 111 to 112.

### 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 page 133.

### 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 31 on pages from 134 to 135.

### 3.2.7. Provisions for liabilities, commitments and contingencies

The Group 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 104.

## 4. Changes in Significant Accounting Policies

The Group has consistently applied the Accounting Policies as set out in Notes 5 on pages 100 to 116 all periods presented in these Financial Statements, except for the changes arising out of transition to SLFRS 16.

The Group has applied SLFRS 16, which is effective for the annual reporting periods beginning on or after January 1, 2019, 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 16 – “Leases”

The Group has consistently applied the Accounting Policies as set out in these Financial Statements, except for changes arising out of transition to SLFRS 16 as set out below:

The Group initially applied SLFRS 16 – “Leases” from January 1, 2019. The Group applied SLFRS 16 – “Leases” using the modified retrospective approach under which no cumulative effect on initial application is recognised in retained earnings as at January 1, 2019. Accordingly, the comparative information presented for December 31, 2019 is not restated – i.e. it is presented, as previously reported, under LKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below:

#### 4.1.1 Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The

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

Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in SLFRS 16 –“Leases”, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied SLFRS 16 –“Leases”, only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 and IFRIC 4 were not reassessed for whether there is a lease under SLFRS 16 –“Leases”. Therefore, the definition of a lease under SLFRS 16 –“Leases” was applied only to contracts entered into or changed on or after January 1,2019.

**4.1.1.(a) As a lessee**

The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under SLFRS 16 –“Leases”, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Previously, the Group classified property leases as operating leases under LKAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at January 1,2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Group applied this approach to all other leases.

The Group has tested its right-of-use assets for impairment on the date of

transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment)
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

**4.1.2 Leases classified as operating leases under LKAS 17**

As a lessee, the Group leases many properties for branch operations and on transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at January 1,2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

**4.1.3 Leases classified as finance leases under LKAS 17**

These leases were classified as finance leases under LKAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at January 1,2019 were determined at the carrying amount of the lease asset and lease liability under LKAS 17 immediately before that date. However the Group did not had any finance lease assets recognized under LKAS 17 at the date of transition.

**4.1.3.1 As a lessor**

The accounting by lessors under the new standard is substantially unchanged from accounting in LKAS 17 and lessors continues to classify all leases using the same classification principle as in LKAS 17. Group has not leased out own properties or any other assets at the date of transition.

**4.1.4 Impact on transition to SLFRS 16 – “Leases”**

On transition to SLFRS 16 –“Leases”, the Company recognised additional right-of-use assets and additional lease liabilities in the statement of financial position. The impact on transition as at January 1,2019 is summarised below:

Lease liabilities	Rs.
<b>Operating Lease Commitments as at December 31, 2018</b>	<b>17,489,056</b>
Discounted using incremental borrowing rate at December 31,2018	13,764,465
<b>Lease liabilities recognised as at January 1, 2019</b>	<b>13,764,465</b>
Right-of-use assets	Rs.
Lease liabilities recognised as at January 1,2019	13,764,465
Add: Prepaid rentals as at December 31, 2019	5,490,000
<b>Right-of-use assets recognised as at 1 January 2020</b>	<b>19,254,465</b>

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1,2019. The weighted average rate applied is 15%.

Right-of-use assets are presented separately from other assets on the Statement of Financial Position and similarly, lease liabilities are presented separately from other liabilities on the Statement of Financial Position.

## 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 096. 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
<b>Significant accounting policies – General</b>				
Financial Assets and Liabilities	5.1.1	101	38	138
Fair Value Measurement	5.1.2	103	38.5	140
Consolidated Financial Statements	5.1.3	104	-	-
<b>Significant accounting policies – Recognition of income and expense</b>				
Revenue	5.2.1	105	7,9,10	117-118
Net Interest Income	5.2.2	105	8	117
Fee and Commission Income	5.2.3	106	9	117
Other Operating Income	5.2.4	106	10	118
Expected Credit Losses on Financial Assets	5.2.5	106	11	118
Personnel Expenses	5.2.6	108	12	118
Other Expenses	5.2.7	108	13	118
Economic Service Charge (ESC)	5.2.8	108	-	-
Nation Building Tax (NBT) on financial services	5.2.9	108	14	119
Value Added Tax (VAT) on financial services	5.2.10	108	14	119
Income Tax	5.2.11	108	15	119
Earnings Per Share	5.2.12	109	16	120
<b>Significant accounting policies – Recognition of assets and liabilities</b>				
Cash and Cash Equivalents	5.3.1	109	17	120
Placements with Banks	5.3.2	109	18	120
Loans and Receivables	5.3.3	109	19	121-123
Financial Investments	5.3.4	111	20	123-125
Investment in Associate	5.3.5	111	21	126-127
Investment in Subsidiary	5.3.6	111	22	127
Investment Property	5.3.7	111	23	127-128
Property, Plant and Equipment	5.3.8	111	24	129-131
Right of use Assets and Lease Liabilities	5.3.9	112	25	131-132
Intangible Assets	5.3.10	114	26	132
Other Assets	5.3.11	114	28	134
Due to Financial Institutions	5.3.12	114	29	134
Due to Other Customers	5.3.13	114	30	134
Retirement Benefit Obligations	5.3.14	114	31	134-135
Other Liabilities	5.3.15	114	32	135
Statutory Reserve	5.3.16	115	34	136
Fair Value Reserve	5.3.17	115	35	137
<b>Significant Accounting Policies – Statement of Cash Flows</b>				
Statement of Cash Flows	5.4	115	-	-
<b>Significant Accounting Policies – Other</b>				
Commitments and Contingencies	5.5.2/5.5.3	115	39	142
Events that Occurred after the Reporting Date	5.5.1	115	40	142
Segmental Analysis	5.5.4	115	45	152
Maturity Analysis	5.5.5	116	43.3.3	144-145

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

### 5.1. Significant Accounting Policies – General

#### 5.1.1. Financial Assets and Liabilities

##### 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:
- 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.

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

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.

#### 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.

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.

### B. Financial Liabilities

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

#### 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.

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

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

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 SLFRS standards, 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

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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

the amount could be required to be paid. The Group 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 Group 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

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

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 premium 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.

### 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. 22 on page 127 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

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

- 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.

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 21 on pages from 126 to 127 in 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 on the original EIR and the change in carrying amount is recorded

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

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 Group 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 Group 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 Group 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

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

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

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

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group 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

**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.

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

### 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 Group recognises loss allowances for ECL on assets subsequently measured at amortised cost. The Group 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 was abolished with effect from December 1, 2019. It stood at 2% prior to the abolition.

### 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, 2019 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

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

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 Group 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 Group 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**

"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 Group 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. 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.

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.

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

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

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 Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

#### Definition of Default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group 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 Group.

In determination of default the Group largely aligns with the regulatory definition of default which is 180 days and above. In assessing whether a borrower is in default, the Group 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 Group; 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 Group reviews its individually significant loans and advances above a predefined threshold at each reporting date. The Group 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 Group 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 Group calculates ECL either on a collective or an individual basis. Those financial assets for which, the Group 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 Group 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

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

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 counter parties. 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 Group 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 Group 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 Group'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 Group 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 Group'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 Group's share of net assets of the associate, less any impairment in the Group's net investment in associate. Refer Note 21. on Page 126.

### 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 Group's Financial Statements. Refer Note 22 on Page 127.

### 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

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

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 Right - of - use Assets and Lease Liabilities

#### Basis of Recognition

The Group has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

#### Policy applicable from January 1, 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into, on or after January 1,2019.

#### As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement

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

date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

**Short-term leases and leases of low-value assets**

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**Policy applicable before January 1, 2019**

For contracts entered into before January 1, 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

**As a lessee**

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

**Presentation**

As per SLFRS 16 Right-of-use assets are either presented separately from other assets on the balance sheet or disclosed separately in the notes. Similarly, lease liabilities are either presented separately from other liabilities on the balance sheet or disclosed separately in the notes.

The company has elected to present Right-of-use assets separately from

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

other assets on the Statement of financial position. Similarly, lease liabilities are presented separately from other liabilities on the Statement of financial position. Depreciation expense and interest expense cannot be combined in the income statement. In the cash flow statement, principal payments on the lease liability are presented within financing activities; interest payments are presented based on an accounting policy election in accordance with LKAS 7 Statement of Cash Flows.

### 5.3.10. 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 Group and the cost of the asset can be measured reliably, in accordance with Sri Lanka Accounting Standard 38 - Intangible Assets. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group 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.

### 5.3.11. Other Assets

Other assets mainly comprise of refundable deposits, prepayments, performance bank guarantee, receivable from escrow agreement and other

advances carried at historical cost.

### 5.3.12. 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.

### 5.3.13. 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.

### 5.3.14. 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 Group 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 Group recognises the total actuarial gains and losses that arise in calculating the Group'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.

### 5.3.15. 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.

**Notes to the Financial Statements (contd..)****5.3.16. 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.

**5.3.17 Fair Value Reserve**

“Fair value reserve” comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income. Refer Note 35 on page 137.

**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 094.

**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 40 on page 142, where necessary.

**5.5.2. Capital Commitments**

During 2019, 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 Group have been disclosed in the Note 39 on Page 142 to the Financial Statements. However, based on the available information and the available legal advice, the Group do not expect the outcome of any action to have any material effect on the financial position of the Group.

**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 Group'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 Group are located mainly in Sri Lanka. Consequently, the economic environment in which the Group operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

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

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

Details of the 5.5.4. Operating Segments are given in Note No. 45 on page 152.

**5.5.5. Maturity Analysis**

The Company has disclosed an analysis of assets and liabilities into 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 43.3.3 of Pages from 144 to 145.

**6. New Accounting Standards Issued but not yet Effective**

Group has not applied the following new standards or amendments in preparing these Consolidated Financial Statements. The new standards and amendments listed below are those that could potentially have an impact on the Group's performance, financial position or disclosures:

**6.1 Amendments to References to Conceptual Framework in IFRS Standards**

The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures.

The new conceptual framework is effective for annual periods beginning on or January 1, 2020.

Group is not expecting a significant impact arising from the new conceptual framework.

**6.2 Interest rate benchmark reforms. (Amendments to SLFRS 9, LKAS 39, and SLFRS 7)**

Interest rate benchmark reform is a global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. Historically IBORs such as USD LIBOR have been determined by panels of banks with a heavy reliance on expert judgement. The objective

of the reforms is to replace IBORs with alternative nearly risk-free rates (RFRs) that are based on actual market transactions. The Financial Conduct Authority has stated that it will no longer compel panel banks to submit values for LIBORs after December 31, 2021 and it is expected that these benchmarks will cease to exist thereafter. Consequently, financial contracts referencing these benchmarks with a maturity beyond 2021 may need to be amended to reference the alternative RFR in the applicable currency. There remain many uncertainties associated with the IBOR transition, including the prospective.

Group is in the process of assessing the possible impact.

**6.3 Definition of a business (Amendments to SLFRS 3)**

Amendments to SLFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. Therefore, whether or not an acquired set of activities and assets is a business, is a key consideration in determining how the transaction should be accounted for. Prior to the amendments, SLFRS 3 stated that a business consists of inputs and processes applied to those inputs that have the ability to create outputs, although outputs are not necessarily required for an integrated set to qualify as a business.

Group is in the process of assessing the possible impact.

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

## Income

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Interest income [Note 7]	263,851,434	245,975,164	263,851,434	245,975,164
Fee and commission income [Note 9]	4,600,963	5,587,169	4,600,963	5,587,169
Other operating income [Note 10]	17,558,078	14,412,452	90,589,364	93,591,328
	<b>286,010,475</b>	<b>265,974,785</b>	<b>359,041,761</b>	<b>345,153,661</b>

## Note 7 Interest Income

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Lease rental receivable	144,811,174	135,889,822	144,811,174	135,889,822
Loans and advances	105,838,629	101,870,477	105,838,629	101,870,477
Pawning advances	13,201,631	8,214,865	13,201,631	8,214,865
<b>Total interest income</b>	<b>263,851,434</b>	<b>245,975,164</b>	<b>263,851,434</b>	<b>245,975,164</b>

## Note 8 Interest Expenses

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Due to banks	69,603,034	49,802,240	69,641,309	49,840,530
Due to other customers	5,168,386	5,112,984	5,168,386	5,112,984
On other borrowings	211,126	8,423,753	211,126	8,423,753
SLFRS 16 - Incremental borrowing cost	2,136,712	-	2,395,562	-
<b>Total interest expenses</b>	<b>77,119,258</b>	<b>63,338,977</b>	<b>77,416,383</b>	<b>63,377,267</b>
<b>Net interest income</b>	<b>186,732,176</b>	<b>182,636,187</b>	<b>186,435,051</b>	<b>182,597,897</b>

## Note 9 Net Fee and Commission Income

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Fee and commission income	4,600,963	5,587,169	4,600,963	5,587,169
<b>Net fee and commission income</b>	<b>4,600,963</b>	<b>5,587,169</b>	<b>4,600,963</b>	<b>5,587,169</b>

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

## Note 10 Other Operating Income

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Profit on sale of property, plant and equipment	-	-	-	5,000,000
Investment with government securities	83,987	572,758	83,987	572,758
Service charges	350,390	410,360	350,390	410,360
Recovery of loans and lease written off in prior years	55,826	641,503	55,826	641,503
Dividend income	563,300	179,478	624,524	294,432
Interest income on placements with banks	13,160,671	12,552,606	13,160,671	12,552,606
Money brokering income	-	-	74,647,021	73,854,430
Profit on pawning auction	100,626	35,627	100,626	35,627
Profit on sale of land	642,271	-	642,271	-
Profit on sale of shares	-	-	-	229,612
Provision reversals for value of investment associate company	2,079,365	20,120	-	-
Provision reversals for value of financial investment	155,656	-	558,062	-
Sundry income	365,986	-	365,986	-
	<b>17,558,078</b>	<b>14,412,452</b>	<b>90,589,364</b>	<b>93,591,328</b>

## Note 11 Allowance for Expected Credit Loss - (Charge)/ Reversal

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Allowance for expected credit loss for loans and advances (Note 19.5)	(37,945,703)	282,649,063	(37,945,703)	282,649,063
Allowance for expected credit loss for placement with banks	(221,849)	(201,601)	(221,849)	(201,601)
Write-offs and disposal losses	(32,639,342)	(264,389,345)	(32,639,342)	(264,389,345)
	<b>(70,806,894)</b>	<b>18,058,117</b>	<b>(70,806,894)</b>	<b>18,058,117</b>

## Note 12 Personnel Expenses

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Salaries and bonus	43,849,357	44,398,400	75,077,907	70,230,920
Defined contribution plan costs - EPF	5,249,023	4,953,392	9,355,599	8,239,234
Defined contribution plan costs - ETF	1,312,256	1,238,348	2,338,900	2,059,809
Defined benefit plan cost	2,140,042	1,669,937	4,955,299	4,122,678
Others	9,713,469	8,826,390	16,125,151	16,430,707
	<b>62,264,147</b>	<b>61,086,467</b>	<b>107,852,856</b>	<b>101,083,348</b>

## Note 13 Other Expenses

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Auditors' remuneration -Audit related services	994,972	960,433	1,244,972	1,200,433
-Non audit services	675,939	255,045	675,939	255,045
Depreciation and amortisation	13,325,744	5,688,593	18,059,282	7,899,780
Legal expenses	2,537,612	2,010,853	2,537,612	2,010,853
Directors' emoluments	4,750,000	4,623,774	6,185,000	6,523,774
Premises and equipment cost	16,271,270	22,903,601	19,561,630	27,906,279
Others	19,160,468	17,661,337	32,785,302	37,987,890
	<b>57,716,005</b>	<b>54,103,636</b>	<b>81,049,737</b>	<b>83,784,054</b>

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

## Note 14 Taxes on Financial Services

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Nation building tax on financial services	1,436,651	2,323,816	1,436,651	2,323,816
Value added tax on financial services	11,771,455	17,438,210	11,771,455	17,438,210
	<b>13,208,106</b>	<b>19,762,026</b>	<b>13,208,106</b>	<b>19,762,026</b>

## Note 15 Taxation

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Income tax on profits (Note 15.1)	-	-	2,541,799	1,389,898
Provision/(Reversals) for the year	(3,769,004)	-	(3,769,004)	-
Provision/(Reversals) for deferred tax (Note 27.1)	-	-	(659,538)	355,411
Deemed dividend tax	-	-	-	-
	<b>(3,769,004)</b>	<b>-</b>	<b>(1,886,743)</b>	<b>1,745,309</b>

## 15.1 Reconciliation of Accounting Profit and the Income Tax Expense

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Profit before tax & taxes on financial services	4,896,065	85,741,796	8,707,785	95,205,083
Aggregate disallowed expenses	101,617,498	14,759,945	109,540,840	19,443,994
Aggregate allowable expenses	(110,977,696)	(343,143,255)	(112,135,656)	(344,999,488)
Capital portion of lease receivable	117,916,593	205,950,702	117,916,593	205,950,702
Aggregate exempt/allowable income	(3,917,896)	6,229,022	(7,783,391)	(3,318,062)
<b>Profit/(Loss) from the business</b>	<b>109,534,564</b>	<b>(30,461,790)</b>	<b>116,246,171</b>	<b>(27,717,771)</b>
Profit from other source of income	-	-	2,366,247	2,219,902
Tax loss (claimed)/incurred during the year (Note 15.3)	(109,534,564)	30,461,790	(109,534,564)	30,461,790
<b>Taxable profit</b>	<b>-</b>	<b>-</b>	<b>9,077,854</b>	<b>4,963,921</b>
<b>Income tax expense</b>	<b>-</b>	<b>-</b>	<b>2,541,799</b>	<b>1,389,898</b>

## 15.2 Reconciliation of Effective Tax Rate

A reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate for the year ended December 31, 2019 is given below:

Rs.	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Accounting profit before income tax	4,896,065	85,741,796	8,707,785	95,205,083
Income tax expense at the average statutory income tax rate @ 28%	1,370,898	24,007,703	2,438,180	26,657,423
Tax effect of disallowable expenses	28,452,899	4,132,785	30,671,435	5,444,318
Tax effect of allowable expenses	(31,073,755)	(96,080,111)	(31,397,984)	(96,599,857)
Capital portion of lease receivable	33,016,646	57,666,197	33,016,646	57,666,197
Tax effect of aggregate exempt/allowable income	(1,097,011)	1,744,126	(2,179,349)	(929,057)
Tax effect of profit from other source of income	-	-	662,549	621,573
Tax effect of tax (losses)/profit claimed during the year	(30,669,678)	8,529,301	(30,669,678)	8,529,301
Income tax expense for the year	-	-	2,541,799	1,389,898
<b>Effective tax rate</b>	<b>0.00%</b>	<b>0.00%</b>	<b>29.19%</b>	<b>1.46%</b>

Income Tax provision of SMB Leasing PLC has been calculated at 28% (2018-28%) 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%. (2018-28%)

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

**15.3 Accumulated Tax Losses**

Rs.	Company		Group	
	2019	2018	2019	2018
Balance as at January 1,	193,079,007	238,312,505	193,079,007	238,312,505
Adjustment in respect of prior years	1,958,992	(75,695,288)	1,958,992	(75,695,288)
Tax loss (claimed)/incurred during the year	(109,534,564)	30,461,790	(109,534,564)	30,461,790
<b>Balance as at December 31,</b>	<b>85,503,435</b>	<b>193,079,007</b>	<b>85,503,435</b>	<b>193,079,007</b>

**Note 16 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.

	Company		Group	
	2019	2018	2019	2018
<b>For the year ended December 31,</b>				
Profit attributable to equity holders of the company (Rs)	8,665,069	85,741,796	10,709,581	89,688,226
No. of ordinary shares outstanding during the year	1,805,832,873	1,805,832,873	1,805,832,873	1,805,832,873
<b>Basic earnings per share (Rs)</b>	<b>0.01</b>	<b>0.05</b>	<b>0.01</b>	<b>0.05</b>

**Diluted Earnings Per Share**

There were no potentially dilutive ordinary shares as at December 31,2019 and there have been no transactions involving ordinary shares or potential ordinary shares as at the reporting date which would require restatement of EPS.

**Note 17 Cash and Cash Equivalents**

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
Cash in hand	6,864,973	7,328,237	6,879,973	7,343,237
Balances with banks	18,260,127	34,504,396	24,470,441	37,601,708
<b>Cash and cash equivalents in the statement of financial position</b>	<b>25,125,100</b>	<b>41,832,633</b>	<b>31,350,414</b>	<b>44,944,945</b>
Repo investment with banks (Note 18)	85,000	1,631,800	85,000	4,131,800
Bank overdrafts repayable on demand and used for cash management purpose (Note 29)	(44,261,242)	(71,105,723)	(44,261,242)	(71,105,723)
<b>Cash and cash equivalents in the statement of cash flow.</b>	<b>(19,051,142)</b>	<b>(27,641,290)</b>	<b>(12,825,828)</b>	<b>(22,028,978)</b>

**Note 18 Placements with Banks**

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
Fixed deposits with banks	147,224,086	134,723,414	162,249,603	149,749,514
REPO investment with banks -overnight	85,000	1,631,800	85,000	4,131,800
<b>Gross placements with banks</b>	<b>147,309,086</b>	<b>136,355,214</b>	<b>162,334,603</b>	<b>153,881,314</b>
Allowance for expected credit loss-(Charge) /reversal	(424,415)	(202,566)	(424,415)	(202,566)
<b>Net placements with banks</b>	<b>146,884,671</b>	<b>136,152,648</b>	<b>161,910,188</b>	<b>153,678,748</b>

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

## Note 19 | Financial Assets at Amortised Cost-Loans and Receivables to Other Customers

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
<b>Gross loans and receivables</b>				
Stage 1	931,841,858	956,864,721	930,701,696	955,484,571
Stage 2	168,980,750	311,898,177	168,980,750	311,898,177
Stage 3	463,919,245	386,549,433	463,919,245	386,549,433
	<b>1,564,741,853</b>	<b>1,655,312,331</b>	<b>1,563,601,691</b>	<b>1,653,932,181</b>
<b>Provision for impairment</b>				
Stage 1	(49,593,008)	(35,861,086)	(49,593,008)	(35,861,086)
Stage 2	(39,215,229)	(67,294,564)	(39,215,229)	(67,294,564)
Stage 3	(271,678,482)	(219,385,366)	(271,678,482)	(219,385,366)
	<b>(360,486,719)</b>	<b>(322,541,016)</b>	<b>(360,486,719)</b>	<b>(322,541,016)</b>
<b>Net loans and advances</b>	<b>1,204,255,134</b>	<b>1,332,771,315</b>	<b>1,203,114,972</b>	<b>1,331,391,165</b>

## 19.1.1 Loans

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
<b>Gross loans receivables</b>				
Stage 1	385,290,528	313,330,353	384,150,366	311,950,203
Stage 2	38,946,776	188,301,586	38,946,776	188,301,586
Stage 3	207,997,043	147,686,194	207,997,043	147,686,194
	<b>632,234,347</b>	<b>649,318,133</b>	<b>631,094,185</b>	<b>647,937,983</b>
<b>Provision for impairment</b>				
Stage 1	(25,924,771)	(17,178,570)	(25,924,771)	(17,178,570)
Stage 2	(6,765,733)	(48,121,055)	(6,765,733)	(48,121,055)
Stage 3	(109,378,094)	(89,410,191)	(109,378,094)	(89,410,191)
	<b>(142,068,598)</b>	<b>(154,709,816)</b>	<b>(142,068,598)</b>	<b>(154,709,816)</b>
<b>Net loans receivable</b>	<b>490,165,749</b>	<b>494,608,317</b>	<b>489,025,587</b>	<b>493,228,167</b>

## 19.1.2 Leases

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
<b>Gross lease receivables</b>				
Stage 1	482,420,781	600,175,408	482,420,781	600,175,408
Stage 2	124,518,558	123,596,591	124,518,558	123,596,591
Stage 3	252,159,237	238,863,238	252,159,237	238,863,238
	<b>859,098,576</b>	<b>962,635,237</b>	<b>859,098,576</b>	<b>962,635,237</b>
<b>Provision for impairment</b>				
Stage 1	(23,668,237)	(18,679,171)	(23,668,237)	(18,679,171)
Stage 2	(32,449,496)	(19,173,509)	(32,449,496)	(19,173,509)
Stage 3	(161,254,259)	(129,975,175)	(161,254,259)	(129,975,175)
	<b>(217,371,992)</b>	<b>(167,827,855)</b>	<b>(217,371,992)</b>	<b>(167,827,855)</b>
<b>Net lease receivable</b>	<b>641,726,584</b>	<b>794,807,382</b>	<b>641,726,584</b>	<b>794,807,382</b>

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

## 19.1.3 Pawning Advances receivable

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
<b>Pawning advances receivables</b>				
Stage 1	64,130,549	43,358,961	64,130,549	43,358,961
Stage 2	5,515,416	-	5,515,416	-
Stage 3	3,762,965	-	3,762,965	-
	<b>73,408,930</b>	<b>43,358,961</b>	<b>73,408,930</b>	<b>43,358,961</b>
<b>Provision for impairment</b>				
Stage 1	-	(3,345)	-	(3,345)
Stage 2	-	-	-	-
Stage 3	(1,046,129)	-	(1,046,129)	-
	<b>(1,046,129)</b>	<b>(3,345)</b>	<b>(1,046,129)</b>	<b>(3,345)</b>
<b>Net pawning receivables</b>	<b>72,362,801</b>	<b>43,355,616</b>	<b>72,362,801</b>	<b>43,355,616</b>

## 19.2 Product-wise Analysis of Loans and Receivables

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
Lease rental receivables	859,098,576	962,635,237	859,098,576	962,635,237
Personal loans	139,928,760	125,768,179	139,928,760	125,768,179
Staff loans	-	170,424	-	170,424
Term loans	419,904,805	409,512,297	419,904,805	409,512,297
Easy payment loans	18,242,534	20,781,596	17,102,372	19,401,446
Other loans	54,158,248	93,085,637	54,158,248	93,085,637
Pawning advances	73,408,930	43,358,961	73,408,930	43,358,961
	<b>1,564,741,853</b>	<b>1,655,312,331</b>	<b>1,563,601,691</b>	<b>1,653,932,181</b>

## 19.3 Sector-wise Analysis of Loans and Receivables

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
Industry	120,495,185	138,230,678	120,495,185	138,230,678
Agriculture	117,991,025	75,235,029	117,991,025	75,235,029
Trade	114,477,620	148,085,128	114,477,620	148,085,128
Transport	513,151,494	468,232,058	513,151,494	468,232,058
Construction	20,826,235	69,633,280	20,826,235	69,633,280
Services	247,065,687	404,447,922	245,925,525	403,067,772
Personal	297,070,343	196,605,565	297,070,343	196,605,565
Others	133,664,264	154,842,671	133,664,264	154,842,671
	<b>1,564,741,853</b>	<b>1,655,312,331</b>	<b>1,563,601,691</b>	<b>1,653,932,181</b>

## 19.4 Gross Lease Rental Receivable

## 19.4.1 Gross lease rental receivable within one year

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
Total lease rentals within one year from reporting date	386,726,339	468,429,723	386,726,339	468,429,723
Unearned lease Income	(101,968,760)	(115,977,017)	(101,968,760)	(115,977,017)
<b>Balance as at December 31,</b>	<b>284,757,579</b>	<b>352,452,706</b>	<b>284,757,579</b>	<b>352,452,706</b>

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

## 19.4.2 Gross lease rental receivable after one year and five years

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
Total lease rentals receivable after one year from reporting date	664,318,631	723,256,683	664,318,631	723,256,683
Unearned lease Income	(126,735,776)	(150,098,513)	(126,735,776)	(150,098,513)
<b>Balance as at December 31,</b>	<b>537,582,855</b>	<b>573,158,170</b>	<b>537,582,855</b>	<b>573,158,170</b>

## 19.4.3 Gross lease rental receivable after five years

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
Total lease rentals receivable after five years from reporting date	39,045,590	38,089,913	39,045,590	38,089,913
Unearned lease Income	(2,287,448)	(1,065,551)	(2,287,448)	(1,065,551)
<b>Balance as at December 31,</b>	<b>36,758,142</b>	<b>37,024,362</b>	<b>36,758,142</b>	<b>37,024,362</b>
<b>Total lease rentals receivables</b>	<b>859,098,576</b>	<b>962,635,238</b>	<b>859,098,576</b>	<b>962,635,238</b>

## 19.5 Movement in Individual and Collective Impairment During the Year-Company / Group

Rs.	2019	2018
<b>Stage 1</b>		
Balance as at January 1,	35,861,086	32,269,185
Charge to the income statement	13,731,922	3,591,901
<b>Balance as at December 31,</b>	<b>49,593,008</b>	<b>35,861,086</b>
<b>Stage 2</b>		
Balance as at January 1,	67,294,564	30,279,517
charge / (reversal) to the income statement	(28,079,335)	37,015,047
<b>Balance as at December 31,</b>	<b>39,215,229</b>	<b>67,294,564</b>
<b>Stage 3</b>		
Balance as at January 1,	219,385,366	542,641,377
charge / (reversal) to the income statement	52,293,116	(323,256,011)
<b>Balance as at December 31,</b>	<b>271,678,482</b>	<b>219,385,366</b>
<b>Total net impairment charge / (reversal) for the year</b>	<b>37,945,703</b>	<b>(282,649,063)</b>

## Note 20 Financial Investments

The Company's financial investments are summarised by category as follows:

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
Fair value through profit or loss (FVTPL) (Note 20.1)	544,796	389,140	3,910,225	3,352,164
Fair value through other comprehensive income (FVTOCI) (Note 20.2)	71,704,134	61,408,835	71,704,134	61,408,835
Other financial assets (Note 20.3)	-	-	10,540,000	10,540,000
<b>Total Financial Investments</b>	<b>72,248,930</b>	<b>61,797,975</b>	<b>86,154,359</b>	<b>75,300,999</b>

The following table compares the fair values of the financial investments to their carrying values:

Rs.	Company				Group			
	2019		2018		2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fair value through profit or loss (FVTPL) (Note 20.1)	544,796	544,796	389,140	389,140	3,910,225	3,910,225	3,352,164	3,352,164
Fair value through other comprehensive income (FVTOCI) (Note 20.2)	71,704,134	71,704,134	61,408,835	61,408,835	71,704,134	71,704,134	61,408,835	61,408,835
Other financial Assets (Note 20.3)	-	-	-	-	10,540,000	10,540,000	10,540,000	10,540,000
<b>Total financial investments</b>	<b>72,248,930</b>	<b>72,248,930</b>	<b>61,797,975</b>	<b>61,797,975</b>	<b>86,154,359</b>	<b>86,154,359</b>	<b>75,300,999</b>	<b>75,300,999</b>

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

**20.1 Fair Value Through Profit or Loss (FVTPL)****20.1.1 Quoted Shares held by SMB Leasing PLC - Company**

As at December 31, Rs.	2019			2018		
	No of shares	Carrying Value	Fair Value	No of shares	Carrying Value	Fair Value
<b>Banking, Finance &amp; Insurance</b>						
The Finance Co. PLC	97	-	-	97	-	-
		-	-		-	-
<b>Manufacturing</b>						
Blue Diamond Jewelry Worldwide PLC	778,280	544,796	544,796	778,280	389,140	389,140
Metal Recyclers Colombo PLC	69	-	-	69	-	-
		544,796	544,796		389,140	389,140
<b>Land &amp; Property</b>						
Seylan Developments PLC	43	-	-	43	-	-
		-	-		-	-
<b>Carrying amount</b>		<b>544,796</b>	<b>544,796</b>		<b>389,140</b>	<b>389,140</b>

**20.1.2 Quoted Shares held by SMB Money Brokers (Pvt) Ltd.**

As at December 31, Rs.	2019			2018		
	No of shares	Carrying Value	Fair Value	No of shares	Carrying Value	Fair Value
<b>Banking, Finance &amp; Insurance</b>						
Pan Asia Bank	10,000	128,000	128,000	10,000	148,000	148,000
Union Bank of Ceylon Ltd	35,000	465,500	465,500	35,000	385,000	385,000
		593,500	593,500		533,000	533,000
<b>Land &amp; Property</b>						
Colombo Fort Land & Building PLC	30,000	402,000	402,000	30,000	450,000	450,000
People's Leasing & Finance PLC	10,302	184,406	184,406	10,000	163,000	163,000
		586,406	586,406		613,000	613,000
<b>Other</b>						
Asia Siyaka Commodities PLC	100,000	250,000	250,000	100,000	200,000	200,000
Dialog Axiata PLC	-	-	-	-	-	-
Ceylon Investment PLC	30,000	1,545,000	1,545,000	30,000	1,170,000	1,170,000
Dunamis Capital PLC	-	-	-	-	-	-
Browns Investments PLC	-	-	-	-	-	-
John Keels Holdings PLC	-	-	-	-	-	-
Pelawatta Sugar Industries PLC	3,000	-	-	3,000	-	-
Wattawala Plantations PLC	-	-	-	-	-	-
Sunshine Holdings PLC	8,309	390,523	390,523	8,309	447,024	447,024
		2,185,523	2,185,523		1,817,024	1,817,024
<b>Total Quoted Shares</b>		<b>3,365,429</b>	<b>3,365,429</b>		<b>2,963,024</b>	<b>2,963,024</b>
<b>Carrying Amount - Group</b>		<b>3,910,225</b>	<b>3,910,225</b>		<b>3,352,164</b>	<b>3,352,164</b>

**20.1.3 Determination of fair value- Company / Group**

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market prices .

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

**20.2 Fair Value Through Other Comprehensive Income (FVTOCI)****20.2.1 Unquoted Shares held by SMB Leasing PLC - Company / Group**

As at December 31, Rs.	2019		2018	
	No of shares	Carrying Value	No of shares	Carrying Value
Ceylinco Sports Complex Ltd.	300,000	3,000,000	300,000	3,000,000
Ceylinco Investment & Realty	100,000	1,000,000	100,000	1,000,000
Seraka Investment Ltd. *	5,655,900	48,645,300	5,655,900	48,645,300
South Asian Travels	30,000	300,000	30,000	300,000
Ceylinco Savings Bank Ltd	1,189,600	11,896,000	1,189,600	11,896,000
Ceylinco Coloured Stone (Pvt) Ltd.	500,000	5,000,000	500,000	5,000,000
Openarc Global Solutions (Pvt) Ltd.	45,000	450,000	45,000	450,000
Magpek Exports Ltd	125,000	5,000,000	125,000	5,000,000
Pugoda Textiles Mills Ltd	7,500	252,525	7,500	252,525
SMB Real Estate Ltd.	61,739	30,282,196	61,739	30,282,196
SMB Securities (Pvt) Limited	5,000,000	50,000,000	5,000,000	50,000,000
		<b>155,826,021</b>		<b>155,826,021</b>
<b>Provision for Impairment</b>		<b>(84,121,887)</b>		<b>(94,417,186)</b>
<b>Carrying Amount</b>		<b>71,704,134</b>		<b>61,408,835</b>

\* The investment in Seraka Investment Limited is 10% Non cumulative Non Redeemable Preference Shares

**20.2.2 Unquoted Debentures held by SMB Leasing PLC**

As at December 31, Rs.	2019	2018
	Cost	Cost
Ceylinco Automobiles Ltd	17,600,000	17,600,000
Provision for Impairment Loss	(17,600,000)	(17,600,000)
	-	-
<b>Total Carrying Amount</b>	<b>71,704,134</b>	<b>61,408,835</b>

**20.3 Other Financial Assets**

Rs.	Group	
	2019	2018
Corporate Finance & Capital Market Limited (6% Non redeemable, Non participative preference shares)	10,540,000	10,540,000
	<b>10,540,000</b>	<b>10,540,000</b>
Provision for impairment	-	-
	<b>10,540,000</b>	<b>10,540,000</b>

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

## 20.4 Movement of Financial Investment

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
As at January 1, 2018	701,541	52,017,569	-	5,662,499	52,017,569	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	-	-	-	-	-	-
<b>As at December 31, 2018</b>	<b>389,140</b>	<b>61,408,835</b>	<b>-</b>	<b>3,352,164</b>	<b>61,408,835</b>	<b>10,540,000</b>
As at January 1, 2019	389,140	61,408,835	-	3,352,164	61,408,835	10,540,000
Purchases	-	-	-	-	-	-
Maturities	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Fair value (loss)/gain recorded in the income statement	155,656	-	-	558,061	-	-
Fair value (loss)/gain recorded in the other comprehensive income	-	10,295,299	-	-	10,295,299	-
Interest Income	-	-	-	-	-	-
<b>As at December 31, 2019</b>	<b>544,796</b>	<b>71,704,134</b>	<b>-</b>	<b>3,910,225</b>	<b>71,704,134</b>	<b>10,540,000</b>

## 20.5 Disclosure of Financial Risk

The Company's exposure to Credit, Currency and Interest rate risks related to investments are disclosed in Note 43 on page 143 to the Financial Statements.

## 20.6 Financial Investments Pledged as Security

Financial investments are not pledged as a Security as at the reporting date.

## Note 21 Investment in Associate

## 21.1 Company

Rs.	Principle Activity	Holding	2019		2018		
			No of Shares	Cost as at 2019	Holding	No of Shares	Cost as at 2018
Kenanga Investment Corporation Ltd	Investment Banking	48.99%	4,900,000	49,000,000	48.99%	4,900,000	49,000,000
Provision for Impairment			-	(9,625,101)		-	(11,704,466)
<b>Balance as at December 31,</b>			<b>-</b>	<b>39,374,899</b>		<b>-</b>	<b>37,295,534</b>

## 21.2 Group

	2019		2018	
	Rs.	Rs.	Rs.	Rs.
Balance as at January 1,		37,295,534		37,275,414
Share of profit/(loss) after tax (Note 21.3)		2,079,365		20,120
<b>Balance as at December 31,</b>		<b>39,374,899</b>		<b>37,295,534</b>

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

## 21.3 Share of Profits/(Loss) of Associate Company

Rs.	2019	2018
<b>As at December 31,</b>		
Kenanga Investment Corporation Ltd	2,079,365	20,120
	<b>2,079,365</b>	<b>20,120</b>

## 21.4 Summarised Financial Information of Associate

As at December 31, 2019	Kenanga Investment Corporation Ltd	
Rs.	(Audited)	Total
Revenue	9,681,497	9,681,497
Total comprehensive income for the year	4,243,603	4,243,603
Total assets	84,631,840	84,631,840
Total equity	80,356,937	80,356,937
Total liabilities	4,274,903	4,274,903

## Note 22 Investment in Subsidiary

Rs.	Principle Activity	2019			2018		
		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
Provision for Impairment				-			-
<b>Balance as at December 31,</b>				<b>12,750,000</b>			<b>12,750,000</b>

## 22.1 Summarised Financial Information of Subsidiary

As at December 31, 2019	SMB Money Brokers (pvt) Ltd	
Rs.	(Audited)	Total
Revenue	70,994,960	70,994,960
Total comprehensive income/(expenses) for the year	4,831,378	4,831,378
Total asset	73,812,236	73,812,236
Total equity	56,275,331	56,275,331
Total liabilities	17,536,905	17,536,905

## Note 23 Investment Properties

Rs.	Company		Group	
	2019	2018	2019	2018
Balance as at January 1,	33,310,000	33,310,000	42,628,900	40,385,250
Addition during the year	-	-	-	-
Sale of investment property	-	-	-	-
Fair value gain	-	-	1,438,000	2,243,650
<b>Balance as at December 31,</b>	<b>33,310,000</b>	<b>33,310,000</b>	<b>44,066,900</b>	<b>42,628,900</b>

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

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

**23.1 Property Location**

Rs.'000 As at December 31,	Extent (Perches)	Company				Group			
		2019		2018		2019		2018	
		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	-	-	-	-	3,352	3,352	4,200	2,514
Ahangama	111.00	-	-	-	-	7,405	7,405	2,853	6,805
		<b>33,904</b>	<b>95,085</b>	<b>33,904</b>	<b>95,085</b>	<b>44,661</b>	<b>105,842</b>	<b>40,957</b>	<b>104,404</b>
(Provision)/reversals for impairment		(594)	-	(594)	-	(594)	-	1,672	-
		<b>33,310</b>	<b>95,085</b>	<b>33,310</b>	<b>95,085</b>	<b>44,067</b>	<b>105,842</b>	<b>42,629</b>	<b>104,404</b>

**23.2 Valuation of Investment Properties**

The Company carries investment properties at cost. Market valuations of the above investment properties were carried out as at July 22, 2020 and February 1, 2018 respectively, by Messrs. D.N Dhammika Baranage, S.S Karunanayake who is an independent qualified 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, 2019 when compared to the previous year.

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

## Note 24 | Property, Plant and Equipment

## Company

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2019 Total
<b>Cost / Valuation</b>					
As at January 1,	25,463,041	10,059,828	16,448,442	986,892	52,958,203
Additions for the year	2,672,258	638,750	52,315	-	3,363,323
Disposals	-	-	-	-	-
Write off	-	-	-	-	-
<b>As at December 31,</b>	<b>28,135,299</b>	<b>10,698,578</b>	<b>16,500,757</b>	<b>986,892</b>	<b>56,321,526</b>
<b>Accumulated Depreciation</b>					
As at January 1,	24,253,497	4,457,453	8,592,754	928,893	38,232,597
Charge for the year	626,467	1,884,085	2,716,102	24,000	5,250,654
Disposals	-	-	-	-	-
Write off	-	-	-	-	-
<b>As at December 31,</b>	<b>24,879,964</b>	<b>6,341,538</b>	<b>11,308,856</b>	<b>952,893</b>	<b>43,483,251</b>
<b>Net book value as at December 31, 2019</b>	<b>3,255,335</b>	<b>4,357,040</b>	<b>5,191,901</b>	<b>33,999</b>	<b>12,838,275</b>

Reconciliation of the carrying amount of property, plant and equipment as at 31.12.2018.

## Company

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2018 Total
<b>Cost / Valuation</b>					
As at January 1,	25,354,041	9,783,528	16,309,192	986,892	52,433,653
Additions for the year	109,000	385,300	139,250	-	633,550
Disposals	-	(109,000)	-	-	(109,000)
Write off	-	-	-	-	-
<b>As at December 31,</b>	<b>25,463,041</b>	<b>10,059,828</b>	<b>16,448,442</b>	<b>986,892</b>	<b>52,958,203</b>
<b>Accumulated Depreciation</b>					
As at January 1,	23,588,893	2,651,633	5,871,690	904,893	33,017,109
Charge for the year	664,604	1,854,820	2,721,064	24,000	5,264,488
Disposals	-	(49,000)	-	-	(49,000)
Write off	-	-	-	-	-
<b>As at December 31,</b>	<b>24,253,497</b>	<b>4,457,453</b>	<b>8,592,754</b>	<b>928,893</b>	<b>38,232,597</b>
<b>Net book value as at December 31, 2018</b>	<b>1,209,544</b>	<b>5,602,375</b>	<b>7,855,688</b>	<b>57,999</b>	<b>14,725,606</b>

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

## Group

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2019 Total
<b>Cost / Valuation</b>					
As at January 1,	26,551,062	13,632,159	18,383,047	10,106,982	68,673,250
Additions for the year	2,790,058	781,402	52,314	-	3,623,774
Disposals	-	-	-	-	-
Write off	-	-	-	-	-
<b>As at December 31,</b>	<b>29,341,120</b>	<b>14,413,561</b>	<b>18,435,361</b>	<b>10,106,982</b>	<b>72,297,024</b>
<b>Accumulated Depreciation</b>					
As at January 1,	24,974,258	7,531,604	10,186,801	1,593,979	44,286,642
Charge for the year	762,637	2,155,341	2,979,819	1,804,000	7,701,797
Disposals	-	-	-	-	-
write off	-	-	-	-	-
<b>As at December 31,</b>	<b>25,736,895</b>	<b>9,686,945</b>	<b>13,166,620</b>	<b>3,397,979</b>	<b>51,988,439</b>
<b>Net book value as at December 31, 2019</b>	<b>3,604,225</b>	<b>4,726,616</b>	<b>5,268,741</b>	<b>6,709,003</b>	<b>20,308,585</b>

Reconciliation of the carrying amount of property, plant and equipment as at 31.12.2018.

## Group

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2018 Total
<b>Cost / Valuation</b>					
As at January 1,	26,163,562	13,074,860	18,243,797	6,906,982	64,389,201
Additions for the year	387,500	666,299	139,250	8,900,000	10,093,049
Disposals	-	(109,000)	-	(5,700,000)	(5,809,000)
Write off	-	-	-	-	-
<b>As at December 31,</b>	<b>26,551,062</b>	<b>13,632,159</b>	<b>18,383,047</b>	<b>10,106,982</b>	<b>68,673,250</b>
<b>Accumulated Depreciation</b>					
As at January 1,	24,193,624	5,437,137	7,094,814	6,411,968	43,137,543
Charge for the year	780,634	2,143,467	3,091,987	882,011	6,898,099
Disposals	-	(49,000)	-	(5,700,000)	(5,749,000)
write off	-	-	-	-	-
<b>As at December 31,</b>	<b>24,974,258</b>	<b>7,531,604</b>	<b>10,186,801</b>	<b>1,593,979</b>	<b>44,286,642</b>
<b>Net book value as at December 31, 2018</b>	<b>1,576,804</b>	<b>6,100,555</b>	<b>8,196,246</b>	<b>8,513,003</b>	<b>24,386,608</b>

### 24.1 Acquisition of PPE During the year

During the financial year, the Company acquired PPE to the aggregate value of Rs. 3,363,323 (2018-Rs.633,550)

### 24.2 Capitalisation of Borrowing Cost

There were no capitalised borrowing costs relating to the acquisition of Property, Plant and Equipment during the year. (2018-Nil)

### 24.3 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,	2019	2018
Computer equipment	24,240,836	23,873,093
Office equipment	792,719	787,719
Furniture & fittings	2,927,673	2,797,396
Motor vehicles	866,892	866,892
	<b>28,828,120</b>	<b>28,325,100</b>

**Notes to the Financial Statements (contd..)****24.4 Property, Plant and Equipment Pledged as Security**

None of the Property, Plant and Equipment have been pledged as securities as at the reporting date.

**24.5 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.

**24.6 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.

**24.7 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 (2018: Nil).

**24.8 Temporarily Idle Property, Plant and Equipment**

There were no property, plant and equipment of the company idle as at December 31,2019 and December 31,2018.

**Note 25 | Right-of-use assets and Lease Liabilities****25.1 Right-of-use assets movement during the year**

Rs.	Company	Group
	2019	2019
<b>Right-of-use asset</b>		
Balance as at January 1,	-	-
Effect of SLFRS 16 adoption as at January 1,2019	19,254,465	21,953,762
Additions and improvements during the year	18,544,375	18,544,375
Disposals during the year	-	-
<b>Balance as at December 31,</b>	<b>37,798,840</b>	<b>40,498,137</b>
<b>Accumulated depreciation</b>		
Balance as at January 1,	-	-
Charge during the year	7,761,590	9,466,409
<b>Balance as at December 31,</b>	<b>7,761,590</b>	<b>9,466,409</b>
<b>Carrying value</b>		
<b>Balance as at December 31,</b>	<b>30,037,250</b>	<b>31,031,728</b>

**25.2 Lease liabilities movement during the year**

Rs.	Company	Group
	2019	2019
Balance as at January 1,	-	-
Effect of SLFRS 16 adoption as at January 1,2019	13,764,464	16,422,943
Additions and improvements during the year	18,544,375	18,544,375
Disposals during the year	-	-
Accretion of interest during the year	2,136,712	2,395,562
Payments during the year	(13,043,432)	(14,910,104)
<b>Balance as at December 31,</b>	<b>21,402,119</b>	<b>22,452,776</b>

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

**25.3 Amounts recognised in profit or loss****25.3.1 Leases under SLFRS 16**

Rs.	Company	Group
	2019	2019
<b>For the year ended December 31,</b>		
Depreciation of Right-of-use assets	7,761,590	9,466,409
Interest on lease liabilities	2,136,712	2,395,562
	<b>9,898,302</b>	<b>11,861,971</b>

**25.3.2 Leases under LKAS 17**

Rs.	Company	Group
	2018	2018
<b>For the year ended December 31,</b>		
Operating lease rent expense	7,919,629	10,113,281
	<b>7,919,629</b>	<b>10,113,281</b>

**25.4 Amounts recognised in statement of cash flows**

Rs.	Company	Group
	2019	2019
<b>For the year ended December 31,</b>		
Cash outflow for leases	(13,043,432)	(14,910,104)
	<b>(13,043,432)</b>	<b>(14,910,104)</b>

**25.5 Maturity analysis – Contractual undiscounted cash flows**

Rs.	Company	Group
	2019	2019
<b>For the year ended December 31,</b>		
Less than one year	10,546,308	10,546,308
Between one and five years	16,965,848	18,016,505
More than five years	-	-
<b>Total undiscounted cash flows</b>	<b>27,512,156</b>	<b>28,562,813</b>

Note **26** | **Intangible Assets**

Rs.	Company		Group	
	2019	2018	2019	2018
<b>Cost</b>				
As at January 1,	2,304,888	2,304,888	4,662,053	4,662,053
Additions for the year	-	-	-	-
<b>As at December 31,</b>	<b>2,304,888</b>	<b>2,304,888</b>	<b>4,662,053</b>	<b>4,662,053</b>
<b>Accumulated Amortisation</b>				
As at January 1,	1,233,761	809,656	1,879,975	878,294
Charge for the year	313,500	424,105	891,075	1,001,681
Disposals	-	-	-	-
<b>As at December 31,</b>	<b>1,547,261</b>	<b>1,233,761</b>	<b>2,771,050</b>	<b>1,879,975</b>
<b>Carrying Value as at December 31,</b>	<b>757,627</b>	<b>1,071,127</b>	<b>1,891,003</b>	<b>2,782,079</b>
<b>Capital Work in Progress</b>				
As at January 1,	2,040,000	-	2,040,000	-
Incurred during the Year	2,244,000	2,040,000	2,244,000	2,040,000
Capitalised during the Year	-	-	-	-
<b>As at December 31,</b>	<b>4,284,000</b>	<b>2,040,000</b>	<b>4,284,000</b>	<b>2,040,000</b>
<b>Carrying Value as at December 31,</b>	<b>5,041,627</b>	<b>3,111,127</b>	<b>6,175,003</b>	<b>4,822,079</b>

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

## Note 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	2019	2018
	Rs.	Rs.
Balance as at January 1,	8,659,505	16,300,791
Reversal for the year	(3,707,255)	(7,641,286)
<b>Balance as at December 31,</b>	<b>4,952,250</b>	<b>8,659,505</b>

The above unrecognized deferred tax liability is attributable to the following;

Rs.	Temporary difference	Tax effect	Temporary difference	Tax effect
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
On property, plant & equipment	(10,203,260)	(2,856,913)	(7,489,879)	(2,097,166)
On lease assets	(56,560,412)	(15,836,915)	(166,415,130)	(46,596,236)
On retirement benefit obligation	7,581,973	2,122,953	11,752,802	3,290,785
On accumulated tax losses	85,503,435	23,940,962	193,079,007	54,062,122
On right-of-use assets	(30,037,250)	(8,410,430)	-	-
On lease liabilities	21,402,119	5,992,593	-	-
	<b>17,686,605</b>	<b>4,952,250</b>	<b>30,926,800</b>	<b>8,659,505</b>

The deferred tax has been calculated at the rate of 28% (2018-28%)

## Group

In respect of the sole subsidiary, SMB Money Brokers (Pvt) Limited a deferred tax asset has been recognized, since the Management expects adequate taxable profit in the foreseeable future. Therefore, the Group deferred tax asset includes the deferred tax asset relevant to SMB Money Brokers (Pvt) Limited.

Rs.	2019	2018
Balance as at January 1,	2,258,717	1,759,925
Reversals for the year (Note 27.1)	339,647	498,792
<b>Balance as at December 31,</b>	<b>2,598,364</b>	<b>2,258,717</b>

## 27.1 (Charge)/Reversals Recognized in

Rs.	2019	2018
Statement of profit or loss	659,538	(355,411)
Other comprehensive income	(319,891)	854,203
<b>Balance as at December 31,</b>	<b>339,647</b>	<b>498,792</b>

The above recognized deferred tax asset is attributable to the following;

Rs.	Temporary difference	Tax Effect	Temporary difference	Tax Effect
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
On property, plant & equipment	(752,700)	(210,756)	(1,161,757)	(325,292)
On retirement benefit obligation	14,528,418	4,067,957	13,180,628	3,690,576
Revaluation gain on investment property	(4,552,025)	(1,274,567)	(3,952,025)	(1,106,567)
On right-of-use assets	(994,479)	(278,454)	-	-
On lease liabilities	1,050,657	294,184	-	-
	<b>9,279,871</b>	<b>2,598,364</b>	<b>8,066,846</b>	<b>2,258,717</b>

The deferred tax has been calculated at the rate of 28% (2018-28%)

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

Note **28** Other Assets

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
Deposits & prepayments	10,113,349	11,827,729	11,930,913	15,598,357
Other assets	42,824,040	42,434,397	56,709,024	48,829,288
	<b>52,937,389</b>	<b>54,262,126</b>	<b>68,639,937</b>	<b>64,427,645</b>

Note **29** Due Financial Institutions

Rs.	Company		Group	
	2019	2018	2019	2018
<b>As at December 31,</b>				
Bank borrowings	370,955,894	455,288,034	370,955,894	455,288,034
Bank overdraft	44,261,242	71,105,723	44,261,242	71,105,723
Securitization loans	-	3,264,856	-	3,264,856
	<b>415,217,136</b>	<b>529,658,613</b>	<b>415,217,136</b>	<b>529,658,613</b>

**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, 2019

Name of the bank	Granted Date	Amount Granted (Rs.)	Outstanding Amount (Rs.)
Sampath Bank Loan 01	January 26, 2016	90,000,000	26,273,375
Sampath Bank Loan 02	January 26, 2019	55,000,000	49,499,800
DFCC Bank	May 28, 2019	30,000,000	31,466,565
National Development Bank	November 08, 2019	25,000,000	25,660,616
Indian Bank Loan 01	February 27, 2018	100,000,000	41,666,662
Indian Bank Loan 02	August 28, 2018	200,000,000	111,111,099
Indian Bank Loan 03	October 30, 2018	85,000,000	54,166,666
Indian Bank Loan 04	April 03, 2019	40,000,000	31,111,111
		<b>625,000,000</b>	<b>370,955,894</b>

Note **30** Due to Other Customers

Rs.	Company		Group	
	2019	2018	2019	2018
<b>Balance as at December 31,</b>				
Promissory notes	104,398,651	99,838,009	104,398,651	99,838,009
Debentures	9,162,728	9,172,728	9,162,728	9,172,728
	<b>113,561,379</b>	<b>109,010,737</b>	<b>113,561,379</b>	<b>109,010,737</b>

Note **31** Retirement Benefit Obligations

Rs.	Company		Group	
	2019	2018	2019	2018
<b>Balance as at December 31,</b>				
Provision for retirement benefit obligations (Note 31.1)	7,581,973	11,752,802	22,110,387	24,933,428
	<b>7,581,973</b>	<b>11,752,802</b>	<b>22,110,387</b>	<b>24,933,428</b>

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

**31.1 Provision for Retirement benefit obligation**

Rs.	Company		Group	
	2019	2018	2019	2018
<b>Balance as at December 31,</b>				
Balance as at January 1,	11,752,802	12,182,934	24,933,428	19,860,094
Provision for the year	2,140,043	1,669,937	4,955,299	4,122,678
Actuarial (Gain)/Loss during the year	(530,442)	(613,023)	(1,672,910)	2,437,702
Payments during the year	(5,780,430)	(1,487,046)	(6,105,430)	(1,487,046)
<b>Balance as at December 31,</b>	<b>7,581,973</b>	<b>11,752,802</b>	<b>22,110,387</b>	<b>24,933,428</b>

The following assumptions were used in valuing the retirement benefits obligation using internally developed method as required by Sri Lanka Accounting Standard LKAS 19 - Employee Benefits.

	2019	2018
Salary increment rate	7.00%	14.00%
Discount rate	11.00%	11.00%
Retirement age	55 Years	55 Years
Staff turnover factor	35.00%	20.00%

**31.2 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.

Company Rs.	Sensitivity Effect on	
	Total Comprehensive Income Increase / (Reduction)	Employment Benefit Obligation Increase / (Reduction) in the Liability
Increase in discount rate (1%)	221,697	(186,839)
Decrease in discount rate (1%)	(226,979)	193,325
Increase in salary increment rate (1%)	(162,179)	198,791
Decrease in salary increment rate (1%)	159,502	(195,497)

Group Rs.	Sensitivity Effect on	
	Total Comprehensive Income Increase / (Reduction)	Employment Benefit Obligation Increase / (Reduction) in the Liability
Increase in discount rate (1%)	1,138,713	(1,103,855)
Decrease in discount rate (1%)	(1,231,145)	1,197,491
Increase in salary increment rate (1%)	(1,134,124)	1,170,736
Decrease in salary increment rate (1%)	1,064,773	(1,100,768)

**Note 32 | Other Liabilities**

Rs.	Company		Group	
	2019	2018	2019	2018
<b>Balance as at December 31,</b>				
Accrued expenses	6,732,238	10,541,740	6,732,238	10,541,740
Other liabilities	13,866,642	30,094,094	17,105,082	33,147,500
	<b>20,598,880</b>	<b>40,635,834</b>	<b>23,837,320</b>	<b>43,689,240</b>

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

Note **33** | **Stated Capital**

Rs.	Company		Group	
	2019	2018	2019	2018
<b>Balance as at December 31,</b>				
Ordinary voting shares	1,136,230,554	1,136,230,554	1,136,230,554	1,136,230,554
Ordinary non voting shares	419,252,881	419,252,881	419,252,881	419,252,881
Capital reduction	(636,419,321)	(636,419,321)	(636,419,321)	(636,419,321)
	<b>919,064,114</b>	<b>919,064,114</b>	<b>919,064,114</b>	<b>919,064,114</b>

**33.1 Reconciliation of Number of Shares - Company**

Rs.	2019	2018
	No. of shares	No. of shares
<b>Ordinary Voting Shares</b>		
As at January 1,	1,191,766,772	1,191,766,772
Issue of shares	-	-
<b>As at December 31,</b>	<b>1,191,766,772</b>	<b>1,191,766,772</b>
<b>Ordinary Non Voting Shares</b>		
As at January 1,	614,066,101	614,066,101
Issue of shares	-	-
<b>As at December 31,</b>	<b>614,066,101</b>	<b>614,066,101</b>
<b>Total</b>	<b>1,805,832,873</b>	<b>1,805,832,873</b>

**33.2 Rights, preferences and restrictions of classes of capital**

The ordinary shares of the Company are quoted in the Colombo Stock Exchange. The holders of ordinary shares have the right to receive dividend as declared from time to time and are entitled to one vote per share at the Annual General Meeting of the Company.

**33.3 Regulatory capital - Company**

	2019		2018	
	Actual	Required	Actual	Required
Tier 1 capital ratio (%)	48.23	6.50	52.91	6.00
Total capital ratio (%)	45.72	10.50	52.91	10.00

Tier 1 capital ratio and total capital ratio of the Company computed as per the Finance Leasing Act Direction No.03 of 2018 capital adequacy requirements issued by the Central Bank of Sri Lanka with effect from July 1, 2018.

Note **34** | **Statutory Reserves Fund**

Rs.	Company		Group	
	2019	2018	2019	2018
<b>Balance as at December 31,</b>				
Balance as at January 1,	34,648,406	30,361,316	34,648,406	30,361,316
Transfer made during the year	433,253	4,287,090	433,253	4,287,090
	<b>35,081,659</b>	<b>34,648,406</b>	<b>35,081,659</b>	<b>34,648,406</b>

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

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

## Note 35 Fair Value Reserve

Rs.	Company		Group	
	2019	2018	2019	2018
<b>Balance as at December 31,</b>				
Balance as at January 1,	9,624,647	-	9,624,647	-
Impact of adopting SLFRS 9	-	233,381	-	233,381
Net fair value gains /(losses) on remeasuring financial investments	10,295,299	9,391,266	10,295,299	9,391,266
	<b>19,919,946</b>	<b>9,624,647</b>	<b>19,919,946</b>	<b>9,624,647</b>

## Note 36 Retained Earnings

Rs.	Company		Group	
	2019	2018	2019	2018
Balance as at January 1,	73,613,811	223,927,041	86,266,886	228,378,513
Impact of adopting SLFRS 9 – “Financial Instruments” as at January 1, 2018	-	(196,030,921)	-	(190,655,522)
Transfer to fair value reserve	-	(233,381)	-	(233,381)
Impact of adopting SLFRS 16 - “Leases” as at January 1, 2019	-	-	(315,783)	-
Profit for the year	8,665,069	85,741,796	10,709,581	89,688,226
Other comprehensive income	530,442	613,023	949,957	(507,203)
Transfers to statutory reserve	(433,253)	(4,287,090)	(433,253)	(4,287,090)
Dividend paid	-	(36,116,657)	-	(36,116,657)
<b>Balance as at December 31,</b>	<b>82,376,069</b>	<b>73,613,811</b>	<b>97,177,388</b>	<b>86,266,886</b>

## Note 37 Non- Controlling Interests

Rs.	2019	2018
Balance as at January 1,	24,239,269	16,359,297
Impact of adopting SLFRS 9 - “Financial Instruments”	-	5,164,600
Impact of adopting SLFRS 16 – “Leases”	(303,399)	-
<b>Restated balance as at the beginning of the year</b>	<b>23,935,870</b>	<b>21,523,897</b>
Profit for the year	1,964,312	3,791,668
Other comprehensive income for the year	403,062	(1,076,296)
<b>Balance as at December 31,</b>	<b>26,303,244</b>	<b>24,239,269</b>

## 37.1 Reconciliation of Non Controlling Interest (NCI) in Subsidiary

As at December 31,	2019	2018
	Rs.	Rs.
NCI percentage (%)	49.01%	49.01%
Total assets	73,812,236	67,256,526
Total liabilities	17,536,905	15,193,391
Net assets	53,854,561	49,642,365
Carrying amount of NCI	26,303,244	24,239,269
Revenue	70,994,960	69,575,161
Profit	4,008,801	7,738,098
Total comprehensive income	822,577	(2,196,522)
Profit allocated to NCI	2,367,374	2,715,372

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

## Note 38 Classification of Financial Instruments

## 38.1 Asset - Company

As at December 31,	2019				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	Total
<b>Rs.'000</b>						
<b>Financial Assets</b>						
Cash and cash equivalents	-	25,125	-	-	25,125	41,833
Placements with banks	-	146,885	-	-	146,885	136,153
Financial assets at amortised cost-Loans and receivables to other customers	-	1,204,255	-	-	1,204,255	1,332,771
Fair value through profit or loss (FVTPL)	545	-	-	-	545	389
Fair value through other comprehensive income (FVTOCI)	-	-	71,704	-	71,704	61,409
<b>Total Financial Assets</b>	<b>545</b>	<b>1,376,265</b>	<b>71,704</b>	<b>-</b>	<b>1,448,514</b>	<b>1,572,555</b>
<b>Non Financial Assets</b>						
Investment in associate	-	-	-	39,375	39,375	37,295
Investment in subsidiary	-	-	-	12,750	12,750	12,750
Investment properties	-	-	-	33,310	33,310	33,310
Property plant & equipment	-	-	-	12,838	12,838	14,726
Right-of-use assets	-	-	-	30,037	30,037	-
Intangible assets	-	-	-	5,042	5,042	3,111
Other assets	-	-	-	52,937	52,937	54,262
<b>Total Non Financial Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>186,289</b>	<b>186,289</b>	<b>155,454</b>
<b>Total Assets</b>	<b>545</b>	<b>1,376,265</b>	<b>71,704</b>	<b>186,289</b>	<b>1,634,803</b>	<b>1,728,009</b>

## 38.2 Liabilities - Company

As at December 31,	2019			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)	Total	Total
<b>Rs.'000</b>					
<b>Financial Liabilities</b>					
Due to financial institutions	-	415,217	-	415,217	529,658
Due to other customers	-	113,561	-	113,561	109,011
Lease liabilities	-	21,402	-	21,402	-
	-	550,180	-	550,180	638,669
<b>Non Financial Liabilities</b>					
Other liabilities	-	28,181	-	28,181	52,389
	-	28,181	-	28,181	52,389
<b>Total Liabilities</b>	<b>-</b>	<b>578,361</b>	<b>-</b>	<b>578,361</b>	<b>691,058</b>

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

## 38.3 Asset-Group

As at December 31,	2019					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	Total
Rs.'000						
<b>Financial Assets</b>						
Cash and cash equivalents	-	31,350	-	-	31,350	44,945
Placements with banks	-	161,910	-	-	161,910	153,679
Financial assets at amortised cost-loans and receivables to other customers	-	1,203,115	-	-	1,203,115	1,331,391
Fair value through profit or loss (FVTPL)	3,910	-	-	-	3,910	3,352
Fair value through other comprehensive income (FVTOCI)	-	-	71,704	-	71,704	61,409
Other Financial Assets	-	10,540	-	-	10,540	10,540
<b>Total Financial Assets</b>	<b>3,910</b>	<b>1,406,915</b>	<b>71,704</b>	<b>-</b>	<b>1,482,529</b>	<b>1,605,316</b>
<b>Non Financial Assets</b>						
Investment in associate	-	-	-	39,375	39,375	37,295
Investment properties	-	-	-	44,067	44,067	42,629
Property plant & equipment	-	-	-	20,309	20,309	24,387
Right-of-use assets	-	-	-	31,032	31,032	-
Intangible assets	-	-	-	6,175	6,175	4,822
Deferred tax assets	-	-	-	2,598	2,598	2,259
Other assets	-	-	-	68,640	68,640	64,427
<b>Total Non Financial Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>212,196</b>	<b>212,196</b>	<b>175,819</b>
<b>Total Assets</b>	<b>3,910</b>	<b>1,406,915</b>	<b>71,704</b>	<b>212,196</b>	<b>1,694,725</b>	<b>1,781,135</b>

## 38.4 Liabilities - Group

As at December 31,	2019			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)	Total	Total
Rs.'000					
<b>Financial Liabilities</b>					
Due to financial institutions	-	415,217	-	415,217	529,658
Due to other customers	-	113,561	-	113,561	109,011
Lease liabilities	-	22,453	-	22,453	-
	-	551,231	-	551,231	638,669
<b>Non Financial Liabilities</b>					
Other liabilities	-	45,948	-	45,948	68,623
	-	45,948	-	45,948	68,623
<b>Total Liabilities</b>	<b>-</b>	<b>597,179</b>	<b>-</b>	<b>597,179</b>	<b>707,292</b>

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

**38.5 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.

**38.6 Determination of Fair Value and Fair Values Hierarchy of Financial Investments**

Please refer accounting policy Note 5.1.2 on page 103 for more information regarding determination of fair value.

As at December 31, Rs.'000	2019				2018
	Level 1	Level 2	Level 3	Total	Total
<b>Company</b>					
Fair value through profit or loss (FVTPL)	545	-	-	545	389
Fair value through other comprehensive income (FVTOCI)	-	-	71,704	71,704	61,409
<b>Total Financial Investment</b>	<b>545</b>	<b>-</b>	<b>71,704</b>	<b>72,249</b>	<b>61,798</b>
<b>Group</b>					
Fair value through profit or loss (FVTPL)	3,910	-	-	3,910	3,352
Fair value through other comprehensive income (FVTOCI)	-	-	71,704	71,704	61,409
Other financial assets	-	-	10,540	10,540	10,540
<b>Total Financial Investment</b>	<b>3,910</b>	<b>-</b>	<b>82,244</b>	<b>86,154</b>	<b>75,301</b>

**Notes to the Financial Statements (contd..)****38.7 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.

**Assets - Company**

As at December 31, Rs.'000	2019				2018
	Level 1	Level 2	Level 3	Total	Total
Cash and cash equivalents	-	-	-	25,125	41,833
Placements with banks	-	-	-	146,885	136,153
Financial assets at amortised cost-loans and receivables to other customers	-	-	-	1,204,255	1,332,771
<b>Total Asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,376,265</b>	<b>1,510,757</b>

The Company has not disclosed the fair values for financial instruments such as Cash and cash equivalents, Placement with Banks and Loans and Receivables to other customers, because their carrying amounts are a reasonable approximation of fair value.

**Assets - Group**

As at December 31, Rs.'000	2019				2018
	Level 1	Level 2	Level 3	Total	Total
Cash and cash equivalents	-	-	-	31,350	44,945
Placements with banks	-	-	-	161,910	153,679
Financial assets at amortised cost-loans and receivables to other customers	-	-	-	1,203,115	1,331,391
Other financial assets	-	-	-	10,540	10,540
<b>Total Asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,406,915</b>	<b>1,540,555</b>

The Group has not disclosed the fair values for financial instruments such as Cash and cash equivalents, Placement with Banks and Loans and Receivables to other customers, because their carrying amounts are a reasonable approximation of fair value.

**38.8 Financial Liabilities**

As at December 31, Rs.'000	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Company</b>				
Due to financial institutions	415,217	415,217	529,659	529,659
Due to other customers	113,561	113,561	109,011	109,011
Lease liabilities	21,402	21,402	-	-
	<b>550,180</b>	<b>550,180</b>	<b>638,670</b>	<b>638,670</b>
<b>Group</b>				
Due to financial institutions	415,217	415,217	529,659	529,659
Due to other customers	113,561	113,561	109,011	109,011
Lease liabilities	22,453	22,453	-	-
	<b>551,231</b>	<b>551,231</b>	<b>638,670</b>	<b>638,670</b>

The fair values of financial liabilities similar to carrying amounts since those amounts are reasonable approximation of fair values. Thus, the fair-value hierarchy disclosure is not applicable.

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

## Note 39 | Commitments and Contingencies

## 39.1 Capital Commitment

There are no capital commitments as at December 31, 2019

## 39.2 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.

## Note 40 | Event After the Reporting Date

There have been no events subsequent to the reporting date which require adjustment or disclosure to the financial statement, other than those disclosed below:

## 40.1 The impact of COVID-19

The corona-virus outbreak since early 2020 has brought about disruptions to business and economic activities, and uncertainty to the global and local economy resulting in additional uncertainties in the Group's operating environment and has impacted the Group's operations subsequent to the financial year-end. The subsequent adverse economic effects have caused financial stress among our individual and SME customers which may lead to elevated levels of credit risk in the short term.

The Company has provided relief for the affected businesses and individuals in line with the directions issued by the Central Bank of Sri Lanka. The relief measures

included deterrent of repayment terms of credit facilities and waving off certain fees and charges. The Company was one of the first NBFIs to successfully complete the granting of debt moratoriums to all its affected customers which reflects the operational excellence of the Company.

During the outset of COVID-19 in Sri Lanka in mid-March 2020, the management assessed the loan book of the Company to ascertain the possible affected industries and the management is comfortable with the wide range of industries covered by the Company which in turn would ensure the resilience of the Company in an economic shock of this nature.

The Company will continue to take

appropriate actions to mitigate any potential impact and will keep its contingency and risk management measures under review, as the situation evolves. With the situation and the spread of the coronavirus still evolving, the overall impact to our core markets and also to the Company's financial results beyond the balance sheet date cannot be reasonably estimated at the current stage. The Company's recovery efforts have been strengthened on the customers who were not affected by COVID-19 and not eligible for CBSL debt moratoriums. Post moratorium period, recovery efforts will be applicable to all default customers to ensure that the next financial year will not see any significant adverse impact due to COVID-19.

## Note 41 | Related Party Disclosures

## 41.1 Transactions with Related Parties

Company Rs.'000	Name of Director	Details of Financial Dealing	2019		2018		As a percentage of capital funds as at 31.12.2019
			Received/ Payable/ Paid)	Capital Outstanding as at 31.12.2019	Received/ Payable/ Paid)	Capital Outstanding as at 31.12.2018	
<b>Transactions with Associate</b>							
Kenanga Investment Corporation Ltd		-	-	-	-	-	-
<b>Transactions with Subsidiary</b>							
SMB Money Brokers (Pvt) Ltd	Mr. T.M. Wijesinghe	Easy Payment Loan	(240)	1,140	(240)	1,380	0.00%
	Mr. H.R.S.Wijeratne		-	-	-	-	0.00%
<b>Transactions with other Related Companies</b>							
Sapphirus Lanka (Pvt) Ltd	Mr. T.M. Wijesinghe	Term Loan	(1,097)	-	(1,253)	1,097	0.00%
Grayline Cargo Terminals (Pvt) Ltd	Mr. H.R.S. Wijeratne	Finance Lease	(1,292)	7,611	(1,071)	8,903	0.00%
		Term Loan	(3,014)	9,835	(2,716)	12,849	0.00%
Grayline Container Terminals (Pvt) Ltd	Mr. H.R.S. Wijeratne	Finance Lease	(916)	5,392	(759)	6,308	0.00%
		Term Loan	(101)	593	(83)	694	0.00%
Lanka Ashok Leyland PLC	Mr. U.Gautam	Supplier Payment	(36,165)	-	(206,333)	-	0.00%

**Notes to the Financial Statements (contd..)****41.2 Transaction with Key Management Personnel**

As per the Sri Lanka Accounting Standard – (LKAS 24) – “Related Party Disclosures”, the KMPs include those who are having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Board of Directors of the Company, and members of the Corporate Management of the Company have been classified as KMPs of the Company.

**41.2.1 Remuneration to key management personnel****(a) Remuneration to Board of Directors**

	Company		Group	
	2019	2018	2019	2018
Short-term employees benefits	4,750,000	4,623,774	6,185,000	6,523,774
<b>Total</b>	<b>4,750,000</b>	<b>4,623,774</b>	<b>6,185,000</b>	<b>6,523,774</b>

**(b) Remuneration to Corporate Management**

	Company		Group	
	2019	2018	2019	2018
Short-term employees benefits	26,211,394	24,613,377	39,481,881	38,516,312
Post employment benefits	7,485,240	5,360,487	14,570,727	12,739,648
<b>Total</b>	<b>33,696,634</b>	<b>29,973,864</b>	<b>54,052,608</b>	<b>51,255,960</b>

**Note 42 | 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 requires 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 makes adjustments to the accounts for any adverse effect, if any, which the claim many 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.

**Note 43 | Financial Risk Management****43.1 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

**43.2 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.

**43.3 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.

**43.3.1 Management of Liquidity Risk**

The Group's approach to manage liquidity is to ensure that funds available are adequate to meet credit demands of its customers and to enable debt instruments to be repaid on demand or upon maturity as appropriate. The Finance Division is responsible for the management of liquidity risk and funding in accordance with the approved guidelines and risk limits. The treasury and liquidity policies and compliance thereunder are reviewed and approved by the ALCO.

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

## 43.3.2 Exposure to Liquidity Risk

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

	31.12.2019	31.12.2018
<b>Liquid Asset Ratio (LAR)</b>		
As at December 31,2019	76.54%	57.62%
Average for the year	64.72%	65.49%
Maximum for the year	79.71%	91.05%
Minimum for the year	53.54%	43.04%

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

## Minimum liquidity requirement

As per the Direction 4 of 2012 of Central Bank of Sri Lanka, every specialized leasing company shall maintain minimum holding of liquid assets. The table below sets out the components of the Company's holding of liquid assets:

	31.12.2019	31.12.2018
Required minimum amount of liquid assets	22,919,879	29,452,784
Daily average liquid assets	175,434,490	169,695,995
Excess liquidity	152,514,611	140,243,211

## 43.3.3 Maturity Analysis

## 43.3.3.1 Maturity Analysis - Company

Rs.'000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
<b>Interest Earning Assets</b>						
Cash and cash equivalents	25,125	-	-	-	-	25,125
Placements with banks	85	146,800	-	-	-	146,885
Loans & receivables to other customers	150,823	609,713	61,133	201,553	181,033	1,204,255
Financial investments	-	-	-	-	72,249	72,249
	<b>176,033</b>	<b>756,513</b>	<b>61,133</b>	<b>201,553</b>	<b>253,282</b>	<b>1,448,514</b>
<b>Non Interest Earning Assets</b>						
Investment in associate	-	-	-	-	39,374	39,374
Investment in subsidiary	-	-	-	-	12,750	12,750
Investment properties	-	-	-	-	33,310	33,310
Property, plant & equipment	-	-	-	-	12,838	12,838
Right-of-use assets	-	-	30,037	-	-	30,037
Intangible assets	-	-	-	-	5,042	5,042
Other assets	-	42,825	10,113	-	-	52,938
	-	<b>42,825</b>	<b>40,150</b>	-	<b>103,314</b>	<b>186,289</b>
<b>Total Assets</b>	<b>176,033</b>	<b>799,338</b>	<b>101,283</b>	<b>201,553</b>	<b>356,596</b>	<b>1,634,803</b>
<b>Interest bearing liabilities</b>						
Due to financial institutions	145,424	132,108	132,187	5,498	-	415,217
Due to other customers	113,148	220	193	-	-	113,561
Lease liabilities	-	-	21,402	-	-	21,402
	<b>258,572</b>	<b>132,328</b>	<b>153,782</b>	<b>5,498</b>	-	<b>550,180</b>
<b>Non Interest bearing liabilities</b>						
Retirement benefit obligations	-	-	-	7,582	-	7,582
Other liabilities	9,175	6,732	-	-	4,692	20,599
Shareholders funds	-	-	-	-	1,056,442	1,056,442
	<b>9,175</b>	<b>6,732</b>	-	<b>7,582</b>	<b>1,061,134</b>	<b>1,084,623</b>
<b>Total Liabilities &amp; Shareholders' funds</b>	<b>267,747</b>	<b>139,060</b>	<b>153,782</b>	<b>13,080</b>	<b>1,061,134</b>	<b>1,634,803</b>

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

## 43.3.3.2 Maturity Analysis - Group

Rs.'000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
<b>Interest Earning Assets</b>						
Cash and cash equivalents	31,350	-	-	-	-	31,350
Placements with banks	84	146,800	15,026	-	-	161,910
Loans & receivables to other customers	150,823	609,713	61,133	200,413	181,033	1,203,115
Financial investments	-	3,910	-	-	82,244	86,154
	<b>182,257</b>	<b>760,423</b>	<b>76,159</b>	<b>200,413</b>	<b>263,277</b>	<b>1,482,529</b>
<b>Non Interest Earning Assets</b>						
Investment in associate	-	-	-	-	39,375	39,375
Investment properties	-	-	-	-	44,067	44,067
Property, plant & equipment	-	-	-	-	20,309	20,309
Right-of-use assets	-	-	31,032	-	-	31,032
Intangible asset	-	-	-	-	6,175	6,175
Deferred tax assets	-	-	-	-	2,598	2,598
Other assets	-	56,709	11,931	-	-	68,640
	-	<b>56,709</b>	<b>42,963</b>	-	<b>112,524</b>	<b>212,196</b>
<b>Total Assets</b>	<b>182,257</b>	<b>817,132</b>	<b>119,122</b>	<b>200,413</b>	<b>375,801</b>	<b>1,694,725</b>
<b>Interest bearing liabilities</b>						
Due to financial institutions	145,424	132,108	132,187	5,498	-	415,217
Due to other customers	113,149	220	193	-	-	113,562
Lease liabilities	-	-	22,453	-	-	22,453
	<b>258,573</b>	<b>132,328</b>	<b>154,833</b>	<b>5,498</b>	-	<b>551,232</b>
<b>Non Interest bearing liabilities</b>						
Retirement benefit obligations	-	-	-	22,110	-	22,110
Other liabilities	9,604	6,732	-	-	7,501	23,837
Shareholders funds	-	-	-	-	1,097,546	1,097,546
	<b>9,604</b>	<b>6,732</b>	-	<b>22,110</b>	<b>1,105,047</b>	<b>1,143,493</b>
<b>Total Liabilities &amp; Shareholders' funds</b>	<b>268,177</b>	<b>139,060</b>	<b>154,833</b>	<b>27,608</b>	<b>1,105,047</b>	<b>1,694,725</b>

## 43.4 Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group'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.

## 43.4.1 Management of Credit Risk

Primarily the Credit Division manages the credit risk. There is a management credit Committee & a Board Credit Committee to review significant credit risks. The said committees are facilitated by regular audits undertaken by the Internal Auditors.

Company manages credit by focusing on following stages.

## a) Loan Origination

The loan origination process comprises initial screening and credit appraisal. The evaluation focuses on the borrower's ability to meet its obligations in a timely manner. Efforts are made to ensure consistent standards are maintained in credit approval. Collateral and guarantees form an important part of the credit risk mitigation process. A suitable internal risk rating model is in place & is an important part of the risk assessment of customers.

## b) Loan Approval

The Group 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.

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

The Group carries sensitivity tests to measure the values of portfolios in the event of extreme market movements on hypothetical scenarios. Management review the consequences of the stress tests and determine 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 Group will have the following effects.

**43.4.1.e Collateral wise analysis of individual significant impaired loan and leases**

	<b>2019</b>
Secured by motor vehicles	61,664,886
Secured by movable & immovable assets	172,090,243
Other securities	4,632,643
Clean	-
	<b>238,387,772</b>
<b>Individually significant unimpaired loans and leases</b>	
Watch list	867,711,308
Others	164,157,417
	<b>1,031,868,725</b>
<b>Collateral wise analysis of individual significant unimpaired loan and leases</b>	
Secured by motor vehicles	562,366,953
Secured by movable & immovable assets	469,081,267
Clean	420,505
	<b>1,031,868,725</b>

**43.4.2 Credit quality analysis**

The tables below sets out information about the credit quality of financial assets held by Company net of allowance for expected credit losses against those assets.

**Expected Credit Losses (ECL)**

As per SLFRS 9 - "Financial Instruments" the Company manages credit quality using a three stage approach.

Stage One : 12 months expected credit losses (ECL)

Stage Two : Life time expected credit losses (ECL) – Not credit impaired

Stage Three : Lifetime expected credit losses (ECL) – Credit impaired

Explanation of the terms: 12 months ECL, lifetime ECL included in Note 5 (Changes in Accounting Policies)

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

Table below shows the classification of assets and liabilities based on the above-mentioned three stage model:

	12 months ECL	Life Time ECL-Not credit impaired	Life time ECL- Credit impaired	Unclassified	Total
<b>As at December 31,2019</b>					
Cash and cash equivalents	25,125,100	-	-	-	25,125,100
Placements with banks	146,884,671	-	-	-	146,884,671
Financial assets at amortised cost-loans and receivables to other customers	882,248,850	129,765,521	192,240,763	-	1,204,255,134
Financial investments	72,248,930	-	-	-	72,248,930
Investments in associate	-	-	-	39,374,899	39,374,899
Investments in subsidiary	-	-	-	12,750,000	12,750,000
Investment properties	-	-	-	33,310,000	33,310,000
Property plant & equipment	-	-	-	12,838,275	12,838,275
Right-of-use assets	-	-	-	30,037,250	30,037,250
Intangible assets	-	-	-	5,041,627	5,041,627
Other assets	-	-	-	52,937,389	52,937,389
<b>Total Assets</b>	<b>1,126,507,551</b>	<b>129,765,521</b>	<b>192,240,763</b>	<b>186,289,440</b>	<b>1,634,803,275</b>
<b>As at December 31,2018</b>					
Cash and cash equivalents	41,832,633	-	-	-	41,832,633
Placements with banks	136,152,648	-	-	-	136,152,648
Financial assets at amortised cost-loans and receivables to other customers	921,003,634	244,603,613	167,164,068	-	1,332,771,315
Financial investments	61,797,975	-	-	-	61,797,975
Investments in associate	-	-	-	37,295,534	37,295,534
Investments in subsidiary	-	-	-	12,750,000	12,750,000
Investment properties	-	-	-	33,310,000	33,310,000
Property plant & equipment	-	-	-	14,725,606	14,725,606
Right-of-use assets	-	-	-	-	-
Intangible assets	-	-	-	3,111,127	3,111,127
Other assets	-	-	-	54,262,126	54,262,126
<b>Total Assets</b>	<b>1,160,786,890</b>	<b>244,603,613</b>	<b>167,164,068</b>	<b>155,454,393</b>	<b>1,728,008,964</b>

**43.5 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 behaviour.

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.

**43.6 Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

**Notes to the Financial Statements (contd..)****43.6.1 Exposure to Interest Rate Risk**

The Group 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 Group will have the following effects.

<b>Loan Portfolio</b>				
Interest rate shock	-2%	-1%	1%	2%
Interest income change (Rs.)	(10,979,722)	(5,489,861)	5,489,861	10,979,722
Effect on loan interest income	-9.22%	-4.61%	4.61%	9.22%

<b>Lease Portfolio</b>				
Interest rate shock	-2%	-1%	1%	2%
Interest income change (Rs.)	(14,365,340)	(7,182,670)	7,182,670	14,365,340
Effect on lease interest income	-9.92%	-4.96%	4.96%	9.92%

<b>Total Portfolio</b>				
Interest rate shock	-2%	-1%	1%	2%
Interest income change (Rs.)	(25,345,061)	(12,672,531)	12,672,531	25,345,061
Effect on interest income	-9.61%	-4.80%	4.80%	9.61%

<b>Interest Expenses</b>				
Interest rate shock	-2%	-1%	1%	2%
Interest expenses change (Rs.)	(11,674,479)	(5,837,239)	5,837,239	11,674,479
Effect on interest expenses	-15.08%	-7.54%	7.54%	15.08%

**43.6.2 Exposure to market risk**

**43.6.2.1** The table below sets out the allocation of Company's assets and liabilities subject to market risk between trading and non-trading assets.

<b>As at December 31, 2019</b>	<b>Carrying amount</b>	<b>Market risk measure</b>	
		<b>Trading assets</b>	<b>Non-trading Assets</b>
<b>Rs.</b>			
<b>Assets subject to market risk</b>			
Cash and cash equivalents	25,125,100	-	25,125,100
Placements with banks	146,884,671	-	146,884,671
Financial assets at amortised cost-loans and receivables to other customers	1,204,255,134	-	1,204,255,134
Financial investments	72,248,930	72,248,930	-
<b>Total assets subject to market risk</b>	<b>1,448,513,835</b>	<b>72,248,930</b>	<b>1,376,264,905</b>
<b>Liabilities subject to market risk</b>			
Due to financial institutions	415,217,136	-	415,217,136
Due to other customers	113,561,379	-	113,561,379
<b>Total liabilities subject to market risk</b>	<b>528,778,515</b>	<b>-</b>	<b>528,778,515</b>

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

As at December 31, 2018 Rs.	Carrying amount	Market risk measure	
		Trading assets	Non-trading Assets
<b>Assets subject to market risk</b>			
Cash and cash equivalents	41,832,633	-	41,832,633
Placements with banks	136,152,648	-	136,152,648
Financial assets at amortised cost-loans and receivables to other customers	1,332,771,315	-	1,332,771,315
Financial investments	61,797,975	61,797,975	-
<b>Total assets subject to market risk</b>	<b>1,572,554,571</b>	<b>61,797,975</b>	<b>1,510,756,596</b>
<b>Liabilities subject to market risk</b>			
Due to financial institutions	529,658,613	-	529,658,613
Due to other customers	109,010,737	-	109,010,737
<b>Total liabilities subject to market risk</b>	<b>638,669,350</b>	<b>-</b>	<b>638,669,350</b>

43.6.2.2 The table below sets out the allocation of Group's assets and liabilities subject to market risk between trading and non-trading assets.

As at December 31, 2019 Rs.	Carrying amount	Market risk measure	
		Trading assets	Non-trading Assets
<b>Assets subject to market risk</b>			
Cash and cash equivalents	25,125,100	-	25,125,100
Placements with banks	146,884,671	-	146,884,671
Financial assets at amortised cost-loans and receivables to other customers	1,204,255,134	-	1,204,255,134
Financial investments	72,248,930	72,248,930	-
<b>Total assets subject to market risk</b>	<b>1,448,513,835</b>	<b>72,248,930</b>	<b>1,376,264,905</b>
<b>Liabilities subject to market risk</b>			
Due to financial institutions	415,217,136	-	415,217,136
Due to other customers	113,561,379	-	113,561,379
<b>Total liabilities subject to market risk</b>	<b>528,778,515</b>	<b>-</b>	<b>528,778,515</b>

As at December 31, 2018 Rs.	Carrying amount	Market risk measure	
		Trading assets	Non-trading Assets
<b>Assets subject to market risk</b>			
Cash and cash equivalents	41,832,633	-	41,832,633
Placements with banks	136,152,648	-	136,152,648
Financial assets at amortised cost-loans and receivables to other customers	1,332,771,315	-	1,332,771,315
Financial investments	61,797,975	61,797,975	-
<b>Total assets subject to market risk</b>	<b>1,572,554,571</b>	<b>61,797,975</b>	<b>1,510,756,596</b>
<b>Liabilities subject to market risk</b>			
Due to financial institutions	529,658,613	-	529,658,613
Due to other customers	109,010,737	-	109,010,737
<b>Total liabilities subject to market risk</b>	<b>638,669,350</b>	<b>-</b>	<b>638,669,350</b>

**Notes to the Financial Statements (contd..)****43.6.3 Exposure to equity price risk**

Equity price risks arises as a result of fluctuations in market prices of individual equities and management conduct mark-to-market calculation on monthly basis and on a need basis to identify the impact.

The following table exhibits the impact on financial performance and net assets due to a shock of 10% on equity price.

As at December 31,	2019		2018	
	Financial assets measured at FVTPL	Total	Financial assets measured at FVTPL	Total
Rs				
Market value of quoted equity instruments as at December 31,	65,024,037	65,024,037	55,618,177	55,618,177

**Equity price sensitivity**

The management of equity price risk is done by monitoring various standard and non-standard equity price scenarios and analysis is given below:

As at December 31,	2019			2018		
	Impact on profit	Impact on OCI	Impact on net assets	Impact on profit	Impact on OCI	Impact on net assets
<b>Shock Levels</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
10% shock (Increase)	49,032	6,453,372	6,502,404	35,023	5,526,795	5,561,818
10% shock (Decrease)	(49,032)	(6,453,372)	(6,502,404)	(35,023)	(5,526,795)	(5,561,818)

**43.6.4 Exposure to gold price risk**

Gold price risks arises as a result of fluctuations in market gold prices and Management conduct mark-to-market calculation on monthly basis and on a need basis to identify the impact.

As at December 31,	Total net weight of pawning articles	Market price per gram	Total market value	Gold loan receivable amount	Value excess
	(in Grams)		Rs.	Rs.	Rs.
2019	12,820	7,818	100,224,549	73,408,930	26,815,619
2018	8,254	7,312	60,354,914	43,358,961	16,995,953

**Gold price sensitivity**

The following table exhibits the impact on market value of the gold stock held due to a shock of 10% on gold price:

As at December 31,	2019		2018	
	Impact on market value	Impact on value excess	Impact on market value	Impact on value excess
<b>Shock Levels</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
10% shock (Increase)	10,022,455	10,022,455	6,035,491	6,035,491
10% shock (Decrease)	(10,022,455)	(10,022,455)	(6,035,491)	(6,035,491)

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

## Note 44 Current/ Non Current Analysis

As at December 31, Rs.'000	2019			2018		
	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total
<b>Company</b>						
<b>Assets</b>						
Cash and cash equivalents	25,125	-	25,125	41,833	-	41,833
Placements with banks	146,885	-	146,885	136,153	-	136,153
Financial assets at amortised cost-loans and receivables to other customers	760,535	443,720	1,204,255	586,311	746,460	1,332,771
Financial investments	-	72,249	72,249	-	61,798	61,798
Investments in associate	-	39,374	39,374	-	37,295	37,295
Investments in subsidiary	-	12,750	12,750	-	12,750	12,750
Investment properties	-	33,310	33,310	-	33,310	33,310
Property plant & equipment	-	12,838	12,838	-	14,726	14,726
Right-of-use assets	-	30,037	30,037	-	-	-
Intangible assets	-	5,042	5,042	-	3,111	3,111
Deferred tax assets	-	-	-	-	-	-
Other assets	42,825	10,113	52,938	42,434	11,828	54,262
<b>Total Assets</b>	<b>975,370</b>	<b>659,433</b>	<b>1,634,803</b>	<b>806,731</b>	<b>921,278</b>	<b>1,728,009</b>
<b>Liabilities</b>						
Due to banks	277,532	137,685	415,217	292,163	237,496	529,659
Due to other customers	113,368	193	113,561	108,752	259	109,011
Retirement benefit obligations	-	7,582	7,582	-	11,753	11,753
Lease liabilities	-	21,402	21,402	-	-	-
Other liabilities	15,907	4,692	20,599	28,552	12,083	40,635
<b>Total Liabilities</b>	<b>406,807</b>	<b>171,554</b>	<b>578,361</b>	<b>429,467</b>	<b>261,591</b>	<b>691,058</b>
<b>Group</b>						
<b>Assets</b>						
Cash and cash equivalents	31,350	-	31,350	44,945	-	44,945
Placements with banks	146,884	15,026	161,909	153,679	-	153,679
Financial assets at amortised cost-loans and receivables to other customers	760,536	442,579	1,203,115	586,071	745,320	1,331,391
Financial investments	-	86,154	86,154	-	75,301	75,301
Investments in associate	-	39,375	39,375	-	37,296	37,296
Investment properties	-	44,067	44,067	-	42,629	42,629
Property plant & equipment	-	20,309	20,309	-	24,387	24,387
Right-of-use assets	-	31,032	31,032	-	-	-
Intangible assets	-	6,175	6,175	-	4,822	4,822
Deferred tax assets	-	2,598	2,598	-	2,259	2,259
Other assets	56,709	11,931	68,640	48,829	15,598	64,427
<b>Total Assets</b>	<b>995,479</b>	<b>699,245</b>	<b>1,694,724</b>	<b>833,524</b>	<b>947,611</b>	<b>1,781,135</b>
<b>Liabilities</b>						
Due to financial institutions	277,532	137,685	415,217	292,163	237,496	529,659
Due to other customers	113,369	193	113,561	108,752	259	109,011
Retirement benefit obligations	-	22,110	22,110	-	24,933	24,933
Lease liabilities	-	22,453	22,453	-	-	-
Other liabilities	23,837	-	23,837	43,689	-	43,689
<b>Total Liabilities</b>	<b>414,738</b>	<b>182,441</b>	<b>597,178</b>	<b>444,604</b>	<b>262,688</b>	<b>707,292</b>

## Note 45 Segment Reporting - Group

Rs.'000	Loans		Leasing		Treasury		Money Brokering		Unallocated		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>As at December 31,</b>												
<b>Business segments - Group</b>												
<b>Revenue from external customers,</b>												
Interest	105,839	101,870	144,811	135,890	-	-	-	-	13,202	8,215	263,852	245,975
Fee & commission	1,630	1,916	2,971	3,671	-	-	-	-	-	-	4,601	5,587
Other operating income	-	25	56	617	13,869	13,420	74,647	73,854	2,017	5,676	90,589	93,591
<b>Total Revenue from External Customers</b>	<b>107,469</b>	<b>103,811</b>	<b>147,838</b>	<b>140,178</b>	<b>13,869</b>	<b>13,420</b>	<b>74,647</b>	<b>73,854</b>	<b>15,219</b>	<b>13,891</b>	<b>359,042</b>	<b>345,153</b>
<b>Segment Result</b>	<b>32,038</b>	<b>55,016</b>	<b>44,072</b>	<b>74,289</b>	<b>4,135</b>	<b>7,112</b>	<b>22,253</b>	<b>39,140</b>	<b>4,537</b>	<b>7,362</b>	<b>107,035</b>	<b>182,919</b>
Depreciation charged for the year	(2,306)	(2,075)	(3,171)	(2,802)	(298)	(268)	(1,602)	(1,476)	(326)	(278)	(7,703)	(6,899)
Interest expense	(23,172)	(19,062)	(31,877)	(25,739)	(2,990)	(2,464)	(16,095)	(13,561)	(3,282)	(2,551)	(77,416)	(63,377)
<b>Operating Profit</b>	<b>6,560</b>	<b>33,879</b>	<b>9,024</b>	<b>45,748</b>	<b>847</b>	<b>4,380</b>	<b>4,556</b>	<b>24,103</b>	<b>929</b>	<b>4,533</b>	<b>21,916</b>	<b>112,643</b>
Share of Profit/ (Loss) of Associate Companies	-	-	-	-	-	-	-	-	2,079	20	2,079	20
Income tax expense	565	(525)	777	(709)	73	(68)	392	(373)	80	(70)	1,887	(1,745)
Taxes on financial services	-	-	-	-	-	-	-	-	(13,208)	(17,438)	(13,208)	(17,438)
<b>Other comprehensive income</b>	<b>3,486</b>	<b>2,348</b>	<b>4,796</b>	<b>3,171</b>	<b>450</b>	<b>304</b>	<b>2,422</b>	<b>1,671</b>	<b>494</b>	<b>314</b>	<b>11,648</b>	<b>7,808</b>
<b>Total Comprehensive Income for the Year</b>	<b>10,611</b>	<b>35,702</b>	<b>14,597</b>	<b>48,209</b>	<b>1,369</b>	<b>4,616</b>	<b>7,370</b>	<b>25,401</b>	<b>(9,626)</b>	<b>(12,641)</b>	<b>24,322</b>	<b>101,288</b>
<b>Segment Assets</b>	<b>561,388</b>	<b>536,584</b>	<b>641,727</b>	<b>794,807</b>	<b>279,415</b>	<b>273,925</b>	<b>26,905</b>	<b>23,796</b>	<b>185,291</b>	<b>152,023</b>	<b>1,694,725</b>	<b>1,781,135</b>
<b>Segment Liabilities</b>	<b>178,749</b>	<b>212,731</b>	<b>245,892</b>	<b>287,254</b>	<b>23,068</b>	<b>27,500</b>	<b>124,157</b>	<b>151,343</b>	<b>25,312</b>	<b>28,466</b>	<b>597,179</b>	<b>707,294</b>
Cash Flow from Operating Activities	41,711	(48,021)	57,379	(64,844)	5,383	(6,208)	28,972	(34,164)	5,907	(6,426)	139,352	(159,663)
Cash Flow from Investing Activities	(5,257)	(2,435)	(7,231)	(3,288)	(678)	(315)	(3,651)	(1,732)	(744)	(326)	(17,561)	(8,096)
Cash Flow from Financing Activities	(33,700)	33,082	(46,358)	44,671	(4,349)	4,277	(23,408)	23,535	(4,772)	4,427	(112,587)	109,992

### 44.1 The Group's segmental reporting is based on the following 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 segment.)

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Management of the Group consider the operating results and condition of its business segments in their decision making process and performance evaluation. Types of products and services from which each operating segment derives its revenues described as follows:

#### Loans

This segment includes loan products offered to the customers.

#### Leasing

This segment includes leasing products offered to the customers.

#### Treasury

This segment includes treasury and other investment activities.

#### Money Brokering

This segment includes Money Brokering activities.

#### Unallocated

This segment includes all other business activities that Group engaged other than above segments.

## Five Year Summary-Group

(Rs. '000)	2019	2018	2017	2016	2015
<b>Operating Results</b>					
Revenue	359,042	345,154	379,369	315,644	248,644
Interest income	263,851	245,975	254,751	206,319	177,771
Interest expenses	(77,416)	(63,377)	(69,224)	(41,146)	(28,560)
Operating expenses & provision	(188,903)	(184,867)	(187,366)	(155,357)	(141,027)
Profit/Loss before taxation	21,916	114,967	73,548	107,851	81,119
Taxation & VAT	(11,321)	(21,507)	(26,388)	(22,639)	(17,796)
Profit after taxation & VAT	12,674	93,480	42,774	80,592	60,901
Minority interest	1,964	3,792	2,707	1,909	1,789
Profit/(Loss) attributable to shareholders	10,710	89,688	40,066	78,683	59,112
<b>As at December 31,</b>					
<b>Assets</b>					
Cash & short term funds	31,350	44,945	32,459	33,123	31,447
Investments	248,065	228,980	206,718	144,499	181,402
Financial assets at amortised cost-loans and receivables to other customers	1,203,114	1,331,391	1,266,837	1,317,968	1,052,774
Investments in associate	39,375	37,296	37,275	101,452	106,072
Investment properties	44,067	42,629	40,385	39,898	39,892
Property plant and equipment	20,309	24,387	21,252	23,682	12,350
Right-of-use assets	31,032	-	-	-	-
Intangible assets	6,175	4,822	3,784	3,305	3,406
Other assets	71,238	66,686	72,122	14,901	12,238
<b>Total Assets</b>	<b>1,694,725</b>	<b>1,781,135</b>	<b>1,680,832</b>	<b>1,678,829</b>	<b>1,439,580</b>
<b>Equity &amp; Liabilities</b>					
<b>Equity</b>					
Stated capital	919,064	919,064	919,064	919,064	919,064
Statutory reserves	35,082	34,648	30,361	28,499	24,664
Available for sale reserve	-	-	233	233	-
Fair value reserve	19,920	9,625	-	-	-
Retained earnings	97,177	86,267	228,379	190,658	150,726
<b>Liabilities</b>					
Due to financial institutions	415,217	529,659	308,887	353,782	80,409
Due to other customers	113,561	109,011	104,932	99,652	201,574
Other borrowings	-	-	456	1,155	3,332
Lease liabilities	22,453	-	-	-	-
Other liabilities	45,948	68,623	72,160	71,719	47,826
Non-controlling interest	26,303	24,239	16,359	14,066	11,986
<b>Total Equity &amp; Liabilities</b>	<b>1,694,725</b>	<b>1,781,135</b>	<b>1,680,832</b>	<b>1,678,829</b>	<b>1,439,580</b>
<b>Cash Flow</b>					
Cash flow from operating activities	139,352	(159,662)	85,468	(173,683)	(96,824)
Cash flow from investing activities	(17,561)	(8,096)	(24,046)	8,829	4,556
Cash flow from financing activities	(112,587)	109,991	(17,261)	177,792	20,918
Net increase or (decrease) in cash and cash equivalents	9,203	(57,767)	44,161	12,939	(71,351)
Basic earning/(loss) per share	0.01	0.05	0.02	0.04	0.03
Assets growth (%)	(5)	6	0.12	17	11
Net assets growth (%)	2	(11)	3	4	4
Net assets per share (Rs.)	0.59	0.58	0.65	0.63	0.61

## Decade at a Glance-Company

Rs.'000

Year ended December 31,	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Operating Results</b>										
Revenue	286,010	265,975	315,263	256,012	198,117	193,973	203,046	189,501	112,854	124,110
Interest income	263,851	245,975	254,751	206,319	177,771	172,443	182,024	143,988	75,581	101,718
Interest expenses	(77,119)	(63,339)	(69,181)	(40,311)	(28,525)	(31,647)	(44,868)	(35,600)	(47,609)	(64,732)
Operating expenses & provision	(190,787)	(97,132)	(185,165)	(118,584)	(96,021)	(68,634)	(66,565)	(61,567)	(76,470)	(59,805)
Profit/loss before taxation	18,104	105,504	60,917	97,116	73,571	93,668	91,613	92,334	(11,225)	19,443
Vat & taxation	(9,439)	(19,762)	(23,668)	(20,420)	(15,363)	(14,663)	(13,861)	(14,863)	(5,519)	-
Profit after taxation & VAT	8,665	85,742	37,249	76,696	58,209	79,004	77,752	77,471	(16,744)	14,095
Comprehensive income/(expense)	19,491	95,746	37,196	77,952	56,815	77,549	76,767	75,621	(13,086)	-
<b>Assets</b>										
Cash and cash equivalents and placement with banks	172,010	177,985	162,378	146,551	183,526	145,052	116,934	119,394	480,706	368,304
Financial assets at amortised cost-loans and receivables to other customers	1,204,255	1,332,771	1,268,457	1,319,828	1,053,788	923,890	932,413	913,235	571,892	420,658
Financial investments	72,249	61,798	52,719	7,578	7,291	7,712	8,991	3,193	6,308	2,650
Investments in associate	39,375	37,296	37,275	101,452	106,072	108,757	116,418	125,561	125,561	129,282
Investments in subsidiary	12,750	12,750	12,750	12,750	12,750	11,791	9,268	7,854	12,750	12,750
Investment properties	33,310	33,310	33,310	33,310	33,730	33,730	33,730	34,324	33,120	33,120
Property plant & equipment	12,838	14,726	19,417	20,224	7,222	9,876	13,508	11,592	13,205	9,244
Right-of-use assets	30,037	-	-	-	-	-	-	-	-	-
Intangible assets	5,042	3,111	1,495	3,258	3,406	3,553	3,701	-	-	-
Other assets	52,937	54,262	59,041	6,015	6,008	18,156	14,451	21,574	36,195	30,969
	<b>1,634,803</b>	<b>1,728,009</b>	<b>1,646,842</b>	<b>1,650,966</b>	<b>1,413,793</b>	<b>1,262,517</b>	<b>1,249,414</b>	<b>1,236,727</b>	<b>1,279,739</b>	<b>1,006,977</b>
<b>Liabilities &amp; Shareholders' Fund</b>										
Borrowings	528,779	638,669	413,820	453,434	281,983	198,285	262,229	308,788	407,360	511,245
Retirement benefit obligations	7,582	11,753	12,183	11,948	10,336	7,088	5,570	4,190	4,349	2,618
Lease liabilities	21,402	-	-	-	-	-	-	-	-	-
Other liabilities	20,599	40,636	47,253	49,194	26,920	19,142	21,162	40,063	90,245	75,209
Shareholders' funds	1,056,441	1,036,951	1,173,586	1,136,390	1,094,554	1,038,002	960,453	883,686	777,785	417,905
	<b>1,634,803</b>	<b>1,728,009</b>	<b>1,646,842</b>	<b>1,650,966</b>	<b>1,413,793</b>	<b>1,262,517</b>	<b>1,249,414</b>	<b>1,236,727</b>	<b>1,279,739</b>	<b>1,006,977</b>
<b>Ratios</b>										
Income growth (%)	(9)	(16)	23	29	2	(4)	7	68	(9)	(68)
Property, plant & equipment to shareholders' fund (times)	1.22	1.42	1.65	1.78	0.66	0.95	1.41	1.31	1.70	2.21
Total asset to shareholders' fund (times)	1.55	1.67	1.40	1.45	1.29	1.22	1.30	1.40	1.65	2.41
Net assets per share	0.59	0.57	0.65	0.63	0.61	0.57	0.53	0.49	0.56	0.30
Basic earnings/(loss) per share	0.01	0.05	0.02	0.04	0.03	0.04	0.04	0.04	(0.01)	0.02

## Notice of Meeting - Voting

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD BY WAY OF ELECTRONIC MEANS ON OCTOBER 22, 2020 AT 3.00 P.M. CENTERED AT THE BOARDROOM, OF SMB LEASING PLC AT NO. 282/1, CBS BUILDING, GALLE ROAD, COLOMBO 03.

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and its subsidiaries and the Statement of Accounts for the year ended December 31, 2019 and the Report of the Auditors thereon.
2. To re-elect Mr. M.S. A. Wadood, who retires by rotation in terms of Article 87 of the Articles of Association, as a Director of the Company;
3. To re-elect Mr. L. Abeysinghe, who retires by rotation in terms of Article 91 of the Articles of Association, as a Director of the Company;
4. To re-appoint Auditors M/s. KPMG, Chartered Accountants, and to authorize the Directors to determine their remuneration.
5. To authorize the Directors to determine and make donations for the year ending December 31, 2020 and up to the date of the next Annual General Meeting.

By Order of the Board

SMB LEASING PLC



**P W Corporate Secretarial (Pvt) Ltd**

Secretaries

Colombo

September 16, 2020

Notes:

1. A shareholder entitled to participate and vote at the above virtual meeting is entitled to appoint a proxy to participate and vote in his/her place by completing the Form of Proxy enclosed herewith.
2. A proxy need not be a shareholder of the Company.
3. Shareholders who are unable to participate in the above virtual meeting are also encouraged to submit a duly completed Form of Proxy appointing the Chairman or any other Member of the Board to participate and vote on their behalf.
4. For more information on how to participate by virtual means in the above virtual meeting, please refer Registration Process enclosed herewith.

## Notice of meeting - Non voting

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD BY WAY OF ELECTRONIC MEANS ON OCTOBER 22, 2020 AT 3.00 P.M. CENTERED AT THE BOARDROOM, OF SMB LEASING PLC AT NO. 282/1, CBS BUILDING, GALLE ROAD, COLOMBO 03.

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and its subsidiaries and the Statement of Accounts for the year ended December 31, 2019 and the Report of the Auditors thereon.
2. To re-elect Mr. M.S. A. Wadood, who retires by rotation in terms of Article 87 of the Articles of Association, as a Director of the Company;
3. To re-elect Mr. L. Abeysinghe, who retires by rotation in terms of Article 91 of the Articles of Association, as a Director of the Company;
4. To re-appoint Auditors M/s. KPMG, Chartered Accountants, and to authorize the Directors to determine their remuneration.
5. To authorize the Directors to determine and make donations for the year ending December 31, 2020 and up to the date of the next Annual General Meeting.

By Order of the Board

SMB LEASING PLC



**P W Corporate Secretarial (Pvt) Ltd**

*Secretaries*

*Colombo*

*September 16, 2020*

Notes:

1. A shareholder entitled to participate at the above virtual meeting is entitled to appoint a proxy to participate in his/her place by completing the Form of Proxy enclosed herewith.
2. A proxy need not be a shareholder of the Company.
3. Shareholders who are unable to participate in the above virtual meeting are also encouraged to submit a duly completed Form of Proxy appointing the Chairman or any other Member of the Board to participate on their behalf.
4. For more information on how to participate by virtual means in the above virtual meeting, please refer Registration Process enclosed herewith.

## Form of Proxy - voting

\*I/We.....holder  
of NIC No.....of.....being a \*Shareholder /Shareholders of  
SMB Leasing PLC, do hereby appoint.....holder of NIC  
No..... of .....or failing him

Mr. H.R.S. Wijeratne ..... of Colombo or failing him

Mr. T.M. Wijesinghe ..... of Colombo or failing him

Mr. A.T.S. Sosa..... of Colombo or failing him

Mr. M.S.A. Wadood ..... of Colombo or failing him

Mr. L.Abeyasinghe ..... of Colombo

as \*my/our proxy to represent me/us to speak and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on October 22, 2020 at 3.00 p.m and any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and its subsidiaries and the Statement of Accounts for the year ended December 31,2019 and the Report of the Auditors thereon	<input type="radio"/>	<input type="radio"/>
2. To re-elect Mr. M.S. A. Wadood, who retires by rotation in terms of Article 87 of the Articles of Association, as a Director of the Company;	<input type="radio"/>	<input type="radio"/>
3. To re-elect Mr. L. Abeyasinghe, who retires by rotation in terms of Article 91 of the Articles of Association, as a Director of the Company;	<input type="radio"/>	<input type="radio"/>
4. To re-appoint Auditors M/s. KPMG, Chartered Accountants, and to authorize the Directors to determine their remuneration.	<input type="radio"/>	<input type="radio"/>
5. To authorize the Directors to determine and make donations for the year ending December 31, 2020 and up to the date of the next Annual General Meeting.	<input type="radio"/>	<input type="radio"/>

Signed this..... day of ..... Two Thousand and Twenty.

.....

Signature

1) \*Please delete the inappropriate words.

2) Instructions as to completion are noted on the reverse thereof.

**INSTRUCTIONS AS TO COMPLETION**

1. The full name, National Identity Card number and the registered address of the shareholder appointing the Proxy and the relevant details of the Proxy should be legibly entered in the Form of Proxy which should be duly signed and dated.
2. The Proxy shall –
  - (a) In the case of an individual be signed by the shareholder or by his/her attorney, and if signed by an Attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
  - (b) In the case of a company or corporate / statutory body either be under its Common Seal or signed by its Attorney or by an Officer on behalf of the company or corporate / statutory body in accordance with its Articles of Association or the Constitution or the Statute (as applicable).
3. Please indicate with a 'X' how the Proxy should vote on each resolution. If no indication is given, the Proxy in his/her discretion will vote as he/she thinks fit.
4. To be valid, the completed Form of Proxy must be deposited with the Company Secretaries, P W Corporate Secretarial (Pvt) Ltd at No. 3/17, Kynsey Road, Colombo 08, Sri Lanka or must be emailed to [agm@smbk.com](mailto:agm@smbk.com) by 3.00 p.m on October 20, 2020.

## Form of Proxy - Non voting

\*I/We.....holder  
 of NIC No.....of.....being a \*Shareholder /Shareholders of  
 SMB Leasing PLC, do hereby appoint.....holder of NIC  
 No..... of .....or failing him

Mr. H.R.S. Wijeratne ..... of Colombo or failing him

Mr. T.M. Wijesinghe ..... of Colombo or failing him

Mr. A.T.S. Sosa..... of Colombo or failing him

Mr. M.S.A. Wadood ..... of Colombo or failing him

Mr. L.Abeyasinghe ..... of Colombo

as \*my/our proxy to represent me/us to speak for me/us on my/our behalf at the Annual General Meeting of the Company to be held on October 22, 2020 at 3.00 p.m and any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this..... day of ..... Two Thousand and Twenty.

.....

Signature

- 1) \*Please delete the inappropriate words.
- 2) Instructions as to completion are noted on the reverse thereof.

**INSTRUCTIONS AS TO COMPLETION**

1. The full name, National Identity Card number and the registered address of the shareholder appointing the Proxy and the relevant details of the Proxy should be legibly entered in the Form of Proxy which should be duly signed and dated.
2. The Proxy shall –
  - (a) In the case of an individual be signed by the shareholder or by his/her attorney, and if signed by an Attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
  - (b) In the case of a company or corporate / statutory body either be under its Common Seal or signed by its Attorney or by an Officer on behalf of the company or corporate / statutory body in accordance with its Articles of Association or the Constitution or the Statute (as applicable).
3. To be valid, the completed Form of Proxy must be deposited with the Company Secretaries, P W Corporate Secretarial (Pvt) Ltd at No. 3/17, Kynsey Road, Colombo 08, Sri Lanka or must be emailed to [agm@smbk.com](mailto:agm@smbk.com) by 3.00 p.m on October 20, 2020.

# Circular to Shareholders

## ANNUAL GENERAL MEETING OF THE COMPANY

Dear Shareholder/s,

Taking into consideration the current regulations/restrictions prevailing in the country due to the COVID-19 pandemic, the Board of Directors of SMB Leasing PLC has decided to hold the Annual General Meeting (AGM) as a Virtual Meeting on Thursday October 22, 2020 at 3.00 p.m., in line with the guidelines issued by the Colombo Stock Exchange (CSE) for hosting of virtual AGMs and on the assumption that no curfew will be in force on that date and that there would be no restrictions imposed by the authorities on conduct of meetings.

### METHOD OF HOLDING THE AGM

Only the key officials who are essential for the administration of the formalities of the meeting will be physically present in the Board Room. All others, including shareholders, will participate via an online meeting hosted on the ZOOM platform. These measures are being adopted to observe "social distancing" requirements to mitigate the dangers of spreading the virus.

### REGISTRATION PROCEDURE

Those Shareholders and Proxy holders who wish to participate via audio visual conferencing technology means should notify the Company of such intention by completing the REGISTRATION FORM.

The duly completed REGISTRATION FORM should be deposited with the Secretaries at No. 3/17, Kynsey Road, Colombo 08 or forwarded by email [agm@smbk.com.to](mailto:agm@smbk.com.to) in order to enable the Company to receive the same by 3.00pm on October 20, 2020.

### APPOINTMENT OF PROXY HOLDERS

Due to the COVID-19 pandemic and prevailing health and safety guidelines issued by the Government of Sri Lanka, the Shareholders are encouraged to vote by Proxy through appointment of a member of the Board of Directors to vote on their behalf and to include their voting preferences on the resolutions to be taken up at the meeting in the Form of Proxy.

The Form of Proxy will also be made available on the corporate website of the Company and the website of the Colombo Stock Exchange and those Shareholders who wish to submit their Form of Proxy should duly complete the same as per the instructions given therein. The duly completed Form of Proxy should be deposited with the Secretaries at No. 3/17, Kynsey Road, Colombo 08, Sri Lanka or forwarded by email to [agm@smbk.com](mailto:agm@smbk.com) in order to enable the Company to receive the same by 3.00 p.m. on October 20, 2020.

### PARTICIPATION VIA AN ONLINE MEETING PLATFORM

The login information will be authorized only for the use by individual Shareholders, Proxy holders and authorized representatives in case of Institutional Shareholders and the Company will not be responsible or liable for any misuse. Where the Proxy holders are concerned, please note that the login information will only be shared with those in whose favour a valid proxy has been submitted by the Shareholder.

Shareholders can send in their queries, if any, to [agm@smbk.com](mailto:agm@smbk.com) forty eight hours (48) prior to the commencement of the meeting.

### VOTING

Voting on the items on the Agenda will be registered by using an online e-ballot platform. All such procedures will be explained to the Shareholders prior to the commencement of the meeting.

### COPIES OF THE ANNUAL REPORT 2019

The Annual Report and the Financial Statements of the Company are available on the following websites and the relevant links are given below enabling all the Shareholders to access such Annual Report and Financial Statements.

1. Corporate Website of SMB Leasing PLC – <http://smbk.com/financial-informations.php>
2. Colombo Stock Exchange – [https://cdn.cse.lk/cmt/upload/report/file/445\\_1600422823969.pdf](https://cdn.cse.lk/cmt/upload/report/file/445_1600422823969.pdf)

Should a Shareholder wish to obtain a printed copy of the Annual Report, they may send a written request to the Registered Office of the Company by filling the request form attached herein. A copy of the Annual Report will be forwarded by the Company within eight (8) market days from the date of receipt of the request.

For any queries please contact Finance Manager on telephone no 011-4222851/email [thanujaw@smbk.com](mailto:thanujaw@smbk.com) during office hours.

Below mentioned documents are attached herewith

1. Notice of Meeting
2. Form of Proxy
3. Guideline and Registration Process to join the AGM virtually
4. Registration Form for the AGM
5. Request Form for the printed copy of the Annual Report

By order of the Board  
SMB Leasing PLC

**P W CORPORATE SECRETARIAL (PVT) LTD**

(sgd) Secretaries

Colombo

September 16, 2020

## Guideline and Registration Process for the Annual General Meeting (Agm) Via Online Meeting Platform

1. Shareholders are required to join the virtual AGM by clicking on the meeting link and user credentials sent by SMB Leasing PLC via email.
2. The request to register names for online participation via Online Meeting Platform should be delivered to the Secretaries P W Corporate Secretarial (Pvt) Ltd, No. 3/17, Kynsey Road, Colombo 08, Sri Lanka or e-mailed to agm@smbk.com along with the required registration information as per the REGISTRATION FORM by 3.00 pm on October 20, 2020.
3. The information received from a Shareholder pertaining to his/her Proxy holder should tally with the information indicated in the duly completed Form of Proxy submitted by the Shareholder in order for the meeting link and user credentials to be shared by the Company with the Proxy holder.
4. SMB Leasing PLC will verify all the registration requests and identification details received with the Shareholders' register and accept the registrations for AGM if it is satisfied with the request and supporting documents. Once the registration is accepted, Shareholders will receive an email confirmation acknowledging the registration.
5. The Shareholders whose online participation request has been accepted will receive a separate email containing the meeting link and user credentials from SMB Leasing PLC, twenty four (24) hours prior to the commencement of the AGM.
6. If a Shareholder/Proxy holder intends to join the Virtual AGM via a smart phone, it is necessary for him/her to download the "Zoom Mobile App" onto his /her smart phone. Similarly if a shareholder/Proxy holder wishes to attend the Virtual AGM via a desktop computer, the link can be opened by downloading the "Zoom Desktop App" to the respective desktop computer (Compatible web browser: Google Chrome).
7. The Shareholders/Proxy holders are requested to use the web link which will be forwarded by the Company and click on "Virtual AGM Registration" in order to log in to the meeting.
8. Upon clicking on the link forwarded by the Company, Shareholders/Proxy holders will be redirected to an interface where they will be requested to enter their first name, last name, email address, re- enter email address and National Identity Card Number.(The participants are required to enter the correct details as mentioned in the registration form forwarded to us where any mismatch will be considered as an unsuccessful log in)
9. At this point, all participants are requested to click on "REGISTER" which will be prompted on their screens enabling them to receive the log in link.
10. Participants are required to click on "Join the Virtual AGM of SMB Leasing PLC".
11. It is recommended to join the meeting at least ten (10) minutes before the start of the AGM. The Online Meeting Platform will be active thirty (30) minutes before the start of the AGM.
12. Once the credentials are inserted, he/she will be directed to the Virtual AGM Zoom Platform.
13. Shareholders/Proxy holders may use the Q & A tab or the Hand Raise ( ) icon appearing on the screen respectively, to submit their questions or concerns in typed format or verbally. The system will allow a pop up message to unmute the microphones and to allow video options.
14. The Company will forward a separate email to the Shareholders and to proxy holders or representatives who are entitled to vote providing a separate link to vote on all resolutions included in the Notice of Meeting dated September 16, 2020.
15. We request such persons to please open the said link and be prepared to cast their vote when each resolution is taken up for voting by the Chairman. Participants are advised to "refresh" the voting page and cast the vote as per their discretion in the given space and click "SUBMIT" enabling the Company to receive the responses.
16. When declaring the position of a resolution, Chairman will take in to account the voting of the Shareholders/ Proxy holders participating virtually
17. 60 seconds will be allocated for Shareholders/ Proxy holders to cast their vote in respect of each resolution.
18. The results will be processed and announced by the Chairman 15 seconds after the end of the time slot allocated for voting.
19. In a situation where Shareholders' voting is required for a poll, the same mechanism will be applicable. This will be moderated by the Chairman of the meeting.
20. It is advised to check the online AGM access at least 3 hours prior and also ensure that your devices have an audible sound system so that you could be a part of the AGM comfortably.

## REGISTRATION FORM

ANNUAL GENERAL MEETING (AGM) OF SMB LEASING TO BE HELD AS A VIRTUAL MEETING ON OCTOBER 22, 2020 AT 3.00 P.M.

### Details of Shareholder

Full Name of the Principal Shareholder: .....

.....

NIC No. / Passport No. /Company Registration No.: .....

CDS Account No.: .....

Residential Address: .....

.....

Telephone No/s: .....

Email: .....

Full Name of 01st Joint Holder: .....

.....

NIC No/ Passport No.: .....

Full Name of 02nd Joint holder: .....

.....

NIC No/ Passport No.: .....

In the event Proxy holder is appointed by the Shareholder following details of his/her's will also be required.

### Details of Proxy holder: (only if a proxy is appointed)

Full name of Proxy holder: .....

.....

NIC No. / Passport No. of Proxy holder: .....

Telephone No/s: .....

Email: .....

### PARTICIPATION AT THE AGM - Please tick the cage below

I/My Proxy holder am/is willing to participate at the AGM  Online

Signature/s

.....  
Principal Shareholder                      01st Joint holder                      02nd Joint holder

Date: .....

Note: In the case of a Company/Corporation, the Shareholder Registration Form must be signed in the manner prescribed by its Articles of Association/Statute and in the case of the Registration Form is signed by an Attorney, the Power of Attorney, must be deposited at No. 3/17, Kynsey Road, Colombo 08, Sri Lanka or emailed to agm@smbk.com



## Corporate Information

### Name of Company

SMB Leasing PLC

### Legal Form

Public Limited Liability Company  
(Incorporated and domiciled in Sri Lanka)  
under the Companies Act No. 17 of 1982  
and subsequently re-registered under the  
Companies Act No. 07 of 2007 quoted in the  
Colombo Stock Exchange

### Date of Incorporation

September 3, 1992

### Company Registration Number

PQ 91

### Stock Exchange Listing

The Ordinary shares of the Company were  
quoted on the Main Board of the Colombo  
Stock Exchange (CSE) on December 20,  
1993

### Central Bank Registration Number

040 (Under the Finance Leasing Act No. 56  
of 2000)

### Financial Year-end

December 31,

### Board of Directors

Mr. H. R. S. Wijeratne (Chairman)  
Mr. U. Gautam (Deputy Chairman)\*  
Mr. T. M. Wijesinghe  
Mr. A. T. S. Sosa  
Mr. M. S. A. Wadood  
Mr.L.Abeysinghe\*\*

\* Mr.U Gautam -ceased to be a Director w.e.f  
September 29, 2019

\*\*Mr.L.Abeysinghe was appointed with  
effect from October 21,2019

### 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.  
  
M/S. Shiranthi Gunawardena Associates  
Attorneys-at-Law & Notaries Public,  
No. 22/1, Elliot Place,  
Colombo 08.

M/S. Paul Rathnayake Associates  
No 59, Gregory's Road,  
Colombo 07.

### Bankers

Sampath Bank PLC  
Commercial Bank of Ceylon PLC  
Bank of Ceylon  
DFCC Bank PLC  
NDB Bank PLC  
Indian Bank  
Peoples Bank  
Hatton National Bank PLC

### Corporate Memberships

Credit Information Bureau of Sri Lanka  
Financial Ombudsman of Sri Lanka  
Leasing Association of Sri Lanka

### Tax Payer Identity Number (TIN)

134003669

### 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.smb.lk.com

### Subsidiary Company

SMB Money Brokers (Pvt) Ltd.  
8/A Sea View Avenue,  
Colombo 3.

### Associate Company

Kenanga Investment Corporation Ltd.  
4th Floor, Landmark Building, No 385, Galle  
Road, Colombo 3.

### Branches

Deniyaya Branch,  
No. 11 A, Main Street,  
Deniyaya.  
  
Negombo Branch,  
No. 15/15B, Station Road,  
Negombo.  
  
City Branch,  
No 301/A, Galle Road,  
Colombo 03

