



SMB LEASING PLC

Broadening Horizons

ANNUAL REPORT 2016

Our Mission

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

Our Corporate Objectives

To provide an excellent service to our customers.

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

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

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ABOUT THIS REPORT

The Company Profile

Established in 1992, SMB Leasing PLC is at present a Specialised Leasing Company that is 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 and loan facilities.

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, 2016. 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 Listing Rules of the Colombo Stock Exchange, Central Bank of Sri Lanka the Finance Leasing Act No. 56 of 2000 as amended by Finance Leasing (Amendment) Act No. 24 of 2005 and subsequent amendments

thereon and recommended rules and regulations and Directions issued by the Central Bank of Sri Lanka. 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 forms the base for areas on governance.

External Assurance and Test of Compliance

The Financial Statements are audited by M/s. KPMG, Chartered Accountants and their Report is given on page 86 of this report.

Presentation

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

Contact

Questions and inquiries on this Annual Report 2016 and information presented therein are to be directed to:

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Tel: +94 11 4222850
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FINANCIAL HIGHLIGHTS

Rs. '000

Year ended December 31

	2016	2015	2014	2013	2012
Operating Results					
Revenue	256,012	198,117	193,973	203,046	189,502
Interest income	206,319	177,771	172,443	182,024	143,988
Interest expenses	(40,311)	(28,525)	(31,647)	(44,868)	(35,600)
Operating expenses and impairment	(118,584)	(96,021)	(68,634)	(66,565)	(61,567)
Profit before taxation	97,116	73,571	93,667	91,613	92,334
Vat and taxation	(20,420)	(15,363)	(14,663)	(13,861)	(14,863)
Profit after taxation and VAT	76,696	58,209	79,004	77,752	77,471
Comprehensive income	77,952	56,815	77,549	76,767	75,621
Assets					
Cash and cash equivalents and placement with banks	146,551	183,526	145,052	116,934	119,394
Loans and receivables	1,319,828	1,053,788	923,890	932,413	913,235
Financial investments	7,578	7,291	7,712	8,991	3,193
Investments in associates	101,452	106,072	108,494	116,418	125,561
Investments in subsidiaries	12,750	12,750	11,791	9,268	7,854
Investment properties	33,310	33,730	33,730	33,730	34,324
Property plant and equipment	20,224	7,222	9,876	13,508	11,592
Intangible assets	3,258	3,406	3,553	3,701	-
Other assets	6,015	6,009	18,156	14,451	21,574
Total assets	1,650,965	1,413,793	1,262,254	1,249,414	1,236,727
Liabilities and shareholders' funds					
Borrowings	453,434	281,983	198,285	262,229	308,788
Other liabilities	61,142	37,256	26,230	26,732	44,253
Shareholders' funds	1,136,390	1,094,554	1,037,739	960,453	883,686
Total equity and liabilities	1,650,965	1,413,793	1,262,254	1,249,414	1,236,727
Ratios					
Income growth (%)	29	2	(4)	7	1.64
Total asset to shareholders' funds (times)	1.45	1.29	1.22	1.30	1.40
Net assets per share	0.63	0.61	0.57	0.53	0.49
Basic earnings / (loss) per share	0.04	0.03	0.04	0.04	0.04
Core capital ratio (%) (Tier 1) (minimum 5%)	92.21	101.08	90.80	87.00	91.35
Total core capital ratio (minimum 10%)	92.21	101.08	90.80	87.86	91.97

CHAIRMAN'S MESSAGE

It is with great pleasure that I present to you the Annual Report and the Audited Financial Statements of SMB Leasing PLC for the financial year ended December 31, 2016. Despite challenges we had to overcome, the Company recorded a strong performance in the year under review, further solidifying its core business through diligent measures adopted to improve performance. The local economy posed several challenges to our business. A weaker external sector resulted in the depreciation of the Rupee making imports more expensive. In order to control credit growth, the Central Bank imposed higher levels of up-front payments on leased vehicles. Notwithstanding, the company remained focused on its core strength of providing innovative leasing solutions to the small and medium sector of Sri Lanka's economy. Our business is based on strong fundamentals, a result of the support extended by the new majority shareholders who took over the business in 2011, diligence of the Board of Directors and Management, which has resulted in the company recording a consistent performance over the last 5 years. Consequently, today we remain a strong, well-capitalized leasing company built on a foundation of integrity, trust, and ethical behavior across all our business activities.

Macro-Economic Outlook

From a macro-economic perspective, although initial signs appeared to suggest a slowdown in 2016, the country's economy recorded a resilient performance, having weathered negative global headwinds that caused a drop-in exports and slower growth in remittances in the wake of falling oil prices. Despite a contraction in exports,

GDP growth reached 4.4% at the end 2016, bolstered by a strong expansion in both manufacturing and service sectors together with a steady increase in tourist arrivals throughout the year. Inflation is predicted to remain at mid-single digit levels for the fourth consecutive year, while per-capita income reached USD 3,870. Further, I remain optimistic about the wider implications of the tight monetary controls and on-going key policy reforms imposed by the Government. I believe, these will pave the way for much needed fiscal consolidation and greater economic stability in the years to come.

As a leasing company in Sri Lanka, we have always taken a proactive stance towards improving our strategic alignment to drive stronger growth and deliver the greatest impact on stakeholder value. In the year under review, we embraced a broader performance-driven strategy to transform all key business pillars and corporate services, and to sharpen their alignment with our vision. At the heart of our strategy is the combining of corporate goals with the aspirations of our stakeholders. To grow the top line in 2016, we continued to focus consistently toward our core markets – the small to medium segments of the Sri Lankan market. Therefore, our objectives are in line with that of the Government's broader economic goals of financial inclusion and efficient disbursement of rural and SME credit.

Performance for the Year Under Review

In the year under review SMB Leasing was able to deliver a net profit after tax of Rs. 76.7 million, an increase of 32% from the previous year. Our asset base as at December 31, 2016 was valued

at Rs. 1.65 billion while the total credit portfolio stood at Rs. 1.32 billion. Our total shareholder funds reached Rs. 1.14 billion with earnings per share at Rs. 0.04. The Company maintained a healthy liquidity ratio, and return on equity slightly improved to 7% against 5% in 2015.

During the year 2016, we expanded our scope and reach. While our financial astuteness grew in leaps and bounds, we were also able to meet some of the predicted growth targets which we had set out for ourselves. Among them was the relocation of our premises. Within the year under review, we were able to relocate our head office to a 5-storey building in Colombo 3, and thereby making our brand more visible. The new premises, while providing our customers with convenience and parking facilities, enhances the company's image and service delivery.

The expansion of our branch network is yet another significant milestone which we were able to achieve, by adding one more location to our branch network. While the year under review was a good year for the company, we are optimistic of the year ahead in which we have set the bar even higher.

Future Outlook

Given the core strengths of the organization, SMB Leasing intends to focus on developing differentiated lending products using technology and innovation. Use of e-commerce and mobile phone applications as the medium of delivery for products and services to play an important role in product differentiation. The image that SMB Leasing would be thriving to achieve would be that of a leasing company using technology to transact

business as against walking into brick and mortar branches and carrying cash. Customer convenience would thereby be enhanced, whilst reducing our cost base.

Until recently, over 90% of mobile money transactions globally were either airtime purchases or person-to-person (P2P) transfers. This shows that even where robust digital platforms are in place, the industry globally still has challenges going beyond transactional services and offering additional products such as credit and insurance. Penetrating beyond the retail customer segment to digitize business-to-business (B2B) value chains remains particularly difficult. Nevertheless, SMB Leasing plans to introduce several digitized financial products in Sri Lanka.

Though challenges remain in the current ecosystem, the planned digital interventions are aimed at making the system function more efficiently.

Acknowledgements

My deepest gratitude is extended to the Board of Directors for their insightful guidance and support. I wish to thank the management and the team for their dedication, work ethic and focused efforts that resulted in the positive progress achieved during the year 2016. I sincerely look forward to their continued support.

I would like to place on record with gratitude the role played by all our stakeholders in shaping the Company's

value proposition and championing our corporate goals. Their support this year remained vital in achieving yet another year of positive results.

I place my sincere appreciation to the Central Bank of Sri Lanka as well as other regulatory bodies for their constant guidance and monitoring of the industry. I would also like to express my sincere gratitude to our CEO Mr. Sumedha Fernando and the Senior Management for their unwavering support and leadership.



Ravi Wijeratne

*Chairman
Colombo
May 30, 2017*

CHIEF EXECUTIVE OFFICER'S MESSAGE

It gives me great pleasure to share with you an extraordinary performance by your Company, with many of the key performance indicators surpassing previous highs to establish new milestones. Despite the low business confidence which continued into the year from 2015, and the introduction of LTV restrictions by the CBSL, the year ended on a positive note, recording a significant growth in both loan and lease portfolios. The NPA position of the Company post 2012 compares well against the industry averages of 5.4% while recording 3.3% which is below industry norms. In an effort to serve its customers better while availing them of better logistical facilities and a customer friendly ambience, the company relocated its head office to a prominent business friendly location with ample parking facilities.

Our Focus

The expansion into new business areas was strategically implemented during the year under review. Through this expansion project the year saw our foray into pawing and vehicle importer finance. Both these areas having tremendous potential while offering our customers an expand portfolio of services.

The talents, passion and commitment of our people have been at the heart of our strategy - in adding new perspectives and in the passionate drive to re-engineer our business processes; in being nimble enough to adapt and drive change in our business model to adopting a mindset of continuous improvement and rising up to the challenges of greater responsibilities and for nurturing win-win partnerships with our stakeholders. One of our main focus points this year was the restructuring of our marketing team, which saw the inclusion of experienced

marketing professionals to spearhead the newly upgraded product portfolio. Further, the financial and treasury functions were further strengthened with the recruitment of a versatile and highly qualified CFO.

Our Non-Performing Loan (NPL) performance over the years post 2012 has been nothing short of exemplary and could be attributed to the hands-on and progressive credit criteria and recovery policies adopted by the Company's management and recoveries team. Timely legal action on defaulters has yielded favorable results within the financial year under review. Yet another positive step which was taken during the year through our HR initiative was the introduction of a Senior Operations Manager, whose main function would be to overlook the collection and recovery process. As in any leasing company this area remains the most acute having a direct reflection on the company's bottom line. While over the years we have managed this operation with a number of ups and downs, the expansion into new business areas requires efficient monitoring process which will ensure timely payment of installments and recovery plans.

The accessibility of our facilities was also enhanced with the expansion of the branch network, in Negombo. This branch whilst focusing mainly on Leasing, Pawning, Gold, Personal and Business loans, is indeed poised to positively impact the company's overall performance in these areas.

It is with great appreciation and pride that I mention that a number of leading commercial banks have come forward in offering fund facilitation for company approved short and medium term

business strategies. This is indeed a positive for us, as it further emphasizes our commitment towards good governance and best practices which we have carried out throughout the years.

Financial Performance

SMB's main strategic thrust this year was towards driving growth across all market segments and diversifying its product range in order to achieve its ultimate goal: providing a total financial solutions package for our clients. In doing so, I am pleased to say that SMB has also achieved a profit figure higher than 2015, with a 28% growth in profit before tax compared to the previous year.

The Company generated profit before income tax of Rs. 82 million for the financial year ended December 31, 2016 representing a dynamic growth of 28% in comparison to the previous year from Rs. 64 Million. The after-tax profit of the Company also improved by 32% moving to Rs. 77 million from Rs. 58 million whilst the earnings per share rose to Rs. 0.04 from Rs. 0.03 during the year. The core income of the Company increased by 16% over the previous year to Rs. 206 million from Rs. 177 million.

Looking Ahead

Looking inwards the upcoming years will see a revolution in our corporate culture, which will be focused on an ethos of building values and trust while inculcating a sense of team spirit which will propel the Company into the next phase of growth. While growth remains as the main focus in all areas including our product portfolio and branch network. We foresee boundless possibilities ahead of us. We look to serve generations more with added vigour, as we develop new

propositions and products, to adopt new business models and attract new customers and reduce costs, whilst standing firm on a sound platform of trust and strength.

Appreciation

I would like to convey my sincere appreciation to our Chairman and the Board for their guidance, constant

support and the confidence placed in me. My gratitude also to the Governor of the Central Bank of Sri Lanka, Director – Non Bank Financial Institutions and other regulatory bodies for the vital role they play and their contributions to the industry; and to all our stakeholders and customers for their loyalty and inspiration and the opportunity to be a partner.

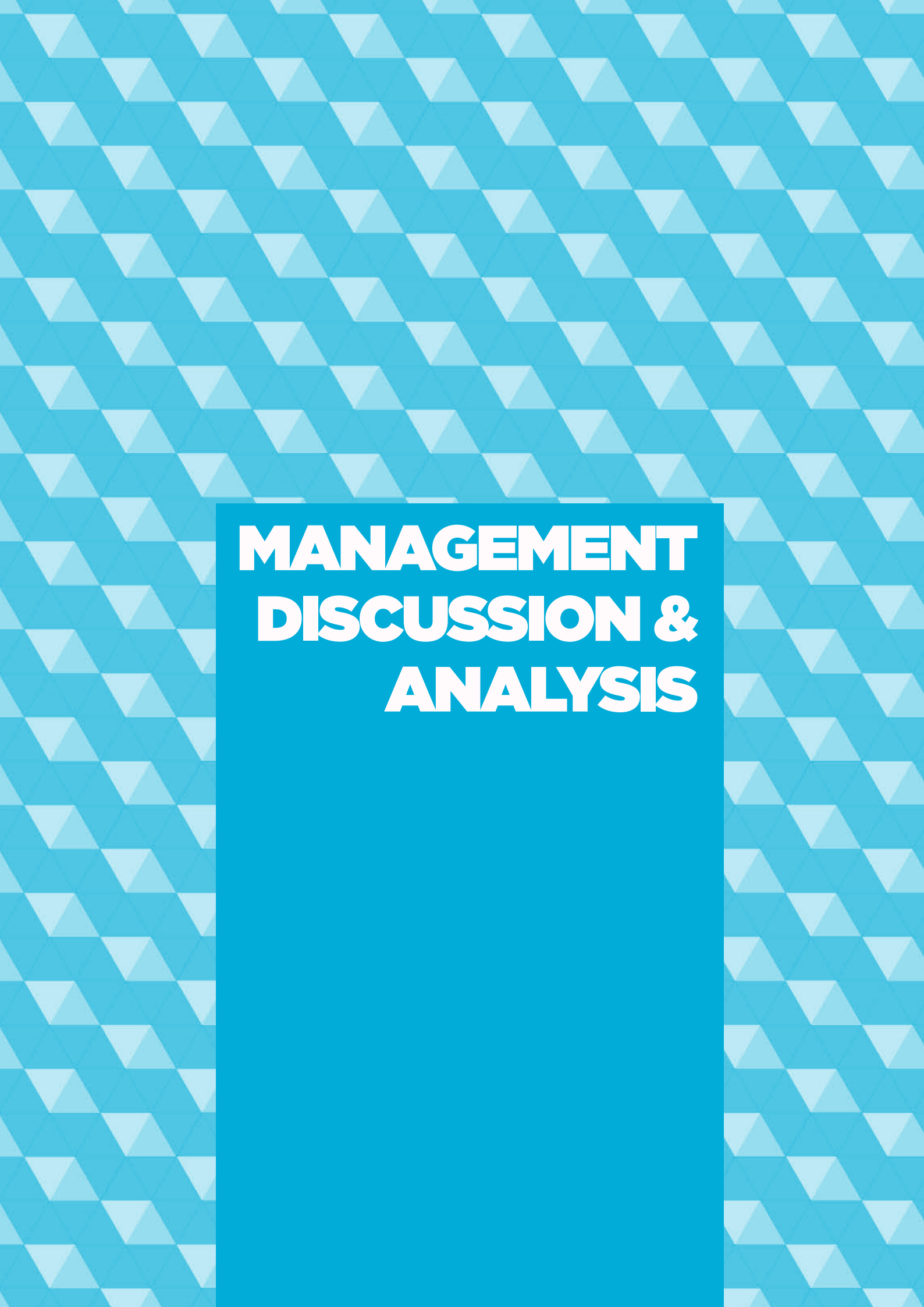
My heartfelt thanks to my corporate and

senior management teams who provide leadership and their boundless energy to drive our strategies for growth and business excellence and each and every member of our team that make up SMB, who continue to be the ambassadors of a legacy and bolster the Company's stature whilst staying nimble and energized enough, to not merely respond to changing market environments.



Sumedha Fernando

*Chief Executive Officer
Colombo
May 30, 2017*

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MANAGEMENT DISCUSSION & ANALYSIS

ECONOMIC OUTLOOK & BUSINESS ENVIRONMENT

Overview of Global Economic and Business Environment

The global output is estimated to have grown by a slower pace of 3.1% in 2016 reflecting weaker than expected US activity, reduction in trade and financial flows between the UK and the rest of the EU with the Brexit, and lower commodity prices. Stagnant global trade, subdued investment, and heightened policy uncertainty marked another difficult year for the world economy. Meanwhile global events such as Brexit, the US elections in late 2016 and changing policies especially in China and US increased uncertainty in trade policies. Activities in Russia was slightly better than expected, in part reflecting firmer oil prices.

Challenging global environments, weakening demand and spillover effects of the Euro debt crisis, slowed growth to 1.7% in the Euro region. Banks continued to suffer with weak profitability levels. Despite the bleak outlook, overall investor confidence showed some recovery in 2016 while Brexit in June 2016 and continued low investments in highly debt affected countries such as Greece, posed a risk. Thus, import demand especially capital goods contracted impacting global trade activity significantly.

Local Environment

Sri Lanka GDP growth slowed in the first nine months of 2016 to 4.0% compared to 5.7% in the first nine months of 2015, impacted by negative growth in agriculture and declining growth in transportation and real estate segments. Adverse global environments, higher taxes on motor vehicle imports, increase in interest rates and supply disruptions in

agricultural output negatively impacted the sectorial growth rates. The credit growth slowed in the latter part of 2016 in response to monetary tightening measures adopted by the Central Bank of Sri Lanka. Inflation, measured by the NCPI (Base year 2013) reflected an upward trend of 4.2% in December 2016. The increase in inflation in the latter part of the year was mainly attributed to the impact of tax adjustments and the supply disruptions due to adverse weather conditions. However, the inflation has been within the CBSL mid-single digit targets of 4% to 6%.

External trade activities recorded a modest performance in the first eleven months of 2016 with deterioration in the trade deficit as a result of increased import expenditure, amidst the contraction in export earnings due to adverse global conditions especially in core trading partners such as US, EU and China. However, the earnings from tourism and workers' remittances continued to dampen the adverse impact of the trade deficit on the overall balance of payment. The Sri Lankan Rupee continued to depreciate against the US \$ in 2016 given the widening trade deficit, increase in outflows of foreign investments from the Rupee Denominated Government Securities market and lower FDI. Meanwhile, the Government entered into a three year programme of US \$ 1.5 billion. with the International Monetary Fund (IMF), under the Extended Fund Facility (EFF) in June 2016 to support the Balance of Payments (BOP) position and the Government's economic reform agenda. The gross official reserves were US \$ 6.0 billion. by end 2016.

Sri Lankan Economic Overview with Relevance to Financial Sector

Sri Lanka's financial sector, accounting for 6.4% of GDP, recorded a strong growth of 14.3% in the first nine months of 2016, above the five-year historical average of 12%, and among the top growth sectors in the country in 2016. Interest rates continuously increased in 2016 in line with the adjustments in the monetary policy of the CBSL. Loan demand weakened with hike in interest rates, uncertainty in policies, adverse global conditions and tighter control on imports especially vehicles and consumer goods.

Private sector credit growth eased to 21.9% by December 2016 compared to higher credit growth rates in the first nine months of 2016. However, the credit disbursements in absolute terms remained high in 2016. Increase in VAT rate adversely impacted the finance sector profits. The finance sector continued its growth trajectory to 2016 with a profit growth of 19% year on year in the first nine months of 2016, higher than five-year average of 11%, despite continued pressures from global markets and increasing local tax rates. Sector ROE remained attractive at 17% in the third quarter 2016. Interest income grew by 21% year on year in the first nine months of 2016 due to the increase in interest rates following the increase in policy rates by the CBSL. Despite the slowdown, loans continued to account for 59% of assets.

Performance of Non-Banking Financial Institutions

The Licensed Finance Companies (LFC) and Specialised Leasing Companies

(SLC) sector recorded a strong performance in terms of asset growth and branch network expansion during 2016 amidst a challenging business environment, while placing emphasis on gradually moving out from its core business of vehicle financing to other loan products. The growth in the sector was mainly funded through domestic borrowings.

While maintaining the growth, risk remained under control, as reflected in healthy level of NPLs and comfortable liquidity and capital levels. The Central Bank continued to adopt prudential measures with a specific focus on reviving the aforementioned weak companies to maintain stability of the sector.

By end 2016, this sector comprised of 46 LFCs, 7 SLCs. During 2016, the LFCs/SLCs sector was able to expand their asset base exceeding the one trillion-rupee mark while maintaining marginally lower growth than in previous year. The total asset base of the sector grew by 21.7 per cent (Rs. 215.8 billion) in 2016 to Rs. 1,211.9 billion compared to a growth of 22.3 per cent (Rs. 181.6 billion) in 2015. The 77.3 per cent growth of assets was mainly led by lending activities. The increased assets were funded mainly through borrowings by 57.6 per cent and the balance by deposits, equity capital and other liabilities which represented 23.3, 10.6 and 8.4 per cent, respectively. Credit growth of the LFCs/SLCs sector moderated during the first quarter of 2016 as a result of macroprudential measures implemented with respect to the lending on motor vehicles mainly in the form of a loan to value ratio (LTV).

However, with the increased exposure to

other lending products, the credit growth accelerated during the second half of 2016 resulting in an overall expansion of credit of 21.0 per cent (Rs. 166.8 billion) to Rs. 962.7 billion as at end 2016, compared to a high growth rate of 31.8 per cent (Rs. 192.1 billion) during 2015. Around 73.1 per cent of this credit growth was mainly through other loan products such as term loans, revolving loans, microfinance, factoring and draft loans, while 23.7 per cent was through finance leases and hire purchases.

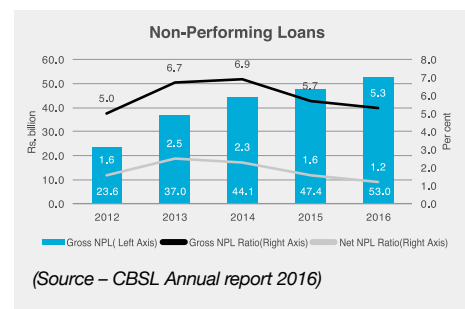
The investment portfolio comprises of investments in equities, corporate debt instruments, government securities and investment properties and recorded a growth of 12.1 per cent in 2016 compared to a negative growth of 9.2 per cent in 2015. This was mainly on account of increased investments in short-term government securities. Other assets comprised of cash, balances with banks and financial institutions, trading stocks and fixed assets, showed an increase of 36.6 per cent in 2016 largely due to increased placements in banks and financial institutions.

The sector's reliance on retail deposits has gradually shifted towards bank borrowings over the past two years considering the flexibility and cost factor. This has changed the overall funding structure of the sector by increasing the share of borrowings to 36.2 per cent in 2016 from 31.6 per cent in 2015, while the share of deposits decreased to 43.8 per cent in 2016 from 48.3 per cent in 2015.

During 2016, the borrowings increased by 39.6 per cent or Rs. 124.4 billion to Rs. 438.7 in absolute terms compared to a growth of 44.6 per cent recorded in 2015. The borrowings are predominantly

from the banking and finance sector (58.5 per cent) followed by debenture issues (16.5 per cent), foreign borrowings (4.9 per cent) and overdraft facilities (4.5 per cent).

Amidst the growth in the sector, the quality of loans portfolio was maintained due to aggressive credit recovery policies adopted by LFCs and SLCs. The NPL ratio showed a decline from 5.7 per cent in 2015 to 5.3 per cent in 2016. The increase of Rs. 5.6 billion in NPLs in 2016 was not significant compared to higher growth of the loan portfolio. The total loan loss provisions increased by Rs. 5.9 billion to Rs. 34.8 billion mainly due to an increase in the specific provisions made for NPLs with a delinquency period of more than 12 to 24 months. As a result, the net NPL ratio decreased to 1.2 per cent as at end of 2016 compared to 1.6 per cent in 2015 and the provision coverage increased to 65.7 per cent in 2016 compared to 61.0 per cent enabling a minimisation of potential default risk of the sector.



The LFCs and SLCs continued to experience a minimal market risk due to the lower exposure to trading portfolio and foreign currency transactions.

Greater business expansion of the LFCs/SLCs sector in to new areas of lending during the year enabled the sector to post increased level of profits.

Accordingly, the sector posted a profit after tax of Rs. 31.5 billion compared to that of Rs. 15.2 billion in 2015 reporting a more than two fold increase. Increased business volumes, improved other income and improved operational efficiency were the main contributory factors for increased profits. The net interest income of the sector increased at a slower rate of 12.0 per cent to Rs. 92.1 billion compared to 32.0 per cent increase in the previous year, mainly due to increased funding cost, while this affected the net interest margin of the sector negatively as it declined to 7.9 per cent from 8.7 per cent in 2015. The non-interest income recorded an increase in comparison to 2015 mainly on account of default and service charges, while the non-interest expenses decreased marginally leading to an improved efficiency ratio. The loan loss provisions made against NPLs was lower by Rs. 1.9 billion during 2016 when compared to Rs. 9.5 billion reported for 2015. The profitability indicators of the sector, ROA and ROE, increased to 4.0 per cent and 23.1 per cent, respectively, in 2016 compared to 3.0 per cent and 12.4 per

cent, respectively, in 2015.

The total regulatory capital of the sector improved by 25.1 per cent to Rs. 116.2 billion mainly due to retained profits. The regulatory capital was composed of Tier I and Tier II capital of which, the Tier I capital contributed to 97.2 per cent of the total regulatory capital. The core capital and total risk weighted capital ratios of the sector increased to 11.4 and 11.7 per cent, respectively, as at end 2016 from 10.5 and 11.2 per cent, respectively, as at end of 2015. However, there were few companies operating below the minimum required capital levels due to weak financial position, requiring the Central Bank to adopt certain measures to rectify such issues.

Technology has been one of the key growth factors of Sri Lanka's financial industry over the last 2 decades and SMB Leasing is also focusing our efforts in incorporating some of these industry-related technological advancements in to our business by modifying our existing systems that will allow the Company to offer new products to the customers.

Our Plans

The company's strategy is primarily focused on creating stakeholder value in the long term while balancing the exigencies of the short and medium term. Our strategic priorities to deliver value as depicted below is our blue print for resource allocation in driving earnings and growth. From a perspective of adding value to customers, we will continue to build on the considerable progress achieved in 2016 by enhancing our channels and growth through collaborative partnerships, using appropriate technology thus providing a robust platform for growth.

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

OPERATIONAL REVIEW

2016 Operational Performance

Our journey for 2016 began with a strategy focused on growth and target marketing to lucrative segments within the Sri Lankan economy, whilst also leveraging on the growth of convenience concepts. Despite highly volatile margins, the hike in interest rates and dampened credit demand towards the latter part in 2016, we witnessed our net leasing portfolio growing by 31% compared to 2015 whilst improving the quality through lower NPLs.

ROE increased to 7% in 2016, from 5% a year ago. The gross income of the Company improved by a noteworthy Rs. 57.9 million (29%) which was resulted by a strong contribution from core leasing activities with increased business volumes, which boosted the interest income to Rs. 206 million with a commendable year on year growth of 16%.

Operating income of Rs. 49 million reflects healthy growth in income. Profit after tax growth of 32% in 2016 was supported by sound recovery efforts. The increase in the net profit by Rs. 18.5 million helped the company to record an improved Return on Assets (ROA) of 5% and Return on Equity (ROE) of 7% which is higher than 4% and 5% reported in 2015.

2016 was a year of accomplishment for the company with the asset base crossing the 1.5 billion mark and ended at Rs. 1.6 billion, signifying a substantial increase over past 5 years supported by sustained growth.

The company creates value to shareholders through the payment of dividend and increased value of shares. The dividend policy seeks to maximise

shareholder wealth, maintain a consistent stream of dividend to shareholders and increase market capitalization, whilst ensuring that there is sufficient capital for planned business expansion.

Creating Value to Customers

Customer convenience was a key focus which has been supported through increased investment in branch expansion. Our continuous monitoring of customer satisfaction keep us connected to our customers in addition to active dialogues with our staff. Results in recent years have shown positive trends in customer satisfaction with SMB Leasing emerging clearly as a customer centric operation.

Transparency of Product and Services

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

Strong HR Governance

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

Compliance

Compliance with all regulatory requirements at all locations is mandatory

and we seek to go well beyond the base requirement in managing our considerable talent pool.

Product Performance

Our product portfolio grew by 19% by the year end. Performance highlights of key products are given below

Leasing

SMBL leases are specially designed for busy executives and entrepreneurs who are engaged in small and medium-scale businesses. This highly customer-oriented product is processed with minimum lead time and documentation. The lease portfolio grew by 16%.

Quick Cash Loans

Quick Cash is a personal loan scheme which is specially designed to solve day-to-day urgent cash requirements of public and private sector employees. The product recorded a growth of 24% in 2016.

BIZ Cash Loans

This product offers an immediate solution to the liquidity shortages of small and medium-scale businesses. Minimum documentation is the key feature of this product. In 2016, this product recorded a negative growth of 5%.

Term Loans

This is a loan scheme that is designed to suit a variety of requirements by individuals and corporate customers. Unique feature of this product is the flexible repayment options offered to the customer. This product performance exceptionally well in 2016 and recorded a growth of 38%.

FINANCIAL REVIEW

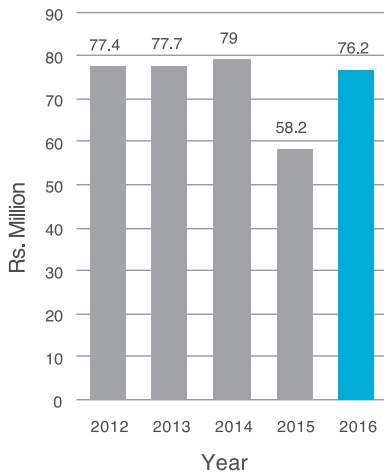
Company Performance

The following review provides a summary of analysis of the profitability for the year ended December 31, 2016 and the Financial Position as at December 31, 2016.

Profitability

The Company recorded a profit before income tax of Rs. 82.2 million for the financial year ended December 31, 2016. This reflects 28% increase when compared with last financial year. The total operating income has increased by 27% in 2016. This is due to the increases in net interest income (11%), fees and commission income (36%) and other net operating income (173%). This resulted in an increase in profit after tax of 2016.

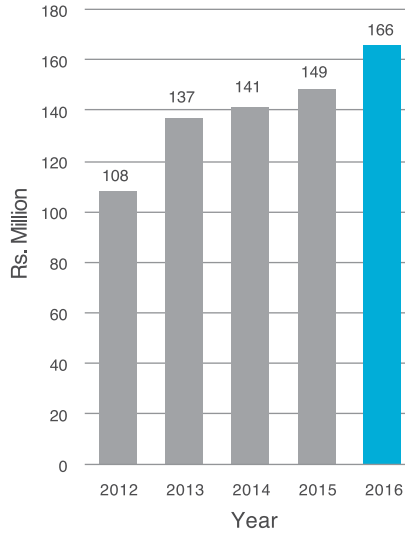
Profit after Tax



Net Interest Income

The Company recorded a net interest income of Rs. 166 million against the previous year net interest income of Rs. 149 million which is an 11% increase. The Company was able to grow the leasing and loan portfolio by 25% during the year which contributed for this increase.

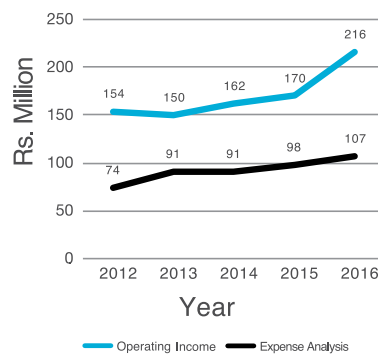
Net Interest Income



Operating Expenses

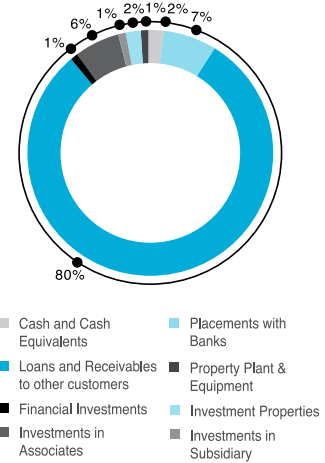
The total operating expenses increased by 9% during the year. This is due to the increase of personnel expenses by 13% and other expenses by 6%. Further, expense related to VAT on financial services increased by 59%.

Operating Income and Expenses Analysis



Total Assets

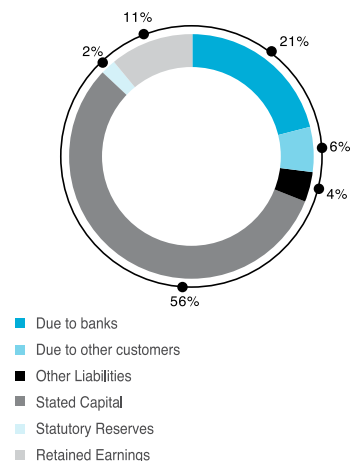
The composition of the total assets as at December 31, 2016 is as follows.



Loans and receivables accounts for 80% of the total assets followed by placements with banks of 7%. The company managed to increase the lease and loan portfolio to Rs. 1.32 billion recording a 25% increase compared to the last financial year. The investments in associates and subsidiaries accounts for 7% of the total assets of the Company.

Total Equity and Liabilities

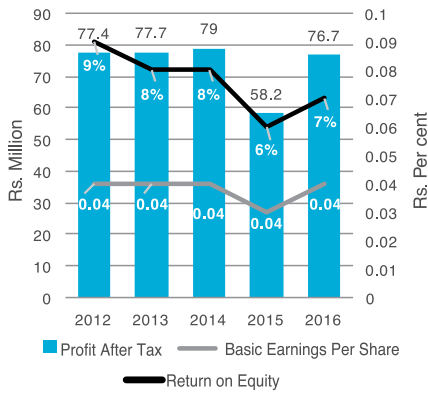
The composition of the total equity and liabilities as at December 31, 2016 is as follows.



The stated capital is 56% of the total equity and liabilities. This consist of 1.8 billion fully paid ordinary shares of Rs. 919 million. The amounts due to other customers is 6% of the total equity and liabilities. This balance consists of the amounts payable on debentures and promissory notes. Retained earnings is 11% of the total equity and liabilities. Retained earnings has increased by 25% with the profit after tax of Rs. 76.7 million in 2016.

Graphical Analysis of the Key Ratios

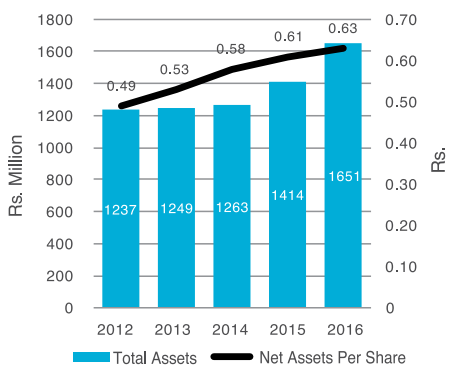
Profitability Ratios



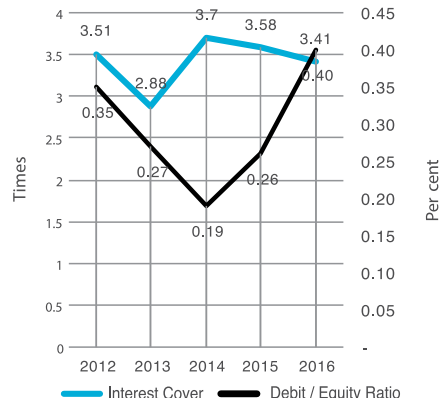
Market Price Analysis



Net Assets Ratios



Gearing Ratios

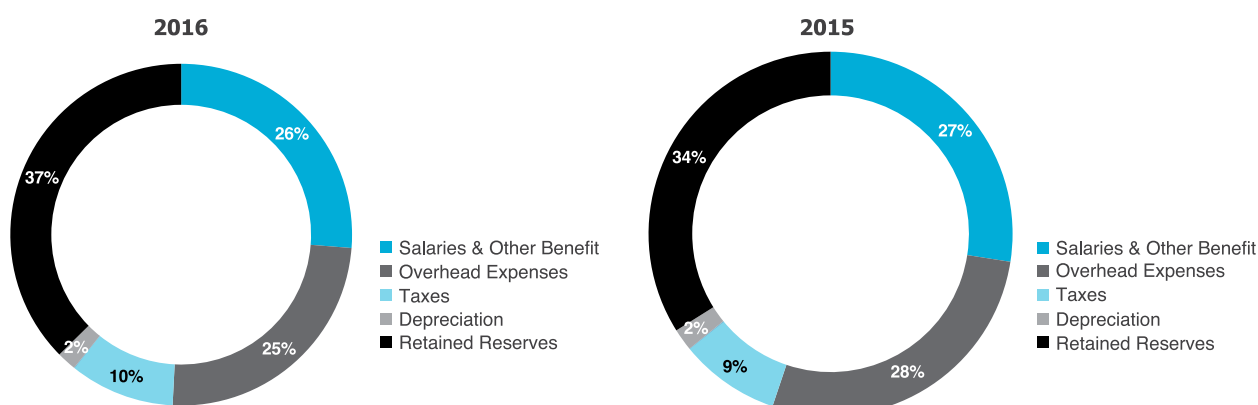


Value Added Statement

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

Rs.		2016	2015
	For the Year Ended December 31,		
	Value Addition		
	Interest Income	206,318,697	177,771,067
	Cost of Borrowings	(40,311,319)	(28,525,298)
	Value Added by Financial Services	166,007,378	149,245,769
	Value Added by Financial Services		
	Other Income	49,693,318	20,346,283
	Impairment Reversals	(11,290,751)	2,061,588
		204,409,945	171,653,640

Rs.		2016	%	2015	%
	Distribution of Value Addition				
To employees	Salaries & Other Benefit	53,645,041	26%	47,147,350	27%
To Service Providers	Overhead Expenses	50,193,107	25%	47,552,679	28%
To the Government	Taxes	20,419,859	10%	15,362,861	9%
To Shareholders	Dividends	-	-	-	-
To maintain Operations	Depreciation	3,762,987	2%	3,382,233	2%
Retained within the Business	Retained Reserves	76,388,951	37%	58,208,517	34%
		204,409,945	100%	171,653,640	100%



HUMAN CAPITAL MANAGEMENT

Our Team

A 51 strong-team comprising a diverse mix of individuals are the primary value creators for the company. As an equal opportunity employer, our team represents both genders, all major ethnic groups in the country and generations X, Y and Z who work together in a conducive environment with dignity and mutual respect. Employees are typically engaged on full-time employment with a few on contracts where the need is likely to be for a specific time.

Building human and intellectual capital is intrinsically linked to employee retention and attraction. To attract and retain employees, we have to deliver value in numerous ways and create a great place to work where employees are inspired and motivated to perform at their optimum. HR policies are carefully framed to create a conducive environment that inspires high levels of performance and motivates employees to realize their potential. The management encourages bottom up strategic planning, business development and cost engineering processes.

Training and Development

Training and development is a key priority for the company enhancing knowledge, competencies, skills, attitudes and performance. A policy of giving preference to promote internal candidates and a transparent promotions process encourage both performance and self-development within. The company has a history of producing its own leaders who have progressed in their careers from trainee positions and serve as testimony to our training and development function. A learning culture where people are encouraged to continuously acquire knowledge,

competencies and develop skills under the guidance of experienced mentors serves as the foundation for talent development. As a specialized leasing establishment supervised by the Central Bank of Sri Lanka (CBSL), the Company encourages employees to participate in training programs conducted by the CBSL.

Our team members have clearly defined goals and objectives which are clearly communicated to them and evaluated at regular intervals. This is so that each team member understands that they are accountable for achieving their individual goals which in turn contribute towards the bigger picture, the bottom line of the Company. This is directly linked to their career advancement within the organization.

Our corporate culture is one that respects individuality and one which empowers high performance and a positive work ethic. We foster equality and mutual respect among our team members while encouraging open communication and novel ideas. At SMB Leasing PLC, our work culture revolves around creating a positive and harmonious balance between work and personal life.

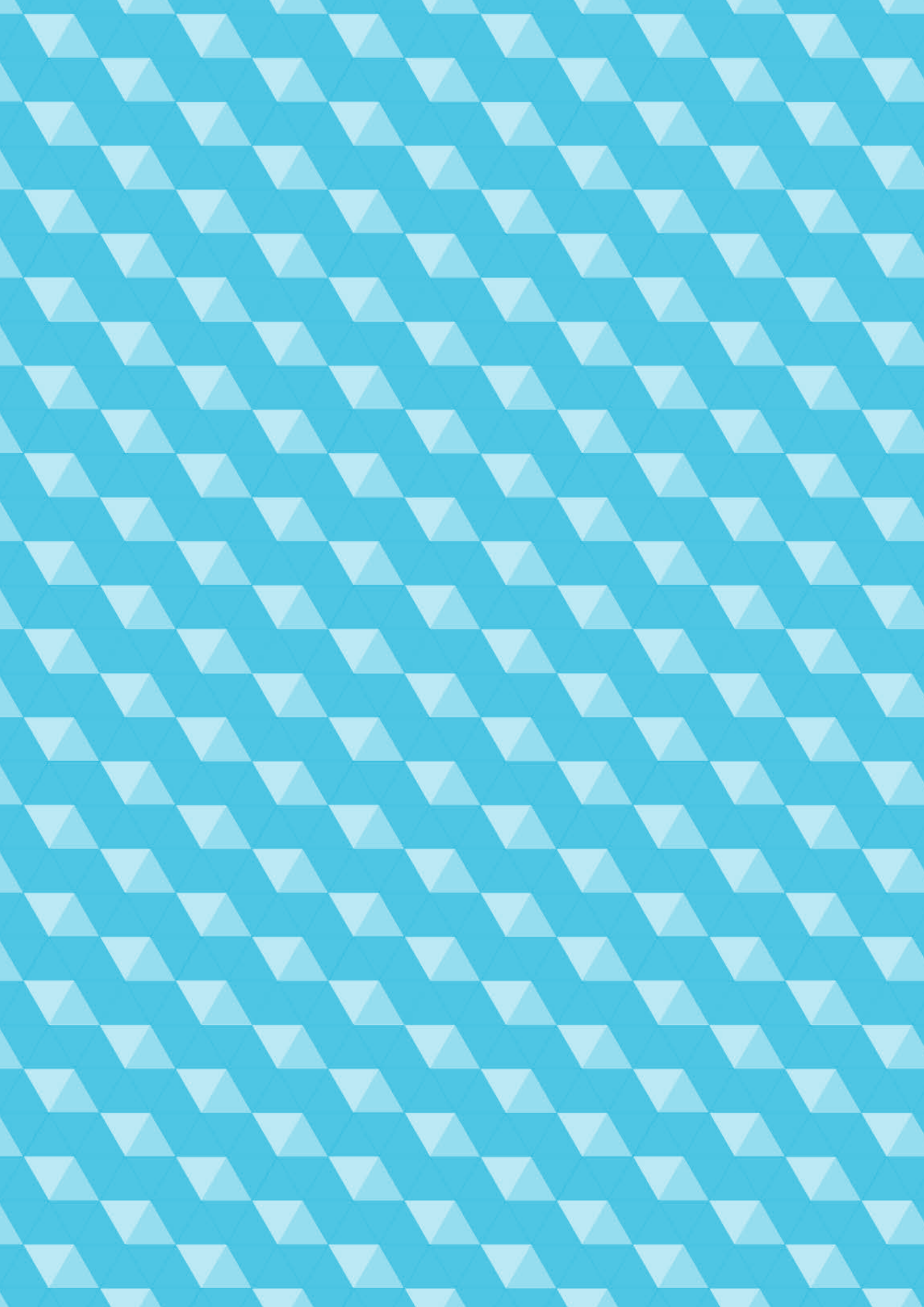
The remuneration policy of the Company is to ensure appropriate compensation levels are made available to all employees in the organization in order to attract and retain high-calibre staff, with the right mix of experience, skills and knowledge to deliver on the strategy of the Company and reward them in par with industry standards and also to ensure that the Company consistently delivers values to all stakeholders. The Company also provides a comprehensive health insurance policy to employees.

Our team as at December 31, 2016 comprises 38 employees in confirmed capacity which amounts to 75% of the staff being permanent employees. This high percentage of permanent employees encourage them to take ownership of their deliverables within the organization. Out of the balance 13 staff members, 10 are on probation while the remaining staff are employed on contract basis

The Company conducts bi-annual performance appraisals enabling the management to identify and reward the top performers while also identifying areas that need improvement, training and development to strengthen the staff.

During the financial year under review, there were no reported incidences of discrimination among staff members and the Company has adhered to labor laws and regulations and complied with all its statutory obligations.

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.





CORPORATE STEWARDSHIP

Board of Directors

Mr. Ravi Wijeratne

Chairman

Non-Executive Director

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

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

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

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 also serves on the board of the Indian CEO Forum Sri Lanka.

Mr. Gautam joined the board of SMB Leasing PLC as a non-executive director in 2010.

Mr. Jagath Korale

Independent Non-Executive Director

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

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

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

Mr. Thilan Wijesinghe

Independent Non-Executive Director

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

Having commenced his career as Senior Management Consultant at PricewaterhouseCoopers, Colombo, and Head of Planning at Sampath

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

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

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

Mr. Claude Peiris

Non-Executive Director

Mr. Claude Peiris is an experienced banker with over 42 years of banking experience. Former Director/ CEO of the Pan Asia Banking Corporation PLC

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

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

Mr. Shardha Sosa

Independent Non-Executive Director

Mr. Shardha Sosa is a Fellow Member of the Chartered Institute of Management Accountants – UK, Fellow member of Certified Management Accountants of Sri Lanka and a Member of the British Computer Society with over 27 years of experience. Starting his career in 1990 as a management trainee, has experience in the grades of Accountant, Chief Accountant and Financial Controller

from 1998 to date at MJF Holdings (Dilmah Tea). Having led multi-functional teams and implementing many ERP systems, has in depth knowledge of Planning, Budgeting, Costing, Pricing, Treasury Operations, Risk Management Procedures, ERP Planning, Taxation and Investment Analysis. Has been a key figure in the development and expansion of Dilmah Tea.

Mr. Saadi Wadood

Independent Non-Executive Director

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

Mr. Nimal Palihena

Independent Non-Executive Director

Mr. S. N. P. Palihena is a Fellow member of The Chartered Institute of Bankers (London) and Institute of Bankers, (Sri Lanka). He holds a Post Graduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka. Mr. Palihena is a banker by profession and has served this industry for over a period

of 40 years and was a former General Manager / Chief Executive Officer of Bank of Ceylon and was a Director of DFCC Bank. He also serves on several Boards of EB Creasy PLC group of Companies and Softlogic Finance PLC

Mr. Palihena retired from the Board on February 22, 2017

Mr. Gamini Ranasinghe

Independent Non-Executive Director

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

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

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

Mr. Ranasinghe retired from the Board on April 6, 2016

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

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

Sumedha counts for over 30 years' experience in the Financial Service Sector with specified expertise in leasing and factoring. He's presently serving as a Director of Financial Ombudsmen of Sri Lanka (Guarantee) Limited and as a Member of the governing council of CMA (Australia), Sri Lanka Branch. He also served as a Director of Leasing Association of Sri Lanka from 2002 to 2010

Mr. Supul Wijesinghe

Chief Financial Officer & Head of Strategy

Mr. Supul Wijesinghe holds a BSc in Business Administration from the University of Sri Jayewardenepura and a Masters in Accounting & Finance from the University of Kelaniya. He's a Fellow Member of the Chartered Institute of Management Accountants

– United Kingdom, Fellow Member of the Association of Chartered Certified Accounts – United Kingdom and a Member of the Institute of Chartered Accountants of Sri Lanka.

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

He counts for 19 years' experience in audit, risk management, financial management, strategic planning, business transformation, compliance, treasury and performance analysis.

Mr. Dinesh Perera

DGM – Retail & Personal Financial Solutions

Mr. Dinesh Perera holds a MBA from the University of Wolverhampton – United Kingdom. He's an Associate Member of the Institute of Bankers of Sri Lanka.

Having commenced his career at Sampath Bank PLC in 1991, Dinesh joined Seylan Bank PLC in 1996 where he last served as a Branch Manager. Then he moved to Pan Asia Bank PLC as a Senior Manager and was promoted as an Assistant General Manager in 2011. In January 2013, Dinesh joined Colombo International Nautical and Engineering College (CINEC), Sri Lanka's largest Non-Governmental institute of higher education as the Deputy General Manager. In March 2014, he joined Golden Key Credit Card Company as its CEO under the supervision of the CBSL, a position he held until joining SMB Leasing PLC in March 2016.

Dinesh counts for 25 years of experience in banking, leasing, credit, business development and sales.

Mr. Upul Wijesinghe

Head of Sales and Marketing

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

Upul commenced his career as a Sales officer in SMB Lessing PLC and held various positions in the organization including Head of Operating prior to been appointed as Head of Sales and Marketing in 2011.

Upul has over 19 years' experience in banking, leasing, hire purchase and credit management.

Mr. Manjula Welagedara

Head of Legal & Human Resources

Mr. Manjula Welagedara is an Attorney-at-Law, Notary Public, Registered Company Secretary & Commissioner for Oaths. He joined SMB Leasing PLC in 2011 as the Head of Legal and HR. Prior to joining SMB Leasing, Manjula was attached to the legal department of the Nations Trust Bank PLC.

Manjula counts for over 15 years' experience in the fields of commercial litigation, banking, corporate and commercial law. He also has many years of experience as a private practitioner attached to the unofficial bar.

Mr. Mohan Weerackoon

Head of Information Technology

Mr. Mohan Weerackoon holds an MSc degree in Information Technology & Management at Keele University, UK. He is also a member of Computer Society of Sri Lanka, Microsoft Certified Systems Engineer (MCSE) and a Cisco Certified Network Associate (CCNA). Mohan has completed many courses including Windows Programming in C and Java Application Development from the University of Colombo.

Having commenced his career at Ceylinco Group as an Analyst Programmer, Mohan joined the USA Embassy in Sri Lanka as the Systems Manager where he continued to work over 10 years. Then he moved to P&O Ports (SAGT) and Lotteries Board as a Network Manager and a Systems Manager prior to joining SMB Leasing as the Head of IT in March 2011.

Mohan counts for over 30 years' experience in different business industries with hands-on experience in implementing e-business solutions, software designing, web application development, LAN/WAN networks, radio data network planning and implementation, business process reengineering, ERP integrated application solutions, implementation of new IT infrastructure projects and project management.

Mohan was awarded the Meritorious Honor Award by the United States Department of State during his tenure at US Embassy in recognition of his outstanding performance.

Ms. Shiroma Gunathilake

Head of Finance

Ms. Shiroma Gunathilake has a BSc in Accountancy & Financial Management from the University of Sri Jayewardenepura. She is a Member of the Institute of Chartered Accountants of Sri Lanka.

Having commenced her career at Ernst & Young, where she last served as a Qualified Assistant, Shiroma joined EMJAY International Limited as a Financial Accountant and then moved on to join Asian Alliance Insurance PLC as a Financial Accountant. She was subsequently promoted to the position of Accounting Manager at Asian Alliance, a position she held until joining SMB Leasing PLC in February 2014.

Shiroma counts for over 18 years' experience in Audit and Assurance,

Accounting, Financial Reporting, Taxation and Compliance. Shiroma resigned from SMB Leasing PLC in November 2016.

Ms. Nishendri Aponso

Senior Manager – Credit

Ms. Nishendri Aponso holds a BSc in Business Administration from the University of Sri Jayewardenepura. She also has a Diploma in Credit Management from the Institute of Bankers of Sri Lanka and an Investment Advisor Certification from the Colombo Stock Exchange.

Nishendri commenced her career as a Management Trainee in SMB Leasing PLC and held various positions in the organization including Manager – Credit prior to being appointed as Senior Manager – Credit in May 2016.

Nishendri has over 10 years' experience in credit appraisal, financial statement reviews, customer profitability analysis and credit documentation relation to leases and loans. She also functioned

as the Credit Information Bureau Compliance Officer of the organization from 2012 to 2015.

Mr. Hiran Wickramarachchi

Senior Manager – Operations

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

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

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

MANAGEMENT TEAM

Mr. Suneth De Silva - *Manager, Customer Care*

Ms. Sardha Subasinghe - *Manager, Loans*

Mr. Dickson Gunathilake - *Manager, IT*

Mr. Nimesh Dodanwala - *Manager, Sales*

Ms. Niluka Perera - *Accountant*

Mr. Roshan Buultjens - *Manager, Pawning*

Mr. M Premasiri - *Manager, Deniyaya Branch*

Mr. Manoj Kiriieldeniya - *Manager, Negombo Branch*

CORPORATE GOVERNANCE AND COMPLIANCE

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

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

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

Statement of Compliance

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

Governance Principles and Activities

The Board of Directors

Composition

The Board comprises of six Non-Executive Directors of whom five are Independent Directors. The Chairman also act 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, 2016 was as follows.

No. of Members	5
Executive	Nil
Non Executive	5
Independent	4
Non Independent	1
Gender Representation	
Male	5
Female	Nil

Responsibilities of the Board

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

The Board is involved and ensures,

- Formulating corporate strategy & strategic direction of the Company
- Monitoring the effectiveness of the Company's risk management strategy

- Compliance with ethical and legal standards
- Reviewing the integrity of the Company's Accounting and Financial Statements
- Approval of Financial Statements for publication
- Approval of Budget and Corporate Plans
- 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.

Composition of the Board Sub Committees as at December 31, 2016



Attendance of Directors at Meetings as at December 31, 2016

Name of the Director	Status	Main Board	Audit Committee	Integrated Risk Management Committee (IRMC)	Other Sub Committee (Legal)	Total Meetings Attended
Total Number of Meetings		12	26	2	3	43
Mr. H R S Wijeratne	NED	9	NM	NM	NM	9
Mr. U Gautam	INED	11	NM	NM	1	12
Mr. T M Wijesinghe	INED	9	NM	NM	NM	9
Mr. J C Korale	INED	12	26	NM	3	41
Mr. G C B Ranasinghe*	INED	3	8	NM	NM	11
Mr. S N P Palihena**	INED	11	25	2	2	40
Mr. A T S Sosa***	INED	N/A	N/A	N/A	N/A	N/A
Mr. M S A Wadood***	INED	N/A	N/A	N/A	N/A	N/A
Mr. T C A Peiris****	NED	N/A	N/A	N/A	N/A	N/A

NED – Non Executive Director,

INED – Independent Non Executive Director

NM – Not a member of the committee

N/A – Not applicable for 2016 as the Director was appointed to the Board after December 31, 2016

*Mr. G C B Ranasinghe – Ceased to be a Director w.e.f. 06.04.2016

**Mr. S N P Palihena – Ceased to be a Director w.e.f. 22.02.2017

***Mr. A T S Sosa & Mr. M S A Wadood – Appointed as a Director w.e.f. 10.03.2017

****Mr. T C A Peiris – Appointed as a Director w.e.f. 29.03.2017

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 by reference to the Article of Association. Details of new appointments are disclosed to the shareholders on their new appointment. 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 Chairman.

Training of New and Executive 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 make efforts to communicate in an equal manner in

all situations to provide information to the stakeholders timely. The communication threshold is same for both positive and negative matters.

Means of Communication

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

Financial Results

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

Website

Our corporate website, www.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 channels:

P W Corporate Secretarial (Pvt) Ltd.

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

Email pwcs@pwcs.lk

Telephone 011-4640360-3

Submission of Statutory Return

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

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

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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
2 The Responsibilities of the Board of Directors			
2 (1)	Strengthening the safety and soundness of the Company.		
2 (1) (a)	Approving and overseeing the strategic objectives and corporate values and ensuring that the same is communicated throughout the Company.	Company's strategic objectives and corporate values are determined and approved by the Board of Directors. The decisions taken by the Board regarding strategic objectives and corporate values are communicated to all levels of staff through structured meetings.	Compliant
2 (1) (b)	Approving the overall business strategy of the Company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years.	Company's strategic business plan covering immediate next three years has been approved by the Board. It provides for the overall risk management policy, procedures and mechanisms with measurable goals. The business strategy is reviewed by the Board on a regular basis with updates on the execution thereof by the management at monthly Board meetings.	Compliant
2 (1) (c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Integrated Risk Management Committee, on behalf of the Board, identifies risks and ensures implementation of appropriate systems to manage risks prudently and reports to the Board on a quarterly basis.	Compliant
2 (1) (d)	Approving a policy of communication with all stakeholders, including lenders, creditors, shareholders and borrowers.	Refer Corporate Governance, Page 26 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 81 for further information on internal control framework of the Company	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
2 (1) (f)	Identifying and designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.	The Board of Directors have been identified and designated as the Key Management Personnel of the Company.	Compliant
2 (1) (g)	Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel.	The key functions / responsibilities have been defined and approved by the Board and included in their respective job descriptions.	Compliant
2 (1) (h)	Ensuring that there is appropriate oversight of the affairs of the Company by Key Management Personnel, that is consistent with the Company's policy.	Affairs of the Company are reviewed and discussed by the Board at Board meetings on a monthly basis.	Compliant
2 (1) (i)	Effectiveness of the governance practices are reviewed and discussed by the Board at Board meetings on a monthly basis.	This direction is overseen by the function of the Board and the Board Nomination Committee	Compliant
2 (1) (j)	Ensuring that the Company has an appropriate succession plan for Key Management Personnel.	<p>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</p> <p>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</p>	Compliant
2 (1) (K)	Meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	The Board meets the key management personal on monthly basis and respective senior managers who are not members of the board are requested to attend by invitation to discuss specific areas.	Compliant
2 (1) (l)	Understanding the regulatory environment.	<p>On appointment, Directors are apprised comprehensively on the regulatory environment including, governance framework, policies, and processes and their responsibilities as a Director in terms of the applicable rules and regulations.</p> <p>The Board is apprised of any changes to the regulatory environment through the Integrated Risk Management Committee and also by the Company Secretary.</p>	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
2 (1) (m)	Exercising due diligence in the hiring and oversight of external auditors.	The hiring of external auditors is carried out by the Board on the recommendation of the Board Audit Committee. The Board Audit Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.	Compliant
2 (2)	Appointment of the Chairman and the Chief Executive Officer and defining and approving their functions and responsibilities.	The Chairman and CEO have been duly appointed and their functions and responsibilities have been defined and approved by the Board.	Compliant
2 (3)	Availability of a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice at the Company's expense.	Directors are permitted to seek independent professional advice as and when required. The Company Secretary facilitates this process.	Compliant
2(4)	Avoidance of conflicts of interest of Directors	Each member of the Board has a responsibility to determine whether he has a potential or actual conflict of interest in material matters which may have a bearing on his independent judgment. Directors who have an interest in a matter under discussion refrain from engaging themselves in the deliberations on that matter and abstain from voting thereon. Such abstentions from decisions are duly reordereed by the Company Secretary in the minutes.	Compliant
2(5)	Availability of a formal schedule of matters specifically reserved to Company's Board for decision and control	Company is having policy on delegation of authority. It emphasis authority level of Directors.	Compliant
2(6)	If the Company is or likely to be insolvent the Board to inform the Director - Department of Supervision of Non-Bank Financial Institutions of the Central Bank prior to taking any decisions or actions.	No such situation has arisen to-date. Directors objectively review and evaluate the financial performance and position of the Company so that any such indicator can be identified well in advance.	Not Applicable
2(7)	Inclusion of an Annual Corporate Governance Report on compliance with the corporate governance directions in the Annual Report.	The Company has placed greater focus on compliance with the regulations of the Central Bank of Sri Lanka. The Board has published a publishes an Annual Corporate Governance Report on page 24 to page 60 in this Annual Report	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
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 twelve (12) times for the financial year 2016	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 25 for details on number of Board meetings held during the year and the individual attendance of the Directors. All Directors have regularly attended Board meetings.	Compliant
3(5)	Appointment of a Company Secretary.	Company has appointed PW Corporate Secretarial (Pvt) Ltd as the Company Secretary. The Company secretary advises the Board on matters relating to provisions of the Companies Act, Board procedures and other applicable rules and regulations.	Compliant
3(6)	Chairman has delegated to the Company Secretary the function of preparing the agenda for Board meetings.	The chairman had delegated the preparation of the Board Meeting agenda to the Company Secretary. The company secretary is responsible for the same.	Compliant
3(7)	Directors' access to advice and services of the Company Secretary.	All directors have access to the advice and services of the Company Secretary who is responsible to the Board to ensure that the board procedures and the applicable rules and regulations are complied with. Articles of the Company provides authority to the Board to appoint/ remove the Company Secretary.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
3(8)	The Company Secretary maintains 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, 2016	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, 2016 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 2016.	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 2016 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 24 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, 2016 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, 2016 are below the age of 70 years. On reaching the age of 70, Mr.G.C.B Ranasinghe retired from the office of Director on April 6, 2017 in compliance with this rule.	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 20 to 21 of the Annual Report. Accordingly, all Directors have complied with this rule	Compliant
6 Management Functions Delegated by the Board			
6(1)	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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
6(2)	Board shall review delegation of authority on a periodic basis.	The Board regularly reviews the policy on delegation of authority to ensure that they remain relevant to the needs of the Company.	Compliant
7 The Chairman and the Chief Executive Officer			
7(1)	The role of Chairman and Chief Executive Officer shall not be performed by the same person.	The posts of the Chairman and the Chief Executive Officer (CEO) of the Company are separated ensuring the balance of power and authority. The Chairman is a Non-Executive Director while the Chief Executive Officer is an employee of the Company	Compliant
7(2)	When the Chairman is a Non-Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director of the Company.	Chairman is a Non-Executive Director. The Chairman's role provides effective leadership and strategic insight to the issues of the Board. Mr.J.C Korale has been appointed as a Senior Director to comply with the rule. This is disclosed on Director profiles on page 20.	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, 2016.	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 to ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting	Chairman ensures, that all Directors are properly briefed on issues arising at each Board meeting.	Compliant
7(7)	Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interest of the Company.	The Chairman sets the agenda and ensures that Board deliberations are done in an objective manner and opinions of all Directors are appropriately considered in decision making thereby promoting active contributions by the individual Directors to the Board's affairs.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
7(8)	Chairman shall ensure effective contribution if 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 2016.	Not Applicable
7(9)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties.	The Chairman is a Non-Executive Director who does not get involved directly in any of the executive duties of the Company and does not supervise any Key Management personnel.	Compliant
7(10)	The Chairman shall maintain effective communications with the shareholders and communicate the view of shareholders to the Board.	At general meetings, shareholders are given the opportunity to take up matters for which clarifications needed by the Chairman and the Board. In addition, matters raised by the shareholders outside general meetings are adequately clarified by the Chairman, CEO and/or any other officer	Compliant
7(11)	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. Audit Committee Remuneration Committee Integrated Risk Management Committee Related Party Transaction Review Committee 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 66 to 71.	

Section	Governance Requirement	Implementation and Compliance	Compliance Status
8(2)	Audit Committee		
8(2) (a)	The Chairman of the Audit Committee shall be a Non-Executive director who possesses qualifications and experience in accountancy and or audit.	The Chairman of the Audit committee is Independent Non-Executive Director. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Institute of Chartered Management Accountants-UK He possesses over 30 years of experience in accountancy and audit	Compliant
8(2) (b)	Majority of Board members appointed to the Committee shall be Non-Executive Directors.	Audit Committee consists of three 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 2017	Compliant
	(ii) implementation of the Central Bank guidelines issued to external auditors	The Committee has implemented Central Bank guidelines issued to auditors	
	(iii) application of the relevant accounting standards;	The Committee ensures that the relevant accounting standards are applied.	
	(iv) the service period, audit fee and any resignation or dismissal of the External auditor provided that the engagement of an audit partner shall not exceed five years and not to re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	The Committee has taken steps to ensure compliance to this Section.	
8(2) (d)	The Committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes.	The Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process	Compliant
8(2) (e)	The Committee shall develop and implement a Board approved policy on the engagement of an external auditor to provide non-audit services based on the criteria specified in this rule.	The Board as a general policy to discourage the engagement of external auditors for non-audit services. However, if required, non-audit services will be obtained from the external auditors with the prior approval of the Committee and the Board in full compliance with the criteria set out in this rule for such engagements.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
8(2) (f)	The Committee shall discuss and finalise the nature and scope of the audit (including all aspects set out in this rule) with the external auditors before commencing the audit.	The Auditors make a presentation at the Committee Meeting with details of the proposed audit plan and the scope. The Committee approves the engagement after ensuring that all criteria and required approval is obtained to that effect.	Compliant
8(2) (g)	Committee shall review the financial information of the Company, in order to monitor the integrity of the financial statements, annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein.	Quarterly financial statements and annual financial statements are circulated to all members of the Committee. The Committee reviews all such financial statements in detail and obtain clarifications from the management where necessary during that review. Once the Committee determines that the said financial statements are prepared according to the applicable accounting standards and the required disclosures are in place, the committee recommends the financial statements for approval by the Board of Directors.	Compliant
8(2) (h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits and any matters the auditor may wish to discuss in the absence of key management personnel if necessary	No interim audit was conducted for the year under review. The Committee met the external auditors without the presence of management on August 24, 2016 to discuss matters arising from the from the final audit of 2015.	Compliant
8(2) (i)	The Committee shall review the external auditor's management letter and the management's response thereto.	Once the management letter is received, the external auditors are invited to make a presentation to the Committee. During this meeting, all findings mentioned in the management letter is discussed in detail. Thereafter, the Committee decides on remedial action to be taken in respect of such findings.	Complied
8(2) (j)	Committee shall take the following steps with regard to the Internal Audit function of the Company.	The Company does not have an in-house Internal Audit Department. Instead, the internal audit function is outsourced to SJMS Associates, Chartered Accountants.	Compliant
	i) Review the adequacy of the scope, functions and resources of the Internal Audit Department	The scope of the internal audit is decided by the Committee at the beginning of the financial year based on risk and operational priorities. The Committee can call for special internal audits of any area outside the given scope if required during the year.	

Section	Governance Requirement	Implementation and Compliance	Compliance Status
	ii) Review the internal audit programme and results of the internal audit process;	The annual audit plan is prepared by the internal auditors and submitted to the Committee for approval.	
	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.	
	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.	
	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.	
	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.	
8(2) (k)	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. Other Board members and the Chief Executive Officer may also attend meeting upon the invitation of the committee. At least once in six months the committee shall meet with the external auditors without the executive directors being present.	The Chief Financial Officer attends Committee meetings. Since the internal audit function is outsourced, the Company does not have a Chief Internal Auditor. The Chief Executive Officer is invited for Committee meetings. The committee met external auditors without the presence of Corporate Management on August 24, 2016.	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 66 to 68 of the Annual Report for more details on this	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
8(2) (n)	The Committee shall meet regularly and record its conclusions.	The Committee had 26 meetings in 2016 and its decisions are recorded by the Company Secretary who also acts as the secretary to the Committee.	Compliant
8(2) (o)	Disclose activities of the Committee, number of meetings held and attendance of members at meetings in the Annual Report.	This information has been disclosed in the Audit Committee Report given on page 66 of the Annual Report	Compliant
8(2) (p)	The secretary to the Committee shall recording and maintain detailed minutes of the Committee meetings.	The Company Secretary is the secretary of the Committee. Detailed minutes of the Committee proceedings are recorded and Committee minutes are maintained by the Company Secretary.	Compliant
8(2) (q)	The Committee shall review the process by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.	The Committee has implemented whistle blower policy to facilitate an informal procedure by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.	Compliant
8(3) Integrated Risk Management Committee (IRMC)			
8(3)(a)	The Committee shall consist of at least one Non-Executive Director, Chief Executive Officer and key management personnel supervising credit, marketing operational and strategic risks	The Committee composition is in full compliance with the provisions of this rule. Please refer Report of the IRMC on page 71 of the Annual report for the composition of the Committee.	Compliant
8(3)(b)	The Committee shall assess all risks to the Company both on individual basis as well as group basis, monthly through appropriate risk indicators and management information.	The Committee assesses all risks, i.e., credit, market, liquidity, operational and strategic risks through appropriate risk indicators.	Compliant
8(3)(c)	Committee shall review the adequacy and effectiveness of Credit Committee, Assets and Liability Committee (ALCO) and other management committees to ensure that those committees manage risks within the quantitative and qualitative limits specified by the IRMC.	ALCO and credit committee proceedings are reviewed by the IRMC and feedback is provided to members of those committees on risk limits.	Compliant
8(3)(d)	Committee shall take prompt corrective action to mitigate the effects of specific risks which are at levels beyond the prudent levels decided by the Committee.	IRMC has determined risk tolerance levels which are being timely updated considering the factors such as strategic objectives of the Company, changes in regulatory requirements and future economic conditions. Each risk category in the risk profile of the Company has been reviewed against the risk tolerance levels by the Committee at their meetings.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
8(3)(e)	Committee shall at least quarterly assess all aspects of risk management including updated business continuity plans.	The Integrated Risk Management Committee has met two (2) times during the financial year 2016.	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 2016	Compliant
8(3)(g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board.	The Committee Chairman updates the Board within a week of each meeting.	Compliant
8(3)(h)	The committee shall establish a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	Committee has established a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. Head of Finance carried out the compliance officer function for the year 2016.	Compliant

9 Related party transactions

9(2)	The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the relevant establishment with any person, who shall be considered as "related parties" under this rule.	A Board approved process is in place to ensure that there are no conflicts of interest in transactions with related parties, as defined in the direction. The transactions carried out with related parties during normal course of business are disclosed in Note 34 on Page 136 of the Annual Report.	Compliant
9(3)	Nature of transactions with Related Parties to which the Corporate Governance Directions apply.	Board approved process is in place to ensure the compliance. No accommodation provided to Directors and/or close relatives.	Compliant
9(4)	The Board shall ensure that the Company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to an unrelated comparable counterparty of the Company.	Board approved process is in place to ensure the compliance.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
10	Disclosures		
10(1)	Board shall ensure that annual audited financial statements and periodical financial statements are prepared and published in accordance with the requirements of the regulatory and supervisory authorities and applicable accounting standards.	The Board ensured that the annual audited financial statements and periodical financial statements of the Company for the year 2016 were prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards.	Compliant
10(2)	Responsibility of the Board to ensure appropriate disclosures in the Annual Report		
	a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements inclusive of specific disclosures.	Disclosures on the compliance with applicable accounting standards and regulatory requirements in preparation of the Annual Financial Statement have been made in the 'Directors Responsibility Statement' on page 83.	Compliant
	b) A report by the Board on the Company's internal control mechanism that confirming that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	Report by board on the effectiveness of the internal controls mechanism to ensure that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of Financial reporting, is given on 'Directors responsibility Statement'.	Compliant
	c) External auditor's certification on the effectiveness of the internal control mechanism.	External auditor has issued the certification on the effectiveness of the internal control mechanism on May 31, 2017.	Compliant
	d) Details of Directors, including names, transactions with the Company.	Details of the Directors are given on page 20 and Directors' transactions with the Company have been disclosed in note 34 to the Financial Statements on pages 136 to 137.	Compliant
	e) Fees/remuneration paid by the Company to the Directors in aggregate.	The Fees/remuneration paid to the Board of Directors is disclosed in aggregate in Note No 34.2 on page 137.	Compliant
	f) Total net accommodation outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds.	Total net accommodation in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds is given Note No 34 on page 136.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
	g) Aggregate values of remuneration paid by the Company to its Key Management Personnel and the aggregate values of the transactions of the Company with its Key Management Personnel during the financial year.	The aggregate values of remuneration paid by the Company to its Key Management Personnel is disclosed in Note No 34.2 Page 137.	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 61 to 65 and the Corporate Governance Report on pages 24 to 60 describes the manner in which the Company has complied with prudential requirements, regulations, laws and internal controls during the year 2016.</p> <p>There was no material non-compliance to prudential requirements, regulations, laws and internal controls during 2016 affecting the Company.</p>	Compliant
	i) External Auditor's certification of the compliance with the Corporate Governance Direction in the annual corporate governance report	External auditor's certification on the effectiveness of the internal control mechanism and corporate governance has been issued by the external auditor on May 31, 2017.	Compliant

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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A. Directors			
A.1 The Board			
Principle A.1	Every public company should be headed by an effective Board, which should direct, lead and control the Company.	The Company is headed by an effective Board of Directors comprised of experienced and influential individuals with diverse backgrounds and expertise as reflected in their profiles on page 20.	Compliant
A.1.1	Board meetings should be held at least once in every quarter of a financial year, in order to effectively execute board's responsibilities, while providing information to the board on a structured and regular basis.	The Board met twelve (12) times during the financial year 2016.	Compliant

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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.1.7	Training for New and Existing Directors.	Any new Director who joins the Board is given appropriate induction with regard to the affairs of the Company and laws and regulations applicable to the Company. Where required, the Corporate Management and external experts make presentation with regard to the economic and social environment to update the knowledge of any newly appointed Directors.	Compliant
A.2 Chairman and the Chief Executive Officer (CEO)			
Principle A.2	Chairman and CEO are two key tasks at the top of the Company. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision	The posts of the Chairman and the Chief Executive Officer (CEO) of the Company are separated ensuring the balance of power and authority. The Chairman is a Non-Executive Director while the Chief Executive Officer is an employee of the Company	Compliant
A.2.1	A decision to combine the posts of Chairman and CEO in one person should be justified and highlighted in the Annual Report.	The Roles of Chairman and CEO have not been combined.	Not Applicable
A.3 Chairman's Role			
Principle A.3	The Chairman's role in preserving good Corporate Governance is crucial. As the person, responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions.	The Chairman provides leadership to the Board preserving good Corporate Governance and preserve order and facilitate the effective discharge of Board functions.	Compliant
A.3.1	The Chairman should conduct Board proceedings in a proper manner.	The Chairman has conducted all Board meetings in compliance with the provisions of this rule and ensures that the Board works effective and discharges its responsibilities and ensures that all key and appropriate issues are discussed by the Board in a timely manner.	Compliant
A.4 Financial Acumen			
Principle A.4	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	The Board includes members with sufficient financial acumen and knowledge including Chartered Accountants who can provide the Board with necessary guidance in conducting its business. Please refer to Director profiles on page 20.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.5	Board Balance		
A.5 Principle	It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.	The Board for the financial year 2016 comprised of five (5) Non-Executive Directors.	Compliant
A.5.1	The Board should include Non-Executive Directors of sufficient calibre and number for their views to carry significant weight in the Board's decisions.	The current Board comprises only Non-Executive Directors and their views carry significant weight in the Board's decisions.	Compliant
A.5.2	Where the constitution of the Board of Directors includes only two Non-Executive Directors, both such Non- Executive Directors should be 'independent'.	Four out of the five Non-Executive Directors are deemed as Independent Directors (please refer Annual Report of the Board of Directors on page 61.	Compliant
A.5.3	For a Director to be deemed 'independent' such Director should be independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.	The independency of the Directors has been decided with full compliance to this rule.	Compliant
A.5.4	Each Non-Executive Director should submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria set out in the Code of Best Practice on Corporate Governance	Non-Executive Directors have submitted declaration on their independency or non-independency in the required form.	Compliant
A.5.5	The Board should make a determination annually as to the independence or non-independence of each Non- Executive Director based on such a declaration made of decided criteria and other information available to the Board and should set out in the Annual Report the names of Directors determined to be 'independent'.	Based on the declarations submitted by each Board member who held office in 2016, the Board has determined that four Independent Non-Executive Directors were in the Company in 2016. The names of the Independent Directors are disclosed in the Annual report. Please refer page 20 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 2016.	Compliant

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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.7 Appointments to the Board			
A.7 Principle	There should be a formal and transparent procedure for the appointment of new Directors to the Board.	The company has appointed a Nomination Committee on January 27, 2016 for making the recommendations on new appointments to the Board. New Directors, including the Chairman are appointed by the Board by referring Articles of Association as recommended by the Nomination Committee.	Compliant
A.7.1	A Nomination Committee should be established to make recommendations to the Board on all new Board appointments. The Chairman and members of the Nomination Committee should be identified in the Annual Report.	The company has appointed a Nomination Committee for making recommendations on new appointments to the Board. The Members of the Nomination Committee are Mr. T.M. Wijesinghe (Chairman - Independent/Non-Executive Director) and Mr. S.N.P. Palihena (Independent/Non-Executive Director). Mr. S.N.P. Palihena retired on February 22, 2017 upon reaching 70 years of age.	Compliant
A.7.2	The Nomination Committee or in the absence of a Nomination Committee, the Board as a whole should annually assess Board-composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company.	The combined knowledge and experience of the present composition of the Board matches with the strategic demands of the Company. However, if there is a change in the directorate, the composition of the Board will be reviewed accordingly.	Compliant
A.7.3	Upon the appointment of a new Director to the Board, the Company should forthwith disclose to shareholders: a brief resume of the Director; the nature of his expertise in relevant functional areas, the names of companies in which the Director holds directorships or memberships in Board committees and whether such Director can be considered 'independent'.	All appointments of new Directors are informed to the shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange. Regulatory authorities are also informed as required.	Compliant
A.8 Re-election			
A.8 Principle	All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.	In terms of the Articles of Association all Directors are subject to retirement by rotation. At every AGM, the longest standing director will retire and retiring Director shall be eligible for re-election.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions in the Companies Act relating to the removal of a Director, and their re-appointment should not be automatic.	In terms of the Articles of Association all Directors are subject to retirement by rotation. At every AGM, the longest standing Director will retire and retiring Director shall be eligible for re-election.	Compliant
A.8.2	All Directors including the Chairman should be subject to election by shareholders at the first opportunity after their appointment, and to reelection thereafter at intervals of no more than three years	In terms of the Articles of Association of the Company, all Directors will be re-elected by the shareholders at the first AGM that is held soon after their initial appointment.	Compliant
A.9 Appraisal of Board Performance			
A.9 Principle	Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.	The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily.	Compliant
A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities as set out in A.1.2	The Chairman and the Board annually evaluates their performance in the discharge 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 26.	Compliant
A.10 Disclosure of Information in respect of Directors			
A.10 Principle	Shareholders should be kept advised of relevant details in respect of the Directors.	Shareholders are kept advised of all relevant details in respect of Directors through announcement of Colombo Stock Exchange and disclosures via 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 20 and 21. Director's Interest in Contracts on pages 136.	Compliant
A.11 Appraisal of Chief Executive Officer (CEO)			
A.11 Principle	The Board should be required, at least annually, to assess the performance of the CEO.	CEOs performance is appraised by the Board annually.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
A.11.1	At the commencement of every fiscal year, the Board in consultation with the CEO, should set, in line with the short, medium and long-term objectives of the Company, reasonable financial and non-financial targets that should be met by the CEO during the year.	The Board in consultation with the CEO determines both short term and long term targets for the company that should be met by the CEO.	Compliant
A.11.2	The performance of the CEO should be evaluated by the Board at the end of each fiscal year	Annual appraisal of the performance of the CEO is carried out by the Chairman.	Compliant
B. Directors			
B. 1 Remuneration Procedure			
Principle B1	Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.	Companies has established a formal policy on executive remuneration and for fixing the remuneration packages of individual Directors.	Compliant
B.1.1	To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board, on the Company's framework of remunerating Executive Directors.	A Remuneration Committee has been set by the Board	Compliant
B.1.2	Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman, who should be appointed by the Board.	Independent Non-Executive Director has been appointed as the Chairman of the Remuneration Committee.	Compliant
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report	This information is disclosed in the Report of the Remuneration Committee. Please refer Page No 69.	Compliant
B.1.4	The Board should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee.	The Board has decided on the remuneration of Non-Executive Directors, including members of the Remuneration Committee.	Compliant
B.1.5	The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other Executive Directors.	There were no Executive Directors in the year under review.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
B. 2	The Level and Makeup of Remuneration		
B.2 Principle	Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully.	Director remunerations has been set to attract and retain the Directors needed to run the Company	Compliant
B.2.1	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors of the quality required but should avoid paying more than is necessary for this purpose.	There were no Executive Directors in the year under review.	Compliant
B.2.2	The Remuneration Committee should judge where to position levels of remuneration of the Company, relative to other companies.	The Remuneration Committee taken into consideration market information when positioning levels of remuneration of the Company	Compliant
B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions across the Company when determining annual salary increases.	The Remuneration Committee is sensitive to remuneration and employment conditions across the Company when determining annual salary increases recommended by the Management.	Compliant
B.2.4	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.	There were no Executive Directors in the year under review.	Compliant
B.2.5	Executive share options should not be offered at a discount	No share options were offered	Compliant
B.2.6	In designing schemes of performance - related remuneration, the Committee should follow the provisions set out in the Code	There are no performance related elements in remuneration. Please refer the Remuneration Committee Report on page 69 for 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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
B.2.9	Levels of remuneration for Non Executive Directors should reflect the time commitment and responsibilities of their role		Not Applicable
B. 3 Disclosure of Remuneration			
B.3 Principle	The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole	Report of the Remuneration Committee includes the Company's remuneration policy and details of Director Remuneration is given on page 69 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 69 for details of the remuneration policy of the Company. Details of Director Remuneration is given on page 69 of the Annual Report. There were no Executive Directors in the Company for the year under review.	Compliant
C. Relations with Shareholders			
C1 Constructive Use of The Annual General Meeting (AGM) and Conduct of General Meetings			
C.1 Principle	Board should use the AGM to communicate with shareholders and should encourage their participation	AGMs of the Company is used to effectively communicate with shareholders. Board encourages shareholder participation at AGMs.	Compliant
C.1.1	Companies should count all proxy votes and should indicate the level of proxies lodged on each resolution, and the balance for and against the resolution and withheld, after it has been dealt with on a show of hands, except where a poll is called.	The Company has recorded all proxy votes for each resolution prior to the general meeting. All proxy votes cast at meetings are recorded by the Company Secretaries.	Compliant
C.1.2	Company should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.	Separate resolutions are passed on all substantial matters at the AGM including a separate resolution relating to the adoption of the report and accounts.	Compliant
C.1.3	The Chairman of the Board should arrange for the Chairmen of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	The Chairmen of the Audit and Remuneration Committees have been available at the Company AGM and have answered questions from the shareholders at AGMs as requested by the Chairman of the Board.	Compliant
C.1.4	Company should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	Notice of AGM and other related papers are sent to the shareholders as required by the Companies Act and the Articles of Association.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
C.1.5	A summary of the procedures governing voting at General Meetings should be circulated with every Notice of General Meeting	The Notice of Meeting and Proxy Form with instructions are supplemented to shareholders to vote at the AGM	Compliant
C. 2 Communication with Shareholders			
C.2 Principle	The Board should implement effective communication with shareholders.	The primary mode of communication with shareholders is at the AGM. In addition, Company maintains an updated website that provides information to all stakeholders. notices. 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 with 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 26 of the Corporate Governance Report for Company policy on communications with shareholders. The Company provides fair disclosure with emphasis on the integrity, accuracy, timeliness and relevance of the information provided.	Compliant
C.2.3	How the above policy is implemented should be disclosed	Shareholders are given the Annual Report from the Company either by means of a CD or in hard copy form. Shareholders may at any time request to receive the Annual Report from the Company in printed form without any charge.	Compliant
C.2.4	The contact person for such communication should be disclosed	Shareholders may, at any time, direct questions and request for publicly available information from the Company Secretary.	Compliant
C.2.5	There should be a process to make all Directors aware of major issues and concerns of shareholders.	The Company Secretary shall maintain a record 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 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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
C.2.7	The process for responding to shareholder matters should be formulated by the Board and disclosed	Please refer page 26 of the Corporate Governance Report for Company policy on communications with shareholders.	Compliant
C. 3 Major and Material Transaction			
C.3 Principle	In compliance with the requirements under the Companies Act, Securities and Exchange Commission law and Colombo Stock Exchange regulations; as applicable, Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter/vary the Company's net assets	During the year 2016, the Company did not engage in or commit any 'Major Transactions' which materially affected the Company's net asset base	Compliant
C.3.1	Prior to engaging in 'major related party transactions' involving the acquisition, sale or disposition 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 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 2016.	Compliant
D Accountability and Audit			
D.1 Financial Reporting			
D.1 Principle	The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.	The Board has present a balanced and understandable assessment of the Company's financial position, performance and prospects in the Annual Report	Compliant
D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	The Company has reported a true and fair view of its financial position and performance for the year ended on December 31, 2016 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 83 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 83 Directors' Responsibility Statement on Internal Control Over Financial Reporting on page 81 And Auditor's Report on page 86.	Compliant
D.1.4	The Annual Report should contain a "Management Discussion & Analysis"	Please refer pages from 10 to 17 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 61 to 65.	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 34 on page 136 on Related Party Transactions.	Compliant
D.2 Internal Control			
D.2 Principle	The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets. Broadly, risk management and internal control is a process, affected by a Company's Board of Directors and management, designed to provide reasonable assurance regarding the achievement of Company's objectives.	The Board has ensured the adequacy and the integrity of the Company's internal control system to safeguard shareholders' investments and Company assets.	Compliant
D.2.1	The Directors should annually conduct a review of the risks facing the Company and the effectiveness of the system of internal controls	The adequacy and the integrity of the Company's internal control system are reviewed by the Board Audit Committee through internal audit reports and system reviews.	Compliant
D.2.2	Company should have an internal audit function	Company internal audit function is outsourced to SJMS Associates, Chartered Accountants.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
D.2.3	The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls, and to document to the Board and Board takes the responsibility for the disclosures on internal controls.	The Audit Committee reviewed the internal controls and procedures of the Company and the minutes of the meetings are tabled to the Board meetings. The IRMC reviews processes relating to the risk management framework of the Company and minutes of the meetings are tabled to the Board meeting subsequently.	Compliant
D.2.4	Guidance for responsibility of directors in maintaining a system of internal controls is set out in the Code	The Directors' responsibility for maintaining a sound system of internal control is given in the Directors' responsibility Statement on Internal Control over Financial Reporting on page 81 of the Annual Report.	Compliant
D.3 Audit Committee			
D.3 Principle	The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors	The Board has established formal and transparent arrangements for selecting and apply 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 page 66 to 68 for details of the duties and responsibilities of the Committee.	Compliant
D.3.3	The Audit Committee should have a written Terms of Reference, dealing clearly with its authority and duties.	The Audit Committee's Terms of Reference is stated in the Company's, The audit committee charter.	Compliant
D.3.4	Disclosures		
D.3.4	The names of Directors comprising the Audit Committee should be disclosed in the Annual Report. The Annual Report should contain a report by the Audit Committee mentioning a determination of the independence of the Auditors and the basis of such determination	Please refer Audit Committee Report on pages 66 to 68.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
D.4	Code of Business Conduct & Ethics		
D.4 Principle	Company must adopt a Code of Business Conduct and Ethics for Directors, and Key Management Personnel	Company has adopted the Code of Business Conduct and Ethics for Directors, and Key Management Personnel	Compliant
D.4.1	The existence of a Code of Business Conduct and Ethics for Directors and Key Management Personnel should be disclosed in the Annual Report with an affirmative declaration of compliance	Please refer the Annual Report of the Board of Directors on pages 61 to 65.	Compliant
D.4.2	The Chairman must affirm in the Annual Report that he is not aware of any violation of the Code	No violations have been reported during the year. Please refer the Annual Report of the Board of Directors on pages 61 to 65.	Compliant
D.5	Corporate Governance Disclosures		
D.5 Principle	Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.	Please refer Corporate Governance Report on Pages from 24 to 60.	Compliant
D.5.1	The Directors should include in the Company's Annual Report a Corporate Governance Report.	Please refer Corporate Governance Report on Pages from 24 to 60.	Compliant
E	Institutional Investors		
E.1	Shareholder Voting		
E.1 Principle	Institutional shareholders have a responsibility to make considered use of their votes	Institutional shareholders make use of their votes to ensure their voting intentions are translated into practice.	Compliant
E.1.1	A regular and structured dialogue should be conducted with shareholders	The Annual General Meeting is used as a forum to have a structured and objective dialogue with shareholders	Compliant
E.2	Evaluation of Governance Disclosures		
	When evaluating governance arrangements, institutional investors should be encouraged to give due weight to all relevant factors	Institutional investors are encouraged to give weight to governing arrangements	Compliant

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

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

Section	Governance Requirement	Implementation and Compliance	Compliance Status
7.10.1 Non-Executive Directors			
7.10.1	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors	All five directors of the Board are non-executive directors.	Compliant
7.10.2	Independent Directors		
7.10.2(a)	Two or one-third of Non-Executive Directors, whichever is higher, should be independent.	Four out of the five Non-Executive Directors are deemed as Independent Directors. Please refer the Annual Report of the Board of Directors on pages 61 to 65.	Compliant
7.10.2(b)	The Board shall require each Non-Executive Director to submit signed declaration of independence/ non-independence annually	All Directors have been submitted annual declarations during the year.	Compliant
7.10.3 Disclosures relating to directors:			
7.10.3 (a)	Names of Independent Directors should be disclosed in the Annual Report	Please refer page 61 to 65 of the Annual Report of the Board of Directors.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report	No such determination was required to be made by the Board, as the Independent Directors of the Company met the specified criteria.	Compliant
7.10.3 (c)	A brief résumé of each Director should be published in the Annual Report including the areas of expertise	Please refer page 20 to 21 for the profiles of Board of Directors.	Compliant
7.10.3 (d)	A brief résumé of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public	When an appointment of a new director, Company immediately submits a brief resume of such Director to the CSE.	Compliant
7.10.4 Criteria for determination of independency of Directors			
7.10.4 (a-h)	Requirements for meeting criteria to be independence of a Non-Executive Director	All of the Independent Directors of the Company met the criteria for independency specified in this rule.	Compliant
7.10.5 Remuneration Committee			
	A listed company shall have a Remuneration Committee	The Company has a Remuneration Committee appointed by the Board	Compliant
7.10.5(a)	The Remuneration Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher. One Non-Executive Director shall be appointed as Chairman of the Committee by the Board.	The Remuneration Committee comprises of two non-executive directors and one of them acts as a Chairman of the committee. Please refer the "Report of the Remuneration Committee" on pages 69 to 70	Compliant
7.10.5(b)	The Committee shall recommend to the Board the remuneration payable to the executive directors and Chief Executive Officer. The Board will make the final determination upon consideration of such recommendations.	Please refer the Report of the Remuneration Committee on pages 69 to 70.	Compliant
7.10.5(c)	The annual report should set out the names of directors comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors.	Please refer the Report of the Remuneration Committee on pages 69 to 70 for the composition of the Remuneration Committee. Total fees and remuneration paid to all Directors is disclosed on Note No 34.2 on page 137.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
7.10.6	Audit Committee		
7.10.6	A Listed Entity shall have an audit committee	Please refer the 'Audit Committee Report' on pages 66 to 68 to 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. a Member of a recognized professional accounting body. One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board	All the members of the Audit Committee are Non-Executive Directors. One of those Directors acts as the Chairman of the Committee.	Compliant
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.	Both the Chief Executive Officer and the Chief Financial Officer attends the meetings	Compliant
	The Chairman or one member of the Committee should be a member of a recognised professional accounting body.	The Chairman of the Audit Committee is a Fellow member of CA Sri Lanka and Fellow Member of the Chartered Institute of Management Accountants – UK. Please refer page 66 for profiles of the Audit Committee members	Compliant
7.10.6(b)	<p>Functions shall include</p> <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 66 to 68.	Compliant

Section	Governance Requirement	Implementation and Compliance	Compliance Status
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>	<p>Please refer to the Audit Committee Report on pages 66 to 68.</p>	<p>Compliant</p>

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, 2016 and the Auditors' Report thereon. The Financial Statements were accepted and approved by the Board of Directors on May 30, 2017.

The details set out in the following report provide information required by the Companies Act No 07 of 2007 and the Listing Rules of the Colombo Stock Exchange and are guided by recommended Code of Best Practices on Corporate Governance.

Review of Performance for the year ended December 31, 2016

The operations of the Company for the year ended December 31, 2016 are reviewed in the Chairman's Message and the Chief Executive Officer's Message and in Management Discussion and Analysis

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 and Loans. The major shareholder of the Company is

Dr. T. Senthilverl who has a direct holding of 29.75% as at December 31, 2016.

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 Associates

SMB Securities (Pvt) Ltd is trading and dealing in Equity and Debt Securities in the Colombo Stock Exchange. Kenanga Investment Corporation Ltd is engaged in Investment banking related activities & providing advisory services. SMB Real Estate Ltd is engaged in real estate development activities.

Financial Statements

The Financial Statements of the Group and the Company are given on page 87 to 145 of the Annual Report.

Significant Accounting Policies

The significant accounting policies adopted in the preparation of Financial Statements are given on page 93 to 112 of the Annual Report.

As per the accounting policy of the Company given in Note No. 2.11.2 on pages 95 to 96 to the Financial Statements, the investment in Associates are accounted under the equity method and share of profit / (loss) of Associates of each financial year are accounted in the Group Financial Statements based on audited financial statements of Associates.

Auditors

The Financial Statements for the year ended December 31 2016 have been

audited by Messrs. KPMG, Chartered Accountants who offer themselves for re-appointment. A resolution relating to their re-appointment and authorizing the Directors to determine their remuneration will be proposed at the Annual General Meeting. The fees paid to the Auditors are disclosed in Note No. 10.2 to on Page 114 of the Annual Report.

As far as the Directors are aware, the Auditors do not have any relationship with the Company other than that of Auditors. The Auditors have provided a declaration confirming their independence.

Auditors' Report

The Auditors' Report on the Financial Statements is given on the page 86 of the Annual Report.

Board of Directors

The following were Directors of the Company for the year ended December 31, 2016.

Mr. H. R. S. Wijeratne (Chairman)
Mr. U. Gautam (Deputy Chairman)
Mr. G. C. B. Ranasinghe *
Mr. J. C. Korale
Mr. S. N. P. Paliheena **
Mr. T. M. Wijesinghe

* Mr. G. C. B. Ranasinghe ceased to be a Director with effect from April 6, 2016.

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

Retirement of Directors

In terms of Article 91 of the Articles of Association of the Company Mr. A. T. S. Sosa, Mr. M. S. A. Wadood and Mr. T. C. A. Peiris retires 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. G. C. B. Ranasinghe Mr. J. C. Korale

Mr. S. N. P. Pallihena

Mr. T. M. Wijesinghe

Directors Shareholdings

The shareholdings of the Directors of the Company are shown on page 79 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. 34 on page 136 of the Annual Report, which have been disclosed and declared at meetings of Directors.

Interest Register

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

Board Sub-Committees

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

56 of 2000.

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

Audit Committee Report is given on the pages 66 to 68 of the Annual Report.

Remuneration Committee Report is given on the pages 69 to 70 of the Annual Report.

Risk Committee Report is given on the page 71 of the Annual Report.

Directors Fees and Remuneration

Directors Fees and Remuneration paid for the financial year ended December 31, 2016 is given on Note No. 34.2 on page 137 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. 07 of 2007, unless otherwise disclosed in Notes to the Financial Statements

Corporate Governance

The Board of Directors have acknowledged the responsibility to maintain an effective Corporate Governance Structure and process 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 24 to 60.

Risk Management and Internal Controls

The Board of Directors consider 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 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 Statement of Directors Responsibilities on page 83.

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	2016	2015
Profit after tax	78.7	59.1
Un-appropriated profit brought forward	150.7	97.2
Profits available for appropriation	229.4	156.3
Other comprehensive income/(expense)	1.2	(2.6)
Transfers to statutory reserves	(3.8)	(3.0)
Dividend paid	(36.1)	-
Un-appropriated profit carried forward	190.7	150.7

Group Revenue

The revenue of the group was Rs. 206 Mn (2015 - Rs. 178) Mn). An analysis of revenue based on segments is disclosed in the segmental analysis on page 144. of the Annual Report.

Financial Investments

Financial investments mainly comprise 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, 2016 amounted to Rs. 12.9 Mn (2015 - Rs.15.1 Mn). A detailed description of the financial investments is disclosed in Note No 16 on page 118 to 122 of the Annual Report.

Property, Plant & Equipment

Details relating to Property, Plant & Equipment are disclosed in Note No 20 on pages 125 to 126 of the Annual Report.

Intangible Assets

The capital expenditure on acquisition of intangible assets during the year amounted to Rs. Nil (2015 - Nil). The carrying value of intangible assets as at the reporting date amounted to Rs. 3.3 Mn (2015- Rs. 3.4 Mn).

Movement of intangible assets from the balance as at January 1, 2016 to balance as at December 31, 2016, additions and disposals made and amortization charge for the year is disclosed in the Note No 21 on page 127 of the Annual Report.

Following their initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

Fair Value of Investment Properties

The fair value of the investment property owned by the Company is stated in Note No 19.1 on page 125 of the Annual Report.

Reserves

The reserves consist of Statutory Reserve Fund, Available For Sale Reserve and the Retained Reserves. The reserves of the group are disclosed in the Statement of Changes in Equity on page 91 and in Note No 28 to 30 on pages 129 to 130 of the Annual Report.

Stated Capital

The Stated Capital of the Company as at December 31, 2016 was Rs.

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

Loan Capital

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

Taxation

A detailed description of the income tax rate applicable to the Company and a reconciliation of the accounting profits with the taxable profits are given in Note No 11 on pages 114 to 115 of the Annual Report.

The group policy is to provide for deferred taxation on all known temporary differences as at the reporting date on the liability method. The deferred tax details of the Company is disclosed in Note No 11.3 on page 115 of the Annual Report.

Donations

There were no donations made by the Company during the Year.

Provisions

The Directors have taken all responsible steps to ensure adequate provisioning has been made for all known liabilities. The basis adopted for provisioning is disclosed in Accounting Policy No 4.12 on page 107 of the Annual Report.

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

Related Party Transactions

The Directors have disclosed the transactions with related parties in terms

of the Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosures. The details of the Related Party Transactions are disclosed in Note No 34 on Page 136 of the Annual Report.

Events After the Reporting Date

Events that have occurred after the reporting date have been disclosed in Note No 33 on page 135 of the Annual Report.

Capital Commitments

The Capital Expenditure commitments is disclosed in Note No 32.1 on page 135 of the Annual Report.

Contingent Liabilities

The Contingent Liabilities is disclosed in the Note No 32.2 on page 135 of the Annual Report.

Share Information

Information relating to Earnings, Net Assets, and Market value per share and share trading is given on page 80 of the Annual Report.

Major Shareholders

Details of the top twenty Shareholders of the Company and the percentages held by each of them are disclosed on pages 74 to 75 of the Annual Report.

The distribution and analysis of the shareholders

The details of the distribution and analysis of shareholders is given on the page 77 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 page 17 of the Annual Report.

The Company's strength of manpower as at December 31, 2016 was 51 (2015 - 41)

Code of Conduct and Ethics

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

Equitable treatment to stakeholders and their interest

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

Annual Report

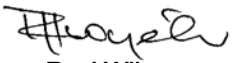
The Board of Directors approved the Company Financial Statements together with the reviews which forms part of the Annual Report on May 31, 2017. The appropriate number of copies will be submitted to the Colombo Stock Exchange, Central Bank of Sri Lanka, Sri Lanka Accounting and Auditing Standard

Monitoring Board and the Registrar of Companies within the time frame.

Annual General Meeting

The Annual General Meeting will be held at the Renuka City Hotel, 328, Galle Road, Colombo 03 on June 28, 2017 at 9.30 a.m. The notice of Annual General Meeting is given on pages 149 to 154 of the Annual Report.

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



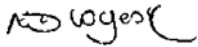
Ravi Wijeratne

Chairman



Umesh Gautam

Deputy Chairman



P W Corporate Secretarial (Pvt) Ltd.

Company Secretaries

Colombo.

May 31, 2017

Report of the Audit Committee

Composition of the Committee

The Board appointed audit committee comprises three 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. The following members served on the audit committee during the year under review.

Name of the Board sub-committee member	Directorship status	Membership status
Mr. J. C. Korale	Independent/Non-Executive Director	Chairman
Mr. S. N. P. Palihena	Independent/Non-Executive Director	Member
Mr. G. C. B. Ranasinghe *	Independent/Non-Executive Director	Member

* Mr. G.C.B. Ranasinghe ceased to be a Director with effect from April 6, 2016.

The Chairman, Mr. J.C. Korale is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, Fellow Member of the Chartered Institute of Management Accountants, UK and an Associate Member of the Chartered Institute of Arbitrators of UK. He is also an Attorney at Law and holds a honours degree for Law from the University of London.

Mr. S. N. P. Palihena is a Fellow member of The Chartered Institute of Bankers (London) and Institute of Bankers, (Sri Lanka). He holds a Post Graduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka. Mr. Palihena is a banker by profession and has served this industry for over a period of 40 years and was a former General Manager of the Bank of Ceylon.

Mr. G. C. B. Ranasinghe counts more than 25 years of experience in the leasing industry. He was a founder Director / CEO of Orient Financial Services Corporation from which he retired in October 2009. He has also served at

Mercantile Leasing Ltd For over 20 years in different capacities and served as a Director of the said company. He was awarded a Certificate of Leasing by the Summer School of Leasing, Salt Lake City, Utah, USA. Mr. Ranasinghe is a former Deputy Chairman of the Leasing Association of Sri Lanka.

The Charter

The audit committee charter defines the terms of reference of the Committee and has been periodically revised by the Board 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 twenty-six (26) occasions during the year under review and the attendance of the members at such meetings was:

Name of Director	Attendance
Mr. J. C. Korale	26/26
Mr. S. N. P. Palihena	25/26
Mr. G. C. B. Ranasinghe	8/9

As per Section 7.10.6 (a) of the Listing Rules, the Chief Executive Officer and Chief Financial Officer attend the meetings of the Committee. Members of the management team are invited for Committee meetings as and when required. The Company's internal auditors Messers SJMS Associates were invited and participated in audit committee meetings.

P W Corporate Secretarial Ltd acted as Secretaries to the Audit Committee. The proceedings of the audited committee were recorded and reported to the Board of Directors regularly.

Activities of the Committee

Financial Reporting - During the year under review the Committee reviewed interim and annual financial statements prior to publication including the adequacy of disclosures, checking and recommending changes in accounting policies, significant estimates and judgments made by the management, compliance with relevant accounting standards/regulatory requirements.

Internal Controls and Going Concern

– The committee keeps under review the company's internal controls systems ensuring the procedures are adequate to meet the requirements of the Sri Lanka Auditing Standards. During its meetings, the Committee reviewed the effectiveness of the internal control systems to ensure that the financial reporting system can be relied upon in preparation and presentation of financial statements. The Committee also noted that a comprehensive financial review report and financial statements are produced at monthly Board Meetings highlighting all key performance criteria which is reviewed by the Board of Directors.

The Committee also assesses the Company's ability to continue as a going concern in the foreseeable future. The Committee reviewed and approved the director's statements on internal controls system over financial reporting to be included in the annual report.

Internal Audit – On behalf of the Committee, the internal auditors performs a comprehensive exercise that entails reviewing all aspects of internal controls of the Company including controls over operations and regulatory risks. The Committee reviews the adequacy of the scope, annual audit plan, functions and resources of the internal auditors, and satisfied 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, to recommend corrective actions to be taken by the management with follow up monitoring mechanism with a view to manage significant business risk and controls.

External Audit - As far as the Audit Committee 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 07 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 Guidelines for Listed Companies on Audit & Audit Committees issued by the Securities and Exchange Commission of Sri Lanka. In addition, the Committee noted that the engagement audit partner is rotated every five years.

The Committee reviewed the non-audit services provided by the auditors to ensure that the provisions of these services do not impair their independence, to the best of knowledge and belief of the committee.

The Committee also provided an opportunity to the external auditors to discuss the issues, problems and reservations arising from audits without the participation of the management team. The Committee addressed the external auditors' findings in the Management Letter relating to the previous financial year's (2015) audit and management responses thereto. The Committee has recommended to the Board of Directors that Messrs KPMG, Chartered Accountants, be reappointed as the external auditors for the financial year ending December 31, 2017 subject to the approval of the shareholders at the next Annual General Meeting.

Oversight on Regulatory Compliance

- The Committee with the assistance of internal auditors closely scrutinizes the compliance with mandatory statutory requirements and the systems and procedures in place to ensure compliance with such 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 & Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and the CBSL Directions on Corporate Governance.

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

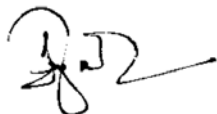
The Committee wish to take swift and objective steps to conduct independent investigations into all such incidents that are reported through whistleblowing once due approval for the policy is obtained.

The Committee has authority to investigate into any matter, including call an employee to be questioned at a meeting of the Committee and authority to obtain external professional advice as deemed necessary by the Committee.

Conclusion

The Audit Committee is satisfied that the internal controls and procedures in place for assessing and managing risks are adequately designed and operate effectively and is of the view that they provide reasonable assurance that the Company's assets are safeguarded and that the financial statements of the Company are reliable.

In addition, the Committee observes 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.



J. C. Korale

BSc. MSc. FCA. FCMA, ACI Arb (UK), LLB (Lon) Attorney-at Law

Chairman, Audit Committee

May 30, 2017

Report of the Remuneration Committee

Composition of the Committee

The Remuneration Committee comprises of three 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 remuneration committee during the year under review.

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

* Mr. G.C.B. Ranasinghe ceased to be a Director with effect from April 6, 2016.

** Mr. T. M. Wijesinghe was appointed as the Chairman of the Committee on April 27, 2016.

Terms of Reference

The Committee operates within Board approved terms of reference and assists the Board of Directors in developing and administering a fair and transparent procedure for setting policy on the overall human resources strategy of the Company.

The Committee has authority to evaluate, assess and recommend to the Board, the remuneration of Directors and remuneration packages for senior management of the Company on the basis of their merit, qualifications, and competence, and having regard to the performance and comparable market statistics. The Committee consults the Chairman as and when required, in achieving above objectives.

Meetings

The Committee meets as and when necessary to make recommendations to the Board on matters related to its functions. During the year under review, the Committee met once and the attendance of the members at that meetings was:

Name of Director	Attendance
Mr. G. C. B. Ranasinghe	1/1
Mr. T. M. Wijesinghe	1/1
Mr. U. Gautam	1/1

The Chief Executive Officer attends the Committee meeting by invitation and provides relevant information and views to the Committee for its deliberations, except when the Chief Executive Officer's own remuneration package and other matters relating to him are discussed.

Activities of the Remuneration Committee

The activities Remuneration Committee include:

- Making recommendations to the Board on the Company's policy and structure for remuneration of directors.
- Making recommendations to the Board on the eligibility criteria, selection, appointment and remuneration packages of the Chief Executive Officer and members of the Corporate Management.
- Ensuring employees of the

Company at all levels are adequately rewarded for their performance in line with the remuneration policy of the Company

- Reviewing and updating compensation structure of the Company periodically.
- Recommending promotions, bonuses and increments to the Board for adoption.

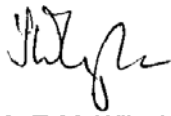
Remuneration Policy

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-calibre 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 and also to ensure that the Company consistently delivers values to all stakeholders.

Director's Remuneration

The Board as a whole 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. They do not receive any performance or incentive payments. Non-Executive Directors are not entitled to retirement benefits and the Company does not have a share option plan for Directors and No Director is entitled for Company loans. The total of Directors' remuneration paid during the year under review is set out in Note 34.2 the financial statements.



Mr. T. M. Wijesinghe

*Chairman – Remuneration Committee
Colombo
May 30, 2017*

Report of the Integrated Risk Management Committee

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

Mr. S. N. P. Palihena – Independent/Non-Executive Director	Chairman *
Chief Executive Officer	Member
Chief Financial Officer	Member
DGM – Retail & Personal Financial Solutions	Member
Head of Legal & HR	Member
Head of IT	Member
Head of Sales and Marketing	Member
Senior Manager – Credit	Member
Senior Manager – Operations	Member

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

Terms of Reference

The Committee adopted the provisions of Section 8 (3) of the Finance Leasing (Corporate Governance) Direction No 4 of 2009 issued by the Central Bank of Sri Lanka as its terms of reference. A detailed approach of the Company's risk management process is given on pages 72 to 73 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. The attendance of the members at that the meetings held in 2016 was:

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.



Mr. S. N. P. Palihena

February 22, 2017

RISK MANAGEMENT

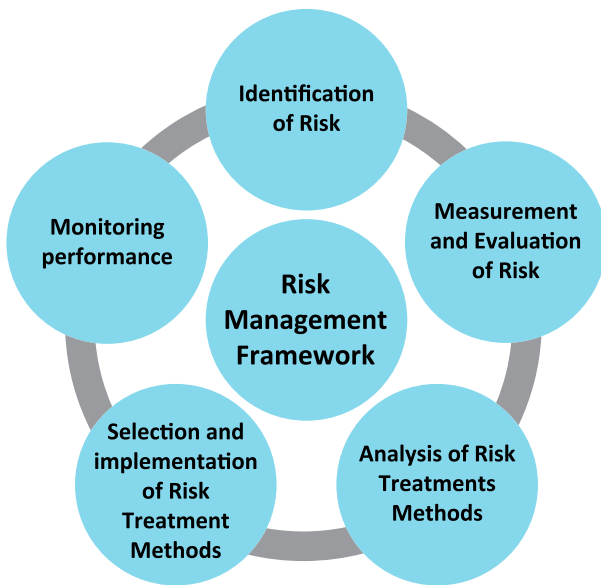
Integrated Risk Management

Introduction

“Risk” the uncertainty in the Business Environment has a continues 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 Treatments Methods
- Selection and implementation of Risk Treatment Methods
- Monitoring performance



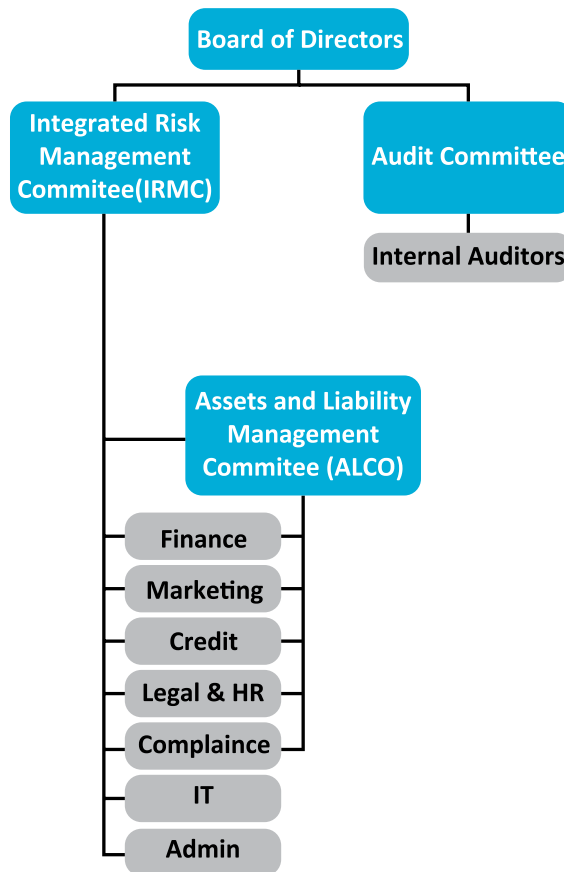
The primary responsibility for Integrated Risk Management liaise with the Board of Directors. As delegated by the Board of Directors the Integrated Risk Management Committee (IRMC) reviews and assess the adequacy and effectiveness of the risk management policy of the Company.

The Integrated Risk Management Committee (IRMC) consist of Committee Chairman, CEO and the Departmental 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 Risk Treatment Methods are decided at the Committee. Monitoring performance

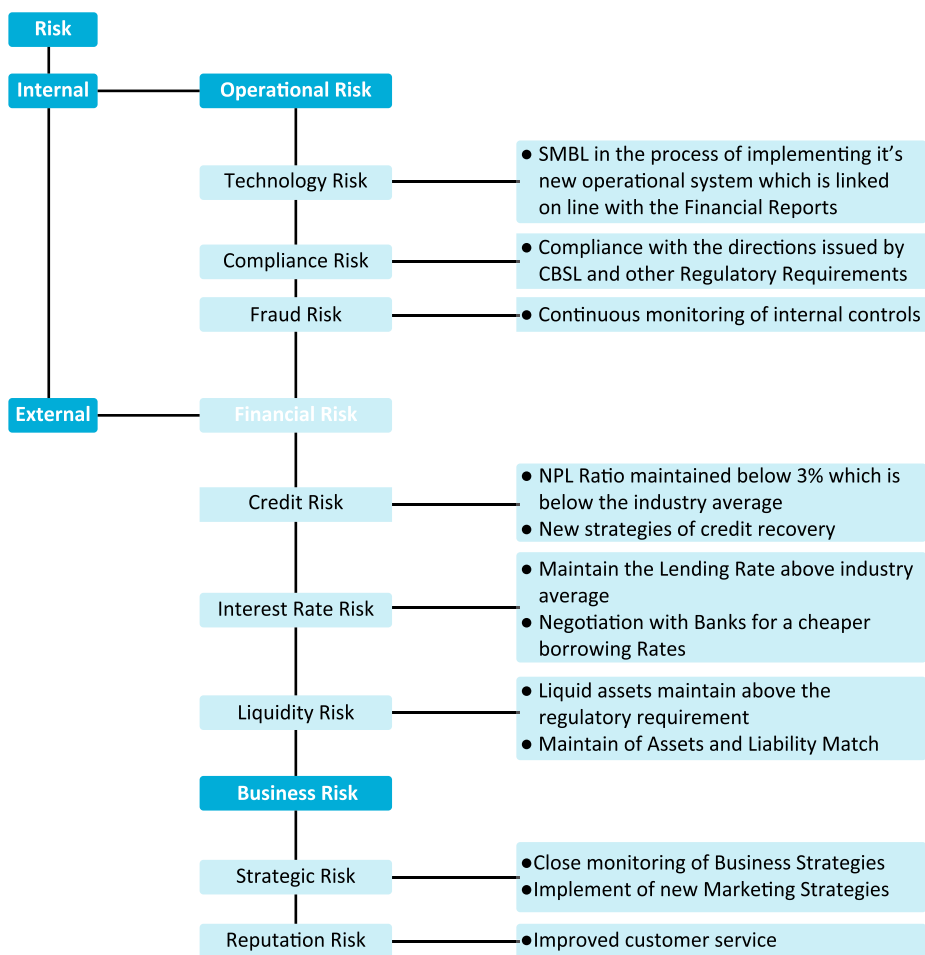
The Company's Risk Management Structure



are done at the Departmental level and the performance 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 2016 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 main tasks of the Committee are as follows

- Analyze the liquidity position of the Company
- Seek and evaluate the sources of funding and the interest rates

- Analyze the lending portfolio and the interest rates
- Review the Assets and Liability Maturity Statement
- Analyze the Competitors' position
- Updating on the Rules and regulations and the amendments thereto

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

Audit Committee and the Internal Auditors

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

Shareholders and Investor Information

As at December 31, 2016

Ordinary Voting

Name		No. of Shares	%
1 Sampath Bank PLC/Dr. T Senthilverl	268,705,956	354,511,349	29.75
Seylan Bank PLC/ Dr. T. Senthilverl	85,805,393		
2 Mr. H R S Wijeratne		194,882,451	16.35
3 Standard Chartered Bank Singapore S/A HL Bank Singapore		72,916,100	6.12
4 Mrs. S. A. Fernando		40,452,878	3.39
5 Mr. W K V M Fernando & Mrs. K W S H Fernando		33,036,133	2.77
6 Mrs. K W S H Fernando & Mr. W K V M Fernando		32,452,991	2.72
7 Miss. W N C Fernando		19,167,464	1.61
8 Seylan Bank PLC/ Jayantha Dewage		15,157,671	1.27
9 Mr. R Gautam		13,720,000	1.15
10 Mr. A Sithampalam		13,380,242	1.12
11 Sinharaja Hills Plantation (Pvt) Limited		13,000,000	1.09
12 Andaradeniya Estate (Private) Limited		11,470,674	0.96
13 Mr. H K Pushpakumara		10,170,000	0.85
14 Global Rubber Industries Private Limited		7,905,000	0.66
15 Mr. S P Kannangara (Deceased)		6,000,000	0.50
16 Mrs. V R Jayasinghe		5,700,000	0.48
17 Mr. V R Kathiragamamatamby		5,250,000	0.44
18 Mr. C R Perera		5,100,000	0.43
19 Miss S Durga		4,576,806	0.38
20 People's Leasing & Finance PLC / Mr D M P Disanayake		4,245,699	0.36
Sub Total		863,095,458	72.42
Others		328,671,314	27.58
Total Issued Share Capital		1,191,766,772	100.00

Ordinary Non Voting

Name		No of Shares	%
1 Colombo Trust Finance PLC/K E H De Alwis		44,659,756	7.27
2 Sampath Bank PLC/Dr. T Senthilverl	40,171,815	47,171,815	7.68
Seylan Bank PLC/ Dr T Senthilverl	7,000,000		
3 Mr. H K Pushpakumara		29,944,172	4.88
4 Mr. R Gautam		26,793,740	4.36
5 Mr. M L A Benedict		16,645,000	2.71
6 Seylan Bank PLC/Jayantha Dewage		16,521,480	2.69
7 Waldock Mackenzie Ltd / Mr. S A Gulamhusein		11,429,880	1.86
8 Mr. B L Jayaratne & Dr. Y S Liyanage		8,503,700	1.38
9 Seylan Bank PLC/ K L G Udayananda		8,200,000	1.34
10 Miss. V Vijayaethchumy		7,198,841	1.17
11 Mr J A W Victoria		6,756,462	1.10
12 People's Leasing & Finance PLC/L T Samarawickrama		6,000,000	0.98
13 Mr J J Ravindran		5,240,000	0.85
14 Mr. W J D Benedict		5,100,000	0.83
15 Waldock Mackenzie Limited / Dr. H S D Soysa		5,036,600	0.82
16 Mrs. H Nalika Padmasiri		4,934,100	0.80
17 Miss. S Durga		4,914,704	0.80
18 Mr. S Abishek		4,869,460	0.79
19 Mr. S D Divakarage		4,524,990	0.74
20 Dr. C A Twerenbold		4,313,800	0.70
Sub Total		268,758,500	43.77
Others		345,307,601	56.23
Total Issued Share Capital		614,066,101	100.00

Twenty Largest Shareholders

As at December 31, 2015

Ordinary Voting

Name		No. of Shares	%
1	Sampath Bank PLC/Dr. T Senthilverl	268,705,956	
	Seylan Bank PLC/ Dr. T. Senthilverl	85,805,393	
2	Mr. H R S Wijeratne	194,882,451	16.35
3	Standard Chartered Bank Singapore S/A HL Bank Singapore	72,916,100	6.12
4	Mrs. S. A. Fernando	40,452,878	3.39
5	Mr. W K V M Fernando & Mrs. K W S H Fernando	33,036,133	2.77
6	Mrs. K W S H Fernando & Mr. W K V M Fernando	32,452,991	2.72
7	Miss. W N C Fernando	27,700,596	2.32
8	Seylan Bank PLC/ Jayantha Dewage	15,157,671	1.27
9	Mr. A Sithampalam	13,380,242	1.12
10	Mr. R Gautam	13,200,000	1.11
11	Sinharaja Hills Plantation (Pvt) Limited	13,000,000	1.09
12	Andaradeniya Estate (Private) Limited	11,470,674	0.96
13	Mr. H K Pushpakumara	10,156,400	0.85
14	Mr. S P Kannangara (Decease)	6,000,000	0.50
15	Mrs. V R Jayasinghe	5,700,000	0.48
16	Mr. V R Kathiragamamatamby	5,250,000	0.44
17	Mr. C R Perera	5,100,000	0.43
18	Miss. S Durga	4,576,806	0.38
19	Commercial Credit and Finance PLC	4,001,000	0.34
20	Pan Asia Banking Corporation PLC/Mr. V R A Gunasekera	4,000,000	0.34
	Sub Total	866,945,291	72.73%
	Others	324,821,481	27.27%
	Total issued share capital	1,191,766,772	100.00%

Ordinary Non Voting

	Name		No. of Shares	%
1	Sampath Bank PLC/Dr. T Senthilverl	40,171,815	47,171,815	7.68
	Seylan Bank PLC/ Dr T Senthilverl	7,000,000		
2	Mr. H K Pushpakumara		29,372,462	4.78
3	Mr. K E H De Alwis		27,687,368	4.51
4	Mr. R Gautam		23,750,000	3.87
5	Mr. M L A Benedict		16,645,000	2.71
6	Seylan Bank PLC/Jayantha Dewage		16,521,480	2.69
7	Waldock Mackenzie Ltd / Mr. S A Gulamhusein		11,429,880	1.86
8	Mr.C Nayagam		9,500,000	1.55
9	Mr. B L Jayaratne & Dr. Y S Liyanage		8,503,700	1.39
10	Seylan Bank PLC/K L G Udayananda		8,200,000	1.34
11	Miss. V Vijayaethchumy		7,198,841	1.17
12	Mr J A W Victoria		6,756,462	1.10
13	People's Leasing & Finance PLC/L T Samarawickrama		6,000,000	0.98
14	Mr J J Ravindran		5,240,000	0.85
15	Mr. W J D Benedict		5,100,000	0.83
16	Mrs. H Nalika Padmasiri		4,934,100	0.80
17	Mr. S Abishek		4,869,460	0.79
18	Miss. S Durga		4,537,000	0.74
19	Mr. S D Divakarage		4,524,990	0.74
20	Dr. C A Twerenbold		4,313,800	0.70
	Sub Total		252,256,358	41.08%
	Others		361,809,743	58.92%
	Total issued share capital		614,066,101	100.00%

2 Stock Exchange Listing

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

3 Shareholder Base

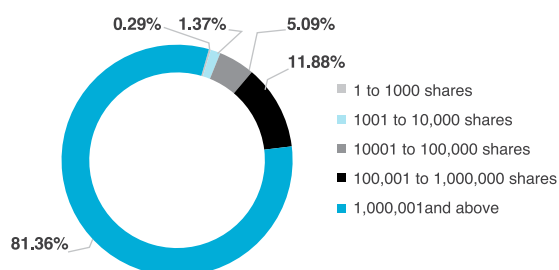
The Total number of (Ordinary Voting) shareholders as at December 31 2016 were 10,153 compared to 10,269 as at December 31, 2015. The Total number of (Ordinary Non Voting) shareholders as at December 31, 2016 were 4,423 compared to 4,532 at December 31, 2015.

4 Distribution of shareholders

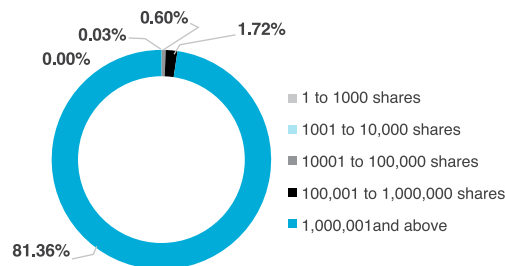
Ordinary Voting-Shareholding as at December 31 2016

Range of Shareholdings		Resident			Non Resident			Total		
		Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
1 to 1,000	Shares	4,733	3,183,936	0.29	8	2,325	0.00	4,741	3,186,261	0.27
1,001 to 10,000	Shares	3,310	15,072,882	1.37	5	26,590	0.03	3,315	15,099,472	1.27
10,001 to 100,000	Shares	1,580	55,998,660	5.09	12	555,341	0.60	1,592	56,554,001	4.75
100,001 to 1,000,000	Shares	416	130,681,802	11.88	4	1,580,400	1.72	420	132,262,202	11.10
1,000,001 & above	Shares	80	894,696,169	81.36	5	89,968,667	97.65	85	984,664,836	82.62
Total		10,119	1,099,633,449	100.00	34	92,133,323	100.00	10,153	1,191,766,772	100.00

Ordinary Voting-Resident



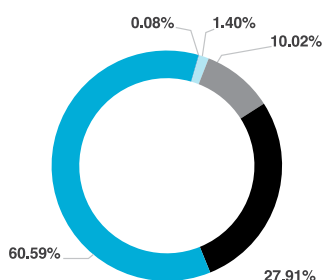
Ordinary Voting-Non Resident



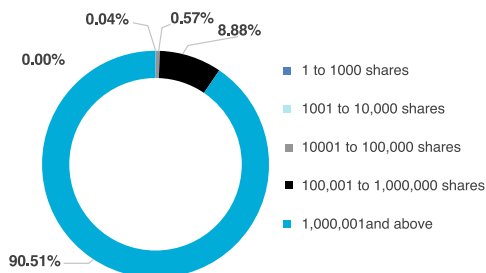
Ordinary Non Voting -Shareholding as at December 31, 2016

Range of Shareholdings		Resident			Non Resident			Total		
		Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
1 to 1,000	Shares	987	468,485	0.08	3	275	0.00	990	468,760	0.08
1,001 to 10,000	Shares	1,452	8,005,384	1.40	3	17,000	0.04	1,455	8,022,384	1.31
10,001 to 100,000	Shares	1,354	57,523,385	10.02	5	229,935	0.57	1,359	57,753,320	9.41
100,001 to 1,000,000	Shares	530	160,142,222	27.91	6	3,572,400	8.88	536	163,714,622	26.66
1,000,001 & above	Shares	77	347,689,475	60.59	6	36,417,540	90.51	83	384,107,015	62.55
Total		4,400	573,828,951	100.00	23	40,237,150	100.00	4,423	614,066,101	100.00

Ordinary Non Voting-Resident



Ordinary Non Voting-Non Resident



5 Composition of Shareholders

Ordinary Voting Shares

	31.12.2016			31.12.2015		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
Resident	10,119	1,099,633,449	92.27	10,232	1,099,382,242	92.25
Non-Resident	34	92,133,323	7.73	37	92,384,530	7.75
Total	10,153	1,191,766,772	100.00	10,269	1,191,766,772	100.00
Individual	9,953	657,358,877	55.16	10,062	662,814,525	55.62
Institution	200	534,407,895	44.84	207	528,952,247	44.38
Total	10,153	1,191,766,772	100.00	10,269	1,191,766,772	100.00

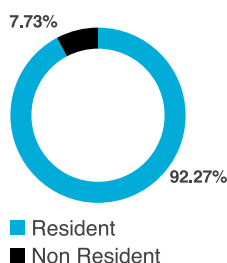
The percentage of Ordinary Voting Shares held by the public was 83.53% of the issued share capital as at December 31, 2016.

Ordinary Non Voting Shares

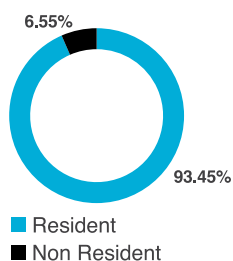
	31.12.2016			31.12.2015		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
Resident	4,400	573,828,951	93.45	4,508	576,850,346	93.94
Non-Resident	23	40,237,150	6.55	24	37,215,755	6.06
Total	4,423	614,066,101	100.00	4,532	614,066,101	100.00
Individual	4,322	430,808,481	70.16	4,433	478,588,630	77.94
Institution	101	183,257,620	29.84	99	135,477,471	22.06
Total	4,423	614,066,101	100.00	4,532	614,066,101	100.00

The percentage of Ordinary Non Voting Shares held by the public was 100.00% of the issued share capital as at December 31, 2016.

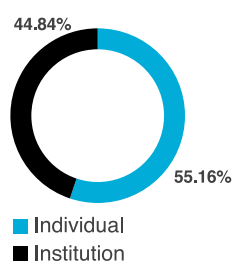
Ordinary Voting



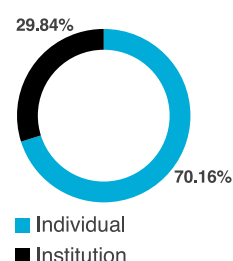
Ordinary Non Voting



Ordinary Voting



Ordinary Non Voting



Directors' Shareholding as at December 31, 2016

		2016		2015	
		No of Shares	% of Holdings	No of Shares	% of Holdings
Mr.H.R.S Wijeratne	Voting	194,882,451	16.35	194,882,451	16.35
	Non Voting	-	-	-	-
Mr. U Gautam	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr. G.C.B Ranasinghe *	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr. J.C Korale	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr. S.N.P Palihena **	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr. T.M Wijesinghe	Voting	-	-	-	-
	Non Voting	-	-	-	-

*Mr. G C B Ranasinghe – Ceased to be a Director w.e.f. 06.04.2016

**Mr. S N P Palihena – Ceased to be a Director w.e.f. 22.02.2017

Share Information	2016	2015
Book Value		
Net Assets per Share-Group (Rs)	0.63	0.61
Share Prices		
Ordinary Shares-Voting		
Highest (Rs.)	0.90	1.50
Lowest (Rs.)	0.60	0.80
Last Traded (Rs.)	0.60	0.90
Ordinary Shares-Non Voting		
Highest (Rs.)	0.40	0.60
Lowest (Rs.)	0.30	0.30
Last Traded (Rs.)	0.40	0.40
Earnings		
Ordinary Shares		
Basic Earnings Per Share (Rs.)	0.04	0.03
Price Earning Ratio (Times)	14	30
Frequency of Shares Traded		
Number of Shares Traded		
Voting	107,613,097	113,394,057
Non Voting	61,724,217	55,760,780
Number of Transactions		
Voting	3,565	4,516
Non Voting	1,358	1,880
Total Number of Shareholders		
Voting	10,153	10,269
Non Voting	4,423	4,532
Total Number of Public Shareholders		
Voting	10,150	10,267
Non Voting	4,423	4,532
Percentage of Public holding		
Voting	83.53%	83.65%
Non Voting	100.00%	100.00%
Market Capitalization		
SMB Leasing PLC Value (Rs.Mn)	715	953

Directors' Responsibility Statement on Internal Controls 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 control over financial reporting as and when there are changes to business environment or regulatory guidelines. This process is regularly reviewed by the Board.

The Board is of the view that the

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

The management assists the Board in the implementation of the policies and procedures on risk and control, by identifying and assessing the risks faced and in design, operation and monitoring of suitable internal controls over financial reporting to mitigate and control these risks.

Internal 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 monthly meetings and improvements recommended wherever necessary.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting on May 31, 2017.

By order of the Board,



J. C. Korale

*BSc. MSc. FCA. FCMA, ACI Arb (UK),
LLB (Lon) Attorney-at Law
Independent Non-Executive Director
Chairman – Board Audit Committee*



U. Gautam

Independent Non-Executive Director

*Colombo
May 31, 2017*

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

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

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

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

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

controls and any fraud that involves management or other employees.

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

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



Sumedha Fernando
Chief Executive Officer



Supul Wijesinghe
Chief Financial Officer

Colombo
May 30, 2017

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 86.

The Companies Act No.07 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 87 to 145, the Company has used appropriate accounting policies, consistently applied, unless otherwise disclosed in Notes to the Financial Statements and supported by reasonable judgments and best estimates and that all accounting standards which are applicable have been followed.

The Directors also have responsibility for ensuring that the Company keeps accounting records, which disclose with reasonable accuracy, the financial position of the Company and enable them to ensure that the Financial Statements complies with the Sri Lanka Accounting Standards (SLFRS/LKAS) and the requirements of the Companies Act No. 07 of 2007.

The Directors have further responsibility that all financial and non financial requirements stipulated under the Companies Act No 07 of 2007 pertaining to Directors duties and responsibilities have been complied with.

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

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

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

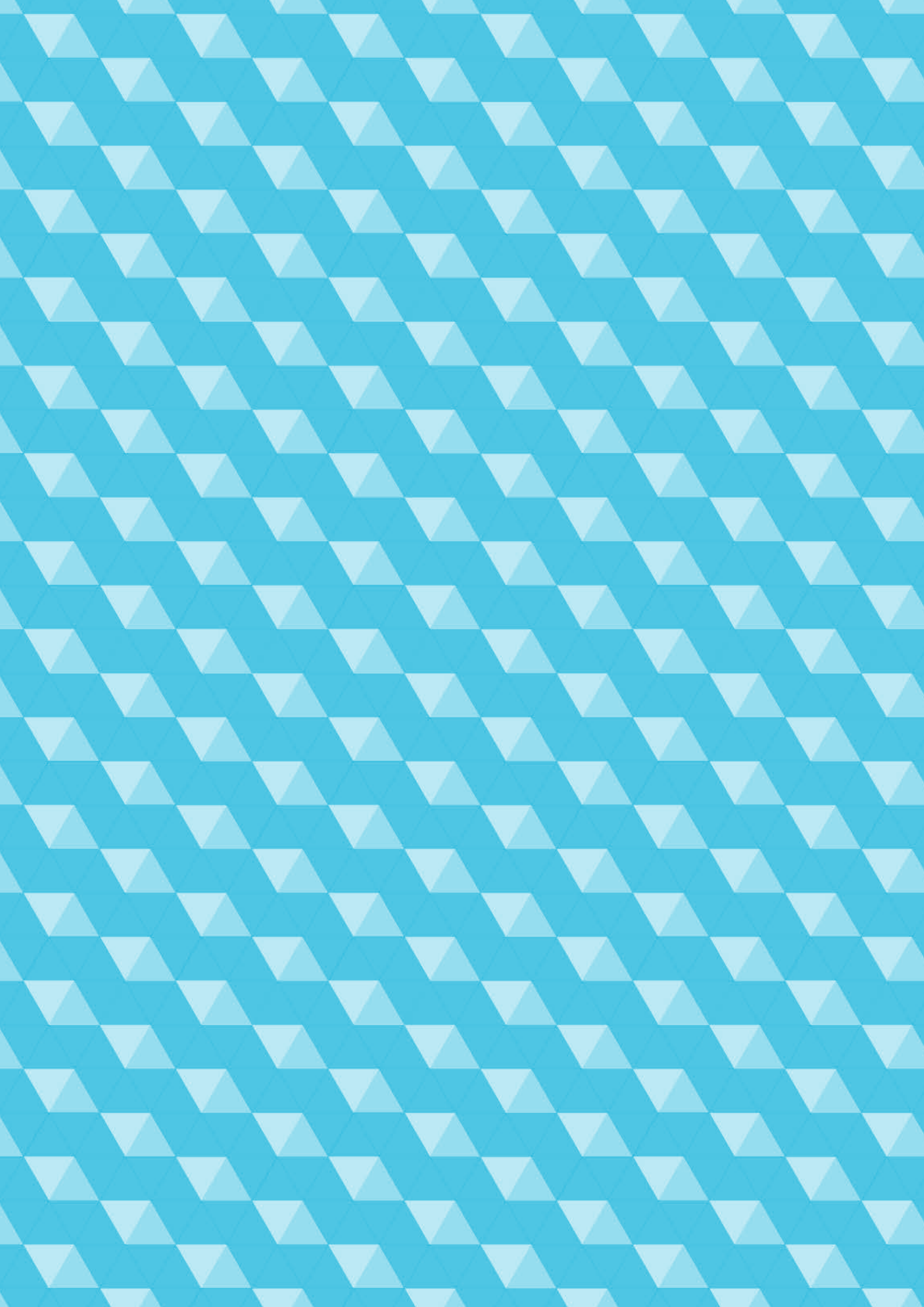
On behalf of the Board.



Ravi Wijeratne

Chairman

*Colombo
May 30, 2017*



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FINANCIAL INFORMATION

INDEPENDENT AUDITORS' REPORT



KPMG
(Chartered Accountants)
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TO THE SHAREHOLDERS OF SMB LEASING PLC

Report on the Financial Statements

We have audited the accompanying financial statements of SMB Leasing PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("Group"), which comprise the statement of financial position as at 31 December 2016, and the income statements, statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 87 to 145 of the annual report.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing

Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at

31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

- a) The basis of opinion and scope and limitations of the audit are as stated above
- b) In our opinion:
 - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
 - The financial statements of the Company give a true and fair view of its financial position as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

CHARTERED ACCOUNTANTS

Colombo

May 30, 2017

INCOME STATEMENT

Rs. For the year ended December 31,	Note	Company		Group	
		2016	2015 Restated	2016	2015 Restated
Interest income	6.1	206,318,697	177,771,067	206,318,697	177,771,067
Interest expenses	6.2	(40,311,319)	(28,525,298)	(41,145,823)	(28,559,521)
Net interest income		166,007,378	149,245,769	165,172,874	149,211,546
Fee and commission income	7	5,762,146	4,230,745	5,762,146	4,230,745
Net interest, fee and commission income		171,769,524	153,476,514	170,935,020	153,442,291
Other operating income (net)	8	43,931,172	16,115,538	103,563,262	66,642,173
Total operating income		215,700,696	169,592,052	274,498,282	220,084,464
Impairment (charge)/reversal for loans and advances	9	(11,290,751)	2,061,588	(11,290,751)	2,061,588
Net operating income		204,409,945	171,653,640	263,207,531	222,146,052
Personnel expenses	10.1	(53,337,585)	(47,147,350)	(83,608,987)	(71,718,349)
Other expenses	10.2	(53,956,094)	(50,934,912)	(71,747,939)	(69,308,639)
Operating profit before value added tax (VAT)		97,116,266	73,571,378	107,850,605	81,119,064
Value added tax (VAT) on financial services		(14,926,876)	(9,365,169)	(14,926,876)	(9,365,169)
Profit before income tax		82,189,390	64,206,209	92,923,729	71,753,895
Share of losses of associate companies	17.3	-	-	(4,620,052)	(2,422,014)
Income tax expense	11	(5,492,983)	(5,997,692)	(7,712,006)	(8,430,474)
Profit for the year		76,696,407	58,208,517	80,591,671	60,901,407
Profit attributable to:					
Owners of the parent		76,696,407	58,208,517	78,682,992	59,112,093
Non-controlling interest		-	-	1,908,679	1,789,314
Profit for the year		76,696,407	58,208,517	80,591,671	60,901,407
Basic earnings per share	12	0.04	0.03	0.04	0.03

The Notes to the Financial Statements from pages 93 to 145 form an integral part of these financial statements.
Figures in brackets indicate deductions.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Rs. For the year ended December 31,	Company		Group	
	2016	2015 Restated	2016	2015 Restated
Profit for the year	76,696,407	58,208,517	80,591,671	60,901,407
Other Comprehensive Income				
Actuarial gain/(loss) on Defined Benefit Plans	1,022,111	(2,715,773)	1,371,943	(2,456,748)
Available for Sale investments - Net fair value change	233,505	(8)	233,505	(8)
Available for Sale investments - Impairment loss reclassified to profit or loss	-	1,322,019	-	1,322,019
Other Comprehensive Income/(Expense) for the year (net of tax)	1,255,616	(1,393,762)	1,605,448	(1,134,737)
Total Comprehensive Income for the year	77,952,023	56,814,755	82,197,119	59,766,670
Total Comprehensive Income attributable to:				
Owners of the parent	77,952,023	56,814,755	80,117,023	57,850,434
Non-controlling interest	-	-	2,080,096	1,916,236
Total Comprehensive Income for the year	77,952,023	56,814,755	82,197,119	59,766,670

The notes to the Financial Statements from pages 93 to 145 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		
		2016	2015 Restated	2014 Restated	2016	2015 Restated	2014 Restated
Assets							
Cash and cash equivalents	13	29,957,888	27,264,380	18,870,756	33,123,371	31,446,833	24,835,369
Placements with banks	14	116,592,947	156,261,589	126,181,087	131,592,947	166,261,589	126,181,087
Loans and receivables	15	1,319,828,095	1,053,788,205	923,889,897	1,317,967,969	1,052,773,641	921,549,897
Financial investments	16	7,577,906	7,290,837	7,711,654	12,906,381	15,140,166	18,176,666
Investments in associates	17	101,451,766	106,071,818	108,493,832	101,451,766	106,071,818	108,493,832
Investments in subsidiary	18	12,750,000	12,750,000	11,791,223	-	-	-
Investment properties	19	33,310,000	33,730,400	33,730,400	39,897,700	39,892,400	38,976,800
Property, plant and equipment	20	20,224,081	7,221,678	9,875,783	23,682,385	12,349,734	16,745,303
Intangible assets	21	3,258,086	3,405,564	3,553,042	3,305,065	3,405,564	3,553,042
Deferred tax assets	11.3	-	-	-	1,155,731	1,197,098	1,061,739
Other assets	22	6,014,719	6,008,511	18,156,639	13,745,259	11,041,039	24,017,395
Total Assets		1,650,965,488	1,413,792,982	1,262,254,313	1,678,828,574	1,439,579,882	1,283,591,130
Liabilities							
Due to financial institutions	23	353,781,956	80,409,029	-	353,781,956	80,409,029	-
Due to other customers	24	99,652,392	201,574,061	198,284,863	99,652,392	201,574,061	198,284,863
Other borrowings	25	-	-	-	1,155,241	3,331,517	3,076,525
Other liabilities	26	61,141,554	37,255,672	26,229,985	71,719,238	47,825,990	35,557,126
Total liabilities		514,575,902	319,238,762	224,514,848	526,308,827	333,140,597	236,918,514
Equity							
Stated capital	27	919,064,114	919,064,114	919,064,114	919,064,114	919,064,114	919,064,114
Statutory reserves	28	28,498,874	24,664,054	21,632,528	28,498,874	24,664,054	21,632,528
Available for sale reserve	29	233,381	(124)	(1,322,135)	233,381	(124)	(1,322,135)
Retained earnings	30	188,593,217	150,826,176	98,364,958	190,657,579	150,725,538	97,228,641
Total equity attributable to equity holders of the Company		1,136,389,586	1,094,554,220	1,037,739,465	1,138,453,948	1,094,453,582	1,036,603,148
Non- controlling interests		-	-	-	14,065,799	11,985,703	10,069,468
Total Equity		1,136,389,586	1,094,554,220	1,037,739,465	1,152,519,747	1,106,439,285	1,046,672,616
Total Equity and Liabilities		1,650,965,488	1,413,792,982	1,262,254,313	1,678,828,574	1,439,579,882	1,283,591,130

The Notes to the Financial Statements from pages 93 to 145 form an integral part of these financial statements.


Figures in brackets indicate deductions.

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


Supul Wijesinghe
 Chief Financial Officer


Sumedha Fernando
 Chief Executive Officer

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


Ravi Wijeratne
 Chairman


Umesh Gautam
 Deputy Chairman

Colombo
 May 30, 2017

STATEMENT OF CHANGES IN EQUITY - COMPANY

Rs. For the year ended December 31,	Stated Capital				Statutory Reserve Fund	Available for Sale Reserve	Retained Earnings	Total
	Ordinary Voting Shares	Ordinary Non-Voting Shares	Reserve Fund	Statutory Reserve				
Balance as at January 1, 2015	708,445,963	210,618,151	21,632,528	(1,322,135)	98,627,871	1,038,002,378		
Impact of the restatement adjustment (Note A1)	-	-	-	-	(262,913)	(262,913)		
Restated balance as at January 1, 2015	708,445,963	210,618,151	21,632,528	(1,322,135)	98,364,958	1,037,739,465		
Restated profit for the year (Note A2)	-	-	-	-	58,208,517	58,208,517		
Other Comprehensive Expense (net of tax)	-	-	-	1,322,011	(2,715,773)	(1,393,762)		
Total Comprehensive Income / (Expense) for the year	-	-	-	1,322,011	55,492,744	56,814,755		
Transfers to Statutory Reserve	-	-	3,031,526	-	(3,031,526)	-		
Total transactions with equity holders	-	-	3,031,526	-	(3,031,526)	-		
Balance as at December 31, 2015	708,445,963	210,618,151	24,664,054	(124)	150,826,176	1,094,554,220		
Balance as at January 1, 2016	708,445,963	210,618,151	24,664,054	(124)	150,826,176	1,094,554,220		
Profit for the year	-	-	-	-	76,696,407	76,696,407		
Other Comprehensive income / (Expense) (net of tax)	-	-	-	233,505	1,022,111	1,255,616		
Total Comprehensive Income for the year	-	-	-	233,505	77,718,518	77,952,023		
Transfers to statutory reserve	-	-	3,834,820	-	(3,834,820)	-		
Dividend paid	-	-	-	-	(36,116,657)	(36,116,657)		
Total transactions with equity holders	-	-	3,834,820	-	(39,951,477)	(36,116,657)		
Balance as at December 31, 2016	708,445,963	210,618,151	28,498,874	233,381	188,593,217	1,136,389,586		

The Notes to the Financial Statements from pages 93 to 145 form an integral part of these financial statements.
Figures in brackets indicate deductions.

Note A The company had not tested for impairment of its Associate Companies namely, SMB Real Estate Ltd, SMB Securities (Pvt) Ltd and Kenenga Investment Corporation Ltd in the previous two years as the audited financial statement of the associate were not made available to SMB Leasing PLC. However, the said audited financial statements were made available to SMB Leasing PLC during the year. Accordingly SMB Leasing PLC corrected its impairment in investments in Associate Companies for year ended December 31, 2014 and 2015 and the corresponding profits for the year ended December 31, 2014 and 2015 were restated.

Note A 1 : The Company has adjusted Rs. 262,913 to retained earnings as at 1 January 2015 due to above restatement.

Rs.	Note A – Restated Profit for the year ended December 31, 2015	Rs.
Profit for the Year ended December 31, 2015 as previously stated		60,630,531
Adjustment on the Share of Profit/(Loss) of Associate Companies		(2,422,014)
Restated Profit for the Year ended December 31, 2015		58,208,517

STATEMENT OF CHANGES IN EQUITY - GROUP

Rs.	Attributable to the equity holders of the parent						
	Stated Capital	Statutory Reserve Fund	Available for Sale Reserve	Retained Earnings	Total	Non-Controlling Interest	Total Equity
	Ordinary Voting Shares	Ordinary Non-Voting Shares					
Balance as at 1st January 2015	708,445,963	210,618,151	21,632,528	(1,322,135)	1,048,063,413	10,069,468	1,058,132,881
Impact of the restatement adjustment (Note A1)	-	-	-	(11,460,265)	(11,460,265)	-	(11,460,265)
Restated balance as at 1st January 2015	708,445,963	210,618,151	21,632,528	(1,322,135)	1,036,603,148	10,069,468	1,046,672,616
Restated profit for the year (Note A2)	-	-	-	59,112,093	59,112,093	1,789,314	60,901,407
Other Comprehensive Expense (net of tax)	-	-	1,322,011	(2,583,670)	(1,261,659)	126,922	(1,134,737)
Total Comprehensive Income / (Expense) for the year	-	-	-	56,528,423	57,850,434	1,916,235	59,766,669
Transfers to Statutory Reserve	-	-	3,031,526	(3,031,526)	-	-	-
Total transactions with equity holders	-	-	3,031,526	(3,031,526)	-	-	-
Balance as at December 31, 2015	708,445,963	210,618,151	24,664,054	(124)	1,094,453,582	11,985,703	1,106,439,285
Balance as at January 1, 2016	708,445,963	210,618,151	24,664,054	(124)	1,094,453,582	11,985,703	1,106,439,285
Profit for the year	-	-	-	78,682,992	78,682,992	1,908,679	80,591,671
Other Comprehensive income / (Expense) (net of tax)	-	-	-	233,505	1,434,031	171,417	1,605,448
Total Comprehensive Income for the year	-	-	-	233,505	80,117,023	2,080,096	82,197,119
Transfers to statutory reserve	-	-	3,834,820	(3,834,820)	-	-	-
Dividend paid	-	-	-	(36,116,657)	(36,116,657)	-	(36,116,657)
Total transactions with equity holders	-	-	3,834,820	(39,951,477)	(36,116,657)	-	(36,116,657)
Balance as at December 31, 2016	708,445,963	210,618,151	28,498,874	233,381	1,138,453,948	14,065,799	1,152,519,747

The notes to the Financial Statements from pages 93 to 145 form an integral part of these financial statements.

Figures in brackets indicate deductions

Note A: The Group had not equity accounted for its investment in Associate Companies namely, SMB Real Estate Ltd, SMB Securities (Pvt) Ltd and Kenenga Investment Corporation Ltd in the previous two years as the audited financial statement were not made available to SMB Leasing PLC. Accordingly, this error has now been corrected by retrospectively restating the retained earnings, the investment in associates and the share of loss from the associates.

Note A1: The Group has adjusted Rs. 11,460,265 to retained earnings as at 1 January 2015 due to above restatement	Rs.
Note A2 – Restated Profit for the year ended December 31, 2015	63,323,421
Profit for the Year ended December 31, 2015 as previously stated	(2,422,014)
Adjustment on the Share of Profit/(Loss) of Associate Companies	60,901,407
Restated Profit for the Year ended December 31, 2015	60,901,407

STATEMENT OF CASH FLOWS

Rs. For the year ended December 31,	Company		Group	
	2016	2015	2016	2015
Cash Flow from Operating Activities				
Interest receipts	202,745,226	194,377,243	202,745,226	194,377,243
Interest payments	(44,265,641)	(31,920,998)	(45,100,145)	(32,982,522)
Fees and commission receipts	38,176,929	10,397,323	96,593,209	60,774,834
Cash payments to employees and suppliers	(89,838,921)	(93,004,239)	(140,513,231)	(134,331,217)
Profit before changes in operating assets	106,817,592	79,849,329	113,725,058	87,838,338
Loans and receivables	(273,757,168)	(129,897,808)	(272,911,606)	(131,223,744)
Other assets	(6,208)	(39,346,163)	(924,719)	(38,517,936)
Cash used in Operating Activities	(166,945,784)	(89,394,642)	(160,111,267)	(81,903,342)
Tax paid	(12,044,397)	(10,472,003)	(12,781,388)	(13,444,101)
Gratuity paid	(64,042)	(1,476,714)	(790,042)	(1,476,714)
Net Cash used in Operating Activities	(179,054,223)	(101,343,359)	(173,682,697)	(96,824,157)
Cash Flow from Investing Activities				
Net (increase)/decrease in financial investments	35,420,333	-	25,420,333	2,598,025
Purchase of property, plant and equipment	(16,617,911)	(801,464)	(16,782,411)	(912,609)
Proceeds from disposal of property, plant and equipment	186,486	2,615,167	191,486	2,615,167
Net cash generated from Investing Activities	18,988,908	1,813,703	8,829,408	4,300,583
Cash Flow from Financing Activities				
Increase/(Decrease) in borrowings from financial institutions	292,575,512	13,860,468	292,575,512	13,860,468
Increase/(Decrease) in Other Borrowings		(2,455,668)	(2,176,276)	(2,200,676)
Increase/(Decrease) in Public Borrowings	(97,967,347)	-	(97,967,347)	-
Increase/(Decrease) in Other Liabilities	20,529,900	8,556,129	21,477,180	9,512,895
Dividend Paid	(36,116,657)	-	(36,116,657)	-
Net cash generated from Financing Activities	179,021,408	19,960,929	177,792,412	21,172,687
Net Increase / (Decrease) in Cash and Cash Equivalents	18,956,093	(79,568,727)	12,939,123	(71,350,887)
Cash and Cash Equivalents at the beginning of the year	(35,544,181)	44,024,546	(21,361,728)	49,989,159
Cash and Cash Equivalents at the end of the year (Note A)	(16,588,088)	(35,544,181)	(8,422,605)	(21,361,728)
Note A:				
Reconciliation of Cash and Cash Equivalents				
Cash and cash equivalents	29,957,888	27,264,380	33,123,371	31,446,833
REPO investment with banks	800,000	3,740,000	5,800,000	13,740,000
	30,757,888	31,004,380	38,923,371	45,186,833
Bank Overdraft	(47,345,976)	(66,548,561)	(47,345,976)	(66,548,561)
Cash and Cash Equivalents at the end of the year	(16,588,088)	(35,544,181)	(8,422,605)	(21,361,728)

The notes to the Financial Statements from pages 93 to 145 form an integral part of these financial statements.

Figures in brackets indicate deductions

NOTES TO THE FINANCIAL STATEMENTS

Note 01 Corporate Information

1.1. Reporting Entity

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

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

1.2. Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2016 comprise SMB Leasing PLC (Parent Company), its subsidiary (together referred to as the 'Group') and the Group's interest in its associate companies.

1.3. Number of Employees

The staff strength of the Company as at December 31, 2016 is 51 (2015 - 41).

1.4. Principal Activities and Nature of Operations

Company

SMB Leasing PLC

The principal business activity is providing Finance Leases and Loans.

Subsidiary

SMB Money Brokers (Pvt) Ltd

The principal business activity is money brokering activities.

Associates

SMB Securities (Pvt)Ltd

The principal business activity is trading and dealing in equity and debt securities in the Colombo Stock Exchange.

SMB Real Estate Ltd

The principal business activity is real estate development.

Kenanga Investment Corporation Ltd

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

The percentage of ownership is as follows;

Shareholdings in Subsidiaries and Associates	Holding Percentage
SMB Money Brokers (Pvt)Ltd	50.99%
SMB Securities (Pvt)Ltd	49.50%
SMB Real Estate Ltd	49.00%
Kenanga Investment Corporation Ltd	49.00%

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

Note 02 Basis of Preparation

2.1. Basis of Measurement

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

Item	Basis of measurement	Note No.	Page
Financial Investments Available for Sale (AFS)	Fair value	16.1	119
Financial Assets held for trading (FVTPL)	Fair value	16.2	120
Defined Benefit Obligation	Liability is recognised at the present value of the defined benefit obligation, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.	26.1	128

2.2. Statement of Compliance

The Consolidated Financial Statements of the Group and separate Financial Statements of the Company, as at December 31, 2016 and for the year then ended, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and Finance Leasing Act No 56 of 2000 and amendments thereto and provides appropriate disclosures required by the Listing Rules of Colombo Stock Exchange.

These Consolidated Financial Statements include the following components:

- An Income Statement, Statement of Profit or Loss and Other Comprehensive income providing the information on the financial performance of the Company and the Group for the year under review (Refer pages 87 to 88).
- A Statement of Financial Position providing the information on the

financial position of the Company and the Group as at the year end (Refer page 89);

- A Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review of the Company and the Group (Refer pages 90 to 91).
- A Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilise those cash flows (Refer page 92).
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 93 to 145).

2.3. Responsibility for Financial Statements

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

The Board of Directors acknowledges their responsibility as set out in

the Annual Report of the Board of Directors on the Affairs of the Company, and Directors' Responsibility for Financial Reporting on pages 61 to 65 and 83 respectively.

2.4. Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company and the Group for the year ended December 31, 2016 (including comparatives) were approved and authorised for issue in accordance with the resolution of the Board of Directors on May 30, 2017.

2.5. Presentation of Financial Statements

The assets and liabilities of the Company and the Group 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 regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note No. 36 on page 142 (Current/ non-current analysis). No adjustments have been

made for inflationary factors affecting the Financial Statements.

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

2.6 Functional and Presentation Currency

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

2.7. Materiality and Aggregation

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

2.8. Rounding

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

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

2.9. Comparative Information

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

2.10. Going Concern

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

2.11 Basis of Consolidation

The consolidated financial statements comprise of financial statements of the Company, its subsidiary and its associate companies for the year ended December 31, 2016.

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

2.11.1. Subsidiaries

Subsidiaries are entities that are controlled by the Group. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date when such

control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Non controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Company.

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

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

Investment details of the Subsidiary within the Group are provided in Note No. 18 on page 124 to the financial statements. The financial statements of the Company's subsidiary are prepared for the same reporting year, using consistent accounting policies. The subsidiary of the Company has been incorporated in Sri Lanka.

2.11.2. Associates

Associate is an entity in which the

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

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

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

When the Company's share of losses

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

Profit and losses resulting from transactions between the Company and the Associate are eliminated to the extent of the interest in the Associate. The Company discontinues the use of the Equity method from the date that it ceases to have significant influence over an Associate and accounts for the investment cost in accordance with the Sri Lanka Accounting Standard LKAS 39 - Financial Instruments: Recognition and measurement. Investment details of the Associate within the Group are provided in Note No 17 on page 123 to the financial statements.

2.11.3. Loss of Control

Upon the loss of control, the Group

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

2.11.4. Transactions Eliminated on Consolidation

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

Note 03 Significant Accounting Estimates and Assumptions

The preparation of the Financial Statements of the Company and the Group in conformity with SLFRS/ LKAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Further, management is also required to consider key assumptions concerning the future and other key sources of estimation uncertainty at the Reporting

date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

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

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

Critical Accounting Estimate /Judgment	Disclosure Reference	
	Note	Page
Impairment of Loans and Advances	15.4	118
Valuation of Employee Benefit Obligation - Gratuity	26.1	128
Deferred Taxation - Utilisation of Losses	11.3	115

3.1. Impairment for Loans and Receivable

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

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and Receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, characteristic of assets, etc.), and judgments on the effect of concentrations of risks and economic data. The impairment loss on loans and receivable is disclosed in Note No. 9 on page 113.

3.2. Impairment for Available for Sale Investment

The Group and Company reviews

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

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

3.3. Taxation

The Group and Company is subject to income taxes and other taxes including VAT on financial services. Significant judgment is required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

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

the income, deferred tax amounts in the period in which the determination is made.

3.4. Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent it is probable that future taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

3.5. Defined Benefit Plans

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

Further, details are given in Note 26.1 on page 128 to these Financial Statements.

Note 04 Significant Accounting Policies

4.1. Financial Assets and Financial Liabilities

4.1.1. Non Derivative Financial Assets

Initial Recognition and Measurement

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

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

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per the Sri Lanka Accounting Standard LKAS 39 - Financial Instruments: Recognition and Measurement.

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

- i) Fair value through profit or loss (FVTPL)

- ii) Loans and receivables (L&R)

- iii) Held to maturity (HTM)

- iv) Available-for-sale (AFS)

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

The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on the group's ability to hold. The company derecognises financial assets when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

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

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

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

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

Subsequent Measurement

a) Fair Value through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss include equities that have been acquired principally for the purpose of Trading. Financial investments held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair

value are recognized in other operating income. Dividend income is recorded in other operating income when the right to receive the payment has been established.

b) Available for Sale Financial Investments (AFS)

Available for sale financial investments include investments in equity which are neither classified as held for trading

nor designated at fair value through profit or loss. After initial measurement, available for sale financial investments are subsequently measured at fair value.

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

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

c) Held to Maturity Financial Investments (HTM)

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

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

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

d) Loans and Receivables(L&R)

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

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

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

amortisation is included in other

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

'Day 1' Difference for Staff Loans

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

4.1.2. Non Derivative Financial Liabilities

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

- a) Financial liabilities at fair value through profit or loss (FVTPL);**
- b) Financial liabilities at amortised cost.**

The subsequent measurement of financial liabilities depends on their classification.

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

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

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

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

b) Financial Liabilities at Amortised Cost

Financial Instruments issued by the Group that are not designated at fair value through profit or loss, are classified as liabilities under 'due to other customers', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares at amortised cost using the EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are derecognise as well as through the EIR amortisation process. The details of the Group's financial liabilities at amortised cost are shown in Note No. 31.1.4 on page 133 to the Financial Statements.

4.1.3. Fair Value Measurement

'Fair value' is the price that would

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or

loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

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

Level 1 Valuation

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

Level 2 Valuation

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction

price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in income statement on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out

Level 3 Valuation

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable is not recognised in Statement of Comprehensive Income immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counter party where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Company believes a third-party market participant would take them into account in pricing a transaction. Please refer fair value hierarchy disclosed in Note No. 31.3 on page 133.

4.1.4. Reclassification of Financial Assets

The Group does not reclassify any Financial Asset into the 'fair value through profit or loss' category after initial recognition. Also the Group does

not reclassify any financial instrument out of the 'fair value through profit or loss' category if upon initial recognition it was designated as at fair value through profit or loss.

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

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

For a financial asset reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in Equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Income Statement

The Group may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Group has the intention and

ability to hold the financial asset for the foreseeable future or until maturity.

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

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

4.1.5. Derecognition of Financial Assets and Financial Liabilities

Financial Assets

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

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

On derecognition of a financial asset, the difference between the carrying

amount of the asset and consideration received and any cumulative gain or loss that has been recognised is recognised in profit or loss. When the Group and Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset,

the asset is recognized to the extent of the group's continuing involvement in the asset. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

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

Financial Liabilities

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

4.1.6. Securities Purchased under Reverse Repurchase

Agreements

Securities purchased under agreements to re-sell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is accrued over the life of the agreement using the EIR and recorded in Other Operating income

4.1.7. Identification and measurement of Impairment of Financial Assets

The Group assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial

recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

a) Loans and Receivables (L&R)

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual and collective basis. Impairment losses are recorded as charges to the Income Statement. The carrying amount of impaired loans on the Statement of Financial Position is

reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

b) Individually Assessed Loans and Receivables

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

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

c) Collectively Assessed Loans and Receivables

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

The collective impairment allowance is determined after taking into account;

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

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

d) Write-off of Loans and Advances

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

e) Renegotiated Loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to any criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

f) Reversals of Impairment

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

g) Available for Sale Financial Investments (AFS)

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

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

h) Held to Maturity Financial Assets (HTM)

An impairment loss in respect of held-to-maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the

asset's original EIR and is recognised in profit or loss. Interest on impaired assets continues to be recognised through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

4.1.8. Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

4.2 Leasing

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

a) Group as a Lessee

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

rental payable is recognised as an expense in the period in which they are incurred

4.3. Property, Plant and Equipment

4.3.1. Basis of Recognition

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

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

4.3.2. Basis of Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring

at the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as a part of computer equipment.

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

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

4.3.3. Subsequent Costs

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

4.3.4. Repairs & Maintenance

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

4.3.5. Derecognition

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

4.3.6. Depreciation

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

The depreciation rates are determined separately for each significant part of an item

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

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

4.4 Intangible Assets

The intangible assets include the value of internally developed computer software

4.4.1. Basis of Recognition

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

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

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

4.4.2. Subsequent Expenditure

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

4.4.3. Useful Economic Lives, Amortisation and Impairment

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

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

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

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

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

4.4.4. Derecognition

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

is recognised in the profit or loss in the year the asset is derecognised.

4.5. Cash and Cash Equivalents

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

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

4.6. Investment Properties

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

Determining Fair Value

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

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

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an

arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

4.7. Impairment of Non-financial Assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share price for publicly traded subsidiaries or other available fair value indicators. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may have decreased. If such indication exists the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions

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

4.8. Investments in Subsidiaries

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

4.9. Investments in Associate

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

4.10. Borrowings and Debt Securities Issued

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

4.11. Dividends Payable

Dividends on ordinary shares

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

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

4.12. Provisions

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

4.13. Employee Benefits

4.13.1. Defined Benefit Plans – Gratuity

The Group measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan using the 'Projected Unit Credit

method' (PUC) as required by the Sri Lanka Accounting Standard LKAS 19 - Employee Benefits. The Company continues to use an internally developed method to measure retirement benefit liability. The item is stated under Other Liabilities in the Statement of Financial Position.

Recognition of Actuarial Gains and Losses

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

Funding Arrangements

The gratuity liability is not externally funded.

4.13.2. Defined contribution plans – Employees' Provident Fund

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

4.13.3. Defined contribution plans – Employees' Trust Fund

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

4.14. Equity Reserves

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

Statutory Reserve Fund has been created during the year 2006 in accordance with the Finance Leasing

(Amendment) Act No 24 of 2005. Accordingly, 5% of the net profit for the period is transferred to the Statutory Reserve Fund.

4.15. Recognition of Income and Expenses

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

a) Interest and Similar Income and Expense

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

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. However, for a reclassified financial

asset for which the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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

b) Fee and Commission Income

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

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

- Fee Income from Providing Transaction Services

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

c) Dividend Income

Dividend income is recognised

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

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

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

e) Interest on Overdue Rentals

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

f) Recovery of Bad and Doubtful Debts Written off

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

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

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

4.16. Tax Expenses

a) Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be

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

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

b) Deferred Tax

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available

against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

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

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

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

Current tax and deferred tax relating to

items recognised directly in equity are also recognised in equity and not in the Income Statement.

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

c) Value Added Tax (VAT) on Financial Services

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

d) Economic Service Charge (ESC)

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

e) Nation Building Tax (NBT)

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

4.17. Earnings Per Share

(EPS)

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

4.18. Segment Reporting

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

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the Financial Statements of the Group. Inter-segment transfers are accounted for at competitive fair market prices charged to intercompany counterparts for similar services. Such services are eliminated on consolidation.

All operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions regarding resources to be allocated to the segments and to assess its performance, and for which discrete finance information is available. Segment results that are reported

to the CEO include items directly attributable to a segment as well as those that can be allocated on reasonable basis.

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

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

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from

income statement in the financial statements. The company's stated capital and retained earnings are managed on a company basis and are not allocated to individual operating segments.

Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible

assets other than goodwill. The activities of the company are located mainly in Sri Lanka. Consequently, the economic environment in which the company operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

Operating Segment Category of Information Details

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

4.19. Statement of Cash Flow

The Statement of Cash Flow has been prepared by using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard LKAS 7 - Statement of Cash Flows, whereby operating activities, investing activities and financing activities are separately recognised. Cash and Cash Equivalents comprise

of Cash in hand and Cash at Bank. Cash and Cash Equivalents as referred to in the Statement of Cash Flow are comprised of those items as explained in the Note given in the Statement of Cash Flow on page 92.

4.20. Commitments and Contingencies

Contingent Liabilities are possible obligations whose existence will be confirmed only by occurrence or

non-occurrence of uncertain future events not wholly within the control of the Group or present obligations where the transfer of economic benefit is not probable or cannot be readily measured, as defined in the Sri Lanka Accounting Standard- LKAS 37 - Provisions, Contingent Liabilities and Contingent Assets. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Details of the commitments and contingencies are given in Note No. 32 on page 135

4.21. Events Occurring After the Reporting Period

Events occurring after the reporting period are those events that occur between the reporting date and the date when the Financial Statements are authorised for issue. All material post reporting period events have been considered and where appropriate adjustments or disclosures have been made in Note No. 33 on page 135.

Note **05** New SLFRS issued and not yet effective

The Institute of Chartered Accountants of Sri Lanka has issued the following new financial reporting standards, which have been issued but not yet effective as at the Reporting date. These have not been applied in preparing these Company and Consolidated Financial Statements. Accordingly, the following Accounting Standards have not been applied in preparing these Financial Statements and the Group plans to apply these standards on the respective effective dates:

SLFRS 9 - Financial Instruments

SLFRS 9 - "Financial Instruments" replaces the existing guidance in LKAS 39 - "Financial Instrument: Recognition and Measurement". SLFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets.

SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of Held-

to-maturity, Loans and receivables and Available-for-sale are removed.

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new model applies to financial assets that are not measured at FVTPL. The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.

A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition

of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carried guidance on new general hedge accounting requirements.

SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements. Effective date of SLFRS 9 has been deferred till January 01, 2018

The Company is in the process of doing a high level initial assessment of the potential impact on its Financial Statements resulting from the application of SLFRS 9.

SLFRS 15 - Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable Financial Statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities will apply five-step model to determine when to recognize revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.

It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts'.

SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2018, with early adoption permitted.

The Company does not expect significant impact

on its Financial Statements resulting from the application of SLFRS 15.

SLFRS 16 - Leases

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet financed leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019.

The Company will assess the potential impact on its Financial Statements resulting from the application of SLFRS 16.

Note 06 Income

Rs.	Company		Group	
	2016	2015	2016	2015
For the year ended December 31,				
Interest income [Note 6.1]	206,318,697	177,771,067	206,318,697	177,771,067
Net Fee and commission income [Note 7]	5,762,146	4,230,745	5,762,146	4,230,745
Other operating income [Note 8]	43,931,172	16,115,538	103,563,262	66,642,173
	256,012,015	198,117,350	315,644,105	248,643,985

6.1 Interest Income

Lease Rental Receivable	109,406,932	88,547,019	109,406,932	88,547,019
Loans and Advances	96,911,765	89,224,048	96,911,765	89,224,048
Total interest income	206,318,697	177,771,067	206,318,697	177,771,067

6.2 Interest Expense

Due to banks	21,474,273	2,573,784	21,507,523	2,607,284
Due to other customers	15,313,456	10,122,904	15,313,456	10,122,904
On Other borrowings	3,523,590	15,828,610	4,324,844	15,829,333
Total interest expenses	40,311,319	28,525,298	41,145,823	28,559,521

Note 07 Net Fee and Commission Income

Rs.	Company		Group	
	2016	2015	2016	2015
For the year ended December 31,				
Fee and commission income	5,762,146	4,230,745	5,762,146	4,230,745
Net fee and commission income	5,762,146	4,230,745	5,762,146	4,230,745

Note 08 Other Operating Income

Rs.	Company		Group	
	2016	2015	2016	2015
For the year ended December 31,				
Profit on sale of property, plant and equipment	186,486	2,615,167	191,486	2,615,167
Investment with Government Securities-Treasury Bonds	684,205	676,905	684,205	676,905
Service Charges	263,191	356,232	263,191	356,232
Recovery of loans and lease written off in prior years	1,390,666	2,463,874	1,390,666	2,463,874
Dividend Income	58,500	54,000	91,222	188,722
Interest Income on Placements with banks	12,824,698	8,990,583	14,040,508	8,990,583
Reversals of provision for fall in value of subsidiary company	-	958,777	-	-
Reversals of provision for fall in value of Investment in Properties	-	-	-	915,600
Profit on sale of shares	-	-	-	191,901
Money Brokering Income	-	-	58,378,558	50,243,189
Reversals of provision for CAPM	28,523,426	-	28,523,426	-
	43,931,172	16,115,538	103,563,262	66,642,173

Note 09 Reversal/(Charge) of Impairment for Loans and Advances

Rs.	Company		Group	
	2016	2015	2016	2015
For the year ended December 31,				
Reversal/(Charge) of Impairment for Loans and Advances (Note 15.4)	(3,821,579)	9,098,166	(3,821,579)	9,098,166
Write-offs and disposal losses	(7,469,172)	(7,036,578)	(7,469,172)	(7,036,578)
	(11,290,751)	2,061,588	(11,290,751)	2,061,588

Note 10 Personnel and Other Expenses

Rs.	Company		Group	
	2016	2015	2016	2015
For the year ended December 31,				
10.1 Personal Expenses				
Salaries and Bonus	40,543,690	34,837,203	60,943,311	51,416,042
Defined Contribution Plan Costs - EPF	4,703,408	4,180,464	7,497,584	6,100,163
Defined Contribution Plan Costs - ETF	1,175,852	1,045,116	1,874,396	1,525,041
Defined Benefit Plan Cost	2,697,607	2,009,456	3,809,685	3,124,884
Others	4,217,028	5,075,111	9,484,011	9,552,219
	53,337,585	47,147,350	83,608,987	71,718,349

Rs. For the year ended December 31,	Company		Group	
	2016	2015	2016	2015
10.2 Other Expenses				
Auditors' remuneration - Audit related services	600,000	550,000	792,500	725,000
- Non audit services	1,600,894	877,867	1,600,894	993,867
Depreciation and amortisation	3,762,987	3,382,233	5,605,260	5,234,841
Provision for fall in value of investment in available for sale assets	-	1,790,000	-	1,790,000
Provision for fall in value of investment in associate companies	4,620,052	2,422,014	-	-
Legal expenses	1,881,306	1,682,258	1,881,306	1,682,258
Directors' emoluments	5,435,708	6,317,857	7,790,708	7,047,857
Premises and equipment cost	14,643,278	13,661,158	16,533,122	15,648,668
Others	21,411,869	20,251,525	37,544,149	36,186,148
	53,956,094	50,934,912	71,747,939	69,308,639

Note 11 Taxation

Rs. For the year ended December 31,	Company		Group	
	2016	2015	2016	2015
Income tax on profits (Note 11.1)	5,807,539	5,997,692	7,907,222	8,446,389
Adjustments in respect of prior years	(314,556)	-	(370,269)	13,667
Provision for deferred tax (Note 11.3)	-	-	41,365	(135,359)
Deemed dividend tax	-	-	133,688	105,777
	5,492,983	5,997,692	7,712,006	8,430,474

11.1. Reconciliation of Accounting Profit and the Income Tax Expense

Profit Before Tax & Value Added Tax on Financial Services	82,189,390	64,206,209	92,923,729	71,753,895
Aggregate Disallowed Expenses	40,863,729	20,651,122	40,494,072	33,997,838
Aggregate Allowable Expenses	(253,392,197)	(226,635,995)	(253,392,197)	(236,960,406)
Capital Portion of Lease Receivable	245,719,232	219,302,154	246,696,108	219,302,154
Aggregate Exempt/Allowable Income	(77,109,252)	(26,850,844)	(80,951,941)	(28,675,489)
Profit from the Business	38,270,902	50,672,646	45,769,771	59,417,992
Tax Loss claimed during the year (Note 11.2)	(17,529,692)	(29,252,317)	(17,529,692)	(29,252,317)
Taxable Profit	20,741,210	21,420,329	28,240,079	30,165,675
Income tax expense	5,807,539	5,997,692	7,907,222	8,446,389

Income Tax provision of SMB Leasing PLC has been calculated at 28% (2015-28%) on its taxable profit in terms of Inland Revenue Act No. 10 of 2006, and amendments thereto. Profits of SMB Money Brokers (Private) Limited., subsidiary of the group is liable to income tax at 28%. (2015-28%)

Rs. For the year ended December 31,	Company		Group	
	2016	2015	2016	2015
11.2 Accumulated Tax Losses				
Balance as at 1st January	289,074,840	311,880,249	289,074,840	311,880,249
Adjustment in respect of prior years	1,892,981	6,446,908	1,892,981	6,446,908
Tax Loss claimed during the year	(17,529,692)	(29,252,317)	(17,529,692)	(29,252,317)
Balance as at December 31,	273,438,129	289,074,840	273,438,129	289,074,840

11.3 Deferred Taxation

Company

SMB Leasing PLC has not recognized deferred tax asset since the management does not expect adequate taxable profit in the foreseeable future. Therefore, tax asset arising from the tax losses carried forward was limited only to the extent of existing temporary differences.

Rs.	2016	2015
Unrecognised Deferred Tax Asset		
Balance as at January 1,	25,307,190	26,387,879
Reversal for the year	(21,360,319)	(1,080,689)
Balance as at December 31,	3,946,871	25,307,190

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

Rs.	Temporary Difference 31.12.2016	Tax Effect 31.12.2016	Temporary Difference 31.12.2015	Tax Effect 31.12.2015
On property, plant and equipment	(9,569,401)	(2,679,432)	(8,212,208)	(2,299,418)
On lease assets	(261,720,868)	(73,281,843)	(200,816,463)	(56,228,610)
On retirement benefit obligation	11,948,108	3,345,470	10,336,654	2,894,263
On accumulated tax losses	273,438,129	76,562,676	289,074,840	80,940,955
	14,095,968	3,946,871	90,382,823	25,307,190

The deferred tax has been calculated at the rate of 28% (2015-28%)

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	2016	2015
Balance as at January 1,	1,197,098	1,061,739
Charge/ (Reversal) for the year	(41,367)	135,359
Balance as at December 31,	1,155,731	1,197,098

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

Rs.	Temporary Difference 31.12.2016	Tax Effect 31.12.2016	Temporary Difference 31.12.2015	Tax Effect 31.12.2015
On property, plant and equipment	(879,282)	(246,199)	(695,296)	(194,683)
On lease assets	-	-	-	-
On retirement benefit obligation	5,006,893	1,401,930	4,970,646	1,391,781
	4,127,611	1,155,731	4,275,350	1,197,098

Note 12 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.

Rs.	Company		Group	
	2016	2015	2016	2015
For the year ended December 31,				
Profit attributable to equity holders of the company (Rs)	76,696,407	58,208,517	78,682,992	59,112,093
No. of Ordinary Shares outstanding during the year	1,805,832,873	1,805,832,873	1,805,832,873	1,805,832,873
Basic Earnings Per Share (Rs)	0.04	0.03	0.04	0.03

Note 13 Cash and Cash Equivalents

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Cash in hand	2,284,940	416,722	2,299,940	431,722
Balances with banks	27,672,948	26,847,658	30,823,431	31,015,111
	29,957,888	27,264,380	33,123,371	31,446,833

Note 14 Placements with Banks

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Fixed deposits with banks	115,792,947	152,521,589	125,792,947	152,521,589
REPO investment with banks -Overnight	800,000	3,740,000	5,800,000	13,740,000
	116,592,947	156,261,589	131,592,947	166,261,589

Note 15 Loans and Receivables

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Gross loans and receivables (Note 15.2)	1,683,206,571	1,413,345,102	1,681,346,445	1,412,330,538
Less: Individual impairment (Note 15.4.1)	(324,247,536)	(318,428,345)	(324,247,536)	(318,428,345)
Collective impairment (Note 15.4.2)	(39,130,940)	(41,128,552)	(39,130,940)	(41,128,552)
Net loans and receivables	1,319,828,095	1,053,788,205	1,317,967,969	1,052,773,641

Rs.	Company		Group	
As at December 31,	2016	2015	2016	2015

15.1 Net Loans and Receivables

15.1.1 Loans

Gross loans receivables	777,231,638	696,822,469	775,371,512	695,807,905
Less: Individual impairment	(204,499,975)	(204,929,058)	(204,499,975)	(204,929,058)
Collective impairment	(28,415,092)	(29,027,275)	(28,415,092)	(29,027,275)
Net loans and receivables	544,316,571	462,866,136	542,456,445	461,851,572

15.1.2 Leases

Gross leases receivables (Note 15.3)	905,974,933	716,522,633	905,974,933	716,522,633
Less: Individual impairment	(119,747,561)	(113,499,287)	(119,747,561)	(113,499,287)
Collective impairment	(10,715,848)	(12,101,277)	(10,715,848)	(12,101,277)
Net lease rental receivables	775,511,524	590,922,069	775,511,524	590,922,069
Total net lease and loans receivables	1,319,828,095	1,053,788,205	1,317,967,969	1,052,773,641

Rs.	Company		Group	
As at December 31,	2016	2015	2016	2015

15.2 Product wise analysis of Gross loans and receivables

Lease rental receivables (Note 15.3)	905,974,933	716,522,633	905,974,933	716,522,633
Personal Loans	164,607,400	147,858,015	164,607,400	147,858,015
Staff Loans	-	69,010	-	69,010
Term Loans	329,465,781	287,143,733	329,465,781	287,143,733
Easy Payment Loans	31,269,277	40,684,107	29,409,157	40,684,107
Other Loans	251,889,180	221,067,604	251,889,174	220,053,041
	1,683,206,571	1,413,345,102	1,681,346,445	1,412,330,538

Rs.	Company		Group	
As at December 31,	2016	2015	2016	2015

15.3 Gross Lease Rental Receivables

15.3.1 Gross lease rental receivable within the year

Total lease rentals within one year from reporting date	527,319,582	508,996,934	527,319,582	508,996,934
Unearned lease Income	(102,507,318)	(74,938,975)	(102,507,318)	(74,938,975)
Balance as at	424,812,264	434,057,959	424,812,264	434,057,959

15.3.2 Gross lease rental receivable after one year to five years

Total lease rentals receivable after one year from reporting date	605,068,903	340,763,156	605,068,903	340,763,156
Unearned lease Income	(123,906,234)	(59,262,652)	(123,906,234)	(59,262,652)
Balance as at	481,162,669	281,500,504	481,162,669	281,500,504

15.3.3. Gross lease rental receivable after five years

Total lease rentals receivable after five years from reporting date	-	1,009,687	-	1,009,687
Unearned lease Income	-	(45,517)	-	(45,517)
Balance as at	-	964,170	-	964,170
Total Lease Rental Receivables	905,974,933	716,522,633	905,974,933	716,522,633

15.4 Movement in individual and Collective Impairment during the year – Company / Group

15.4.1 Individual Impairment

Rs.	2016	2015
Balance as at January 1,	318,428,345	327,521,724
Net impairment reversal for the year	5,819,191	(9,093,379)
Balance as at December 31,	324,247,536	318,428,345

15.4.2 Collective Impairment

Rs.	2016	2015
Balance as at January 1,	41,128,552	41,133,339
Net impairment reversal for the year	(1,997,612)	(4,787)
Balance as at December 31,	39,130,940	41,128,552
Total net impairment charge / (reversal) for the year	3,821,579	(9,098,166)

Note 16 Financial Investments

The Company's Financial Investments are summarised by Categories as follows:

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Available for Sale (AFS) (Note 16.1)	1,168,679	935,814	1,168,679	935,814
Fair Value Through Profit or Loss (FVTPL) (Note 16.2)	-	-	3,549,336	4,042,650
Held to Maturity (HTM) (Note 16.3)	6,409,227	6,355,023	6,409,227	8,382,202
Loans and Receivables (L&R) (Note.16.4)	-	-	1,779,139	1,779,500
Total Financial Investments	7,577,906	7,290,837	12,906,381	15,140,166

The Following Table Compares the Fair values of the Financial Investments to their Carrying Values:

Rs.	Company				Group			
	2016		2015		2016		2015	
As at December 31,	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Available for Sale	1,168,679	1,168,679	935,814	935,814	1,168,679	1,168,679	935,814	935,814
Fair Value Through Profit or Loss	-	-	-	-	3,549,336	3,549,336	4,042,650	4,042,650
Held to Maturity	6,409,227	6,990,031	6,355,023	7,588,668	6,409,227	6,990,031	8,382,202	11,536,000
Loans and Receivables	-	-	-	-	1,779,139	1,860,300	1,779,500	1,860,300
Total Financial Investments	7,577,906	8,158,710	7,290,837	8,524,482	12,906,381	13,568,346	15,140,166	18,374,764

16.1 Available for Sale Investments (AFS)

16.1.1 Quoted shares held by SMB Leasing PLC

	2016			2015		
	No of Shares	Carrying Value (Rs.)	Fair Value (Rs.)	No of Shares	Carrying Value (Rs.)	Fair Value (Rs.)
Banking, Finance & Insurance						
The Finance Co. PLC	97	640	640	97	1,280	1,280
		640	640		1,280	1,280
Manufacturing						
Blue Diamond Jewelry Worldwide PLC	778,280	1,167,420	1,167,420	778,280	933,936	933,936
Metal Recyclers Colombo PLC	69	-	-	69	-	-
		1,167,420	1,167,420		933,936	933,936
Land & Property						
Seylan Developments PLC	43	619	619	43	598	598
		619	619		598	598
Carrying Amount		1,168,679	1,168,679		935,814	935,814

16.1.2. Unquoted Shares

	2016		2015	
	No of Shares	Carrying Value (Rs.)	No of Shares	Carrying Value (Rs.)
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
		75,543,825		75,543,825
Less: Provision for Impairment		(75,543,825)		(75,543,825)
Carrying Amount	-	-	-	-

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

16.1.3. Unquoted Debentures

Rs.	2016	2015
	Cost	Cost
Ceylinco Automobiles Ltd	17,600,000	17,600,000
Less: Provision for Impairment Loss	(17,600,000)	(17,600,000)
	-	-

16.2 Fair Value Through Profit or Loss (FVTPL)

Held by SMB Money Brokers (Pvt) Ltd

	2016			2015		
	No of Shares	Carrying Value (Rs.)	Fair Value (Rs.)	No of Shares	Carrying Value (Rs.)	Fair Value (Rs.)
Banking, Finance & Insurance						
Pan Asia Bank	10,000	200,000	200,000	-	-	-
Vallibel One PLC	-	-	-	15,000	322,500	322,500
Union Bank of Colombo PLC	35,000	539,000	539,000	20,000	404,000	404,000
Softlogic Life Insurance PLC	19,000	393,300	393,300	19,000	304,000	304,000
Janashakthi Insurance PLC	-	-	-	10,000	175,000	175,000
		1,132,300	1,132,300	-	1,205,500	1,205,500
Land & Property						
Colombo Fort Land & Building PLC	22,827	456,540	456,540	22,827	522,738	522,738
Overseas Realty (Ceylon) PLC	-	-	-	10,000	232,000	232,000
		456,540	456,540		754,738	754,738
Hotel						
The Kingsbury PLC	-	-	-	22,000	350,000	350,000
					350,000	350,000
Other						
Asia Siyaka Commodities PLC	-	-	-	200,000	540,000	540,000
Dialog Axiata PLC	-	-	-	16,000	171,200	171,200
Softlogic Holdings PLC	-	-	-	15,000	232,500	232,500
Ceylon Investment PLC	8,727	428,496	428,496	2,019	160,712	160,712
Dunamis Capital PLC	20,000	470,000	470,000	20,000	488,000	488,000
Browns Investments PLC	100,000	140,000	140,000	100,000	140,000	140,000
John Keels Holdings PLC	5,000	725,000	725,000			
Pelawatta Sugar Industries PLC	3,000	-	-			
Wattawala Plantations PLC	10,000	197,000	197,000			
		1,960,496	1,960,496		1,732,412	1,732,412
Total Quoted Shares		3,549,336	3,549,336		4,042,650	4,042,650

16.3.Held to Maturity (HTM)

Rs.	Company		Group	
	2016	2015	2016	2015
Government of Sri Lanka Treasury Bonds	6,409,227	6,355,023	6,409,227	6,355,023
Softlogic Finance PLC - (Quoted Debenture)	-	-	-	2,027,179
	6,409,227	6,355,023	6,409,227	8,382,202

16.4 Loans and Receivables (L&R)

Rs.	Group	
	2016	2015
People's Leasing Finance PLC (Investment in Debentures)	1,779,139	1,779,500
Corporate Finance & Capital Market Limited (6% Non redeemable, Non participative preference shares)	10,000,000	10,000,000
	11,779,139	11,779,500
Less :Provision for impairment	(10,000,000)	(10,000,000)
Carrying amount	1,779,139	1,779,500

16.5 Movement of Financial Investment

16.5.1.Company

Rs.	Available For Sale	Held To Maturity
As at January 1, 2015	1,403,537	6,308,117
Purchases	-	-
Maturities	-	-
Disposals	-	-
Fair value Loss recorded in the Income Statement	(467,723)	-
Fair value Loss recorded in the Other Comprehensive Income	-	-
Interest Income	-	46,906
As at December 31, 2015	935,814	6,355,023
As at January 1, 2016	935,814	6,355,023
Purchases	-	-
Maturities	-	-
Disposals	-	-
Fair value Loss recorded in the Income Statement	(640)	-
Fair value Loss recorded in the Other Comprehensive Income	233,505	-
Interest Income	-	54,204
As at December 31, 2016	1,168,679	6,409,227

16.5.2.Group

Rs.	Available for Sale (AFS)	Fair Value Through Profit or Loss (FVTPL)	Held to Maturity (HTM)	Loans and Receivables (L & R)
As at January 1, 2015	1,403,537	4,013,402	10,980,227	1,779,500
Purchases	-	3,927,776	-	-
Maturities	-	-	(2,644,931)	-
Disposals	-	(3,083,524)	-	-
Fair value Loss recorded in the Income Statement	(467,723)	-	-	-
Fair value Loss recorded in the Profit or loss and Other Comprehensive Income	-	-	-	-
Interest Income	-	(815,004)	46,906	-
As at December 31, 2015	935,814	4,042,650	8,382,202	1,779,500
As at January 1, 2016	935,814	4,042,650	8,382,202	1,779,500
Purchases	-	1,524,784	-	-
Maturities	-	-	-	-
Disposals	-	(2,018,098)	(2,027,179)	(361)
Fair value gains/(Losses) recorded in the Income Statement	(640)	-	-	-
Fair value gains/(Losses) recorded in the Profit or loss and Other Comprehensive Income	233,505	-	-	-
Amortisation adjustment	-	-	54,204	-
As at December 31, 2016	1,168,679	3,549,336	6,409,227	1,779,139

16.6.Disclosure of Financial Risk

The Company's exposure to Credit, Currency and Interest rate risks related to investments are disclosed in Note 35 on pages 137 to 141 to the Financial Statements.

16.7. Financial Investments pledged as security

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

Note 17 Investment in Associates

17.1 Company

Rs.

Associate	Principal Activity	Holding %	Number of Shares	Cost as at 2016	Cost as at 2015 Restated	Cost as at 2014 Restated
Kenenga Investment Corporation Ltd	Investment Banking	49.00%	4,900,000	49,000,000	49,000,000	49,000,000
SMB Real Estate Ltd.	Property Development Activities	49.00%	617,277	30,282,196	30,282,196	30,282,196
SMB Securities (Pvt) Limited	Stock Brokering Activities	49.50%	5,000,000	50,000,000	50,000,000	50,000,000
				129,282,196	129,282,196	129,282,196
Less: Provision for Impairment				(27,830,430)	(23,210,378)	(20,788,364)
Balance as at December 31,				101,451,766	106,071,818	108,493,832

17.2 Group

Rs.

	2016	2015 Restated	2014 Restated
Balance as at January 1,	106,071,818	108,493,832	110,533,648
Share of loss after tax	(4,620,052)	(2,422,014)	(2,039,816)
Balance as at December 31,	101,451,766	106,071,818	108,493,832

17.3 Share of Profit / (Loss) of Associate Companies

Rs.

	2016	2015	2014
Kenenga Investment Corporation Ltd	(3,798,135)	(5,537,004)	221,421
SMB Real Estate Ltd.	(403,848)	463,657	(1,214,827)
SMB Securities (Pvt) Limited	(418,069)	2,651,333	(3,998,706)
	(4,620,052)	(2,422,014)	(4,992,112)

17.4 Summarised Financial Information of Associates

Rs.

As at December 31, 2016	Kenanga Investment Corporation Ltd. (Audited)	SMB Securities (Pvt) Ltd (Audited)	SMB Real Estate Ltd (Audited)	Total (Audited)
Revenue	16,072,818	20,415,301	2,439,850	38,927,969
Total Comprehensive Income/(Expenses) for the year	(7,751,296)	(844,583)	(824,180)	(9,420,059)
Total Asset	90,080,930	108,001,890	45,277,357	243,360,177
Total Equity	85,023,334	84,808,826	36,346,863	206,179,023
Total Liabilities	5,057,596	23,193,064	8,930,494	37,181,154

Note 18 Investment in Subsidiary held by SMB Leasing PLC

Description	Principal Activity	2016		2015			
		Holding %	Number of Shares	Carrying Value Rs.	Holding %	Number of Shares	Carrying Value Rs.
SMB Money Brokers(Pvt) Ltd	Money Brokering Activities	50.99%	1,275,000	12,750,000	50.99%	1,275,000	12,750,000
Balance as at December 31,				12,750,000			12,750,000

Rs.	2016	2015
NCI Percentage (%)	49.01%	49.01%
Total Assets	42,473,212	39,551,465
Total Liabilities	13,773,357	15,095,838
Net Assets	28,699,855	24,455,627
Carrying amount of NCI	14,065,799	11,985,703
Revenue	57,480,600	50,243,187
Profit	3,895,263	3,650,914
Total comprehensive income	349,831	258,972
Profit allocated to NCI	2,080,096	1,916,235

Note 19 Investment Properties

Rs.	Company		Group	
	2016	2015	2016	2015
Balance as at January 1,	33,730,400	33,730,400	39,892,400	38,976,800
Disposal	(420,400)	-	(420,400)	-
Add: Fair Value Gain	-	-	425,700	915,600
Balance as at December 31,	33,310,000	33,730,400	39,897,700	39,892,400

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

19.1 Property Locations

Rs. 000	Extent (Perches)	Company				Group			
		2016		2015		2016		2015	
		Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value
Kaduwela, Malambe	123.5	32,700	94,475	32,700	34,117	32,700	94,475	32,700	34,117
Dorakumbura, Kurunegala	120	-	-	669	420	-	-	669	420
Ahangama, Dikkumbura	21	1,204	610	1,204	610	1,204	610	1,204	610
Malabe	8	-	-	-	-	4,200	2,095	4,200	1,760
Ahangama	111	-	-	-	-	2,853	4,493	2,853	3,487
		33,904	95,085	34,573	35,147	40,957	101,673	41,626	40,394
Less: Provision for impairment		(594)	-	(843)	-	(1,059)	-	(1,734)	-
		33,310	95,085	33,730	35,147	39,898	101,673	39,892	40,394

19.2 Valuation of Investment Properties

The Company carries investment properties at cost. Market valuations of the above investment properties were carried out as at 31.03.2017 by Messrs. D.N Dhammika Baranage who is an independent valuer not connected with the Company.

These fair values have not been incorporated in the financial statements. The directors have assessed that there is no significant change in the fair value of the properties as at 31st December 2016 when compared to the previous year.

Note 20 Property, Plant and Equipment

Company

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2016 Total	2015 Total
Cost/Valuation						
As at January 1,	46,297,786	16,239,558	19,016,499	7,171,498	88,725,341	95,078,943
Additions for the Year	126,000	60,950	16,310,961	120,000	16,617,911	801,464
Disposals	-	(1,301,015)	-	(246,309)	(1,547,324)	(7,155,066)
As at December 31,	46,423,786	14,999,493	35,327,460	7,045,189	103,795,928	88,725,341
Accumulated Depreciation						
As at January 1,	43,072,625	13,724,144	17,535,396	7,171,498	81,503,663	85,203,160
Charge for the year	1,611,564	682,379	1,307,565	14,000	3,615,508	3,382,233
Disposals	-	(1,301,015)	-	(246,309)	(1,547,324)	(7,081,730)
As at December 31,	44,684,189	13,105,508	18,842,961	6,939,189	83,571,847	81,503,663
Net book value as at December 31, 2016	1,739,597	1,893,985	16,484,499	106,000	20,224,081	-
Net book value as at December 31, 2015	3,225,161	2,515,414	1,481,103	-	-	7,221,678

Group

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2016 Total	2015 Total
Cost/Valuation						
As at 01st January	46,962,581	19,530,212	20,751,604	13,091,588	100,335,985	107,848,749
Additions for the Year	245,500	60,950	16,355,961	120,000	16,782,411	912,609
Disposals	-	(1,374,348)	-	(246,309)	(1,620,657)	(8,425,373)
As at December 31,	47,208,081	18,216,814	37,107,565	12,965,279	115,497,739	100,335,985
Accumulated Depreciation						
As at 01st January	43,542,552	16,079,547	18,053,614	10,310,538	87,986,251	91,103,446
Charge for the year	1,675,016	930,638	1,646,088	1,198,018	5,449,760	5,234,841
Disposals	-	(1,374,348)	-	(246,309)	(1,620,657)	(8,352,036)
As at December 31,	45,217,568	15,635,837	19,699,702	11,262,247	91,815,354	87,986,251
Net book value as at December 31, 2016	1,990,513	2,580,977	17,407,863	1,703,032	23,682,385	-
Net book value as at December 31, 2015	3,420,029	3,450,665	2,697,990	2,781,050	-	12,349,734

20.1 Acquisition of PPE during the year

During the financial year, the Company acquired PPE to the aggregate value of Rs.16,617,911 (2015-Rs.801,464)

20.2 Capitalisation of Borrowing Cost

There were no borrowing costs capitalised relating to the acquisition of Property, Plant and Equipment during the year. (2015-Nil)

20.3 Fully depreciated PPE in use

The initial cost of fully depreciated PPE which are still in use as at reporting date is as follows.

Rs.	2016	2015
As at December 31,		
Computer equipment	32,360,382	37,858,881
Office machine and equipment	12,951,342	12,519,082
Furniture and fittings	17,962,524	13,816,624
Motor vehicles	6,925,188	7,171,498
Total fully depreciated PPE	70,199,436	71,366,085

20.4 PPE pledged as security

None of the PPE have been pledged as securities as at the reporting date.

20.5 Permanent fall in value of PPE

There has been no permanent fall in the value of PPE which require an impairment provision in the Financial Statements.

20.6 The restriction of PPE

There are no restrictions that existed on the title of the PPE of the Company as at the reporting date.

Note 21 Intangible Assets

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Cost				
As at January 1,	737,388	737,388	839,253	784,253
Additions for the year	-	-	-	-
Disposals	-	-	-	-
As at December 31,	737,388	737,388	839,253	784,253
Accumulated Amortisation				
As at January 1,	331,824	184,346	378,689	231,211
Charge for the year	147,478	147,478	155,499	147,478
Disposals	-	-	-	-
As at December 31,	479,302	331,824	534,188	378,689
Carrying Value as at December 31,	258,086	405,564	305,065	405,564
Capital Work in Progress				
As at January 1,	3,000,000	3,000,000	3,000,000	3,000,000
Incurred during the year	-	-	-	-
Capitalised during the year	-	-	-	-
As at December 31,	3,000,000	3,000,000	3,000,000	3,000,000
Carrying value as at December 31,	3,258,086	3,405,564	3,305,065	3,405,564

Note 22 Other Assets

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Deposits and prepayments	1,077,766	2,897,750	1,939,592	2,897,750
Other assets	4,936,953	3,110,761	11,805,667	8,143,289
	6,014,719	6,008,511	13,745,259	11,041,039

Note 23

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Bank borrowings	203,135,910	13,860,468	203,135,910	13,860,468
Securitisation loan	103,300,070	-	103,300,070	-
Bank overdraft	47,345,976	66,548,561	47,345,976	66,548,561
	353,781,956	80,409,029	353,781,956	80,409,029

Note 24 Due to Other Customers

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Promissory notes	90,825,646	97,720,470	90,825,646	97,720,470
Debentures	8,826,746	103,853,591	8,826,746	103,853,591
	99,652,392	201,574,061	99,652,392	201,574,061

Note 25 Other Borrowing

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Other borrowings	-	-	1,155,241	3,331,517
	-	-	1,155,241	3,331,517

Note 26 Other Liabilities

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Accrued expenses	5,462,156	3,717,631	6,033,223	5,264,863
Provision for retirement benefit obligations (Note 26.1)	11,948,108	10,336,654	16,955,004	15,307,306
Other liabilities	43,731,290	23,201,387	48,731,011	27,253,821
	61,141,554	37,255,672	71,719,238	47,825,990

26.1 Provision for Retirement Benefit obligation

Balance as at January 1,	10,336,654	7,088,139	15,307,306	11,202,386
Provision for the year	2,697,607	2,009,456	3,809,684	3,124,886
Actuarial Loss during the year	(1,022,111)	2,715,773	(1,371,944)	2,456,748
Payments during the year	(64,042)	(1,476,714)	(790,042)	(1,476,714)
Balance as at December 31,	11,948,108	10,336,654	16,955,004	15,307,306

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.

	2016	2015
Salary Increment Rate	8.00%	7.50%
Discount Rate	12.00%	10.00%
Retirement Age	55 Years	55 Years

Note 27 Stated Capital

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
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)
Total Stated Capital	919,064,114	919,064,114	919,064,114	919,064,114

27.1 Reconciliation of Number of Shares - Company

As at December 31,	2016	2015
	No. of shares	No. of shares
Ordinary Voting Shares		
As at January 1,	1,191,766,772	1,191,766,772
Issue of shares	-	-
As at December 31,	1,191,766,772	1,191,766,772
Ordinary Non voting Shares		
As at January 1,	614,066,101	614,066,101
Issue of shares	-	-
As at December 31,	614,066,101	614,066,101
Total	1,805,832,873	1,805,832,873

Note 28 Statutory Reserve Fund

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Balance as at January 1,	24,664,054	21,632,528	24,664,054	21,632,528
Transfer made during the year	3,834,820	3,031,526	3,834,820	3,031,526
Balance as at December 31,	28,498,874	24,664,054	28,498,874	24,664,054

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 been transferred to the Statutory Reserve Fund.

Note 29 Available for Sale Reserve

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Balance as at January 1,	(124)	(1,322,135)	(124)	(1,322,135)
Transfer made during the year	233,505	1,322,011	233,505	1,322,011
Balance as at December 31,	233,381	(124)	233,381	(124)

Note 30 Retained Earnings

Rs.	Company		Group	
	2016	2015	2016	2015
As at December 31,				
Balance as at January 1,	150,826,176	98,364,958	150,725,538	97,228,641
Profit for the year	76,696,407	58,208,517	78,682,992	59,112,093
Other comprehensive income	1,022,111	(2,715,773)	1,200,526	(2,583,670)
Transfers to Statutory Reserve	(3,834,820)	(3,031,526)	(3,834,820)	(3,031,526)
Dividend paid	(36,116,657)	-	(36,116,657)	-
Balance as at December 31,	188,593,217	150,826,176	190,657,579	150,725,538

Note 31 Accounting Classification and Fair Values of Financial Instruments

Financial Instruments are measured subsequently on an ongoing basis either at Fair Value or at Amortised Cost. The summary of significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The following table analyses the carrying amounts of the financial instruments by category as defined in LKAS 39 financial instrument recognition and measurement.

31.1 Classification of Financial Instruments

31.1.1 Assets – Company

	2016		2015	
	Total Carrying Amount	Fair Value	Total Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	29,958	29,958	27,264	27,264
Placements with banks	116,593	116,593	156,262	156,262
Loans and receivables	1,319,828	1,319,828	1,053,788	1,053,788
Financial investments – Available-For-Sale	1,169	1,169	936	936
Financial investments – Held-To-Maturity	6,409	6,409	6,355	7,589
Total Financial Assets	1,473,957	1,474,538	1,244,605	1,245,839
Non Financial Assets				
Investments in associates	101,451	N/A	106,072	N/A
Investments in subsidiaries	12,750	N/A	12,750	N/A
Investment properties	33,310	N/A	33,730	N/A
Property plant and equipment	20,224	N/A	7,222	N/A
Intangible assets	3,258	N/A	3,406	N/A
Other assets	6,015	N/A	6,008	N/A
Total Non Financial Assets	177,008	-	169,188	-
Total Assets	1,650,965	1,474,538	1,413,793	1,245,839

31.1.2.Liabilities - Company

Rs. 000	2016		2015	
	Amortised Cost	Total Carrying Amount	Fair Value	Total Carrying Amount
Financial Liabilities				
Due to financial institutions	353,782	353,782	353,782	80,409
Due to other customers	99,652	99,652	99,652	201,574
Total Financial Liabilities	453,434	453,434	453,434	281,983
Non Financial Liabilities				
Other Liabilities	61,142	61,142	N/A	37,255
Total Non Financial Liabilities	61,142	61,142	-	37,255
Total Liabilities	514,576	514,576	453,434	319,238

31.1.3.Assets - Group

Rs. 000	2016				2015		
	Available For Sale (AFS)	Fair value Through Profit or Loss (FVTPL)	Held for Maturity (HTM)	Loans and Receivables (L&R)	Others	Total Carrying Amount	Fair Value
Financial Assets							
Cash and cash equivalents	-	-	-	33,123	-	33,123	31,447
Placements with Banks	-	-	-	131,593	-	131,593	166,262
Loans and Receivables to other customers	-	-	-	1,317,968	-	1,317,968	1,052,774
Financial investments - available-for-sale	1,169	-	-	-	-	1,169	936
Financial Assets at fair value through profit or loss	-	3,549	-	-	-	3,549	4,043
Financial investments - held-to-maturity	-	-	6,409	-	-	6,409	8,382
Other financial assets	-	-	-	1,779	-	1,779	1,780
Total Financial Assets	1,169	3,549	6,409	1,484,463	-	1,495,590	1,268,858
Non Financial Assets							
Investments in Associates	-	-	-	-	101,452	101,452	106,072
Investment Properties	-	-	-	-	39,898	39,898	39,892
Property Plant & Equipment	-	-	-	-	23,682	23,682	12,350
Intangible Assets	-	-	-	-	3,305	3,305	3,405
Deferred tax	-	-	-	-	1,156	1,156	1,197
Other Assets	-	-	-	-	13,745	13,745	11,040
Total Non Financial Assets	-	-	-	-	183,238	183,238	173,956
Total Assets	1,169	3,549	6,409	1,484,463	183,238	1,678,828	1,439,580

31.1.4. Liabilities – Group

Rs. 000	2016			2015	
	Amortised Cost	Total Carrying Amount	Fair Value	Total Carrying Amount	Fair Value
Financial Liabilities					
Due to financial institutions	353,782	353,782	353,782	80,409	80,409
Due to other customers	99,652	99,652	99,652	201,574	201,574
Other borrowings	1,155	1,155	1,155	3,332	3,332
	454,589	454,589	454,589	285,315	285,315
Non Financial Liabilities					
Other Liabilities	71,719	71,719	N/A	47,826	N/A
	71,719	71,719	-	47,826	-
Total Liabilities	526,308	526,308	454,589	333,140	285,315

31.2 Determination of Fair Value**a) Methodologies and Assumptions Used to Determine Fair Value**

The methodology for fair value of the Financial Assets and Liabilities and the analysis according to fair value hierarchy is provided in this note. The basis on which fair values have been arrived for various financial assets and liabilities are explained below.

b) Assets for which Fair Value approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity the carrying amounts approximate to their fair value.

c) Fixed rate Financial Investments - Government Securities

The fair value of fixed rate government securities financial assets carried at amortised cost are estimated by using weekly market rate publish by Central Bank of Sri Lanka and other fixed rate investments were measured using comparing market interest rates when they were initially recognised with current market rates for similar financial instruments.

d) Fixed rate Financial Investments - Bank Deposits

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

e) Fixed rate Financial Investments - Unquoted and Quoted Debt Securities

For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

f) Cash and bank balances

The carrying amount approximate to fair value due to the relatively short term maturity.

g) Other receivable and Financial liabilities

The carrying value has been considered as the fair value due to uncertainty of the timing cash flows.

31.3 Determination of Fair Value and Fair Values hierarchy of Financial Investments

The table below analyses financial instruments carried at Fair value, by level in the fair value hierarchy, the different levels have been defined as follows:

Level 1

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

Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices)

or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments

for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Please refer Accounting policy Note 04 on pages 98 to 104 for more information regarding determination of fair value.

Rs. 000

As at December 31, 2016

	Level 1	Level 2	Level 3	Total
Company				
Available - for - Sale (AFS)	1,169	-	-	1,169
Total Financial Investment	1,169	-	-	1,169
Group				
Available - for - Sale (AFS)	1,169	-	-	1,169
Fair Value Through Profit or Loss (FVTPL)	3,549	-	-	3,549
Total Financial Investment	4,718	-	-	4,718
As at 31 December 2015				
Company				
Available - for - Sale (AFS)	936	-	-	936
Total Financial Investment	936	-	-	936
Group				
Available - for - Sale (AFS)	936	-	-	936
Fair Value Through Profit or Loss (FVTPL)	4,043	-	-	4,043
Total Financial Investment	4,979	-	-	4,979

31.4 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

Rs. 000

As at December 31, 2016

	Level 1	Level 2	Level 3	Total
Assets - Company				
Cash and cash equivalents	-	-	29,958	29,958
Placements with banks	-	-	116,593	116,593
Loans and receivables	-	-	1,319,828	1,319,828
Financial investments – Held-to-Maturity	-	6,990	-	6,990
	-	6,990	1,466,379	1,473,369

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

Rs. 000

As at December 31, 2016

	Level 1	Level 2	Level 3	Total
Assets - Group				
Cash and cash equivalents	-	-	33,123	33,123
Placements with Banks	-	-	131,593	131,593
Loans and Receivables	-	-	1,317,968	1,317,968
Financial investments – held-to-maturity	-	6,990	-	6,990
Other Financial Assets	1,860	-	-	1,860
	1,860	6,990	1,482,684	1,491,534

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.

Financial Liabilities

As at December 31,

Rs.000

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Company				
Due to financial institutions	353,782	353,782	80,409	80,409
Due to other customers	99,652	99,652	201,574	201,574
Other borrowings	-	-	-	-
	453,434	453,434	281,983	281,983
Group				
Due to financial institutions	353,782	353,782	80,409	80,409
Due to other customers	99,652	99,652	201,574	201,574
Other borrowings	1,155	1,155	3,332	3,332
	454,589	454,589	285,315	285,315

Since the fair values of financial liabilities are similar to carrying amounts, the carrying values can be considered as reasonable approximation of their fair values. Thus, the fair-value hierarchy disclosure is not applicable.

Note 32 Commitments and contingencies

32.1 Capital Commitments

There are no capital commitments as at December 31, 2016.

32.2 Contingencies

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

Except for above there are no material commitments and Contingencies as at the reporting date.

Note 33 Events after the reporting date

There have been no any events subsequent to the reporting date which have material effect to the financial Statements.

Note 34 Related Party Disclosures

34.1 Transactions with Related Parties

Rs.000	Company	Name of Director	Details of Financial Dealings	2016		2015		As at	
				Received/Receivable/Payable)	Capital Outstanding as at 31.12.2016	Received/Receivable/Payable)	Capital Outstanding as at 31.12.2015	Percentage Of Capital funds as at 31.12.2016	
	Transactions with Associate Companies								
	SMB Real Estate Ltd.	-	-	No transactions	-	No transactions	-	-	-
	SMB Kenanga Investment Corporation Ltd	-	-	No transactions	-	No transactions	-	-	-
	SMB Securities (Pvt) Ltd.	-	-	No transactions	-	No transactions	-	-	-
	Transaction with Subsidiary								
		Mr. T.M. Wijesinghe	Easy Payment Loan	(240)	1860	(240)	2100	0.16%	
		Mr. J C Korale							
	SMB Money Brokers (Pvt) Ltd	Mr. H. R. S. Wijerathne							
	Transaction with other Related Companies								
	Sapphirus Lanka (Pvt) Ltd	Mr. T.M. Wijesinghe	Term Loan	(916)	3,424	(1,547)	4,340	0.30%	
			Finance Lease	(660)	10,697	(1,030)	11,357	0.94%	
	Grayline Cargo Terminals	Mr. H.R.S Wijerathne	Term Loan	(1,146)	17,809	(1,719)	(18,955)	1.57%	
			Finance Lease	(467)	7,579	(730)	8,046	0.67%	
	Grayline Container Terminals	Mr. H.R.S Wijerathne	Term Loan	(52)	833	(80)	855	0.07%	

34.2 Transactions with Key Management Personnel

Rs. For the year ended December 31,	Company		Group	
	2016	2015	2016	2015
Directors Fees	5,435,708	6,317,857	7,790,708	7,047,857
	5,435,708	6,317,857	7,790,708	7,047,857

Note 35 Financial Risk Management

35.1 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

35.2 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.

35.3 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.

35.3.1 Management of Liquidity Risk

The Company's approach to managing liquidity is to ensure that funds available

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

35.3.2 Exposure to Liquidity Risk

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

	2016	2015
Net loans / Total assets	79.94%	74.39%
Liquid Asset Ratio (LAR)	-	-
Average for the year	53.60%	61.34%
Maximum for the year	68.08%	72.27%
Minimum for the year	43.17%	46.94%

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

The Company also monitors the maturities of its assets and liabilities. Maturity analysis of the company is given below.

35.3.3 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 2016
Interest Earning Assets						
Cash and cash equivalents	29,958	-	-	-	-	29,958
Placements with banks	116,593	-	-	-	-	116,593
Loans and receivables	209,472	340,372	550,705	193,212	26,067	1,319,828
Financial investments	-	1,169	-	-	6,409	7,578
	356,023	341,541	550,705	193,212	32,476	1,473,957
Non Interest Earning Assets						
Investment in Associates	-	-	101,452	-	-	101,452
Investment in Subsidiaries	-	-	12,750	-	-	12,750
Investment Properties	-	-	-	-	33,310	33,310
Property, Plant & equipment	-	-	-	-	20,224	20,224
Intangible Assets	-	-	-	-	3,258	3,258
Other Assets	-	4,937	1,077	-	-	6,014
	-	4,937	115,279	-	56,792	177,009
Total Assets	356,023	346,478	665,984	193,212	89,268	1,650,965
Interest bearing liabilities						
Due to financial institution	75,669	125,585	150,607	1,921	-	353,782
Due to other customers	98,613	-	735	293	11	99,652
Other borrowings	-	-	-	-	-	-
	174,282	125,585	151,342	2,214	11	453,434
Non Interest bearing liabilities						
Other liabilities	17,410	43,731	-	-	-	61,141
Shareholders' funds	-	-	-	-	1,136,389	1,136,389
	17,410	43,731	-	-	1,136,389	1,197,531
Total Liabilities & Shareholders' Funds	191,692	169,316	151,342	2,214	1,136,401	1,650,965

Group

Rs.000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total 2016
Interest Earning Assets						
Cash and cash equivalents	33,123	-	-	-	-	33,123
Placements with banks	131,593	-	-	-	-	131,593
Loans and receivables	209,473	340,372	550,705	193,212	24,206	1,317,968
Financial investments	-	4,718	-	-	8,189	12,907
	374,189	345,090	550,705	193,212	32,395	1,495,591
Non Interest Earning Assets						
Investment in associates	-	-	101,452	-	-	101,452
Investment properties	-	-	-	-	39,898	39,898
Property , plant and equipment	-	-	-	-	23,682	23,682
Intangible asset	-	-	-	-	3,305	3,305
Deferred tax assets	-	-	-	-	1,156	1,156
Other assets	-	12	13,733	-	-	13,745
	-	12	115,185	-	68,041	183,238
Total Assets	374,189	345,102	665,890	193,212	100,436	1,678,829
Interest bearing liabilities						
Due to financial institutions	75,669	125,585	150,607	1,921	-	353,782
Due to other customers	98,613	-	735	293	11	99,652
Other borrowings	-	1,155	-	-	-	1,155
	174,282	126,740	151,342	2,214	11	454,589
Non Interest bearing liabilities						
Other liabilities	22,988	48,731	-	-	-	71,719
Shareholders' funds	-	-	-	-	1,152,520	1,152,520
	22,988	48,731	-	-	1,152,520	1,224,239
Total Liabilities & Shareholders' Funds	197,271	175,470	151,342	2,214	1,152,531	1,678,828

35.4 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers and other Companies, and investment in debt/equity securities. For risk management reporting purposes the Company considers and consolidates all elements of credit risk exposure.

Management of Credit Risk

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

a) Loan Origination

The loan origination process comprises

initial screening and credit appraisal.

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

b) Loan Approval

The Company has established clear

guidelines for Loan approvals / renewals by adopting a committee based approval structure, where all approval signatories carry equal responsibility for credit risk. Individual credit facilities beyond a minimum threshold require Board Credit Committee approval.

c) Credit Administration and Disbursement

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

d) Recoveries

Overdue Loans are managed by the Recoveries Division with the support of the Legal Division. This unit is responsible for all aspects of an overdue facility, restructuring of the credit, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all recovery matters are finalised.

e) Collateral

The Company carries sensitivity tests to measure the value of its

portfolios in the event of extreme market movements on hypothetical scenarios. Management reviews the consequences of the stress tests and determines appropriate mitigating actions such as reducing exposures, reviewing and changing risk limits in order to mitigate the risks induced by potential stress. The change in weighted average interest rate of the Company will have the following effects.

Rs. 000

2016

Collateral wise analysis of individually significant impaired loans and leases	
Secured by motor vehicle	4,853
Secured by movable and immovable assets	38,357
Other securities	10,576
Clean	-
	53,787
Individually significant unimpaired loans and leases	
Watch list	24,317
Clean	1,175,669
	1,199,986
Collateral wise analysis of individually significant impaired loans and leases	
Secured by motor vehicle	551,558
Secured by movable and immovable assets	639,589
Clean	8,839
	1,199,986

35.5 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements

and generally accepted standards of corporate behavior.

The Company objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the

development and implementation of controls to address operational risk is assigned to senior management within each business unit.

This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas.

Compliance with Company standards is supported by a program of periodic

reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management & reports to the Audit Committee and to the board.

35.6 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.

35.6.1 Exposure to Interest Rate Risk

The Company carries sensitivity tests to measure the value of its portfolios in the event of extreme market movements on hypothetical scenarios. Management reviews the consequences of the stress tests and determines appropriate mitigating actions such as reducing exposures,

reviewing and changing risk limits in order to mitigate the risks induced by potential stress. The change in weighted average interest rate of the Company will have the following effects.

Loan Portfolio

Interest Rate Shock	-2%	-1%	1%	2%
Interest Income Change	(10,071,827)	(5,035,914)	5,035,914	10,071,827
Effect on loan interest Income	-10.39%	-5.20%	5.20%	10.39%

Lease Portfolio

Interest Rate Shock	-2%	-1%	1%	2%
Interest Income Change	(13,664,336)	(6,832,168)	6,832,168	13,664,336
Effect on lease interest Income	-12.49%	-6.24%	6.24%	12.49%

Total Portfolio

Interest Rate Shock	-2%	-1%	1%	2%
Interest Income Change	(23,736,163)	(11,868,082)	11,868,082	23,736,163
Effect on interest Income	-11.50%	-5.75%	5.75%	11.50%

Interest Expenses

Interest Rate Shock	-2%	-1%	1%	2%
Interest Expenses Change	(7,354,174)	(3,677,087)	3,677,087	7,354,174
Effect on interest Expenses	-18.24%	-9.12%	9.12%	18.24%

Note 36 Current/Non Current Analysis

Company

Rs.000	2016			2015		
As at December 31,	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total
Assets						
Cash and cash equivalents	29,958	-	29,958	27,264	-	27,264
Placements with banks	116,593	-	116,593	156,262	-	156,262
Loans and receivables	549,844	769,984	1,319,828	479,980	573,808	1,053,788
Financial investments	1,169	6,409	7,578	936	6,355	7,291
Investments in associates	-	101,452	101,452	-	106,072	106,072
Investments in subsidiaries	-	12,750	12,750	-	12,750	12,750
Investment properties	-	33,310	33,310	-	33,730	33,730
Property plant & equipment	-	20,224	20,224	-	7,222	7,222
Intangible assets	-	3,258	3,258	-	3,406	3,406
Deferred tax assets	-	-	-	-	-	-
Other assets	4,937	1,078	6,015	3,111	2,898	6,009
Total Assets	702,501	948,465	1,650,965	667,553	746,240	1,413,793
Liabilities						
Due to financial institutions	201,254	152,528	353,782	70,299	10,110	80,409
Due to other customers	98,613	1,040	99,652	199,652	1,922	201,574
Other borrowings	-	-	-	-	-	-
Other liabilities	61,142	-	61,142	22,307	14,949	37,256
Total Liabilities	361,008	153,568	514,576	292,258	26,981	319,239

Group

As at December 31, Rs.000	2016			2015		
	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total
Assets						
Cash and cash equivalents	33,123	-	33,123	31,447	-	31,447
Placements with banks	131,593	-	131,593	166,262	-	166,262
Loans and receivables	549,844	768,124	1,317,968	478,967	573,807	1,052,774
Financial investments	4,718	8,188	12,906	4,978	10,162	15,140
Investments in associates	-	101,452	101,452	-	106,072	106,072
Investment properties	-	39,898	39,898	-	39,892	39,892
Property plant and equipment	-	23,682	23,682	-	12,350	12,350
Intangible assets	-	3,305	3,305	-	3,406	3,406
Deferred tax assets	-	1,156	1,156	-	1,197	1,197
Other assets	11,806	1,940	13,745	2,898	8,143	11,041
Total Assets	731,084	947,744	1,678,829	684,552	755,028	1,439,580
Liabilities						
Due to financial institutions	201,254	152,528	353,782	70,299	10,110	80,409
Due to other customers	98,613	1,039	99,652	199,652	1,922	201,574
Other borrowings	-	1,155	1,155	3,332	-	3,332
Other liabilities	71,719	-	71,719	25,639	22,187	47,826
Total Liabilities	371,586	154,723	526,309	298,922	34,219	333,141

Note 37 Segment Reporting - Group

Rs.000	Loans		Leasing		Treasury		Money Brokering		Unallocated		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
As at December 31,												
Business segments - Group												
Revenue from external customers,												
Interest	96,912	89,224	109,407	88,547	-	-	-	-	-	-	206,319	177,771
Fee and commission	2,060	2,389	3,702	1,842	-	-	-	-	-	-	5,762	4,231
Other operating Income	-	-	1,654	2,464	14,725	9,859	58,379	50,243	28,806	4,085	103,563	66,652
Total Revenue from external customers	98,972	91,613	114,763	92,853	14,725	9,859	58,379	50,243	28,806	4,085	315,644	248,654
Segment result	48,427	42,338	56,154	42,911	7,205	4,556	28,565	23,220	14,095	1,888	154,446	114,913
Depreciation charged for the year	(1,709)	(1,929)	(1,981)	(1,955)	(254)	(208)	(1,008)	(1,058)	(497)	(86)	(5,450)	(5,235)
Interest Expense	(12,901)	(10,522)	(14,960)	(10,665)	(1,919)	(1,132)	(7,610)	(5,771)	(3,755)	(469)	(41,146)	(28,560)
Operating Profit	33,817	29,887	39,213	30,292	5,031	3,216	19,947	16,391	9,843	1,333	107,851	81,119
Share of Profit/ (Loss) of Associate Companies	-	-	-	-	-	-	-	-	(4,620)	(2,422)	(4,620)	(2,422)
Income tax expense	(2,418)	(3,106)	(2,804)	(3,148)	(360)	(334)	(1,426)	(1,703)	(704)	(139)	(7,712)	(8,430)
Value Added Tax (VAT) on financial services	-	-	-	-	-	-	-	-	(14,927)	(9,365)	(14,927)	(9,365)
Other comprehensive Income	503	(418)	584	(424)	75	(45)	297	(229)	147	(19)	1,605	(1,135)
Net Profit for the year	25,773	26,363	29,885	26,720	3,834	2,837	15,202	14,458	7,501	(10,612)	82,197	59,767
Segment assets	542,456	461,852	775,512	590,922	279,074	138,451	15,941	12,882	65,845	235,474	1,678,829	1,439,580
Segment liabilities	165,027	105,761	191,357	106,543	24,552	11,313	97,341	57,651	48,032	51,873	526,309	333,140
Cash Flow from Operating Activities	(54,459)	(35,673)	(63,148)	(36,156)	(8,102)	(3,839)	(32,123)	(19,564)	(15,851)	(1,591)	(173,683)	(96,824)
Cash Flow from Investing Activities	2,769	1,678	3,210	1,701	412	181	1,633	921	806	75	8,829	4,556
Cash Flow from Financing Activities	55,748	7,707	64,642	7,811	8,294	829	32,883	4,227	16,226	344	177,792	20,918

Note 38 Neither Past Due Nor Impaired

	2016			2015		
	Gross Receivable (Rs.)	Impairment (Rs.)	%	Gross Receivable (Rs.)	Impairment (Rs.)	%
0 - 30 Days	879,122,106	29,188	0%	650,333,284	18,292	0%
31 - 60 Days	154,124,993	19,668	0%	148,649,239	12,629	0%
61 - 90 Days	142,154,941	21,482	0%	64,105,604	16,409	0%
91 - 120 Days	42,000,265	36,022	0%	53,010,687	13,575	0%
121 - 150 Days	32,209,007	57,653	0%	28,349,464	29,410	0%
151 - 180 Days	8,786,093	33,524	0%	29,177,364	26,056	0%
181 - 210 Days	884,179	446,750	1%	4,160,019	3,810,612	9%
211 - 240 Days	849,868	14,553	0%	390,820	12,180	0%
241 - 270 Days	107,090	12,008	0%	143,066	8,887	0%
271 - 300 Days	202,121	32,260	0%	165,911	16,650	0%
301 - 330 Days	142,600	36,547	0%	271,711	53,836	0%
331 - 360 Days	494,421	90,232	0%	906,161	219,264	1%
Above 360 Days	38,301,054	38,301,054	98%	36,901,988	36,890,752	90%
	1,299,378,737	39,130,940	100%	1,016,565,319	41,128,552	100%
Net Receivable		1,260,247,797			975,436,767	

Note 39 Litigation against the Company

Litigation is a common occurrence in the financial services industry due to the nature of the business undertaken. Provision for legal matters typically require a higher degree of judgement. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty involved. Group has established a formal

controls and policies for managing legal claims. Once the professional advice has been obtained and the amount of loss reasonably estimated group make adjustments to the accounts for any adverse effect, if any, which the claim many have on groups financial position. As at the reporting date group had several unresolved legal claims pending

judgement. 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.

FIVE YEAR SUMMARY GROUP

(Rs.'000)	2016	2015	2014	2013	2012
Operating Results					
Revenue	315,644	248,644	266,814	252,487	211,573
Interest Income	206,319	177,771	172,443	182,024	143,988
Interest Expenses	(41,146)	(28,560)	(31,684)	(44,990)	(35,600)
Operating Expenses & Provision	(155,357)	(141,027)	(151,008)	(129,483)	(97,122)
Profit/Loss before taxation	107,851	81,119	106,495	102,471	91,899
Taxation & VAT	(22,639)	(17,796)	(17,176)	(15,308)	(14,528)
Profit After Taxation & VAT	80,592	60,901	86,366	73,509	65,971
Minority Interest	1,909	1,789	2,434	824	(743)
Profit/(Loss)Attributable to Shareholders	78,683	59,112	83,932	72,685	64,001
As at December 31,					
Assets					
Cash & Short Term Funds	33,123	31,447	24,835	22,979	11,138
Investments	144,499	181,402	144,358	116,778	117,821
Loans & Advances	1,317,968	1,052,774	921,550	929,832	910,415
Investment in Associates Co.	110,231	114,851	119,313	122,265	135,919
Investment Property	39,898	39,892	38,977	38,977	41,377
Property Plant and Equipment	23,682	12,350	16,745	19,192	12,276
Other Assets	14,901	12,238	25,079	21,968	28,655
Intangible Assets	3,305	3,406	3,553	3,706	18
Total Assets	1,687,608	1,448,359	1,294,410	1,275,698	1,257,617
Equity & Liabilities					
Equity					
Stated Capital	919,064	919,064	919,064	919,064	919,064
Statutory Reserves	28,499	24,664	21,633	17,682	13,795
Available for sale reserve	233	(0)	(1,322)	19,022	
Retain Earnings	200,078	160,146	108,689	9,924	(43,128)
Other Reserves					4,264
Liabilities					
Due to financial institutions	353,782	80,409	-	18748	34,466
Due to Other Customers	99,652	201,574	198,285	196,613	224,629
Other Borrowings	1,155	3,332	3,077	52,040	49,693
Other Liabilities	71,078	47,185	34,916	34,869	47,920
Non-Controlling Interest	14,066	11,986	10,069	7,737	6,915
Total Equity & Liabilities	1,687,608	1,448,359	1,294,410	1,275,698	1,257,617
Cash Flow					
Cash Flow from Operating Activities	(173,683)	(96,824)	106,539	56,209	(265,375)
Cash Flow from Investing Activities	8,829	4,556	(5,239)	(13,704)	1,612
Cash Flow from financing Activities	177,792	20,918	(81,074)	(48,592)	(58,638)
Net Increase or (Decrease)in cash and cash Equivalents	12,939	(71,351)	20,227	(6,087)	(322,402)
Basic Earning/(Loss) per share	0.04	0.03	0.05	0	0.04
Assets Growth (%)	17	12	1	1	(4)
Net Assets Growth (%)	4	5	7	8	12
Net Assets per share (Rs.)	0.64	0.61	0.58	0.58	0.49

DECADE AT A GLANCE - COMPANY

Rs.000	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Year ended December 31,										
Operating Results										
Revenue	256,012	198,117	193,973	203,046	189,502	112,854	124,110	391,449	334,661	500,998
Interest income	206,319	177,771	172,443	182,024	143,988	75,581	101,718	147,132	295,666	424,776
Interest expenses	(40,311)	(28,525)	(31,647)	(44,868)	(35,600)	(47,609)	(64,732)	(166,315)	(410,293)	(400,239)
Operating expenses and provision	(118,584)	(96,021)	(68,634)	(66,565)	(61,567)	(76,470)	(59,806)	(66,868)	(506,301)	(85,937)
Profit/loss before taxation	97,116	73,571	93,667	91,613	92,334	(11,225)	19,443	158,266	(581,933)	2,699
Vat & taxation	(20,420)	(15,363)	(14,663)	(13,861)	(14,863)	(5,519)	-	-	(35,601)	(2,432)
Profit after taxation and vat	76,696	58,209	79,004	77,752	77,471	(16,744)	14,095	158,266	(618,676)	267
Comprehensive income/(expense)	77,952	56,815	77,549	76,767	75,621	(13,086)	-	-	-	-
Assets										
Cash and cash equivalents and placement with banks	146,551	183,526	145,052	116,934	119,394	480,706	368,304	7,151	134,541	348,412
Loans and receivables	1,319,828	1,053,788	923,890	932,413	913,235	571,892	420,657	778,938	1,197,256	1,949,602
Financial investments	7,578	7,291	7,712	8,991	3,193	6,308	2,650	-	-	-
Investments in associates	101,452	106,072	108,757	116,418	125,561	125,561	129,282	125,560	49,000	49,000
Investments in subsidiaries	12,750	12,750	11,791	9,268	7,854	12,750	12,750	12,750	324,197	319,540
Investment properties	33,310	33,730	33,730	33,730	34,324	33,120	33,120	49,016	16,316	27,505
Property plant and equipment	20,224	7,222	9,876	13,508	11,592	13,205	9,244	7,457	8,055	11,947
Intangible assets	3,258	3,406	3,554	3,701	-	-	-	-	-	-
Other assets	6,015	6,009	18,537	14,451	21,574	36,197	30,970	187,672	296,395	227,111
	1,650,965	1,413,793	1,262,518	1,249,414	1,236,727	1,279,739	1,006,977	1,168,542	2,025,760	2,933,117
Liabilities & Shareholders' Funds										
Borrowings	453,434	281,983	198,285	262,229	308,788	407,360	511,245	911,725	1,976,442	2,143,489
Other liabilities	61,142	37,256	26,230	26,732	44,253	94,594	77,827	327,148	261,257	382,892
Shareholders' funds	1,136,390	1,094,554	1,038,003	960,453	883,686	777,785	417,905	(70,331)	(211,939)	406,736
	1,650,965	1,413,793	1,262,518	1,249,414	1,236,727	1,279,739	1,006,977	1,168,542	2,025,760	2,933,117
Ratios										
Income growth (%)	29	(2)	(4)	(0.32)	1.64	(0.09)	(0.68)	16.97	(33.20)	(2.80)
Property, plant and equipment to shareholders' fund (times)	1.78	0.66	0.95	1.41	1.31	1.70	2.21	(10.60)	(3.80)	2.94
Total asset to shareholders' fund (times)	1.45	1.29	1.22	1.30	1.40	1.65	2.41	(16.61)	(9.56)	7.21
Net assets per share	0.63	0.61	0.57	0.53	0.49	0.56	0.30	(1.29)	(3.89)	7.46
Basic earnings/(loss) per share	0.04	0.03	0.04	0.04	0.04	(0.01)	0.02	0.23	(11.35)	0.005

NOTICE OF MEETING - VOTING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of S M B Leasing PLC will be held at Renuka Hotel, 328, Galle Road, Colombo 3 on June 28, 2017 at 9.30 AM for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended December 31, 2016 together with the reports of the Directors' and Auditors' thereon.
2. To re-elect Mr. A T S Sosa, Director who retires by rotation in terms of Article 91 of the Article of Association of the Company.
3. To re-elect Mr. M S A Wadood, Director who retires by rotation in terms of Article 91 of the Article of Association of the Company
4. To re-elect Mr. T C A Peiris, Director who retires by rotation in terms of Article 91 of the Article of Association of the Company
5. To authorize the Directors to determine and make donations
6. To re-appoint Auditors M/s. KPMG, Chartered Accountants and to authorize the Directors to determine their remuneration.

By order of the Board

P W CORPORATE SECRETARIAL (PVT) LTD

(sgd)

SECRETARIES

Colombo

May 31, 2017

Notes

1. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his/her stead.
2. A proxy need not be a Member of the Company.
3. The completed Form of Proxy must be deposited at the registered office of the Secretaries, No.3/17, Kynsey Road, Colombo 8, not less than forty eight (48) hours before the time fixed for the meeting.

NOTICE OF MEETING - NON VOTING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of S M B Leasing PLC will be held at Renuka Hotel, 328, Galle Road, Colombo 3 on June 28, 2017 at 9.30 AM for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended December 31, 2016 together with the reports of the Directors' and Auditors' thereon.
2. To re-elect Mr. A T S Sosa, Director who retires by rotation in terms of Article 91 of the Article of Association of the Company.
3. To re-elect Mr. M S A Wadood, Director who retires by rotation in terms of Article 91 of the Article of Association of the Company
4. To re-elect Mr. T C A Peiris, Director who retires by rotation in terms of Article 91 of the Article of Association of the Company
5. To authorize the Directors to determine and make donations
6. To re-appoint Auditors M/s. KPMG, Chartered Accountants and to authorize the Directors to determine their remuneration.

By order of the Board

P W CORPORATE SECRETARIAL (PVT) LTD

(sgd)

SECRETARIES

Colombo

May 31, 2017

Notes

1. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his/her stead.
2. A proxy need not be a Member of the Company.
3. The completed Form of Proxy must be deposited at the registered office of the Secretaries, No.3/17, Kynsey Road, Colombo 8, not less than forty eight (48) hours before the time fixed for the meeting.

FORM OF PROXY (VOTING)

*I/We.....of
 being* a member/ members of S M B LEASING PLC, hereby appoint
of.....or failing him/her.....Or failing him
 or failing him or failing him as *my/our Proxy to represent *me/us and to
 speak and vote whether on a show of hands or on a poll for *me/us on *my/our behalf at the ANNUAL GENERAL MEETING OF THE
 COMPANY to be held on June 28, 2017 at the Renuka City Hotel, 328, Galle Road, Colombo 03 and at any adjournment thereof, and
 at every poll which may be taken in consequence thereof.

	FOR	AGAINST
1) To receive and consider the Annual Report and Financial Statements for the Financial Year ended 31 December 2016 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2) To re-elect as a Director Mr. A T S Sosa who retires by Rotation in terms of Article 91 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
3) To re-elect as a Director Mr. M S A Wadood who retires by Rotation in terms of Article 91 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
4) To re-elect as a Director Mr. T C A Peiris who retires by Rotation in terms of Article 91 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
5) To authorize the Directors to determine and make Donations	<input type="checkbox"/>	<input type="checkbox"/>
6) To re-appoint Auditors M/s. KPMG, Chartered Accountants and to Authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

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

*Signature/s of the shareholder (s)

Please provide the following details:

Shareholder's NIC No./Company Registration No.

Folio No./Number of shares held

Proxy holder's NIC No. (if not a Director)

INSTRUCTIONS AS TO COMPLETION

1. To be valid this Form of Proxy must be deposited at the Registered Office of P W Corporate Secretarial (Pvt) Ltd, No.3/17, Kynsey Road, Colombo 8, not less than 48 hours before the time appointed for the holding of the Meeting.
2. The instrument appointing a Proxy shall in the case of an individual be signed by the appointor or by his Attorney and in the case of a Company / Corporation, the Proxy Form must be executed under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association or other constitutional documents.
3. If the Proxy Form is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy if it has not already been registered with the Company.
4. The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.

FORM OF PROXY (NON VOTING)

*I/We.....
 of being* a member/ members of S M B LEASING PLC, hereby appoint
 Mr. H R S Wijeratne of Colombo or failing him Mr. T M Wijesinghe or failing him Mr. U Gautam or failing him Mr. J C Korale or failing him
 Mr. A T S Sosa of failing him Mr. M S A Wadood or failing him Mr. T C A Peiris as *my/our Proxy to represent *me/us and to speak and
 vote whether on a show of hands or on a poll for *me/us on *my/our behalf at the ANNUAL GENERAL MEETING OF THE COMPANY
 to be held June 28, 2017 at the Renuka City Hotel, 328, Galle Road, Colombo 03 and at any adjournment thereof, and at every poll
 which may be taken in consequence thereof.

Signed this.....day of..... 2017

*Signature/s of the shareholder (s)

Please provide the following details:

Shareholder's NIC No./Company Registration No.

Folio No/Number of shares held

Proxy holder's NIC No. (if not a Director)

INSTRUCTIONS AS TO COMPLETION

1. To be valid this Form of Proxy must be deposited at the Registered Office of P W Corporate Secretarial (Pvt) Ltd, No.3/17, Kynsey Road, Colombo 8, not less than 48 hours before the time appointed for the holding of the Meeting.
2. The instrument appointing a Proxy shall in the case of an individual be signed by the appointor or by his Attorney and in the case of a Company / Corporation, the Proxy Form must be executed under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association or other constitutional documents.
3. If the Proxy Form is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy if it has not already been registered with the Company.
4. The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.

CORPORATE INFORMATION

Statutory Status

A Public Limited Liability Company incorporated in Sri Lanka on 3/9/1992 under the Companies Act No. 17 of 1982 and subsequently re-registered under the Companies Act No. 07 of 2007.

The Company was quoted on the Colombo Stock Exchange in 1993.

Registered as a Specialized Leasing Company under the provisions of the Finance Leasing Act No. 56 of 2000.

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

Board of Directors

Chairman

Mr. H. R. S. Wijeratne

(Non-Executive Director)

Deputy Chairman

Mr. U. Gautam

(Independent Non-Executive Director)

Mr. G. C. B. Ranasinghe,

Certificate in Leasing (USA)

(Independent Non-Executive Director)

Mr. J. C. Korale,

BSc. MSc. FCA.FCMA, ACI Arb (UK), LLB (Hons) London (Independent Non-Executive Director)

Mr. S. N. P. Palihena,

FCIB(London), FIB(SL), Post Graduate Dip in Business & Financial Administration (ICASL)

(Independent Non-Executive Director)

Mr. T.M. Wijesinghe

(Independent Non-Executive Director)

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. SJMS Associates (Chartered Accountants)
No. 11, Castale Lane, Colombo 04.

Tax Consultants

Amarasekara & Co (Chartered Accountants)
No 12, Rotunda Gardens Colombo 03.

Lawyers

M/S. De Livera Associates
Attorneys-at-Law, Solicitors & Notaries Public
No. 33 1/2, Shrubbery Gardens, Colombo 04.

Shiranthi Gunawardena Associates
Attorneys-at-Law & Notaries Public,
No. 22/1, Elliot Plae, Colombo 08.

M/S. Ganlaths

Attorneys-at-Law and Notaries Public,
M -8, Mezzanine Floor, Galadari Hotel, No. 64, Lotus Road, Colombo 01.

Bankers

Sampath Bank PLC
Commercial Bank of Ceylon PLC
Bank of Ceylon PLC
DFCC Bank PLC

Head Office

No. 282/1, CBS Building, Galle Road, Colombo 03.

Telephone : 094-114222888

Fax : 094-112574330

E-mail : smbhed@sltnet.lk

Web : www.smbk.com

Subsidiary Company

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

Associate Companies

SMB Securities (Pvt) Ltd.
SMB Real Estate Ltd.
Kenanga Investment Corporation Ltd.

Branch

Deniyaya Branch No. 11 A, Main Street, Deniyaya
Negombo Branch No. 15/15B, Station Road, Negombo.



SMB LEASING PLC

No. 282/1, CBS Building, Galle Road, Colombo 03.