

INSPIRING THE FUTURE



**SMB LEASING PLC**  
Annual Report - 2014

## 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

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## **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 from the head office 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 31st December 2014. 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/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, the 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 together with the related notes are audited by M/s. KPMG, Chartered Accountants, Sri Lanka and their Report is given on page 74 of this report.

## **Presentation**

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

## **Contact**

Questions and inquiries on this Annual Report 2014 and information presented therein are to be directed to:

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SMB Leasing PLC,  
No 110, D.S. Senanayake Mawatha ,  
Colombo 08, Sri Lanka.  
Tel: +94 11 4222888  
Fax: +94 11 2683709

# Financial Highlights

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## Financial Performance of the Company

Net Interest income

**Rs. 141 Mn**

3% Growth (2014 Vs 2013)

Net Operating Income

**Rs. 185 Mn**

1% Growth (2014 Vs 2013)

Profit Before Tax

**Rs. 86 Mn**

2% Growth (2014 Vs 2013)

Profit After Tax

**Rs. 79 Mn**

2% Growth (2014 Vs 2013)

Total Assets

**Rs. 1,263 Mn**

1% Growth (2014 Vs 2013)

Net Assets (Equity)

**Rs. 1,038 Mn**

8% Growth (2014 Vs 2013)

## Key Ratios

Basic Earnings per share

**Rs. 0.04**

Return on Equity

**8%**

Net Assets per share

**Rs. 0.57**

Price Earnings Ratio (Times)

**35**

Interest Cover (Times)

**3.7**

Debt/ Equity Ratio (Times)

**0.19**

# Chairman's Message

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As another fiscal year dawns, it gives me great pleasure to share the financial performance of SMB Leasing PLC for 2014.

## State of the economy

The world economy grew by around 3.3% in 2014 again primarily driven by the emerging and developing economies. The collapse of oil prices have had significant impact on those countries most reliant on oil, especially Russia whose economy has been worst affected. While the US is set to continue tapering its quantitative easing, Japan initiated a mammoth stimulus program to boost its economic prospects after another disappointing year. The US economy continued its strong rebound with key macroeconomic indicators like unemployment and GDP growth trending positively. Europe continues to struggle with several member debt crisis with the exception of the UK who has fared better than the mainland. Looking to India and China, things appear to be changing as sluggishness and imbalances in the Chinese economy have shifted interest to India whose economy is expected to perform much better in 2015 and beyond.

At home, the Sri Lankan economy grew 7.4% in 2014 compared to 7.2% in 2013. Strong macroeconomic fundamentals like low single digit inflation and unemployment continue to be conducive to growth and economic activity. Interest rates remained low throughout the year before further decreasing in Q1 of 2015. Despite this, credit growth has been anemic in the industry partly due to the impact of falling gold prices on pawning activity. FDI continued to lag while foreign reserves improved slightly. Improvements in exports could not lower the trade deficit while lackluster government revenue caused the current account deficit to increase to 1.3% in 2014.

The start of 2015 saw a shift in the political landscape in Sri Lanka which saw a new president take office. The financial consolidation proposed under the previous government does not appear to be a focus at the moment and it is still unclear what stance the new administration will take with regard to this. With the expectation of another general election looming later in the year, a dampening effect on the progress of the Sri Lankan economy is expected with forecasts of GDP growth for 2015 being revised downwards already.

## Performance for the year under review

Against this backdrop, SMB Leasing was able to post a Group profit after tax of LKR 86 mn, a 17% increase from last year. Our top line revenue fell marginally by 5% to LKR 172.4 mn while the group benefitted from lower interest rates during the year as interest expense fell 30% leading to a 3% growth in net interest income which stood at LKR 140.7 mn.

Fee based income improved 3% to LKR 3.9 mn while other operating income grew 35% to LKR 90.4 mn from LKR 66.6mn in 2013. The Group recorded a gain by way of a reversal to impairment charges of LKR 22.5 mn during the year. The asset base of the Group grew by just over 1% to LKR 1.3bn while liabilities fell 21% to LKR 236 mn from LKR 302.3mn in 2013. The strong performance of the Group helped retained earnings jump 464% to LKR 107.3 mn from LKR 19 mn a year earlier. Net asset value per share rose 11% to 59 cents per share.

Business operations during the year were affected by the requirements made by the fiscal consolidation process. As a company whose assets were below the required minimum, adherence to the consolidation required the company to take steps to capitalize the balance sheet and several options were looked into throughout the year. In all our deliberations with other parties, we were unable to materialize a deal that would be in the best interest of all the stakeholders of SMB Leasing.

I, along with our directors continue to believe in the strength of this company that we have built and firmly believe that there is more growth to achieve as an independent identity.

Due to the uncertainty brought about by the financial consolidation process, it was decided that SMB Leasing suspend its plans for expansion during the year pending the outcome of the consolidation process.

Our partnership with Lanka Ashok Leyland has been a very profitable venture and plans were underway to expand this relationship through a new five year supplier credit agreement. Going forward, SMB Leasing will pursue all previously suspended expansion plans. Therefore in keeping with the best practices

# Chairman's Message

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of corporate governance and in the interest of maintaining the integrity and independence of the chairmanship, I decided to step down from the position of chairman to facilitate and oversee business expansion between Ashok Leyland and SMB Leasing as I also serve as the CEO of Lanka Ashok Leyland.

In my time as director and then chairman, this company has seen a dramatic and visible turnaround in fortune from an operating loss and negative asset value to growing profits, a clean balance sheet and a sustainable growth trajectory. Being a part of this experience and playing an important role in this chapter of this firm's history has been a privilege and I am very fortunate to have served as the Chairman of the board.

After years of stagnant wages we raised salary scales across the board to all the staff who have been instrumental in the progress of this company. They have stood with the company loyally through the years and I would like to extend my sincere gratitude for all of their continued efforts and service in rebuilding this institution. To my fellow board of directors, I thank you for all your guidance and wisdom this year in helping assess the many options and paths that lay ahead for SMB Leasing. Our thanks to Central Bank of Sri Lanka, our bankers, suppliers and partners for their continued trust and confidence in us.

To our shareholders, we are indebted to your patience and commitment to us. As I proudly reflect my time as Chairman, of the many objectives I set out for my tenure here my one shortcoming or regret I will carry with me is the lack of return I was able to generate for shareholders. For this I humbly apologize, and share this with you to reinforce SMB Leasing's commitment to reward all our stakeholders. I assure shareholders that their faith in us will not go unsung as I hand over the chairmanship with effect from 3rd December 2014, to my successor, Mr. Ravi Wijeratne who has been with the company over the last few years and has served the board diligently with his wealth of business acumen. I wish him the best of luck and am confident this company will reach new heights under his leadership.

Finally our sincerest appreciation to all our customers who continue to be the bedrock of this company. It has been an honor serving you and I am optimistic that 2015 will bring about more good fortune to all of us.



**Umesh Gautam**  
Immediate past Chairman

Colombo  
23rd May 2015

# Chief Executive Officer's Message

As the Chief Executive Officer of your Company, it is indeed my pleasure and privilege to present a brief report of the progress the Company has made during the financial year 2014.

In the backdrop of the impending mergers between financial institutions, as per the directive of the Central Bank of Sri Lanka, the past financial year was one of firm consolidation and stable growth. The Company achieved all its financial objectives reiterating its status quo as one of the most respected and stable players in the non-banking financial sector of Sri Lanka.

## The Economic Environment

The first half of 2014, saw the Sri Lankan economy recording a sustained GDP growth of 7.7%. This was a slight increase compared to the 7.5% GDP recorded the previous year. The main driver for this sustained growth in the economy was the industry sector, which grew at a 12.4% rate compared to 2013. The Services sector in Sri Lanka also recorded a growth of 6.1% as a result of the expansion of wholesale and retail trade.

Infrastructure facilities in the country continued to grow rapidly, literally paving the way for improved efficiency in all facets of life. The effectiveness of the financial system plays a major role in endorsing the economic growth of any country, and Sri Lanka is no different. The country's inflation levels have significantly decelerated within the last three years and the core inflation remained below 5% during the year under review. This has actually been the longest period, in which the inflation level of the country's economy has remained at a single digit level.

## Our Focus

From the beginning of the last financial year, the SMB Leasing PLC's main focus was on the imminent merger with another financial institution, adhering to the directive by the Central Bank of Sri Lanka. The Board took a collective decision to brace ourselves for this change by consolidating and stabilising the current asset base. This safe and practical approach ensured a steady growth for the Company yet again. The Company focused greatly on customer retention and increasing service levels. To this end, all our team members 'walked the talk' and went that extra mile to keep our much valued customers happy. Our consistently steady performance in an absolutely competitive industry bears ample testimony to this.

The management helped equip our staff members through a variety of training and mentor programmes to improve their technical as well as their soft skills.

## Financial Performance

Yet again, I am happy to announce to you that all key ratios of the Company were maintained at positive levels throughout the year as well as at the year end. The total asset base of the company reached Rs. 1,263 Million a growth of 1% while the net asset position reached a markup of Rs. 1,038 Million as at the end of year 2014 a healthy growth of 8%. This increase in net assets is reflective of the increase of Rs. 84 million in retained earnings by the year end, which is a 606% increase with compared to last financial year.

The Company's Profit Before Tax was Rs. 86 Million, a 2% growth compared to last year while the Profit After Tax was Rs. 79 Million, a

growth of 2% compared to last year. The Company's total Comprehensive Income increased to Rs. 78 Million, a growth of 1% compared to the previous financial year. The increase in net interest income combined with effective credit recovery and expense management could be attributed to this growth.

Our Non-Performing Loan Ratio (NPL) of the new portfolio maintained its 'above-industry-norm' levels during the financial year 2014. SMB Leasing's NPL Ratio of the new portfolio for last year stood at below 1%, yet again confirming the hands-on and progressive credit criteria and recovery policies adopted by the Company's management. With a total asset base of Rs. 1263 Million, we can assertively say that SMB Leasing PLC is geared to face the challenges of 2015 with absolute confidence.

## Acknowledgements

I would be failing in my duty as a leader if I do not acknowledge and place on record my sincere and profound gratitude to all those who were instrumental in guiding our Company during this year of consolidation and growth.

To our Chairman and the Board of Directors, thank you for the astute leadership and direction given to me and our Senior Management to guide our ship through often turbulent and challenging waters, in to a position of great strength. My deep gratitude goes to the Senior Management of the Company for their persistence and perseverance, constantly and wholeheartedly backing the decisions the Board of Directors ensuring all objectives are met across the board.

I would also like to take this opportunity to thank the Central Bank of Sri Lanka and all the statutory and regulatory bodies in Sri Lanka for their progressive and incisive policy directions and regulations as well as their efforts in creating a 'level playing field' in Sri Lanka's financial services industry. Your efforts have indeed created greater discipline and have been successful in making the market place conducive to growth.

I simply have to thank my loyal and dedicated staff for the fervent passion, persistence and 100% commitment in all spheres of the Company's operations. You are the life blood of this organisation and I would like to thank you all from the bottom of my heart for all the successes you have led the Company to not only during last year, but in previous years as well.

And last but not in the very least, to all our valued customers, business partners and all other stakeholders, we really value and cherish the partnerships we have built with each and every one of you. We are passionate in satisfying your needs and consistently achieving our corporate mission and objectives, ensuring that the top line and bottom line is constantly met.

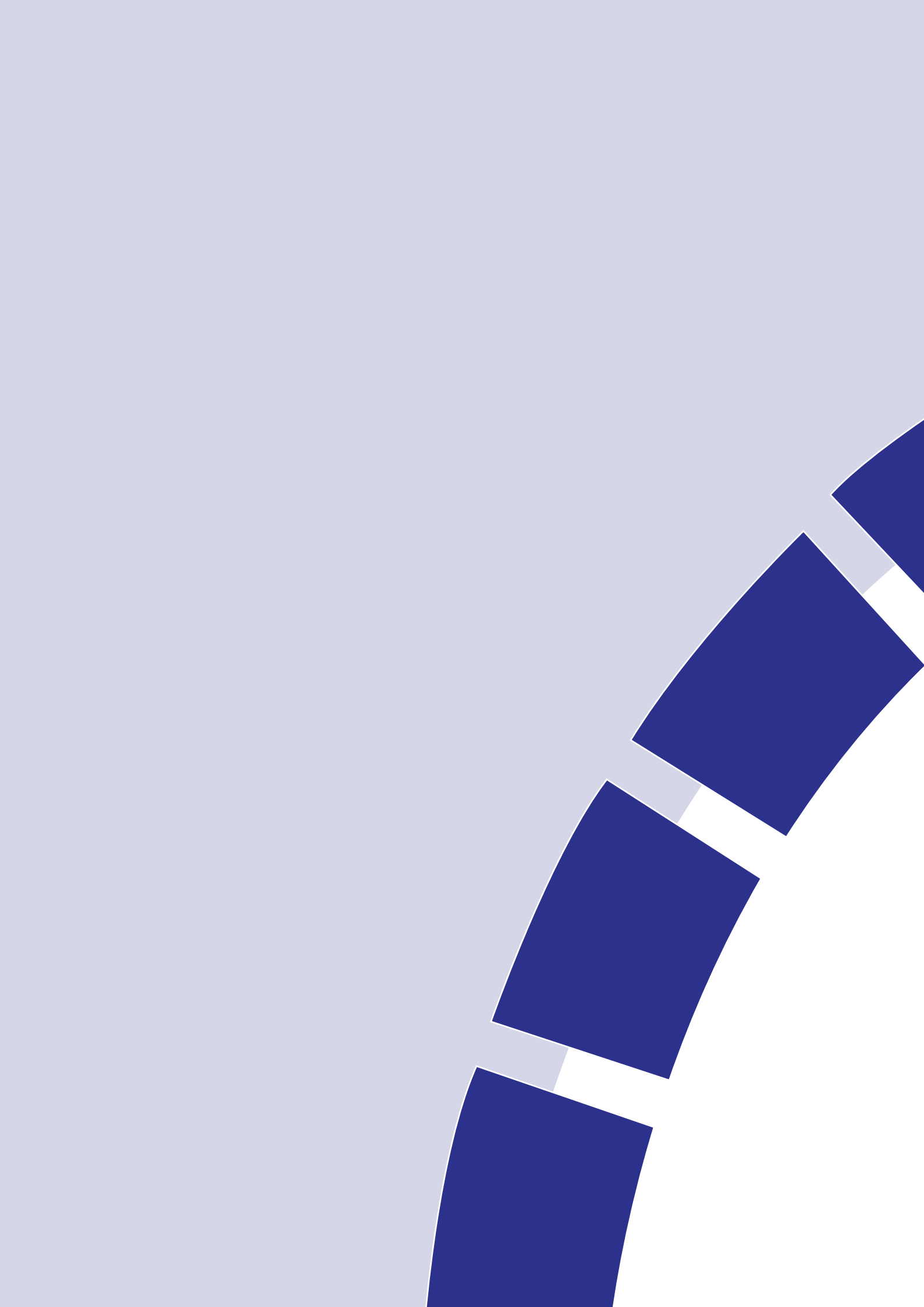
Let us strive forward with renewed fervour and vigour with our efforts in 'Inspiring the Future'.

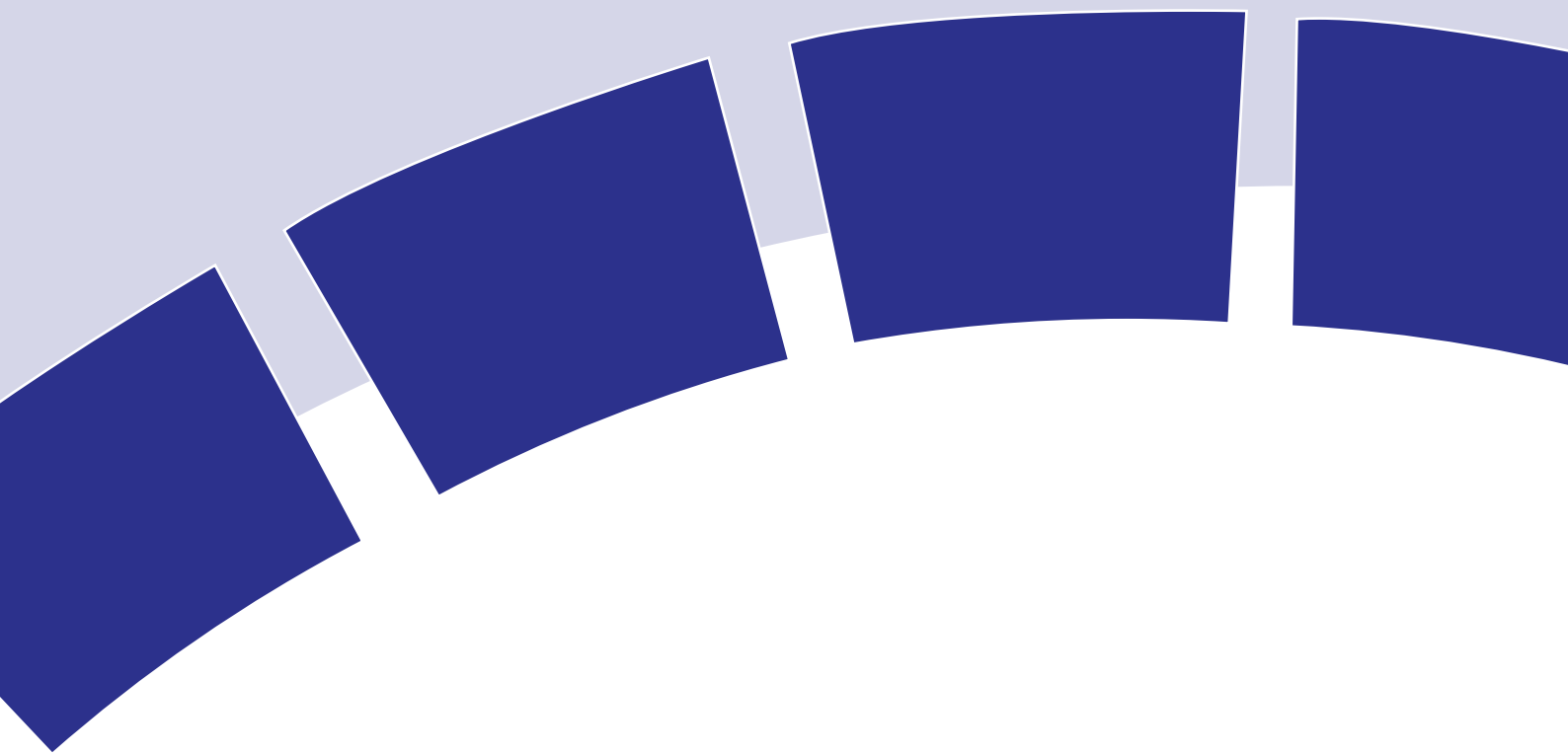


**M. J. N. S. Fernando**  
Chief Executive Officer

Colombo  
23rd May 2015



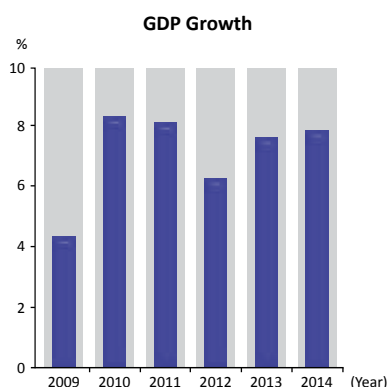




# Management Discussion & Analysis\_\_\_\_\_

# Economic Outlook & Business Environment

Sri Lankan economy recorded a GDP growth of 7.7% in the first half of 2014 compared to 7.5% the last year. The economic growth of the country was mainly driven by the industry sector, which grew at a pace of 12.4% compared to 2013. Services sector recorded a growth of 6.1% as a result of the expansion of wholesale and retail trade.



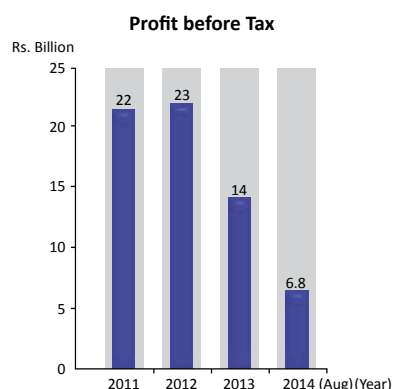
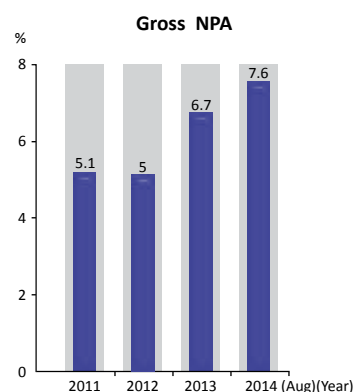
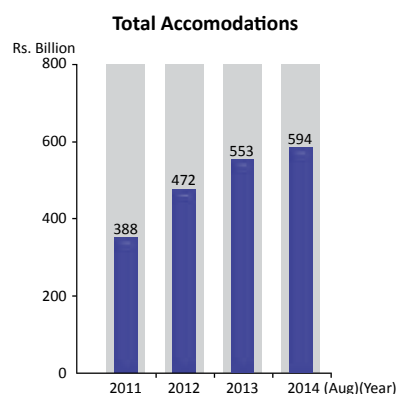
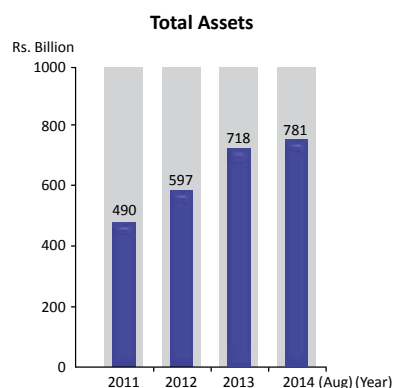
Source, Central Bank of Sri Lanka, \*First half 2014

The infrastructure facilities of the country are continuously improved within the last five years enhancing efficiency. The effectiveness of the financial system plays a major role in promoting economic growth of the country.

Inflation decelerated significantly within the last three years and core inflation remained below 5% during the year. This has been the longest period, which inflation has remained at a single digit level of the economy.

The present Licenced Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector in Sri Lanka is dominated by a few big players who own almost 61% of the total asset base. There are ten (10) institutions which exceed rupees 20 billion asset base. Even though there are 57 LFCs and SLCs in the finance sector, the total asset base of the sector is equal to asset base of a big private sector commercial bank in Sri Lanka. The total asset base of the sector expanded by 9% to Rs.781.1 billion within the first eight months of 2014. The sector non-performing loans continued to show an increasing trend during the year.

## Analysis of LFCs and SLCs performance



# Economic Outlook & Business Environment

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The product portfolio of the LFCs and SLCs consists of finance leases, loans and advances, hire purchases, pawning advances, loans against real estates and loans against deposits. The above 'Total assets' graph shows an incremental trend of the asset base and the accommodations of the sector during the last five years. The most significant fact is profit before tax of the sector is starting to deteriorate after 2012 even though there is a substantial improvement in the asset base, caused by reduction in interest rates and increased NPA ratios.

Under these circumstances, Safeguarding asset quality while maintaining a healthy average rate of return was a challenge which the company was able to address effectively. We continue to sustain a healthy non performing loan ratio for the facilities granted within last three year period. Our concentrate on credit sanctioning together with close monitoring recovery processes have been key strengths that contributed to our success.

We implemented a selective strategy in response to the external environmental factors that prevailed during 2014. A key area of focus was maintaining asset quality with limited business volumes and improving the profitability. Specialist concentration on debt collection played a key role in the growth of business profit as we were able to reverse a substantial amount of provision for impairment on loan and advances.

Competition in the industry has increased due to banking institutions entrants into the market and seeking to offer similar products at a lower rate. This has been a significant challenge to the operations and maintaining interest margins. Our strategy in this respect was to lend limited amount of funds while maintaining a healthy return.

We also focussed on the growth through a technological enhancements which will improve the service quality of the company. Our core impression of the technological improvement is to provide more efficient service to the valuable customers and to provide easy access of information to the regulators.

Compliance with regulations is a main priority at the company and is monitored at the highest levels by the Board Audit Committee and the Board Risk Management Committee which report to the Board of Directors on a regular manner. The investment in new software will assists in complying not just the regulatory requirements but to provide more prudential guidance of required information.

The core of marketing strategy lies in the employees who are empowered with experience, skills, responsibility and commitments to go beyond their job expectation. It is essential to have a good teamwork to achieve a common goal or resolve a critical issue. Our employees are coordinating and supporting as a team to achieve common goals of the company. SMBL leveraging its size to maintain a good relationship with its customers while tailor making financial product to fit their requirement.

At present, SMBL operates with one branch in Deniyaya. Not having a widely spread branch network has become a main hurdle for business expansion. The company has addressed this issue and is in the process of designing an expansion plan.

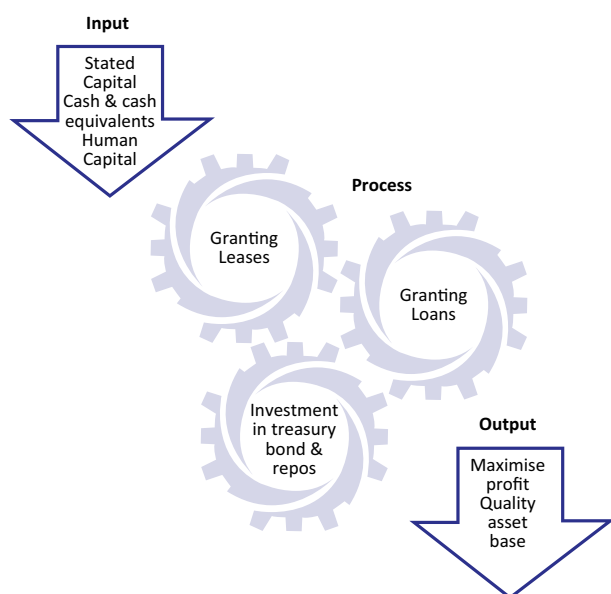
Next year is going to be a challenging period, narrowing of interest margin, lower demand for credit and increased competition would force SMBL to enhance business volumes. Our focus is to enhance loan and advances portfolio through the corporate borrowing sources.

# Operational Review

We have continued our performances on many fronts, through a challenging operating environment. Relevant measures were taken to strengthen our financial position which fell short of our high expectations. The below figure depicts the strategy of the company and areas of growth while considering risk appetite linked to support services to realize the defined growth.



Operational efficiency defines the capability of an institution to implement its positioning plans while sustaining a healthy steadiness between cost and productivity. The operational efficiency of SMBL is concerned with detecting inefficient processes and financial resources that reduce the institution's profits. SMBL's operational efficiency is based on the maximum utilization of the financial resources while delivering the best fit financial services to customers.



Some of the products we offered to our customers during the year 2014 were as follows.

## SMBL Lease

SMBL lease is designed for busy executives of all levels working in the private and public sector and also entrepreneurs who are engaged in small and medium scale business. Highly customer oriented product, processing method and the minimum documentation make this scheme simple.

## Quick Cash Loans

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

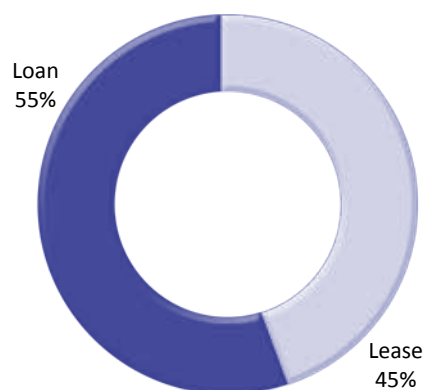
## BIZ Cash Loans

This is an immediate solution to the liquidity shortages of small and medium scale business. Minimum documentation is the key feature of this product.

## SMBL Term Loans

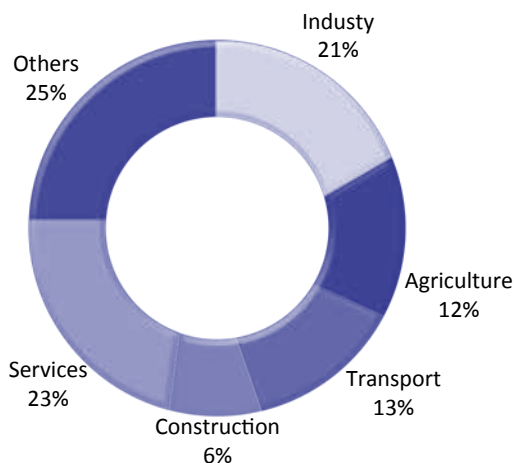
A loan scheme is designed to suit a variety of individuals and corporate customer requirements. Unique features include flexible repayment period with higher credit exposures.

## New lending 2014-Product Wise

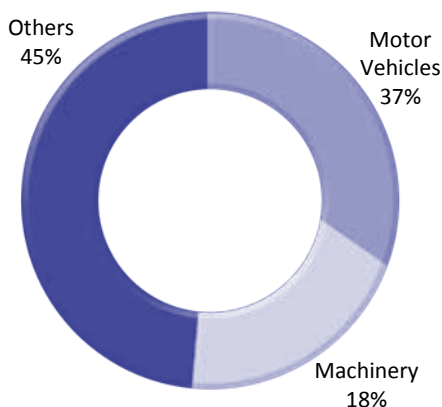


# Operational Review

## New Lending 2014-Sector Wise



## New Lending 2014-Equipment Wise



Decline in the interest rates of the leasing market was forced us to grant more loan facilities than the leases in the year 2014, with a high yield. Also, we emphasis towards promoting loan products for the personal and business purposes of our clients.

We adopted a two pronged approach to sustain the quality of the lending portfolio and maintain a healthy rate of return. The company did not pursue an aggressive growth in leasing portfolio in 2014. A value added service was offered to a limited number of customers with a higher concentration on credit worthiness. The downward shift in interest rate created an opportunity for the company to exploit demand for mortgage and other loans. During the year, we promoted our personal loan "Quick Cash" which offer to the government and private sector employees.

The key to our success in 2014 was our rigorous and continues monitoring of the recovery process with greater concern for our customers. As a result of that we were able to manage our NPLs of the new portfolio (facilities granted after 2010) in a satisfactory manner at 1.53%. The highest concentration on the credit process assists to curtail new additions to the NPL portfolio. The company expedites legal recovery process in 2014 and it was initiated to recover hard core defaulters. Furthermore, during the litigation process, we attempt to enter into the settlements through cordial discussions had with default customers.

Our focus in 2015 will be to enhance the lease portfolio offering competitive interest rates. Further, our expectation is to expedite the growth of the asset base with a well formulated business strategy. In line with this, our intention is to diverse the product portfolio, which enhance our accessibility to a wider market. Cost management will remain as the first priority of the company and our intention is to further drill down the cost drivers. The company will continue to develop resources, maximize profits and maintain good governance which will improve trust among the customers.

# Financial Review

## Overview

This review provides an overview of financial results of the Company for the year 2014.

SMB Leasing PLC which has been a long established Company in the NBFI sector in the Country, completed yet another successful year in operation.

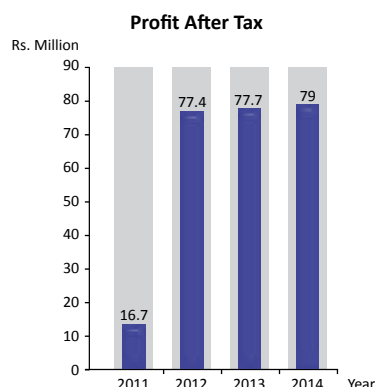
Strengthening the financial position of the Company, the total asset base reached to Rs.1,263 million and at the same time the net asset position reached the markup of Rs.1,038 million as at the end of year 2014. The increase in net asset position is 8% with compared to last year net asset position of Rs. 960 million. The increase in net assets is due to the increase in retained earnings by Rs. 84 million by the year end, which is a 606% increase with compared to last financial year.

All key ratios were maintained at positive levels through the year and as at the year end.

## Profitability

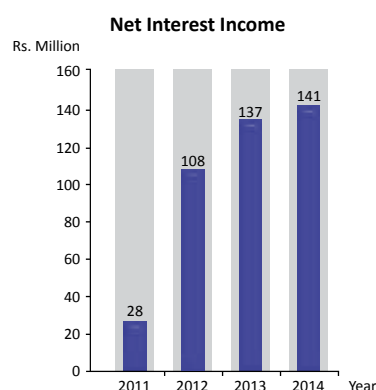
The Company continued with its growth momentum and recorded a commendable pre tax profit of Rs. 86 million and post tax profit of Rs. 79 million for the financial year ended 31st December 2014. This reflects 2% increase with compared to last financial year.

This growth was led by increase in net interest income coupled with effective credit recovery and expense management.



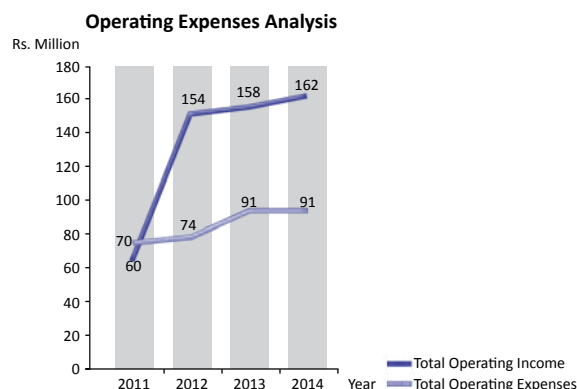
## Net Interest Income

The Company recorded a net interest income of Rs. 141 million as against the previous year's of Rs. 137 million which is a 3% increase. Despite the decline in market rates, both borrowing and lending rates the Company was able to uphold a good balance between the lending and borrowing rates resulting in high net interest income.



## Operating Expenses

Operating expenses comprise personnel expenses and other administration expenses. Personnel expenses were increased by 11% with the increase in salary related expenses. The other administration expenses reduced by 9% due to expense management adopted by the Company in year 2014.



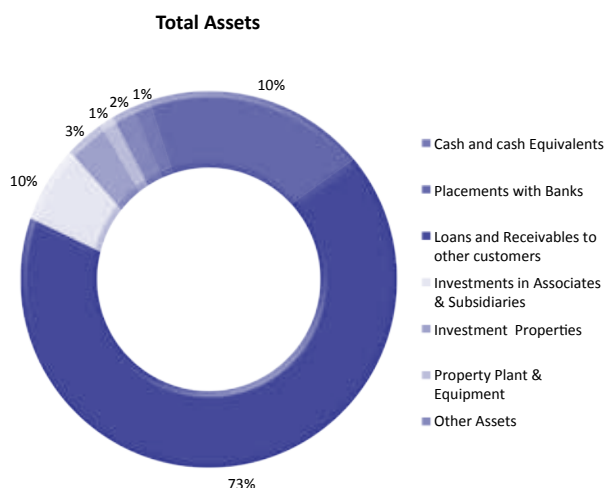
# Financial Review

## Taxation

According to the applicable tax rules, the Company's profit is taxed at 28%. The income tax expense of the Company for the year ended 31st December 2014 amounted to Rs. 6.7 million while Rs. 6.4 million in last financial year.

## Total Assets

The composition of the Total Assets as at 31st December 2014 is as follows.



The highest category is reflected by Loans & Receivables to other customers which is 73% of the Total Assets. This balance consist of receivables from Leases and Loans. The company was able to maintain the Lease and Loan portfolio at Rs. 924 million with an insignificant variance with compared to last financial year.

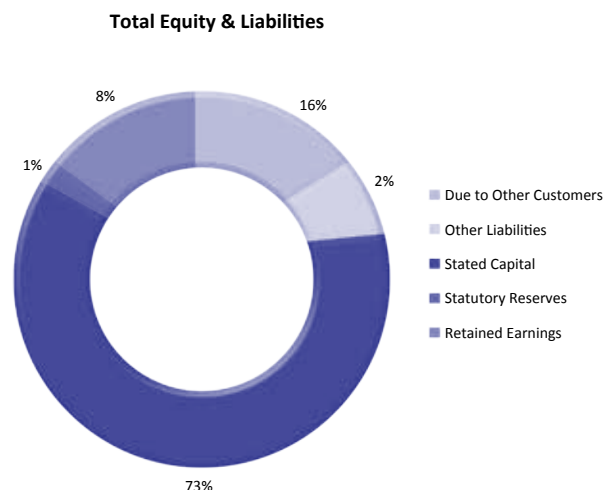
Investments in Subsidiaries and Associates and Placements with Banks shows the next highest category which is 10% each. The placements with banks have increased by 26% due to the increase in Repo investments.

Cash and cash equivalents is of 1% of the Total Assets. This consist of current accounts with banks and cash in hand. Total cash and cash equivalents balance has increased by 10% due to increase in cash at bank.

Other Assets which is 2% of the total assets have increased by 26% due to increase in trading stocks at the year end.

## Total Equity and Liabilities

The composition of the Total Equity and Liabilities as at 31st December 2014, is as follows.



The highest category is Stated Capital which is 73% of the total Equity and Liabilities. This consist of 1.8 billion ordinary shares.

The amounts due to Other customers is 16% of the total Equity and Liabilities. This balance consist of the amounts payable on Debentures and Promissory Notes.

Retained Earnings is 8% of the total Equity and Liabilities. Retained Earnings has increased by 606% with compared to last financial year due to recorded profit after tax of Rs. 79 million in year 2014.

Other Liabilities which is 2% of the total Equity and Liabilities does not show a significant variance with compared to last financial year.

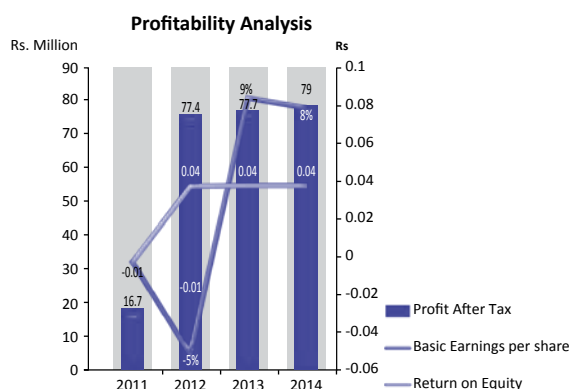
The Statutory Reserve Fund is 1% of the total Equity and Liabilities. This has been created as per the Finance Leasing (Amendment) Act No 24 of 2005. 5% of the net profit for the period is transferred to Statutory Reserve Fund annually, as per the said regulation.



# Financial Review

The following key ratios further elaborates the financial performance of the Company.

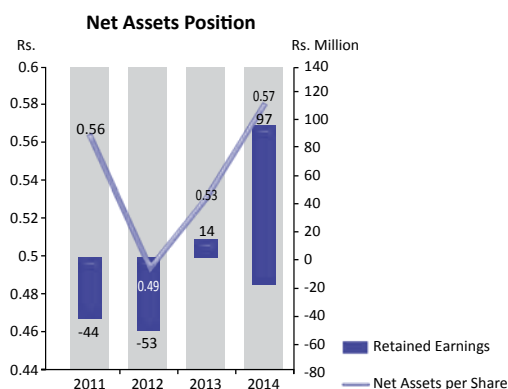
Basic Earnings per share and Return on Equity shows an upward trend as the profitability has increased over the past financial years.



The increase of market price per share along with the earnings per share has resulted to an upward trend of Price Earnings Ratio.

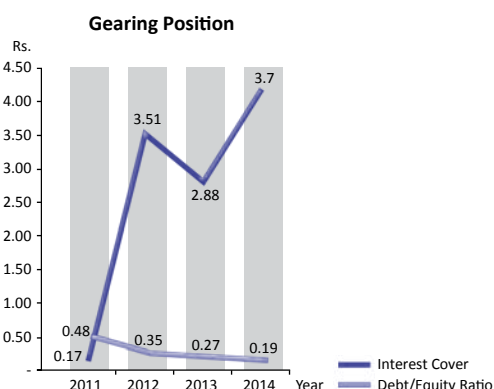


The net assets per share has increased due to the increase of Retained Earnings over the past financial years.



The increase of Profit before interest and tax and decrease in interest expenses has shown an upward trend in the interest cover ratio.

Due to continuous settlement of borrowings along with the increase of equity has led the debt equity ratio to be dropped timely.



# Financial Review

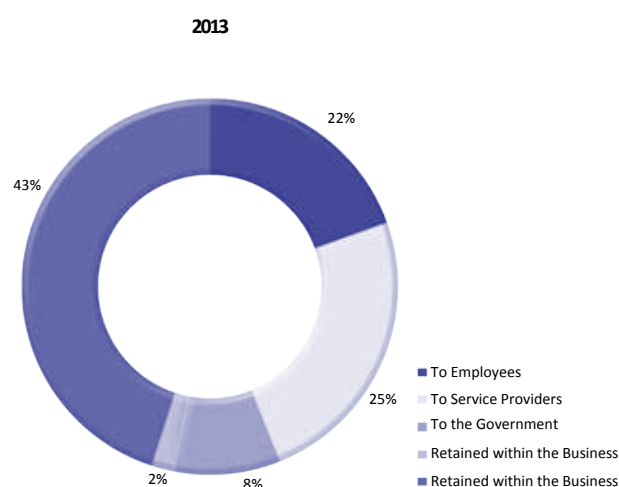
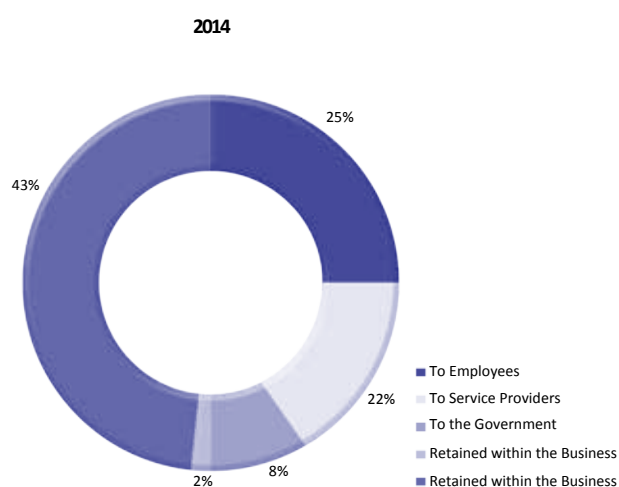
## Value Added Statement

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.

For the Year Ended 31 December

	2014 Rs 000	2013 Rs 000
<b>Value Addition</b>		
Interest Income	172,442	182,024
Interest Expense	(31,646)	(44,868)
<b>Value Added by Financial Services</b>	140,796	137,156
Other Income	21,506	21,022
Impairment Charges	22,660	24,456
	184,962	182,634

Distribution of Value Addition		Rs 000	%	Rs 000	%
To Employees	Salaries & Other Benefits	45,899	25%	41,293	22%
To Service Providers	Overhead Expenses	41,139	22%	45,304	25%
To the Government	Taxes	14,662	8%	13,861	8%
To maintain Operations	Depreciation	4,258	2%	4,424	2%
Retained within the Business	Retained Earnings	79,004	43%	77,752	43%
		184,962	100%	182,634	100%



# Human Capital Management

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SMB Leasing PLC's, strength compresses of highly motivated and committed staff to ensure a consisted quality services being extended to our valuable customers. Our employees clearly understand the core objectives of the organization with the defined goals and their individual contribution towards the achievement of the set goals. Management believes, a high level of employee commitment is key to turnaround the Company to a stable position. We have provided many platforms for formal and informal engagement among the employees to achieve our strategic initiatives.

The management always perceives employees as one of the most valuable and respected stakeholders of the Company. We create a learning culture within the organization to attain their professional goals and experience. Out of 39 total staff members, 87.18% of the employees are confirmed in the organization which enables them to take ownership of their commitment towards the Company.

We have taken steps to train our staff on the job internally and by external professional bodies, especially on job related and skill development programs to make sure our staff acquires the necessary knowledge and development to meet company goals and objectives. As a specialized leasing establishment registered under CBSL, we always encourage employees to participate in the CBSL training sessions.

We allow employees to work independently with minimum supervision. The management encourages bottom up strategic planning, business development and cost engineering processes. Further, management culture encouraging greater autonomy to the employees.

We strongly believe that the knowledge sharing and empowerment are enabling each staff member to contribute his/her skills, commitment and talent towards sustaining high performance and achieving Company growth.

The Company has extended our staff with a health insurance policy and an attractive remuneration package in par with industry. Our recruitment process has strengthened the company by recruiting qualified, professional, experienced and best track record holders strengthen the Company's mission.

As a policy Company is guided by the principles of equal opportunity. Management encourages the female recruitment. There were no reported incidences of discrimination during the year. The Company has adhered with labor laws & regulations and complied with all its statutory obligations during the year under review.

Sports & welfare society of the Company with the assistance of HR department & management Organized inter department cricket match & christmas get together during the year with the aim of building communal culture.

Bi-annual performance appraisal system of the organization enables to recognize the high performers and reward them while identifying the areas which need training & development to strengthen the staff.

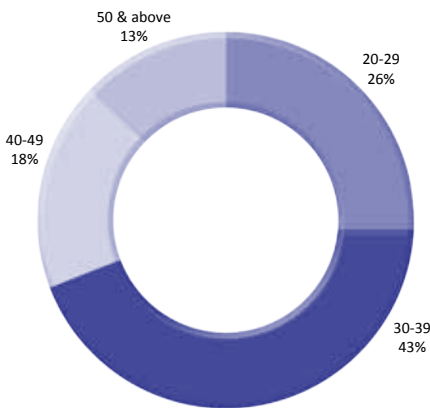
SMB Leasing PLC provides equal opportunity to employees. Our team is diverse in terms of gender, age and experience. The overall female participation of the team is 31%, although the participation rate declines in the higher level of management. 69% of the workforce is falling to less than forty years of age category and over 74% of identified category is over thirty years of age. Also 74% of the workforce counts over two years experience and in that category 72% counts over five years and 10% has over ten years of experience. In SMBL, we retain a well experienced and relatively young employee population with a correct combination of gender.

# Human Capital Management

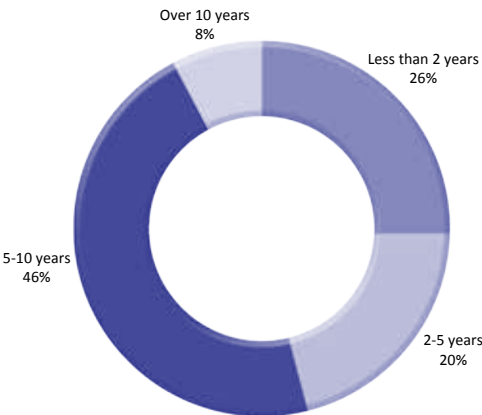
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We evaluate individual talent and encourage and implement new ideas of the employees through the continuous monitoring process. Appropriate development action plan is in place to uphold values of the employees.

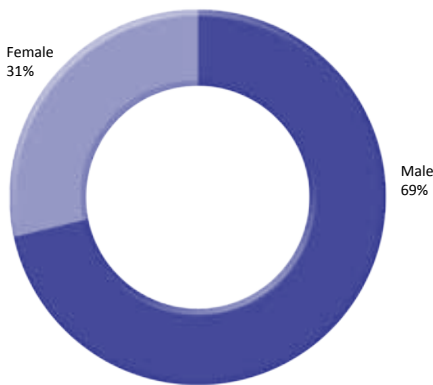
Age Analysis of Employees

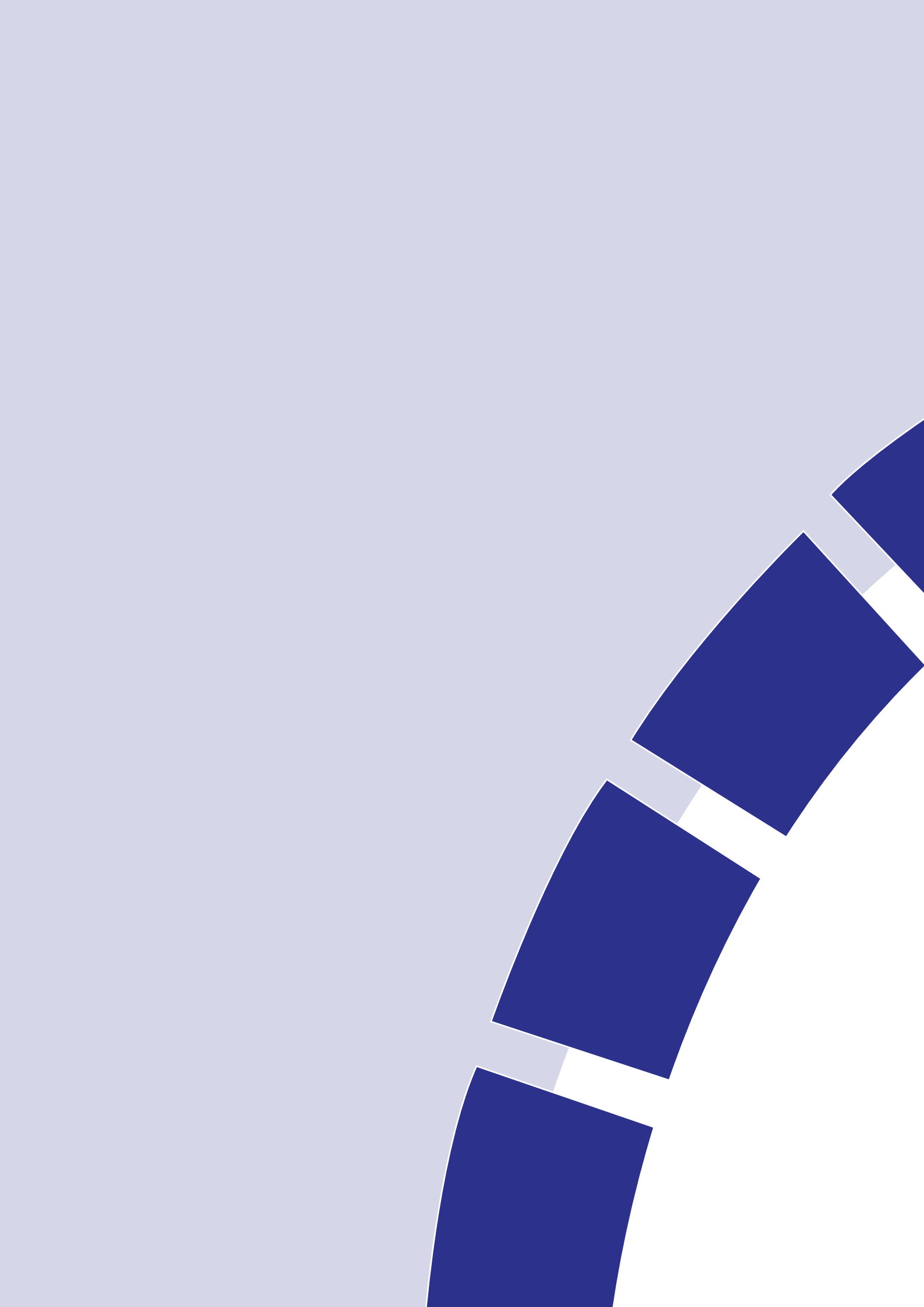


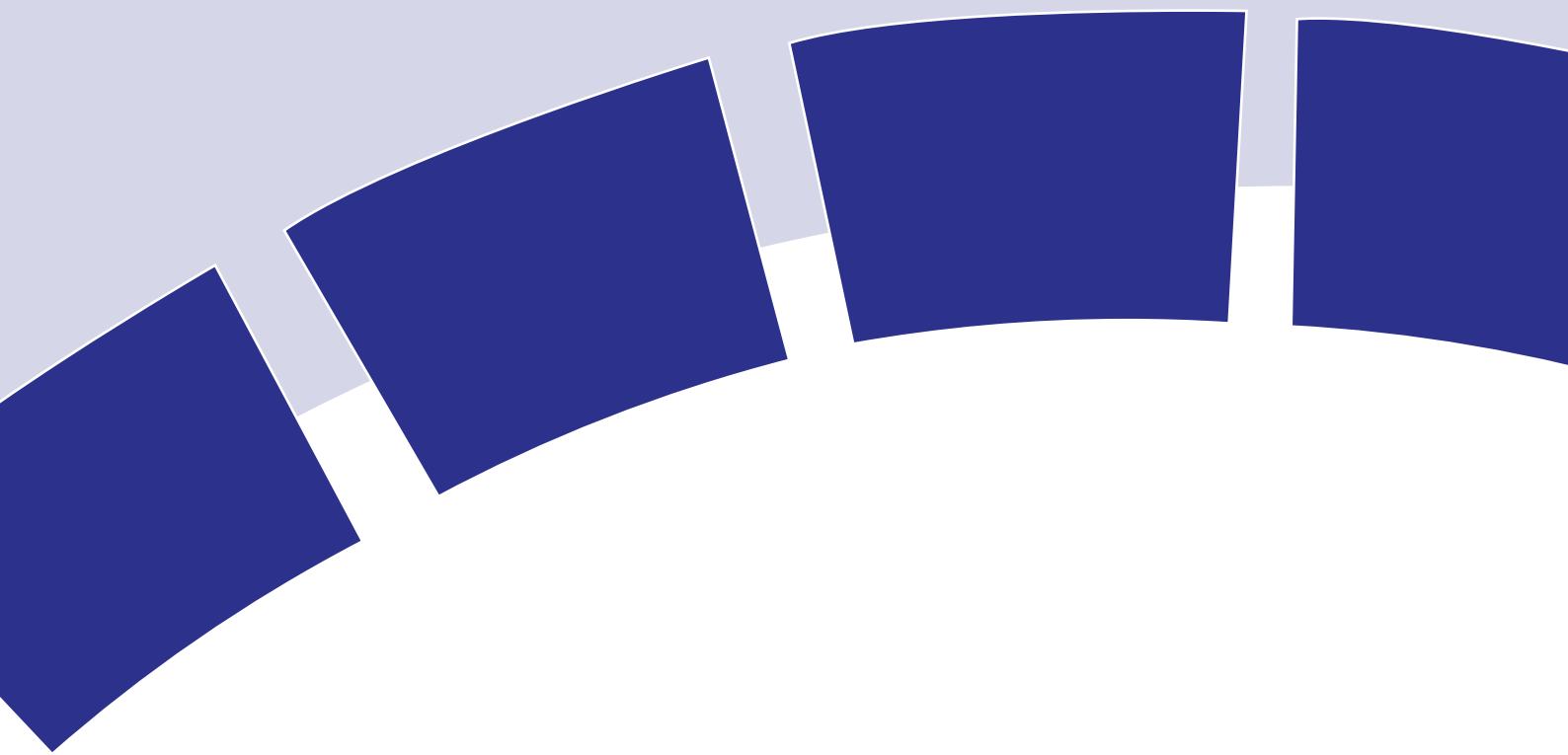
Experience Analysis of Employees  
(Within the company)



Composition of Employees







# Corporate Stewardship

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# Board of Directors

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## **Mr. H. R. S. Wijeratne**

### **Chairman**

### **Non-Executive Director**

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

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

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

## **Mr. U. Gautam**

### **Non-Executive Director**

Mr. 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. 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. G. C. B. 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. J. C. Korale**

### **BSc. MSc. FCA. FCMA, ACI Arb (UK), LLB (Hons) London**

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

Mr. J. C. Korale joined the Board of SMB Leasing PLC in November 2010 and holds a Bachelor of Science Degree from the University of Kelaniya and a Master of Science Degree from the University of Moratuwa 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 also held the position of Vice Chairman of the National Contractors Association of Sri Lanka and was a founder Director of the Advance Construction Training Academy.

Mr. Korale has extensive exposure to Finance, Audit and other industries and acts as an Independent Management Consultant and a practicing Arbitrator.

## **Dr. T Senthilveri**

### **Non-Executive Director**

Dr. T. Senthilveri serves on the Boards of C T Land Development PLC, C W Mackie PLC, Nawaloka Hospitals PLC, FLC Hydro Power PLC, Vidullanka PLC, Orient Garment PLC, Kelani Valley Canneries and several subsidiaries and associate companies. He counts over four decades of active engagements in Manufacturing, Trading, Land Development, Power & Energy Sectors, Industrial Turnkey Projection, Construction and Management.

# Board of Directors

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## **Mr. S. N. P. 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. T. M. Wijesinghe**

### **(Alternate to Mr. H. R. S. Wijeratne, Chairman)**

### **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 Price Waterhouse Coopers, 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 TWCorp (Pvt) Ltd, a real estate focused investment advisory and development management company, Digital Commerce Lanka (Pvt) Ltd, an e-commerce partnership with Dialog Axiata PLC, and Sapphirus Lanka (Pvt) Ltd, a company exporting precision manufactured sapphire to premium international jewelers. He is also on the Board of leisure companies affiliated to MJF Group, makers of Dilmah Tea and several other public and private companies.



# Corporate Management

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

Mr. M. J. N. S. Fernando holds an MBA from University of Wales, UK, and also a Certified Management Accountant (CMA), Australia.

Mr. M. J. N. S. Fernando counts for over 30 Years experience in the Financial Service Sector. He also serves as a Director of Leasing Association of Sri Lanka and a Director of Financial Ombudsmen of Sri Lanka.

**Mr. P. V. Ranasinghe**  
**General Manager - Credit & Collection**

Mr. P. V. Ranasinghe holds an MBA from University of Cardiff Metropolitan, UK.

Mr. P. V. Ranasinghe counts for over 30 Years experience in the Financial Service Sector.

**Ms. S. Gunathilake**  
**Head of Finance**

Ms. S. Gunathilake holds Bsc. Accountancy and Financial Management (Special) Degree from University of Sri Jayewardenepura, Sri Lanka and also an Associate Member of the Institute of Chartered Accountants of Sri Lanka.

Ms. S. Gunathilake counts for over 15 Years experience in Audit and Assurance and Financial Service Sector.

**Mr. M. Welagedara**  
**Head of Legal & Human Resources**

Mr. M. Welagedara is an Attorney-at-Law, Notary Public, Registered Company Secretary & Commissioner for Oaths.

Mr. M. Welagedara counts for over 12 Years experience in the fields of same.

**Mr. R. M. Weerackoon**  
**Head of Information Technology**

Mr. R. M. Weerackoon holds an MSc degree in Information Technology & Management at Keele University, UK, and also a member of Computer Society of Sri Lanka.

Mr. R. M. Weerackoon counts for over 30 Years experience in many industries in the field of IT.

**Mr. H.A.U.C. Wijesinghe**  
**Head of Sales and Marketing**

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

Mr. H.A.U.C. Wijesinghe counts for over 15 Years experience in the fields of same.

# Corporate Governance and Compliance

Corporate Governance is the process by which companies are directed and controlled by the Board of Directors in the best interest of the stakeholders ensuring greater transparency, 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 three 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 31st December 2014 was as follows.

No. of Members	6
Executive	Nil
Non Executive	6
Independent	3
Non Independent	3
Gender Representation	
Male	6
Female	Nil

### Responsibilities of the Board

The ultimate responsibility of all operations of the Company and accountability to the stakeholders lies with the Board of Directors. Matters reserved for the Board and the sub committees and those delegated to the management are clearly defined.

The Boards involved and ensures,

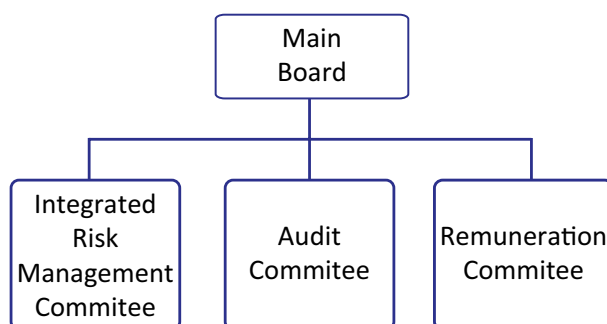
- \* Formulating corporate strategy & strategic direction of the Company
- \* Monitoring the effectiveness of the Company's risk management strategy
- \* Compliance with ethical and legal standards
- \* Reviewing the integrity of the Company's Accounting and Financial Statements
- \* Approval of Financial 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

# Corporate Governance and Compliance

## Meetings

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

### The Board Sub Committees as at 31st December 2014.



### Attendance of Directors at Meetings as at 31st December 2014.

Name of the Director	Status	Main Board	Audit Committee	Integrated Risk Management Committee
<b>Total Number of Meetings</b>		<b>12</b>	<b>14</b>	<b>4</b>
Mr. H R S Wijeratne	NED	10	N/A	N/A
Mr. T. Senthilvel	NED	09	N/A	N/A
Mr. U. Gautam	NED	11	N/A	N/A
Mr G C B Ranasinghe	INED	08	6	N/A
Mr. J. C Korale	INED	12	14	4
Mr. S.N.P Paliyana	INED	11	14	N/A
* Mr. M. S. I. Peiris	ED	06	N/A	N/A

NED-Non Executive Director, INED-Independent Non Executive Director, ED- Executive Director

N/A - Not a member of the Committee

\* Mr. M. S. I. Peiris ceased to be a Director in terms of Article 85 (g) of the Articles of Association of the Company with effect from 01st July, 2014

# Corporate Governance and Compliance

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## **Appointments to the Board.**

The Company does not have 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 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 for both existing and potential shareholders

## **\* Website**

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

## **\* Shareholder Meetings**

The Company considers the Annual General Meeting (AGM) and other general meetings to be the formal opportunity for dialogue and communication between the Company and its shareholders. The Board welcomes questions from shareholders who have an opportunity to raise issues at shareholder meetings.

## **\* Corporate Disclosures**

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

## **\* Enquires by Shareholders**

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

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

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

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

Telephone 011-4640360-3

# Corporate Governance and Compliance

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

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

# Corporate Governance and Compliance

The Company's compliance with the Finance Leasing Direction, No 04 of 2009 on Corporate Governance 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.

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
<b>-2</b>	<b>The Responsibilities of the Board of Directors</b>		
-1	Strengthening the safety and soundness of the Company	Compliant	The board engages in the strategic planning and control of company by overseeing the formulation of business objectives and targets, assessing risks, evaluating the effectiveness of the internal controls by engaging qualified and experienced personnel and delegating them with the authority for conducting operational activities and monitoring the performance through a formal reporting process.
-2	Appointment of the Chairman and the Chief Executive Officer and defining and approving their functions and responsibilities.	Compliant	The roles of chairman and Chief Executive Officer are segregated at SMB Leasing PLC. The main responsibility is to lead direct and manage the board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. The roles of the chairman and CEO are separated. The role of the CEO is to manage the day to day running of the Company. The board has delegated this responsibility to the CEO and he then leads the corporate Management team in making and executing operational decisions.
-3	Availability of a procedure determined by the Board to enable directors to seek independent professional advice at the Company's expense.	Compliant	Directors are permitted to seek independent professional advice as and when required. The company Secretary takes required initiatives in this connection. Seeing independent professional advices in appropriate circumstances. Eg: Tax – M/S Amarasekara & Co. Law – M/S Gunawardhane & Ranasinghe Associates
-4	Avoidance of conflicts of interest	Compliant	Each member of the Board has a responsibility to determine whether he has a potential or actual conflicts 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 recorded by the Company Secretary in the minutes.
-5	Availability of a formal schedule of matters specifically reserved to the Board for decision.	Compliant	Company having policy on delegation of authority. It emphasis authority level of directors.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
-6	Disclosure of insolvency to the Director of the Department of Supervision of Non-Bank Financial Institutions.	Not applicable	No such situation has arisen during the year 2014. Directors objectively evaluate monthly accounts and annual audited financials to identify such a crisis.
-7	Inclusion of an annual corporate governance report on compliance with the Corporate Governance Directions in the Annual Report.	Compliant	The Company has placed greater focus on compliance with the regulations of the Central Bank of Sri Lanka. The Board publishes in the Company's Annual Report, an annual corporate governance report.
-8	adoption of an annual scheme of self-assessment by the Directors.	Compliant	The Board has adopted a scheme of self Assessment to be undertaken by each Directors annually.
<b>-3</b>	<b>Meetings of the Board</b>		
-1	Convening Board meetings at least twelve times a financial year at monthly intervals.	Compliant	The Board met twelve (12) times for the financial year 2014 on monthly basis.
-2	Making arrangements to enable Directors to include matters and proposals in the agenda for regular Board meetings.	Compliant	All directors are provided an equal opportunity to include proposals for promotion of business and management of risk in the agenda for regular meetings.
-3	Giving adequate notice of Board meetings.	Compliant	Calendar of Board meeting is prepared by the Company Secretary. The date of next Board meeting is collectively agreed to, by the members present during the previous Board meeting and subsequently communicated to all the members, so as to ensure that at least 7 days notice is given of a meeting. Reasonable notice is given for any other special board meeting.
-4	Attendance of Directors at Board meetings.	Compliant	Directors' attendances are monitored. Please refer Page 26 For details on number of Board meetings held during the year and the individual attendance of the Directors.
-5	Appointment of a Company Secretary.	Compliant	Company had appointed M/S Jacey & Company as Company Secretary with effect from October 2012 to March 2015. P W Corporate Secretarial (Pvt) Ltd is appointed as Company Secretary with effect from April 2015.
-6	Responsibility of preparing the agenda for a Board meeting.	Compliant	The chairman had delegated to the company secretary the function of preparing the agenda for a Board meeting and accordingly, the company secretary is responsible for the same.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
-7	Directors' access to advice and services of the company Secretary.	Compliant	All directors have access to the secretary who is responsible to the board to ensure the board procedures and the applicable rules and regulations are complied with. Articles of the company provides that the board may appoint or remove secretary.
-8	Maintenance of minutes of Board meetings inspection thereof by the Directors.	Compliant	All board members have full access to the assistance of the company secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.
-9	Recording of minutes of Board meetings in sufficient detail.	Compliant	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.
<b>-4</b>	<b>Composition of the Board</b>		
-1	Number of Directors on the Board.	Compliant	The Board comprised of six Non executive Directors.
-2	Period of service of a Director.	Compliant	All the Directors hold the position less than 9 years.
-3	Appointment, election or nomination of an employee as a Director of the company.	Compliant	Employees have not elected as directors.
-4	Number of Independent Non-Executive Directors on the Board and criteria for assessment of independency.	Compliant	There are 3 independent Non executive directors, out of 6 directors.
-5	Alternate Directors to meet the criteria for independency/ executive status of the appointer.	Compliant	
-6	Skills and experience of the Non-Executive Directors to bring to an objective judgment to bear on issues of strategy, performance and resources.	Compliant	Each Director brings independent and objective judgment to the board. The composition of the board also ensures the balance between executive expediency and independent judgment.
-7	Presence of Non-Executive Directors to satisfy the quorum for meetings of the Board.	Compliant	Each and every Board meeting fulfil the quorum.
-8	Disclosure of insolvency to the Director of the Department of Supervision of Non-Bank Financial Institutions.	Not Applicable	
-9	Availability of a formal, and transparent procedure for the appointment of new directors.	Compliant	The Articles of Association of the Company provides for the general procedure applicable to selection and appointment of directors of the Company



# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
-10	Re-election of Directors appointed to fill casual vacancy at the first general meeting after their appointment.	Compliant	All the directors have been appointed by shareholders in the AGM.
-11	Disclosure of resignations/ removal of Directors to the shareholders and the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Compliant	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.
<b>-5</b>	<b>Criteria to assess the fitness and propriety of directors</b>		
-1	Directors over 70 years of age.	Compliant	As at 31st December 2014, all Directors of the Company are below the age of 70 years.
-2	Holding office in more than 20 Companies.	Compliant	Details of Other directorships/equivalent positions held by the Directors are set out in their profile on page 22 to 23 of the Annual Report.
<b>-6</b>	<b>Management Functions Delegated by the Board</b>		
-1	Delegation of Board functions.	Compliant	Company has a policy on delegation of authorities. Directors act according to the delegation of authority.
-2	Review of delegation of Board functions on a periodic basis.	Compliant	The Board regularly evaluates such delegations and the limits of authority to ensure that the same does not materially affect the ability of the Board as a whole in discharging its functions and remains relevant to the needs of the company.
<b>-7</b>	<b>The Chairman and the Chief Executive Officer</b>		
-1	Division of the roles of the Chairman and Chief Executive Officer		
-2	Designation of an Independent Non Executive Director as the Senior Director if the chairman is not an independent Non-Executive Director.	Compliant	Chairman is a Non Independent 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.
-3	Disclosure of relationship between the chairman, Chief Executive Officer and members of the Board in the corporate governance report.	Compliant	
-4	Role of the Chairman	Compliant	The chairman provides leadership to the Board and responsible for governance and the effective operations of the Board.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
-5	Role of the chairman in the preparation of the agenda for Board meetings.	Compliant	Monthly Agenda is send to all directors by the Company Secretary.
-6	Duty of the Chairman to ensure that all Directors are informed adequately and timely of the issues arising at Board meeting	Compliant	Chairman ensures, that all directors are properly briefed on issues arising at board meetings.
-7	Role of the Chairman in encouraging Directors to make an active contribution to the Board's affairs.	Compliant	The Chairman sets the agenda, style and the tone of the Board deliberations and ensures that opinions of all Directors are appropriately considered in decision making thereby promoting active contribution by the individual Directors to the Board's affairs.
-8	Role of the Chairman in ensuring constructive relationships between Executive and Non-Executive Directors.	Compliant	The Chairman ensures that a constructive relationship exists between the Board as a whole by providing an equal opportunity to all Directors to actively participate in the Board's affairs.
-9	Avoidance of engaging in activities involving direct supervision of Key Management Personnel or any other executive duties by the Chairman.	Compliant	The Chairman is a Non-Executive Director who does not get involved directly in any of the executive duties of the Company or the direct supervision of the key management personnel.
-10	Role of Chairman in maintaining effective communication with shareholders and communicating the view of the shareholders to the Board.	Compliant	At general meetings, shareholders are given the opportunity to take up matters for which clarifications needed. Further matters are adequately clarify by the Chairman or CEO and any other Officer.
-11	Role of the Chief Executive Officer	Compliant	CEO is responsible for the day-to-day operations of the Company with the assistance of the Senior Management and is accountable to the Board to recommend the Company's strategy and its implementation to ensure that appropriate internal controls are in place to manage and assess risk.
<b>-8</b>	<b>Board appointed Committees</b>		
-1	Presence of at least two Board committees reporting directly to the Board.	Compliant	The following mandatory board sub committees have been appointed by the board and requires each sub committee to report to the board. 1. Audit Committee 2. Remuneration Committee 3. Integrated Risk Management Committee
<b>-2</b>	<b>Audit Committee</b>		
	a) The chairman of the Audit Committee	Compliant	The chairman of the Audit Committee is Independent Non Executive Director.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
	b) Composition of the Audit Committee.	Compliant	Audit Committee consists of three Independent Non Executive Director.
	c) Responsibility of the Audit Committee to recommended: (i) the appointment of the external auditor (ii) implementation of the Central Bank guidelines issued to auditors (iii) application of the relevant accounting standards; (iv) the service period, audit fee and any resignation or dismissal of the External auditor	Compliant	<p>The Board Audit Committee has at its meetings recommended that M/s. KPMG, Chartered Accountants be reappointed as the External Auditors of the Company for the financial year 2014 and the audit fees has been recommended.</p> <p>The implementation of Central Bank guidelines issued to auditors from time to time and the application of Accounting Standards has been recommended by the Audit Committee.</p>
	d) Responsibility of the Audit committee to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes.	Compliant	The Board Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process
	e) Responsibility of the Audit Committee to develop and implement a Board approved policy on the engagement of an external auditor to provide non audit services.	Compliant	The Board as a general policy discourage the engagement of External Auditors for Non Audit Services. However, as and when the situation demands the Non Audit Services exclusively to be carried out by the External Auditors with the approval of the Audit Committee and the Board of Directors. Seperate engagement letter is entered with the engagement partner for the non audit services in this situation.
	f) Responsibility of the Audit Committee to discuss and finalise with the External Auditors the nature and scope of the audit.	Compliant	The Auditors make a presentation at the Board Audit Committee Meeting with details of the proposed audit plan and the scope and required approval is obtained to that effect.
	g) Responsibility of the Audit Committee to review the financial infromation 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.	Compliant	Quarterly Financial Statements as well as year end Financial Statements are circulated to all members of the Audit Committee. A detailed discussion takes place at the Board Audit Committee meeting regarding such Financial Statements. Once the members of the Audit Committee have obtained required clarifications in respect of all aspects included in the Financial Statements, such Financial Statements are recommended for approval by the Board of Directors.
	h) Responsibility of the Audit Committee to discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss.	Compliant	The committee met External auditors during the year without the presence of corporate management.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
	i) Responsibility of the Audit Committee to review the External Auditor's management letter and the Management's response thereto.	Compliant	Upon receipt of the year end Management Letters, Auditors are invited to make a presentation at the Audit Committee meeting to discuss significant findings which have arisen during the audit. Thereafter the Audit committee decides on remedial action to be taken in respect of such findings, if any, and relevant heads of Departments are instructed to take such action.
	j) Responsibility of the Audit Committee to take the following steps with regard to the internal audit function of the Company.	Compliant	The annual audit plan prepared by the internal auditors is submitted to the Audit Committee for approval. This plan covers the scope and resource requirement relating to the Audit Plan.
	i) Review the adequacy of the scope, functions and resources of the internal audit department		This review is carried out by M/S SJMS Associates and thereafter referred to the Chairman of the Audit Committee, for further review and ratification.
	ii) Review the internal audit programme and results of the internal audit process;		Internal Audit reports are directed to the CEO's Inspection who will be reporting directly to the Audit Committee. Hence, it is independent and the audits are performed with due care.
	iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;		
	iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;		
	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;		
	vi) Ensure that the internal audit function is independent of the activities it audits.		
	k) Responsibility of the Audit Committee shall consider the major findings of internal investigations and management's responses thereto;	Compliant	Significant findings of internal audit along with the responses of the management are tabled and discussed at the Audit Committee Meetings.
	l) Participants at the Audit Committee meetings to consider the major findings of internal investigations and management's responses thereto.	Compliant	
	m) Authority and resources of the Audit Committee	Compliant	Refer Audit committee Report given on page 52 to 53 of the Annual Report

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
	n) Meetings of the Audit Committee	Compliant	Audit committee Report is given on page 52 to 53 of the Annual Report
	o) Disclosure of activities of the Audit Committee and attendance of members at meetings thereof in the Annual Report.		Audit committee Report is given on page 52 to 53 of the Annual Report
	p) Recording and maintenance of detailed minutes of the Audit Committee meetings.	Compliant	The Secretary to the Committee records and maintains all meeting minutes.
	q) Responsibility of the Audit Committee to review the process by which employees may in confidence raise concerns about possible improprieties in financial reporting, internal control or other matters.	Compliant	
<b>-3</b>	<b>Integrated Risk Management Committee (IRMC)</b>		
	a) Composition of the Integrated Risk Management Committee and the duty of the Committee to work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of authority.	Compliant	Risk Management Committee comprises Independent Non-Executive Director, Chief Executive Officer and Head of the Departments.
	b) Responsibility of the Integrated Risk Management Committee to assess all risks to the Company both on individual basis as well as group basis, monthly through appropriate risk indicators and management information.	Compliant	Risk Management Committee assesses all risks, i.e., credit, market, liquidity, operational and strategic risks on a quarterly basis through appropriate risk indicators.
	c) Responsibility of the Integrated Risk Management Committee to review the adequacy and effectiveness of all Management Level Committees.	Compliant	Assets and Liability Committee (ALCO) of the Company is reviewed by the Integrated Risk Management Committee.
	d) Responsibility of the Integrated Risk Management Committee to take prompt corrective action to mitigate the effects of specific risks which are at levels beyond the prudent levels decided by the Committee.	Compliant	Integrated Risk Management Committee has reviewed and considered all risk indicators which have gone beyond their limits after establishing the specific quantitative and qualitative risk limits.
	e) Responsibility of the Integrated Risk Management Committee to meet at least quarterly to assess all aspects of risk management.	Compliant	Integrated Risk Management Committee has met four (04) times during the financial year 2014.
	f) Responsibility of the Integrated Risk Management Committee 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.	Compliant	Risks are identified collectively by the Integrated Risk Management Committee and the Assets and Liabilities Committee (ALCO) and such decisions are taken collectively.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
	g) Responsibility of the Integrated Risk Management Committee to submit a risk assessment report within a week of each meeting to the Board.	to be Complied in year 2015	
	h) Responsibility of the Integrated Risk Management Committee to establish a compliance function at key management level to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations.	Compliant	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 and are reported to the board on monthly basis.
<b>-9</b>	<b>Related party transactions</b>		
-2	Responsibility of the Board to take necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with Related Parties.	Compliant	A board approved process is in place to ensure that Company is not engaged in transactions with related parties, as defined in the direction. The transactions carried out with Related parties in the normal course of business are disclosed in Note No. 36 on page 123 of the Annual Report.
-3	Nature of transactions with Related Parties to which the Corporate Governance Directions apply.	Compliant	Board approved process is in place to ensure the compliance. No accommodation is provided to Directors and/or close relatives.
-4	Responsibility of the Board to ensure that the Company does not engage in transactions with a related party in a manner that would grant such party "more favorable treatment" proprietary, confidential.	Compliant	Board approved process is in place to ensure the compliance.
<b>-10</b>	<b>Disclosures</b>		
-1	Preparation and publication of annual audited financial statements and periodical financial statements in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable Accounting Standards.	Compliant	The Board ensured that the annual audited financial statements and periodical financial statements of the Company for the year 2014 were prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable Accounting Standards.
-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.	Compliant	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 73.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
	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.	to be Complied in year 2015	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 on page 73.
	c) External Auditor's certification on the effectiveness of the internal control mechanism.	to be Complied in year 2015	External Auditor's Review on the effectiveness of the internal control mechanism is completed for year 2013. Review to be conducted for year 2014 & 2015.
	d) Details of Directors, including names, transactions with the Company.	Compliant	Details of the Directors are given on page 22 to 23 and Directors' transactions with the Company have been disclosed in Note No. 36 on page 123.
	e) Fees/remuneration paid by the Company to the Directors in aggregate.	Compliant	The Fees/remuneration paid to the Board of Directors is disclosed in aggregate in Note No. 36.2 on page 123.
	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.	Compliant	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. 36 on page 123.
	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.	Compliant	The aggregate values of remuneration paid by the Company to its Key Management Personnel is disclosed in Note No. 36.2 on page 123. The aggregate values of the transactions of the Company with its Key Management Personnel during the financial year have been disclosed in Note No. 36 on page 123.
	h) a report containing details of compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any noncompliance.	Compliant	The Annual Report of the Board of Directors on the Affairs of the Company on page 67 to 71 and the Corporate Governance Report on page 25 to 51 describes the manner in which the Company has complied with prudential requirements, regulations, laws and internal controls during the year 2014.
	i) External Auditor's certification of the compliance with the Act and directions issued by the Director of Department of supervision.	to be Complied in year 2015	Review to be conducted for year 2014 & 2015.

# Corporate Governance and Compliance

Company's adherence 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 is tabulated below

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
<b>SECTION 1 The Company</b>			
<b>A</b>	<b>Directors</b>		
<b>A.1</b>	<b>The Board</b>		
	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 22 to 23.		
A.1.1	Board Meetings	Compliant	The Board met 12 times during the year 2014, on monthly basis.
A.1.2	Board Responsibilities	Compliant	Board of Directors is collectively responsible for the formulation, implementation and monitoring of business strategies of the Company, Monitoring the effectiveness of the Company's risk management strategy and Compliance with ethical and legal standards.
A.1.3	Compliance with laws and access to independent professional advice.	Compliant	The Board collectively as well as individually complied with the laws of the country that are applicable to the Company.
A.1.4	Access to advice and services of the Company Secretary.	Compliant	All Directors have access to the Company Secretary who advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed.
A.1.5	Independent Judgment of Directors.	Compliant	All directors exercise independent judgment in decisions made by the Board.
A.1.6	Dedication of adequate time and effort by the Board and Board Committees.	Compliant	The members of the Board and its Sub Committees dedicate time and effort by participating in meetings, evaluating all material submitted related to such meetings and making further enquiries on such material and matters arising at these meetings.
A.1.7	Training for New and Existing Directors.	Compliant	All directors have adequate knowledge, skill and experience in the industry, and are continuously updated with the latest developments in the industry. Presentations are made to the Board from time to time regarding changes in industry related matters.



# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
<b>A.2</b>	<b>Chairman and the Chief Executive Officer (CEO)</b>		
	There should be a clear division of responsibilities at the head of the Company such that no one individual has unfettered powers of decision		
A.2.1	unfettered powers of decision	Compliant	The Roles of Chairman and CEO have not been combined.
<b>A.3</b>	<b>Chairman's Role</b>		
	The Chairman should preserve order and facilitate the effective discharge of Board functions		
A.3.1	Role of the Chairman in conducting Board proceedings in a proper manner.	Compliant	
<b>A.4</b>	<b>Financial Acumen</b>		
A.4.1	Availability of sufficient financial acumen and knowledge.	Compliant	The Board includes Chartered Accountant who has the acumen and knowledge to provide the Board with necessary guidance in conducting its business. Members of the Board have sufficient financial knowledge. Please refer to directors qualification on page 22 to 23.
<b>A.5</b>	<b>Board Balance</b>		
	Balance of executive and non-executive directors		
A.5.1	Number of Non-executive directors.	Compliant	The current Board comprises only Non-Executive Directors and their views carry significant weight in the Board's decisions.
A.5.2	Number of Independent Non-executive directors.	Compliant	Three out of the six non-executive directors are independent directors please refer the Board of Directors on page 22 to 23.
A.5.3	Determination of independence	Compliant	Please refer the Annual Report of the Board of Directors on the Affairs of the Company on page 68.
A.5.4	Declaration of independence of non executive directors	Compliant	Non-Executive Directors have submitted declaration on his independency or non-independency in the required form.
A.5.5	Determination of independence and disclosure in the Annual Report	Compliant	Based on the declarations submitted by the each members there are three Independent Non Executive Directors in the Company. Please refer the Annual Report of the Board of Directors on page 68.
A.5.6	Alternate directors for non- executive directors and independent non-executive directors should satisfy the same criteria	Compliant	
A.5.7	Appointment of Senior Independent Director.	Compliant	Mr. J. C. Korale is appointed as a Senior Director.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
A.5.8	Senior independent director should make himself available for confidential discussions with other directors who may have concerns	Compliant	
A.5.9	The Chairman should hold with the non-executive directors as meetings necessary and at least once each year	Compliant	The Chairman holds meeting with non-executive directors as and when necessary.
A.5.10	Matters which cannot be unanimously resolved should be recorded in the Board Minutes	Compliant	All proceedings at meetings are recorded by the Company Secretaries.
<b>A.6</b>	<b>Supply of Information</b>		
	The Board should be provided with timely information		
A.6.1	Management has an obligation to provide the Board with appropriate and timely information	Compliant	The management provides the Board with monthly information and all information related to the meeting of the Board and its Sub Committees. In addition, information is provided whenever requested by the Board.
A.6.2	The minutes, agenda and papers required for Board meeting should be provided at least seven (7) days before the meeting	Compliant	The minutes, agenda and all other information required for Board and Sub Committee meetings are submitted (7) days before the meetings.
<b>A.7</b>	<b>Appointments to the Board</b>		
	There should be a formal and transparent procedure for the appointment of new directors to the Board		
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	Not Compliant	The company does not have a nomination committee for making recommendations on new appointments to the Board. New Directors, including the chairman are appointed by the Board by referring to the Articles of Association.
A.7.2	Board composition should be assessed annually	Compliant	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.
A.7.3	Appointment of a new director to the Board should be forthwith disclosed to shareholders	Compliant	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.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
<b>A.8</b>	<b>Re-election</b>		
	All directors should be required to submit themselves for re-election at regular intervals		
A.8.1	Non-executive directors should be appointed for specified terms subject to re-election	Compliant	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.
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	Compliant	
<b>A.9</b>	<b>Appraisal of Board Performance</b>		
	Boards should periodically appraise their own performance		
A.9.1	The Board should annually appraise itself on its performance	Compliant	The Chairman evaluates the performance of the Board and its sub committees
A.9.2	The Board should undertake an annual self-evaluation of its own performance and of its Committees.	Compliant	The Board has adopted a scheme of self Assessment to be undertaken by each Directors annually.
A.9.3	The Board should state how performance evaluations have been conducted in the Annual Report	Compliant	Please refer comment on Principle A.9.1 above and governance principles and activities on page 25 to 27.
<b>A.10</b>	<b>Disclosure of Information in respect of Directors</b>		
	Shareholders should be kept advised of relevant details in respect of directors.		
A.10.1	The Annual Report of the Company should set out the information in relation to each director	Compliant	Please refer for information on directors' profile on page 22 to 23, Director's Interest in Contracts on page 123 and details of Board and its Sub Committee meetings on page 26.
<b>A.11</b>	<b>Appraisal of Chief Executive Officer (CEO)</b>		
	The Board should be required, at least annually, to assess the performance of the CEO		
A.11.1	At the commencement of every fiscal year, the Board in consultation with the CEO, should set financial and non-financial targets that should be met by the CEO	Compliant	The Board in consultation with the CEO determines both short term and long term targets for the company.
A.11.2	The performance of the CEO should be evaluated by the Board at the end of each fiscal year	Compliant	Annual appraisal of the performance of the CEO is carried out by the Chairman.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
<b>B.</b>	<b>Directors</b>		
<b>B.1</b>	<b>Remuneration Procedure</b>		
	Companies should establish a formal and transparent procedure for developing policy on executive remuneration		
B.1.1	Board should set up a Remuneration Committee to make recommendations on framework of remunerating executive directors	Compliant	
B.1.2	Remuneration Committee should consist exclusively of non-executive directors and a Chairman appointed by the Board	Compliant	Mr.G.C.B Ranasinghe and Independent Non Executive Director has been appointed as the Chairman of the Remuneration Committee.
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report	Compliant	Please refer Page No 54.
B.1.4	The Board should determine 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 and have access to professional advice	Compliant	Please refer Page No 54.
<b>B.2</b>	<b>The Level and Makeup of Remuneration</b>		
	Levels of remuneration of directors should be sufficient to attract and retain the directors needed to run the Company successfully. A proportion of executive directors' remuneration should be linked to corporate and individual performance		
B.2.1	The Remuneration Committee should provide the packages needed to attract and retain directors of the quality required	Not applicable	
B.2.2	The Committee should judge where to position levels of remuneration of the Company, relative to other companies	Not applicable	
B.2.3	The Committee should be sensitive to remuneration elsewhere in the Company or Group of which it is a part	Not applicable	
B.2.4	The performance-related elements of remuneration of executive directors should be designed to align their interests with the Company	Not applicable	
B.2.5	Executive share options should not be offered at a discount	Not applicable	

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
B.2.6	In designing schemes of performance - related remuneration, the Committee should follow the provisions set out in the Code	Compliant	Please refer to the Remuneration Committee Report on page 54 for details of the remuneration policy of the Company.
B.2.7	The Committee should consider what compensation commitments in the directors' contracts of service, if any, entail in the event of early termination	Compliant	
B.2.8	Where the initial contract does not explicitly provide for compensation commitments, the Committee should tailor their approach in early termination cases to the relevant circumstances	Not applicable	
B.2.9	Levels of remuneration for nonexecutive directors should reflect the time commitment and responsibilities of their role	Not applicable	
<b>B. 3</b>	<b>Disclosure of Remuneration</b>		
	The Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole		
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	Compliant	Please refer to the Remuneration Committee Report on page 54 for details of the remuneration policy of the Company.
<b>C.</b>	<b>Relations with Shareholders</b>		
<b>C. 1</b>	<b>Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings</b>		
	Board should use the AGM to communicate with shareholders and should encourage their participation		
C.1.1	All proxy votes should be counted	Compliant	All proxies lodged before meetings are recorded and all proxy votes cast at meetings are recorded by the Company Secretary.
C.1.2	Separate resolution should be proposed at the AGM on each substantially separate issue	Compliant	Separate resolutions are passed to the all substantial matters at the AGM
C.1.3	The Chairmen of the Audit, Remuneration and Nomination Committees should be available to answer questions at the AGM	Compliant	The Chairman of the Audit and Remuneration Committees are available to the shareholders at AGM
C.1.4	Notice of the AGM and related papers should be sent to shareholders as determined by statute	Compliant	Notice of AGM and other related papers are sent to the shareholders as required by the Companies Act and the Articles of Association .

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
C.1.5	A summary of the procedures governing voting at General Meetings should be circulated with every Notice of General Meeting	Compliant	The Notice of Meeting and Proxy Form with instructions are supplemented to shareholders to vote at the AGM
<b>C. 2</b>	<b>Communication with Shareholders</b>		
	The Board should implement effective communication with shareholders		
C.2.1	There should be a channel to reach all shareholders to disseminate information	Compliant	Company maintain an updated website to its investor relations and all other important notices and Changes of the company are published at the CSE.
C.2.2	The policy for communication with shareholders should be disclosed	Compliant	Please refer governance principle and activities on page 27.
C.2.3	How the above policy is implemented should be disclosed	Compliant	Please refer Page No 27.
C.2.4	The contact person for such communication should be disclosed	Compliant	Please refer Page No 27.
C.2.5	There should be a process to make all directors aware of major issues and concerns of shareholders, and this process should be disclosed	Compliant	Please refer Page No 27.
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)	Compliant	Shareholders are encourage to bring both negative and positive matters to the board through the company secretary.
C.2.7	The process for responding to shareholder matters should be formulated by the Board and disclosed	Compliant	Please refer governance principle and activities on page 27.
<b>C. 3</b>	<b>Major and Material Transaction</b>		
	Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter the Company's net assets base		
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.	Compliant	Section 185 of the Companies Act requires that the Company obtain shareholder approval by way of special resolution for such transactions. In addition, with the coming into effect of 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 were no necessity for such approval during the year.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
<b>D</b>	<b>Accountability and Audit</b>		
<b>D.1</b>	<b>Financial Reporting</b>		
	The Board should present a balanced assessment of the Company's financial position, performance and prospects		
D.1.1	The Board's responsibility to present a balanced assessment extends to interim and other price-sensitive public reports and reports to regulators	Compliant	The board assumes presentation of the Company's interim financial statements, public announcements and returns filed with the regulator.
D.1.2	The Directors' Report in the Annual Report should contain declarations by the directors to the effect set out in the Code.	Compliant	Please refer the Annual Report of the Board of Directors' on page 67 to 71.
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/Statement on Internal Control	Compliant	Please refer Director's Responsibility Statement on page 73 and Auditor's Report on page 74.
D.1.4	The Annual Report should contain a "Management Discussion & Analysis"	Compliant	Please refer pages from 10 to 19 for the Management Discussion and Analysis.
D.1.5	The Directors should report that the business is a going concern	Compliant	Please refer the Annual Report of the Board of Directors on page 69.
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	Compliant	Please refer Note No. 36 on page 123 on Related Party Transactions.
<b>D.2</b>	<b>Internal Control</b>		
	The Board should have a process of risk management and a system of internal control to safeguard shareholders' investments and the Company's assets		
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	Compliant	For details of the responsibilities and functions of the committee in this regard please refer to the Risk Committee Report on page 55.
D.2.2	Company should have an internal audit function	Compliant	Company internal audit function is carried out by M/S SJMS Associates, Chartered Accountants.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
D.2.3	Audit Committee should carry out a review of the effectiveness of risk management and internal controls	Compliant	Please refer above D.2.1
D.2.4	Guidance for responsibility of directors in maintaining a system of internal controls is set out in the Code	Compliant	
<b>D.3</b>	<b>Internal Control</b>		
	The Board should establish formal and transparent arrangements for considering how to select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Auditors		
D.3.1	The Audit Committee should be comprised exclusively of nonexecutive directors, a majority of whom should be independent	Compliant	The Audit Committee comprises of three independent non-executive directors.
D.3.2	The duties of the Audit Committee	Compliant	Please refer to the Audit Committee Report on page 52 to 53 for details of the duties and responsibilities of the Committee.
D.3.3	The Audit Committee should have a written Terms of Reference, dealing with its authority and duties	Compliant	
<b>D.3.4</b>	<b>Disclosures</b>		
	The Annual Report should disclose the names of directors comprising of the Audit Committee, a determination of the independence of the Auditors and a report by the Committee	Compliant	Please refer Audit Committee Report on page 52 to 53.
<b>D.4</b>	<b>Code of Business Conduct &amp; Ethics</b>		
	Companies must adopt a Code of Business Conduct and Ethics for Directors, and Key Management Personnel		
D.4.1	The existence of a Code of Business Conduct & Ethics for directors and key management personnel should be disclosed in the Annual Report with an affirmative declaration of compliance	Compliant	Please refer the Annual Report of the Board of Directors on page 71.
D.4.2	The Chairman must affirm in the Annual Report that he is not aware of any violation of the Code	Compliant	Please refer the Annual Report of the Board of Directors on page 71.



# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
<b>D.5</b>	<b>Corporate Governance Disclosures</b>		
	Directors should be required to disclose the extent to which the Company adheres to established principles of good Corporate Governance		
D.5.1	The Annual Report should include a Corporate Governance Report,	Compliant	Please refer Corporate Governance Report on page 25 to 51.
<b>E</b>	<b>Institutional Investors</b>		
<b>E.1</b>	<b>Shareholder Voting</b>		
	Institutional shareholders have a responsibility to make considered use of their votes		
E.1.1	A regular and structured dialogue should be conducted with shareholders	Compliant	the Annual General Meeting (AGM) is used as a forum to have a structured and objective dialogue with shareholders
<b>E.2</b>	<b>Evaluation of Governance Disclosures</b>		
	When evaluating governance arrangements, institutional investors should be encouraged to give due weight to all relevant factors	Compliant	Institutional investors are encouraged to give weight to governing arrangements
<b>F</b>	<b>Other Investors</b>		
<b>F.1</b>	<b>Evaluation of Governance Disclosures</b>		
	Individual shareholders should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions	Compliant	The Company provides adequate financial and non financial information to investors to seek independent advices to their investments through its Annual Report, Interim reports and other publications.
<b>F.2</b>	<b>Shareholder Voting</b>		
	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	Compliant	Company dispatches notices of meetings to all shareholders to inviting General meetings within prescribed time periods.

# Corporate Governance and Compliance

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

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
<b>7.10.1</b>	<b>Non-Executive Directors</b>		
7.10.1	Number of non-executive directors: One third of the total number of directors	Compliant	All six directors of the Board are non-executive directors.
<b>7.10.2</b>	<b>Independent Directors</b>		
7.10.2 (a)	Number of independent directors: One third of the non-executive directors	Compliant	Three out of the six non-executive directors are independent directors. Please refer the Annual Report of the Board of Directors on page 68.
7.10.2 (b)	Declaration of independence: Each non-executive director is required to submit to the Board annually a declaration of his/her independence or non independence	Compliant	All Non-Executive Directors submitted the declarations of independence during the year.
<b>7.10.3</b>	<b>Disclosures relating to directors:</b>		
	(a) The names of non-executive directors determined to be 'independent'	Compliant	Please refer page 68 of the Annual Report of the Board of Directors.
	(b) In the event a director does not qualify as 'independent' against any criteria set out in the Rules, however the Board is of the opinion that the director is nevertheless 'independent', the Board shall specify the criteria not met and the basis for its determination	Not Applicable	
	(c) A brief resume of each director including information on the nature of his/her expertise in relevant functional areas	Compliant	Please refer page 22 to 23 for the profiles of Board of Directors.
	(d) In the event of an appointment of a new director, a brief resume of such director shall be submitted immediately to the CSE for dissemination to the public	Compliant	When an appointment of a new director Company immediately submit brief resume of such director to the CSE

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
<b>7.10.4</b>	<b>Criteria for determination of independency of Directors</b>		
7.10.4	Requirements for meeting criteria to be independent	Compliant	All of the independent Directors of the Company met the criteria for independency specified in this rule.
<b>7.10.5</b>	<b>Remuneration Committee</b>		
7.10.5 (a)	Composition:		
	Non-executive directors, a majority of whom shall be independent; and one of non-executive directors shall be appointed as Chairman by the Board	Compliant	The Remuneration Committee comprises of three non-executive directors. one of independent non-executive director acts as a Chairman of the committee. Please refer the Report of the Remuneration Committee on page 54.
7.10.5 (b)	Functions:		
	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.	Compliant	Please refer the Report of the Remuneration Committee on page 54.
7.10.5 (c)	Disclosures in the Annual Report		
	Names of directors comprising the Remuneration Committee	Compliant	Please refer the Report of the Remuneration Committee on page 54 for the composition of the Remuneration Committee.
	Statement of the remuneration policy	Compliant	Please refer the Report of the Remuneration Committee on page 54.
	The aggregate remuneration paid to executive and non-executive directors	Compliant	Total fees and remuneration paid to all Directors is disclosed on Note No 36.2 on page 123.

# Corporate Governance and Compliance

Rule	Governance Principle	Status of Compliance	Company's Action for compliance
<b>7.10.6</b>	<b>Audit Committee</b>		
7.10.6 (a)	Composition:		
	Non-executive directors, a majority of whom shall be independent; and one of non-executive directors shall be appointed as Chairman by the Board Unless otherwise determined by the Audit Committee,the Chief Executive Officer and the Chief Financial Officer shall attend audit committee meetings;The Chairman or one member of the Committee should be a Member of a recognized professional accounting body	Compliant	The Audit Committee comprises of three independent non-executive directors. one of Independent non-executive director acts as a chairman of the committee and he is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.The CEO and CFO attend meetings of the Committee by invitation.
7.10.6 (b)	Functions:		
	Oversee the preparation, presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards; Oversee compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements; Oversee processes to ensure internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards;Assessment of the independence and performance of the external auditors;Make recommendations to the Board on appointment,re-appointment and removal of external auditors and approve remuneration and terms of engagement	Compliant	Please refer to the Audit Committee Report on page 52 to 53.
7.10.6 (c)	Disclosures in the Annual Report		
	The names of the directors comprising the Audit committee	Compliant	Please refer to the Audit Committee Report on page 52 to 53.
	The Committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination	Compliant	Please refer to the Audit Committee Report on page 52 to 53.
	A report by the Committee setting out the manner of compliance in relation to the above	Compliant	Please refer to the Audit Committee Report on page 52 to 53.

# Board Audit Committee Report

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## Composition of the Committee

The Board Audit Committee comprise following Independent Non Executive Directors of the Company who conducted committee proceedings in accordance with the terms of reference approved by the Board.

Mr. J. C. Korale - Chairman

Mr. G. C. B. Ranasinghe

Mr. S. N. P. Palihena

The Chairman 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 and holds honours degree for Law from University of London as well.

The Board has determined that the committee possesses an adequate blend of financial and industry expertise in order to efficiently carry out its duties.

## Role and Functions of the Audit Committee

The role of the Audit Committee is to assist the Board of Directors in fulfilling the overall responsibility of SMB Leasing PLC and assist the Board in discharging the responsibility of the Board in terms of compliance to the laws, regulations, code of conduct and best practices with the view of safeguarding the interest of all stakeholders of the entity in an optimum manner. Representatives of M/S SJMS Associates, internal auditors were invited to the Audit Committee meetings convened together with the CEO and Head of Finance to discuss the Internal Audit Reports. Other heads of departments and senior officers were invited as and when necessary.

The Audit Committee provides the forum to review internal audit reports, consider the findings, to recommend corrective actions to be taken by the Management with follow up monitoring with a view to manage significant business risk and controls. This Committee is the means by which the Board is in the continuing process of enhancing internal controls and provides a reasonable assurance that the company's affairs are managed in accordance with statutory requirements and company's assets and income are properly accounted for. Further the committee met with KPMG, Chartered Accountants, External Auditors excluding the executive management in compliance with the corporate governance.

## Meetings

During the financial year ended 31st December 2014 fourteen Audit Committee Meetings were held and proceedings of these meetings were reported to the Board on a regular basis. The Chief Executive Officer, Head of Finance, the Internal Auditors and the External Auditors attended the meetings by invitation.

Details of attendance of each individual member are given below.

Mr. J. C. Korale - Chairman - Attended 14 out of 14 meetings

Mr. G. C. B. Ranasinghe - Attended 6 out of 14 meetings

Mr. S. N. P. Palihena - Attended 14 out of 14 Meetings

## Summary of activities

- Reviewed the Quarterly and Annual Financial Statements prior to its publication.
- Reviewed the consistency and the appropriateness of the Accounting Policies adopted by the Company to ensure compliance with the Sri Lanka Accounting Standards. (SLFRS/LKAS)
- Expanded the scope of the Internal Auditors to ensure greater focus on internal controls and risk management.
- Considered the Internal and External Auditors' Reports and directed Management to take appropriate and relevant follow up action on identified control weaknesses and accounting issues highlighted in their reports.
- Reviewed the Compliance Report prepared by the Compliance Officer to ensure compliance with Directions of the Central Bank of Sri Lanka and other regulatory and statutory requirements.
- Recommended the re appointment of External Auditors.

## Internal Audit

The Internal audit function is outsourced to Messrs SJMS Associates, Chartered Accountants. The Committee monitors the effectiveness of the internal audit function and is responsible for approving their appointment or removal and for ensuring they have adequate access to information required to conduct their audits.

During the year the Committee reviewed the internal audit plan and recommended changes and further monitored the progress on a regular basis.

# Board Audit Committee Report

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The scope of work covers the Head Office functions and branch activities, and includes the review of the adequacy, effectiveness and efficiency of the internal controls and the action taken to mitigate operational and business risks. In addition, they monitor and report on compliance with statutory regulations and the Company's accounting and operational policies. The internal audit representatives are present at Audit Committee meetings during discussions relating to their respective audit reports.

## External Audit

During the year the Committee met with Messrs KPMG, Chartered Accountants its external auditors to discuss the auditors' Management Letter pertaining to the previous year's audit and reviewed the management responses to the issues raised and corrective actions were implemented thereon. Discussions were also held in regard to the nature, scope, and approach of the audit for 2014 prior to the commencement of the audit.

## Independence of the External Auditors

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 lead Audit Partner is rotated every five years.

## Provision of Non Audit Services

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.

## Re appointment of External Auditors

The Audit Committee has recommended to the Board of Directors that Messrs KPMG, Chartered Accountants be reappointed as Auditors for the financial year ending 31 December 2015 subject to the approval of the shareholders at the Annual General Meeting. The Committee has also

made its recommendation to the Board with regards to the remuneration payable to the Auditors.

## Internal Controls

During its meetings, the Committee reviewed the effectiveness of the internal control systems to ensure that processes are in place to safeguard the assets of the organization and to ensure that the financial reporting system can be relied upon in preparation and presentation of Financial Statements. The Committee noted that a comprehensive Financial Review Report and Financial Statements are produced at month end highlighting all key performance criteria pertaining to the segments which is reviewed by the Board of Directors on a monthly basis.

## Corporate Governance

The Company is fully compliant with the applicable rules on Corporate Governance under the listing rules of the Colombo Stock Exchange. In addition, 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 Direction No 04 of the Finance Leasing Act No 56 of 2000 on Corporate Governance.

## 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 (Hons) London  
Chairman, Audit Committee  
Colombo  
23rd May 2015

# Remuneration Committee Report

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## Composition of the Remuneration Committee

The Remuneration Committee appointed by the Board of Directors comprise of three members, two Independent Non Executive Directors and one Non Executive Director.

## Members of the Committee

Mr. G C B Ranasinghe - Chairman

Dr. T. Senthilvel

Mr. U. Gautam

## The Remuneration Policy

The policy is to ensure appropriate compensation levels to all employees in the organization in order to attract, retain and motivate talented staff with the core capabilities matched to its corporate objectives and in par with industry standards and also to ensure that the company consistently delivers values to all stakeholders and to make the company more competitive and attractive.

## Activities of the Remuneration Committee

- To review and recommend to the Board of Directors the remuneration of the Chief Executive officer, Senior Management and other staff of the Company.
- To review and recommend to the Board of Directors the annual increments and bonuses.
- To ensure that the Remuneration package is linked to individual performance, responsibility, expertise and contribution to team and overall Company objectives.

The Committee consult the Chairman and the Chief Executive Officer as and when required, in achieving above objectives.

## Remuneration Committee Meetings

The Committee meets at least once each year and the minutes of the meetings are circulated to the Board.

## Retirement Benefits

There are no retirement benefits to employees other than gratuity.

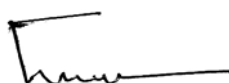
## Board of Directors

No remuneration is paid to Non-Executive Directors other than the directors fees paid based on their participation at Board meetings and other sub-committee meetings.

Total fees and remuneration paid to all Directors are disclosed on Note No. 36.2 page 123.

Non-Executive Directors are not entitled to retirement benefits.

The Company does not have a share option plan for Directors and No Director is entitled for Company loans.



**G. C. B. Ranasinghe**

Chairman, Remuneration Committee

Colombo

23rd May 2015

# Risk Committee Report

## Overview

The primary responsibility for integrated risk management liaise with the Board of Directors and has delegated its authority to the Integrated Risk Management Committee (IRMC) being a Board appointed Sub Committee to review and assess the adequacy and effectiveness of the risk management policy of the Company.

Company's Integrated Risk Management process was setup during the year with the assistance of M/S SJMS Associates, Chartered Accountants as it's initial process.

A detailed approach of the Company's Integrated Risk Management process has been discussed in page 56 to 57 of the Annual Report.

## Members of the Risk Committee

Mr.J.C.Korale has been appointed as the Chairman of the Risk Committee. The other members were appointed as per the Direction No 04 of 2009 of the Finance Leasing Act No 56 of 2000.

Mr. J.C.Korale - Chairman  
Chief Executive Officer  
General Manager- Credit & Collections  
Head of Finance  
Head of Sales & Marketing  
Head of Information Technology  
Head of Legal & HR

## Number of Committee Meetings

The Committee met four times during the year.

The attendance of the meetings were as follows.

	No. of meetings
Mr. J.C.Korale - Chairman	4
Chief Executive Officer	4
General Manager- Credit & Collections	3
Head of Finance	3
Head of Sales & Marketing	2
Head of Information Technology	3
Head of Legal & HR	4

## Activities of the Committee

The Committee focused on the following activities during the year under review.

- Developing the Risk Management Manual of the Company
- Ensure that the Risk Management policy is established and properly followed up by the Company, assessing all broad risk categories such as credit, market, liquidity, operational, strategic and regulatory risks of the Company through appropriate risk indicators
- Reviewing the adequacy and effectiveness of management level Committees such as Assets and Liability Management Committee (ALCO)
- Communication to the Board of Directors with respect to areas which needs Board attention.
- By year end the Committee achieve setting up of Risk Register and educate the Management so that effective Risk Managemet is in place.



**J. C. Korale**

BSc. MSc. FCA.FCMA, ACI Arb (UK),LLB (Hons) London  
Chairman - Integrated Risk Management Committee

Colombo

23rd May 2015



# Risk Management

## Overview

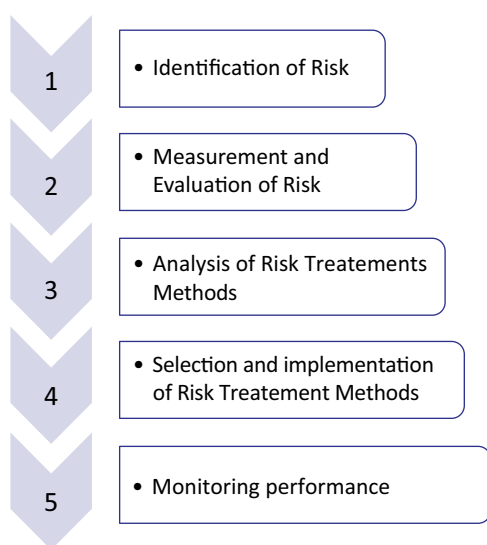
Risk management has become the most spoken topic in the Corporate Governance due to uncontrollable volatility in the Financial Market and its effect to the stakeholders.

The following Report describes the approach of SMB Leasing PLC, of how the Company identify, measure and monitor the risks faced as a Non Banking Financial Institution.

## Risk Management Framework

The strategy in managing risk resides in establishing the context, identifying risks, analyse and quantify risks and prioritizing and treating risks.

Accordingly the main steps of the Risk Management Framework is defined as follows.

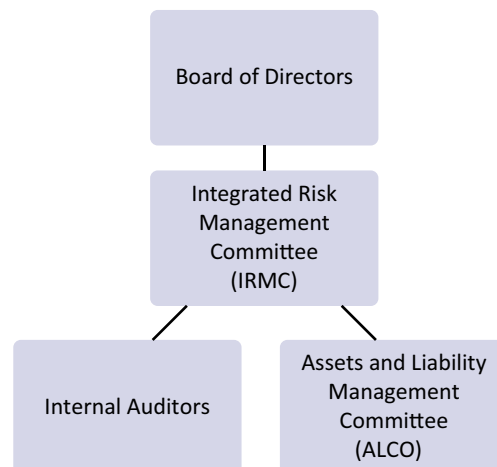


## Risk Management Process

The responsibility for setting the risk appetite, communicating risk strategy and approving policies for effective management of risks rests with the Board of Directors. As delegated by the Board of Directors, the Integrated Risk Management Committee (IRMC) reviews the risk profile and receives regular reports on risk management which include the Company's portfolio trends, policies, standards and soundness of internal controls, and regulatory compliance.

The management team of the Company and the Internal Auditors supports the entity's risk management process.

## The Company's Risk Management Structure



## Integrated Risk Management Committee (IRMC)

The Integrated Risk Management Committee (IRMC) is responsible for implementation and monitoring of the risk management strategies of the Company. The committee functions as a subcommittee of the Board of Directors.

The Committee consist of following Members.

- Independent, Non-Executive Director (Chairman)
- Chief Executive Officer
- General Manager
- Department Heads of the Functional Units

## 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 is to analyze and evaluate on the followings.

- liquidity position of the Company
- sources of funding and the interest rates
- lending portfolio and the interest rates
- Asset/Liability maturity statement
- Competitors' position
- Rules and regulations of the Regulators and the amendments thereto

# Risk Management

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Based on its assessments, the ALCO recommends the Board on any action it deems necessary to limit or mitigate and to manage the liquidity risks of the Company.

## Internal Auditors

Internal auditors carries 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 and report on any deviations with the laid down procedure to the Audit Committee. The recommended actions for deviations and non compliances are always monitored and followed up by the Internal Auditors.

## Risk Portfolio

Financial Risk	<ul style="list-style-type: none"><li>• Credit Risk</li><li>• Interest Rate Risk</li><li>• Liquidity Risk</li></ul>
Business Risk	<ul style="list-style-type: none"><li>• Strategic Risk</li><li>• Reputation Risk</li><li>• Socio, Economic and Political Risk</li></ul>
Operational Risk	<ul style="list-style-type: none"><li>• Technology Risk</li><li>• Fraud Risk</li><li>• Compliance Risk</li><li>• Disaster Risk</li></ul>

## Risk Evaluation Process

Based on the above Risk Portfolio, a Risk Register is prepared at the functional levels of the Company. Each and every Risk is assessed and measured for its inherent Risk and the Control Risk. For the Risk factors identified, the existing risk mitigation strategies are evaluated for it's effectiveness. New strategies are proposed if the existing strategies are inadequate.

These evaluations are reviewed by the Integrated Risk Management Committee(IRMC). The implementations are done as recommended by the Integrated Risk Management Committee(IRMC). The post implementation is reviewed and monitored by the Integrated Risk Management Committee(IRMC) and evaluations are reported to the Board of Directors.

## The way forward

Strengthen the Risk Management Process of the Company for the long term viability of the Company.

# Shareholder and Investor Information

## 1. Twenty Largest Shareholders

As at 31st December, 2014

### Ordinary Voting

Name	No. of Shares	%
1 Sampath Bank PLC/Dr. T Senthilverl	268,705,956	22.55%
2 Mr. H R S Wijeratne	194,882,451	16.35%
3 Seylan Bank PLC/ Dr. T. Senthilverl	85,805,393	7.20%
4 Standard Chartered Bank Singapore S/A HL Bank Singapore	72,916,100	6.12%
5 Ms. S. A. Fernando	43,553,403	3.65%
6 Mrs. K W S H Fernando	38,481,442	3.23%
7 Mr. W K V M Fernando	38,224,022	3.21%
8 Ms. W N C Fernando	31,496,398	2.64%
9 Seylan Bank PLC/ Jayantha Dewage	15,157,671	1.27%
10 Mr. R. Gautam	13,200,000	1.11%
11 Sinharaja Hills Plantation (Pvt) Ltd	13,000,000	1.09%
12 Mr. A Sithampalam	12,880,242	1.08%
13 Andaradeniya Estate (Private) Limited	11,470,674	0.96%
14 Mr. H K Pushpakumara	8,700,000	0.73%
15 Mrs.V R Jayasinghe	6,700,000	0.56%
16 Mr. S P Kannangara (Deceased)	6,000,000	0.50%
17 Mr. V R Kathiragamattamby	5,250,000	0.44%
18 Mr. C R Perera	4,900,000	0.41%
19 Commercial Credit and Finance PLC	4,001,000	0.34%
20 Pan Aisa Banking Corporation PLC/Mr. V R A Gunasekera	4,000,000	0.34%
<b>Sub Total</b>	<b>879,324,752</b>	<b>73.78%</b>
<b>Others</b>	<b>312,442,020</b>	<b>26.22%</b>
<b>Total Issued Share Capital</b>	<b>1,191,766,772</b>	<b>100.00%</b>

### Ordinary Non Voting

Name	No of Shares	%
1 Sampath Bank PLC/Dr. T Senthilverl	40,171,815	6.54%
2 Mr. H K Pushpakumara	27,708,100	4.51%
3 Mr. K E H De Alwis	27,687,268	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/Mr. J 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	8,503,700	1.38%
10 People's Leasing & Finance PLC/Mr K L Udayananda	8,200,000	1.34%
11 Ms. V Vijayaletchumy	7,198,841	1.17%
12 Seylan Bank PLC/ Mr T Senthilverl	7,000,000	1.14%
13 Mr J A W Victoria	6,756,462	1.10%
14 People's Leasing & Finance PLC/Mr L T Samarawickrama	6,000,000	0.98%
15 Mr. W J D Benedict	5,100,000	0.83%
16 Mr J J Ravindran	5,040,000	0.82%
17 Mr. K Rajakanthan	5,000,000	0.81%
18 Mrs. H Nalika Padmasiri	4,934,100	0.80%
19 Mr. S Abishek	4,869,460	0.79%
20 Mr. S D Divakarage	4,500,000	0.73%
<b>Sub Total</b>	<b>246,516,106</b>	<b>40.14%</b>
<b>Others</b>	<b>367,549,995</b>	<b>59.86%</b>
<b>Total Issued Share Capital</b>	<b>614,066,101</b>	<b>100.00%</b>

# Shareholder and Investor Information

As at 31st December, 2013

## Ordinary Voting

Name	No. of Shares	%
1 Dr. T Senthilvel	208,000,000	17.45%
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 Seylan Bank PLC/ Dr. T. Senthilvel	51,799,896	4.35%
5 Ms. S. A. Fernando	48,004,878	4.03%
6 Mr. W K V M Fernando	43,233,872	3.63%
7 Mrs. K W S H Fernando	41,914,378	3.52%
8 Ms. W N C Fernando	31,821,398	2.67%
9 Sinharaja Hills Plantation (Pvt) Ltd	24,000,000	2.01%
10 Mr. S S Abhayawickrama	19,941,212	1.67%
11 Seylan Bank PLC/ J Dewage	16,872,673	1.42%
12 Mr. R. Gautam	14,600,000	1.23%
13 National Development Bank PLC/ Dr. T. Senthilvel	14,000,000	1.17%
14 Mr. A Sithampalam	12,880,242	1.08%
15 Andaradeniya Estate (Private) Limited	12,270,674	1.03%
16 Associated Electrical Corporation Limited	12,252,302	1.03%
17 Mr. H K Pushpakumara	10,922,510	0.92%
18 First Capital Markets Limited/ Mr. M A U Gnanathilaka	7,284,396	0.61%
19 Mr. S P Kannangara	6,000,000	0.50%
20 People's Leasing & Finance PLC/Mr S P Jayakumar	4,435,647	0.37%
<b>Sub Total</b>	<b>848,032,629</b>	<b>71.16%</b>
<b>Others</b>	<b>343,734,143</b>	<b>28.84%</b>
<b>Total Issued Share Capital</b>	<b>1,191,766,772</b>	<b>100.00%</b>

## Ordinary Non Voting

Name	No of Shares	%
1 Mr. K E H De Alwis	30,447,529	4.96%
2 Mr. R Gautam	23,499,220	3.83%
3 Seylan Bank PLC/Jayantha Dewage	14,521,480	2.36%
4 Waldock Mackenzie Ltd / Mr. SA Gulamhusein	11,429,880	1.86%
5 Mr. M L A Benedict	9,645,000	1.57%
6 Mr.C Nayagam	9,500,000	1.55%
7 Paramadamma Buddhist Institute	9,311,000	1.52%
8 Mr. J A W Victoria	8,771,200	1.43%
9 Mr. BL Jayaratne	8,503,700	1.38%
10 Mr.HK Pushpakumara	7,066,179	1.15%
11 Dr.SK Shanmugam	6,091,309	0.99%
12 Waldock Mackenzie Ltd / Mr.Lalin Tusith Samarawickrama	6,000,000	0.98%
13 Mr.WJD Benedict	5,100,000	0.83%
14 Mr. J J Ravindran	5,040,000	0.82%
15 Dr.D Rajakanthan	5,000,000	0.81%
16 Mrs. H Nalika Padmasiri	4,934,100	0.80%
17 Mr.S Abishek	4,869,460	0.79%
18 Mr SD Divakarage	4,500,000	0.73%
19 Ms. S Nirmala	4,318,300	0.70%
20 Dr. C A Twerenbold	4,313,800	0.70%
<b>Sub Total</b>	<b>182,862,157</b>	<b>29.78%</b>
<b>Others</b>	<b>431,203,944</b>	<b>70.22%</b>
<b>Total Issued Share Capital</b>	<b>614,066,101</b>	<b>100.00%</b>

# Shareholder and Investor Information

## 2. Stock Exchange Listing

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

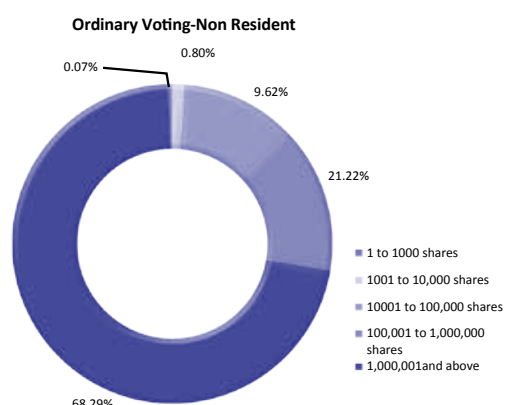
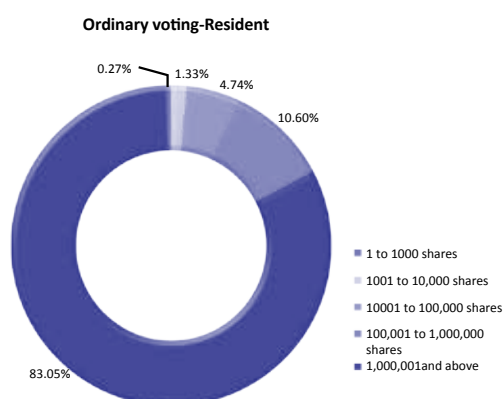
## 3. Shareholder Base

The Total number of (Ordinary Voting) shareholders as at 31st December 2014 were 10,360 compared to 11,191 as at 31st December 2013. The Total number of (Ordinary Non Voting) shareholders as at 31st December 2014 were 4,617 compared to 5,231 at 31st December 2013.

## 4. Distribution of Shareholders

### Ordinary Voting-Shareholding as at 31st December 2014

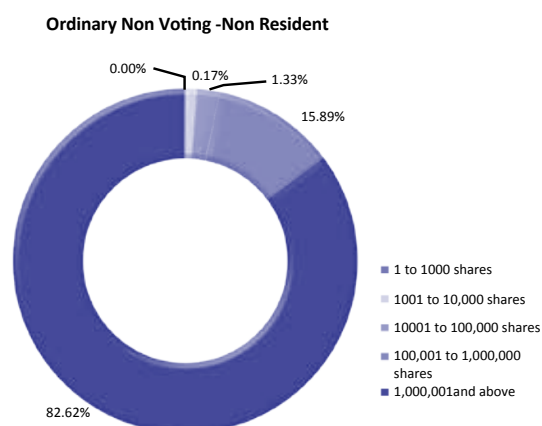
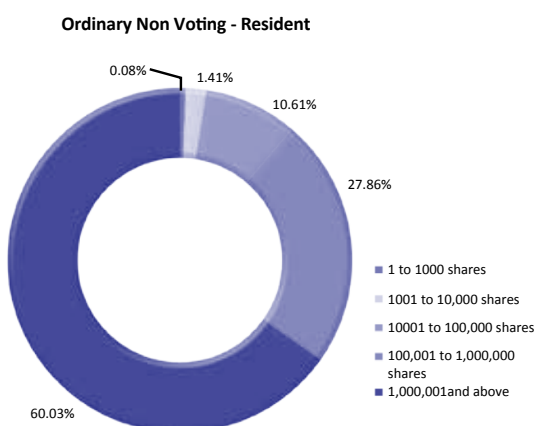
Range of Shareholdings	Resident			Non Resident			Total		
	Number of shareholders	No of Shares	(%) of Holdings	Number of shareholders	No of Shares	(%) of Holdings	Number of shareholders	No of Shares	(%) of Holdings
1 to 1000 Shares	4,805	3,230,771	0.27	10	3,897	0.07	4,815	3,234,668	0.27
1001 to 10,000 Shares	3,461	15,744,813	1.33	9	43,500	0.80	3,470	15,788,313	1.32
10,001 to 100,000 Shares	1,587	56,276,334	4.74	10	525,699	9.62	1,597	56,802,033	4.77
100,001 to 1,000,000 Shares	392	125,797,281	10.60	3	1,160,000	21.22	395	126,957,281	10.65
1,000,001 & above Shares	80	985,252,060	83.05	3	3,732,417	68.29	83	988,984,477	82.98
	<b>10,325</b>	<b>1,186,301,259</b>	<b>100.00</b>	<b>35</b>	<b>5,465,513</b>	<b>100.00</b>	<b>10,360</b>	<b>1,191,766,772</b>	<b>100.00</b>



# Shareholder and Investor Information

## Ordinary Non Voting-Shareholding as at 31st December 2014

Range of Shareholdings		Resident			Non Resident			Total		
		Number of shareholders	No of Shares	(%) of Holdings	Number of shareholders	No of Shares	(%) of Holdings	Number of shareholders	No of Shares	(%) of Holdings
1 to	1000 Shares	1,007	482,114	0.08	2	200	0.00	1,009	482,314	0.08
1001 to	10,000 Shares	1,508	8,417,125	1.41	6	30,000	0.17	1,514	8,447,125	1.38
10,001 to	100,000 Shares	1,454	63,278,892	10.61	5	238,435	1.33	1,459	63,517,327	10.34
100,001 to	1,000,000 Shares	547	166,110,642	27.86	6	2,847,600	15.89	553	168,958,242	27.51
1,000,001 & above	Shares	77	357,851,093	60.03	5	14,810,000	82.62	82	372,661,093	60.69
		<b>4,593</b>	<b>596,139,866</b>	<b>100.00</b>	<b>24</b>	<b>17,926,235</b>	<b>100.00</b>	<b>4,617</b>	<b>614,066,101</b>	<b>100.00</b>



# Shareholder and Investor Information

## 5 Composition of Shareholders

### Ordinary Voting Shares

	31.12.2014			31.12.2013		
	Number of shareholders	No of Shares	(%) of Holdings	Number of shareholders	No of Shares	(%) of Holdings
Resident	10,325	1,186,301,259	99.54	11,152	1,186,055,563	99.52
Non-Resident	35	5,465,513	0.46	39	5,711,209	0.48
<b>Total</b>	<b>10,360</b>	<b>1,191,766,772</b>	<b>100.00</b>	<b>11,191</b>	<b>1,191,766,772</b>	<b>100.00</b>
Individual	10,237	1,072,911,649	90.03	10,939	922,048,231	77.37
Institution	123	118,855,123	9.97	252	269,718,541	22.63
<b>Total</b>	<b>10,360</b>	<b>1,191,766,772</b>	<b>100.00</b>	<b>11,191</b>	<b>1,191,766,772</b>	<b>100.00</b>

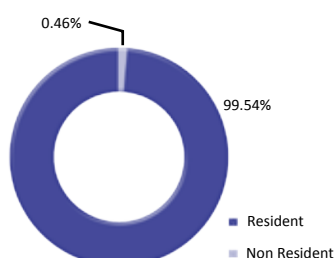
The percentage of Ordinary Voting Shares held by the public was 53.90% of the issued share capital as at 31st December 2014.

### Ordinary Non Voting Shares

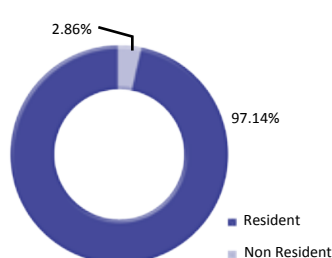
	31.12.2014			31.12.2013		
	Number of shareholders	No of Shares	(%) of Holdings	Number of shareholders	No of Shares	(%) of Holdings
Resident	4,593	596,500,766	97.14	5,204	596,500,766	97.14
Non-Resident	24	17,565,335	2.86	27	17,565,335	2.86
<b>Total</b>	<b>4,617</b>	<b>614,066,101</b>	<b>100.00</b>	<b>5,231</b>	<b>614,066,101</b>	<b>100.00</b>
Individual	4,577	599,963,281	97.70	5,126	528,192,878	86.02
Institution	40	14,102,820	2.30	105	85,873,223	13.98
<b>Total</b>	<b>4,617</b>	<b>614,066,101</b>	<b>100.00</b>	<b>5,231</b>	<b>614,066,101</b>	<b>100.00</b>

The percentage of Ordinary Non Voting Shares held by the public was 92.32% of the issued share capital as at 31st December 2014.

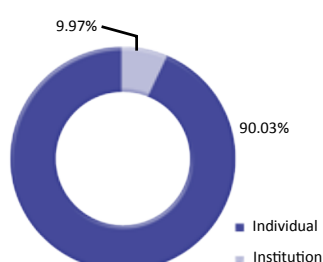
Ordinary Voting Shares



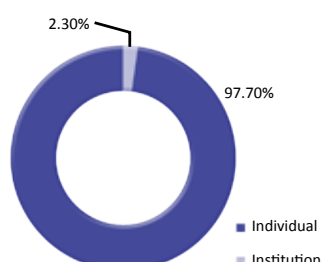
Ordinary Non Voting Shares



Ordinary Voting Shares



Ordinary Non Voting Shares



# Shareholder and Investor Information

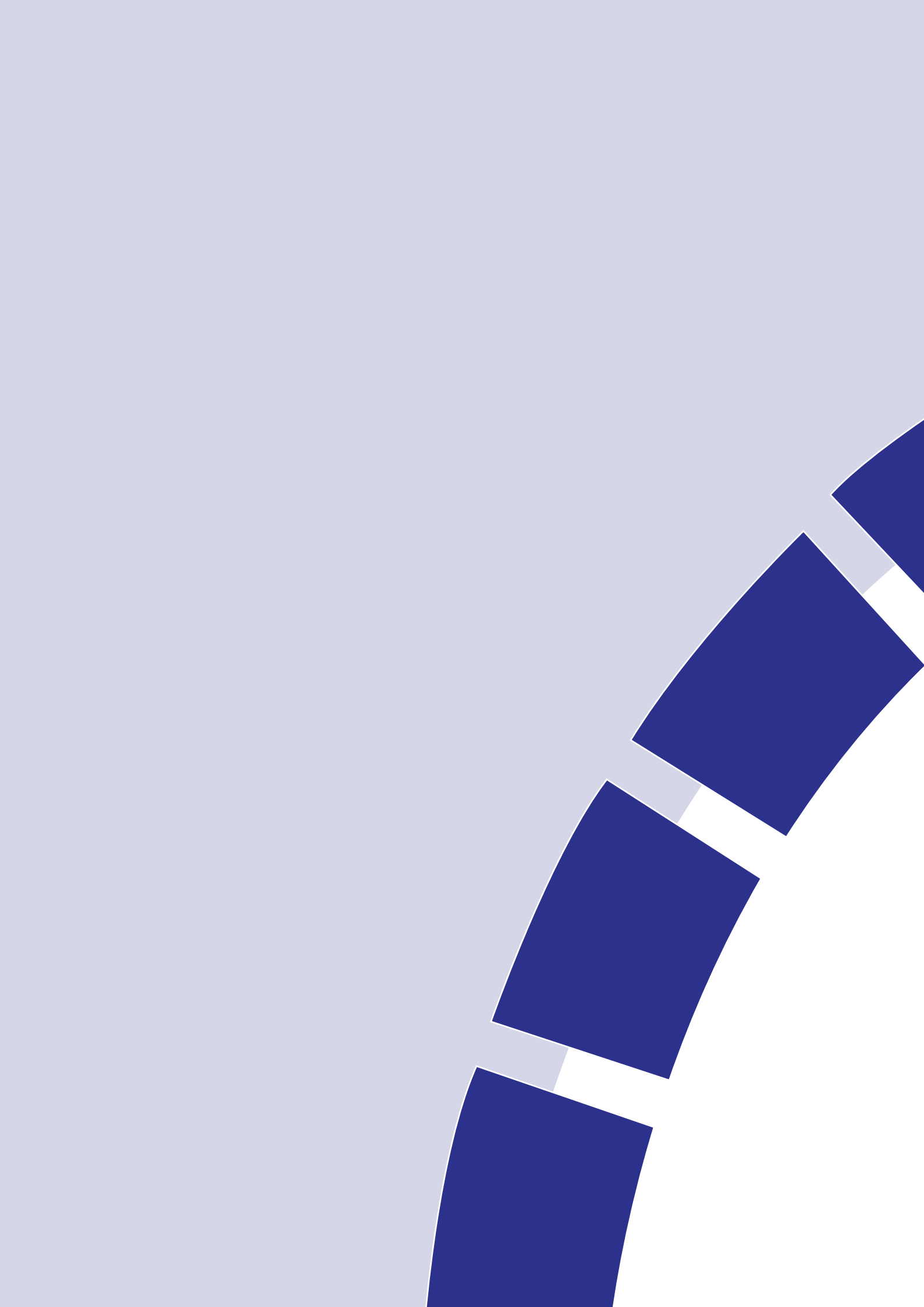
## Directors' Shareholding as at 31st December 2014.

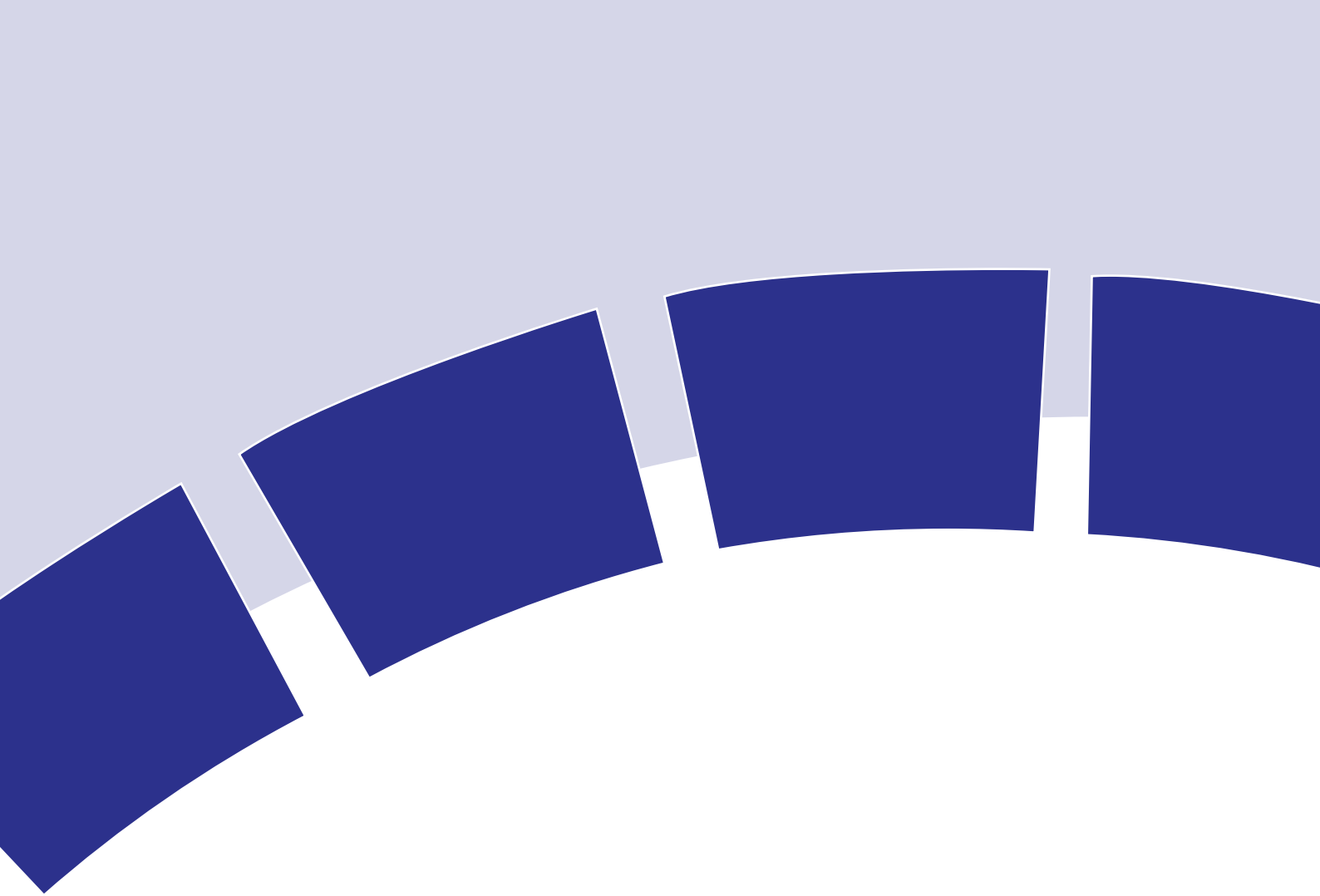
		2014		2013	
		No of Shares	% of Holdings	No of Shares	% of Holdings
Mr.U Gautam	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr.M.S.I Peiris *	Voting	N/A	N/A	24	0.00
	Non Voting	-	-	-	-
Mr.G.C.B Ranasinghe	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr.J.C Korale	Voting	-	-	-	-
	Non Voting	-	-	-	-
Dr.T.Senthilverl	Voting	354,511,349	29.75	273,799,896	22.97
	Non Voting	47,171,815	7.68	-	-
	Voting Warrants	-	-	-	-
Mr.S.N.P Paliheena	Voting	-	-	-	-
	Non Voting	-	-	-	-
Mr.H.R.S Wijeratne	Voting	194,882,451	16.35	194,882,451	16.35
	Non Voting	-	-	-	-

\* Mr.M.S.I Peiris ceased to be a Director with effect from 1st July 2014.

Share Information	2014	2013
<b>Book Value</b>		
Net Assets per Share-Group (Rs)	0.59	0.54
<b>Share Prices</b>		
<b>Ordinary Shares-Voting</b>		
Highest (Rs.)	1.80	1.10
Lowest (Rs.)	0.80	0.50
Last Traded (Rs.)	1.40	0.80
<b>Ordinary Shares-Non Voting</b>		
Highest (Rs.)	0.70	0.50
Lowest (Rs.)	0.30	0.30
Last Traded (Rs.)	0.50	0.30
<b>Earnings</b>		
Ordinary Shares		
Basic Earnings Per Share (Rs.)	0.04	0.04
Price Earning Ratio (Times)	35	25
<b>Frequency of Shares Traded</b>		
Number of Shares Traded		
Voting	527,271,051	209,667,263
Non Voting	341,213,576	136,233,227
<b>Number of Transactions</b>		
Voting	13,351	6,776
Non Voting	7,234	4,643
<b>Total Number of Shareholders</b>		
Voting	10,360	11,191
Non Voting	4,617	5,231
<b>Total Number of Public Shareholders</b>		
Voting	10,356	11,185
Non Voting	4,615	5,231
<b>Percentage of Public holding</b>		
Voting	53.90%	60.67%
Non Voting	92.32%	100.00%
<b>Market Capitalization</b>		
SMB Leasing PLC Value (Rs.Mn)	1,976	953







# Financial Information

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# Financial Calendar

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Interim Financial Statements	Achievement in 2014	Target Date in 2015
1st Quarter	15th May 2014	15th May 2015
2nd Quarter	14th August 2014	15th August 2015
3rd Quarter	14th November 2014	15th November 2015
4th Quarter	12th February 2015	15th February 2016

## Annual Report and Financial Statements to Shareholders

2013 F/ Y	June 2014
2014 F/Y	June 2015

## Annual General Meeting

2013 F/Y	30th June 2014
2014 F/Y	23rd June 2015

F/Y - Financial year

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

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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 31st December 2014 and the Auditors' Report thereon. The Financial Statements were accepted and approved by the Board of Directors on 23rd May 2015.

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 best practices on Corporate Governance.

## **Review of Performance for the year ended 31st December 2014**

The operations of the Company for the year ended 31st December 2014 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 3rd September 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 in 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. Senthilvel who has a direct holding of 29.75% as at 31 December 2014.

## **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 75 to 80 of the Annual Report.

## **Significant Accounting Policies**

The Significant Accounting Policies adopted in the preparation of Financial Statements are given on page 81 to 101 of the Annual Report.

## **Auditors**

The Financial Statements for the year ended 31st December 2014 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 on Page 102 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 74 of the Annual Report.

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

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## Board of Directors

The following were Directors of the Company as at 31st December 2014.

Mr. H. R. S. Wijeratne (Chairman)

Mr. U. Gautam

Mr. M. S. I. Peiris\*

Mr. G. C. B. Ranasinghe

Mr. J. C. Korale

Dr. T. Senthilveri

Mr. S. N. P. Palihena

Mr. T. M. Wijesinghe (Alternate to Mr. H. R. S. Wijeratne )

\* Mr. M. S. I. Peiris ceased to be a Director in terms of Article 85 (g) of the Articles of Association of the Company with effect from 1st July 2014.

## Retirement of Directors

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

## Independent Directors

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

Mr. G. C. B. Ranasinghe

Mr. J. C. Korale

Mr. S. N. P. Palihena

## Directors Shareholdings

The shareholdings of the Directors of the Company are shown on page 63 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 36 on page 123 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

Audit Committee Report is given on the page 52 of the Annual Report.

Remuneration Committee Report is given on the page 54 of the Annual Report.

Risk Committee Report is given on the page 55 of the Annual Report.

## Directors Fees and Remuneration

Directors Fees and Remuneration paid for the financial year ended 31st December 2014 are given on Note No. 36.2 on page 123 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/LKAS), Companies Act No. 07 of 2007, Finance Leasing (Amendment) Act No. 24 of 2005 and Listing rules of the Colombo Stock Exchange.

## 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.

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

The Company being listed in the Colombo Stock Exchange is in compliance with the 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 page 25 to 51.

## 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.

The Company has ongoing process for identifying, evaluating and managing the risk that are faced by the Company and the Directors have reviewed this process through the Integrated Risk Management Committee and the Audit Committee.

## 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 & 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 and the Convention on the Suppression of Terrorist Financing Act No 25 of 2005, 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 73.

## 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

	2014 Rs Mn	2013 Rs Mn Restated
Profit after Tax	83.9	72.6
Un-appropriated profit brought forward	19.0	(43.1)
Profits available for appropriation	102.9	29.5
Other Comprehensive Income	(1.6)	(1.0)
Transfers to Statutory Reserves	(3.9)	(3.9)
Transfers (to)/from Investment Fund Account	9.9	(5.6)
Un-appropriated profit carried forward	107.3	19.0

## Group Revenue

The revenue of the group was Rs. 172 Mn (2013 - Rs. 182 Mn). An analysis of revenue based on segments is disclosed in the segmental analysis on page 129 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 / LKAS).

The amount of financial investments held by the Group as at 31st of December 2014 amounted to Rs. 18.1 Mn (2013 - Rs.16.8 Mn).

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

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A detailed description of the financial investments is disclosed in Note No. 16 on page 106 of the Annual Report.

## **Property, Plant & Equipment**

Details relating to Property, Plant & Equipment are disclosed in Note No. 20 on page 112 of the Annual Report.

## **Intangible Assets**

The capital expenditure on acquisition of intangible assets during the year amounted to Rs. Nil (2013 - Rs.3 Mn). The carrying value of intangible assets as at the reporting date amounted to Rs. 3.5 Mn (2013 - Rs. 3.7 Mn).

Movement of intangible assets from the balance as at 1st January 2014 to balance as at 31st December 2014, additions and disposals made and amortization charge for the year is disclosed in the Note No 21 on page 114 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 on page 111 of the Annual Report.

## **Reserves**

The reserves consist of Statutory Reserve Fund and the Retained Reserves.

The reserves of the group are disclosed in the Statement of Changes in Equity on page 79 and in Notes 28, 29, 30, on page 116 of the Annual Report.

## **Stated Capital**

The Stated Capital of the Company as at 31 December 2014 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 11.1 on page 103 of the Annual Report.

The group policy is to provide for deferred taxation on all known temporary differences as at the Balance Sheet date on the liability method. The deferred tax details of the Company is given in Note No 11.3 on page 104 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 4.13 on page 97 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. 36 on Page 123 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 122 of the Annual Report.

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

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## Capital Commitments

The Capital Expenditure commitments is disclosed in Note No. 32.1 on page 122 of the Annual Report.

## Contingent Liabilities

The Contingent Liabilities is disclosed in the Note No. 32.2 on page 122 of the Annual Report.

## Share Information

Information relating to Earnings, Net Assets, and Market value per share and share trading is given on page 63 of the Annual Report.

## Major Shareholders

Details of the top twenty Shareholders of the company and the percentages held by each of them are disclosed in page 58 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 60 to 62 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 18 to 19 of the Annual Report. The Company's strength of manpower as at 31st December 2014 was 39 (2013 - 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.

There had been violation of some of the conduct surfaced during the year 2014 in relation to preceding years and actions are in progress.

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.

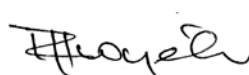
## Annual Report

The Board of Directors approved the Company Financial Statements together with the reviews which forms part of the Annual Report on 23rd May 2015. 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 Sasakawa Hall, No 04, 22nd Lane, Colombo 03 on 23rd June 2015 at 10.00 a.m. The notice of Annual General Meeting is given on page 133 to 134 of the Annual Report.

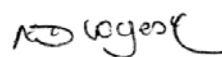
This report is signed for and on behalf of the Board of Directors by,



**H. R. S Wijeratne**  
Chairman



**U. Gautam**  
Director



**P W Corporate Secretarial**  
(Pvt) Ltd.  
Company Secretaries  
Colombo.  
23rd May 2015.



# CEO & CFO's Responsibility Statement

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The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 07 of 2007 and Regulations of Finance Leasing (Amendment) Act No. 24 of 2005. There are no departures from the prescribed Accounting Standards in their adoption. The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied, unless otherwise disclosed in Notes to the Financial Statements.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The best estimates and judgements were made in order that these Financial Statements are presented in a true and fair manner, the form and substance of transactions, and reasonably present the Company's state of affairs. To ensure this, the Company has taken proper and sufficient care in installing a system of internal controls and accounting records for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements were audited by Messrs. KPMG, Chartered Accountants, the external 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.



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



**S. Gunathilake**  
Head of Finance

Colombo  
23rd May 2015

# Directors' Responsibility To Financial Reporting

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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 74.

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 75 to 80, the Company has used appropriate accounting policies, consistently applied 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 regulations of Finance Leasing (Amendment) Act No. 24 of 2005, Colombo Stock Exchange listing requirements, the requirements of the Companies Act No. 07 of 2007.

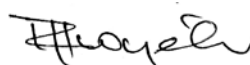
The Directors have further responsibility that all financial and nonfinancial requirements stipulated under the Companies Act No 07 of 2007 pertaining to Directors duties and responsibilities have been complied with.

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.



**H. R. S Wijeratne**  
Chairman

Colombo  
23rd May 2015

# Independent Auditors' Report



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

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

## TO THE SHAREHOLDERS OF SMB LEASING PLC

### Report on the Financial Statements

We have audited the accompanying financial statements of SMB Leasing PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("Group"), which comprise the statement of financial position as at 31st December 2014, and statement of income, 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 page 75 to 129 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

As disclosed in note 17.3 to the financial statements, the Group has recognized an amount of Rs. 2,952,296 as the share of losses of Associate Companies of the Group namely, SMB Real Estate Ltd, Kenanga Investment Corporation Ltd and SMB Securities (Pvt) Ltd as per equity method of accounting for the preparation of consolidated financial statements for the year ended 31st December 2014, based on unaudited financial statements of the respective Companies for the same year.

In our opinion, except for the effects on the financial statements of the matter referred to in the preceding paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st December 2014, 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:

- The basis of opinion and scope and limitations of the audit are as stated above
- 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 31st December 2014, 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  
23rd May 2015

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

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne ACA  
R.H. Ranjan ACA

P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA  
R.M.D.B. Rajapakse ACA

C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo ACA

Principals - S.R.I. Perera FCMA (UK), LLB, Attorney-at-Law, H.S. Goonawardene ACA

# Income Statement

For The Year Ended 31st December	Note	Company		Group	
		2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs. Restated
Interest income	6.1	172,442,510	182,023,753	172,442,510	182,023,753
Interest expenses	6.2	(31,646,881)	(44,868,143)	(31,683,531)	(44,989,785)
<b>Net interest income</b>		140,795,629	137,155,610	140,758,979	137,033,968
Fee and commission income	7.1	3,945,188	3,834,091	3,945,188	3,834,091
Fee and commission expenses	7.2	(24,000)	-	(222,072)	-
<b>Net interest, fee and commission income</b>		144,716,817	140,989,701	144,482,095	140,868,059
Other operating income (net)	8	17,584,882	17,188,306	90,426,403	66,629,595
<b>Total operating income</b>		162,301,699	158,178,007	234,908,498	207,497,654
Reversal of Impairment for loans and Advances	9	22,660,432	24,455,811	22,594,733	24,455,811
<b>Net operating income</b>		184,962,131	182,633,818	257,503,231	231,953,465
Personnel expenses	10	(45,898,598)	(41,293,893)	(70,345,355)	(58,581,682)
Other expenses	10	(45,395,765)	(49,726,896)	(80,662,906)	(70,901,192)
<b>Operating profit before Value Added Tax (VAT)</b>		93,667,768	91,613,029	106,494,970	102,470,591
Value Added Tax (VAT) on financial services		(7,887,420)	(7,420,857)	(7,887,420)	(7,420,857)
<b>Profit before income tax</b>		85,780,348	84,192,172	98,607,550	95,049,734
Share of Losses of Associate Companies	17.3	-	-	(2,952,296)	(13,653,588)
Income tax expense	11	(6,776,047)	(6,439,746)	(9,288,963)	(7,887,214)
<b>Profit for the year</b>		79,004,301	77,752,426	86,366,291	73,508,932
<b>Profit attributable to :</b>					
Owners of the Parent		79,004,301	77,752,426	83,931,833	72,685,121
Non-controlling interest		-	-	2,434,458	823,811
<b>Profit for the year</b>		79,004,301	77,752,426	86,366,291	73,508,932
Basic Earnings per share	12	0.04	0.04	0.05	0.04

The Notes to the Financial Statements from page 81 to 129 form an integral part of these Financial Statements.  
Figures in brackets indicate deductions.

# Statement of Profit or Loss and Other Comprehensive Income

For The Year Ended 31st December	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.
<b>Profit for the year</b>	79,004,301	77,752,426	86,366,291	73,508,932
<b>Other Comprehensive Income</b>				
Actuarial Loss on Defined Benefit Plans	(133,186)	(517,609)	(340,296)	(522,110)
Fair value Loss on Available for Sale investments	(1,321,799)	(467,816)	(1,321,799)	(467,816)
<b>Other Comprehensive Expense for the Year, Net of Tax</b>	(1,454,985)	(985,425)	(1,662,095)	(989,926)
<b>Total Comprehensive Income for the Year</b>	77,549,316	76,767,001	84,704,196	72,519,006
<b>Total Comprehensive Income attributable to:</b>				
Owners of the Parent	77,549,316	76,767,001	82,371,243	71,697,400
Non-controlling interest	-	-	2,332,953	821,606
<b>Total Comprehensive Income for the Year</b>	77,549,316	76,767,001	84,704,196	72,519,006

The Notes to the Financial Statements from page 81 to 129 form an integral part of these Financial Statements.  
Figures in brackets indicate deductions.

# Statement of Financial Position

As at 31st December	Note	Company		Group		
		2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs. Restated	2012 Rs. Restated
<b>Assets</b>						
Cash and cash equivalents	13	18,870,756	17,044,488	24,835,369	22,979,300	11,137,571
Placements with Banks	14	126,181,087	99,889,094	126,181,087	99,889,094	110,333,356
Loans and Receivables to other customers	15	923,889,897	932,412,531	921,549,897	929,832,443	910,414,890
Financial investments	16	7,711,654	8,991,267	18,176,666	16,889,248	7,487,583
Investments in Associates	17	108,756,745	116,418,469	119,312,952	122,265,248	135,918,838
Investments in Subsidiary	18	11,791,223	9,268,394	-	-	-
Investment Properties	19	33,730,400	33,730,400	38,976,800	38,976,800	41,376,797
Property, Plant & Equipment	20	9,875,783	13,508,438	16,745,303	19,192,205	12,275,722
Intangible Assets	21	3,553,042	3,700,519	3,553,042	3,706,378	17,575
Deferred Tax Assets	11.3.2	-	-	1,061,739	798,517	603,710
Other Assets	22	18,156,640	14,450,638	24,017,395	21,169,225	28,051,176
<b>Total Assets</b>		<b>1,262,517,227</b>	<b>1,249,414,238</b>	<b>1,294,410,250</b>	<b>1,275,698,458</b>	<b>1,257,617,218</b>
<b>Liabilities</b>						
Due to banks	23	-	18,748,000	-	18,748,000	34,465,511
Due to other customers	24	198,284,863	196,613,090	198,284,863	196,613,090	224,628,752
Other borrowings	25	-	46,868,194	3,076,525	52,039,815	49,693,254
Other Liabilities	26	26,229,985	26,731,891	34,915,980	34,868,869	47,920,021
<b>Total Liabilities</b>		<b>224,514,848</b>	<b>288,961,175</b>	<b>236,277,368</b>	<b>302,269,774</b>	<b>356,707,538</b>
<b>Equity</b>						
Stated Capital	27	919,064,114	919,064,114	919,064,114	919,064,114	919,064,114
Statutory Reserves	28	21,632,528	17,682,313	21,632,528	17,682,313	13,794,692
Retained Earnings	29	97,305,737	13,782,504	107,366,772	19,021,611	(43,127,731)
Other Reserves	30	-	9,924,132	-	9,924,132	4,263,696
<b>Total equity attributable to equity holders of the Company</b>		<b>1,038,002,379</b>	<b>960,453,063</b>	<b>1,048,063,414</b>	<b>965,692,170</b>	<b>893,994,771</b>
<b>Non- controlling Interests</b>	18.1	-	-	10,069,468	7,736,514	6,914,909
<b>Total Equity</b>		<b>1,038,002,379</b>	<b>960,453,063</b>	<b>1,058,132,882</b>	<b>973,428,684</b>	<b>900,909,680</b>
<b>Total Equity and Liabilities</b>		<b>1,262,517,227</b>	<b>1,249,414,238</b>	<b>1,294,410,250</b>	<b>1,275,698,458</b>	<b>1,257,617,218</b>

The Notes to the Financial Statements from page 81 to 129 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.



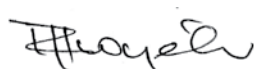
**S. Gunathilake**  
Head of Finance



**M.J.N.S. 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,



**H. R. S Wijeratne**  
Chairman



**U. Gautam**  
Director

Colombo  
23rd May 2015

# Statement of Changes in Equity

For the year ended 31st December 2014	Stated Capital		Statutory Reserves		Retained Earnings / (Accumulated Losses)	Total
	Ordinary Voting Shares	Ordinary Non-Voting Shares	Statutory Reserve Fund	Investment Fund Account		
Company	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Balance as at 1st January 2013</b>	708,445,963	210,618,151	13,794,692	4,263,696	(53,436,439)	883,686,063
Profit for the year	-	-	-	-	77,752,426	77,752,426
Other comprehensive Expense (net of tax)	-	-	-	-	(985,425)	(985,425)
<b>Total comprehensive income for the year</b>	-	-	-	-	76,767,001	76,767,001
Transfer to Statutory Reserve	-	-	3,887,621	-	(3,887,621)	-
Transfer to Investment Fund	-	-	-	5,660,436	(5,660,436)	-
<b>Total transactions with equity holders</b>	-	-	3,887,621	5,660,436	(9,548,057)	-
<b>Balance as at 31st December 2013</b>	708,445,963	210,618,151	17,682,313	9,924,132	13,782,504	960,453,063
<b>Balance as at 1st January 2014</b>	708,445,963	210,618,151	17,682,313	9,924,132	13,782,504	960,453,063
Profit for the year	-	-	-	-	79,004,301	79,004,301
Other comprehensive Expense (net of tax)	-	-	-	-	(1,454,985)	(1,454,985)
<b>Total comprehensive income for the year</b>	-	-	-	-	77,549,316	77,549,316
Transfers to Investment Fund	-	-	-	1,044,270	(1,044,270)	-
Transfer from Investment Fund to Retained Earnings	-	-	-	(10,968,402)	10,968,402	-
Transfers to Statutory Reserve	-	-	3,950,215	-	(3,950,215)	-
<b>Total transactions with equity holders</b>	-	-	3,950,215	(9,924,132)	5,973,917	-
<b>Balance as at 31st December 2014</b>	708,445,963	210,618,151	21,632,528	-	97,305,737	1,038,002,379

The Notes to the financial Statements from page 81 to 129 form an integral part of these Financial Statements.  
Figures in brackets indicate deductions.

# Statement of Changes in Equity

For the year ended 31st December 2014

For the year ended 31st December 2014	Attributable to the Equity Holders of the parent						Non - Controlling Interest	Total Equity
	Stated Capital		Statutory Reserves		Retained Earnings / (Accumulated Losses)	Total		
	Ordinary	Ordinary	Statutory	Investment				
	Voting Shares	Non-Voting Shares	Reserve Fund	Fund Account				
	Rs.	Rs.	Rs.	Rs.				
					(Restated)			
Balance as at 1st January 2013 as previously stated	708,445,963	210,618,151	13,794,692	4,263,696	(35,621,042)	901,501,461	6,914,909	908,416,370
Impact on Restatement Adjustments (Note 34.1)	-	-	-	-	(7,506,690)	(7,506,690)	-	(7,506,690)
Restated Balance as at 1st January 2013	708,445,963	210,618,151	13,794,692	4,263,696	(43,127,732)	893,994,771	6,914,909	900,909,680
Restated Profit for the Year (Note 34.2)	-	-	-	-	72,685,121	72,685,121	823,811	73,508,932
Other comprehensive income (net of tax)	-	-	-	-	(987,721)	(987,721)	(2,205)	(989,926)
Total comprehensive income for the year	-	-	-	-	71,697,400	71,697,400	821,606	72,519,006
Transfers to Statutory Reserve	-	-	3,887,621	-	(3,887,621)	-	-	-
Transfers to Investment Fund	-	-	-	5,660,436	(5,660,436)	-	-	-
Total transactions with equity holders	-	-	3,887,621	5,660,436	(9,548,057)	-	-	-
Balance as at 31st December 2013 (Restated)	708,445,963	210,618,151	17,682,313	9,924,132	19,021,611	965,692,171	7,736,515	973,428,684
Balance as at 1st January 2014	708,445,963	210,618,151	17,682,313	9,924,132	19,021,611	965,692,171	7,736,515	973,428,684
Profit for the year	-	-	-	-	83,931,833	83,931,833	2,434,458	86,366,291
Other comprehensive income (net of tax)	-	-	-	-	(1,560,590)	(1,560,590)	(101,505)	(1,662,095)
Total comprehensive income for the year	-	-	-	-	82,371,243	82,371,243	2,332,953	84,704,196
Transfers to Statutory Reserve	-	-	3,950,215	-	(3,950,215)	-	-	-
Transfers to Investment Fund	-	-	-	1,044,270	(1,044,270)	-	-	-
Investment Fund transfers to retained earnings	-	-	-	(10,968,402)	10,968,402	-	-	-
Total transactions with equity holders	-	-	3,950,215	(9,924,132)	5,973,917	-	-	-
Balance as at 31st December 2014	708,445,963	210,618,151	21,632,528	-	107,366,772	1,048,063,414	10,069,468	1,058,132,882

The Notes to the Financial Statements from page 81 to 129 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.



# Cash Flow Statement

For the year ended 31 December	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.
<b>Cash Flow from Operating Activities</b>				
Interest Receipts	167,532,001	173,353,711	167,532,001	173,353,711
Interest Payments	(23,146,198)	(49,928,186)	(23,182,848)	(50,515,124)
Fees and Commission Receipts	11,062,001	16,674,715	86,228,279	62,916,415
Cash Payments to Employees and Suppliers	(83,626,766)	(73,978,261)	(150,011,379)	(118,530,577)
Profit before Changes in Operating Assets	71,821,038	66,121,979	80,566,053	67,224,425
Changes in Operating Assets				
Loans and receivables to other customers	36,093,575	13,948,213	35,787,788	13,708,301
Other Assets	(2,616,011)	(11,294,962)	1,050,638	(16,991,658)
<b>Cash Genarated From Operations</b>	<b>105,298,602</b>	<b>68,775,230</b>	<b>117,404,479</b>	<b>63,941,068</b>
Tax Paid	(7,887,420)	(7,420,857)	(10,186,177)	(7,420,857)
Gratuity Paid	(542,933)	(311,250)	(679,058)	(311,250)
<b>Net Cash From Operating Activities</b>	<b>96,868,249</b>	<b>61,043,123</b>	<b>106,539,244</b>	<b>56,208,961</b>
<b>Cash Flow from Investing Activities</b>				
Net (Increase)/Decrease of Investment in Treasury Bills & Bonds	-	(6,202,091)	(1,664,425)	(6,202,091)
Purchase of Property, Plant & Equipment	(625,896)	(2,743,794)	(3,611,384)	(7,587,456)
Proceeds from Disposal of Property, Plant & Equipment	-	127,681	37,200	85,346
<b>Net Cash Used in Investing Activities</b>	<b>(625,896)</b>	<b>(8,818,204)</b>	<b>(5,238,609)</b>	<b>(13,704,201)</b>
<b>Cash Flow from Financing Activities</b>				
Increase/(Decrease) in Other Borrowings	(65,616,194)	(13,942,553)	(67,711,290)	(3,485,421)
Increase/(Decrease) in Liabilities	(3,600,228)	2,713,435	(6,533,613)	5,833,922
Increase/(Decrease) in Borrowings	(6,828,910)	(50,940,382)	(6,828,910)	(50,940,382)
<b>Net Cash Used in Financing Activities</b>	<b>(76,045,332)</b>	<b>(62,169,500)</b>	<b>(81,073,813)</b>	<b>(48,591,881)</b>
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>	<b>20,197,021</b>	<b>(9,944,581)</b>	<b>20,226,822</b>	<b>(6,087,120)</b>
Cash and Cash Equivalents at the beginning of the year	23,827,525	33,772,106	29,762,337	35,849,457
<b>Cash and Cash Equivalents at the end of the year (Note 13.1)</b>	<b>44,024,546</b>	<b>23,827,525</b>	<b>49,989,159</b>	<b>29,762,337</b>

The Notes to the Financial Statements from page 81 to 129 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

# Notes to the Financial Statements

## 1. Corporate Information

### 1.1 Reporting Entity

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

Its registered office and the principal place of the business is at No 110, D.S.Senanayeke Mawatha, Colombo 08.

### 1.2 Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended 31st December 2014 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 31st December 2014 is 39 (2013 - 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.

# Notes to the Financial Statements

## 2. Basis of Preparation

### 2.1 Basis of Measurement

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

Item	Basis of measurement	Note No.	Page
Financial Investments Available for Sale (AFS)	Fair value	16.1	107
Financial Assets held for trading (FVTPL)	Fair value	16.2	108
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	115

### 2.2 Statement of Compliance

The consolidated Financial Statements of the Group and Separate Financial Statements of the Company, as at 31 December 2014 and for the year then ended, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRS/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, the Finance Leasing (Amendment) Act No.24 of 2005 and the Listing Rules of the 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 page 75 to 76)
- 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 77);
- a Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review of the Company and the Group (Refer page 78 to 79)

- 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 80)
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer page 81 to 129)

### 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/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 page 67 and 73 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 31st December 2014 (including comparatives) were approved and authorised for issue on in accordance with the resolution of the Board of Directors on 23rd May 2015.

# Notes to the Financial Statements

## 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. 38 on page 128 (Current/ non-current analysis). No adjustments have been made for inflationary factors affecting the Financial Statements.

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

## 2.6 Functional and Presentation Currency

The consolidated financial statements are presented in Sri Lankan Rupees (Rs.), which is the Group's functional and presentation currency.

## 2.7 Materiality & 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 have been rounded-off to the nearest Rupees, except where otherwise indicated 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.

The details of such restatement and reclassification is disclosed in Note No. 35 on page 122 to the Financial Statements.

## 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 subsidiaries and its associate company for the year ended 31st December 2014.

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

### 2.11.1 Business combination and goodwill

Business combinations are accounted for using the Acquisition method as per the requirements of Sri Lanka Accounting Standard SLFRS 03 - Business Combinations.

The Group and the Company measure goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net amount of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from

# Notes to the Financial Statements

the acquisition date, allocated to each of the group's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Income Statement.

## 2.11.2 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 Subsidiaries within the Group are provided in Note No. 18 on page 110 to the financial statements.

The financial statements of the Company's subsidiaries are prepared for the same reporting year, using consistent accounting policies.

All subsidiaries of the Company have been incorporated in Sri Lanka.

## 2.11.3 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.

# Notes to the Financial Statements

Investment details of the Associate within the Group are provided in Note No 17 on page 110 to the financial statements.

## 2.11.4 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.

## 2.11.5 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.

## 3.

### Significant Accounting Estimates and Assumptions

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

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

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

### Critical Accounting Estimate /Judgment

	Disclosure Reference	Page
	<b>Note</b>	
Impairment of Loans and Advances	15.5	106
Valuation of Employee Benefit Obligation - Gratuity	26.1	115
Deferred Taxation – Utilisation of Losses	11.3	104

## 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 Income Statement. 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.

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.

# Notes to the Financial Statements

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The impairment loss on loans and receivable is disclosed in Note No. 09 on page 102.

## **3.2 Impairment of Available for Sale Investments**

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 determined using Internaly Developpev Method. This making assumptions about discount rates, future salary increases, 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 115 to these Financial Statements.



# Notes to the Financial Statements

## 4 Significant Accounting Policies

### 4.1 Changes in Accounting Policies

The Group has adopted the following new standards with the date of initial application of 1st January 2014.

SLFRS 10 - Consolidated Financial Statements  
SLFRS 12 - Disclosure of Interests in Other Entities.  
SLFRS 13 - Fair Value Measurement.

The nature and the effects of the changes are explained below.

#### (a) Subsidiaries, including structured entities

As a result of SLFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. SLFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of SLFRS10, the Group reassessed its control conclusions as of 1st January 2014. However, the reassessment did not have an impact on the Group's financial statements.

#### (b) Interests in other entities

As a result of SLFRS 12, the Group has expanded disclosures about its interests in subsidiaries.

#### (c) Fair value measurement

In accordance with the transitional provisions of SLFRS 13, the Group has applied the new definition of fair value, as set out in Note No. 31 on page 117 prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the group has included new disclosures in the Financial Statements, which are required under SLFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were

required by other standards before the effective date of SLFRS 13, the Group has provided the relevant comparative disclosures under those standards.

Except for the changes specified in above, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

## 4.2 Financial Assets and Financial Liabilities

### 4.2.1 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.



# Notes to the Financial Statements

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			√	
Placements with Banks			√	
Loans and Receivables to Other Customers			√	
Investments in Unquoted Shares		√		
Investments in Quoted Shares	√	√		
Investments in Treasury Bonds				√

## Subsequent Measurement

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

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

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

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

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

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

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

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

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

# Notes to the Financial Statements

Income. The losses arising from impairment of such investments are recognised in the Income Statement 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.

## 4.2.2

### Non Derivative Financial Liabilities

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

- Financial liabilities at fair value through profit or loss (FVTPL)
- 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.

# Notes to the Financial Statements

The details of the Group's financial liabilities at amortised cost are shown in Note No. 31.1.4 on page 118 to the Financial Statements.

## 4.2.3 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.

# Notes to the Financial Statements

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 income statement 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 119.

## 4.2.4 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.

## 4.2.5 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;

# Notes to the Financial Statements

- 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.

### 4.2.6 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.

### 4.2.7 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.

# Notes to the Financial Statements

## 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.

## 4.2.8

## 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.



# Notes to the Financial Statements

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

## 4.3 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.

## 4.4 Property, Plant and Equipment

### 4.4.1 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.

### 4.4.2 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.

### 4.4.3 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.

### 4.4.4 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.

### 4.4.5 Derecognition

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

### 4.4.6 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.

# Notes to the Financial Statements

The estimated useful lives are as follows;

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

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

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

## 4.5 Intangible Assets

The intangible assets include the value of internally developed computer software.

### 4.5.1 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.

### 4.5.2 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.

### 4.5.3 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; 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.

### 4.5.4 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.

## 4.6 Cash and Cash Equivalents

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



# Notes to the Financial Statements

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.

## 4.7 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.

## 4.8 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.

## 4.9 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.

## 4.10 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.

## 4.11 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.

## 4.12 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

# Notes to the Financial Statements

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.

## 4.13 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.

## 4.14 Employee Benefits

### 4.14.1 Defined Benefit Plan - 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.

### 4.14.2 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.

## 4.14.3 Defined Contribution Plans - Employees' Trust Fund

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

## 4.15 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.

## 4.16 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

# Notes to the Financial Statements

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 received 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.

## 4.17

## 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

# Notes to the Financial Statements

- 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 12% 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.

## 4.18

## 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.

# Notes to the Financial Statements

## 4.19 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"> <li>• Interest Income</li> <li>• Service Fee Income &amp; Commission Income</li> </ul>
Loans	Nature of Product	Loan facilities to acquire Movable and Immovable properties and Personal Loans
	Classification of Products	Land, Motor Cars, Personal Loans
	Revenue Derived From	<ul style="list-style-type: none"> <li>• Interest Income</li> <li>• Service Fee Income</li> </ul>
Treasury	Nature of Product	Investing Activities
	Classification of Products	Placement with Banks, Repos, Treasury Bonds
	Revenue Derived From	<ul style="list-style-type: none"> <li>• Investment income and fair value gains and losses on investments</li> </ul>
Money Brokering	Nature of Product	Money Brokering Activities
	Classification of Products	Call Money, Forex, Treasury Bills, Treasury Bonds
	Revenue Derived From	<ul style="list-style-type: none"> <li>• Commission Income</li> <li>• Investment Income and Fair Value gains</li> <li>Losses on Investments</li> </ul>

# Notes to the Financial Statements

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## **4.20 Statement of Cash Flows**

The Statement of Cash Flows has been prepared by using the 'Indirect 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 Flows are comprised of those items as explained in Note No. 13.1 on page 105.

The Statement of Cash Flows is given on page 80.

## **4.21 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 122.

## **4.22 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 122.

## **5. New SLFRS issued and not yet effective**

### **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 is effective for annual period beginning on or after 1st January 2018 with early adoption permitted.

### **SLFRS 15 - Revenue from Contracts with Customers**

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18 'Revenue' and LKAS 11 on 'Construction Contracts'.

SLFRS 15 is effective for Annual Reporting period beginning on or after 1st January 2018, with early adoption permitted.

# Notes to the Financial Statements

For the year ended 31 December		Company		Group	
		2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
<b>5</b>	<b>Income</b>				
	Interest income (Note 6.1)	172,442,510	182,023,753	172,442,510	182,023,753
	Fee and commission income (Note 7)	3,921,188	3,834,091	3,723,116	3,834,091
	Other operating income (Note 8)	17,584,882	17,188,306	90,426,403	66,629,595
		193,948,580	203,046,150	266,592,029	252,487,439
<b>6</b>	<b>Net Interest Income</b>				
<b>6.1</b>	<b>Interest income</b>				
	Lease Rental Receivable	77,129,595	88,084,707	77,129,595	88,084,707
	Loans and Advances	95,312,915	93,939,046	95,312,915	93,939,046
	Total interest income	172,442,510	182,023,753	172,442,510	182,023,753
<b>6.2</b>	<b>Interest expenses</b>				
	Due to banks	1,722,034	3,987,237	1,758,684	4,108,879
	Due to other customers	28,622,879	32,514,771	28,622,879	32,514,771
	On Other borrowings	1,301,968	8,259,641	1,301,968	8,259,641
	On Refinance	-	106,494	-	106,494
	Total interest expenses	31,646,881	44,868,143	31,683,531	44,989,785
	Net interest income	140,795,629	137,155,610	140,758,979	137,033,968
<b>7</b>	<b>Net Fee and Commission Income</b>				
<b>7.1</b>	Fee and commission income	3,945,188	3,834,091	3,945,188	3,834,091
<b>7.2</b>	Less: Fee and commission expenses	(24,000)	-	(222,072)	-
	Net fee and commission income	3,921,188	3,834,091	3,723,116	3,834,091
<b>8</b>	<b>Other Operating Income</b>				
	Profit / (Loss) on Sale of Property, Plant and Equipment	-	112,104	(63,610)	123,934
	Interest Income on Government Securities-Treasury Bonds	672,187	378,839	672,187	378,839
	Service Charges	664,711	556,026	664,711	556,026
	Recovery of loans and lease written off in prior years	2,884,430	2,390,027	2,884,430	2,390,027
	Dividend Income	36,000	18,000	82,276	83,643
	Interest Income on Placements with banks	10,804,725	12,319,388	10,804,725	12,319,388
	Reversals of provision for fall in value of subsidiary company	2,522,829	1,413,922	-	-
	Profit on sale of shares	-	-	975,176	-
	Money Brokering Income	-	-	74,406,508	50,777,738
		17,584,882	17,188,306	90,426,403	66,629,595
<b>9</b>	<b>Reversal of Impairment for Loans and Advances</b>				
	Reversal of Impairment for Loans and Advances	45,341,618	38,897,662	45,341,618	38,897,662
	Write-offs	(22,681,186)	(14,441,851)	(22,746,885)	(14,441,851)
		22,660,432	24,455,811	22,594,733	24,455,811
<b>10</b>	<b>Operating Expenses</b>				
	Operating expenses, among others, include the following:				
	Auditors' Remuneration - Audit Fees	500,000	450,000	658,000	590,000
	- Non Audit Services	707,250	656,502	791,250	656,502
	Depreciation	4,258,551	4,423,513	5,957,476	5,554,279
	Provision for fall in value of investment in associate companies	7,661,724	9,142,769	-	-
	Legal expenses	2,116,382	1,569,078	2,116,382	1,569,078
	Directors' Fees	5,475,857	4,313,899	5,475,857	4,313,899
	Personnel expenses:				
	Staff Remuneration	26,241,867	26,097,440	42,283,105	39,935,814
	Defined Contribution Plan Costs - EPF	3,149,024	2,872,493	5,073,973	4,533,097
	Defined Contribution Plan Costs - ETF	787,256	718,123	1,268,493	1,133,274
	Defined Benefit Plan Cost	1,927,520	1,173,099	2,918,167	2,004,913



# Notes to the Financial Statements

For the year ended 31st December		Company		Group	
		2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
<b>11 Taxation</b>					
Income Tax on profits (Note 11.1)		6,866,024	6,439,746	9,642,162	8,082,021
Adjustments in respect of prior years		(89,977)	-	(89,977)	-
Provision for Deferred Tax (Note 11.3.2)		-	-	(263,222)	(194,807)
		6,776,047	6,439,746	9,288,963	7,887,214

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

Profit Before Tax & Value Added Tax on Financial Services	93,667,768	91,613,029	106,494,970	102,470,591
Aggregate Disallowed Expenses	24,673,032	23,726,021	22,047,422	20,359,870
Aggregate Allowable Expenses	(179,124,028)	(167,615,931)	(179,181,708)	(168,026,647)
Capital Portion of Lease Receivable	168,310,053	170,930,715	167,652,343	170,574,631
Aggregate Exempt/Allowable Income	(58,014,508)	(69,080,246)	(57,585,934)	(69,822,432)
Profit From the Business	49,512,317	49,573,588	59,427,094	55,556,013
Tax Loss claimed during the year (Note 11.2)	(24,990,801)	(26,574,492)	(24,990,801)	(26,691,649)
Taxable Profit	24,521,516	22,999,096	34,436,293	28,864,364
Income tax expense	6,866,024	6,439,746	9,642,162	8,082,021

Income Tax provision of SMB Leasing PLC, being a quoted public company, has been calculated at 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%, (2013-28%).

## 11.2 Accumulated Tax Losses

	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Balance as at 1st January	335,887,884	381,480,664	335,887,884	381,480,664
Adjustment in respect of prior years	983,166	(19,018,288)	983,166	(18,901,131)
Tax Loss claimed during the year	(24,990,801)	(26,574,492)	(24,990,801)	(26,691,649)
Balance as at 31st December	311,880,249	335,887,884	311,880,249	335,887,884



# Notes to the Financial Statements

For the year ended 31st December

## 11.3 Deferred Taxation

### 11.3.1 Company

SMB Leasing PLC has not recognised 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

Unrecognised Deferred Tax Asset	2014 Rs.	2013 Rs.
Balance as at 1st January	41,373,163	62,599,608
Charge/ (Reversal) for the year	(14,985,284)	(21,226,445)
Balance as at 31st December	26,387,879	41,373,163

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

	Temporary difference 2014 Rs.	Tax Effect 2014 Rs.	Temporary difference 2013 Rs.	Tax Effect 2013 Rs.
On Property, Plant & Equipment	(8,387,937)	(2,348,622)	(8,859,960)	(2,480,788)
On Lease Assets	(216,338,027)	(60,574,648)	(184,836,994)	(51,754,358)
On Retirement Benefit Obligation	7,088,139	1,984,679	5,570,367	1,559,702
On Accumulated Tax Losses	311,880,249	87,326,470	335,887,884	94,048,607
	94,242,423	26,387,879	147,761,296	41,373,163

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

### 11.3.2 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.

	2014 Rs.	2013 Rs.
Balance as at 1st January	798,517	603,710
Charge for the year	263,222	194,807
Balance as at 31st December	1,061,739	798,517

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

	Temporary difference 2014 Rs.	Tax Effect 2014 Rs.	Temporary difference 2013 Rs.	Tax Effect 2013 Rs.
On Property, Plant & Equipment	-	-	30,853	8,639
On Lease Assets	(322,321)	(90,250)	(231,621)	(64,854)
On Retirement Benefit Obligation	4,114,246	1,151,989	3,052,614	854,732
	3,791,925	1,061,739	2,851,846	798,517

The deferred tax has been calculated at the rate of 28% (2013-28%)

## 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.

	Company		Group	
	2014	2013	2014	2013
Profit attributable to equity holders of the company (Rs)	79,004,301	77,752,426	83,931,833	72,685,121
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	0.04	0.05	0.04

# Notes to the Financial Statements

As at 31 December		Company		Group	
		2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
<b>13</b>	<b>Cash and Cash Equivalents</b>				
	Cash in hand	524,672	407,532	6,489,285	6,342,344
	Balances with banks	18,346,084	16,636,956	18,346,084	16,636,956
		18,870,756	17,044,488	24,835,369	22,979,300
<b>13.1</b>	<b>Cash and Cash Equivalents for the purpose of Cash Flow Statement</b>				
	Cash in hand	524,672	407,532	6,489,285	6,342,344
	Balances with banks	18,346,084	16,636,956	18,346,084	16,636,956
	REPO investment with banks - Overnight	24,350,000	3,900,000	24,350,000	3,900,000
	- Monthly	803,790	2,883,037	803,790	2,883,037
		44,024,546	23,827,525	49,989,159	29,762,337
<b>14</b>	<b>Placements with Banks</b>				
	Fixed deposits with banks	101,027,297	93,106,057	101,027,297	93,106,057
	REPO investment with banks - Overnight	24,350,000	3,900,000	24,350,000	3,900,000
	- Monthly	803,790	2,883,037	803,790	2,883,037
		126,181,087	99,889,094	126,181,087	99,889,094
<b>15</b>	<b>Loans and Receivables to Other Customers</b>				
	Gross loans and receivables (Note 15.2)	1,292,544,960	1,346,409,212	1,290,204,960	1,343,829,124
	Less: Individual impairment (Note 15.5)	(327,521,724)	(372,017,197)	(327,521,724)	(372,017,197)
	Collective impairment (Note 15.5)	(41,133,339)	(41,979,484)	(41,133,339)	(41,979,484)
	Net loans and receivables	923,889,897	932,412,531	921,549,897	929,832,443
<b>15.1</b>	<b>Net Loans and Receivables</b>				
<b>15.1.1</b>	<b>Loans</b>				
	Gross loans receivables	702,576,393	740,384,577	700,236,393	737,804,489
	Less: Individual impairment	(218,604,175)	(253,623,167)	(218,604,175)	(253,623,167)
	Collective impairment	(28,569,434)	(29,087,522)	(28,569,434)	(29,087,522)
	Net loans and receivables	455,402,784	457,673,888	453,062,784	455,093,800
<b>15.1.2</b>	<b>Leases</b>				
	Gross leases receivables (Note 15.4)	589,968,567	606,024,635	589,968,567	606,024,635
	Less: Individual impairment	(108,917,549)	(118,394,030)	(108,917,549)	(118,394,030)
	Collective impairment	(12,563,905)	(12,891,962)	(12,563,905)	(12,891,962)
	Net lease rental receivables	468,487,113	474,738,643	468,487,113	474,738,643
	<b>Total</b>	<b>923,889,897</b>	<b>932,412,531</b>	<b>921,549,897</b>	<b>929,832,553</b>
<b>15.2</b>	<b>Product wise analysis of Gross loans and receivables</b>				
	Lease rental receivables	589,968,567	606,024,635	589,968,567	606,024,635
	Personal Loans	140,682,338	141,593,954	140,682,338	141,593,954
	Staff Loans	689,323	2,954,108	689,323	2,954,108
	Term Loans	350,660,487	326,031,264	350,660,487	326,031,264
	Easy Payment Loans	48,255,336	79,134,161	48,255,336	76,554,073
	Other Loans	162,288,909	190,671,090	159,948,909	190,671,090
		1,292,544,960	1,346,409,212	1,290,204,960	1,343,829,124

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

As at 31st December	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
<b>15.4 Gross Lease Rental Receivables</b>				
<b>15.4.1 Gross lease rental receivable within one year</b>				
Total lease rentals within one year from the reporting date	422,808,321	420,912,708	422,808,321	420,912,708
Unearned lease Income	(56,863,689)	(63,201,516)	(56,863,689)	(63,201,516)
Balance as at 31st December	365,944,632	357,711,192	365,944,632	357,711,192
<b>15.4.2 Gross lease rental receivable after one year and within five years</b>				
Total lease rentals receivable after one year from the reporting date	266,710,146	300,573,734	266,710,146	300,573,734
Unearned lease Income	(42,844,155)	(52,260,291)	(42,844,155)	(52,260,291)
Balance as at 31st December	223,865,991	248,313,443	223,865,991	248,313,443
<b>15.4.3 Gross lease rental receivable after five years</b>				
Total lease rentals receivable after five years from the reporting date	160,313	-	160,313	-
Unearned lease Income	(2,369)	-	(2,369)	-
Balance as at 31st December	157,944	-	157,944	-
<b>Total</b>	<b>589,968,567</b>	<b>606,024,635</b>	<b>589,968,567</b>	<b>606,024,635</b>

## 15.5 Movement in Individual and Collective Impairment during the year Company / Group

	2014 Rs.	2013 Rs.
<b>Individual Impairment</b>		
Balance as at 1st January	372,017,197	405,606,693
Net impairment reversal for the year	(44,495,473)	(33,589,496)
Balance as at 31st December	327,521,724	372,017,197
<b>Collective Impairment</b>		
Balance as at 1st January	41,979,484	47,287,650
Net impairment reversal for the year	(846,145)	(5,308,166)
Balance as at 31st December	41,133,339	41,979,484

## 16 Financial Investments

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

	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Available for Sale (AFS) (Note 16.1)	1,403,537	2,725,337	1,403,537	2,725,337
Fair Value Through Profit or Loss (FVTPL) (Note 16.2)	-	-	4,013,402	1,439,500
Held to Maturity (HTM) (Note 16.3)	6,308,117	6,265,930	10,980,227	10,938,112
Loans and Receivables (L&R) (Note.16.4)	-	-	1,779,500	1,786,299
<b>Total Financial Investments</b>	<b>7,711,654</b>	<b>8,991,267</b>	<b>18,176,666</b>	<b>16,889,248</b>

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

	Company				Group			
	2014 Carrying Value Rs.	2014 Fair Value Rs.	2013 Carrying Value Rs.	2013 Fair Value Rs.	2014 Carrying Value Rs.	2014 Fair Value Rs.	2013 Carrying Value Rs.	2013 Fair Value Rs.
Available for Sale (AFS)	1,403,537	1,403,537	2,725,337	2,725,337	1,403,537	1,403,537	2,725,337	2,725,337
Fair Value Through Profit or Loss (FVTPL)	-	-	-	-	4,013,402	4,013,402	1,439,500	1,439,500
Held to Maturity (HTM)	6,308,117	7,588,668	6,265,930	6,748,385	10,980,227	12,161,268	10,938,112	11,610,385
Loans and Receivables (L&R)	-	-	-	-	1,779,500	1,860,300	1,786,299	1,948,191
<b>Total Financial Investments</b>	<b>7,711,654</b>	<b>8,992,205</b>	<b>8,991,267</b>	<b>9,473,722</b>	<b>18,176,666</b>	<b>19,438,507</b>	<b>16,889,248</b>	<b>17,723,413</b>

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

## 16.1 Available for Sale Investments (AFS)

### 16.1.1 Quoted Shares held by SMB Leasing Plc

	No of shares	2014 Carrying Value Rs.	Fair Value Rs.	No of shares	2013 Carrying Value Rs.	Fair Value Rs.
<b>Banking, Finance &amp; Insurance</b>						
The Finance Co. PLC	97	2,027	2,027	97	970	970
		2,027	2,027		970	970
<b>Manufacturing</b>						
Blue Diamond Jewelry Worldwide PLC	778,280	1,400,904	1,400,904	778,280	2,723,980	2,723,980
Metal Recyclers Colombo PLC	69	-	-	69	-	-
		1,400,904	1,400,904		2,723,980	2,723,980
<b>Land &amp; Property</b>						
Seylan Developments PLC	43	606	606	43	387	387
		606	606		387	387
<b>Carrying Amount</b>		1,403,537	1,403,537		2,725,337	2,725,337

### 16.1.2 Unquoted Shares

	2014		2013	
	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	-	5,000,000	-	5,000,000
Pugoda Textiles Mills Ltd	-	252,525	-	252,525
		75,543,825		75,543,825
Less: Provision for Impairment		(75,543,825)		(75,543,825)
<b>Carrying Amount</b>		-		-

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

### 16.1.3 Unquoted Debentures

	2014 Cost	2013 Cost
Ceylinco Automobiles Ltd	17,600,000	17,600,000
Less: Provision for Impairment Loss	(17,600,000)	(17,600,000)
	-	-

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

## 16.2 Fair Value Through Profit or Loss (FVTPL)

### Held by SMB Money Brokers (Pvt) Ltd.

	2014			2013		
	No of shares	Carrying Value Rs.	Fair Value Rs.	No of shares	Carrying Value Rs.	Fair Value Rs.
<b>Banking, Finance &amp; Insurance</b>						
Commercial Bank of Ceylon PLC	-	-	-	5,718	542,376	542,376
Commercial Credit & Finance PLC	5,000	226,500	226,500	-	-	-
Valibel One PLC	40,000	956,000	956,000	-	-	-
Janashakthi Insurance PLC	200,000	232,000	232,000	-	-	-
		1,414,500	1,414,500		542,376	542,376
<b>Manufacturing</b>						
Tokyo Cement Plc	-	-	-	3,325	85,574	85,574
Pelawatta Sugar Plc	-	-	-	3,000	-	-
Piramal Glass Ceylon PLC	-	-	-	30,000	135,000	135,000
United Motors Lanka PLC	-	-	-	500	56,850	56,850
Chevron Lubricants Lanka PLC	-	-	-	1,600	428,480	428,480
		-	-		705,904	705,904
<b>Land &amp; Property</b>						
Colombo Fort Land & Building PLC	20,000	566,000	566,000	2,100	59,220	59,220
Overseas Realty (Ceylon) PLC	5,000	131,500	131,500	-	-	-
		697,500	697,500		59,220	59,220
<b>Hotel</b>						
The Kingsbury PLC	20,000	360,000	360,000	10,000	132,000	132,000
		360,000	360,000		132,000	132,000
<b>Other</b>						
Asia Siyaka Commodities PLC	200,000	660,000	660,000	-	-	-
Softlogic Holdings PLC	10,000	165,000	165,000	-	-	-
Ceylon Investment PLC	2,000	195,000	195,000	-	-	-
Dunamis Capital PLC	10,073	331,402	331,402	-	-	-
Browns Investments PLC	100,000	190,000	190,000	-	-	-
		1,541,402	1,541,402			
<b>Total Quoted Shares</b>		4,013,402	4,013,402		1,439,500	1,439,500

## 16.3 Held to Maturity (HTM)

	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Government of Sri Lanka Treasury Bonds	6,308,117	6,265,930	6,308,117	6,265,930
Softlogic Finance PLC - (Quoted Debenture)	-	-	2,027,179	2,027,250
Bank of Ceylon (Quoted Debenture)	-	-	2,644,931	2,644,932
	6,308,117	6,265,930	10,980,227	10,938,112

## 16.4 Loans and Receivables (L&R)

	Group	
	2014 Rs.	2013 Rs.
People's Leasing Finance PLC (Investment in Debentures)	1,779,500	1,786,299
Corporate Finance & Capital Market Limited (6% Non redeemable, Non participative preference shares)	10,000,000	10,000,000
	11,779,500	11,786,299
Less: Provision for impairment	(10,000,000)	(10,000,000)
	1,779,500	1,786,299

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

## 16.5 Movement of Financial Investment

### 16.5.1 Company

	Available for Sale Rs.	Held to Maturity Rs.
As at 1st January 2013	3,193,152	-
Purchases	-	6,202,091
Fair value Loss recorded in the Other Comprehensive Income	(467,816)	-
Interest Income	-	63,839
As at 31st December 2013	2,725,336	6,265,930
As at 1st January 2014	2,725,336	6,265,930
Fair value Loss recorded in the Other Comprehensive Income	(1,321,799)	-
Interest Income	-	42,187
As at 31st December 2014	1,403,537	6,308,117

### 16.5.2 Group

	Available for Sale (AFS) Rs.	Fair Value Through Profit or Loss (FVTPL) Rs.	Held to Maturity (HTM) Rs.	Loans and Receivables (L & R) Rs.
As at 1st January 2013	3,193,152	1,649,497	4,672,182	1,786,299
Purchases	-	-	6,202,091	-
Disposals	-	(203,213)	-	-
Fair value Loss recorded in the Income Statement	-	(6,784)	-	-
Fair value Loss recorded in Other Comprehensive Income	(467,816)	-	-	-
Interest Income	-	-	63,839	-
As at 31st December 2013	2,725,336	1,439,500	10,938,112	1,786,299
As at 1st January 2014	2,725,336	1,439,500	10,938,112	1,786,299
Purchases	-	7,397,518	-	-
Disposals	-	(4,757,917)	-	-
Fair value Loss recorded in the Income Statement	-	(65,699)	-	(6,799)
Fair value Loss recorded in the Profit or loss and Other Comprehensive Income	(1,321,799)	-	-	-
Interest Income	-	-	42,115	-
As at 31st December 2014	1,403,537	4,013,402	10,980,227	1,779,500

## 16.6 Disclosure of Financial Risk

The Company's exposure to Credit, Liquidity, Market and Operational Risks related to investments are disclosed in Note No. 37 on page 124 to the Financial Statements.

## 16.7 Financial Investments pledged as security

Any of the Financial investments are not pledged as security as at the reporting date.

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# Notes to the Financial Statements

As at 31 st December

18.1 Non Controlling Interest (NCI) in subsidiary	2014 Rs.	2013 Rs.
NCI Percentage (%)	49.01%	49.01%
Total Assets	33,075,719	29,894,618
Total Liabilities	12,529,977	14,109,036
Net Assets	20,545,742	15,785,582
Carrying amount of NCI	10,069,468	7,736,514
Revenue	75,364,350	50,861,996
Profit	5,175,392	1,681,247
Total comprehensive income	4,968,282	1,676,746
Profit allocated to NCI	2,332,953	821,606

19 Investment Properties	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Balance as at 1st January	33,730,400	34,323,920	38,976,800	41,376,797
Less: Provision for impairment	-	(593,520)	-	(2,399,997)
Balance as at 31st December	33,730,400	33,730,400	38,976,800	38,976,800

## 19.1 Details of Investment Properties

Location	Extent (Perches)	Company				Group			
		2014		2013		2014		2013	
		Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value
		Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Kaduwela	120	32,700	34,117	32,700	34,117	32,700	34,117	32,700	34,117
Dorakumbura, Kurunegala	120	669	420	669	420	669	420	669	420
Ahangama, Dikkumbura	21	1,204	610	1,204	610	1,204	610	1,204	610
Malabe	8	-	-	-	-	4,200	1,760	4,200	1,760
Ahangama	111	-	-	-	-	2,853	3,487	2,853	3,487
		34,573	35,147	34,573	35,147	41,626	40,394	41,626	40,394
Less: Provision for impairment		(843)	-	(843)	-	(2,649)	-	(2,649)	-
		33,730	35,147	33,730	35,147	38,977	40,394	38,977	40,394

## 19.2 Valuation of Investment Properties of the Company

Market valuations of the above investment properties were carried out as at 08.04.2013, 04.03.2011 and 31.03.2014 respectively, by Messrs. D.N Dhammika Baranage, A.Y Daniel & Sons and S.S Karunanayake who are independent valuers not connected with the company.



# Notes to the Financial Statements

## 20 Property, Plant and Equipment

Company	Computer Hardware (Rs.)	Office Equipment (Rs.)	Furniture & Fittings (Rs.)	Motor Vehicles (Rs.)	2014 Total (Rs.)	2013 Total (Rs.)
<b>At Cost</b>						
As at 1st January	48,314,972	16,149,557	18,417,020	11,571,498	94,453,047	89,058,733
Additions	324,050	73,999	227,847	-	625,896	6,355,565
Disposals	-	-	-	-	-	(961,251)
As at 31st December	48,639,022	16,223,556	18,644,867	11,571,498	95,078,943	94,453,047
<b>Accumulated Depreciation</b>						
As at 1st January	42,420,288	12,251,871	15,715,335	10,557,115	80,944,609	77,466,772
Charge for the year	1,628,741	728,978	980,654	920,178	4,258,551	4,423,513
Disposals	-	-	-	-	-	(945,676)
As at 31st December	44,049,029	12,980,849	16,695,989	11,477,293	85,203,160	80,944,609
<b>Net book value as at 31st December 2014</b>	4,589,993	3,242,707	1,948,878	94,205	9,875,783	13,508,438
Net book value as at 31st December 2013	5,894,684	3,897,686	2,701,685	1,014,383	13,508,438	

Group	Computer Hardware (Rs.)	Office Equipment (Rs.)	Furniture & Fittings (Rs.)	Motor Vehicles (Rs.)	2014 Total (Rs.)	2013 Total (Rs.)
<b>At Cost</b>						
As at 1st January	49,517,940	19,133,156	19,839,428	17,491,588	105,982,112	94,498,322
Additions	556,774	1,171,646	1,882,964	-	3,611,384	12,512,005
Disposals & Write Off	(349,077)	(53,250)	(1,342,420)	-	(1,744,747)	(1,028,215)
As at 31st December	49,725,637	20,251,552	20,379,972	17,491,588	107,848,749	105,982,112
<b>Accumulated Depreciation</b>						
Balance as at 1st January	43,531,793	15,037,752	16,892,243	11,328,119	86,789,907	82,222,599
Charge for the year	1,693,673	927,056	1,232,551	2,104,196	5,957,476	5,554,279
Disposals & Write Off	(349,077)	(53,250)	(1,241,610)	-	(1,643,937)	(986,971)
As at 31st December	44,876,389	15,911,558	16,883,184	13,432,315	91,103,446	86,789,907
<b>Net book value as at 31st December 2014</b>	4,849,248	4,339,994	3,496,788	4,059,273	16,745,303	19,192,205
Net book value as at 31st December 2013	5,986,147	4,095,404	2,947,185	6,163,469	19,192,205	

# Notes to the Financial Statements \_\_\_\_\_ (Continued)

## 20.1 Acquisition of PPE during the year

During the financial year, the Company acquired PPE to the aggregate value of Rs.625,896 (2013-Rs.6,355,565) Cash payments amounting to Rs.625,896 (2013 - Rs. 2,743,794) were made during the year to purchase PPE.

## 20.2 Capitalisation of Borrowing Cost

There were no capitalised borrowing costs relating to the acquisition of PPE during the year. (2013-Nil)

## 20.3 Fully depreciated PPE in use

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

	2014 Rs.	2013 Rs.
As at 31 December,		
Computer Hardware	40,483,135	31,897,086
Office Equipment	12,519,082	12,216,264
Furniture & Fittings	13,647,438	12,850,955
Motor Vehicles	6,970,605	6,304,605
	73,620,260	63,268,910

## 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.

## 20.7 Depreciation of PPE

Depreciation expense of Rs. 4,258,551 (2013:Rs.4,423,513) has been charged in the Income statement.

## 20.8 Temporarily idle PPE

There are no temporarily idle PPE as at the reporting date.

## 20.9 Compensation from third parties for Items of PPE

There were no compensation received / receivable from third parties for items of PPE that were impaired, lost or given up.

PPE - Property, Plant and Equipment

# Notes to the Financial Statements

As at 31st December

		Company		Group	
		2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
<b>21</b>	<b>Intangible Assets</b>				
	<b>Computer Software</b>				
	<b>Cost</b>				
	As at 1st January	737,388	-	1,369,253	631,865
	Additions for the year	-	737,388	-	737,388
	Disposals	-	-	(585,000)	-
	As at 31st December	737,388	737,388	784,253	1,369,253
	<b>Accumulated Amortisation</b>				
	As at 1st January	36,869	-	662,875	614,290
	Charge for the year	147,477	36,869	153,336	48,585
	Disposals	-	-	(585,000)	-
	As at 31st December	184,346	36,869	231,211	662,875
	Carrying Value as at 31st December	553,042	700,519	553,042	706,378
	<b>Capital Work in Progress</b>				
	As at 1st January	3,000,000	-	3,000,000	-
	Incurred during the Year	-	3,000,000	-	3,000,000
	Capitalised during the Year	-	-	-	-
	As at 31st December	3,000,000	3,000,000	3,000,000	3,000,000
	Carrying Value as at 31st December	3,553,042	3,700,519	3,553,042	3,706,378
<b>22</b>	<b>Other Assets</b>				
	Deposits & Prepayments	6,564,250	6,653,010	6,564,250	7,128,183
	Other Assets	11,592,390	7,797,628	17,453,145	14,041,042
		18,156,640	14,450,638	24,017,395	21,169,225
<b>23</b>	<b>Due to Banks</b>				
	Bank Borrowings	-	18,748,000	-	18,748,000
		-	18,748,000	-	18,748,000
<b>24</b>	<b>Due to Other Customers</b>				
	Promissory Notes	94,324,770	92,600,997	94,324,770	92,600,997
	Debentures	103,960,093	104,012,093	103,960,093	104,012,093
		198,284,863	196,613,090	198,284,863	196,613,090
<b>25</b>	<b>Other Borrowings</b>				
	Other Borrowings	-	46,868,194	3,076,525	52,039,815
		-	46,868,194	3,076,525	52,039,815
<b>26</b>	<b>Other Liabilities</b>				
	Accrued Expenses	3,362,808	1,782,260	3,362,809	1,782,260
	Provision for Retirement benefit obligations (Note 26.1)	7,088,140	5,570,367	11,202,386	8,622,981
	Other Liabilities	15,779,037	19,379,264	20,350,785	24,463,628
		26,229,985	26,731,891	34,915,980	34,868,869

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

As at 31st December

	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
<b>26.1 Provision for Retirement benefit obligation</b>				
Balance as at 1st January	5,570,367	4,190,909	8,622,981	6,407,208
Provision for the year	1,927,520	1,173,099	2,918,167	2,004,913
Actuarial Loss during the year	133,186	517,609	340,296	522,110
Payments during the year	(542,933)	(311,250)	(679,058)	(311,250)
Balance as at 31st December	7,088,140	5,570,367	11,202,386	8,622,981

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.

	2014	2013
Salary Increment Rate	7.50%	7.50%
Discount Rate	10.00%	10.00%
Retirement Age	55 Years	55 Years

## 26.2 Sensitivity of Assumptions used :

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Total Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on total Comprehensive Income and retirement benefit obligation for the year.

	Sensitivity Effect on	
	Total Comprehensive Income Increase / (Reduction) Rs.	Retirement Benefit Obligation Increase / (Reduction) in the Liability Rs.
Increase in Discount Rate 1%	381,777	381,777
Decrease in Discount Rate 1%	(794,463)	(794,463)
Increase in Salary Increment Rate 1%	812,453	812,453
Decrease in Salary Increment Rate 1%	(393,831)	(393,831)

<b>27 Stated Capital</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Ordinary Voting Shares	1,136,230,554	1,136,230,554	1,136,230,554	1,136,230,554
Ordinary Non Voting Shares	419,252,881	419,252,881	419,252,881	419,252,881
Capital Reduction	(636,419,321)	(636,419,321)	(636,419,321)	(636,419,321)
	919,064,114	919,064,114	919,064,114	919,064,114

## 27.1 Reconciliation of Number of Shares - Company

	2014	2013
<b>Ordinary Voting Shares</b>		
As at 1st January	1,191,766,772	1,191,766,772
Issue of Shares	-	-
As at 31st December	1,191,766,772	1,191,766,772
<b>Ordinary Non voting Shares</b>		
As at 1st January	614,066,101	614,066,101
Issue of Shares	-	-
As at 31st December	614,066,101	614,066,101
<b>Total</b>	<b>1,805,832,873</b>	<b>1,805,832,873</b>

# Notes to the Financial Statements

As at 31st December

	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
<b>28 Statutory Reserves Fund</b>				
Balance as at 1st January	17,682,313	13,794,692	17,682,313	13,794,692
Transfer made during the year	3,950,215	3,887,621	3,950,215	3,887,621
Balance as at 31st December	21,632,528	17,682,313	21,632,528	17,682,313

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.

	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
<b>29 Retained Earnings</b>				
Balance as at 1st January	13,782,504	(53,436,439)	19,021,611	(43,127,732)
Profit for the year	79,004,301	77,752,426	83,931,833	72,685,121
Other comprehensive income	(1,454,985)	(985,425)	(1,560,590)	(987,721)
Transfers to Statutory Reserve	(3,950,215)	(3,887,621)	(3,950,215)	(3,887,621)
Transfer to investment fund	(1,044,270)	(5,660,436)	(1,044,270)	(5,660,436)
Transfer from investment fund	10,968,402	-	10,968,402	-
Balance as at 31st December	97,305,737	13,782,504	107,366,772	19,021,611

	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
<b>30 Other Reserves</b>				
<b>Investment Fund Account</b>				
Balance as at 1st January	9,924,132	4,263,696	9,924,132	4,263,696
Transfer made during the year	1,044,270	5,660,436	1,044,270	5,660,436
Transferred to retained earnings	(10,968,402)	-	(10,968,402)	-
Balance as at 31st December	-	9,924,132	-	9,924,132

The Company transferred 8% of the profits calculated for the Value Added Tax on Financial Services and 5% of the Profit Before Tax calculated for payment of income tax purposes to the investment fund account effective from 1st January 2012. The operations of this fund was ceased with effect from 1st October 2014 and the balance as at that date was transferred to retained earnings.

# Notes to the Financial Statements

## 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 Sri Lanka Accounting Standard SLFRS 13 - Fair Value Measurement.

### 31.1 Classification of Financial Instruments

31.1.1	Assets Company	Available for Sale (AFS) Rs.	Held to Maturity (HTM) Rs.	Loans and Receivables (L & R) Rs.	Others Rs.	2014		2013	
						Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
<b>Financial Assets</b>									
	Cash and cash equivalents	-	-	18,870,756	-	18,870,756	18,870,756	17,044,488	17,044,488
	Placements with Banks	-	-	126,181,087	-	126,181,087	126,181,087	99,889,094	99,889,094
	Loans and Receivables to other customers	-	-	923,889,897	-	923,889,897	923,889,897	932,412,531	932,412,531
	Available for Sale (AFS)	1,403,537	-	-	-	1,403,537	1,403,537	2,725,337	2,725,337
	Held to Maturity (HTM)	-	6,308,117	-	-	6,308,117	7,588,668	6,265,930	6,748,385
	<b>Total Financial Assets</b>	<b>1,403,537</b>	<b>6,308,117</b>	<b>1,068,941,740</b>	<b>-</b>	<b>1,076,653,394</b>	<b>1,077,933,945</b>	<b>1,058,337,380</b>	<b>1,058,819,835</b>
<b>Non Financial Assets</b>									
	Investments in Associates	-	-	-	108,756,745	108,756,745	N/A	116,418,469	N/A
	Investments in Subsidiary	-	-	-	11,791,223	11,791,223	N/A	9,268,394	N/A
	Investment Properties	-	-	-	33,730,400	33,730,400	N/A	33,730,400	N/A
	Property Plant & Equipment	-	-	-	9,875,783	9,875,783	N/A	13,508,438	N/A
	Intangible Assets	-	-	-	3,553,042	3,553,042	N/A	3,700,519	N/A
	Other Assets	-	-	-	18,156,640	18,156,640	N/A	14,450,638	N/A
	<b>Total Non Financial Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>185,863,833</b>	<b>185,863,833</b>	<b>-</b>	<b>191,076,858</b>	<b>-</b>
	<b>Total Assets</b>	<b>1,403,537</b>	<b>6,308,117</b>	<b>1,068,941,740</b>	<b>185,863,833</b>	<b>1,262,517,227</b>	<b>1,077,933,945</b>	<b>1,249,414,238</b>	<b>1,058,819,835</b>
31.1.2	Liabilities Company	Amortised Cost Rs.		2014		2013			
				Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.		
<b>Financial Liabilities</b>									
	Due to banks	-	-	-	-	18,748,000	18,748,000		
	Due to other customers	198,284,863		198,284,863	198,284,863	196,613,090	196,613,090		
	Other borrowings	-	-	-	-	46,868,194	44,841,007		
		198,284,863		198,284,863	198,284,863	262,229,284	260,202,097		
<b>Non Financial Liabilities</b>									
	Other Liabilities	26,229,985		26,229,985	N/A	26,731,891	N/A		
		26,229,985		26,229,985	-	26,731,891	-		
	<b>Total Liabilities</b>	<b>224,514,848</b>		<b>224,514,848</b>	<b>198,284,863</b>	<b>288,961,175</b>	<b>260,202,097</b>		

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

31.1.3	Assets Group	Available for Sale (AFS)	Fair Value Through Profit or Loss (FVTPL)	Held to Maturity (HTM)	Loans and Receivables (L&R)	Others	2014		2013	
		Rs.	Rs.	Rs.	Rs.	Rs.	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	<b>Financial Assets</b>									
	Cash and cash equivalents	-	-	-	24,835,369	-	24,835,369	24,835,369	22,979,300	22,979,300
	Placements with Banks	-	-	-	126,181,087	-	126,181,087	126,181,087	99,889,094	99,889,094
	Loans and Receivables to - other customers	-	-	-	921,549,897	-	921,549,897	921,549,897	929,832,443	929,832,443
	Available for Sale	1,403,537	-	-	-	-	1,403,537	1,403,537	2,725,337	2,725,337
	Fair Value through Profit or Loss	-	4,013,402	-	-	-	4,013,402	4,013,402	1,439,500	1,439,500
	Held to Maturity	-	-	10,980,227	-	-	10,980,227	12,161,268	10,938,112	11,610,385
	Loans and Receivables	-	-	-	1,779,500	-	1,779,500	1,860,300	1,786,299	1,948,191
	<b>Total Financial Assets</b>	<b>1,403,537</b>	<b>4,013,402</b>	<b>10,980,227</b>	<b>1,074,345,853</b>	<b>-</b>	<b>1,090,743,019</b>	<b>1,092,004,860</b>	<b>1,069,590,085</b>	<b>1,070,424,250</b>
	<b>Non Financial Assets</b>									
	Investments in Associates	-	-	-	-	119,312,952	119,312,952	N/A	122,265,248	N/A
	Investment Properties	-	-	-	-	38,976,800	38,976,800	N/A	38,976,800	N/A
	Property Plant & Equipment	-	-	-	-	16,745,303	16,745,303	N/A	19,192,205	N/A
	Intangible Assets	-	-	-	-	3,553,042	3,553,042	N/A	3,706,378	N/A
	Deferred Tax Assets	-	-	-	-	1,061,739	1,061,739	N/A	798,517	N/A
	Other Assets	-	-	-	-	24,017,395	24,017,395	N/A	21,169,225	N/A
	<b>Total Non Financial Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>203,667,231</b>	<b>203,667,231</b>	<b>-</b>	<b>206,108,373</b>	<b>-</b>
	<b>Total Assets</b>	<b>1,403,537</b>	<b>4,013,402</b>	<b>10,980,227</b>	<b>1,074,345,853</b>	<b>203,667,231</b>	<b>1,294,410,250</b>	<b>1,092,004,860</b>	<b>1,275,698,458</b>	<b>1,070,424,250</b>

31.1.4	Liabilities Group	Amortised Cost	2014		2013	
		Rs.	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	<b>Financial Liabilities</b>					
	Due to banks	-	-	-	18,748,000	18,748,000
	Due to other customers	198,284,863	198,284,863	198,284,863	196,613,090	196,613,090
	Other borrowings	3,076,525	3,076,525	3,076,525	52,039,815	52,039,815
		201,361,388	201,361,388	201,361,388	267,400,905	267,400,905
	<b>Non Financial Liabilities</b>					
	Other Liabilities	34,915,980	34,915,980	N/A	34,868,869	N/A
		34,915,980	34,915,980	-	34,868,869	-
	<b>Total Liabilities</b>	<b>236,277,368</b>	<b>236,277,368</b>	<b>201,361,388</b>	<b>302,269,774</b>	<b>267,400,905</b>

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

## 31.2 Determination of Fair Value

### a) Methodologies and Assumptions Used to Determined Fair Value

The methodology for fair value of the Financial Assets and Liabilities and the analysis according to fair value hierarchy is provided below. 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 published 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 of 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 4.2.3 on page 90 for more information regarding determination of fair value.



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

As at 31 December 2014	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>Company</b>				
Available for Sale (AFS)	1,403,537	-	-	1,403,537
	1,403,537	-	-	1,403,537
<b>Group</b>				
Available for Sale (AFS)	1,403,537	-	-	1,403,537
Fair Value through Profit or Loss (FVTPL)	4,013,402	-	-	4,013,402
	5,416,939	-	-	5,416,939
<b>As at 31 December 2013</b>	<b>Level 1 Rs.</b>	<b>Level 2 Rs.</b>	<b>Level 3 Rs.</b>	<b>Total Rs.</b>
<b>Company</b>				
Available for Sale (AFS)	2,725,337	-	-	2,725,337
	2,725,337	-	-	2,725,337
<b>Group</b>				
Available for Sale (AFS)	2,725,337	-	-	2,725,337
Fair Value through Profit or Loss (FVTPL)	1,439,500	-	-	1,439,500
	4,164,837	-	-	4,164,837

## 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.

<b>Company</b>				
<b>As at 31 December 2014</b>	<b>Level 1 Rs.</b>	<b>Level 2 Rs.</b>	<b>Level 3 Rs.</b>	<b>Total Rs.</b>
<b>Assets</b>				
Cash and cash equivalents	-	-	-	18,870,756
Placements with Banks	-	-	-	126,181,087
Loans and Receivables to other customers	-	-	-	923,889,897
Held to Maturity	-	7,588,668	-	7,588,668
	-	7,588,668	-	1,076,530,408

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 reasonably approximation of fair value.

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

Group	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>As at 31 December 2014</b>				
<b>Assets</b>				
Cash and cash equivalents	-	-	-	24,835,369
Placements with Banks	-	-	-	126,181,087
Loans and Receivables to other customers	-	-	-	921,549,897
Held to Maturity	4,572,600	7,588,668	-	12,161,268
Loans and Receivables	1,860,300	-	-	1,860,300
	6,432,900	7,588,668	-	1,086,587,921

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.

<b>Financial Liabilities</b>		<b>2014</b>		<b>2013</b>	
Company		Carrying Value	Fair Value	Carrying Value	Fair Value
Due to banks		-	-	18,748,000	18,748,000
Due to other customers		198,284,863	198,284,863	196,613,090	196,613,090
Other borrowings		-	-	46,868,194	46,868,194
		198,284,863	198,284,863	262,229,284	262,229,284
<b>Group</b>					
Due to banks		-	-	18,748,000	18,748,000
Due to other customers		198,284,863	198,284,863	196,613,090	196,613,090
Other borrowings		3,076,525	3,076,525	52,039,815	52,039,815
		201,361,388	201,361,388	267,400,905	267,400,905

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

# Notes to the Financial Statements

## 32 Commitments and Contingencies

### 32.1 Capital Commitment

The Capital expenditure approved by the board for the acquisition of computer software and not provided for in the Financial Statements as at 31st December 2014 is Rs.3 Mn.

### 32.2 Contingencies

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

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

## 33 Event after the reporting date

There have been no events subsequent to the reporting date which require adjustment or disclosure to the Financial Statements.

## 34 Restatement

34.1 The Group has used unaudited Financial Statements of SMB Real Estate Ltd (an Associate Company) for the consolidation in the year ended 31st December 2012 and 2013. However, the audited financial statements of Real Estate Limited were received subsequent to the finalization of the consolidated financial statements of the Group. Accordingly, the investment in Associate Companies as at 01st January 2012 and the profit for the year ended 31st December 2013 and the Investment in Associate Companies as at 31st December 2013 were restated for the differences between the audited loss and loss taken for the preparation of the consolidated financial statements to be in line with audited financial statements of SMB Real Estate Ltd as at 31st December 2012 and 2013.

### 34.2 Restated Profit for the Year ended 31st December 2013

Profit for the year ended 31st December 2013 as previously stated	78,267,397
Adjustment on the share of loss of Associate companies	(4,758,465)
Restated profit for the year ended 31st December 2013	<u>73,508,932</u>

## 35 Comparative Information

The presentation and classification of the following items were amended to ensure the comparability with current year.

	Company		Group	
	Current Presentation 2014 Rs.	As reported previously 2013 Rs.	Current Presentation 2014 Rs.	As reported previously 2013 Rs.
<b>Income Statement</b>				
Personnel expenses	(41,293,893)	(36,597,015)	(58,581,682)	(53,884,804)
Other expenses	(49,726,896)	(54,423,774)	(70,901,192)	(75,598,070)

# Notes to the Financial Statements

## 36 Related Party Disclosures

### 36.1 Transactions with Related Parties

Transactions with Related Parties			2014		2013		Age (No. of Months)	As a percentage of capital funds as at 31.12.2014
Company	Name of Director	Details of Financial Dealings	Received/ Receivable (Payable/Paid) Rs.	Capital Outstanding as at 31.12.2014 Rs.	Received/ Receivable (Payable/Paid) Rs.	Capital Outstanding as at 31.12.2013 Rs.		
Transactions with Associate Companies								
SMB Real Estate Ltd.	Mr.M.S.I.Peiris*	Term Loan	1,413,108	9,469,000	1,413,108	9,469,000	-	0.91%
	Mr.J.C.Korale	Debentures interest	(1,413,108)	-	(1,413,108)	-	-	-
		Investment on Debentures	-	(9,236,000)	-	(9,236,000)	-	-
		Others -Q/Fund	(2,600,000)	-	(2,600,000)	-	-	-
Transactions with Subsidiary								
SMB Money Brokers (Pvt) Ltd.		Easy Payment Loan	(240,000)	2,340,100	(240,000)	2,580,088	-	0.23%
Transactions with other Related Companies								
Corporate Finance & Capital Market Limited	Mr.M.S.I.Peiris*	Easy Payment Loan	-	-	-	4,225,387	51.02	-
		Proceed from Disposal of Investment in SMB Money Brokers Ltd	-	12,448,250	-	12,448,250	97.00	1.20%
		Disposal Proceeds of Treasury Bonds & Others	-	5,182,077	-	5,182,077	88.00	0.50%
		Others	-	6,893,100	-	6,893,100	59.00	0.66%
		Holding Transfer of Kenenga Investment Corporation Ltd.	-	4,000,000	-	4,000,000	89.00	0.39%
		Provision for Impairment	-	(28,523,427)	-	(31,943,291)	-	-
		Ceylinco Maini (Pvt)Ltd	Mr.M.S.I.Peiris*	Quick Fund Loan	-	1,350,043	-	1,350,043
		Provision for Bad & Doubtful Debts	-	(1,350,043)	-	(1,350,043)	-	-
Ceylinco Automobiles Ltd	Mr.M.S.I.Peiris*	Finance Lease	-	666,231	-	666,231	-	0.06%
		Quick Cash Loan	-	16,549,925	-	16,549,925	-	1.59%
		Other receivable	-	4,394,850	-	4,394,850	86.00	0.42%
		Salaries Receivable	-	2,682,038	-	2,682,038	102.00	0.26%
		Cal-Commission	-	600,000	-	600,000	102.00	0.06%
		Debenture Interest	-	17,600,000	-	17,600,000	89.00	1.70%
		Provision for Impairment	-	(42,493,044)	-	(42,493,044)	-	-
The Magnum Fund	Mr.M.S.I.Peiris*	Quick Cash Loan	-	1,744,977	-	1,744,977	-	0.17%
		EP Loan Interest Income	-	-	-	1,420,385	-	-
		Quick Fund Loan	-	342,896	-	342,896	78.00	0.03%
		Other receivable	-	123,868	-	123,868	78.00	0.01%
		Salaries Receivable	-	2,372,300	-	2,372,300	78.00	0.23%
		Provision for Impairment	-	(4,584,041)	-	(6,004,424)	-	-
Lanka Ashok Leyland PLC	Mr. U. Gautam	Other Borrowings	(42,005,197)	-	(18,631,253)	(41,492,282)	-	-
		Interest	(512,915)	-	(6,879,481)	-	-	-
Grayline Cargo Terminals	Mr. H.R.S Wijeratne	Finance Lease	1,041,837	12,386,285	1,620,635	13,428,122	-	1.19%
		Term Loan	1,738,824	20,672,690	2,704,838	22,411,515	-	1.99%
Grayline Container Terminals	Mr. H.R.S Wijeratne	Finance Lease	738,163	8,775,949	1,148,255	9,514,113	-	0.85%
		Term Loan	81,175	965,076	126,272	1,046,250	-	0.09%

\* Mr.M.S.I.Peiris ceased to be a Director with effect from 1st July 2014.

### 36.2 Transactions with Key Management Personnel

The Board of Directors of the Company are considered as the Key Management personnel. The Company has paid following compensation to the Key Management Personnel.

	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Short-term employee benefits	2,739,060	2,484,000	2,739,060	2,484,000
Directors' Fees	5,475,857	4,313,899	5,475,857	4,313,899
	8,214,917	6,797,899	8,214,917	6,797,899

# Notes to the Financial Statements

## 37 Financial Risk Management

### 37.1 Introduction and Overview

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

- i. Credit Risk
- ii. Liquidity Risk
- iii. Market Risk
- iv. Operational Risk

### 37.2 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.

### 37.3 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.

#### 37.3.1 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.

#### 37.3.2 Exposure to Liquidity Risk

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

	2014	2013
Net loans / Total assets	72.90%	74.63%
Liquid Asset Ratio (LAR)		
Average for the year	57.66%	26.45%
Maximum for the year	67.86%	41.00%
Minimum for the year	34.80%	11.41%

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

The Company also monitors the maturities of its assets and liabilities. Maturity analysis is given on page 125.

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

37.3.3 (a)	Maturity Analysis Company	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total 2014 Rs. '000
	<b>Interest Earning Assets</b>						
	Cash and cash equivalents	18,870	-	-	-	-	18,870
	Placements with Banks	25,154	101,027	-	-	-	126,181
	Loans & Receivables to other customers	79,147	141,698	259,851	164,153	279,042	923,890
	Financial investments	-	1,404	-	-	6308	7,712
		123,171	244,129	259,851	164,153	285,350	1,076,653
	<b>Non Interest Earning Assets</b>						
	Investment in Associates	-	-	108,757	-	-	108,757
	Investment in Subsidiaries	-	-	11,791	-	-	11,791
	Investment Properties	-	-	-	-	33,730	33,730
	Property , Plant & equipment	-	-	-	-	9,876	9,876
	Intangible Asset	-	-	-	-	3,553	3,553
	Other Assets	-	11,592	6,564	-	-	18,157
		-	11,592	127,111	-	47,159	185,864
	<b>Total Assets</b>	123,171	255,721	386,962	164,153	332,509	1,262,517
	Percentage 31st December 2014	18.37	12.14	30.65	13.00	25.84	100.00
	Percentage 31st December 2013	15.91	11.34	32.31	13.14	27.30	100.00
	<b>Interest bearing liabilities</b>						
	Due to other customers	19,838	77,283	95,000	6,091	73	198,285
	Other borrowings	-	-	-	-	-	-
		19,838	77,283	95,000	6,091	73	198,285
	<b>Non Interest bearing liabilities</b>						
	Other liabilities	12,017	-	-	-	14,213	26,230
	Shareholders Funds	-	-	-	-	1,038,002	1,038,002
		12,017	-	-	-	1,052,215	1,064,232
	<b>Total Liabilities &amp; Shareholders' funds</b>	31,855	77,283	95,000	6,091	1,052,288	1,262,517
	Percentage 31st December 2014	2.52	6.12	7.52	0.48	83.35	100.00
	Percentage 31st December 2013	6.43	6.43	8.60	0.49	78.05	100.00
(b)	<b>Group</b>						
	<b>Interest Earning Assets</b>						
	Cash and cash equivalents	24,835	-	-	-	-	24,835
	Placements with Banks	25,154	101,027	-	-	-	126,181
	Loans & Receivables to other customers	76,806	141,698	259,851	164,153	279,042	921,549
	Financial investments	-	5,417	-	-	12,760	18,177
		126,795	248,142	259,851	164,153	291,802	1,090,743
	<b>Non Interest Earning Assets</b>						
	Investment in Associates	-	-	119,313	-	-	119,313
	Investment Properties	-	-	-	-	38,977	38,977
	Property , Plant & equipment	-	-	-	-	16,745	16,745
	Intangible Asset	-	-	-	-	3,553	3,553
	Deferred Tax Assets	-	-	-	-	1,062	1,062
	Other Assets	-	17	24,000	-	-	24,017
		-	17	143,313	-	60,337	203,667
	<b>Total Assets</b>	126,795	248,159	403,164	164,153	352,139	1,294,410
	Percentage 31st December 2014	19.00	12.30	29.80	12.68	26.22	100.00
	Percentage 31st December 2013	15.81	11.66	31.33	13.11	28.09	100.00
	<b>Interest bearing liabilities</b>						
	Due to other customers	19,838	77,283	95,000	6,091	73	198,285
	Other borrowings	3,077	-	-	-	-	3,077
		22,915	77,283	95,000	6,091	73	201,362
	<b>Non Interest bearing liabilities</b>						
	Other liabilities	12,017	-	-	-	22,898	34,916
	Shareholders Funds	-	-	-	-	1,058,133	1,058,133
		12,017	-	-	-	1,081,031	1,093,049
	<b>Total Liabilities &amp; Shareholders' funds</b>	34,931	77,283	95,000	6,091	1,081,104	1,294,410
	Percentage 31st December 2014	2.70	5.97	7.34	0.47	83.52	100.00
	Percentage 31st December 2013	7.32	6.23	8.35	0.47	77.63	100.00

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

## 37.4 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

Collateral ensures a reasonable degree of protection for funds which are used for lending activities. It can be seen as security provided by borrowers in the form of a movable or immovable asset. Collaterals generally include cash, properties, stocks in trade, machineries, equipment and other physical assets and guarantees. Collateral helps the company to mitigate possible future credit losses in the event of a default. The type and value of securities taken by the company generally depend on the customer's credit evaluation.

### Collateral wise analysis of individually significant impaired loans and leases

	2014
Secured by Motor vehicles	5,727,874
Secured by movable & immovable assets	59,539,567
Other securities	21,936,279
Clean	4,353,921
	<u>91,557,640</u>
Individually significant unimpaired loans and leases	
Watch list	24,259,398
Others	483,237,665
	<u>507,497,063</u>

### Collateral wise analysis of individually significant unimpaired loans and leases

Secured by Motor vehicles	146,250,134
Secured by movable & immovable assets	353,691,130
Clean	7,555,799
	<u>507,497,063</u>

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

## 37.5 Operational Risks

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

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

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

## 37.6 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.

### 37.6.1 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 (Rs.)	(9,130,767)	(4,565,383)	4,565,383	9,130,767
Effect on loan interest Income	-9.58%	-4.79%	4.79%	9.58%

#### Lease Portfolio

Interest Rate Shock	-2%	-1%	1%	2%
Interest Income Change (Rs.)	(9,432,258)	(4,716,129)	4,716,129	9,432,258
Effect on lease interest Income	-12.23%	-6.11%	6.11%	12.23%

#### Total Portfolio

Interest Rate Shock	-2%	-1%	1%	2%
Interest Income Change (Rs.)	(18,563,024)	(9,281,512)	9,281,512	18,563,024
Effect on interest Income	-10.76%	-5.38%	5.38%	10.76%

#### Interest Expenses

Interest Rate Shock	-2%	-1%	1%	2%
Interest Expenses Change (Rs.)	(4,605,141)	(2,302,571)	2,302,571	4,605,141
Effect on interest Expenses	-14.55%	-7.28%	7.28%	14.55%



# Notes to the Financial Statements

## 38 Current/ Non Current Analysis

As at 31st December Company	Within 12 Month Rs. 000'	2014 After 12 Months Rs. 000'	Total Rs. 000'	Within 12 Month Rs. 000'	2013 After 12 Months Rs. 000'	Total Rs. 000'
<b>Assets</b>						
Cash and cash equivalents	18,871	-	18,871	17,044	-	17,044
Placements with Banks	126,181	-	126,181	99,889	-	99,889
Loans and Receivables to other customers	220,845	703,046	923,890	76,567	855,845	932,413
Financial investments	1,404	6,308	7,712	2,225	6,266	8,991
Investments in Associates	-	108,757	108,757	-	116,418	116,418
Investments in Subsidiaries	-	11,791	11,791	-	9,268	9,268
Investment Properties	-	33,730	33,730	-	33,730	33,730
Property Plant & Equipment	-	9,876	9,876	-	13,508	13,508
Intangible Assets	-	3,553	3,553	-	3,701	3,701
Other Assets	11,592	6,564	18,157	7,798	6,653	14,451
<b>Total Assets</b>	<b>378,893</b>	<b>883,625</b>	<b>1,262,517</b>	<b>204,024</b>	<b>1,045,391</b>	<b>1,249,414</b>
<b>Liabilities</b>						
Due to banks	-	-	-	6,252	12,496	18,748
Due to other customers	97,121	101,164	198,285	95,449	101,164	196,613
Other borrowings	-	-	-	46,868	-	46,868
Other Liabilities	12,017	14,213	26,230	12,017	14,715	26,732
<b>Total Liabilities</b>	<b>109,138</b>	<b>115,377</b>	<b>224,515</b>	<b>160,586</b>	<b>128,375</b>	<b>288,961</b>

As at 31st December Group	Within 12 Month Rs. 000'	2014 After 12 Months Rs. 000'	Total Rs. 000'	Within 12 Month Rs. 000'	2013 After 12 Months Rs. 000'	Total Rs. 000'
<b>Assets</b>						
Cash and cash equivalents	24,835	-	24,835	22,979	-	22,979
Placements with Banks	126,181	-	126,181	99,889	-	99,889
Loans and Receivables to other customers	218,504	703,046	921,550	218,265	711,567	929,832
Financial investments	5,417	12,760	18,177	4165	12,724	16,889
Investments in Associates	-	119,313	119,313	-	122,265	122,265
Investment Properties	-	38,977	38,977	-	38,977	38,977
Property Plant & Equipment	-	16,745	16,745	-	19,192	19,192
Intangible Assets	-	3,553	3,553	-	3,706	3,706
Deferred Tax Assets	-	1,062	1,062	-	799	799
Other Assets	17,453	6,564	24,017	7,128	14,041	21,169
<b>Total Assets</b>	<b>392,390</b>	<b>902,020</b>	<b>1,294,410</b>	<b>352,426</b>	<b>923,272</b>	<b>1,275,698</b>
<b>Liabilities</b>						
Due to banks	-	-	-	6,252	12,496	18,748
Due to other customers	97,121	101,164	198,285	95	196,518	196,613
Other borrowings	3,076	-	3,076	52,040	-	52,040
Other Liabilities	12,017	22,899	34,916	20,896	13,973	34,869
<b>Total Liabilities</b>	<b>112,214</b>	<b>124,063</b>	<b>236,277</b>	<b>79,283</b>	<b>222,987</b>	<b>302,270</b>

# Notes to the Financial Statements

## 39. Segment Reporting - Group

As at 31st December	Loans		Leasing		Treasury		Money Brokering		Unallocated		Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
<b>Business segments - Group</b>												
Revenue from external customers,												
Interest Income	95,313	93,945	77,130	88,079	-	-	-	-	-	-	172,443	182,024
Fees & Commission Income	1,111	1,200	1,745	2,634	-	-	-	-	-	-	2,856	3,834
Other operating Income	1,053	-	1,831	2,390	12,452	12,698	74,407	50,778	1,772	764	90,426	66,630
Total Revenue from external customers	97,477	95,144	80,706	93,103	12,452	12,698	74,407	50,778	1,772	764	266,814	252,487
Segment result	52,658	57,660	43,598	56,423	6,727	7,695	40,195	30,773	957	463	144,136	153,015
Depreciation charged for the year	(2,176)	(2,093)	(1,802)	(2,048)	(278)	(279)	(1,661)	(1,117)	(40)	(17)	(5,957)	(5,554)
Interest Expense	(11,575)	(16,953)	(9,584)	(16,590)	(1,479)	(2,263)	(8,836)	(9,048)	(210)	(136)	(31,684)	(44,990)
Operating Profit	38,907	38,614	32,213	37,786	4,970	5,154	29,698	20,608	707	310	106,495	102,471
Share of Profit/ (Loss) of Associate Companies	-	-	-	-	-	-	-	-	(2,952)	(13,654)	(2,952)	(13,654)
Income tax expense	(3,394)	(2,972)	(2,810)	(2,908)	(434)	(397)	(2,590)	(1,586)	(62)	(24)	(9,289)	(7,887)
Value Added Tax (VAT) on financial services	-	-	-	-	-	-	-	-	-	-	(7,887)	(7,421)
Other comprehensive Income	(607)	(373)	(503)	(365)	(78)	(50)	(464)	(199)	(11)	(3)	(1,662)	(990)
Profit for the year	34,906	35,269	28,900	34,512	4,459	4,707	26,644	18,823	(2,318)	(13,371)	84,704	72,519
Segment assets	453,063	454,612	468,487	475,220	158,728	119,352	16,326	18,619	197,806	207,895	1,294,410	1,275,698
Segment liabilities	73,565	100,764	60,908	98,603	9,397	13,448	56,154	53,777	36,254	35,678	236,277	302,270
Cash Flow from Operating Activities	38,923	21,181	32,226	20,727	4,972	2,827	29,711	11,304	708	170	106,539	56,209
Cash Flow from Investing Activities	(1,914)	(5,164)	(1,585)	(5,053)	(244)	(689)	(1,461)	(2,756)	(35)	(41)	(5,239)	(13,704)
Cash Flow from Financing Activities	(29,619)	(18,311)	(24,523)	(17,918)	(3,784)	(2,444)	(22,609)	(9,772)	(539)	(147)	(81,074)	(48,592)

# Five Year Summary Group

Year ended 31st December	2014 (Rs.'000)	2013 (Rs.'000)	2012 (Rs.'000)	2011 (Rs.'000)	2010 (Rs.'000)
<b>Operating Results</b>					
Revenue	266,814	252,487	211,573	135,468	141,000
Interest Income	172,443	182,024	143,988	75,581	102,228
Interest Expenses	(31,684)	(44,990)	(35,600)	(47,609)	(64,732)
Operating Expenses & Provision	(151,008)	(129,483)	(97,122)	(107,123)	(94,041)
Profit/(Loss) before taxation	106,495	102,471	91,899	(17,999)	16,148
Taxation & VAT	(17,176)	(15,308)	(14,528)	(6,000)	420
Profit After Taxation	86,366	73,509	65,971	(9,321)	27,315
Non Controlling Interest	2,434	824	(743)	(578)	197
Profit/(Loss) Attributable to Shareholders	83,932	72,685	64,001	(5,085)	27,117

## As at 31st December

### Assets

Cash & Short Term Funds	24,835	22,979	11,138	10,496	5,521
Investments	144,358	116,778	117,821	488,210	378,740
Loans & Advances	921,550	929,832	910,415	568,832	417,357
Investment in Associates	119,313	122,265	135,119	158,425	153,543
Investment Property	38,977	38,977	41,377	40,173	37,320
Property Plant and Equipment	16,745	19,192	12,276	14,348	10,820
Other Assets	25,079	21,968	28,655	39,156	34,412
Intangible Assets	3,553	3,706	18	-	-
	1,294,410	1,275,698	1,257,617	1,319,640	1,037,713

### Equity & Liabilities

#### Equity

Stated Capital	919,064	919,064	919,064	885,097	1,146,950
Statutory Reserves	21,633	17,682	13,795	9,858	9,858
Retain Earnings	107,367	19,021	(43,128)	(90,044)	(717,634)
Other Reserves	-	9,924	4,264	1,566	-

#### Liabilities

Due to Banks	-	18,748	34,466	66,757	53,254
Due to Other Customers	198,285	196,613	224,629	340,603	457,991
Other Borrowings	3,077	52,040	49,693	-	-
Other Liabilities	34,916	34,869	47,920	98,145	79,057
Non-Controlling Interest	10,069	7,737	6,915	7,658	8,237
	1,294,410	1,275,698	1,257,617	1,319,640	1,037,713

### Cash Flow

Cash Flow from Operating Activities	106,539	56,209	(265,375)	(188,703)	259,703
Cash Flow from Investing Activities	(5,239)	(13,704)	1,612	(1,182)	161
Cash Flow from financing Activities	(81,074)	(48,592)	(58,638)	288,179	(7,151)
Net Increase or (Decrease) in cash and cash Equivalents	20,227	(6,087)	(322,402)	98,294	252,713
Basic Earning/(Loss) per share	0.05	0.04	0.04	(0.01)	2.36
Assets Growth (%)	1	2	(4)	27	(13)
Net Assets Growth (%)	7	8	12	84	(805)
Net Assets per share	0.58	0.54	0.49	0.45	0.32

Highlighted information is based on LKASs/SLFRSs.

# Decade at a Glance Company

Year ended 31st December	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
	(Rs.'000)	(Rs.'000)	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Operating Results</b>										
Revenue	193,973	203,046	189,502	112,854	124,110	391,449	334,661	500,998	515,425	589,173
Interest Income	172,443	182,024	143,988	75,581	101,718	147,132	295,666	424,776	434,047	541,836
Interest Expenses	(31,647)	(44,868)	(35,600)	(47,609)	(64,732)	(166,315)	(410,293)	(400,239)	(359,235)	(399,959)
Operating Expenses & Provision	(68,634)	(66,565)	(61,567)	(76,470)	(59,805)	(66,868)	(506,301)	(85,937)	(110,889)	(128,850)
Profit/(Loss) before taxation	93,668	91,613	92,334	(11,225)	19,443	158,266	(581,933)	2,699	31,859	30,690
Vat & Taxation	(14,663)	(13,861)	(14,863)	(5,519)	-	-	(35,601)	(2,432)	6,994	9,921
Profit After Taxation	79,004	77,752	77,471	(16,744)	14,095	158,266	(618,676)	267	24,865	20,769
Comprehensive Income/(Expense)	77,549	76,767	75,621	(13,086)	-	-	-	-	-	-
<b>Assets</b>										
Cash and cash equivalents and placement with banks	145,052	116,934	119,394	480,706	368,304	7,151	134,541	348,412	703,745	940,272
Loans and Receivables	923,890	932,413	913,235	571,892	420,657	778,938	1,197,256	1,949,602	2,439,865	2,553,525
Financial investments	7,712	8,991	3,193	6,308	2,650	-	-	-	-	-
Investments in Associates	108,757	116,418	125,561	125,561	129,282	125,560	49,000	49,000	-	1,200
Investments in Subsidiaries	11,791	9,268	7,854	12,750	12,750	12,750	324,197	319,540	314,547	154,068
Investment Properties	33,730	33,730	34,324	33,120	33,120	49,016	16,316	27,505	23,187	11,189
Property Plant & Equipment	9,876	13,508	11,592	13,205	9,244	7,457	8,055	11,947	20,983	24,132
Intangible Assets	3,553	3,701	-	-	-	-	-	-	-	-
Other Assets	18,587	14,451	21,573	36,196	30,969	187,670	296,395	227,111	118,031	108,138
	<b>1,262,517</b>	<b>1,249,414</b>	<b>1,236,727</b>	<b>1,279,739</b>	<b>1,006,977</b>	<b>1,168,542</b>	<b>2,025,760</b>	<b>2,933,117</b>	<b>3,620,358</b>	<b>3,792,524</b>
<b>Liabilities &amp; Shareholders' Fund</b>										
Due to Banks and Others	198,285	262,229	308,788	407,360	511,245	911,725	1,976,442	2,143,489	2,769,840	2,986,232
Other Liabilities	26,230	26,732	44,253	94,594	77,827	327,148	261,257	382,892	443,819	513,285
Shareholders' Funds	1,038,002	960,453	883,686	777,785	417,905	(70,331)	(211,939)	406,736	406,699	293,007
	<b>1,262,517</b>	<b>1,249,414</b>	<b>1,236,727</b>	<b>1,279,739</b>	<b>1,006,977</b>	<b>1,168,542</b>	<b>2,025,760</b>	<b>2,933,117</b>	<b>3,620,358</b>	<b>3,792,524</b>
<b>Ratios</b>										
Income Growth (%)	(4)	(32)	164	(9)	(68)	1,697	(3,320)	(280)	(1,252)	565
Property, Plant & Equipment to Shareholders' Fund (times)	0.95	1.41	1.31	1.70	2.21	(10.60)	(3.80)	2.94	5.16	8.24
Total asset to shareholders' fund (times)	1.22	1.30	1.40	1.65	2.41	(16.61)	(9.56)	7.21	8.9	12.94
Net Assets per Share	0.57	0.53	0.49	0.56	0.30	(1.29)	(3.89)	7.46	4.46	6.58
Basic Earning/(Loss) per share	0.04	0.04	0.04	(0.01)	0.02	0.23	(11.35)	0.005	0.51	0.58

Highlighted information is based on LKAs/SLFRSs.

[illegible]

# Notice Of Meeting

## Voting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of SMB Leasing PLC will be held at the Sasakawa Hall, No. 04, 22nd Lane, Colombo 03 on 23rd June 2015 at 10.00 a.m. for the following purposes :

1. To receive and consider the Audited Financial Statements for the year ended 31st December 2014 together with the reports of the Directors' and Auditors' thereon.
2. To re-elect Mr. S N P Palihena, Director who retires by rotation in terms of Article 87 of the Articles of Association of the Company.
3. 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

23rd May 2015

Note:

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 SMB Leasing PLC will be held at the Sasakawa Hall, No. 04, 22nd Lane, Colombo 03 on 23rd June 2015 at 10.00 a.m. for the following purposes :

1. To receive and consider the Audited Financial Statements for the year ended 31st December 2014 together with the reports of the Directors' and Auditors' thereon.
2. To re-elect Mr. S N P Paliheena, Director who retires by rotation in terms of Article 87 of the Articles of Association of the Company.
3. 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

23rd May 2015

Note:

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

## SMB LEASING PLC

### FORM OF PROXY

\*I/We the undersigned.....  
of .....  
being\* a member/ members of SMB 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 23rd June 2015 at 10.00 a.m at Sasakawa  
Hall, No.04, 22nd Lane, 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 Audited Financial Statements for the year ended 31st December 2014 together with the reports of the Directors' and Auditors' thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2) To re-elect as a Director Mr. S N P Paliyana who retires by Rotation in terms of Article 87 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3) To 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 Fifteen.

.....  
Signature of Shareholder

### Notes:

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

### SMB LEASING PLC

#### FORM OF PROXY

\*I/We the undersigned.....  
of .....  
being\* a member/ members of SMB 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. G C B Ranasinghe or failing him Dr. T Senthilvel or failing him Mr. S N P Palihena 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 23rd June 2015 at 10.00 a.m at Sasakawa Hall, No.04, 22nd Lane, 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 Audited Financial Statements for the year ended 31st December 2014 together with the reports of the Directors' and Auditors' thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2) To re-elect as a Director Mr. S N P Palihena who retires by Rotation in terms of Article 87 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
3) To 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 Fifteen.

.....  
Signature of Shareholder

#### Notes:

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

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## 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 in the Colombo Stock Exchange in 1993.

Registered as a Specialised 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)

Mr. U. Gautam  
(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)

Dr. T. Senthilvel  
(Non-Executive Director)

Mr. S. N. P. Paliheena, FCIB(London), FIB(SL), Post Graduate  
Dip in Business & Financial Administration (ICASL)  
(Independent Non-Executive Director)

Mr. T.M. Wijesinghe  
(Alternate Director to Mr.H.R.S. Wijeratne)

## Secretaries

P W Corporate Secretarial (Pvt) Ltd.  
Address 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)  
Level 2, Polytechnic Building  
30 2/1, Galle Road  
Colombo 06

## Tax Consultants

M/S. Amarasekara & Company  
(Chartered Accountants)  
No. 12, Rotunda Gardens  
Colombo 03

## Lawyers

M/S. De Livera Associates  
Attorneys-at-Law, Solicitors & Notaries Public  
No. 33 ½, Shrubbery gardens,  
Colombo 3.

M/S. Gunawardena & Ranasinghe Associates  
Attorneys-at-Law & Notaries Public  
No. 1056, 2nd Floor, Maradana Road,  
Colombo 08.

M/S. Ganlaths  
Attorneys-at-Law and Notaries Public,  
Galadari Hotel, M Floor,  
No. 64, Lotus Road,  
Colombo 01.

## Bankers

Seylan Bank PLC  
Sampath Bank PLC  
People's Bank  
Commercial Bank of Ceylon PLC

## Head Office

No. 110, D. S. Senanayake Mawatha,  
Colombo 08.  
Telephone : 094-114222888  
Fax : 094-114222880  
E-mail : [smbhed@sltnet.lk](mailto:smbhed@sltnet.lk)  
Web : [www.smbk.com](http://www.smbk.com)

## Subsidiary Company

SMB Money Brokers (Pvt) Ltd.

## Associate Companies

SMB Securities (Pvt) Ltd.  
SMB Real Estate Ltd.  
Kenanga Investment Corporation Ltd.

## Branch

Deniyaya Branch  
No. 11 A, Main Street,  
Deniyaya.



**SMB LEASING PLC**

No.110, D.S. Senanayake Mawatha, Colombo 8, Sri Lanka.