

ANNUAL
REPORT

2018

AMW CAPITAL LEASING AND FINANCE PLC



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VISION

To be the most trusted, admired and profitable NBFi in Sri Lanka.

MISSION

- Consistently deliver best-in-class service experience to our clients.
- Attract and develop best-in-class professionals who are motivated to achieve the highest level of service & performance.
- Provide a superior return to our shareholders and invest in the communities we serve.



CORPORATE VALUES

■ Respect

We have the utmost respect for everyone we interact with and for the environment in which we operate. We humbly recognize that ideas can come from anywhere, and are open to listen and change our mind. We are able to admit to mistakes and are willing to learn from them.

■ Integrity

We will always do the right thing and demonstrate consistency between our actions and our words. We ensure honesty and fairness in all that we do. We think about the long term and build enduring relationships.

■ Collaboration

We actively build trusted partnerships with all the constituencies of our business-including customers, principals, partners, communities and colleagues. We harness the strengths of individuals and teams and we have an unyielding desire to win together. We work collaboratively and we hold ourselves and each other accountable.

■ Excellence

We have a passion to achieve extraordinary results by delighting our customers. We believe good enough, is not good enough. We aspire to the highest global standards of service excellence. We celebrate our successes but remain relentless in constantly improving.

MILESTONES OF THE COMPANY



Chairman's Message

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We are a strongly capitalized company and this is reflected in our Total Capital Adequacy ratio of 18.69% in 2018 against 18.37% in 2017 well above the regulatory minimum of 10%.

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It is with great pleasure that I present to you the Annual Report and Audited Financial Statements of AMW Capital Leasing and Finance PLC (AMWCL) for the year ended 31st December 2018. I am happy to report that in a challenging business environment our Company recorded an after tax profit of Rs. 355.4 Mn in its journey towards sustainable growth in all spheres of business.

Global Economy

The global economy started 2018 on an upbeat note, buoyed by a pickup in global manufacturing and trade through 2017. As investors' confidence in the global economic outlook lost steam, so did the upswing. After rapid growth in 2017 Industrial production and trade slowed and business confidence also lagged in 2018. One reason behind this loss in momentum was the implementation of tariffs by major economies, especially the United States and retaliatory measures taken especially China. The increasingly protectionist rhetoric on trade has meant higher uncertainty about trade policy, which weighs on future investment decisions. Despite all these

challenges, the global economy witnessed a robust 3.1% growth in 2018.

Of the global economies the US economy expanded at a fast pace in 2018, as tax cuts, low interest rates and other incentives stimulated demand. The US Federal Reserve continued to raise the policy interest rates in the latter part of 2018 to prevent the overheating of the economy, which has contributed to the strengthening of the USD. As growth and interest rates in the United States have outpaced those in other major economies, the US dollar has appreciated against most other currencies in 2018. Some vulnerable emerging market economies including Sri Lanka have come under stress as the US dollar strengthened. This resulted in a capital flight from emerging economies like Sri Lanka and an increase in their external borrowing costs.

The outlook of global economy for 2019 and onwards is subject to downside risks due to numerous factors in terms of financial stress, increased protectionism and increasing geopolitical tensions in the short to medium term.

Sri Lankan Economy

Sri Lankan economy achieved a GDP growth of 3.2% in 2018, mainly contributed by the services sector which had a growth pace of 4.3% and the agricultural sector due to good weather conditions. The agricultural sector which recorded a negative growth of 3.5% in 2017 due to drought and floods rebounded and witnessed a creditable growth rate of 4.4%. The Industry sector grew at 1.9%. However, as per the latest Asian Development Bank data, Sri Lanka grew at a lower rate than other countries in South Asia. Weak domestic demand, continued tightening in monetary conditions as well as Government consumption spending and very low infrastructure investment were the main reasons for this subdued growth. The Sri Lankan Rupee also depreciated sharply by around 18% against the US Dollar in the latter part of the year and we saw a downgrading of the country's sovereign rating by the International Rating Agencies due to the political turmoil arising from a constitutional crisis that prevailed in the latter quarter of 2018.

Chairman's Message (Contd.)

The Government initiated certain structural reforms supported by the International Monetary Fund (IMF) to address the key structural problems in the economy such as twin deficits, the low tax revenues to GDP, and high level of unsustainable international debt servicing due to the bunching of loan repayments. Some measures include the launching of the new Inland Revenue Act to encourage revenue-based fiscal consolidation and the introduction of fuel pricing formula linked to international movement of oil prices thereby reducing the losses in State-Owned Enterprises (SOEs) due to subsidies.

The Central Bank of Sri Lanka allowed for greater exchange rate flexibility through free floating of the Rupee while strengthening reserve buffers in the 1st half of the year to ensure resilience against external shocks. Further, in September 2018, the Government launched 'Vision 2025'. The program planned to address constraints to growth over the next three years, consistent with the IMF program with emphasis on E-Government and improving Sri Lanka's index on 'Ease of Doing Business'. These structural reforms are expected to have a constructive impact on medium to long term impact on the overall growth of the economy.

The Industry

The sector recorded an after tax profit of Rs.21.3 billion during the year 2018 compared to Rs. 25.8 billion in the year 2017. With a view to control the excessive imports which led to balance of payment crisis, the government in mid 2018 increased the import duty on hybrid cars with less than 1000cc and increased the margin requirement for opening Letters of Credit to import motor vehicles and some commodities. The Loan to Value ratio for motor cars was further tightened. This had an adverse impact on the asset growth of all the non-bank financial institutions including AMWCL. The Non-Bank Financial Institution's (NBFI) grew by 5.63% in the year 2018 compared to 12% in the year 2017.

The growth in sector assets was funded mainly through deposits, which grew by 4.39% in 2018 compared to a growth rate of 29% in 2017.

The Industry witnessed a deteriorating asset quality with Non-Performing Loans increasing from 5.94 % in 2017 to 7.72% in 2018. The annualized ROA and ROE ratios

were at 1.52% and 12.13% respectively, compared to 2.99% and 14.74% respectively, in the year 2017. The sector by and large maintained adequate capital levels which is reflected by the average Capital Adequacy Ratio (CAR) of 13.36%.

Company Performance

Despite a challenging business environment AMW Capital Leasing and Finance PLC achieved a modest growth of 2.92% in profit before tax compared to the year 2017, ending the year 2018 with a pretax profit of Rs. 664.2 Mn.

The asset base grew to Rs. 11.65 billion at the end of the financial year while maintaining the Non-Performing Loan (NPL) ratio at 2.98% which is much lower than the industry average. The foremost aim of the company is to build asset "quality over quantity" culture and I'm delighted to announce that we have managed to maintain the quality of our portfolio in a market where there is a sharp deterioration in asset quality and several companies having difficulty in meeting the minimum capital requirements imposed by the Regulator. As for impairment our provisioning standards are conservative and the Company has fully complied with the requirements of the Sri Lanka Financial Reporting Standards No.9.

The Return on Assets (ROA) and Return on Equity (ROE) were 3.07% and 16.46% respectively. The fixed deposit base stood at Rs. 2.36 Billion. I am happy to report that the cost to income ratio of 47.09% is the best among peer competitors in the industry indicative of the tight cost controls that are in place.

We are a strongly capitalized company and this is reflected in our Total Capital Adequacy ratio of 18.69% in 2018 against 18.37% in 2017 well above the regulatory minimum of 10%.

Outlook

We look forward to an exciting year ahead on the back of solid performance in 2018. Government policy changes introduced in 2017 and 2018 will have a significant influence on the performance ahead. Further, the years 2019 to 2022 will be crucial for the Sri Lankan economy given the significant foreign currency debt repayments that will arise in capital and interest.

In the light of these, the company has taken effective steps to manage costs, gradually moving to other secured lending products, but somewhat higher risk such as two-wheelers, while managing the associated risks effectively through introduction of lending caps and also constantly monitoring and reviewing the funding mix to ensure that liquidity and market risks are managed prudently.

2019 is also election year with the General Election closely followed by the Presidential. As yet there is some confusion as to who will lead the main parties and the respective candidates and the uncertainties associated with elections is making corporates take a wait and see approach to investments while the Government as expected to make an election budget to appease the voters whilst bearing in mind the IMF constraints on spending.

Notwithstanding these challenges and uncertainties I have full confidence in the Management Team to continue to deliver strong performance and successfully respond in a timely manner to changes in risk in the market environment.

Appreciation

I take this opportunity to extend my gratitude to our parent company, Associated Motorways (Pvt) Ltd, and to our ultimate parent, The Al-Futtaim Group, for their invaluable contribution to the success of our company. I would also like to convey my sincere appreciation to my colleagues on the Board for their valuable and unstinted support, expertise and guidance extended to me at all times to drive the Company forward through some difficult and challenging times. I extend my appreciation to the CEO, Mr Brandon Morris, the management team and all staff for their unconditional efforts and commitment to achieve an excellent and sustainable business performance. I greatly appreciate the support given by the Central Bank of Sri Lanka and other regulatory bodies for their valued counsel and direction and last but by no means least, I would like to thank our valued customers for the confidence placed in our company.



Trevine Fernandopulle
Chairman

21 March 2019

Director / CEO's Message

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AMWCL recorded an encouraging total revenue of Rs. 2.03 billion, with a net Profit After Tax (PAT) of Rs. 355.4 million during the year.

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It gives me great pleasure to share with you the Annual Report of AMW Capital Leasing and Finance PLC (AMWCL) for the year ended 31st December 2018. Surpassing the remarkable progress made over the past years, the Company continued to end the year with promising results. The Company's performance for the year 2018 showcases its resilience, stature and progress under challenging circumstances. Despite the environment being continually unfavorable and challenging, the Company succeeded in achieving strong performance, staying on plan towards sustainable growth whilst demonstrating the effectiveness of strategy and resilience.

The Economy

2018 was a challenging year due to subdued economic growth, dampened business confidence in the backdrop of political uncertainty as well as the increased level of government debt brought many challenges to the Sri Lankan Financial system. Global developments coupled with the widening trade deficit exerted pressure on Sri Lanka's external sector. Capital outflows resulting from increasing global yields and tightening of liquidity conditions

in advanced economies adversely affected the growth prospects of emerging and developing market economies including Sri Lanka. Amidst these conditions Sri Lanka recorded a GDP growth of 3.2% in 2018, compared to the growth of 3.4% in the previous year.

Sri Lanka's external sector was under pressure during the second and third quarters of the year. Higher than expected growth in import expenditure which outpaced the increase in export earnings resulted in considerable widening of the trade deficit. Earnings from exports were USD 11.8 Bn and import bill amounted to USD. 22.2 Bn resulting in a trade deficit of USD 10.4 Bn. Despite the trade deficit, continued inflows by way of tourism earnings and workers' remittances, have contributed towards limiting the pressure on balance of payments. However, the Sri Lankan Rupee to US Dollar exchange rate depreciated by about 18% during the year. The restrictive loan-to-value ratio imposed on motor vehicles and high margins imposed on Letters of Credits to import motor vehicles curtailed the growth in the vehicle market in the second half of the year.

The Industry

The Non-Banking Financial Sector (NBFI) of Sri Lanka, which consist of 43 Licensed Finance Companies and 4 Specialized Leasing Companies operating through 1,373 branches, continued to face pressure on asset quality and profitability. Loan growth year-on-year slowed to 8.7% by end-2018 from a high of 31% in 2015. The total asset base of the NBFI sector grew at a slower pace of 5.63% to Rs. 1,431.3 billion. The sector's market share declined to 10.82% in 2018 from 11.63% in 2017 enabling the banking sector to expand its market share to 89.18%.

The sector recorded a Profit After Tax (PAT) of Rs. 21.36 billion for the year 2018 which showed a decline of 17.2% compared to 2017. The sector's NPL ratio (overdue by more than 180 days) spiked to 7.7% by end- 2018 from 5.9% at end 2017, with the target customer base suffering from the economic slowdown.

The NBFIs' risk appetite rose sharply to higher levels when the sector expanded their exposure into riskier non-core lending segments outside of vehicle financing that

Director / CEO's Message (Contd.)

they aggressively expanded during 2015-2018. These exposures might be the major contributory factor to the higher NPLs. Overall the sector recorded a Return on Equity (ROE) of 12.13% and a Return on Assets (ROA) ratio of 1.52% as at the end of 2018.

It is noteworthy to mention that the presence of commercial banks in the automotive financing sector, often capturing a large slice of high creditworthy customers through low pricing. This no doubt is a threat to the long term survival and growth of this industry. This has resulted in a price war and dilution of credit appraisal standards, often resulting in lesser net interest margins, increased non-performing loans and unsavory business ethics being practiced by many NBFIs. This has also pushed the sector to venture into more risky non-core business.

Company Performance

In spite of the challenging business environment and the turbulence in the market, AMWCL managed to perform creditably, in a highly competitive auto financing market.

Despite the shrinking margins, challenging market conditions and upsurge in the cost of funds predominant in the year, AMWCL recorded an encouraging total revenue of Rs. 2.03 billion, with a net Profit After Tax (PAT) of Rs. 355.4 million during the year. Company increased its Net Interest Margin to 8.61% from 7.55% in 2017. Return on Assets for the year was 3.07% and Return on Equity stood at 16.46%.

Company's product mix comprises of 52% Finance Leases and 48% Auto Loans, which were fully secured with motor vehicles. The company rationalized its funding base and focused moderately on increasing funding through Fixed Deposits which stood at Rs. 2.3 billion at end December 2018.

The growth in the lending portfolio was well complemented by a high quality asset portfolio, prudent credit policy, close monitoring and stringent recovery efforts. This enabled AMWCL to maintain a commendable Non-Performing Loan Ratio (NPL) of 2.98% at year end, well below the industry average.

The performance of your company has resulted in Fitch Ratings Lanka Ltd, affirming a BBB+ (lka) Credit Rating for the company, having taken in to account; consistent financial performance, good governance, parent company support and peer performance.

Outlook

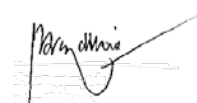
2019 will witness similar environmental challenges in the form of interest rate and foreign exchange rate vulnerability, drop in demand for motor vehicles due to higher taxation and restriction of LTV. In light of this, the company will focus on increasing its income generating asset base and Net Interest Margins, through a diversified product portfolio and an increased market share of financing in-house captive automotive brands. It will strive to sustain and improve customer loyalty and satisfaction through technological enhancements, realignment of business processes and by improving the knowledge and skills of human resources. The investments we continue to make to expand and diversify our portfolio and to constantly create value for all our stakeholders, stand as testimony to the confidence with which we look to the future and the long term.

Appreciation

I respectfully acknowledge the contribution and support extended by my colleagues on the Board, especially the Chairman Mr. Trevine Fernandopulle, for the valuable advice and guidance provided. My sincere appreciation goes out to the Governor of

the Central Bank of Sri Lanka, Director Non-Bank Supervision and all officials of the Central Bank Non-Bank Supervision Division for the counsel and support at all times. A special word of thanks go out to all our customers for the loyalty and patronage and to all stakeholders for their continued support.

To achieve these results in the current context would not have been possible, if not for a passionate and dedicated group of employees, who rallied round the management team to deliver key performance objectives, in a timely manner. Their unstinted support and loyalty have been the cornerstone of your company's success.



Brandon Morris
Director/CEO

21 March 2019

Board of Directors



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1. Mr. Trevine Sylvester Anthony Fernandopulle
Chairman

Mr. Fernandopulle has over 30 years of work experience at HSBC (Local and Overseas) from 1978 to 2008 and retiring at the end of 2008 as the Deputy CEO. He was seconded by HSBC to work in Saudi British Bank, Saudi Arabia as Head of Credit and to restructure their Risk Management and Credit Administration functions and to manage the Loan Recoveries during his tenure with the Bank from 1996 to 1999. He was also appointed as the Group Chief Risk Officer at the Bank of Ceylon from 2009 – 2012. From 2012 to May 2016 he was appointed as the Chief Risk Officer/Executive Vice President Risk at DFCC Group. Mr. Fernandopulle was appointed as a Director of Dutch Lanka Trailer Manufacturers Ltd and Union Bank Ltd effective January 2017 and April 2017 respectively.

Mr. Fernandopulle was also appointed to several committees such as the Asset and Liability, Audit, Strategic Planning, Human Resources, Risk Management, Credit, Investment, Impairment, Information Technology during his appointments in the respective banks. He is a Member of the Board of The National Insurance Trust Fund and the Chairman of the Board of Trustees of The Joseph Frazer Memorial Hospital. Mr. Fernandopulle was the Past President, Chartered

Institute of Bankers (Sri Lanka Branch) and a Founder Member and Past Vice President Association of Banking Risk Professionals Sri Lanka.

Mr. Trevine Fernandopulle is an Associate of the Chartered Institute of Bankers London and a Fellow Member of the Chartered Institute of Bankers London. He holds a BSc (Mathematics) from the Imperial College University of London and MSc (Statistics) from London School of Economics University of London.

2. Mr. Brandon Philip Morris
Director/CEO

Mr. Brandon Morris counts over 25 years of managerial experience, of which 20 have been in the Non-Banking Financial Sector (NBFI). Prior to joining AMW Capital Leasing and Finance PLC, Mr. Morris held key positions at LB Finance Ltd (Asst. Manager), LOLC (Asst. General Manager), Ceylease Financial Services Ltd (Chief Operating Officer) and TVS Automotives (Pvt) Ltd (CEO).

He is a Chartered Marketer, holds an MBA from the Post Graduate Institute of Management (PIM), University of Sri Jaywardenepura and a Post Graduate Diploma in Marketing from the Chartered Institute of Marketing (CIM) UK.

His diverse skills and valuable experience in Sales, Branding, Credit

Appraisal, Debtor Management, Distribution, Dealership Management, Logistics and International Trading, in both the financial and trading sectors, complements his role as a Management Board Director of AMW Group as well.

Mr. Morris currently serves as a Director of the Finance Houses Association of Sri Lanka (FHA) and was the Past Vice Chairman of the Leasing Association of Sri Lanka. He represents the Leasing Association of Sri Lanka in the Ceylon Chamber of Commerce main committee.

3. Mr. Anil Dalsukhlal Lakhani
Executive Director

Mr. Anil Lakhani is a Senior Finance Professional being qualified by the Institute of Chartered Accountants of India and Chartered Institute of Management Accountants UK, with 24 years' experience in Retail, Real Estate and Trading sectors. He is the Finance Director of AMWCL's parent company Associated Motorways (Private) Limited.

He worked as an Assistant Audit Manager in A.F. Ferguson handling various audit assignments of leading business houses such as Tata, Mahindra and GE Lighting from July 1993 to November 1995. He was the Assistant Manager Finance at Al-Futtaim Sons from October 1996 to September 2001. He joined Dubai Properties LLC which

Board of Directors (Contd.)



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is a part of Dubai Holding Group as the Director – Finance and Planning from September 2001 to June 2012. He was with Al-Futtaim Group since 2012 as General Manager Finance handling Retail vertical followed by Automotive.

During his work tenure he had worked with multi nationalities, geographies and start-up environment and he had managed teams to deliver business objectives and built sustainable performance standards in Finance and Commercial functions.

4. Mr. Colin William Cordery

Non-Executive Director

Mr. Colin William Cordery is a British national. He currently holds the role of Senior Managing Director – International, Al-Futtaim Private Co. LLC with strategic P&L responsibility for ten automotive entities covering nine international markets across the GCC, East Africa & Asia.

In total, he has spent the last eleven years serving the UAE headquartered conglomerate. His prior roles within Al-Futtaim included spells as Regional Managing Director, Al-Futtaim Honda, Managing Director, Trading Enterprises UAE and General Manager – Financial Services UAE. In total, he offers more than 20 years' experience in the automotive sector with past assignments at the European manufacturer Peugeot and in the retail dealership sector in the UK.

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Mr. Cordery is a graduate of the University of Edinburgh where he attained a Master of Arts with Honours. Outside of work, he is an avid golfer, walker and reader.

5. Mr. Richard Kassaby

Non-Executive Director

Mr. Richard Kassaby is the Managing Director of Al Futtaim Finance Pvc JSC (a finance company regulated by the Central Bank of the UAE) and is responsible for automotive financial services across six geographies for the Al Futtaim Group.

Mr. Kassaby has worked in the finance industry for more than 20 years with broad experience in treasury, capital markets and regulatory structuring across a range of industry sectors in both developed and emerging markets. Prior to joining the Al Futtaim Group, Mr. Kassaby was a Director of Sturt Capital and an Executive Vice President, Institutional Banking at Commonwealth Bank of Australia.

Mr. Kassaby holds a Master of Taxation Law from Melbourne University and a Bachelor of Information Systems from Monash University.

6. Mr. Nihal Kekulawala

Independent Non-Executive Director

Mr. Kekulawala counts over thirty years in the banking profession and was appointed as a Director in October

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2017. He has held senior positions at Hatton National Bank PLC and played a strategic role in the diversification of HNB from Commercial Banking to Investment Banking, venture capital, stock brokering and life/general insurance. Mr. Kekulawala served as the lead consultant and was responsible for setting up a Commercial Banking Operation in the Solomon Islands. He functioned as the inaugural CEO of the bank. He presently serves on the Board of several public companies. Mr. Kekulawala is a Fellow of the Institute of Chartered Accountants UK and Sri Lanka, Fellow of the Chartered Institute of Bankers in England and has an MBA from the University of Manchester.

7. Mrs. Ruvini Eroshini Weerasinghe

Company Secretary

Mrs. Ruvini Eroshini Weerasinghe was appointed as the Company Secretary of AMW Capital Leasing and Finance PLC in June 2017 and is the Company Secretary and Head of Legal of AMW Group. She is an Attorney-at-Law of the Supreme Court of Sri Lanka and registered as a Company Secretary with the Registrar General of Companies. She holds an MBA from Cardiff Metropolitan University, UK.

Mrs. Weerasinghe has over 23 years' experience in litigation and Notarial work, and over 19 years' of experience in the Finance Leasing Industry.

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Senior Management Team



1. Mr. Pramuditha Mendis

General Manager – Credit and Operations

Mr Pramuditha Mendis has over 24 years of experience in the field of leasing/ finance including 04 years of overseas exposure of working for one of the leading leasing establishments in the world.

After graduating, Mr. Mendis commenced his leasing career as a Credit/ Marketing Executive at Lanka ORIX Leasing Company Ltd (LOLC) and worked there for 11 years holding several Executive and Managerial positions. He joined Saudi ORIX Leasing Company (SOLC) in KSA (an investment of ORIX Corporation, Japan) after resigning from LOLC and worked there for 04 years getting exposed to many new business practices including corporate credit. He held the

position of Senior Manager – Credit & Marketing at SOLC when he resigned to join AMW Capital Leasing and Finance PLC (AMWCL) in 2009. Mr. Mendis currently serves as the General Manager – Credit & Operations of AMWCL and he is also the Chairman of Credit Policy Committee.

He has also served as a Director of Leasing Association of Sri Lanka (LASL) and as the Chief Executive Officer at Summit Finance PLC (now known as Prime Finance PLC).

Mr. Mendis is a fellow member and a resource person at Sri Lanka Institute of Credit Management (SLICM).

2. Mr. Sanjaya Thenuwara

General Manager – Marketing

Mr. Sanjaya Thenuwara serves as the General Manager- Marketing, counts

over 21 years’ experience in the field of Leasing. He started his career as a Management Trainee at Mercantile Investments Ltd & thereafter worked at Central Finance & Mercantile Leasing Limited, before moving into Lanka Orix Finance Company PLC in 2003. Mr. Thenuwara worked at LOLC for 11 years in the capacity of Regional Manager & Chief Manager City Branch. He holds a Diploma in Marketing from SLIM & an MBA from University of Wales Institute Cardiff, also he presently serves as a Director of Leasing Association of Sri Lanka (LASL).

3. Mr. Sujith Fernando

Head of Risk & Compliance

Mr. Sujith Fernando joined the Company in August 2015 as the Head of Risk & Compliance. He holds an MBA from the University of Colombo. He is also an Associate Member of the

Senior Management Team (Contd.)

Chartered Institute of Management Accounts (CIMA- UK) and an Associate Member of the Institute of Bankers of Sri Lanka (IBSL). Mr. Fernando has 24 years of experience in Banking & Finance Sector including two years of experience in UK. He started his career as a clerk in Commercial Bank of Ceylon PLC. He has 16 years of service at Commercial Bank which encompassed Branch Operations, Credit, Finance & Planning and Recoveries. Thereafter, in 2011, he joined Capital Consultancy & Investments - London UK as a Finance Analyst. During the two year stint at Capital Consultancy he gained experience in preparation of project proposals, restructuring proposals and investment appraisal. Prior to joining AMW Capital Leasing and Finance PLC he was the Assistant General Manager - Risk & Compliance at Sarvodaya Development Finance.

4. **Mr. Uma Maheswaran** *Head of Fixed Deposits*

Mr. Uma Maheswaran, the Head of Fixed Deposits, who joined the company in December 2012 was instrumental in setting up the fixed deposit operations. He has 21 years of experience in the finance industry, out of which 15 years in management, particularly in fixed deposit mobilization and operations. Prior to joining AMW Capital Leasing and Finance PLC, he was the Manager – Fixed Deposits at Mercantile Investments and Finance PLC, where he served a good 15 years of his career.

5. **Mr. Chinthaka de Alwis** *Head of Operations*

Mr. Chinthaka de Alwis, the Head of Operations, has a Diploma in Litigation Systems to the law. Mr. de Alwis has over 26 years' experience in the Finance sector. He was the head of the division of Compliance at Peoples Leasing Ltd for a period of 2 ½ years. He possesses 11 years' experience at Lanka Orix Leasing Company (LOLC) in the Finance, Micro Finance, Corporate Finance and Internal Audit divisions, responsible for Internal and Information Systems Auditing processes of the organization.

6. **Mr. Sujeewa Sooriyaarachchi** *Manager Recovery*

Mr Sujeewa Sooriyaarachchi is heading the Recovery and Administration Departments of AMWCL.

Mr Sooriyaarachchi was an award-winning officer in the grade of Inspector in the Department of Sri Lanka Police, with over 25 years of experience in recovery and administrative management in the fields of, Trading, Leasing and Manufacturing industries.

7. **Mrs. Dimuthu Tillekeratne** *Head of Finance*

Mrs. Dimuthu Tillekeratne joined AMWCL in the year 2008. She is a fellow member of the Institute of Chartered Accountants of Sri Lanka and holds a First class special degree in Accounting from the University of Sri Jayewardenapura.

She counts over ten years of post-qualifying experience in the financial services and more than three years of experience in auditing. She has also completed level two of the Chartered Financial Analyst Program. Prior to joining AMWCL, she was attached to Ernst & Young and held the position of Qualified Assistant at the timing of leaving the firm.

Management Discussion and Analysis

Management Discussion and Analysis

Operating Environment:

The year 2018 witnessed a general slowdown in the economy with GDP posting subdued growth of 3.2%. 2018 was also a challenging year for NBFIs (Non-Banking Financial Institutions) when compared to the year 2017. Import duty on hybrid cars below 1000cc were increased and Loan to Value for financing these motor vehicles was further tightened. The Sri Lankan Rupee got sharply depreciated against the US Dollar during the latter part of the year increasing commodity prices as well as the prices of motor vehicles. Market interest rates too remained at the upper higher level throughout the year.

NBFI industry:

The continuous efforts on tightening the regulatory framework for NBFI sector has been visible throughout the year under review. The long due, unsolved issues related to public deposit holders of number of distressed finance companies can be seen as the obvious reason for these new developments. The Central Bank of Sri Lanka initiated some regulatory action on some of the distressed institutions during the year. The new tax, the Debt Repayment Levy also impacted the profitability of the Industry.

Further, new LTV direction issued by the regulator in August 2018 reducing the LTVs for hybrid motor cars, SUVs and vans to 50% severely affected the vehicle financing business of NBFIs. While the imposition of 200% margin on Letters of Credits opened to import motor vehicles increased the import cost of motor cars which in turn affected the vehicle market.

Funding the business operation through public deposits also become a challenge for the NBFIs due to some of the banks offering attractive interest rates on fixed deposits since banks are not being imposed a Cap on FD interest rates as the NBFIs.

Assets:

The total assets of the NBFI industry increased to Rs. 1,431.39 billion in 2018 from Rs. 1,351.9 billion in 2017. Further, loans & advances increased to Rs. 1,137.0

billion in 2018 from Rs. 1,057.1 billion in 2017. The lease portfolio which is the dominant product in the industry recorded a growth 14.68% and stood at Rs. 635.6 billion. The pawning grew by 25.19% and the growth of loan portfolio slowed to 2.80%. However, both the total asset base and the loans & advances of the sector experienced a sharp deceleration in its growth during the year 2018. The total assets, which grew at 21.5% during 2016 and 11.5% in 2017, declined to 5.6% in 2018, the lowest recorded during last five years. Although the total loans & advances increased by 8.7% during the year, Profit After Tax (PAT) declined by 17.2% from Rs. 25.8 billion in 2017 to Rs. 21.3 billion in 2018 challenging the operational efficiencies of the industry.

Portfolio Quality:

With the slowing down of the economy and banks offering very competitive interest rates, NBFI sector had to resort to many other alternative products such as unsecured lending, loans against property mortgages etc., without having proper infrastructure and business model to manage risks of these products. This has resulted a deterioration of the asset quality of the industry and NPAs have spiked to 7.7% in December 2018.

Loan provisioning and suspended interest escalated to Rs. 67.9 billion in 2018 from Rs. 51.5 billion in 2017.

Future Outlook:

The profitability of the industry will be under pressure due to higher cost of funds, rising NPAs and many new measures including IFRS9 accounting standards. NBFIs' risk appetite is likely to remain high in light of their rising exposure to riskier non-core lending segments outside of vehicle financing. Further, competitive rates offered by banks for deposits might be another barrier to the industry. Furthermore, higher taxes on financial institutions would pose an additional threat on smaller NBFIs in meeting enhanced capital requirements due to a further weakening in internal capital generation. The increase of minimum capital requirements might force some companies to go for mergers or infusion of fresh capital.

Company Performance:

A Summary Comparison of KPIs - Industry vs AMW Capital Leasing and Finance PLC (AMWCL)

Indicator	Industry	AMWCL
Profitability		
Return on Assets %	1.52%	3.07%
Return on Equity %	12.53%	16.46%
Net Interest Margin %	8.09%	8.61%
Total Capital Ratio %	11.17%	18.69%
Use of Funds		
Loans and Advances %	79.44%	92.40%
Investments %	7.66%	4.60%
Other Assets %	12.90%	3.00%
Asset Quality		
Gross NPA Ratio %	7.72%	2.98%
Net NPA Ratio %	2.40%	(0.11)%

Sales & Marketing:

The year 2018 was a year of mixed market conditions. The 1st half of the year witnessed a boom in the vehicle market with high demand for cars below 1000cc and the 2nd half experienced a subdued demand due to stringent LTV and increase of import duty. With the tightening of monetary policy the interest rates too remained at the upper limit throughout the year making credit costly. As a result, overall demand across almost all the motor vehicle segments which consists of major portion of the disbursements of finance/leasing companies contracted together with the appetite for credit.

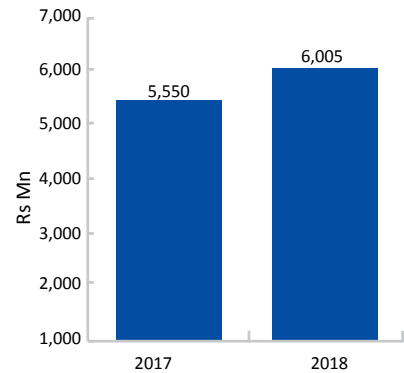
The Company's sales & marketing strategy has always been to get more from "captive brands" which has been of high credit quality while increasing the volume from non-AMW (Associated Motorways (Pvt) Ltd) brands (both pre-owned and unregistered) as well to support the Company's growth plans. The sluggish vehicle market in the second half of the year due to the facts mentioned above badly affected AMW's sales volumes. AMW Capital Leasing and Finance PLC (AMWCL) also got affected due to not achieving the projected volumes

Management Discussion and Analysis (Contd.)

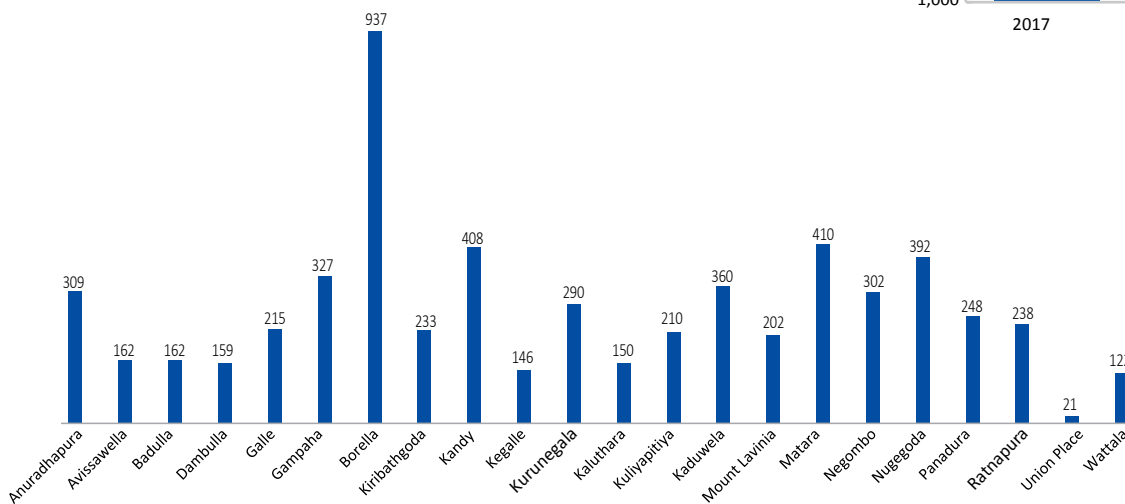
from captive brands. The overall business volume derived from captive brands decreased by 6% in 2018 when compared to that of in 2017. The brands that contributed badly to this drop were Suzuki and Renault.

The Company maintained its Net Interest Margin (NIM) at 8.61%, which is above the industry average, and continues its thrust of increasing the NIM by focusing more on high yielding products, competitive pricing and prudent management of funding costs. Further, regional sales concept was further strengthened by appointing 04 dedicated Regional Managers to concentrate & focus more on sales, branch governance structure and productivity which brought satisfactory results. The continuous focus, concentrated efforts together with overall business strategies used assisted the Company to improve its PBT.

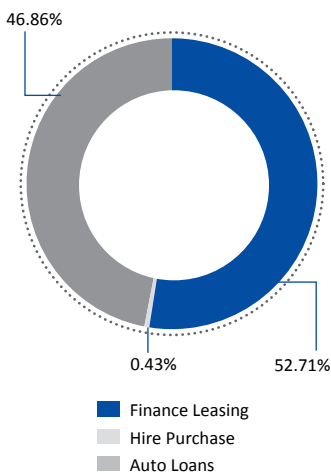
Disbursements 2017 vs 2018



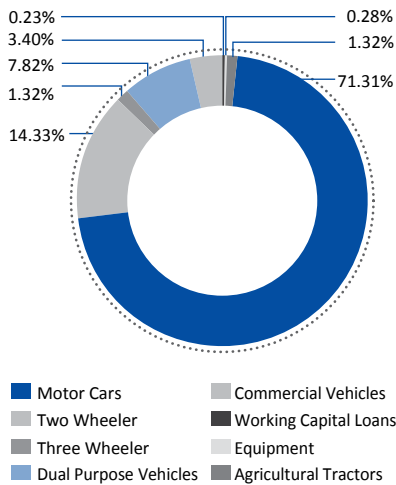
Branch-wise Executions - 2018 (Rs. Mn.)



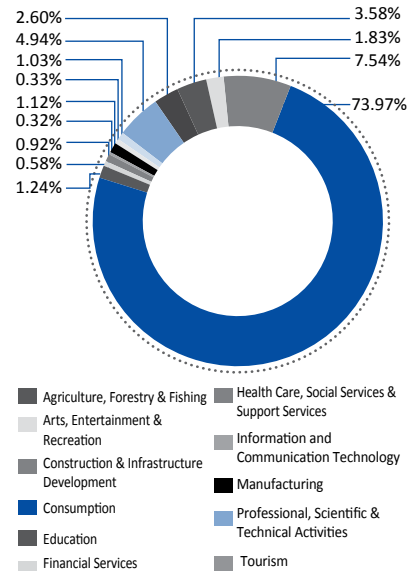
Exposure Based on Product Class - 2018



Portfolio Asset Class - 2018



Sector-wise Executions - 2018



Funding:

The Company's Asset and Liability Committee (ALCO) is empowered to decide the right composition (tenor, rate/ both fixed & variable and the quantum) of the various types of debt instruments required by the Company considering the funding requirement, liquidity gaps, interest rates gaps and anticipated market trends. Since the inception of the Company the Parent had been a major source of funding to the Company. However, in line with the Company's strategy to be independent in funding, the reliance for funding from Parent was reduced to 42% in 2018 from 70% in 2017. The Company was able to raise Rs. 3 billion during the year from two securitization loans and proceeds of these were utilized to retire some high cost funding and a part of the borrowings from the Parent. With the rising of interest rates the deposits became costly during the year and hence Company rationalized its funding composition. With this, the deposits from public decreased to Rs. 2.3 billion in 2018 from Rs. 2.7 billion in 2017, but still deposits remains a relative high cost source of funding to the Company. The Company was also able to reduce liquidity and interest rate gaps during the year bringing more stability to funding cost whilst mitigating the liquidity and interest rate risks.

Insurance:

Comprehensively insuring all the lease assets with financial interest to the Company is very important in case of an accident to recover the capital outstanding of the loan while offering our customer a peace of mind. Our Company deals with the best 10 insurance companies in the country to facilitate insurance requirements in order to enable our customers to obtain all related service under one roof, thus providing the maximum convenience. However, the choice of selecting the insurance company always remains with the customer.

During the year under discussion we managed to increase the insurance placed through our Company's insurance unit to over 90% of the total transactions done by the Company thus contributing a commission income of Rs. 49.4 million in year 2018. The total insurance commission income represented 12.7% of the total other operating income during 2018. The Company also commenced automatic

renewal notices sending process using SMS alerts to inform customers to renew their insurance promptly. The Company is planning to upgrade its insurance module to handle non-leasing, outside insurance in the future to increase the commission income further.

Portfolio Quality:

The Company is blessed with a management team who very well understands the underlying concept and the importance of credit management in lending business. The strong credit culture which has been prevailing since inception of the Company enabled the Company to maintain extremely good quality portfolio. The NPA ratio, although increasing a bit during the year, still remains at low level of 2.98% (gross) as at end December 2018 when the industry average is around 7.7% and there is a spike in the NPAs in the industry. The asset quality of the Company contributed immensely towards the achievement of ROE as high as 16.46% when the industry average was 11.4%. Empowering Branch Managers through thoughtfully designed product based credit parameters assisted the Company to speed up the credit underlying and approval process thereby accelerated the decision making process to provide a better service to our customers.

Recovery:

The commendably low NPA ratio maintained during the year under review is a reflection of sound credit & risk policies, processes and the performance of the Recovery Department. The continuous changes to meet the changing market environment conditions, automation of certain processes and continuous improvement of collection tactics consistently assisted the Company to improve its results. Further, the Company divided the entire geographical area into four and delegated the responsibilities of the branches operating under each area to four regional heads for effective and efficient monitoring. The Company also formed a dedicated Recovery Team to follow up on the small ticket leases such as two wheelers/three wheelers.

Information and Communication Technology (ICT):

ICT has always been in the top of the mind of the Company's management team and

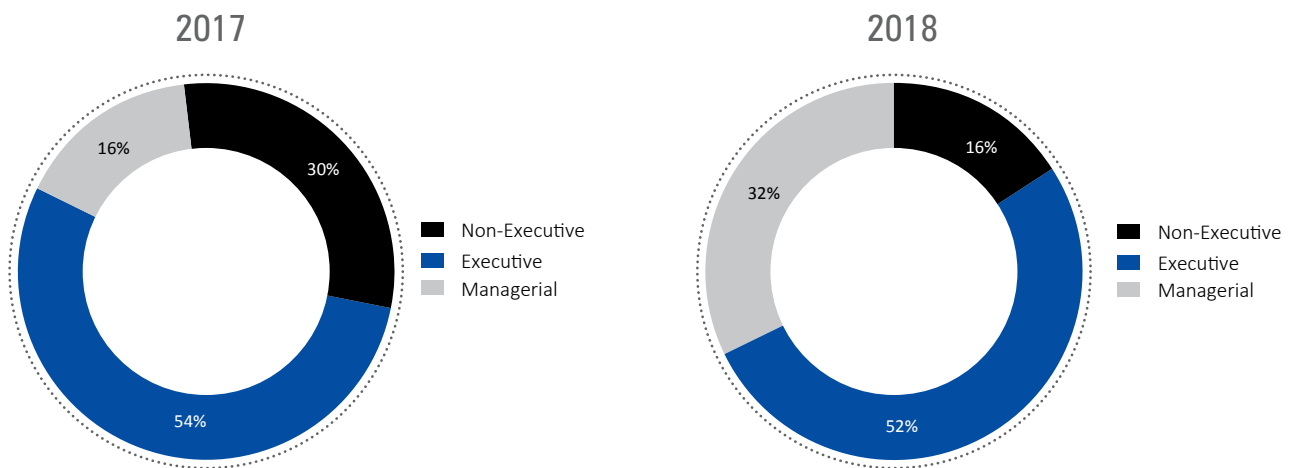
it constantly gets the knowledge and the support of new technology from Al-Futtaim Group, the major shareholder of AMW and one of the largest business conglomerate in the UAE. AMWCL introduced many first among NBFIs in the past such as "paper less on-line credit approvals", "Customer Portal to check their account balances" etc. The Company also has taken measures to automate many operational activities and report customization to provide better management information.

Presently the Company is seriously evaluating the emerging IT needs and gaps in the existing system with the business requirements. Company intends to close these gaps either by upgrading the present software systems or migrating into an advanced system which satisfies business requirements.

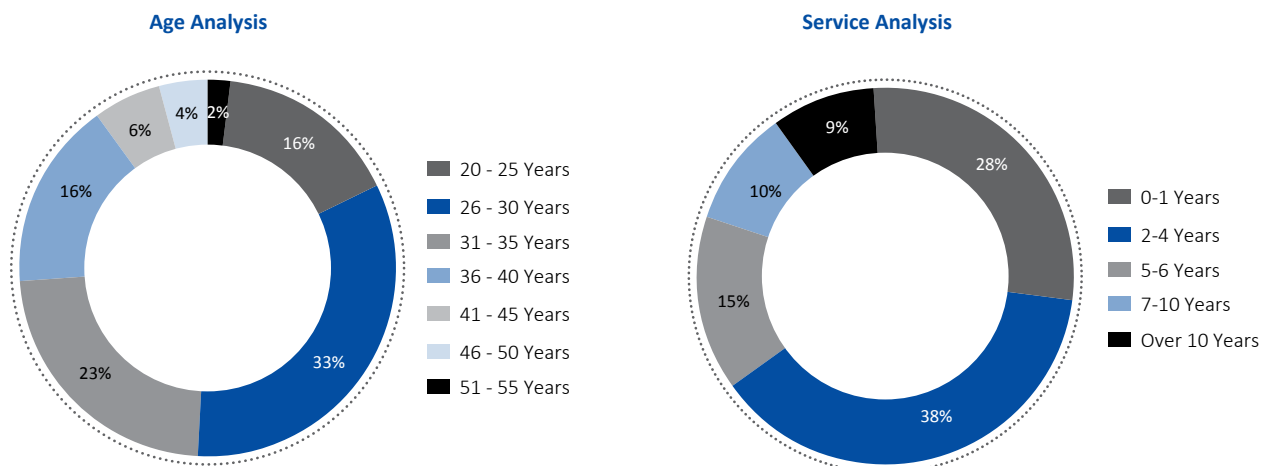
Human Resource Engagement

As at 31.12.2018, AMW Capital Leasing and Finance PLC's Total Cadre stood at 221, in comparison to 2017 and 2016 which stood at 237 & 254 respectively.

Year	Non-Executive	Executives	Managerial
2017	30%	54%	16%
2018	16%	52%	32%



As at 31.12.2018 employees service and age analysis



Our team of diversified associates, with their dedication to service and excellence, play a vital role in the success of our business.

They have shown that through dedication and resilience when taking into consideration the market conditions of last year and the numerous competitors that we can still overcome and shine.

Within the AMW Capital Leasing framework we promote a culture of honesty and fair dealing, and encourage employees to observe ethical business practices at all times by providing them with the necessary training to enable them to understand the corporate values which incorporates the following RESPECT, INTEGRITY, COLLABORATION and EXCELLENCE. In we have the necessary platforms to ensure that corporate culture, business principles, standards and norms of behavior are practiced at all forums and any instance which is unique to AMW Group. Further, we have implemented a strict ethics and integrity control framework to ensure that the highest level of ethical behavior is practiced across the business.

A key initiative for the year 2018 was focusing on employee Engagement which included a Family Day for all staff which was a great success. Through this we built strong bridges between Departments and Teams. The families too bonded and engaged with the Management Team which helped in understanding the dynamics of the various levels of associates in the organization. Another key initiative was the successful launch of the IGROW SAP Cloud Based Learning Management System (LMS) which is integrated with Lynda which is the Training Module of LinkedIn enables associates to enhance their knowledge and skills relating to role specific skill, general skill or even a hobby. This system opens avenues for our associates to enhance their skills to move up the corporate ladder vertically or cross-functionally.

At AMW Capital Leasing and Finance PLC we also make sure that our Associates are well taken care of by providing them with a diverse, range of benefits and privileges. Associates wellbeing is considered utmost important in all management decisions and initiatives. A key aspect we wish to further enhance and sustain is the transparency in our policies that empowers employees

to perform their job roles confidently. We support in creating a vibrant work-life balance which encourage employees to maintain a healthy lifestyle which we believe will enable them to contribute positively to the organization's growth.

Employees were given the opportunity to join in programmes such Yoga, Christmas Carols and Wesak Lantern Competition arranged in-house. We also conducted the Annual Staff Health Checkup in collaboration with a Leading Hospital to conduct the Basic Health Tests for associates. There is also a follow up session with General Physicians to give advice based on the tests results.

Our Company's social calendar of the year includes a number of religious programmes which bring employees of diverse religious and cultural backgrounds together. In addition, we also conduct an annual CSR project which is the Blood Donation programme which has been successfully conducted this year as well. The other such main event which is diarized is Annual AMW Capital Leasing Dinner Dance where staff have a great time with fun, games, music and socializing. These are organized with the intention of enhancing employee motivation and engagement.

These events are looked forward to with much anticipation by our employees and has contributed towards strengthening team spirit which has contributed immensely towards better performance.

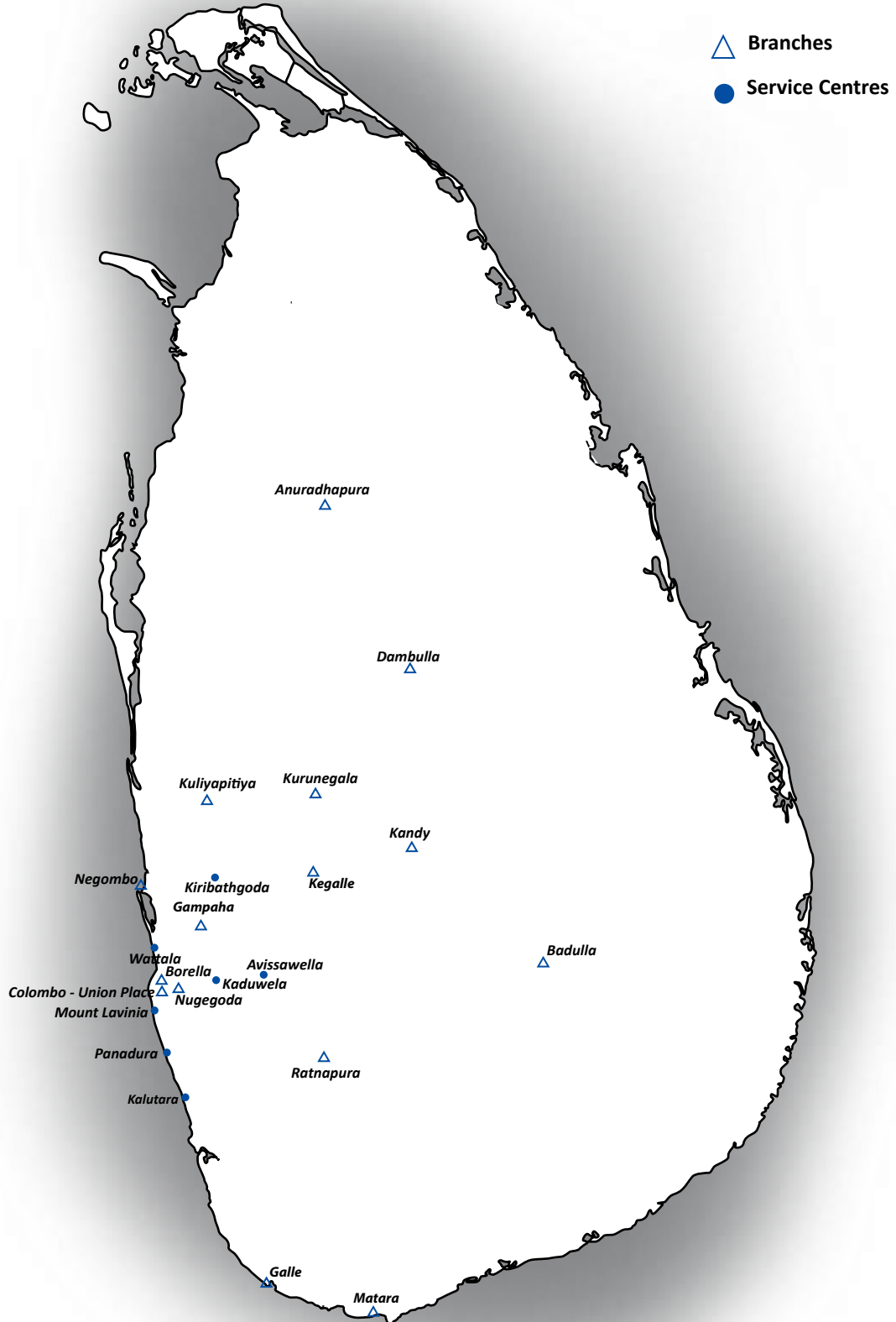
Branch Network

Information of Company Branch Network and Service Centres

Location	District	Province	Address	Contact Person	Telephone	Fax	Type of Operation
Anuradhapura	Anuradhapura	North Central	AMW Capital Leasing and Finance PLC No. 521/40, 4th Cross Road, New Town, Anuradhapura	Mr. Janaka Priyantha	025-2227020-21-22-23	025-2227024	Branch
Avissawella	Colombo	Western	AMW Capital Leasing and Finance PLC No. 8, Colombo Road, Ukwatta, Avissawella	Mr. Krishan Hettiarachchi	036-2231110-13-14-15	036-2231116	Service Centre
Badulla	Badulla	Uva	AMW Capital Leasing and Finance PLC No. 16A, Railway Station Road, Badulla	Mr. Tharanga Wedaarachchi	055-2231993/94-95-96	055-2231997	Branch
Borella	Colombo	Western	AMW Capital Leasing and Finance PLC No. 445, Baudhaloka Mawatha, Colombo 08	Mr. Mahesh Karunathilake	011-2671371	011-2671272	Branch
Dambulla	Dambulla	Central	AMW Capital Leasing and Finance PLC No:22, Kurunegala Junction, Dambulla	Mr. Tharinda Samarawickrama	066-2285760-61-63	066-2285364	Branch
Galle	Galle	Southern	AMW Capital Leasing and Finance PLC No. 287 A, Suzuki Maruti Showroom, Wackwella Road, Galle	Mr. Shanal Samarathunga	091-2231265-66	091-2231267	Branch
Gampaha	Gampaha	Western	AMW Capital Leasing and Finance PLC No. 163/A, Ja-Ela Road, Gampaha	Mr. Eroshan Anuradha	033-7609608-640-41-42-43	011-2829524	Branch
Kaduwela	Colombo	Western	AMW Capital Leasing and Finance PLC No. 156/2, Old Avissawella Road, Hewagama, Kaduwela	Mr. Dhanushka Fonseka	011-2538623	011-2538795	Service Centre
Kalutara	Kalutara	Western	AMW Capital Leasing and Finance PLC No. 380D, Galle Road, Kaluthara North	Mr. Kasun Wakista	034-2228609-10-11-12	034-2237411	Service Centre
Kandy	Kandy	Central	AMW Capital Leasing and Finance PLC No. 400, Katugastota Road, Kandy	Mr. Dineeth Premachandra	081-7609608-43	081-2212952	Branch
Kegalle	Kegalle	Sabaragamuwa	AMW Capital Leasing and Finance PLC No. 509, Colombo Road, Ranwala, Kegalle	Mr. Asanka Senavirathne	035-2232903	035-2232893	Branch
Kiribathgoda	Colombo	Western	AMW Capital Leasing and Finance PLC No. 101, Kandy Road, Kiribathgoda	Mr. Pio Perera	011-2908916-17-18	011-2908914	Service Centre
Kuliypitiya	Kurunegala	North Western	AMW Capital Leasing and Finance PLC No:463/A, Madampe Road, Kuliypitiya	Mr. Sachith Bandaranayaka	037-7609650-51	037-7609658	Branch
Kurunegala	Kurunegala	North Western	AMW Capital Leasing and Finance PLC No. 204, Colombo Road, Wanduragala, Kurunegala	Mr. Thusitha Yalage	037-7609608	037-2229867	Branch
Matara	Matara	Southern	AMW Capital Leasing and Finance PLC No. 215E, Galle Road, Pamburana, Matara	Mr. Vipul Shantha	041-7609608	041-2235544	Branch
Mount Lavinia	Colombo	Western	AMW Capital Leasing and Finance PLC No. 231, Galle Road, Mount Lavinia	Mr. Indimal Hewavitharana	011-2737452, 011-2737426, 011-737630, 011-737631	011-2737632	Service Centre
Negombo	Gampaha	Western	AMW Capital Leasing and Finance PLC No. 262, Suzuki Maruti Showroom, Chilaw Road, Periyamulla, Negombo	Mr. Indika Jayamanne	031-2221775	031-2225552	Branch
Nugegoda	Colombo	Western	AMW Capital Leasing and Finance PLC No. 311, High Level Road, Nugegoda	Mr. Manoj U. Perera	011-2829525-26	011-2829521	Branch
Panadura	Kalutara	Western	AMW Capital Leasing and Finance PLC No. 18, Horana Road, Panadura	Mr. Dhanushka Weerasinghe	038-2230565	038-2230747	Service Centre
Ratnapura	Ratnapura	Sabaragamuwa	AMW Capital Leasing and Finance PLC No. 510, Colombo Road, Weralupa, Ratnapura	Mr. Aruna Kuruppu	045-5677677/045-3465095	045-2226940	Branch
Union Place	Colombo	Western	AMW Capital Leasing and Finance PLC No. 185, Union Place, Colombo 2	Mr. Mahesh Karunathilaka	011-2307739	011-2307749	Branch
Wattala	Colombo	Western	AMW Capital Leasing and Finance PLC No. 114, Negombo Road, Wattala	Mr. Dulip Wijesooriya	011-2948736	011-2948705	Service Centre

Branch Network (Contd.)

Information of Company Branch Network and Service Centres



Financial Highlights

Rs.11.6 Bn

Total Assets

Rs.664 Mn

PBT

Rs.10.7 Bn

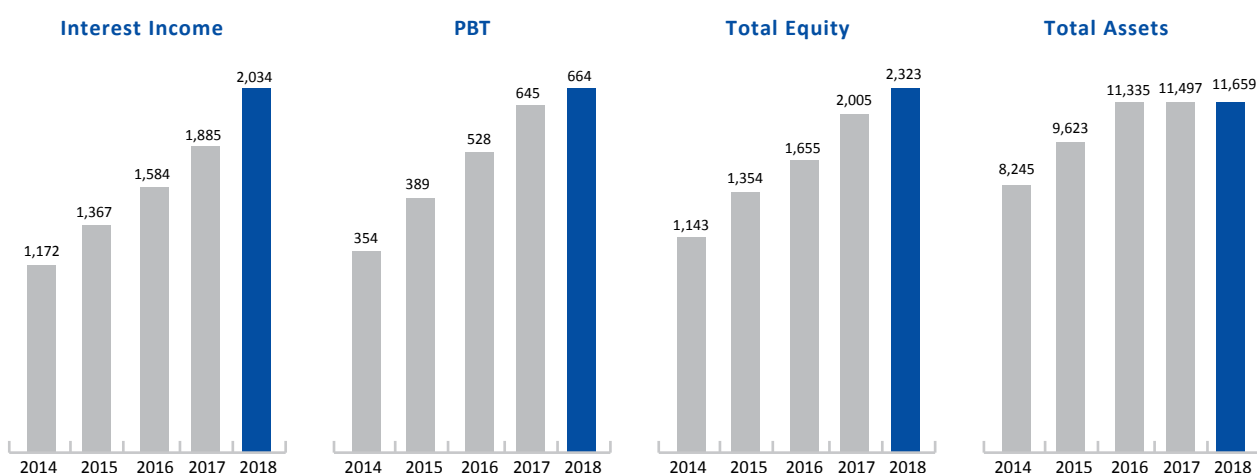
Lending Assets

BBB+

Fitch

Indicator	2018	2017	Change	%
Profitability Rs'000				
Interest Income	2,034,384	1,885,042	149,342	8%
Net Interest Income	970,465	842,023	128,442	15%
Profit Before Tax	664,197	645,342	18,854	3%
Profit After Tax	355,415	383,178	(27,763)	-7%
Financial Position Rs'000				
Total Assets	11,659,129	11,497,289	161,839	1%
Lending Portfolio	10,776,069	10,804,261	(28,191)	0%
Deposits	2,359,396	2,708,767	(349,371)	-13%
Borrowings	5,877,978	5,748,369	129,609	2%
Equity	2,323,195	2,005,392	317,803	16%
Satutory Ratios				
Tier 1 Capital Ratio	> 6%	18.09%	18.37%	
Total Capital Ratio	> 10%	18.69%	18.37%	
Deposits to Equity	< 10	1.02	1.35	
Other Ratios				
Return of Assets	3.07%	3.36%		
Return on Equity	16.46%	20.94%		
Net Interest Margin	8.61%	7.55%		
Cost to Income Ratio	47.09%	46.93%		
Non Performing Loans	2.98%	2.13%		

Five Year Performance Summary (Rs. Mn.)



Review of Financial Performance

The Company was successful in maintaining the growth in Interest Income and Operating Profit for the year on the backdrop of tough market environment represented by tightening of regulatory measures on LTV and increased duty structure on smaller car segment. The growth in Interest Income and Operating Profits was 7.9% and 7.7% respectively over the previous year. However, due to the impact of newly introduced Debt Repayment Levy, increase in Financial Services Tax and Income Taxes, the Company recorded a modest increase in Profit before Income Tax of 2.9 % and a decrease in Profit after Income Tax of 7.2%.

Significant Developments in Accounting

The new Accounting Standard, SLFRS 9 (Financial Instruments) came into effect from 1st January 2018, in place of the previous Accounting Standard LKAS 39 (Financial Instruments: Recognition and Measurement)

The New Accounting Standard replaced the “incurred credit loss” method prescribed by LKAS 39 in calculating the impairment on financial assets. SLFRS 9 uses the forward looking “expected credit loss” (ECL) method. The new standard also introduced a new classification approach for financial assets and financial liabilities in line with the business model in which they are managed and their cash flow characteristics.

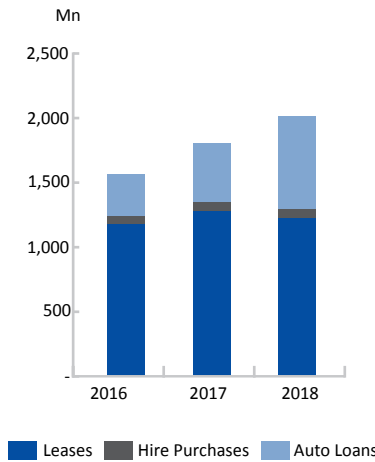
For the first time adoption, the Company adopted the Modified Retrospective method prescribed in the standard to prepare Financial Statements. Under this method the comparative figures are not restated, and instead, the standard requires a disclosure of the impact of adopting SLFRS 9 on the Statement of Financial Position and Retained Earnings and to restate the opening balances as at the transition date.

Financial Impact of SLFRS 9 on Initial Recognition

A day 1 impact of Rs. 38.5 Mn on implementation of SLFRS 9 was adjusted in Retained Earnings as at 1st January 2018.

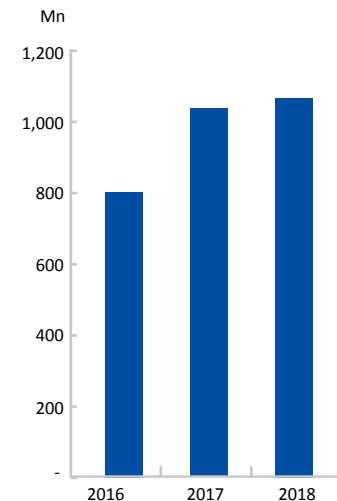
Income Statement Analysis

Interest Income



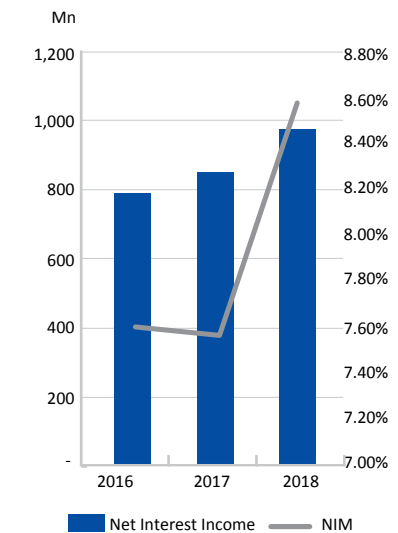
Gross Interest Income of the Company showed a steady increase YoY supported by improved volumes and competitive pricing. The Company continues to generate income from financing Automotive Industry with special focus on motor car segment through Auto Loan and Lease financing. Compared to the year 2017, Interest Income on the Auto Loan Portfolio increased by 37.8% whereas Interest Income on Lease Portfolio decreased by 5.3%.

Interest Expenses



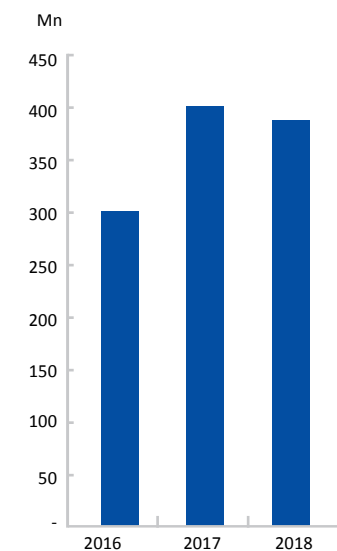
Average cost of funding for the year increased by 41 basis points compared to the previous year. This increase in cost of funding coupled with increase in executions resulted in Interest Expense to increase by 2% compared to the previous year.

Net Interest Income (NII) & Net Interest Margin (NIM)



The Company’s NII increased by 15.2% compared to the previous year. The increase in NII corresponded to the increase in business volumes coupled with changes in execution mix.

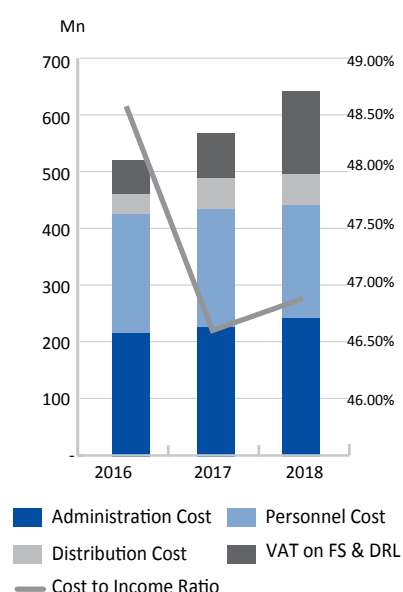
Other Operating Income



Review of Financial Performance (Contd.)

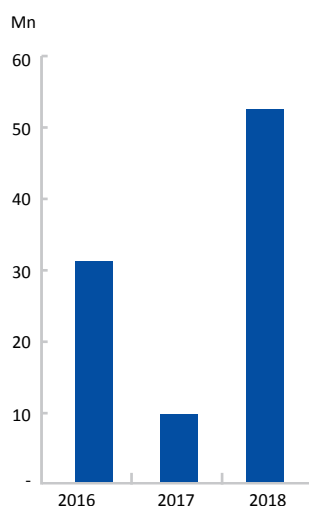
The Company's Other Operating Income comprises of Documentation Fees, Early Settlement Fees, Overdue Interest Income, Insurance Commission Income and other miscellaneous income sources.

Operating Expenses & Cost to Income Ratio



Despite the impact of newly introduced Debt Repayment Levy and increased VAT on FS, the Company was able to maintain its Cost to Income ratio at 47.1%. This is a reflection of the Company's ongoing efforts to optimize costs and improving productivity.

Impairment Provision



Provision for impairment increased significantly compared to 2017. This increase is due to the increase in Non-Performing Loans and due to the adoption of forward-looking expected credit loss methodology in making Impairment provisions. The Company has taken immediate steps to address this situation by strengthening its credit parameters and adopting a more rigorous collection process.

Taxes charged in the Income Statement

VAT on Financial Services increased by 19.5% during the year due to gradual increase in attributable ratio for financial services tax with the exemption of leasing income from Value Added Tax.

Nation Building Tax expense also increased by 22 % compared to previous year. The Company pays Nation Building Tax on two sources of income, namely Insurance Commission Income and the turnover on VAT on Financial Services. The increase was largely represented by increased share of supplies liable for VAT on Financial Services.

Debt Repayment Levy was imposed by the Finance Act No 35 of 2018 for a limited period of time from 1st October 2018 to 31st December 2021. A levy of 7% is charged monthly on the value addition attributable to the supply of financial services. The financial impact for the three months ended Dec 18 was Rs. 18 Mn.

Corporate Income Tax charged to the Income Statement during the year shows an increase of 15% over the previous year. Increase in tax expense was also due to a settlement of a tax assessment pertaining to the Y/A 2014/15 during the year 2018.

Deferred Tax reversal during the period is mainly due to the contraction of the accounting base of lease portfolio compared to the previous year. Deferred Tax on leased assets arises due to the temporary difference between the accounting base and tax base of said leased assets. However, the New Inland Revenue Act No 24 Of 2017 which came into effect w.e.f. 01 April 2018, brought significant changes to the tax treatment applicable for leases. As such, lease disbursements with effect from 01 April 2018 will not be eligible for capital allowances and, similarly, the

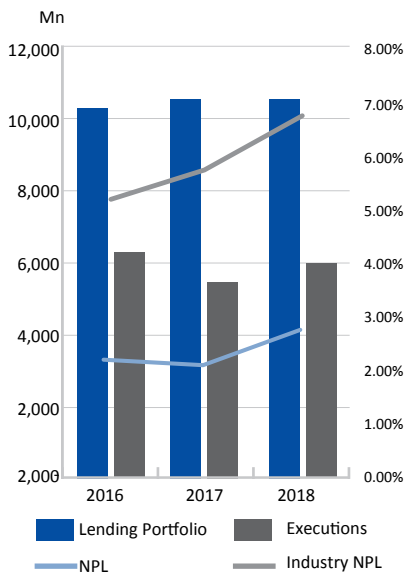
	2018 Rs. Mn	2017 Rs. Mn	%
VAT on Financial Services	129.4	108.3	19.5%
Nation Building Tax	19.0	15.6	22.0%
Debt Repayment Levy	18.0	-	100.0%
Corporate Income Tax	330.6	286.5	15.4%
Deferred Tax Reversal	(21.8)	(24.3)	(10.3)%
Crop Insurance Levy	3.2	5.0	(36.2)%
Total	478.4	391.1	110.4%

capital portion of leased assets will not be taxed. The Contraction of accounting base of lease assets is also caused due to this change in tax treatment.

Crop Insurance Levy is 1% of the Profit after Tax and the liability is discharged quarterly based on prior year profits while taking over/under provision to the current year's Income Statement.

Balance Sheet Analysis

Lending Portfolio

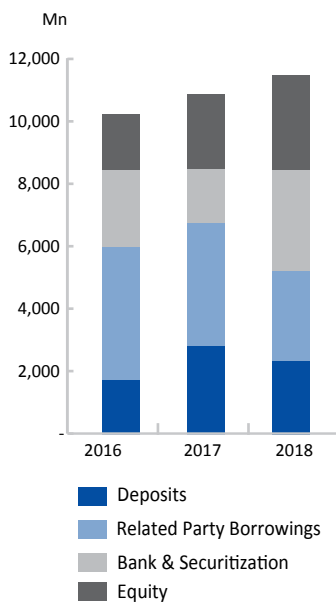


The Company's Lending Portfolio accounted for 92.4% of the total Assets Base of the Company as at 31 December 2018. The Company's lending portfolio consists of Leases, Hire Purchases and Auto Loans. At present, the Company's Lease Portfolio represents 52.2% of the total Lending Portfolio while Auto Loan Portfolio represents 47.5% of the Lending Portfolio.

Amid the challenging business environment, the Company was able to achieve a total of Rs. 6,005 Mn in executions during the year. The Company's approach in building its portfolio predominantly leads through quality which is evident from low regulatory Non Performing Loans Ratio (NPL) compared to the industry average. Weaker economic

conditions affected the portfolio quality of the industry as a whole during the year 2018 and the Company too experienced an increasing trend in its NPL during the year under review.

Capital Structure

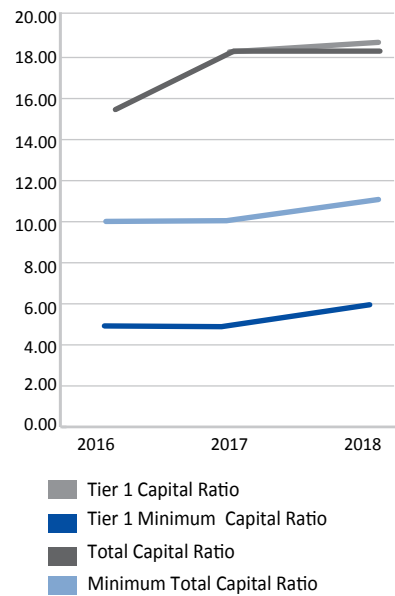


In order to diversify the borrowing mix, the Company raised Rs. 3,000 Mn of Securitization funding during the year. The Company believes this to be a key milestone achieved during the year under review in terms of its financial capital and this is a true reflection of the Company's balance sheet strength to raise capital. The new mix has also narrowed short term maturity mismatch and also helped the Company favorably in managing the maturity mismatches.

During the year the Company's deposit base showed a reduction of 12.9% compared to the previous year.

Key focus of the Company during the year on Fixed Deposits was to reduce tenor concentration to better manage concentration and liquidity risk.

Capital Adequacy Ratio



The Company maintains a strong capital base to support business and safeguard the Company against unforeseen risks. The Central Bank imposed minimum capital requirements to be held with Finance Companies during the year 2018. The Company has maintained its capital ratio well above the minimum regulatory requirement.

Closing Remarks

The Company's long term strategy is to ensure sustainable growth through constructing a high quality loan portfolio in a well governed environment and supported by a strong capital structure.

In this journey, the Company is mindful of the internal and external factors which could impact the Company's long-term sustainability in a highly competitive market environment. In the backdrop of weaker economic activity causing rising NPLs, the Company considers the portfolio quality to be the key focus area in the coming year. The Company believes that managing NPLs together with operational efficiency through cost optimization will deliver superior returns to our stakeholders.

Risk Management

Introduction

Risk-taking is an inherent element of finance business and, indeed, profits are in part the reward for successful risk taking in business. The primary goals of risk management in AMW Capital Leasing and Finance PLC (AMWCL) are to ensure that the outcomes of risk-taking activities are consistent with the Company’s strategies and risk appetite, and that there is an appropriate balance between risk and reward in order to maximize shareholder returns.

On the other hand, excessive and poorly managed risk can lead to losses and thus endanger the safety of AMWCL’s depositors and shareholders. Accordingly, the Company places significant emphasis on the adequacy of the institution’s management of risk. The Company considers that risks are warranted when they are understandable, measurable, controllable and within the Company’s capacity to readily withstand adverse results. This Risk Management Framework enable managers of the Company to take risks knowingly, reduce risks where appropriate and strive to prepare for a future, which by its nature, cannot be predicted with absolute certainty.

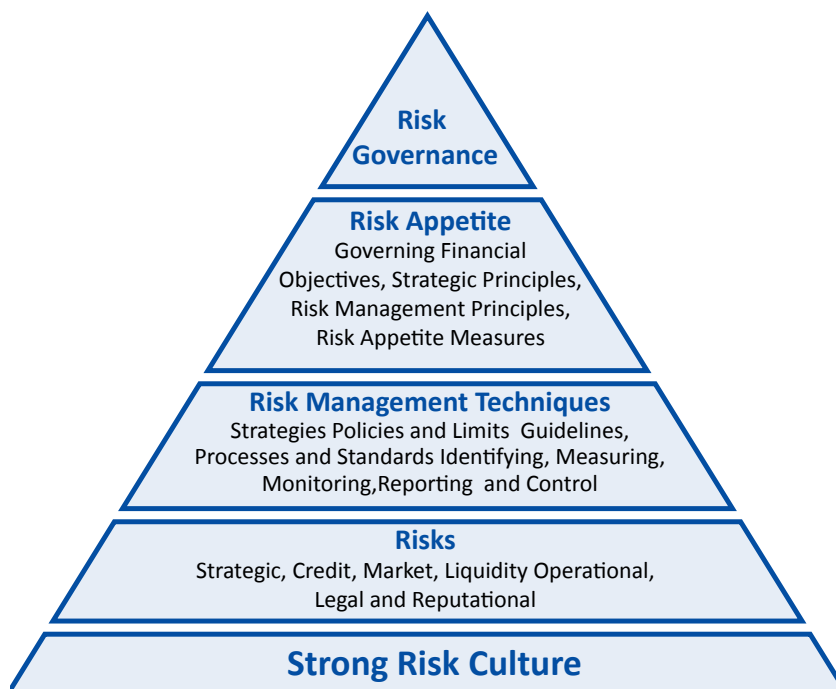
The Board and Management of AMWCL have attached considerable importance to improve the ability to identify, measure, monitor and control the overall risks assumed. The Company tries to meet with internationally accepted risk management principles and best practices. While the types and degree of risks the Company is exposed to depend upon a number of factors, the risk management framework at AMWCL covers the most common risks namely: Strategic Risk, Credit Risk, Liquidity Risk, Interest Rate Risk, Market Risk, Operational Risk, Compliance Risk and Reputation Risk.

Risk Management Process and Framework

The Company’s risk management framework provides the foundation for achieving Company’s goals while taking calculated and manageable risks. This framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the changing market conditions including regulatory standards and industry best practices.

AMWCL’s risk management framework consists of three key elements:

- 1) **Risk Governance,**
- 2) **Risk Appetite, and**
- 3) **Risk Management Techniques.**



1 Risk Governance

Effective risk management begins with effective risk governance. The Company has a sound risk governance structure, with an active and engaged Board of Directors supported by an experienced senior management team and a centralized risk management unit. Decision-making is highly centralized through a number of senior and executive management committees.

The Board of Directors

The Board of directors of AMWCL has ultimate responsibility for the level of risk taken by the Company. The Board of Directors, either directly or through its committees ensures that decision-making is aligned with the Company’s strategies and risk appetite. The Board will receive regular updates on the key risks of the Company - including performance of the portfolio against defined goals, which is also presented periodically to the Integrated Risk Management Committee (IRMC) and approves key risk policies, strategies, and risk appetite. The Group’s Internal Audit department reports independently to the Board (through the Board Audit Committee) on the effectiveness of the risk governance structure and risk management framework.

The Board approves the overall business strategies and significant policies of the Company, including those related to managing and taking risks, and will also ensure that senior management is fully capable of managing the activities of the Company. The Board of Directors is responsible for understanding the nature of the risks significant to the Company and for ensuring that management is taking steps necessary to identify, measure, monitor, report and control risks. The Board also provides clear guidance regarding the level of exposures acceptable to the Company and has the responsibility to ensure that senior management implements the procedures and controls necessary to comply with adopted policies.

Senior Management

Executive Management, and in particular Chief Executive Officer (CEO), Senior Corporate Management and Head of Risk Management, are responsible for risk management under the oversight of the Board. The Head of Risk Management, who oversees the risk management unit of the Company, reports to the CEO but also has direct access to the Integrated Risk Management Committee (IRMC) of the Board.

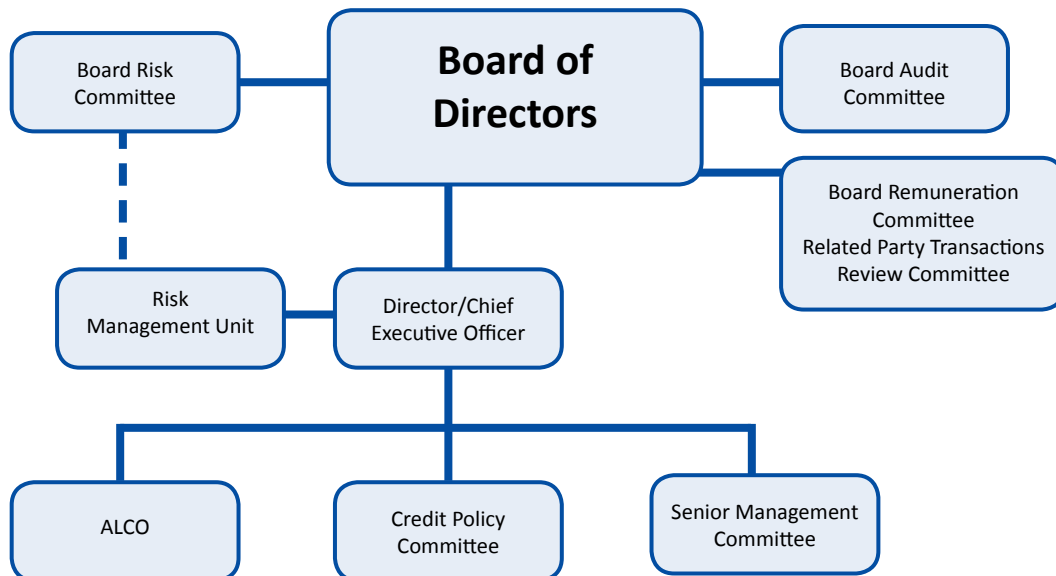
Senior management is responsible for implementing strategies in a manner that limits risks associated with each strategy and that ensures compliance with laws and regulations on both a long-term and day-to-day basis. Accordingly, management will be fully involved in the business activities and possess sufficient knowledge of all major business lines to ensure that appropriate policies, controls, and risk monitoring systems are in place and that accountability and lines of authority are clearly delineated. Senior management is also responsible for establishing and communicating a strong awareness of and need for effective internal controls and high ethical standards.

Adequate Policies, Procedures and Limits

The Board of Directors and Senior Management tailor risk management policies and procedures to manage the types of risks that arise from the business activities of the Company. The institution’s policies and its more fully articulated procedures provide detailed guidance for the day-to-day implementation of broad business strategies, and generally include limits designed to shield the institution from excessive and imprudent risks.

Risk Governance Structure

The Company’s Risk Governance Structure is as follows.



Risk Management (Contd.)

The Board

The Board of Directors will determine the risk appetite and risk limits of the Company. The Board monitors and manages the risks of the Company through the Board appointed Committees. The Board also will guide the management team in achieving goals.

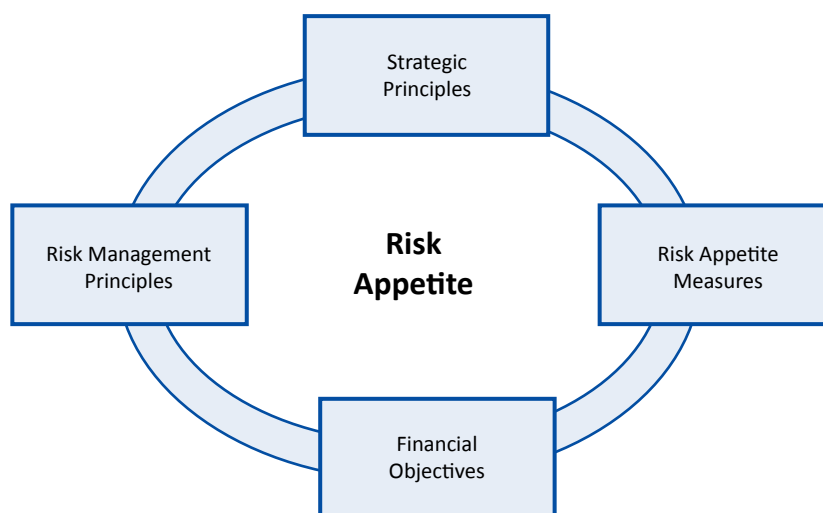
Board Committees

Integrated Risk Management Committee

The Committee will be the apex body next to the Board overseeing the risk management of the Company. The committee consist of two Non-Executive independent directors, two Executive Directors including CEO, General Manager, Internal Auditor, GM- Marketing, Senior Manager – Finance, Senior Manager – Treasury, and Head of Risk who supervise broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee works with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee. The scope of the Committee is given in the Risk Report by the Board of Directors on page 53 in this Annual Report.

2 Risk Appetite

AMWCL's risk appetite is articulated clearly for effective risk management and the Company's risk profile is managed in relation to that appetite. The Company's Risk Appetite Framework will consist of four components, and combines qualitative as well as quantitative terms of reference to guide the Company in determining the amount and types of risk it wishes to prudently undertake.



Strategic Principles

These provide qualitative benchmarks to guide the Company in its pursuit of the Governing Financial Objectives, and to gauge broad alignment between new initiatives and the Company's risk appetite. Strategic principles include:

- Placing emphasis on diversification, quality and sustainability of earnings,
- Focusing on core businesses by leveraging competitive advantages, and
- Making discipline, competition, growth and expansion

Risk Management Principles

Provide the qualitative foundation of the risk appetite framework. These principles include:

- Promotion of a robust risk culture,
- Accountability for risk by the business lines,
- Independent oversight exercised by Risk Management
- Avoidance of excessive risk concentrations, and
- Ensuring risks are clearly understood, measurable, and manageable.

Financial Objectives

Focus on long-term shareholder value. These objectives include sustainable earnings growth, maintenance of adequate capital in relation to the AMWCL’s risk profile, and availability of financial resources to meet financial obligations on a timely basis at reasonable prices.

Risk Appetite Measures

Risk appetite measures provide objective metrics that gauge risk and articulate the AMWCL’s risk appetite. They provide a link between actual risk taking activities and the risk management principles, strategic principles and governing financial objectives described above. These measures include capital and earnings ratios, market and liquidity risk limits, credit and operational risk targets and credit quality.

3 Risk Management Techniques

Effective risk management includes techniques that are guided by the AMWCL’s Risk Appetite Framework and integrated with the Company’s strategies and business planning processes. Risk management techniques are regularly reviewed and updated to ensure consistency with risk-taking activities, and relevance to the business and financial strategies of the Company.

Strategies, Policies and Limits

Strategies

Company’s Corporate Plan and annual budget will provide quantitative and qualitative guidance. This guidance is, in turn, used to set limits and guidelines on the types of risk taking activities the Company is prepared to assume in pursuit of its strategic and financial objectives.

Policies

Company’s policies have been formulated to address types of risk or to the activities that are used to measure and control risk exposure. They are based on recommendations from risk management, audit, business lines, and senior executive management. Industry best practices and regulatory requirements are also factored into the policies. Policies are guided by the AMWCL’s risk appetite, and set the limits and controls within which the Company can operate.

- Key risk policies are approved by the Board of Directors, either directly or through the Board appointed Committees.
- Risk policies associated with business processes and stress testing are approved by IRMC.

Limits

The Company sets tolerance limits to control risk-taking activities within the tolerances established by the Board and

senior management. Limits also establish accountability for key tasks in the risk-taking process and establish the level or conditions under which transactions may be approved or executed.

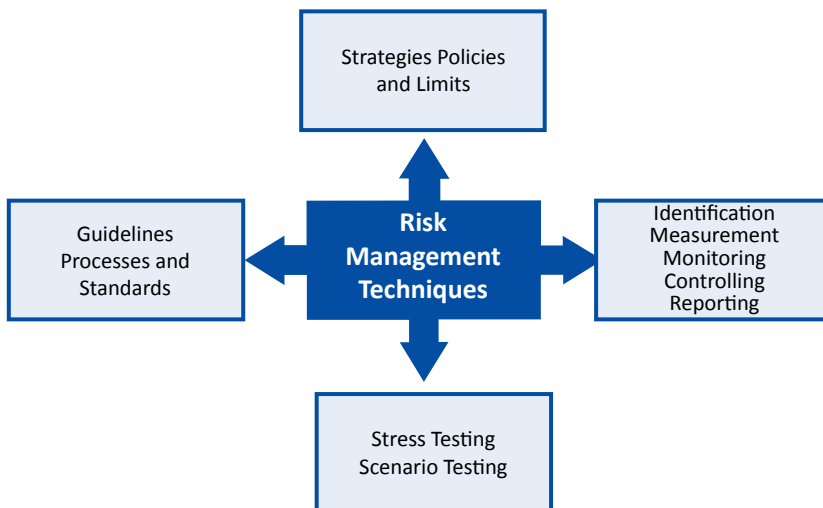
Guidelines, Processes and Standards

AMWCL’s Board and senior management tailor risk management policies and procedures to the types of risks that arise from the Company’s business activities. The Company has policies and procedures that address AMWCL’s significant activities and risks. The management ensures that they are modified when necessary to respond to significant changes in the Company’s business activities or business conditions. The Company ensures that its policies, procedures, and limits are adequate, and they address the following:

- policies, procedures, and limits provide for adequate identification, measurement, monitoring, and control of the risks posed by its significant activities.
- policies, procedures, and limits are consistent with management’s experience level, Company’s stated goals and objectives, and the overall financial strength of the Company.
- policies clearly delineate accountability and lines of authority across the AMWCL’s activities.
- policies provide for the review of business activities new to the Company to ensure that the infrastructures necessary to identify, monitor, and control risks associated with business activities are in place before the activity is initiated.

Guidelines

Are the directives provided to implement policies as set out above. Generally, they describe the facility types, aggregate facility exposures and conditions under which the Company is prepared to do business. Guidelines ensure the Company has the appropriate knowledge of clients, products, and markets, and that it fully understands the risks associated with the business the Company undertakes. Guidelines will be changed from time to time, due to market or other circumstances. Risk taking outside of guidelines usually requires approval of the Company’s Credit Committee, CEO, GM and Head of Risk.



Risk Management (Contd.)

Processes

Are the activities associated with identifying, evaluating, documenting, reporting and controlling risk?

Standards

Define the breadth and quality of information required to make a decision, and the expectations in terms of quality of analysis and presentation. Processes and standards are developed on wide basis, and documented in a series of policies, manuals and handbooks under the purview of IRMC. Key processes cover the review and approval of new products and changes to existing standard and product lines.

Identification Measurement, Monitoring, Controlling and Reporting

The Company has established a mechanism that supervises overall risk management of the Company. The overall risk management function is independent from those who take or accept risk on behalf of the Company. Where individuals responsible for overall risk management function are involved in day to day operations, then sufficient checks and balances will be established to ensure that risk management is not compromised. Overall risk management function provides an oversight of the management of risks inherent in the Company's activities. The function is tasked to:

- identify current and emerging risks;
- develop risk assessment and measurement systems;
- establish policies, practices and other control mechanisms to manage risks;
- develop risk tolerance limits for Senior Management and Board approval;
- report results of risk monitoring to Senior Management and the Board.

Identification

In order to properly manage risks, the Company recognizes and understands risks that may arise from both existing and new business initiatives. Risk identification is a process that is understood at both the transaction and portfolio levels.

Measurement

Risk Management Unit develops and maintains an appropriate suite of risk management techniques to support the

operations of the business activities. The risk sections explain the application of these techniques. Risk measurement techniques include the use of models and stress testing. The Company uses reports for a range of purposes including risk exposures, credit risk assessments and parameters, and regulatory capital. The use of quantitative risk methodologies and models is balanced by a strong governance framework and includes the application of sound and experienced judgment.

Regular Monitoring

Ensures that business activities are within approved limits or guidelines, and are aligned with the Company's strategies and risk appetite. Breaches, if any, of these limits or guidelines are reported to senior management, policy committees, and/or the Board depending on the limit or guideline.

The Company has an effective Management Information System (MIS) to monitor risk levels and facilitate timely review of risk positions and exceptions. The monitoring reports are at least on monthly basis. Timely, accurate, and informative reports are distributed to appropriate individuals to ensure action, when needed.

The Company identifies and measure all material risk exposures. Consequently, risk monitoring activities are supported by information systems that provide senior managers and directors with timely reports on the financial condition, operating performance, and risk exposure of the Company, as well as with regular and sufficiently detailed reports for line managers engaged in the day-to-day management of the Company's activities.

Company has risk monitoring and management information systems in place that provide directors and senior management with a clear understanding of the Company's risk exposures.

In order to ensure effective measurement and monitoring of risk and management information systems, the following will be in place:

- AMWCL's risk monitoring practices and reports address all of its material risks.
- key assumptions, data sources, and procedures used in measuring and monitoring risks are appropriate and adequately documented and tested for reliability on an on-going basis.

- reports and other forms of communication are consistent with the AMWCL's activities, structured to monitor exposures and in compliance with established limits, goals and objectives.
- reports generated to management and directors are accurate and timely and contain sufficient information for decision-makers to identify any adverse trends and to evaluate adequately the level of risk faced by the institution.

Risk Control

After measuring risk, the Company establishes and communicates risk limits through policies, standards, and procedures that define responsibility and authority. These limits serve as means to control exposure to various risks associated with the AMWCL's business activities. The Company also has a process to authorize and document exceptions or changes to risk limits when warranted.

Internal Control

The Company identifies that its internal control structure is critical to the safe and sound functioning of the Company and in particular to its risk management system. Establishing and maintaining an effective system of controls, including the enforcement of official lines of authority and the appropriate separation of duties such as credit, back-office and operations is one of management's more important responsibilities.

Indeed, Company identifies that segregating duties is a fundamental and essential element of a sound risk management and internal control system. Failure to implement and maintain an adequate separation of duties can constitute an unsafe and unsound practice and possibly lead to serious losses or otherwise compromise the financial integrity of the institution. Serious lapses or deficiencies in internal controls, including inadequate segregation of duties, may warrant supervisory action, including formal enforcement action.

The Company makes sure that properly structured system of internal controls promotes effective operations and reliable financial & regulatory reporting, safeguards assets, and helps to ensure compliance with relevant laws, regulations, and

institutional policies. The adherence to the Internal Controls are regularly tested by the internal auditor who reports directly to the Board Audit Committee. The results of audits or reviews, whether conducted by an internal auditor or by other personnel, are documented, as should management's responses to them.

The Company ensures that;

- its internal controls and internal audit appropriate to the type and level of risks posed by the nature and scope of AMWCL's activities.
- the organizational structure establishes clear lines of authority and responsibility for monitoring adherence to policies, procedures, and limits.
- reporting lines provide sufficient independence of the control areas from the business lines and adequate separation of duties throughout the institution such as those relating to evaluation of credit approval, monitoring and back-office activities.
- financial, operational, and regulatory reports are reliable, accurate and timely; wherever applicable, exceptions are noted and promptly investigated.
- adequate procedures for ensuring compliance with applicable laws and regulations are in place.
- Internal audit and other control review practices provide for independence and objectivity.
- Internal controls and information systems are adequately tested and reviewed; the coverage, procedures, findings, and responses to audits and review tests are adequately documented; management's actions to address material weaknesses are objectively verified and reviewed.
- AMWCL's audit committee or Board of Directors review the effectiveness of internal audits and other control review activities on a regular basis.

Risk Reports

Aggregate measures of risk across products and businesses are used to ensure compliance with policies, limits, and guidelines. They also provide a clear statement of the amounts, types, and sensitivities of the various risks in the Company's portfolio. Senior Management

and the Board use these information to understand the Company's risk profile and the performance of the portfolios.

Stress Testing and Scenario Testing

The Company uses programs and models that estimates the potential impact on income and capital as a result of significant changes in market conditions, credit environment, liquidity demands, or other risk factors. The programs and results are integrated into management decision-making processes for capital, funding, revenue management, market risk limits, and credit risk strategy. Stress testing will also integrated with both the strategic and financial planning processes. The development, approval and on-going review of the Company's stress testing programs are subject to formalized policy, and are under the oversight of the IRMC.

Risk Management Culture

The Company's effective risk management requires a strong, robust, and pervasive risk management culture. The heads of the departments are accountable for the risks in their respective departments. Business units work in partnership with Head of Risk to ensure that risks arising from their business are thoroughly evaluated and appropriately addressed. Risk education programs, and documented policies and procedures are jointly available to staff in the business lines. Decision-making on risk issues is highly centralized. The membership of senior management committees responsible for the review, approval and monitoring of transactions and the related risk exposures, includes CEO, General Manager, Heads of the Departments and Head of Risk. The flow of information and transactions to these committees keeps senior and executive management well informed of the risks the Company faces, and ensures that transactions and risks are aligned with the Company's risk appetite framework.

Risks and their Management

Strategic Risk

Board of Directors and Senior Management oversight is an integral part of our strategic risk management program. The Board of Directors retains the overall responsibility for strategic risk management of the company. It is chiefly responsible for setting corporate strategy and reviewing management performance in implementing

the Company's strategic plan. In turn, senior management ensures that there is an effective strategic risk management process by transforming the strategic direction given by the Board through policy.

Strategic risk arises from an institution's inability to implement appropriate business plans, strategies, decision making, resource allocation and its inability to adapt to changes in its business environment. At AMWCL, Strategic Risk is managed by critically reviewing the strategic goals in the Company's well defined Corporate Planning and Budgeting Process and aligning those with Vision and Mission statements to set a clear strategic direction. Further, robust strategic risk mitigation measures and techniques to enhance the achievement of strategic objectives have been implemented. These include engaging qualified board and senior management, formulation of strategic and operational plans, high quality of personnel and proper training, comprehensive risk management systems and adequate access to information.

Credit Risk

Credit risk is the likelihood that a debtor or financial instrument issuer is unwilling or unable to pay interest or repay the principal according to the terms specified in a credit agreement resulting in economic loss to the company.

Credit Risk Management

The Company has a well structured credit risk management process that involves assessing, quantifying, monitoring, pricing and mitigating credit risk exposures in line with the established policy framework which had been approved by the Board of Directors.

The Board is responsible for approving credit risk strategy and significant policies relating to credit risk and its management which is based on the overall business strategy. The Board is also responsible for approving the overall lending authority structure, and explicitly delegating credit sanctioning authority to senior management and the credit committee as well as setting credit limits with any one customer or within a single segment. With the setting up of the risk management function, the Company has moved into a more standardized lending structure where the risk management function is

Risk Management (Contd.)

responsible for agreeing and formalization of lending policies/ guidelines. Additionally, the credit approving authorities other than the Chief Executive Officer is independent of business units thereby segregation of business volumes from the approving authorities is achieved. The primary lending authority is assigned to the loan originating function if the specific transaction conforms to pre-defined standardized lending criteria with the independent risk management function responsible for the sign-off for any exceptions from the lending standards on the individual transactions.

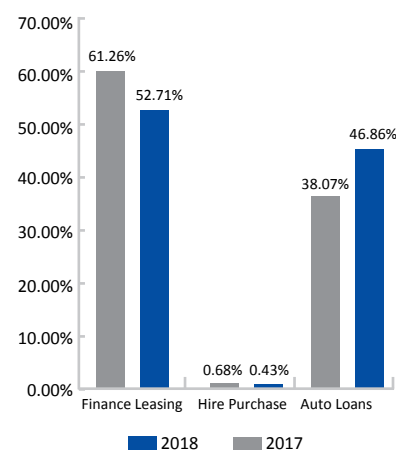
The front office proposes new transactions, and the approving authority examines the risk and makes a granting/ rejection decision or might issue recommendations for altering the proposed transaction until it complies with risk standards. This is commonly done by using credit risk mitigants such as down-payments, collateral and third party guarantees. As with the industry norms the primary component in credit risk is on assets risk, which is mitigated through third party valuations, inspection of asset by the facility originators and putting restrictions on the maximum Loan To Value (LTV) ratios. Post sanction monitoring is done through collection reports to analyze the performance of the collection staff as well as draw inferences of different segments, asset classes which are useful in the lending process.

Over the years the company was primarily focused on finance leases for AMW brand vehicles (Maruti, Suzuki, Nissan) for personal use which was comparatively low risk, with the Company acquiring and developing required skills and aptitudes in this segment. However, with the changes in economic variables impacting the growth of the Company, it has decided to shift its target market more towards non-AMW brand vehicles and the commercial segment and into hire purchase and auto loans while striving to increase the market share of AMW brand vehicles. While this

strategy gives a diversification benefit, it also creates risks in its portfolio with the new target market being more sensitive to macroeconomic variables which needs to be understood and analyzed for more proactive risk management. The credit policies are aligned with the future strategic direction and clear lending guidelines are implemented for the credit selection of the non-AMW brand and commercial segments.

Our credit portfolio is primarily made up of finance leases with over 52% based on the product class with cars dominating with over 71% exposure based on the asset class, which could be classified as low risk. The Company also took a strategic decision two years ago to aggressively grow the two wheeler portfolio given the higher margins. A portfolio cap of 15% was placed on two wheelers and by the end of year 2018 the Company almost reached this portfolio cap. Although the two wheeler portfolio has contributed immensely towards the improvement of overall portfolio yield, the Company intends to operate within the cap limit of 15% considering the riskier nature of this market segment.

Product-wise exposure

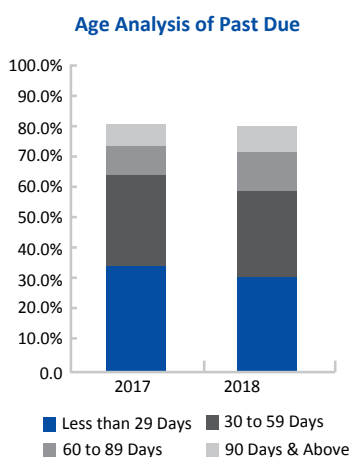
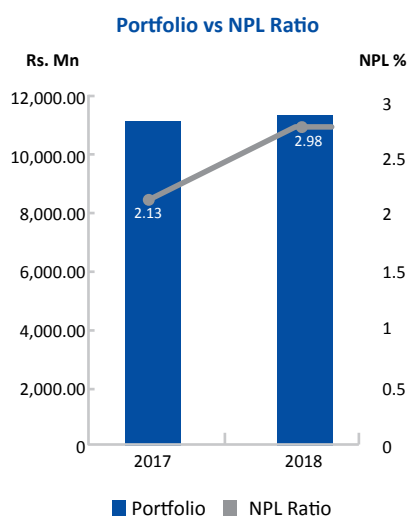


Exposure based on asset class

Product	As at 31 Dec 2018		As at 31 Dec 2017	
	Exposure Rs. Mn	%	Exposure Rs. Mn	%
Motor cars	7,889.47	71.31%	8,158.97	74.24%
Two wheelers	1,584.92	14.33%	1,246.82	11.35%
Three wheelers	145.75	1.32%	213.02	1.94%
Dual purpose vehicles	864.86	7.82%	868.42	7.90%
Commercial vehicles	376.62	3.40%	392.65	3.57%
Working capital loans	25.36	0.23%	11.32	0.10%
Equipment	30.45	0.28%	67.21	0.61%
Agricultural tractors	146.40	1.32%	31.33	0.29%
Total	11,063.79	100.00%	10,989.73	100.00%

Portfolio Quality

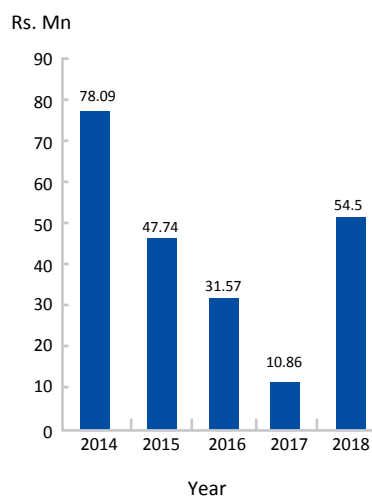
Despite an expansion in the lending portfolio, our NPL ratio was kept at a comparatively low level of 2.98% as at December 2018, as compared to the industry average of over 7.7%. The asset quality of the lending portfolio is one of the best among the peer companies. The Company's loans and advances are secured either by vehicles or deposits. The increase in the NPLs in 2018 was mainly due to the implementation of IFRS 9 and overall slowdown in the economy. The Company has taken several measures to contain NPLs. Some of these measures include setting up of a dedicated recovery team to monitor two wheelers, strengthening of branch recovery teams, process changes to fall in line with IFRS 9 and strengthening of the legal arm. Company also intends to set up a call centre to follow up arrears facilities closely.



Impairment

The Company adopted SLFRS 9 which placed the LKAS 39 method which prescribed calculating the impairment on financial assets based on "incurred credit loss" method. The SLFRS 9 uses the forward looking "expected credit loss" (ECL) method. The new standard also introduced a new classification approach for financial assets and financial liabilities in line with the business model in which they are managed and their cash flow characteristics. The Company developed an impairment model with the technical assistance from a reputed external party and the day 1 impact of Rs. 38.5 Mn on implementation under SLFRS 9 had been adjusted in Retained Earnings as at 1st January 2018.

Impairment Charge to P&L



Capital Adequacy

	2018
Total Risk Weighted Amount (Rs. Mn.)	12,843
Capital (Rs. Mn.)	2,323
Capital Adequacy Ratio- Tier-I	18.09%
Total Capital Adequacy Ratio	18.69%

The Company's Total Capital Ratio of 18.69% is well above the required minimum regulatory Total Capital Ratio of 10% as stipulated by the Central Bank of Sri Lanka. The core capital amount of Rs. 2.3 billion as at end December 2018 is also well above the required minimum core capital requirement of Rs. 1.5 billion effective

from 01st of January 2019. Whilst keeping a comfortable margin above the regulatory requirements on Total Capital Ratio and Core Capital amount, the Company is well capitalized to achieve an accelerated growth in the future.

Asset Liability Management (ALM)

The goal of ALM is to provide measures of the exposure to mismatch risk, and to maintain it within bounds, while optimizing the risk-return profile of the balance sheet. The ALCO which is the implementation arm of ALM comprises the CEO and the heads of divisions.

Mismatch Risk

In common with the finance industry practice the structural position of AMWCL consists of primarily lending for longer maturities at fixed rates while the funding is primarily made up of short term floating rate liabilities linked to an index and fixed rate long term borrowings. The mismatch between maturities and interest rate will generate both liquidity risk and interest rate risk. If loans are under-funded, there will be positive gaps, or deficits, at future dates. These deficits generate both liquidity risk and interest rate risk since there is a limitation of knowing at which rate the funds that balance the loans will be raised. If there is excess funding, there is no liquidity risk, since liquidity was raised in advance, but there is interest rate risk, since we do not know at which rate those excess funds will be lent at future dates. The mismatch is primarily mitigated through parental funding, strong bank relationships and customer deposits. Major portion of Company's borrowings are long term funding.

Risk Management (Contd.)

Liquidity Risk

Liquidity is the ability to raise cash sufficient to finance lending opportunities and face deposit withdrawals at a reasonable cost in a reasonable time frame. Liquidity risk is the risk of not being able to raise liquidity or of raising liquidity at a high cost at short notice.

Liquidity Risk Management

Liquidity management is done through liquidity gaps including static and dynamic liquidity gaps which are completed by stress tests on liquidity, for assessing what would happen under an extreme crisis situation with liquidity shortage. We control liquidity risk by spreading over time the required amounts of funding and avoiding unexpected important needs for raising additional funds. The Board is updated

on the liquidity gaps for making sure that raising funds will be within acceptable boundaries.

Liquidity management is aimed at target time profile of gaps after raising new resources, which complies with liquidity gap limits. Further, diversification of the funding sources with different maturities enables better management of liquidity risks and its impact on the operations of the company. Currently the main funding sources of the Company are bank borrowings, funding from parent and public deposits. ALCO would decide on the composition of the funding sources (type, tenure and interest rates) on the management of the funding side of the balance sheet.

The Company was able to raise Rs. 3 billion during the year from two securitization loans and proceeds of these were utilized to retire some high cost funding and a part of the short term borrowings from the Parent. With this securitization, the Company's short term liquidity gaps which were in the range of Rs. 1.0 billion (negative) were improved to be a positive Rs. 1.4 billion as of the end of the year 2018. The Company's Parent had been a major source of funding to the Company since its inception. However, in line with the Company's strategy to be independent in funding, the reliance for funding from Parent was reduced to 30% in 2018 from 47% in 2017. The Company also intends to further strengthen its liquidity position by using long-term funding instruments.

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liability as at 31 December 2018 (Rs. Mn.)

	Less than 01 Month	01 to 03 Months	03 to 12 Months	01 to 03 Years	03 to 05 Years	over 05 Years	Total
ASSETS							
Financial Assets							
Cash and Bank	214.7	-	-	-	-	-	214.7
Other Financial Assets	-	72.0	9.4	8.3	-	0.7	90.4
Rentals Receivable on Lease and Hire Purchase Assets	638.0	558.5	2,282.7	3,388.2	531.3	5.3	7,404.1
Loans and Advances	346.3	391.9	1,597.8	3,361.6	1,359.8	4.4	7,061.9
Equity Instruments at Fair Value Through	-	-	-	-	-	0.1	0.1
Debt Instruments at Amortised Cost	418.3	51.2	119.0	30.1	40.9	-	659.5
Total Undiscounted Financial Assets	1,617.3	1,073.7	4,008.9	6,788.2	1,932.1	10.4	15,430.6
Financial Liabilities							
Bank Overdraft	47.7	-	-	-	-	-	47.7
Trade and Other Payables	575.1	44.6	18.0	-	-	0.1	637.9
Time Deposits	483.9	522.2	691.7	856.7	63.7	-	2,618.2
Amounts due to Related Parties	-	2,446.3	-	-	-	-	2,446.3
Interest Bearing Borrowings	33.9	104.9	279.6	1,968.9	2,656.8	-	5,044.1
Total Undiscounted Financial Liabilities	1,140.7	3,118.1	989.3	2,825.7	2,720.5	0.1	10,794.3
GAP	476.6	(2,044.4)	3,019.6	3,962.5	(788.4)	10.3	4,636.3
Cumulative GAP	476.6	(1,567.8)	1,451.8	5,414.4	4,625.9	4,636.3	-

Interest Rate Risk

Structural interest rate risk arises from customers wanting certainty in interest payments and therefore asks for long-term fixed rate loans which are funded by short and long term floating rate borrowings through banks and depositors. In such a situation, changes in the yield curve and also non-parallel shifts in the yield curve will impact the Net Interest Income (NII) with high volatility thereby impacting the stability of earnings of the Company.

Interest Rate Risk Management

Interest rate risk is managed through interest rate gaps which measures the sensitivity of NII to a shift in the yield curve. We keep interest rate gaps open when we have a mismatch risk for taking advantage of beneficial variations of interest rates. We try to minimize the NII volatility by setting limits on interest rate Gaps and also being conscious of the tenure premiums in the market rates in pricing our lending products.

The Company's short term negative interest rate gap of Rs. 2.0 Bn is within the manageable level.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Both the Board of Directors and senior management are responsible for establishing a strong internal control culture in which control activities are an integral part of the regular activities of the company. Controls that are an integral part of the regular activities enable quick responses to changing conditions and avoid unnecessary costs.

Operational risk management

We have in place adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively. The Board (either directly or indirectly through its audit committee) ensures that the scope and frequency of the audit program is appropriate to the

risk exposures. Internal Audit periodically validates that the Company's operational risk management framework is being implemented effectively across the company. Further, with the setting up of the Risk Management function more focus will be given to operational risk management needs of the Company in addition to the current operational risk management process. By implementing Business Continuity Plan (BCP) including Disaster Recovery Plans will ensure that the critical operations of the Company will function with minimal disruptions thereby reducing operational risk incidences. The core information system performance has stabilized during the year under consideration with the user requirements fulfilled and the IT system is assessed on an on-going basis to ensure that it would be a business enabler without hindering the operations of the Company. Internal Audit conducts periodic reviews to evaluate the accuracy and reliability of the system and any modification to the system is carried out in a structured manner to ensure that the modifications are in line with the user requirements in addition to ensuring that the required controls are not compromised.

Interest Rate Sensitivity Gaps as at 31 December 2018 (Rs. Mn.)

	Less than 07 days	01-30 days	01-03 Months	03-06 Months	06-12 Months	over 01 Year	Total
Sensitive Assets							
Rentals Receivable on Lease, Hire Purchase and Auto loan Assets	192.8	302.3	638.5	938.3	1,781.6	6,922.8	10,776.2
Through Other Comprehensive Income	-	-	-	-	-	0.1	0.1
Debt Instruments at Amortised Cost	17.7	401.7	50.0	-	42.0	21.5	532.9
Total Sensitive Assets	210.5	704.0	688.5	938.3	1,823.6	6,944.3	11,309.2
Sensitive Liabilities							
Bank Overdraft	47.7	-	-	-	-	-	47.7
Time Deposits	77.0	487.3	483.7	294.3	328.6	688.5	2,359.4
Amounts due to Related Parties	-	2,446.3	-	-	-	-	2,446.3
Interest Bearing Borrowings	-	33.9	95.6	85.3	180.0	3,036.8	3,431.6
Total Sensitive Liabilities	124.7	2,967.6	579.3	379.6	508.6	3,725.3	8,285.1
GAP	85.8	(2,263.6)	109.1	558.7	1,315.0	3,219.0	3,024.1
Cumulative GAP	85.8	(2,177.8)	(2,068.7)	(1,509.9)	(194.9)	3,024.1	-

Corporate Governance

Corporate Governance encompasses the rules, practices and processes by which the Board of Directors ensure accountability, fairness and transparency in a company's relationship with its stakeholders.

AMW Capital Leasing and Finance PLC (AMWCL) is committed to maintaining

highest standards of good governance, which we believe are essential for sustaining success and creating value for our stakeholders.

It follows the Code of Best Practice and the regulatory requirements of the Central Bank of Sri Lanka (CBSL), the Listing Rules of

the Colombo Stock Exchange (CSE) and the Companies Act No 7 of 2007.

The tabulation below details the extent to which the company strives to ensure good corporate governance.

Corporate Governance Principle		Level of Compliance
(In accordance with the Corporate Governance Direction No. 3 of 2008 and amendments thereto applicable to Finance Companies Licensed under the Finance Business Act No. 42 of 2011 issued by the Central Bank of Sri Lanka)		
2. The Responsibilities of the Board of Directors		
2.1	The Board of Directors shall strengthen the safety and soundness of the finance company by –	
a)	Approving and overseeing the finance company's strategic objectives and corporate values and ensuring such values are communicated throughout the company.	Complied with The Company's strategic objectives and corporate values are regularly overseen by the Board and have been communicated throughout the Company.
b)	Approving the overall business strategy of the finance company including the overall risk policy and risk management procedures and mechanisms with measurable goals for at least 3 yrs.	Complied with The Company's Business Strategic Plan was approved by the Board for three years covering the period from 2019 – 2021. Further, the overall risk policy and risk managerial procedures and mechanisms reviewed and recommended by the Integrated Risk Management Committee (IRMC) and approved by the Board.
c)	Identifying risks and ensuring implementation of appropriate systems to manage risks prudently.	Complied with The Board has appointed the Integrated Risk Management Committee (IRMC) which is tasked with identifying and managing the overall risk of the Company. IRMC meets every other month or earlier if required and submits a report (minutes) at the Board meetings for their review and further action required.
d)	Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	Complied with The Board approved Communication Policy which covers all stakeholders is in place and reviewed, as and when required.
e)	Reviewing the adequacy and integrity of the Company's internal control systems and management information system.	Complied with The adequacy and integrity of the Company's internal control systems and management information systems are reviewed by the Board through the Audit Committee. The Audit Committee reports are submitted to the Board for further action. The Audit Committee will formulate a formal policy to review the accuracy and integrity of Board level MIS reports.
f)	Identifying and designating key management personnel, who are in a position to- (i) influence policy (ii) direct activities (iii) exercise control over business activities operations and risk management	Complied with Identification and designation of Key Management Personnel (KMP) is in place. Board members including the CEO and functional heads have been identified and designated as KMPs.
g)	Defining the areas of authority and key responsibility for the Board and for key management personnel.	Complied with Articles 95 - 103 of the Articles of Association defines the powers and duties of the Board of Directors and the areas of authority and key responsibilities of other Key Management Personnel are enumerated in their job.

h)	Ensuring that there is appropriate oversight of the affairs of the company by key management personnel (which is consistent with the finance company's policy)	Complied with Performance of the Company is regularly discussed at Board Level and operational reviews at management level.
i)	Periodically assessing the effectiveness of its governance practices including – (i) The selection, nomination and election of directors and appointment of key management personnel; (ii) The management of conflicts of interests and (iii) The determination of weakness and implementation of changes where necessary.	Complied with CBSL approval is sought prior to appointment of Directors. Directors are selected and nominated to the Board according to skills and experience in order to bring about an objective judgment on issues of strategy, performance and resources. Election of Directors is effected in accordance with the requirements of the directions issued by CBSL and Companies Act in force. The Directors declare their interest wherever applicable and refrain from partaking in such decision. Effectiveness of this process is ascertained by their contribution at Board meeting in their respective fields. Self-Assessment of Directors is carried out annually. KMP also declare their interest annually.
j)	Ensuring that the company has an appropriate succession plan for key management personnel.	Complied with A documented succession plan is in place for all Key Management Personnel. The succession plan will be strengthened in the future.
k)	Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Complied with Key Management Personnel are invited by the Board Members during Board, Board sub-committees and other management committee meetings when the need arises to take part in discussions on the respective areas of responsibility.
l)	Understanding the regulatory environment.	Complied with All Directions from Regulatory Authorities are circulated to the Board and all Key Management Personnel. Contents are noted and where applicable appropriate decisions taken. A compliance report is tabled at monthly Board Meetings. All weekly, monthly and annual submissions are made to CBSL and other statutory authorities.
m)	Exercising due diligence in the hiring and oversight of external auditors	In accordance with Group Policy. Re-appointment is at the AGM of the Company.
2.2	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve functions and responsibilities of the Chairman and the CEO in line with requirements of this Direction.	Complied with The Board has appointed the Chairman and Chief Executive Officer (CEO). The roles of Chairman and Chief Executive Officer (CEO) are separated from inception as required by the Rule 7 (1) of the CBSL Direction.
2.3	There shall be a procedure determined by the Board to enable Directors, upon reasonable request to seek independent professional advice in appropriate circumstances, at the company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance company.	Complied with The Board Directors in performance of their duties are permitted to obtain independent professional advice from third parties whenever deemed necessary at the Company's expense if considered appropriate.

Corporate Governance (Contd.)

2.4	A director shall abstain from voting on any Board Resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested and he shall not be counted in the quorum for the relevant agenda item at the Board Meeting.	<p>Complied with All Directors exercise their independent and objective judgment on issues of strategy, policy, resources and standards of conduct.</p> <p>The Board is conscious of its obligation to ensure that Directors avoid conflicts of interest between their duty to the Company and their own interests. The Board has adopted a procedure to ensure that conflicts of interests of Directors are disclosed to the Board and also Board members are required to disclose all transactions with the Company. All related party transactions (if any) are disclosed in the Financial Reports Section of the Annual Report.</p>
2.5	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the company is firmly under its authority.	<p>Complied with The Board has put in place systems and controls to facilitate the effective discharge of Board functions. Pre-set agendas for all meetings ensure the direction and control of the Company is firmly under Board control and authority.</p> <p>The agenda of the monthly Board Meetings includes reports on the performance and on compliance with relevant regulations. This ensures full compliance and optimum performance of the Company.</p>
2.6	The Board shall, if it considers that the company is likely to be unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Department of Supervision of Non-Bank Financial Institutions of the situation of the company prior to taking any decision or action.	<p>Complied with The Board is aware of the need to inform the Director of Non-Bank Supervision Division and no such situation has arisen during the year.</p>
2.7	The Board shall include in the company's Annual Report, an Annual Corporate Governance Report complying with this Direction.	<p>Complied with This report serves the said requirement.</p>
2.8	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually and maintain records of such assessments.	<p>Complied with The Directors carry out a self-evaluation annually. This information is available to the Board and records are kept.</p>
3. Meetings of the Board		
3.1	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board consent through the circulation of written or electronic resolutions shall be avoided as far as possible.	<p>Complied with The Board meets regularly at monthly intervals, at which the Company's performance is monitored on a regular basis, business strategies are planned, current market conditions are reviewed. In the alternative, all other operational requirements which needs the approval of the Board on an urgent basis are passed by Circular Resolution as and when required.</p>
3.2	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board Meetings where such matters and proposals relate to the promotion of business and the management of risks of the company.	<ul style="list-style-type: none"> Agenda – The Agenda items include regular reports which facilitate and monitor performance and compliance with regulatory authorities. Non-routine issues which require Board attention are specifically mentioned as separate items. All Directors were given equal opportunity to include matters/ proposals in the agenda.
3.3	Notice of at least 7 days shall be given of a regular Board Meeting to provide all Directors an opportunity to attend. For all other Board Meetings, reasonable notice shall be given.	<p>Complied with Date convenient to all Directors is decided at the previous meeting and meetings are convened electronically giving due notice.</p>
3.4	A Director who has not attended at least two thirds of the meetings in the period of 12 months immediately preceding or has not attended immediately preceding three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors meetings through an alternate director shall however, be acceptable as attendance.	<p>Complied with All Directors have attended at least two thirds of the meeting held during the year and no Director has been absent from three consecutive regular Board Meetings during the year under review.</p>

3.5	The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with Mrs. Ruvini E Weerasinghe is an Attorney-at-Law and registered as Company Secretary with the Registrar General of Companies. She is responsible for supporting and advising the Chairman and the Board on all Board procedures and compliance with applicable rules and regulations.
3.6	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board Meeting, the Company Secretary shall be responsible for carrying out such function.	Complied with Board Meetings are conducted based on formal agenda, covering the main responsibilities of the Board. This function is delegated to the Company Secretary. The Board receives a standard set of documents which are timely, accurate, relevant and comprehensive. The Board may call for additional information or clarify any issues with any member of the Executive Committee.
3.7	All Directors shall have access to the advice and services of the Company Secretary with a view to ensuring that Board Procedures and all applicable laws, directions, rules and regulations are followed.	Complied with The Board approved policy on the Board's relationship with the Company Secretary provides that all Directors shall have access to the advice / services of the Company Secretary.
3.8	The Company Secretary shall maintain the minutes of Board Meetings and such minutes shall be opened for inspection at any reasonable time, on reasonable notice by any director.	Complied with The minutes of the Board Meetings are maintained by the Company Secretary. Minutes are approved at the subsequent Board Meeting. Minutes are open for inspection by any Director. A formal procedure for inspection of Board Minutes will be established.
3.9	Minutes of Board Meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of the Board Meeting shall clearly contain or refer to the following: (a) A summary of data and information used by the Board in its deliberations. (b) The matters considered by the Board. (c) The fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence. (d) The explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations. (e) The Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and (f) The decisions and Board resolutions.	Complied with Company Secretary maintains detailed minutes of all Board Meetings to satisfy all requirements under this Direction.
4. Composition of the Board		
4.1	The number of directors on the Board shall not be less than 5 and not more than 13.	Complied with As at end of Financial year, the Board of AMWCL comprised of Six Directors of whom Two Directors are Independent Non-Executive Directors. (Mr. C W Cordery was appointed as a Non-Executive Director with effect from 26 July 2018 and is included in the above computation).
4.2	The total period of service of a director other than a Director who holds the position of Chief Executive Officer or Executive Director shall not exceed nine years. The total period in office of a Non-Executive Director shall be inclusive of the total period of service served by such Director up to the date of this Direction.	Complied with None of the Non-Executive Directors have completed 9 years of service as at end of the financial year.

Corporate Governance (Contd.)

4.3	Subject to the transitional period, an employee of a finance company may be appointed, elected or nominated as a Director of a finance company (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the company.	<p>Complied with</p> <p>The Board comprised of 2 Executive Directors (including the CEO) and 4 Non-Executive Directors (of whom 2 are independent).</p>
4.4	<p>Subject to the transitional period the number of Independent Non-Executive Directors of the Board shall be at least one fourth of the total number of directors. A Non-Executive Director shall not be considered independent if such a director</p> <p>a) Has shares exceeding 2% of the paid up capital of the company or 10% of the paid up capital of another finance company;</p> <p>b) Has or had during the period of two years immediately preceding his appointment as a director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;</p> <p>c) Has been employed by the finance company during the two year period immediately preceding the appointment as a director;</p> <p>d) Has a relative who is a Director or Chief Executive Officer or a Key Management Personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company;</p> <p>e) Represents a shareholder, debtor, or such other similar stakeholder of the finance company;</p> <p>f) Is an employee or a director or has a shareholding of 10% or more of the paid up capital in a company or business organization;</p> <p>(i) Which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company or;</p> <p>(ii) In which any of the other directors of the finance company is employed or is a director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the finance company or;</p> <p>(iii) In which any of the other directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the finance company.</p>	<p>Complied with</p> <p>At end of financial year under review, the Board had 2 Independent Non-Executive directors, thereby complying with this requirement.</p>
4.5	In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-executive Director.	No Alternate Directors appointed.

4.6	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied with The Directors including Non-Executive Independent Directors are eminent persons with knowledge, expertise and experience to bring an independent judgment and scrutinize the decisions taken by the Board on all issues of strategy, performance, resources and business conduct. Their detailed profiles are given on page 7 to 8.
4.7	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one half of the number of Directors that constitute the quorum at such meeting are Non-Executive Directors.	As per Article 109 of the Articles of Association, this requirement is complied with.
4.8	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the name of Directors of the finance company. The Finance company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report which shall be an integral part of its Annual Report.	Complied with The Directorate for the year under review: Mr. T S A Fernandopulle – Chairman (Independent Non-Executive Director) Mr. B P Morris - Director/CEO (Executive Director) Mr. A M Patrick (Independent Non-Executive Director) – retired w.e.f: 14.07.18 Mr. J D N Kekulawala (Independent Non-Executive Director) Mr. A D Lakhani (Executive Director) Mr. R Kassaby (Non-Executive Director) Mr. C W Cordery (Non-Executive Director) – appointed w.e.f: 26.07.18
4.9	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the ordinary succession of appointments to the Board.	Complied with Although the Company has not formed a specified Nomination Committee, all new appointments of Directors involve a process of test to ascertain whether their combined knowledge and experience match the strategic demands facing the Company.
4.10	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied with Article 94 of the Company's Articles of Association provides that Directors appointed shall be subject to election by shareholders at the first AGM.
4.11	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board if any.	Complied with Changes in directorate are informed to the relevant authorities and also given in the Annual Report. The following Director has retired during the year under review: Mr. A M Patrick - retired w.e.f: 14.07.18
5. Criteria to assess the fitness and propriety of Directors		
5.1	Subject to the transitional provisions contained herein, a person over 70 years shall not serve as a Director of a finance company.	Complied with All Directors are below the age of 70 years as at 31 December 2018. Mr. A M Patrick stepped down as a Director in the month of July, as he reached the age of 70 during the financial year ended 31 December 2018.

Corporate Governance (Contd.)

5.2	A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies/societies/bodies corporate, including associate companies and subsidiaries of the finance company. Provided that such Director shall not hold office of a director or any other equivalent position in more than 10 companies that are classified as Specified Business Entities in terms of Sri Lanka Accounting and Auditing Standards Act No 15 of 1955.	<p>Complied with</p> <p>No Director holds directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies or any other equivalent position in more than 10 companies that are classified as Specialized Business Entities.</p>
6. The Management Functions Delegated by the Board		
6.1	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such a delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	<p>Complied with</p> <p>The Company's Articles empowers the Board to delegate its powers to committees upon such terms and conditions as the Board may deem fit.</p> <p>All delegators are made in a manner that it would not hinder the Boards ability to discharge its functions.</p>
6.2	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	<p>Complied with</p> <p>Specific tasks delegated are reviewed by Audit/Risk Committees and thereafter approved by the Board.</p>
7. The Chairman and the Chief Executive Officer		
7.1	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by one and the same person.	<p>Complied with</p> <p>Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.</p>
7.2	The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as a Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the company's Annual Report.	<p>Complied with</p> <p>The Chairman is an Independent Non-Executive Director.</p>
7.3	The Board shall disclose in its Corporate Governance Report, which forms an integral part of the Annual Report, the names of the Chairman and the Chief Executive Officer and the nature of any relationship (including financial, business, family or other material/relevant relationships if any between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	<p>Complied with</p> <p>The Company as a practice discloses relationships in the Corporate Governance Report. There are no financial, business, family or other relationships with related parties between Chairman, Chief Executive Officer and any other member of the Board.</p> <p>The Directors or their families or connected parties do not hold any shares in the Company.</p>
7.4	The Chairman shall: <ul style="list-style-type: none"> (a) Provide leadership to the Board; (b) Ensure that the Board works effectively and discharges its responsibilities; and (c) Ensure that all key issues are discussed by the Board in a timely manner. 	<p>Complied with</p> <p>The Board approved list of functions and responsibilities of Chairman includes providing leadership to the Board and ensuring the effective discharge of Board functions.</p> <p>All key and appropriate issues are discussed by the Board in a timely manner.</p>
7.5	The Chairman shall be primarily responsible for the preparation of the Agenda for each Board meeting.	<p>Complied with</p> <p>The Company Secretary draws up an agenda approved by the Chairman prior to circulation to the Board.</p>

7.6	The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board Meeting.	Complied with The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings through the submission of the Agenda and the Company Secretary ensures the timely dissemination of Board Papers to all Directors to ensure sufficient preparation for meetings.
7.7	The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the company.	Complied with Active participation is encouraged, Reports on performance along with Financials, Audit and Risk Reports are presented at each Board Meeting to encourage a cross section of opinions and for sound decision making.
7.8	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationship between Executive and Non-Executive Directors.	Complied with Executive and Non-Executive Directors work together with the best interest of the Company. Non-Executive Directors participate in Board Subcommittees to provide further opportunities for active participation.
7.9	Subject to the transitional provisions contained herein, the Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with The Chairman is an Independent Non-Executive Director and does not engage in activities involving direct supervision of Key Management Personnel or any other executive duties.
7.10	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with The Board approved Policy of Communication satisfies the requirement under this Direction. Effective Communication is maintained at the Annual General Meeting of the Company and periodic submissions to Colombo Stock Exchange also contributes towards complying with this Direction.
7.11	The Chief Executive Officer should function as the apex executive-in-charge of the day-to-day operations and business.	Complied with The CEO is responsible for the day-to-day operations and business of the Company with the support of the Executive Directors and members of the Corporate Management.
8. Board appointed Committees		
8.1	Every finance company shall have at least the two Board committees set out in paragraph 8(2) and 8(3) hereof. Each committee shall report directly to the Board. Each committee shall appoint a Secretary to arrange its meetings, maintain minutes, record and carry out such other secretarial functions under the supervision of the Chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee at the Annual General Meeting of the company.	Complied with The Company has established an Audit Committee and an Integrated Risk Management Committee. Reports of such committees are presented to the Board at each Board Meeting. A report from both committees for the year under review will be included in the Annual Report of the Company.
8.2	Audit Committee a) The Chairman of the committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied with The Chairman of the Audit Committee is Mr. J D N Kekulawala who is an Independent Non-Executive Director. He is a Fellow of the Institute of Chartered Accountants of England & Wales and a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Bankers - England. His qualifications and experience are disclosed on page 8 of this Annual Report.
	b) The Board members appointed to the committee shall be Non-Executive Directors.	Complied with All members of the Audit Committee are Non-Executive Directors.

Corporate Governance (Contd.)

<p>c) The Committee shall make recommendations on matters in connection with:</p> <ul style="list-style-type: none"> (i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) The implementation of the CBSL guidelines issued to the auditors from time to time; (iii) The application of the relevant accounting standards; and (iv) The service period, audit fee and any resignation or dismissal of the Auditor, provided that the engagement of an Audit Partner shall not exceed five years, and that the particular Audit Partner is not re-engaged for the audit before the expiry of three years from the date of completion of the previous term. 	<p>Complied with The Audit Committee meets every other month and reviews the monthly, quarterly and annual financials of the Company prior to recommending same to the Board.</p> <p>The Audit Committee makes the following recommendations to the Board regarding:</p> <ul style="list-style-type: none"> (i) The Appointment of External Auditor for audit services provided in compliance with the relevant statutes. (ii) The implementation of the Central Bank Guidelines issued from time to time. (iii) The application of the relevant accounting standards and (iv) The service period, audit fee and any resignation or dismissal of the Auditor. <p>The engagement of the Audit Partner does not exceed 5 years.</p>
<p>d) The Committee shall review and monitor the External Auditors independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p>	<p>Complied with The Board is responsible for the External Auditors independence, objectivity and the effectiveness of the audit process, taking into account relevant professional and regulatory requirements. The Board has the primary responsibility for making a recommendation on the appointment, re-appointment or removal of the External Auditor in line with professional standards and regulatory requirements.</p>
<p>e) The committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditors independence or objectivity in relation to the provision of non-audit services, the committee shall consider:</p> <ul style="list-style-type: none"> (i) Whether the skills and experience of the Auditor make it a suitable provider of the non-audit services; (ii) Whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and (iii) Whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the Auditor, pose any threat to the objectivity and/or independence of the External Auditor. 	<p>Complied with The Board approved policy for provision of Non-Audit Services by the External Auditor is in place. The policy provides the framework to ensure that the External Auditors are able to maintain objectivity and independence and are suitable to perform the required non-audit services.</p>

<p>f) The Committee shall before the audit commences discuss and finalize with the External Auditors the nature and scope of the audit including:</p> <ul style="list-style-type: none"> (i) An assessment of the finance company's compliance with the Directions issued under the Act and the management's internal controls over financial reporting. (ii) The preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) The co-ordination between Auditors where more than one auditor is involved 	<p>Complied with The engagement of External Auditors and the nature and scope of the audit is discussed by the Committee.</p>
<p>g) The Committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on:</p> <ul style="list-style-type: none"> (i) Major judgmental areas; (ii) Any changes in accounting policies and practices; (iii) Significant adjustments arising from the audit; (iv) The going concern assumption; and (v) The compliance with relevant accounting standards and other legal requirements. 	<p>Complied with The Committee has reviewed the financial information of the quarterly financials and annual audited accounts, prior to any disclosure requirements.</p>
<p>h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters that the Auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel if necessary.</p>	<p>Complied with The Committee met the External Auditors in relation to the audit in the absence of the Executive Management on 19 March 2018 and 15 November 2018.</p>
<p>i) The Committee shall review the External Auditor's Management Letter and the management response thereto.</p>	<p>Complied with The Committee reviewed the External Auditor's management letter for the financial year ended 31 December 2018 and the management responses thereto.</p>

Corporate Governance (Contd.)

	<p>j) The Committee shall take the following steps with regard to the internal audit function of the finance company.</p> <p>(i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work.</p> <p>(ii) Review the internal audit programme and results of the internal audit process and where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department.</p> <p>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;</p> <p>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>(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 and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning.</p> <p>(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;</p>	<p>Complied with</p> <p>The Committee has considered the scope of the internal audit function, necessary authority and resources allocated to carry out its work.</p> <p>The Committee ensures that a sound system of internal control is maintained in the following manner:</p> <ul style="list-style-type: none"> • An internal audit programme is prepared covering all operations. • Internal and External Audit Reports are reviewed by management on a timely basis and control weaknesses are corrected. <p>Complied as per Group Policy.</p> <p>Complied with</p> <p>Mr. D P V Mendis was appointed as the General Manager (Credit & Operations) w.e.f:23.03.18. This was communicated to CBSL and approval obtained.</p> <p>The resignation of the former General Manager (Credit & Operations) was notified to CBSL.</p> <p>Complied with</p> <p>Internal Audit reports directly to the Board Audit Committee and hence they are Independent and the audits are performed with impartiality and due professional care.</p>
	<p>k) The Committee shall consider the major findings of internal investigations and management's responses thereto;</p>	<p>Complied with</p> <p>The Committee considers the major findings of the Internal Audit Department and the management responses thereto.</p>
	<p>l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the committee shall meet with the External Auditors without the Executive Directors being present.</p>	<p>Complied with</p> <p>The meetings of the committee are held as required including meeting of External Auditors without the Executive Directors.</p>
	<p>m) The Committee shall have:</p> <p>(i) Explicit authority to investigate into any matter within its terms of reference;</p> <p>(ii) The resources which it needs to do so;</p> <p>(iii) Full access to information; and</p> <p>(iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>	<p>Complied with</p> <p>The required authority and resources are available to the Committee and are expressly provided</p>

	<p>n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.</p>	<p>Complied with Regular meetings are held by the Committee and an Agenda for discussion is given with due notice. Proper minutes are recorded and the Chairman of the Audit Committee gives a Report to the Board for further action and recommendation.</p>
	<p>o) The Board shall, in the Annual Report, disclose in an informative way</p> <p>(i) Details of the activities of the audit committee</p> <p>(ii) The number of audit committee meetings held in the year; and</p> <p>(iii) Details of attendance of each individual member at such meetings.</p>	<p>Complied with During financial year ended 31 December 2018, the Committee held 06 meetings and an Audit Report on the issues discussed at each meeting was presented to the Board.</p>
	<p>p) The Secretary to the Committee (either the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the committee meetings.</p>	<p>Complied with The Company Secretary serves as the Secretary to the Audit Committee.</p>
	<p>q) The Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the External Auditor.</p>	<p>Complied with A Board approved whistle-blower code is in place.</p>
<p>8.3</p>	<p>Integrated Risk Management Committee:</p>	
	<p>a) This Committee shall consist of at least one Non-Executive Director, CEO and Key Management Personnel supervising broad risk categories i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.</p>	<p>Complied with The Integrated Risk Management Committee comprises of :</p> <p>Mr. T S A Fernandopulle - Chairman</p> <p>Mr. A M Patrick - retired w.e.f : 14.07.18</p> <p>Mr. B P Morris</p> <p>Mr. J D N Kekulawala</p> <p>Mr. A D Lakhani</p> <p>Mr. D P V Mendis - appointed w.e.f : 25.03.18</p> <p>Mr. N Tillekeratne - resigned w.e.f : 05.03.18</p> <p>Mrs. D Tillekeratne</p> <p>Mr. H N N K Perera</p> <p>Mr. S Fernando</p> <p>Mr. S U Thenuwara</p> <p>Mr. J T P Perera</p> <p>Mr. P R M Perera</p> <p>Mrs. R E Weerasinghe</p> <p>Matters discussed at IRMC level are referred to the Board for further action and recommendations.</p>
	<p>b) The Committee shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.</p>	<p>Complied with Appropriate risk indicators and management information are presented at each committee meeting. The committee reviews the risk assumed by the Company and monitors those risk factors.</p>

Corporate Governance (Contd.)

	c) The Committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee	Complied with Specific risks and limits are identified by relevant committees such as ALCO & Credit Policy Committee. The IRMC reviews the minutes of the ALCO and Credit Policy Committee on a regular basis.
	d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Complied with The IRMC determines the risk tolerance levels and set risk limits where necessary. These are updated based on the strategic objectives, changes in regulatory environment and competition.
	e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with 06 meetings were held for the financial year ended 31 December 2018.
	f) The Committee shall 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.	Complied with The Committee takes collective decisions when managing the specific risk.
	g) The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with Approved Committee Minutes and a Report consisting the risk inherent to the Company are tabled at the subsequent Board Meeting seeking the Board's views and specific direction.
	h) The Committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls, and approved policies on all areas of business operations. A dedicated Compliance Officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	Complied with The Head of Risk & Compliance officer reports to the Audit and Risk Committees on the compliance of regulatory requirement and internal controls.
9. Related Party Transactions		
9.1	The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.	
9.2	The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person and particularly with the following categories of persons who shall be considered as "related parties" for the purpose of this Direction. a) A subsidiary of the finance company; b) Any associate company of the finance company; c) A director of the finance company; d) A key management personnel of the finance company; e) A relative of a director or a key management personnel of the finance company; f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company; g) A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.	Complied with Discharging the duties entrusted to the Committee within its Terms of Reference, the Committee has reviewed all the related party transactions engaged into by the Company during the period under review, and has duly reported same to the Board of Directors and shareholders where necessary.

<p>9.3</p>	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments. c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company, d) Creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party. 	<p>Complied with Board approved process is in place to identify the related party transactions and the newly-appointed Related Party Transactions Review Committee will ensure that all transactions with related parties are on arm’s length basis.</p>
<p>9.4</p>	<p>The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party “more favourable treatment” than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, “more favourable treatment” shall mean:</p> <ul style="list-style-type: none"> a) Granting of “total net accommodation” to a related party, exceeding a prudent percentage of the finance company’s regulatory capital, as determined by the Board. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company’s share capital and debt instruments with a remaining maturity of years or more. b) Charging of a lower rate of interest than the finance company’s best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty. c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties. d) Providing or obtaining services to or from a related party without a proper evaluation procedure; e) Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions. 	<p>Complied with Monitoring of such transactions will be strengthened for extracting the data and reporting such transactions and to ensure that Company does not engage in transactions with related parties that are deemed as “more favourable treatment”. All transactions are carried out as per regulated terms and conditions.</p>
<p>10. Disclosures</p>		
<p>10.1</p>	<p>The Board shall ensure that (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	<p>Complied with The financial statements are prepared in accordance with the new Sri Lanka Accounting Standards (SLFRSs / LKASs) and the formats prescribed by the regulators. Audited financial statements are disclosed in the Annual Report, quarterly (unaudited) financial statements are sent to the CSE and posted on the CSE website. Such statements are published in the newspapers as required.</p>

Corporate Governance (Contd.)

10.2	<p>The Board shall ensure that at least the following disclosures are made in the Annual Report:</p> <p>a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</p> <p>b) A report by the Board on the finance company's internal control mechanism that confirms 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.</p> <p>c) The External Auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after 31st March 2010.</p> <p>d) Details of directors, including names, transactions with the finance company.</p> <p>e) Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after 1st Jan 2010.</p> <p>f) Total net accommodation as defined in paragraph 9(4) 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 finance company's capital funds.</p> <p>g) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.</p> <p>h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.</p> <p>i) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.</p> <p>j) The external auditor's certification of the compliance with the Act and rules and directions issued by the Monetary Board in the Annual Corporate Governance reports published after January 1, 2011.</p>	<p>Reference – Report of the Board of Directors on the Affairs of the Company (in this Annual Report)</p> <p>Reference – Directors' Statement on Internal Controls over financial reporting.</p> <p>E & Y certification given on the effectiveness of the internal controls over financial reporting.</p> <p>Reference – Notes to the Financial Statements on Related Party Transactions (in this Annual Report)</p> <p>Reference – Notes to the Financial Statements on Related Party Transactions (in this Annual Report)</p> <table border="1"> <thead> <tr> <th>Related Party</th> <th>Net Accommodation (Rs. Mn)</th> <th>Net Accommodation as a % of Capital Funds</th> </tr> </thead> <tbody> <tr> <td>Directors</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>Key Management Personnel</td> <td>7.12</td> <td>0.31%</td> </tr> </tbody> </table> <p>The Aggregate value of remuneration paid to key management personnel is Rs. 49,513,370.00</p> <p>Deposits made – Rs. 4,531,501.69</p> <p>Accommodation Granted – Rs. 7,124,000.00</p> <p>Reference - Report of the Board of Directors on the Affairs of the Company.</p> <p>No such situation has arisen.</p> <p>E & Y certification given on the effectiveness of the internal controls over financial reporting.</p>	Related Party	Net Accommodation (Rs. Mn)	Net Accommodation as a % of Capital Funds	Directors	Nil	Nil	Key Management Personnel	7.12	0.31%
Related Party	Net Accommodation (Rs. Mn)	Net Accommodation as a % of Capital Funds									
Directors	Nil	Nil									
Key Management Personnel	7.12	0.31%									

Sec. Rules of the Colombo Stock Exchange		Level of Compliance
(Disclosures pertaining to Corporate Governance Practices in terms of Rules 7.10.3, 7.10.c and 7.10.6c of S7 of the rules.		
7.10	Corporate Governance Statement confirming that at the date of the annual report that the company is in compliance with these rules.	Complied with The Company is in compliance with the Listing Rules of the Colombo Stock Exchange, as explained below.
7.10.1	Non-Executive Directors The Board of Directors of a listed entity shall include at least two Non-Executive Directors; or such number of Non-Executive Directors equivalent to one third of the total number of Directors whichever is higher.	Complied with As at 31 December 2018 the Board comprised 6 Directors of whom 4 were Non-Executive Directors.
7.10.2	Independent Directors Where the constitution of the Board of Directors includes only two Non-Executive Directors in terms of 7.10.1, both such Non-Executive Directors shall be Independent. In all other instances two or 1/3rd of the Non-Executive Directors appointed to the Board, whichever is higher shall be Independent. The Board shall require each Non-Executive Director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.	Complied with As at 31 December 2018, the Board comprised 2 Independent Directors from whom signed declaration of independence were obtained.
7.10.3	Directors Disclosures Annual determination as to the independence or non-independence of each Non-Executive Director.	Complied with The Board has determined the independent/non-independent status based on the criteria set out by the CSE.
7.10.4	Remuneration Committee Shall comprise of a minimum of two Independent Non-Executive Directors or Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Complied with The Members of the Committee are independent Non-Executive Directors. The Committee Members are as follows: 1) Mr. J D N Kekulawala – Independent Non-Executive Director – appointed as Chairman w.e.f:12.07.18 2) Mr. A M Patrick – Independent Non-Executive Director (Chairman) – retired w.e.f: 12.07.18 3) Mr. T S A Fernandopulle - Independent Non-Executive Director As at 31 December 2018, the Committee comprised 2 Independent Non-Executive Directors.
7.10.6	Audit Committee Shall comprise of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Complied with As at 31 December 2018, the Committee comprised 2 Independent Non-Executive Directors.

Corporate Governance (Contd.)

Meetings

The number of meetings of the Board, and the Board appointed sub-committees and the attendance of the committee members during the year are given below.

Names	Directorship Status	Attended/ Eligible Meetings
Mr. T S A Fernandopulle	Chairman (Independent Non-Executive Director)	12/12
Mr. B P Morris	Director/CEO	12/12
Mr. A M Patrick (retired w.e.f: 14.07.18)	Independent Non-Executive Director	05/06
Mr. J D N Kekulawala	Independent Non-Executive Director	12/12
Mr. A D Lakhani	Director	11/12
Mr. R Kassaby	Non-Executive Director	12/12
Mr. C W Cordery (appointed w.e.f: 26.07.18)	Non-Executive Director	04/06

Audit Committee

Names	Directorship Status	Attended/ Eligible Meetings
Mr. J D N Kekulawala	Chairman	06/06
Mr. A M Patrick (retired w.e.f:12.07.18)	Member	03/03
Mr. T S A Fernandopulle	Member	06/06

Integrated Risk Management Committee

Names	Directorship Status	Attended/Eligible Meetings
Mr. T S A Fernandopulle	Chairman	06/06
Mr. A M Patrick (retired w.e.f:12.07.18)	Member	03/03
Mr. B P Morris	Member	03/06
Mr. J D N Kekulawala	Member	06/06
Mr. A D Lakhani	Member	04/06
Mr. S Fernando	Member	06/06
Mr. D P V Mendis (appointed w.e.f: 25.03.18)	Member	04/04
Mr. N Tillekeratne (resigned w.e.f: 05.03.18)	Member	01/01
Mrs. D Tillekeratne	Member	06/06
Mr. H N N K Perera	Member	06/06
Mr. J T P Perera	Member	06/06
Mr. S U Thenuwara	Member	04/06
Mr. P R M Perera	Member	06/06
Mrs. R E Weerasinghe	Member	06/06

Related Party Transactions Review Committee

Names	Directorship Status	Attended/Eligible Meetings
Mr. J D N Kekulawala	Chairman	04/04
Mr. A M Patrick (retired w.e.f:12.07.18)	Member	01/02
Mr. T S A Fernandopulle	Member	03/04
Mr. B P Morris (appointed w.e.f: 18.09.18)	Member	02/02
Mr. A D Lakhani (appointed w.e.f:18.09.18)	Member	02/02

Report of the Directors

The Directors are pleased to present their Report for the Financial Year Ended 31 December 2018 together with the Audited Statement of Financial Position and the Statement of Comprehensive Income for the period under review.

Review of the Period

The Chairman's Message along with the Director/CEO's Message highlights the Company's performance during the period under review.

Financial Statements

The Financial Statements prepared in compliance with the requirements of Section 151 of the Companies Act No.7 of 2007 are given on pages 60 to 104 in this Annual Report.

Independent Auditors Report

The Auditors Report on the Financial Statements is given on pages 60 to 62 in this report.

Accounting Policies

The Accounting Policies adopted in preparation of the Financial Statements are given on pages 67 to 76.

Directors' Responsibilities for Financial Statements

The Statement of the Directors' Responsibilities for Financial Statements is given on page 57.

Stated Capital

The Stated Capital of the Company as at 31 December 2018 was Rs.200,000,000/- and was unchanged during the period.

Statutory Payments

All known statutory payments have been made by the Company.

Post Balance Sheet Events

No circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in the Financial Statements.

Going Concern

The Board is satisfied that the Company will continue its operations in the foreseeable future. For this reason, the Company continues to adopt the going concern basis in preparing the Financial Statements.

Re-election of Directors

Mr. Colin William Cordery was appointed as a Non-Executive Director to the Board since the last Annual General Meeting.

In accordance with the Articles of Association Mr. Nihal Kekulawala retires, and being eligible offers himself for re-election.

Directors' Interests

The Directors' Interest in Contracts of the Company have been included in the Notes to the Financial Statements.

Related Party Transactions

During the year ended 31 December 2018, there were non-recurrent related party transactions, which exceeded 10% of the equity, or 5% of the total assets whichever is lower and the Company has complied with the requirements of the Listing Rules issued by the Colombo Stock Exchange on Related Party Transactions. The transactions that could be classified as related party transactions, are given in Note 32 on pages 91 to 93 to the Financial Statements and Report of the Related Party Transactions Review Committee on pages 55 and 56.

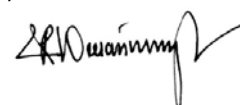
Directors' Remuneration

Details of the remuneration received by the Directors are set out in Note 26 to the Financial Statements on page 89.

Auditors

Messrs. Ernst & Young have expressed their willingness to continue in office as Auditors of the Company for the year ending 31 December 2019. A resolution pertaining to their re-appointment and authorizing the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board



Mrs. Ruvini E Weerasinghe
COMPANY SECRETARY
21 March 2019

Directors' Statement on Internal Control Over Financial Reporting

Responsibility

In line with the Finance Companies Direction No. 03 of 2008, Section 10 (2) (b), the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at AMW Capital Leasing and Finance PLC. ("Company").

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting. The process is regularly reviewed by the Board.

The Board is of the view that the system of Internal Control over Financial Reporting in place, is sound and adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company and continue to review & update every year. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of design and effectiveness on an on-going basis.

Key Features of The Process Adopted In Applying and Reviewing the Design and Effectiveness of the Internal Control over Financial Reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of Internal Controls with respect to financial reporting include the following:

- Various Committees are established by the Board in ensuring the effectiveness of Company's daily operations and that the Company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

- The Internal Audit Department of the Company checks for compliance with policies and procedures and the effectiveness of the Internal Control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Company reviews internal control issues identified by the Internal Audit Department, the External Auditors, regulatory authorities and the Management; and evaluates the adequacy and effectiveness the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Company are set out in the Board Audit Committee Report on page 52.
- Company adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes initially applied to adopt the aforementioned accounting standards were further strengthened during the years 2013, 2014, 2015, 2016, 2017 and 2018 based on the feedback received from the External Auditors, Internal Audit Department, regulators and the Board Audit Committee.
- The Board took necessary steps to implement the requirements of the Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments). The Board sought advice from professional expertise in developing the required models and processes and controls are being designed. Adequate training and awareness sessions have been conducted to all stakeholders including the Board and Senior Management. The Board will continuously strengthen the processes and controls around management information systems and

reports required for validation and compliance in line with SLFRS 9 and financial statement disclosures related to risk management.

- The comments made by the External Auditors in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors in 2018 in connection with the internal control system over financial reporting will be dealt with in the future.

Confirmation

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The External Auditors, Messrs Ernst & Young, have reviewed the above Directors Statement on Internal Control Over Financial Reporting included in the Annual Report of the Company for the year ended 31 December 2018 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review and design and effectiveness of the Internal Control over financial reporting by the Company.

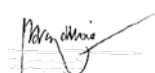
By order of the Board .



Nihal Kekulawala
Chairman-Audit Committee



Trevine Fernandopulle
Director



Brandon Morris
Director/CEO

21 March 2019
Colombo

Report of the Board Audit Committee

The Board Audit Committee currently comprises of two Independent Non-Executive Directors, Mr. Nihal Kekulawala as Chairman and Mr. Trevine Fernandopulle.

The Company Secretary functions as the Secretary to the Committee.

Mr. Angelo Patrick who joined the Board and the Audit Committee in April 2011 left the Board and the Audit Committee in July 2018 on reaching the age of 70.

The Objectives of the Committee were defined by the Board as:

1. To ensure effective, accurate and timely Financial Reporting and generation of Management control information.
2. Management of Internal Controls.
3. Ensure the effective utilization of resources and Report on Conflict of interests.
4. Assessing independence of External Auditors and monitor the External Audit function.
5. Ensure compliance with the Finance Business Act and the attendant Directions, Rules, Determinations, Notices and Guidelines issued by the Central Bank of Sri Lanka.

The Internal Audit functions are carried out by the Internal Audit Division of the Parent Company. They report directly to the Audit Committee. The Director/CEO of the Company along with an Executive Director who is also the AMW Finance Director, General Manager/Credit & Operations,

General Manager/Marketing, the Head of Finance, the Head of Risk and the General Manager/Internal Audit attend the Audit Committee meetings by invitation. The Group IT Head and the support staff are present as and when required to discuss the IT issues. An Audit plan for the current year is presented by the General Manager/Internal Audit to the Committee during the 4th Quarter of last year for approval. The Committee meets once in two months. Quarterly Internal Audit reports were presented to the Committee by the General Manager/Internal Audit as per the format of presentation approved by the Committee. This included a report on Compliance with the Regulatory framework, Compliance with Accounting Standards and Reports on Internal controls on the Operational & Business processes and transactions. In addition to the above, the Quarterly Internal Audit reports also include a Balance Sheet audit. A choice of major branches is selected during the year for review of the Operational and Business procedures. All audit reports from the Internal Audit Division are tabled along with Management responses. The Committee also monitors the submission of the mandatory reports to the Regulator. Positions and movements in Non-Performance Loans and Arrears are brought to the attention of the Board by the Committee.

A report on the proceedings, findings and recommendations of the Audit Committee is made to the Board of Directors after each meeting.

The Committee met with External Auditors without the presence of the Management

of the Company and is satisfied with their independence based on the work carried out by them and the fees paid to them for Audit and Non-audit services.

The Committee is satisfied that the Control Environment is adequate to support the Business Process. The Management regularly evaluates the Business Process to ensure that it meets the needs of the market. Any changes brought about in the process will necessitate a review of the Control Environment.

The Committee met on 06 occasions during the financial year and the attendance at the meetings was:

Mr. A M Patrick	03
Mr. J D N Kekulawala	06
Mr. T S A Fernandopulle	06



Nihal Kekulawala
Chairman - Audit Committee

21 March 2019

Report of the Integrated Risk Management Committee

The Board appointed Integrated Risk Management Committee (IRMC) as at the end of the year comprised of the following members.

Mr. Trevine Fernandopulle
Independent Non-Executive Director

Mr. Nihal Kekulawala
Independent Non-Executive Director

Mr. Brandon Morris
Director/CEO

Mr. Anil Dalsukhlal Lakhani
Director

Mr. Pramuditha Mendis
General Manager - Credit & Operations

Mr. Sujith Fernando
Head of Risk & Compliance

Mr. Pujitha Perera
General Manager - Internal Audit

Mrs. Dimuthu Tillekeratne
Head of Finance

Mr. Neluka Perera
Senior Manager - Treasury

Mrs. Ruvini Weerasinghe
Head of Legal/Company Secretary

Mr. Sanjaya Thenuwara
General Manager - Marketing

Mr. Rajitha Perera
Manager - Internal Audit

Charter of the Committee

The IRMC was established by the Board of Directors in compliance with the Section 8 (3) of the Direction No. 03 of 2008 on Corporate Governance for Finance Companies in Sri Lanka issued by the Central Bank of Sri Lanka.

The Charter of the IRMC approved by the Board, sets out the membership, source of authority, duties and responsibilities of the IRMC. The functions of the IRMC in managing the risks of the Company have been discussed in detailed under the "Risk Management" from pages 22 to page 31 of this Annual Report.

Committee Meetings and Methodology

The IRMC met 06 times during the year ended 31st December and its deliberations and conclusions were reported to the Board of Directors. The IRMC assists the Board of Directors in performing its oversight function in relation to different types of risks faced by the Company in its business operations and ensure adequacy of effectiveness of the risk management framework of the Company.

The scope of review of the committee was based on the guidelines defined by the Central Bank for Finance Companies. In particular, risks flowing from the business plan and strategy, economic risks, credit, market, liquidity and interest rate mismatch risks and operational risks were reviewed by the committee.

Activities and Functions of the Committee

- Assess all risks, i.e. credit, market, liquidity, operational and strategic risks at least on a quarterly basis through appropriate risk indicators and management information.
- Review the adequacy and effectiveness of all management level committees to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- Take prompt corrective action to mitigate the effects of specific risks.
- Take appropriate actions against the

officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee.

- Submit a risk assessment report to the Board of Directors seeking Board's views, concurrence and /or specific directions.

In particular, the IRMC discussed, analysed and advised on the various macro and micro level risks which could impact the business and reviewed management actions to manage those risks.



Trevine Fernandopulle
Chairman
Integrated Risk Management Committee

21 March 2019

Report of the Remuneration Committee

The Board approved Remuneration Committee was formed in February 2011 and currently comprises of two Independent Non-Executive Directors, Mr. Nihal Kekulawala as Chairman and Mr. Trevine Fernandopulle.

Mr. Angelo Patrick who was the Chairman of the Remuneration Committee resigned in July 2018. Mr. Kekulawala was appointed as the Chairman to the Remuneration Committee in July 2018.

The composition of the Committee meets the requirement set out in the listing Rules of the Colombo Stock Exchange. The profiles of the members are set out on pages 7 to 8.

The Committee meets as often as necessary to make recommendations on compensation structures, bonus, increments and promotions. The Committee is also responsible for determining the remuneration policy relating to the Director / CEO by evaluating the performance against set targets and goals for the year under review. The

Committee reviews the market data presented to the Members to ensure salary structures were compatible with the market. The Committee also determines and agrees with the Board on the framework or broad policy for the remuneration of the senior management and other members of the management.

The Committee met during the year under review and the proceedings of the meetings were reported to the Board.



Nihal Kekulawala
Chairman - Remuneration Committee

21 March 2019

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee (RPT) of the Company was formed on 29.02.2016.

The Board appointed Related Party Transactions Review Committee currently comprises of two Independent Non-Executive Directors, Mr. Nihal Kekulawala as Chairman, Mr. Trevine Fernandopulle together with two Executive Directors, Mr. Brandon Morris and Mr. Anil Lakhani. Mr. Angelo Patrick who joined the RPT Review Committee in February 2016 left the Committee in July 2018 on reaching the age of 70.

The Company Secretary functions as the Secretary to the Committee.

The Committee met on 04 occasions during the financial year and the attendance at the meetings was:

Name	Directorship Status	Attended/ Eligible Meetings
Mr. Angelo Patrick	(Ind. Non-Exe. Director)	1/1
Mr. Nihal Kekulawala	(Ind. Non-Exe. Director)	4/4
Mr. Trevine Fernandopulle	(Ind. Non-Exe. Director)	3/4
Mr. Brandon Morris	(Exe. Director)	2/2
Mr. Anil Lakhani	(Exe. Director)	2/2

Terms of Reference of the Committee

The Committee mandated by the Terms of Reference adopted by the Board of Directors on 28 April 2016, is established for the purpose of reviewing in advance all proposed related party transactions and to communicate its comments/observations to the Board of Directors.

The Committee also ensured that

1. the transparency and fairness to all Stakeholders of all transactions.
2. adherence of Related Party Transactions to the Accounting standards, Code of Best Practices issued by the SEC and the Directions issued by the Central Bank.

Methodology Used by The Committee – Avoiding Conflicts of Interest

The Committee avoids “conflicts of interest” which may arise from any transaction entered into between the Company and any person, and ensure that related party dealings are carried out in an arm’s length

Summary of Activities

Discharging the duties entrusted to the Committee within its Terms of Reference, the Committee has reviewed all the related party transactions engaged into by the Company during the period under review, and has duly reported same to the Board of Directors and shareholders where necessary.

Non-Recurrent Related Party Transactions

Name of the Related Party	Relationship	Value of the Related Party Transactions entered into during the financial year (Rs. Mn)	Value of Related Party Transactions as a % of Equity and as a % of Total Assets		Terms and Conditions of the Related Party Transactions	The rationale for entering into the transactions
			As a % of Total Equity	As a % of Total Asset		
Associated Motorways (Pvt) Ltd	Parent	1,855.00	80%	16%	Early Settlement of Term Loans and Partially Settlement of Current Account	To reduce short term funding mismatch of the Company
			As a % of Total Equity	As a % of Total Asset		

During the period under review, the Committee has reviewed various transactions falling within the ambit of the categories as set out below:

- Transactions with the Parent
- Recurrent Related Party Transactions
- Non-Recurrent Related Party Transactions
- Transactions with the KMPs of the Company;

Self-declarations from the Directors and KMPs are obtained in terms of the related party transaction guide for identifying parties related to them. Based on these declarations, information on related parties have been included in the core systems used by the Company, so that all related party transactions can be identified at the point of generation. The Committee focuses on identifying gaps in the existing policy and processes, and will strengthen the process in future.

Related party Transactions During 2018

Details of related party transactions during the period under review are disclosed under Note 32 on page 92 to Financial Statements.

Report of the Related Party Transactions Review Committee (Contd.)

Recurrent Related Party Transactions

Name of the Related Party	Relationship	Nature of the Transaction	Aggregate value of Related Party Transactions entered into during the financial year (Rs. Mn)	Aggregate value of Related Party Transactions as a % of Net Interest Income	Terms and Conditions of the Related Party Transactions
Associated Motorways (Pvt) Ltd	Parent	Management fees paid	1.15	0.12%	As per the Agreement
		Rent Paid	17.32	1.78%	As per the Agreement
		Interest Paid	537.81	55.42%	As per the Agreement
		Fees paid for repair services	0.40	0.04%	Normal Commercial Terms
		Salary Reimbursements	5.69	0.59%	As per the Agreement
		Inter Company Loans Obtained and Interest Charged	174.63	17.99%	As per the Agreement
		Loan Repayment *	926.23	95.44%	As per the Agreement
		Leases and Auto Loans granted to the customers of the Company who purchased vehicles sold by the Parent.	1,812.68	186.78%	Normal Commercial Terms
		Supplier settlement made in respect of vehicles purchased under Leases and Auto Loans.	1,338.06	137.88%	Normal Commercial Terms
			4,813.97	496.05%	
		Rental Income Received	0.60	0.06%	As per the Agreement
Administration Income Received	2.48	0.26%	As per the Agreement		
Commission Received	1.65	0.17%	As per the Agreement		
	4.73	0.49%			

* Loan Repayment excluding Non-Recurrent Related Party Transactions

Declaration

The declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with Listing Rules pertaining to Related Party Transactions is given in the page no 50 of Annual Report.



Nihal Kekulawala
Chairman - Related Party Transactions Review Committee
21 March 2019

Directors' Responsibility for Financial Reporting

The Financial Statements are prepared in conformity with generally accepted accounting principles and the Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. The Financial Statements reflect a true and fair view of the state of affairs of the Company as at 31 December 2018 and provide the information required by the Companies Act No. 7 of 2007. The Financial Statements have been prepared on the going concern basis as the Board is satisfied that the Company will continue its operations in the foreseeable future.

The Board of Directors have instituted an effective and comprehensive system of internal checks, internal audits, and the whole system of financial and other controls required to carry on the business of the Company in an orderly manner, safeguard its assets and ensure as far as practicable the accuracy and reliability of the records. These controls are regularly reviewed.

The Company Auditors, Messrs. Ernst & Young, Chartered Accountants, carry out reviews and test checks the effectiveness of internal controls as they consider appropriate and necessary for providing their opinion on the financial statements.

The Board of Directors oversees the Management's responsibilities for financial reporting at their regular meetings.

By Order of the Board



Mrs. Ruvini E Weerasinghe
COMPANY SECRETARY

21 March 2019



Financial Reports

Independent Auditors' Report

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Statement of Comprehensive Income

Statement of Changes in Equity

Statement of Cash Flows

Notes to the Financial Statements

Independent Auditors' Report



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Chartered Accountants
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eysl@lk.ey.com
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AMW CAPITAL LEASING AND FINANCE PLC

Report on the audit of the Financial Statements

Opinion

We have audited the financial statements of AMW Capital Leasing and Finance PLC ("the Company") which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matters specific to company

Key Audit Matter	How our audit addressed the matter
<p>Impairment Allowance for Lease receivables and Loan receivables including Company's transition to SLFRS 9:</p> <p>As at 31 December 2018 the total of the Lease receivables and Loan receivables amounted to LKR 10,776 Million (Note 6 & 7), net of total allowance for impairment of LKR 306 Million (Note 6 and 7). These collectively contribute 92% to the total assets. The impact on transition to SLFRS 9 on the Company's Financial Statements has been quantified and presented in Note 10 and basis for allowance for impairment are disclosed in Note 2.2.2 of the Financial statements.</p>	<p>To assess the reasonableness of the allowance for impairment, our audit procedures focused on assessing the reasonability of allowance for impairment, included the following procedures;</p> <ul style="list-style-type: none"> We evaluated the design, implementation and operating effectiveness of key internal controls over estimation of impairment for Lease receivables and Loan receivables, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. We test-checked the underlying calculations and data used in such calculations.

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

<p>Our audit considered impairment for Lease receivables and Loan receivables as a key audit matter. The estimation of impairment involved manual calculations, significant estimates and assumptions used by the management in such calculations.</p> <p>The materiality of the reported amounts for Lease receivables and Loan receivables (and impairment thereof), the subjectivity associated with management’s impairment estimation and transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned our basis for considering it as a Key Audit Matter.</p>	<ul style="list-style-type: none"> • In addition to the above, following focused procedures were performed: <ul style="list-style-type: none"> For those individually assessed for impairment: <ul style="list-style-type: none"> - We assessed the main criteria used by the management for determining whether an impairment event had occurred. - Where impairment indicators existed, we assessed the reasonableness of management’s estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. For those collectively assessed for impairment: <ul style="list-style-type: none"> - We tested the completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT systems. Further, we re-performed calculations in assessing the impairment allowance. - We also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays, by comparing them with publicly available data and information sources. • We assessed the adequacy of the related financial statement disclosures as set out in note(s) 6, 7 & 25. • We also assessed the adequacy of the Company’s disclosure on the impact of the initial adoption of SLFRS 9 as set out in Note 10. This included testing of the quantitative impact of the transition.
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Other information included in the Company’s 2018 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor’s report thereon. Management is responsible for the other information.

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

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

Responsibilities of management and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial

Independent Auditors' Report (Contd.)

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we

are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and

explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2097.



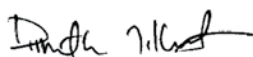
08 May 2019
Colombo

Statement of Financial Position

As at 31 December

	Note	2018 Rs.	2017 Rs.
ASSETS			
Cash and Bank	3	214,689,348	139,656,733
Other Financial Assets	4	90,388,541	69,050,060
Other Non-Financial Assets	5	14,950,330	13,696,999
Rentals Receivable on Lease and Hire Purchase Assets	6	5,639,237,678	6,624,785,785
Loans and Advances	7	5,136,831,821	4,179,474,841
Equity Instruments at Fair Value Through Other Comprehensive Income	8	80,400	-
Financial Investments - Available for Sale	8	-	80,400
Debt Instruments at Amortised Cost	9	532,884,042	-
Financial Investments - Held-to-Maturity	9	-	425,094,094
Property, Plant and Equipment	11	25,191,303	35,384,715
Intangible Assets	12	4,875,095	10,065,754
Total Assets		11,659,128,558	11,497,289,381
EQUITY AND LIABILITIES			
Liabilities			
Bank Overdraft	3	47,708,211	54,322,705
Trade and Other payables	13	637,894,899	595,284,229
Time Deposits	14	2,359,395,820	2,708,767,163
Amounts due to Related Parties	15	2,446,344,980	1,407,323,388
Interest Bearing Borrowings	16	3,431,632,634	4,341,045,635
Income tax payable	17	231,621,952	186,142,494
Deferred Tax Liability	18	155,618,443	177,054,254
Employee Benefit Obligation	19	25,716,283	21,957,287
Total Liabilities		9,335,933,222	9,491,897,155
Equity			
Stated Capital	20	200,000,000	200,000,000
Retained Profit		2,007,853,183	1,707,820,821
Statutory Reserve Fund	21	115,342,153	97,571,405
Total Equity		2,323,195,336	2,005,392,226
Total Equity and Liabilities		11,659,128,558	11,497,289,381

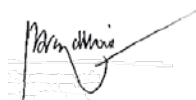
I certify that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



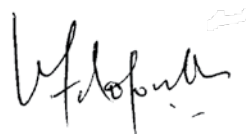
Dimuthu Tillekeratne
Head of Finance

The Board of Directors is responsible for these Financial Statements.

Signed for and on behalf of the Board by.



Brandon Morris
Director



Trevine Fernandopulle
Director

Accounting Policies and Notes on pages 67 to 104 form an integral part of these Financial Statements.

21 March 2019
Colombo

Statement of Comprehensive Income

Year ended 31 December

	Note	2018 Rs.	2017 Rs.
Interest Income	22	2,034,384,438	1,885,042,280
Less : Interest Expenses	23	(1,063,919,426)	(1,043,018,929)
Net Interest Income		970,465,012	842,023,351
Rental Income from Operating Leases		438,681	3,411,453
Other Operating Income	24	389,852,380	391,159,917
Total Operating Income		1,360,756,073	1,236,594,721
Credit Loss Expense	25	(54,509,883)	(10,860,226)
Net Operating Income		1,306,246,190	1,225,734,495
Less: Operating Expenses			
Administration Cost		(237,385,822)	(224,827,748)
Personnel Cost		(215,611,353)	(212,718,732)
Distribution Cost		(41,590,466)	(34,522,934)
Operating Profit before Value Added Tax (VAT) on Financial Services and Debt Repayment Levy		811,658,549	753,665,081
Less: Value Added Tax on Financial Services		(129,424,284)	(108,322,695)
Debt Repayment Levy		(18,037,521)	-
Profit Before Taxation	26	664,196,744	645,342,386
Taxation	27	(308,781,782)	(262,164,080)
Profit for the year		355,414,962	383,178,306
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial Gain/(Loss) on Employee Benefit Obligation		880,639	159,924
Total Comprehensive Income for the year net of tax		356,295,603	383,338,230
Earnings Per Share - Basic	28	17.77	19.16
Dividend Per Share	29	-	1.65

Accounting Policies and Notes on pages 67 to 104 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

Statement of Changes in Equity

Year ended 31 December

	Note	Stated Capital Rs.	Retained Profit Rs.	Statutory Reserve Fund Rs.	Total Equity Rs.
Balance as at 01 January 2017		200,000,000	1,376,641,506	78,412,490	1,655,053,996
Profit for the year		-	383,178,306	-	383,178,306
Other Comprehensive Income net of tax		-	159,924	-	159,924
Dividend Paid	29	-	(33,000,000)	-	(33,000,000)
Transfers	21	-	(19,158,915)	19,158,915	-
Balance as at 31 December 2017		200,000,000	1,707,820,821	97,571,405	2,005,392,226
Impact of adopting SLFRS 9 Note 10		-	(38,492,491)	-	(38,492,491)
Restated Balance as at 31 December 2017 under SLFRS 9		200,000,000	1,669,328,330	97,571,405	1,966,899,735
Profit for the year		-	355,414,962	-	355,414,962
Other Comprehensive Income net of tax		-	880,639	-	880,639
Dividend Paid	29	-	-	-	-
Transfers	21	-	(17,770,748)	17,770,748	-
Balance as at 31 December 2018		200,000,000	2,007,853,183	115,342,153	2,323,195,336

Accounting Policies and Notes on pages 67 to 104 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Statement of Cash Flows

Year ended 31 December

	Note	2018 Rs.	2017 Rs.
CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES			
Net Profit before Income Tax		664,196,744	645,342,386
Adjustments for :			
Interest Income on Debt Instruments at Amortized Cost	22	(47,840,953)	-
Interest Income on Held to Maturity Investments	22	-	(57,622,858)
Accrued Loan Interest	16	105,501,634	167,879,284
Dividend Income	24	(240,000)	(200,000)
Retiring Gratuity - Charge for the year	19	7,549,174	6,244,111
Gain on disposal of Property, Plant and Equipment	24	(2,812,500)	(2,428,572)
Loss on disposal of Property, Plant and Equipment		-	-
Depreciation & Amortization	11 & 12	19,940,088	23,548,496
Operating Profit Before Changes in Working Capital		746,294,187	782,762,848
Increase / (Decrease) in Trade & Other Payables		42,610,670	(303,064,767)
(Increase) / Decrease in Other Financial Assets & Non-Financial Assets		(22,591,812)	(11,127,532)
(Increase) / Decrease in Inventories		-	-
Net Investment in Lease, Hire Purchase and Loans and Advances		(10,301,364)	(245,343,182)
Net Deposits from Customers		(349,371,343)	1,017,089,894
Net Cash generated from / (used in) Operations		406,640,339	1,240,317,260
Gratuity Paid	19	(2,567,068)	(3,884,813)
Income Tax Paid	17	(262,074,040)	(196,796,405)
ESC Paid	17	(23,157,276)	(35,813,573)
WHT Paid	17	150,713	(5,782,305)
Net Cash generated from / (used in) Operating Activities		118,992,668	998,040,164
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES			
Dividends Received	24	240,000	200,000
Acquisition of Plant, Equipment and Intangible Assets	11 & 12	(4,556,020)	(5,050,159)
Sale Proceed from Disposal of Plant and Equipment	11 & 12	2,812,500	2,428,571
Net Investments made during the Year		(107,789,947)	98,927,504
Interest Received from Debt Instruments at Amortized Cost	22	47,840,953	-
Interest Received from Held to Maturity Investments	22	-	57,622,858
Net Cash generated from/(used in) Investing Activities		(61,452,514)	154,128,773
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Dividends Paid	29	-	(33,000,000)
Loans Obtained	16	3,214,280,971	2,724,307,226
Loan Settlements made	16	(4,229,195,606)	(2,607,866,364)
Borrowing from Related Parties		1,039,021,590	(1,237,223,570)
Net Cash generated from / (used in) Financing Activities		24,106,957	(1,153,782,708)
Net Increase / (Decrease) in Cash & Cash Equivalents		81,647,111	(1,613,772)
Cash & Cash Equivalents at the beginning of the year		85,334,028	86,947,799
Cash & Cash Equivalents at the end of the year	3	166,981,137	85,334,028

Accounting Policies and Notes on pages 67 to 104 form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

Notes to the Financial Statements

Year ended 31 December 2018

1. CORPORATE INFORMATION

AMW Capital Leasing and Finance PLC (Previously known as “AMW Capital Leasing PLC”) was incorporated on 23 February 2006 under the Companies Act No. 17 of 1982 and was re-registered under the New Companies Act No. 07 of 2007 on 27 June 2007. The new Registration Number of the Company is PB14PQ.

The registered office of the Company is located at No. 185, Union Place, Colombo 02 and principal place of business of the Company is located at No. 445, Bauddhaloka Mawatha, Colombo 08.

During the year, the principal activities of the Company were granting Lease facilities, Hire Purchase facilities, Mortgage Loans and acceptance of Deposits.

The Financial Statements for the year ended 31 December 2018 were authorised for issue by the Directors on 21 March 2018.

The immediate holding Company of AMW Capital Leasing and Finance PLC is Associated Motorways (Pvt) Limited which is incorporated in Sri Lanka and ultimate parent Company is Al-Futtaim Engineering LLC, Dubai.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The Financial Statements have been prepared in accordance with the accounting policies described in Note 2.1.1 to Note 2.5.12. The Financial Statements of the Company have been prepared on an accrual basis and under the historical cost convention method unless stated otherwise.

2.1.1 Statement of Compliance

The Financial Statements of the Company which comprise statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statement have been

prepared in accordance with Sri Lanka Accounting Standards comprising SLFRS & LKAS (hereafter “SLFRS”) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and the requirements of the Companies Act No. 7 of 2007.

2.1.2 Presentation of Financial Statements

The Company presents its Statement of Financial Position broadly in order of liquidity. 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 the Note.34. Financial Assets and Financial Liabilities are offset and the net amount reported in the 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 realise the assets and settle the liability simultaneously. Income and Expense is not offset in the Income Statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

2.1.3 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Company based its assumptions and estimates on parameters available when the Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The estimates and underlying assumptions are reviewed on an on-going basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods.

2.2.1 Going Concern

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

2.2.2 Impairment Losses on Loans and Receivable

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and

Notes to the Financial Statements (Contd.)

Year ended 31 December 2018

collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's ECL (Expected Credit Loss) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on an ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The Company reviews its individually significant Loans and Receivables at each reporting date to assess whether an impairment loss should be recorded in the Income Statement. In particular, Management Judgment is required 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.

ECL principles

The Company has established a policy to perform an assessment at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 as described below:

- Stage 1: When loans are first recognised, the Company recognises an allowance based on 12 month ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the Life Time ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired, the Company records an allowance for the Life Time ECLs.

The calculation of ECLs

The Company calculates ECLs based on Aging based approach with rebuttable presumption of 90 days past due to identify the point of default for the purpose of formulating impairment models.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or Life Time ECL. The Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the SLFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

The Company also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets the Company applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Definition of Default and Cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of factors that may indicate unlikelihood to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted.

Write-offs

The Company's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

2.2.3 Employee Benefit Liabilities

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Further details about the assumptions used are given in Note 19.

2.3 EVENTS AFTER THE REPORTING PERIOD

All material events after the reporting period have been considered and appropriate adjustments or disclosures have been made in the respective notes to the Financial Statements.

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has applied SLFRS 9 – Financial Instruments, SLFRS 7 (Revised) - Financial Instruments

Disclosures, SLFRS 15-Revenue from Contracts with Customers, in the Financial Statements effective for annual periods beginning on or after 1 January 2018, for the first time. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

SLFRS 9 - Financial Instruments

SLFRS 9 replaces LKAS 39 for annual periods on or after 1 January 2018. As permitted by the transitional provisions of SLFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities, at the date of transition were recognized in the retained earnings as at 1 January 2018. Accordingly, the information presented for year 2017 does not reflect the requirements of SLFRS 9 and therefore not comparable to the information presented for the year 2018 under SLFRS 9.

SLFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities. This standard replaces LKAS 39 Financial Instruments: Recognition and Measurement. The requirements of SLFRS 9 represents a significant change from LKAS 39. This new standard brings fundamental changes to the accounting for financial assets and to certain aspects of accounting for financial liabilities.

Changes to classification and measurement

SLFRS 9 contains three principal classification categories for financial assets: measured at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit & Loss (FVTPL).

SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (Fair Value through Profit or Loss (FVTPL), Available For Sale (AFS), Held-To-Maturity and Amortised Cost) have been replaced by:

- Debt instruments at Amortised Cost
- Debt instruments at Fair Value through Other Comprehensive Income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

SLFRS 9 largely retains the existing requirements in LKAS 39 for classification of Financial Liabilities. However, although under LKAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under SLFRS 9 fair value changes are generally presented as follows.

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

Changes to the impairment calculation

Under SLFRS 9 the loan loss impairment based on incurred loss approach as per LKAS 39 has been replaced by a forward-looking expected credit loss (ECL) approach. SLFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with

Notes to the Financial Statements (Contd.)

Year ended 31 December 2018

loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of Purchased or Originated Credit Impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. The quantitative impact of applying SLFRS 9 as at 1 January 2018 is disclosed in Note 10.

SLFRS 15 - Revenue from Contracts with customers.

The Company has also adopted SLFRS 15 on 1 January 2018 prospectively. Application of his guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment. The Company did not have any material impact on its see and commission income with the adoption of SLFRS 15 for the year beginning 1 January 2018.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Company in preparing its Financial Statements.

2.5.1 Foreign Currency Transactions

The Financial Statements are presented in Sri Lankan Rupees which is the Company's functional and presentation currency.

The functional currency is the currency of the primary economic environment in which the Company operates.

Transactions in foreign currencies are initially recorded by the Company at the functional currency rates prevailing at the date of the transaction.

2.5.2 Recognition of Income and Expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company

and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Expenses are recognised in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining Property, Plant and Equipment in a state of efficiency has been charged to the Statement of Comprehensive Income.

For the purpose of presentation of the Income Statement, the "function of expense method" has been adopted on the basis that it represents fairly the elements of Company's performance.

a) Interest Income and Interest Expense

Under SLFRS 9, interest income is recorded using the Effective Interest Rate (EIR) method for all financial instruments measured at amortized cost and financial instruments designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9 is similar to interest bearing financial assets classified as available-for-sale or held to maturity under LKAS 39 that are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. Interest income is recognized using a rate of return that represents the best estimate of a constant rate of return over the

expected life of the loan. Hence, the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges) is recognized.

If expectations regarding the cash flows on the financial assets are revised for reasons other than credit risk the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortized through Interest and similar income in the Statement of Comprehensive Income.

Interest and similar income

The Company calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis. For Purchased or Originated Credit-impaired (POCI) financial assets, the Company calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset.

The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

SLFRS 15 became effective for financial periods beginning on or after 1 January 2018. The core principle of SLFRS 15 is that an entity have to recognise revenue to depict the transfer of promised goods or services to customers. This core principle is delivered in a five-step model framework as disclosed below.

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

b) Dividends

Revenue is recognised when the Company's right to receive the payment is established.

c) Rental income

Rental income arising from operating leases on Motor vehicles is accounted for on a straight-line basis over the lease term.

d) Fee and Commission Income

Fee and commission income is recognized on an accrual basis.

e) Other Gains and Losses

Net gains and losses of a revenue nature arising from the disposal of Plant and Equipment and other non-current assets, including investments, are accounted for in the Income Statement, after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

2.5.3 Tax

a) Current Income Tax

Current income tax assets and liabilities for the current period 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 substantially enacted at the reporting date under the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto and Inland Revenue Act No.24 of 2017 is effective from 1 April 2018 onwards.

b) Deferred Tax

Deferred taxation is the tax attributable to the temporary differences that arise when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the Financial Statements.

Deferred tax is provided using the liability method 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.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible 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 tax rates that are expected to apply to the year when the asset is realised or liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted as at the reporting date.

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 when the deferred taxes related to the same taxable entity and the same taxation authority.

c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

d) Value Added Tax on Financial Services

Value Added Tax on Financial Services is calculated in accordance with the amended Value Added Tax Act No. 7 of 2003. The amount of Value Added Tax on Financial Services is charged in determining the profit for the year.

e) Withholding Tax on Dividends

Dividend distributed out of taxable profit of the local companies attracts a 14% deduction at source and is not available for set off against the tax liability of the Company. Withholding tax that arises from the distribution of dividends by the Company is recognised at the same time as the liability to pay the related dividends is recognised.

f) Debt Repayment Levy

Debt Repayment Levy has been imposed by the Finance Act No. 35 of 2018 for a limited period of time from 1 October 2018 to 31 December 2021. A levy of 7% is charged monthly on the value addition attributable to the supply of financial services.

Notes to the Financial Statements (Contd.)

Year ended 31 December 2018

2.5.4 Property, Plant & Equipment

Cost

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company derecognises the replaced part, and recognises the new part with its own associated useful life and depreciation.

All other repair and maintenance costs are recognised in the Income Statement as incurred.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer Equipment	20%
Office Equipment	20%
Furniture & Fittings	20%
Motor Vehicles	20%
Motor Vehicles on Hire	20%
Fixtures	20%

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognised.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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 included in the Income Statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.5.5 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost.

Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and 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 assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

Amortization

Amortization on Computer Software is calculated on a straight-line basis over the estimated useful life of 5 years.

2.5.6 Lease and Hire Purchase Receivables

Finance and Operating Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance Leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title are classified as finance leases. When the Company is the lessor under finance leases, the amounts due under the leases, after deduction of unearned income are included in Lease Receivables. The finance income receivable is recognized in "Interest Income" over the period of the leases based on the interest rate implicit in the lease so as to give a constant rate of return on the net investment in the leases.

Operating Leases

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in "Property, Plant and Equipment" and accounts for them accordingly. Rentals receivable under operating leases are accounted for on a straight-line basis over the period of the leases.

When the Company is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'operating expenses' and 'Rental Income from Operating Leases' respectively.

Hire Purchase

Assets hired to customers under hire purchase agreements, which transfer all the risks and rewards incidental to ownership as well as the legal title at the end of such contractual period, are classified as hire purchase receivables. Such assets are accounted for in a similar manner as finance leases.

2.5.7 Financial Instruments

The Company recognizes Financial Assets or Financial Liabilities in its Statement of Financial Position when the Company becomes a party to the contractual provisions of the Instrument. Financial Assets and Financial Liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of a Financial Asset or a Liability (other than Financial Assets and Financial Liabilities at fair value through profit or loss) are added or deducted from the fair value of the Financial Asset or Liability, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of Financial Assets and Financial liabilities at fair value through profit or loss are recognized immediately in the Income Statement. Financial Assets and Liabilities are offset and the net amount is presented when, and only when the Company has a legal right to offset the amount and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial Assets

a) Initial recognition and measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss or amortized cost based on the Company's business model and cash flow characteristics of the financial asset.

The classification of financial instruments at initial recognition depends on their contractual

terms and the Business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from this amount.

b) Measurement categories of financial assets and liabilities

b) (i) Policy applicable from 1 January 2018

From 1 January 2018, the Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. Subsequent to initial recognition, all assets within the scope of SLFRS 9 are measured at:

- Amortised cost
- Fair Value through Other Comprehensive Income (FVOCI)
- Fair Value through Profit or Loss (FVTPL)

Financial Assets at Amortised cost :

The Company only measures loans, receivables, and other financial investments, at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

Loans and Receivables consist of cash and bank balances, securities purchased under repurchase agreements, lease receivables, hire purchase receivables, loan receivables and other assets.

The details of the above conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Company assesses the contractual terms of financial to identify whether they meet the SPPI test.

Notes to the Financial Statements (Contd.)

Year ended 31 December 2018

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than the minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Debt instruments at FVOCI

The Company applies the new category under SLFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise assets that had previously been classified as financial investments available for sale under LKAS 39. FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are

recognised in profit or loss in the same manner as for financial assets measured at amortised cost. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On de recognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis. Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

b) (ii). Policy applicable before 1 January 2018

Before 1 January 2018, the Company classified its financial assets as loans and receivables (amortized cost), FVTPL, available-for-sale or held-to-maturity (amortized cost). Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition

at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit and loss are carried in the Statement of Financial Position at fair value with changes in fair value recognized in finance income or finance costs in the Income Statement.

Loans and Advances

Loans and Advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in Interest income in the Income Statement. The losses arising from impairment are recognised in the Income Statement.

Held-to-Maturity Investments

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

Available-for-sale financial investments

Available-for-sale financial investments include equity

investments. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the Income Statement and removed from the available-for-sale reserve.

The Company evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Company has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

c) Derecognition of Financial Assets

The Company derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a de-recognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified

as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognize a loan to a customer, amongst others, the Company considers Following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty

If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

In that case, the Company 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 Company 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 Company could be required to repay.

Financial liabilities

a) Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings

at amortized cost, plus directly attributable transaction costs.

The financial liabilities include trade and other payables, company overdrafts, loans and borrowings, time deposits, amounts due to related parties.

b) Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on liabilities held for trading are recognized in the Income Statement.

Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the Effective Interest Rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the income statement.

c) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When 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,

Notes to the Financial Statements (Contd.)

Year ended 31 December 2018

such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

d) Offsetting of financial instruments

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

2.5.8 Impairment of non-financial assets

Impairment Losses on Non-Financial Assets are recognized in the Income Statement in those expense categories consistent with the function of the impaired asset.

2.5.9 Cash and Bank Balances

Cash and bank balances in the Statement of Financial Position comprise cash at banks and in hand. For the purpose of the statement of cash flow, cash and cash equivalents consist of cash and bank balances as defined above, net of outstanding company overdrafts.

2.5.10 Post-Employment Benefits

Employee Benefit Liability

The liability recognized in the Statement of Financial Position is the present value of the defined benefit obligation at the Reporting Date using the projected unit credit method. Interest expense and current service cost are recognized in profit or loss whereas actuarial gains and losses are recognized in the year under Other Comprehensive Income. The gratuity liability is not externally funded.

Defined Contribution Plan - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Company contributes the defined percentages of gross emoluments of employees to an approved Employees' Provident Fund and Employees' Trust Fund respectively. The contribution paid and payable is recognized as an expense during the year and any shortfall or excess of contributions payable over amounts paid is recognized as liability or asset.

2.5.11 Provisions, Contingent Assets & Contingent Liabilities

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, 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.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

All contingent liabilities are disclosed as a note to the financial statements unless the outflow of resources is remote.

2.5.12 Standards Issued but not yet Effective

The following Sri Lanka Accounting Standards have been issued by The Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2018.

SLFRS 16 – Leases

This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of Financial Statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. The impact on the implementation of the above Standard has not been quantified yet.

3. CASH AND BANK

	2018 Rs.	2017 Rs.
Cash in Hand	52,537,068	67,451,745
Cash at Bank	162,152,280	72,204,988
	214,689,348	139,656,733
Bank Overdraft	(47,708,211)	(54,322,705)
Cash & Cash Equivalents	166,981,137	85,334,028

4. OTHER FINANCIAL ASSETS

	2018 Rs.	2017 Rs.
VAT Receivable	8,005,510	8,381,220
Insurance Receivable on Lease and Hire Purchase	19,438,707	24,991,858
Insurance Receivable on Loans and Advances	12,022,706	9,702,176
RMV charges receivable	1,815,059	963,344
Staff Loans	1,409,125	1,514,400
Refundable Deposits	16,957,000	14,197,000
Operating Lease Rentals Receivable	316,538	93,437
Seizing Charges Receivable	1,253,718	763,316
Lawyer Fee Receivable	4,564,889	1,792,945
Advance on Domestic Creditors	4,485,614	1,776,317
Miscellaneous Receivables	20,119,675	4,874,048
	90,388,541	69,050,060

5. OTHER NON-FINANCIAL ASSETS

	2018 Rs.	2017 Rs.
VAT Recoverable	8,146,529	4,024,035
Prepayment	10,708,856	13,578,019
	18,855,385	17,602,054
Less: Provision for Other Non Financial Assets	(3,905,055)	(3,905,055)
	14,950,330	13,696,999

6. RENTALS RECEIVABLE ON LEASE AND HIRE PURCHASE ASSETS

6.1 Rentals Receivable on Lease Assets	2018 Rs.	2017 Rs.
Receivable after five years		
Rentals Receivable	5,314,151	3,218,494
Unearned Income	(311,081)	(129,898)
	5,003,070	3,088,596
Receivable from one to five years		
Rentals Receivable	3,916,358,661	5,081,528,251
Unearned Income	(663,241,121)	(875,932,151)
	3,253,117,540	4,205,596,100
Receivable within one year		
Rentals Receivable	3,119,613,155	3,210,484,799
Unearned Income	(831,250,942)	(933,430,946)
	2,288,362,213	2,277,053,853
Overdue Rental Receivable		
Rentals Receivable	285,497,357	246,256,278
Total	285,497,357	246,256,278
Future Rentals Receivable	7,041,285,967	8,295,231,544
Overdue Rentals Receivable	285,497,357	246,256,278
Total Rentals Receivable	7,326,783,324	8,541,487,822
Unearned Income	(1,494,803,143)	(1,809,492,995)
	5,831,980,181	6,731,994,827
Less : Provision for Impairment Losses	(199,930,012)	(138,386,662)
Balance as at 31 December	5,632,050,169	6,593,608,165

Notes to the Financial Statements (Contd.)

Year ended 31 December

6. RENTALS RECEIVABLE ON LEASE AND HIRE PURCHASE ASSETS (Contd...)

6.2	Rentals Receivable on Hire Purchase Assets	2018 Rs.	2017 Rs.
	Receivable after five years	-	-
	Rentals Receivable	-	-
	Unearned Income	-	-
	Receivable from one to five years		
	Rentals Receivable	3,178,011	11,880,069
	Unearned Income	(549,164)	(1,781,679)
		2,628,847	10,098,390
	Receivable within one year		
	Rentals Receivable	5,164,073	25,664,282
	Unearned Income	(778,960)	(3,726,804)
		4,385,113	21,937,478
	Overdue Rental Receivable		
	Rentals Receivable	40,170,142	42,369,078
		40,170,142	42,369,078
	Total		
	Future Rentals Receivable	8,342,084	37,544,351
	Overdue Rentals Receivable	40,170,142	42,369,078
	Total Rentals Receivable	48,512,226	79,913,429
	Unearned Income	(1,328,124)	(5,508,483)
		47,184,102	74,404,946
	Less: Provision for Impairment Losses	(39,996,592)	(43,227,328)
	Balance as at 31 December	7,187,510	31,177,618
	Total Rentals Receivable on Lease Assets and Hire Purchase Assets		
	Future Rentals Receivable	7,049,628,051	8,332,775,895
	Overdue Rental Receivable	325,667,499	288,625,356
	Total Rentals Receivable	7,375,295,550	8,621,401,251
	Unearned Income	(1,496,131,267)	(1,815,001,478)
		5,879,164,283	6,806,399,773
	Less: Provision for Impairment losses (6.3)	(239,926,605)	(181,613,988)
	Balance as at 31 December	5,639,237,678	6,624,785,785
6.3	Provision for Impairment Losses	2018 Rs.	2017 Rs.
	Balance as at 01 January (LKAS 39)	181,613,988	171,096,258
	SLFRS 09 Adjustment	28,779,176	-
	Balance as at 01 January (SLFRS 09)	210,393,164	171,096,258
	Provisions made during the year	29,533,441	10,517,730
	Reversals made during the year	-	-
	Balance as at 31 December	239,926,605	181,613,988

6 RENTALS RECEIVABLE ON LEASE AND HIRE PURCHASE ASSETS (Contd...)

- 6.4** The Company does not take into account as income, any accrued interest on a loan, on which interest and or capital repayments are in arrears for six months or more and contracts specifically identified as Non-Performing. Such interest considered as Interest in Suspense amounts to Rs. 28,058,339/- as of 31 December 2018. (As at 31.12.2017 - Rs. 23,773,687/-) . The amount set aside as Interest in Suspense is considered as a provision made on Impairment in addition to the amount disclosed in above Note No. 6.3. Interest in Suspense has been deducted from Overdue Rental Receivable disclosed in Note No 6 in the financial statements.
- 6.5** Capital Outstanding on Non-Performing Assets as at 31.12.2018 amounts to Rs.278,100,448 (As at 31.12.2017 amounts to Rs.175,882,890/-)
- 6.6** Motor Vehicles and Equipment are held as collaterals against Lease and Hire Purchase Receivables.

7. LOANS AND ADVANCES

7.1 Instalments Receivable on Auto Loans	2018	2017
	Rs.	Rs.
Receivable after five years		
Instalments Receivable	4,359,703	6,308,445
Unearned Income	(271,597)	(445,400)
	4,088,106	5,863,045
Receivable from one to five years		
Instalments Receivable	4,721,387,199	3,794,718,718
Unearned Income	(1,063,430,279)	(864,184,783)
	3,657,956,920	2,930,533,935
Receivable within one year		
Instalments Receivable	2,190,238,060	1,780,789,859
Unearned Income	(804,245,299)	(630,371,119)
	1,385,992,761	1,150,418,740
Overdue Instalment Receivable		
Instalments Receivable	136,592,543	96,515,391
	136,592,543	96,515,391
Total		
Instalments Receivable	6,915,984,963	5,581,817,022
Overdue Instalments Receivable	136,592,543	96,515,391
Total Instalments Receivable	7,052,577,506	5,678,332,413
Unearned Income	(1,867,946,974)	(1,495,001,302)
	5,184,630,532	4,183,331,111
Less: Provision for Impairment Losses (7.3)	(66,742,177)	(32,052,418)
Balance as at 31 December	5,117,888,355	4,151,278,693
7.2 Loans Against Fixed Deposits	18,943,466	28,196,148
Total Loans and Advances	5,136,831,821	4,179,474,841
7.3 Provision for Impairment Losses		
	2018	2017
	Rs.	Rs.
Balance as at 01 January (LKAS 39)	32,052,418	31,709,922
SLFRS 09 Adjustment	9,713,315	-
Balance as at 01 January (SLFRS 09)	41,765,733	31,709,922
Provisions made during the year	24,976,444	342,496
Reversals made during the year	-	-
Balance as at 31 December	66,742,177	32,052,418

Notes to the Financial Statements (Contd.)

Year ended 31 December

7 LOANS AND ADVANCES (Contd...)

- 7.4 The Company does not take into account as income, any accrued interest on a loan, on which interest and or capital repayments are in arrears for six months or more and contracts specifically identified as Non-Performing. Such interest considered as Interest in Suspense amounts to Rs. 9,334,196/- as of 31 December 2018. (As at 31.12.2017 - Rs. 5,482,527/-). The amount set aside as Interest in Suspense is considered as a provision made on Impairment in addition to the amount disclosed in above Note No. 7.3. Interest in Suspense has been deducted from Overdue Rental Receivable disclosed in Note No. 7.1 in the financial statements.
- 7.5 Capital Outstanding on Non-Performing Assets as at 31.12.2018 amounts to Rs.83,046,353 (As at 31.12.2017 amounts to Rs. 30,298,838/-).
- 7.6 Motor Vehicles and Equipment are held as collaterals against Loans and Advances.

8. EQUITY INSTRUMENTS AT OTHER COMPREHENSIVE INCOME

	2018 Rs.	2017 Rs.
Unquoted Investments		
Equities	80,400	-
FINANCIAL INVESTMENTS - AVAILABLE FOR SALE		
Unquoted Investments		
Equities	-	80,400
	-	80,400

Unquoted Equity investment includes shares at Credit Information Bureau of Sri Lanka which is carried at cost. There is no market value for this investment.

9. DEBT INSTRUMENTS AT AMORTISED COST

	2018 Rs.	2017 Rs.
Quoted Investments		
Government Debt Securities	63,448,814	-
Treasury Bills Repurchases	469,435,228	-
	532,884,042	-

FINANCIAL INVESTMENTS - HELD-TO-MATURITY

	2018 Rs.	2017 Rs.
Quoted Investments		
Government Debt Securities	-	60,833,743
Treasury Bills Repurchases	-	364,260,351
	-	425,094,094

10. A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 1 January 2018 is as follows.

	Note	LKAS 39 measurement Category	Amount	Re- classification	Re- measurement (ECL)	SLFRS 9 Amount	SLFRS 9 Category
Rentals Receivable on Lease and Hire Purchase Assets		L & R	6,624,785,785	-	(28,779,176)	6,596,006,609	Amortised Cost
Loans and Advances		L & R	4,179,474,841	-	(9,713,315)	4,169,761,526	Amortised Cost
Financial Investments - Available for Sale	A	AFS	80,400	(80,400)	-	80,400	
Equity Instruments at fair value through OCI	A		-	80,400	-	-	FVTOCI
Financial Investments - Held-to-Maturity	B	HTM	425,094,094	(425,094,094)	-	425,094,094	
Debt instruments at amortised cost	B		-	425,094,094	-	-	Amortised Cost
			11,229,435,120	-	(38,492,491)	11,190,942,629	

NOTE A

As unquoted shares could not be actively traded, the management has elected the irrevocable option to classify unquoted shares under FVOCI.

NOTE B

The contractual cash flow characteristic test (SPPI test) is satisfied by the above mentioned Loans and advances to customers and Financial Investments held to maturity as the return solely represents capital and interest and therefore can be classified under debt instruments at amortised cost.

11. PROPERTY, PLANT & EQUIPMENT

Cost	As at 01.01.2018 Rs.	Additions during the year Rs.	Disposals during the year Rs.	As at 31.12.2018 Rs.
Computer Equipment	44,288,457	315,136	(216,979)	44,386,615
Office Equipment	26,615,786	519,620	-	27,135,406
Furniture & Fittings	14,975,666	2,125,730	-	17,101,396
Motor Vehicles	85,000	-	-	85,000
Motor Vehicles on Hire	34,821,430	-	(8,035,714)	26,785,715
Fixtures	25,176,021	1,235,864	-	26,411,886
	145,962,360	4,196,350	(8,252,693)	141,906,019
Depreciation	As at 01.01.2018 Rs.	Charge for the year Rs.	On disposals Rs.	As at 31.12.2018 Rs.
Computer Equipment	32,098,300	5,137,558	(216,979)	37,018,879
Office Equipment	17,170,087	3,775,531	-	20,945,618
Furniture & Fittings	10,988,392	1,766,495	-	12,754,887
Motor Vehicles	85,000	-	-	85,000
Motor Vehicles on Hire	34,438,355	383,077	(8,035,714)	26,785,714
Fixtures	15,836,693	3,686,775	-	19,523,467
	110,616,828	14,749,436	(8,252,693)	117,113,565
Capital Work In Progress	As at 01.01.2018 Rs.	Additions during the year Rs.	Transferred during the year Rs.	As at 31.12.2018 Rs.
Capital Work In Progress	39,182	3,500,000	(3,140,330)	398,852
	39,182	3,500,000	(3,140,330)	398,852

Notes to the Financial Statements (Contd.)

Year ended 31 December

	2018 Rs.	2017 Rs.
Written Down Value		
Computer Equipment	7,367,736	12,190,157
Office Equipment	6,189,788	9,445,699
Furniture & Fittings	4,346,509	3,987,274
Motor Vehicles on Hire	-	383,075
Fixtures	6,888,418	9,339,328
	24,792,451	35,345,533
Capital Work In Progress	398,852	39,182
	25,191,303	35,384,715

11.1 During the financial year, Company acquired Plant & Equipment to the aggregate value of Rs. 4,556,020/- (2017 - Rs. 3,505,705/-). Cash payments amounting to Rs. 4,197,000/- (2017 - Rs. 3,505,705/-) were made during the year for purchase of Plant & Equipment.

11.2 Gross Carrying amount of fully depreciated asset still in use is Rs. 78,745,774/- (2017 - Rs. 56,534,018)

11.3 Operating lease assets are classified under Motor Vehicle on Hire. Rental receivable on operating lease assets are given below.

	2018 Rs.	2017 Rs.
Within one year	-	960,286
From 1 - 5 years	-	-
Total	-	960,286

12. INTANGIBLE ASSETS

	As at 01.01.2018 Rs.	Additions during the year Rs.	Disposals during the year Rs.	As at 31.12.2018 Rs.
Cost/Carrying Value				
Computer Software	73,320,660	-	-	73,320,660
	73,320,660	-	-	73,320,660

	As at 01.01.2018 Rs.	Charge for the year Rs.	On disposals Rs.	As at 31.12.2018 Rs.
Amortization				
Computer Software	63,254,906	5,190,659	-	68,445,565
	63,254,906	5,190,659	-	68,445,565

	2018 Rs.	2017 Rs.
Written Down Value		
Computer Software	4,875,095	10,065,754
	4,875,095	10,065,754

12.1 During the financial year, Company has not acquired Intangible Assets. (2017 - Rs.1,544,454/-). Therefore no cash Payments have been made during the year. (2017 - Rs.1,544,454/-)

12.2 Gross Carrying amount of fully depreciated Intangible Assets still in use is Rs. 47,368,880/- (2017 - Rs. 47,368,880/-)

13. TRADE & OTHER PAYABLES

	2018	2017
	Rs.	Rs.
Trade Creditors - Related (13.1)	109,838,413	158,618,403
- Non-Related	36,063,941	99,553,875
Other Payables - Related (13.2)	179,989,994	77,120,247
- Non-Relate - Advances Received from Customers	129,251,418	98,723,350
- Non-Related - Others	182,751,134	161,268,354
	637,894,899	595,284,229

13.1 Trade Creditors - Related Parties

		2018	2017
	Relationship	Rs.	Rs.
Associated Motorways (Pvt) Limited	Parent	109,838,413	158,618,403
		109,838,413	158,618,403

13.2 Other Payables - Related

		2018	2017
	Relationship	Rs.	Rs.
Interest Payable on Current Account- Associated Motorways (Pvt) Limited	Parent	136,890,510	16,487,654
Other Payable - Associated Motorways (Pvt) Limited	Parent	15,991,787	23,643,217
Other Payable - Orient Insurance Limited	Other Related Party	1,585,657	1,640,691
Insurance Payable - Orient Insurance Limited	Other Related Party	25,522,040	35,348,685
		179,989,994	77,120,247

14. TIME DEPOSITS

	2018	2017
	Rs.	Rs.
Balance as at 01 January	2,594,055,227	1,638,243,415
Fixed Deposits during the year	1,369,981,787	1,808,021,515
Interest capitalized for renewals	82,906,556	56,730,898
Top UPS (additions by customer to original deposit)	6,465,893	15,384,675
Withdrawals during the year	(1,793,645,847)	(924,325,276)
Balance as at 31 December	2,259,763,616	2,594,055,227
Interest Payable	99,632,204	114,711,936
Total	2,359,395,820	2,708,767,163

15. AMOUNT DUE TO RELATED PARTIES

				2018	2017
	Relationship	Interest Rate	Repayment	Rs.	Rs.
Associated Motorways (Pvt) Limited	Parent	AWPLR + 1%	No fixed terms	2,446,344,980	1,407,323,388
				2,446,344,980	1,407,323,388

Notes to the Financial Statements (Contd.)

Year ended 31 December

16. INTEREST BEARING BORROWINGS

	2018		2018		2017	
	Within One Year	After One Year	2018	2018	Total	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Securitization Loan (16.1)	360,881,000	3,036,828,000	3,397,709,000		723,671,098	
Term Loan (16.2)	-	-	-	-	300,404,971	
Money Market Loan (16.3)	-	-	-	-	710,362,945	
Inter Company Loan (16.4)	33,923,634	-	33,923,634		2,606,606,621	
	394,804,634	3,036,828,000	3,431,632,634		4,341,045,635	
16.1 Securitization Loan						
	As at 01.01.2018	Loans Obtained	Accrued Interest	Repayment	As at 31.12.2018	Security Offered
	Rs.	Rs.	Rs.	Rs.	Rs.	
Securitization 750 M	723,671,098	56,122,600	11,597,000	425,793,698	365,597,000	Lease Portfolio and Corporate Guarantee from AMW
Securitization (NDB) 1500 M	-	1,488,184,000	48,644,000	-	1,536,828,000	Lease Portfolio
Securitization (HNB) 1500 M	-	1,483,947,000	11,337,000	-	1,495,284,000	Auto Loan Portfolio
	723,671,098	3,028,253,600	71,578,000	425,793,698	3,397,709,000	
16.2 Term Loan						
	As at 01.01.2018	Loans Obtained and Interest Charged	Accrued Interest	Repayment	As at 31.12.2018	Security Offered
	Rs.	Rs.	Rs.	Rs.	Rs.	
Sampath Term Loan 500 M	125,279,863	10,008,411	-	135,288,274	-	Lease Portfolio and Corporate Guarantee from AMW
HSBC 1400 M	175,125,108	1,393,490	-	176,518,597	-	Lease Portfolio and Corporate Guarantee from AMW
	300,404,971	11,401,900	-	311,806,871	-	

16. INTEREST BEARING BORROWINGS (Contd...)

	As at 01.01.2018		Loans Obtained and Interest Charged		Accrued Interest		Repayment		As at 31.12.2018		Term of the Loan	Interest Rate	Security Offered
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.			
16.3 Money Market Loan													
DFCC	300,311,918	-	-	-	-	-	300,311,918	-	-	-	Short Term	Based on Money Market Rates	Corporate Guarantee from AMW
NDB	259,845,548	-	-	-	-	-	259,845,548	-	-	-	Short Term	Based on Money Market Rates	Corporate Guarantee from AMW
Commercial Bank	150,205,479	-	-	-	-	-	150,205,479	-	-	-	Short Term	Based on Money Market Rates	Corporate Guarantee from AMW
	710,362,945						710,362,945						
16.4 Inter Company Loan													
AMW Term Loan 1000 M	209,793,094	6,282,110	122,000	216,075,203	122,000	216,075,203	122,000	122,000	122,000	48 months	Fixed Interest	Lease Portfolio	
AMW Term Loan 1000 M	230,723,744	7,360,995	237,178	238,084,740	237,178	238,084,740	237,178	237,178	237,178	48 months	Fixed Interest	Lease Portfolio	
AMW Term Loan 800 M	269,384,475	9,249,315	-	278,633,790	-	278,633,790	-	-	-	48 months	Fixed Interest	Lease Portfolio	
AMW Term Loan 2000 M	1,896,705,308	151,733,051	33,564,456	2,048,438,359	33,564,456	2,048,438,359	33,564,456	33,564,456	33,564,456	54 months	AWPLR + 2.20% with a floor of 13% p.a. and a cap of 15.25%	Lease/Auto Loan Portfolio	
	2,606,606,621	174,625,471	33,923,634	2,781,232,092	33,923,634	2,781,232,092	33,923,634	33,923,634	33,923,634				
16.5 Unutilised Funding Facilities													
Type of Facility													
COM (OD /Money Market)	200,000,000												
HSBC	200,000,000												
Sampath Bank	125,000,000												
	525,000,000												

Notes to the Financial Statements (Contd.)

Year ended 31 December

17. PROVISION FOR INCOME TAX

	2018 Rs.	2017 Rs.
Balance as at 01 January	186,142,494	138,081,580
Provision for the year	276,048,492	285,244,314
Over/(Under) provision in respect of previous year	54,511,571	1,208,883
	516,702,557	424,534,777
Payments made during the year	(262,074,040)	(196,796,405)
Withholding Tax	150,713	(5,782,305)
ESC setoff against Income Tax	(23,157,276)	(35,813,573)
Balance as at 31 December	231,621,952	186,142,494

18. DEFERRED TAX LIABILITY

	2018 Rs.	2016 Rs.
Balance as at 01 January	177,054,254	201,281,178
Provision/ (reversal) made during the year	(21,778,281)	(24,289,117)
Charge/(Reversal) for the year through Statement of Other Comprehensive Income	342,471	62,193
Balance as at 31 December	155,618,443	177,054,254
The closing Deferred Tax Liability balance relates to the following	5,406,241	7,437,410
Accelerated Depreciation for tax purposes	157,412,762	175,764,885
Future Rentals Receivable - Lease	(7,200,559)	(6,148,041)
Employee Benefit Obligation	155,618,444	177,054,254

19. EMPLOYEE BENEFIT OBLIGATION

	2018 Rs.	2016 Rs.
Balance as at 01 January	21,957,287	19,820,106
Current Service Cost	4,914,299	2,279,312
Interest for the Year	2,634,874	3,964,799
Benefits Paid	(2,567,068)	(3,884,813)
Actuarial (Gain)/Loss	(1,223,110)	(222,117)
Balance as at 31 December	25,716,283	21,957,287

Employee Benefit Plan of the Company is not externally funded.

The Employee Benefit Liability is based on the actuarial valuation carried out as at 31 December 2018 by SPARK Actuarial & Risk Consultants. The principal assumptions used in determining the cost of employee benefits were:

	2018	2017
Discount rate	12%	10%
Future Salary Increment	8%	8%

A sensitivity was carried out as follows.

	2018		2017	
Effect on the present value of Defined Benefit Obligation	+1%	-1%	+1%	-1%
One percentage point change in the discount rate	(845,890)	883,088	(688,364)	734,551
One percentage point change in the salary escalation rate	907,938	(884,539)	788,404	(750,903)

Information about Maturity Profile of the Defined Benefit Obligation

Future Working Life Time	As at 31.12.2018	As at 31.12.2017
Within the next 12 months	281,854	4,731,899
Between 1-5 years	25,434,428	13,862,768
Between 5-10 years	-	2,796,732
Beyond 10 years	-	565,888
Total	25,716,282	21,957,287
Average Future Working Life Time	3.67	
Average Past Service Years	4.24	

20. STATED CAPITAL

	2018	2017
Number of Ordinary Shares issued and fully paid	20,000,000	20,000,000
	2018	2017
	Rs.	Rs.
Balance as at 01 January	200,000,000	200,000,000
Balance as at 31 December	200,000,000	200,000,000

21. STATUTORY RESERVE FUND

	2018	2017
	Rs.	Rs.
Balance as at 01 January	97,571,405	78,412,490
Transfers during the year	17,770,748	19,158,915
Balance as at 31 December	115,342,153	97,571,405

The Company's Statutory Reserve Fund is maintained in accordance with Direction No. 9 of 1991 as amended by Direction No. 1 of 2003 issued by the Central Bank of Sri Lanka.

22. INTEREST INCOME

	2018	2017
	Rs.	Rs.
Lease	1,131,281,747	1,195,335,333
Hire Purchase	3,318,479	13,621,714
Term Loan	846,188,056	614,145,849
FD Loan Interest	5,755,203	4,316,526
Interest Income on Debt Instruments at Amortized Cost	47,840,953	-
Interest Income on Held to Maturity Investments	-	57,622,858
	2,034,384,438	1,885,042,280

23. INTEREST EXPENSES

	2018	2017
	Rs.	Rs.
Inter Company Loan	208,549,105	271,945,217
Inter Company Current Account	329,264,434	293,570,528
Securitization Loan	108,768,222	75,858,369
Bank Borrowings	85,677,582	144,758,552
Interest on Time Deposits	331,660,083	256,886,263
	1,063,919,426	1,043,018,929

24. OTHER OPERATING INCOME

	2018	2017
	Rs.	Rs.
Overdue Interest Income	107,888,501	136,843,237
Profit from Pre-Termination	175,197,897	147,569,369
Dividend income	240,000	200,000
Commission from Insurance	49,422,786	49,369,776
Income from additional charges	39,872,787	38,550,390
Bank Charges Claimed on cheque returns	1,145,172	920,871
Rental Income - Inter Company	600,000	720,000
Administration Income - Inter Company	2,475,000	2,610,000
VAS Commission Income	1,888,311	2,741,760
Miscellaneous Income	8,309,426	9,205,942
Gain on Disposal of Property, Plant & Equipment	2,812,500	2,428,572
	389,852,380	391,159,917

Notes to the Financial Statements (Contd.)

Year ended 31 December

25. CREDIT LOSS EXPENSE

The table below shows the ECL charges on financial instruments for the year recorded in the income statement.

	Stage 1 Collective	Stage 2 Collective	Stage 3		Total
			Collective	Individual	
Total Portfolio as of 31.12.2017	8,654,265,198	1,895,157,098	235,731,364	232,773,372	11,017,927,032
Loans and advances					
Motor Car	654,626,740	188,784,947	98,340,423	38,579,387	980,331,497
Other	89,500	5,643,023	(720,402)	6,703,121	11,715,242
Lease and Hire Purchase					
Motor Car	(1,077,424,553)	(161,217,499)	12,474,880	15,006,610	(1,211,160,563)
Motor Cycle	178,265,949	94,614,203	27,857,562	29,107,388	329,845,102
Motor Tricycle	(52,400,096)	(24,725,077)	4,718,881	(434,215)	(72,840,507)
Other	3,204,071	12,395,335	298,185	11,022,888	26,920,478
Portfolio Movement for the year ended 31.12.2018	(293,638,389)	115,494,933	142,969,528	99,985,178	64,811,249
Total Portfolio as at 31st December 2018	8,360,626,810	2,010,652,031	378,700,891	332,758,550	11,082,738,282
	Stage 1 Collective	Stage 2 Collective	Stage 3		Total
			Collective	Individual	
Impairment Allowance as at 31st December 2017	22,838,380	17,252,989	15,415,249	196,652,280	252,158,898
Loans and advances					
Motor Car	1,469,413	783,094	5,614,841	12,901,844	20,769,192
Other	1,369,716	766,000	1,142,366	1,428,261	4,706,343
Lease and Hire Purchase					
Motor Car	(53,979)	(395,183)	1,110,576	8,370,607	9,032,021
Motor Cycle	4,825,128	1,049,791	2,637,770	12,103,004	20,615,693
Motor Tricycle	(361,952)	(537,379)	359,398	(2,345,127)	(2,885,060)
Other	1,965,320	(902,628)	880,640	328,361	2,271,693
Total impairment loss for the year ended 31.12.2018	9,213,646	763,695	11,745,591	32,786,951	54,509,883
Impairment Allowance as at 31st December 2018	32,052,026	18,016,684	7,160,840	229,439,231	306,668,781

26. PROFIT BEFORE TAXATION

is stated after charging :

	2018 Rs.	2017 Rs.
Staff Salaries	154,494,178	162,766,522
Defined Contribution Plan Cost - E.P.F & E.T.F	25,459,081	24,832,005
Directors' Emoluments	20,815,703	22,335,947
Auditors' Remuneration		
- Audit	1,378,080	1,300,075
- Non-Audit	269,509	851,878
Management Fee	1,153,052	1,224,480
Defined Benefit Plan-Expense	7,549,174	6,244,111
Provision for Impairment losses	54,509,883	10,860,226
Depreciation & Amortization	19,940,088	23,548,496

27. INCOME TAX

The major components of income tax expense for the years ended 31 December are as follows :

	2018 Rs.	2017 Rs.
Current Income Tax		
Current Income Tax Charge (27.1)	330,560,063	286,453,197
Deferred Income Tax		
Deferred Taxation Charge / Reversal (27.2)	(21,778,281)	(24,289,117)
Income tax expense reported in the Income Statement	308,781,782	262,164,080

27.1 A reconciliation between tax expense and the product of accounting profit

	2018 Rs.	2017 Rs.
Profit Before Tax	664,196,774	645,342,386
Aggregate Accounting Profit	664,196,774	645,342,386
Aggregated Disallowed Expenses	2,633,073,160	3,069,949,317
Aggregated Allowed Expenses	(2,311,382,432)	(2,696,562,011)
Adjusted Profit	985,887,472	1,018,729,692
Taxable Income	985,887,472	1,018,729,692
Income Tax at the rate of 28% on Taxable Income (2017 - 28%)	276,048,492	285,244,314
Under /(Over) provision in respect of previous year	54,511,571	1,208,883
Current tax on profit for the year	330,560,063	286,453,197
Deferred tax charge for the year	(21,778,281)	(24,289,117)
Tax expense for the year	308,781,782	262,164,080

At the effective Income Tax Rate of 46.49% (2017 - 40.62%)

Notes to the Financial Statements (Contd.)

Year ended 31 December

27. INCOME TAX (Contd...)

27.2 Deferred Tax

Income Statement	2018	2017
Deferred Tax arising from	Rs.	Rs.
Accelerated Depreciation for tax purposes	(2,031,169)	(316,953)
Future Rental Receivable	(18,352,123)	(23,311,560)
Employee Benefit Obligation	(1,394,990)	(660,604)
Provision for Impairment	-	-
	(21,778,282)	(24,289,117)
Other Comprehensive Income		
Actuarial Gain/Loss on Employee Benefit Obligation	342,471	62,193
	342,471	62,193
	(21,435,811)	(24,226,924)

Deferred Tax has been computed using the current tax rate of 28%. (2017-28%)

28. BASIC EARNINGS PER SHARE

28.1 Basic Earnings Per Share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

28.2 The following reflects the Income & Share data used in the Basic Earnings Per Share computation.

	2018	2017
	Rs.	Rs.
Amounts Used as the Numerators:		
Net Profit Attributable to Ordinary Shareholders	355,414,962	383,178,306
Number of Ordinary Shares Used as Denominators for Basic Earnings per Share		
Weighted Average number of Ordinary Shares in issue		
Applicable to Basic Earnings Per Share	20,000,000	20,000,000
28.3 Basic Earnings Per Share	17.77	19.16

29. DIVIDEND PER SHARE

	2018	2017
	Rs.	Rs.
Declared and Paid during the year	-	33,000,000
Dividend Per Share	-	1.65

30. CAPITAL COMMITMENTS AND CONTINGENCIES

As of 31 December 2018, the Company had no contingent liability.

31. EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.

32. RELATED PARTY DISCLOSURES

32.1 Transaction with Related Entities	2018	2017
	Rs.	Rs.
Associated Motorways (Pvt) Ltd - Parent		
Transactions during the period		
Management fees paid	1,153,052	1,224,480
Rent Paid	17,320,291	16,829,682
Interest Paid	537,813,539	565,515,745
Fees paid for repair services	403,092	430,402
Expense Reimbursements	-	6,030,234
Salary Reimbursements	5,688,730	6,198,930
Inter Company Loans Obtained and Interest Charged	174,625,471	2,271,945,216
Loan Repayment	2,781,232,092	1,282,766,965
Inter Company Vehicle Purchases	1,812,679,830	1,815,074,336
Inter Company Settlements for Vehicle	1,338,058,850	2,023,974,798
	6,668,974,947	6,174,916,452
Rental Income Received	600,000	720,000
Administration Income Received	2,475,000	2,610,000
Commission Received	1,651,500	1,903,211
	4,726,500	18,948,894
Amounts Due to		
Trade Creditors	109,838,413	158,618,403
Loans and Accrued Interest Payable	170,814,144	2,623,094,275
Current Account with parent	2,446,344,980	1,407,323,388
Other Payable	15,991,787	23,643,217
	2,742,989,323	4,212,679,283

Notes to the Financial Statements (Contd.)

Year ended 31 December

32 RELATED PARTY DISCLOSURES (Contd..)

Associated Motorways (Pvt) Ltd has given following corporate guarantees on behalf of AMW Capital Leasing and Finance PLC as at 31.12.2018.

- (i) Hongkong and Shanghai Banking Corporation Limited an overdraft / money market loan facility amounting to Rs. 1,600 Mn.
- (ii) Commercial Bank of Ceylon PLC an overdraft / short term / money market loan facility amounting to Rs. 200 mMn.
- (iii) Sampath Bank PLC an overdraft / short term loan (money) facility amounting to Rs. 625 mMn.
- (iv) DFCC Bank PLC a short term loan facility amounting to Rs. 500 Mn.
- (v) National Development Bank PLC a short term loan facility amounting to Rs. 250 Mn.
- (vi) Securitization loan facility amounting to Rs. 750 mMn.

Associated Motorways (Pvt) Ltd has given following corporate guarantees on behalf of AMW Capital Leasing and Finance PLC as at 31.12.2017.

- (i) Hongkong and Shanghai Banking Incorporation Limited an overdraft / money market loan facility amounting to Rs. 1600 Mn.
- (ii) Commercial Bank of Ceylon PLC an overdraft / short term / money market loan facility amounting to Rs. 200 Mn.
- (iii) Sampath Bank PLC an overdraft / short term loan (money) facility amounting to Rs. 625 Mn.
- (iv) DFCC Bank PLC a short term loan facility amounting to Rs. 500 Mn.
- (v) National Development Bank PLC a short term loan facility amounting to Rs. 250 Mn.
- (vi) Securitization loan facility amounting to Rs. 750 Mn.

Orient Insurance Limited - Other Related Company	2018	2017
Transactions during the Year	Rs.	Rs.
Vehicle Hire Charges	-	4,821,043
Insurance Commission Income	26,850,693	31,593,503
Insurance Premiums Paid on Fixed Assets Insured	1,250,458	948,749
Proceeds on Sale of Vehicles	2,812,500	2,428,568
VAS Commission	191,019	838,550
	31,104,672	40,630,413
	2018	2017
	Rs.	Rs.
Amounts Due to		
Insurance Payable	25,522,041	35,348,685
	25,522,041	35,348,685
Fixed Deposit	221,632,109	223,346,570

32. RELATED PARTY DISCLOSURES (Contd..)**32.2 Transactions with Key Management Personnel and Close Family Members of Key Management Personnel**

	2018	2017
	Rs.	Rs.
Transactions with Key Management Personnel		
Key Management Persons' Remuneration	20,815,703	22,335,947
Deposit Made	-	-
Deposits Withdrawn	-	11,572,348
Amounts Due to Key Management Personnel	31.12.2018	31.12.2017
	Rs.	Rs.
Fixed Deposits	-	-
Transactions with Close Family Members of the Key Management Personnel	2018	2017
	Rs.	Rs.
Fixed Deposits Made	-	-
Fixed Deposits Withdrawn	-	8,527,253
Amounts Due to Close Family Members of the Key Management Personnel	2018	2017
	Rs.	Rs.
Fixed Deposit	-	-

Notes to the Financial Statements (Contd.)

Year ended 31 December

33. FINANCIAL REPORTING BY SEGMENT

For management purposes, the Company is organized into four operating segments as follows.

Finance Lease - Assets leased to customers, which transfer substantially all the risks and rewards associated with ownership other than legal title (absolute ownership).

Hire Purchase - Assets hired to customers under Hire Purchase agreements, which transfer all the risks and rewards incidental to ownership as well as the legal title at the end of such contractual period.

Term Loans - Loans given to individual and institutional customers.

Operating Lease - Leases where the lessor effectively retains substantially all the risks and rewards of ownership over the leased term.

Unallocated - Operations that cannot be specifically identified into above classifications.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income Taxes are managed on a group basis and are not allocated to operating segments.

	Finance Lease		Hire Purchase		Term Loans		Operating Lease		Unallocated		Total	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Interest Income	1,131,281,747	1,195,335,333	3,318,479	13,621,714	851,943,259	618,462,375	-	-	47,840,953	57,622,858	2,034,384,438	1,885,042,280
Other Operating Income	178,392,051	197,861,404	4,504,854	14,528,871	141,207,451	111,493,592	-	-	65,748,024	67,276,050	389,852,380	391,159,917
Rental Income	-	-	-	-	-	-	438,681	3,411,453	-	-	438,681	3,411,453
Total Revenue	1,309,673,798	1,393,196,738	7,823,333	28,150,585	993,150,711	729,955,968	438,681	3,411,453	113,588,977	124,898,907	2,424,675,499	2,279,613,650
Unallocated Expenses											(1,705,968,872)	(1,623,411,038)
Credit Loss Expense	(32,077,938)	(12,847,401)	2,544,499	2,329,670	(24,976,444)	(342,496)	-	-	-	-	(54,509,883)	(10,860,226)
Profit Before Tax											664,196,744	645,342,386
Taxation											(308,781,782)	(262,164,079)
Profit After Tax											355,414,962	383,178,306
Segment Assets	5,668,464,639	6,627,653,418	7,640,702	31,602,283	5,160,877,233	4,198,879,193	316,539	476,511	-	-	10,837,299,113	10,858,611,406
Unallocated Assets	-	-	-	-	-	-	-	-	821,829,445	638,677,975	821,829,445	638,677,975
Total Assets	5,668,464,639	6,627,653,418	7,640,702	31,602,283	5,160,877,233	4,198,879,193	316,539	476,511	821,829,445	628,160,245	11,659,128,558	11,497,289,381
Segment Liabilities	4,886,507,177	5,816,547,553	7,772,584	30,383,743	4,184,061,498	3,435,192,782	253,728	383,926	-	-	9,078,594,987	9,282,508,003
Unallocated Liabilities	-	-	-	-	-	-	-	-	257,338,235	209,389,150	257,338,235	209,389,151
Total Liabilities	4,886,507,177	5,816,547,553	7,772,584	30,383,743	4,184,061,498	3,435,192,782	253,728	383,926	257,338,235	209,389,150	9,335,933,222	9,491,897,155

34. MATURITY OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	2018			2017		
	Less than 12 months Rs.	Over 12 months Rs.	Total Rs.	Less than 12 months Rs.	Over 12 months Rs.	Total Rs.
Assets						
Cash and Bank	214,689,348	-	214,689,348	139,656,733	-	139,656,733
Other Financial Assets	81,383,541	9,005,000	90,388,541	62,156,310	6,893,750	69,050,060
Other Non-Financial Assets	12,185,952	2,764,378	14,950,330	11,115,722	2,581,277	13,696,999
Rentals Receivable on Lease and Hire Purchase Assets	2,378,488,220	3,260,749,458	5,639,237,678	2,406,002,698	4,218,783,087	6,624,785,785
Loans and Advances	1,464,102,169	3,672,729,652	5,136,831,821	1,234,231,394	2,945,243,447	4,179,474,841
Equity Instruments at Fair Value Through Other Comprehensive Income	-	80,400	80,400	-	-	-
Financial Investments - Available for Sale	-	-	-	-	80,400	80,400
Debt Instruments at Amortised Cost	511,409,472	21,474,570	532,884,042	-	-	-
Financial Investments - Held-to-Maturity	-	-	-	404,162,094	20,932,000	425,094,094
Property, Plant & Equipment	-	25,191,303	25,191,303	-	35,384,715	35,384,715
Intangible Assets	-	4,875,095	4,875,095	-	10,065,754	10,065,754
As at 31 December	4,662,258,702	6,996,869,856	11,659,128,858	4,257,324,951	7,239,964,430	11,497,289,381
Liabilities						
Bank Overdraft	47,708,211	-	47,708,211	54,322,705	-	54,322,705
Trade & Other payables	637,894,899	-	637,894,899	595,284,229	-	595,284,229
Time Deposits	1,670,898,590	688,497,230	2,359,395,820	2,066,304,223	642,462,940	2,708,767,163
Amounts due to Related Parties	2,446,344,980	-	2,446,344,980	1,407,323,388	-	1,407,323,388
Interest Bearing Borrowings	394,804,634	3,036,828,000	3,431,632,634	2,575,765,646	1,765,279,989	4,341,045,635
Provision for Income Tax	231,621,952	-	231,621,952	186,142,494	-	186,142,494
Deferred Tax Liability	-	155,618,443	155,618,443	-	177,054,254	177,054,254
Employee Benefit Obligation	-	25,716,283	25,716,283	-	21,957,287	21,957,287
As at 31 December	5,429,273,266	3,906,659,956	9,335,933,222	6,885,142,685	2,606,754,470	9,491,897,155

35. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2018 Rs.	2017 Rs.	
Rentals Receivables	Securitization Loan - BOC	735,345,959	1,298,419,205	Rentals Receivable on Lease and Hire Purchase Assets
Rentals Receivables	Securitization Loan - HNB1	2,088,872,324	-	Rentals Receivable on Lease Assets
Rentals Receivables	Securitization Loan - HNB2	2,186,113,180	-	Rentals Receivable on Auto Loan Assets
Rentals Receivables	Short Term Loan	-	1,402,887,001	Rentals Receivable on Lease and Hire Purchase Assets
Rentals Receivables	Term Loan	-	4,445,505,396	Rentals Receivable on Lease and Hire Purchase Assets

Notes to the Financial Statements (Contd.)

Year ended 31 December

36. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

Financial Assets	31 December 2018		31 December 2017	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Rentals Receivable on Lease and Hire Purchase Assets	5,639,237,678	5,895,999,868	6,624,785,785	6,289,302,359
Loans and Advances	5,136,831,821	5,282,732,929	4,179,474,841	4,211,376,613
Debt Instruments at Amortised Cost	532,884,042	530,542,865	-	-
Financial Investments - Held-to-Maturity	-	-	425,094,094	429,039,115
Total Financial Assets	11,308,953,541	11,709,275,661	11,229,354,720	10,929,718,087
Financial Liabilities				
Time Deposits	2,359,395,820	2,349,982,577	2,708,767,163	2,593,827,503
Amounts due to Related Parties	2,446,344,980	2,398,675,139	1,407,323,388	1,407,323,388
Interest Bearing Borrowings	3,431,632,634	3,567,012,430	4,341,045,635	4,294,940,026
Total Financial Liabilities	8,237,373,434	8,315,670,146	8,457,136,186	8,296,090,917

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques.

Level 1 : quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

Fair value measurement hierarchy – financial assets and liabilities measured at amortised cost

	2018			2017		
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.
Financial assets measured at amortised cost						
Rentals Receivable on Lease and Hire Purchase Assets	-	5,895,999,868	-	-	6,289,302,359	-
Loans and Advances	-	5,282,732,929	-	-	4,211,376,613	-
Debt Instruments at Amortised Cost	530,542,865	-	-	-	-	-
Financial Investments - Held-to-Maturity	-	-	-	429,039,115	-	-
Financial liabilities measured at amortised cost						
Time Deposits	-	2,349,982,577	-	-	2,593,827,503	-
Amounts due to Related Parties	-	2,398,675,139	-	-	1,407,323,388	-
Interest Bearing Borrowings	-	3,567,012,430	-	-	4,294,940,026	-

36. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (Contd...)**Fair Value of Financial Assets and Liabilities not carried at Fair Value****Assets for which Fair Value Approximates Carrying Value**

For financial assets and financial liabilities that have a short term maturity it is assumed that the carrying amounts approximate their fair value.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities (other than assets and liabilities with maturities within 12 months) carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

37. RISK MANAGEMENT OBJECTIVES AND POLICIES**37.1 Risk Management**

Risk taking is an inherent element of finance business and, indeed, profits are in part the reward for successful risk taking in business. The primary goal of risk management in the Company is to ensure that the outcome of risk-taking activities are consistent with the Company's strategies and risk appetite and that there is an appropriate balance between risk and reward in order to maximize shareholder returns. The Company is primarily exposed to credit risk, interest rate risk, liquidity risk and operational risk on its day-to-day business activities while being exposed to business and strategic risk on its strategic direction formulation and execution.

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

37.1.1 Integrated Risk Management Committee

The Company has set up an Integrated Risk Management Committee (IRMC), appointed by the Board of Directors as per the CBSL Direction No.3 of 2008 on Corporate Governance with the broad objective of assessing all risks, including credit risks to the Company. The IRMC has the following objectives;

- Ensure that risk management policies are in place which are appropriate to the implementation of the business plan and that organizational structure and staffing support the implementation of those policies.
- Assess all risks, i.e., credit, market, liquidity, operational and strategic risks on a monthly basis through appropriate risk indicators and management information.
- Review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- Take prompt corrective action to mitigate the effects of specific risks.
- Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee.
- Submit risk assessment report to the Board of Directors seeking the Board's views, concurrence and/or specific directions.

The IRMC comprises of the Independent Directors, Chief Executive Officer, Executive Directors, General Manager, Head of Risk Management, GM Marketing, Group Internal Auditor, Head of Finance, Senior Manager - Treasury, Head of Legal and any other executives invited by the CEO or Chairman of IRMC.

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the IRMC to ensure that procedures are compliant with the overall framework.

37.1.2 Assets and Liability Committee (ALCO)

ALCO is chaired by the Chief Executive Officer and has representatives from Director - Finance, General Manager, General Manager - Marketing, Head of Deposits, Head of Finance, Senior Manager - Treasury and Head of Risk & Compliance. The Committee meets at least once a month to monitor and manage assets and liabilities of the Company and also the overall liquidity position. Decisions taken by ALCO are referred to IRMC for ratification.

Notes to the Financial Statements (Contd.)

Year ended 31 December

37. RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd..)

37.1.3 Audit Committee

The Audit Committee is responsible for monitoring Risk Management Policies and procedures and for reviewing the adequacy of risk management framework.

37.2 Credit Risk

37.2.1 Overview

Credit risk is the likelihood that a customer or counterparty is unwilling or unable to pay interest or repay the principal according to the terms specified in a credit agreement resulting in a loss to the Company. Credit risk is managed through a properly defined credit procedure manual which considers target market norms, specific credit selection criteria (both financial and non-financial), concentration limits, delegation of approval authority, credit pricing, segregation of marketing and credit approval and administration and active portfolio monitoring.

37.2.2 Portfolio analysis: Productwise

The lending portfolio is primarily made up of finance leasing with 52.71% of exposure, with hire purchase and auto loans being 0.43% and 46.86% respectively as at 31 December 2018.

37.2.2.1 Exposure based on Product class

Product	As at 31 Dec 2018		As at 31 Dec 2017	
	Exposure Rs. Mn	%	Exposure Rs. Mn	%
Finance Leasing	5,831.98	52.71%	6,731.99	61.26%
Hire Purchase	47.18	0.43%	74.40	0.68%
Auto Loans	5,184.63	46.86%	4,183.34	38.06%
Total	11,063.79	100.00%	10,989.73	100.00%

37.2.2.2 Portfolio Analysis: Exposure Based on Asset type

The profile based on the asset class is monitored monthly to identify trends in the type of assets financed and the impact on the risk profile of the lending portfolio. Certain types of assets are more sensitive to general macroeconomic and business cycles in addition to borrower risk profile, and hence monitored to gauge to future impact on the risk profile and expectations of stress to the quality of the portfolio.

Product	As at 31 Dec 2018		As at 31 Dec 2017	
	Exposure Rs. Mn	%	Exposure Rs. Mn	%
Motor Cars	7,889.44	71.31%	8,158.97	74.24%
Two Wheelers	1,584.92	14.33%	1,246.82	11.35%
Three Wheelers	145.75	1.32%	213.02	1.94%
Dual Purpose vehicles	864.86	7.82%	868.42	7.90%
Commercial vehicles	376.62	3.40%	392.65	3.57%
Working capital Loans	25.36	0.23%	11.32	0.10%
Equipment	30.44	0.28%	67.20	0.61%
Agricultural Tractors	146.40	1.32%	31.33	0.29%
Total	11,063.79	100.00%	10,989.73	100.00%

37.2.2.3 Non-Performing Portfolio

As at 31 Dec	2018	2017
Non-Performing Portfolio	332	235
Total Advances	11,159	11,047
Non-performing %	2.98%	2.13%
Loan loss provisions	306.67	213.67

37. RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd..)

37.2.2.4 Impairment Assessment

For accounting purposes, the Company uses collective and individual impairment method and Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Economic Factor Adjustment (EFA) are taken into consideration. Allowances are assessed collectively for losses on leases, auto loans and hire purchase facilities with similar characteristics. Individually significant leases, auto loans and hire purchase accommodations are assessed on individual basis.

Such provision for Impairment made at the end of reporting period, 31 December 2018 amounts to Rs. 306.67 Mn. (2017 - Rs.213.67 Mn.)

37.2.2.5 Fair Value of Collateral and Credit Enhancements held

The Company endeavors to obtain adequate collateral to secure its credit facilities. The Company continuously monitors the quality of such collateral to mitigate credit losses. A reasonable margin of safety is maintained in collateral values to absorb fall in value of collateral. In general, Company has obtained cash deposits, machinery, equipment, and vehicles as collateral.

The Company uses collateral to mitigate its risks on financial assets. The collateral comes in various forms such vehicles, letters of guarantees and fixed deposit certificates. The fair value of collateral is generally assessed at the inception based on the guidelines issued by the Central Bank of Sri Lanka. To the extent possible, the Company uses active market data for valuing financial assets, held as collateral.

Repossession of collaterals is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and transparent manner through public auctions and the proceeds are used to reduce or recover the outstanding claims and the amount recovered in excess of the dues is refunded to the customer.

The following Table shows the Fair Value of Collateral and credit enhancements held by the Company as at 31st December 2018.

	Maximum Exposure to Credit Risk (Rs.)	Net Exposure to Credit Risk (Rs.)
Cash and cash equivalents (excluding cash in hand)	162,152,280	162,152,280
Other financial assets	90,388,541	90,388,541
Loans and receivables	10,776,069,499	62,459,057
Equity Instruments at Fair Value Through Other Comprehensive Income	80,400	80,400
Debt Instruments at Amortised Cost	532,884,042	532,884,042
	11,561,574,761	847,964,320

Carrying Value of Financial Assets as at 31 December	2018 Rs.	2017 Rs.
Other Financial Assets	90,388,541	69,050,060
Rentals Receivable on Lease and Hire Purchase Assets	5,639,237,678	6,624,785,785
Loans and Advances	5,136,831,821	4,179,474,841
Equity Instruments at Fair Value Through Other Comprehensive Income	80,400	-
Financial Investments - Available for Sale	-	80,400
Debt Instruments at Amortised Cost	532,884,042	-
Financial Investments - Held-to-Maturity	-	425,094,094
	11,399,422,481	11,298,485,180

Fair Value of collateral held and Net exposure of credit impaired assets as at 31.12.2018

	Fair Value of Collateral (Rs.)	Net Exposure to Credit Risk (Rs.)
Credit impaired assets	33,029,173	299,729,377

The collateral held as security on financial assets that are credit-impaired at the reporting date amounts to Rs.33,029,173 and therefore, net exposure of those credit impaired assets as at 31.12.2018 is Rs.299,729,377.

Notes to the Financial Statements (Contd.)

Year ended 31 December

37. RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd..)**37.2.3 Collections and recovery**

The tables below shows the age analysis of the installments in arrears for all Financial Assets exposed to credit risk . The amounts presented are gross receivable amounts.

37.2.3.1 Age analysis of past due based on product class (Rs.'000)

As at 31 December 2018	Leases		Hire Purchase		Auto Loans		Total	
	Arrears	Capital Outstanding	Arrears	Capital Outstanding	Arrears	Capital Outstanding	Arrears	Capital Outstanding
1 - 29 days	30,859	1,284,719	109	1,728	23,925	1,264,320	54,893	2,550,767
30 - 59 days	51,946	703,634	379	3,925	33,398	679,323	85,723	1,386,882
60 - 89 days	33,804	268,470	445	2,473	23,422	278,317	57,670	549,260
90 - 179 days	35,144	147,531	244	444	23,696	156,451	59,084	304,426
180 - 365 days	13,709	18,237	-	-	6,313	21,145	20,022	39,381
Over365days	69,720	8,693	27,913	603	26,552	3,942	124,185	13,238

As at 31 December 2017	Leases		Hire Purchase		Auto Loans		Total	
	Arrears	Capital Outstanding	Arrears	Capital Outstanding	Arrears	Capital Outstanding	Arrears	Capital Outstanding
1 - 29 days	32,145	1,518,432	246	7,683	17,386	1,062,411	49,778	2,588,526
30 - 59 days	48,307	776,408	686	5,008	26,174	560,137	75,167	1,341,553
60 - 89 days	30,883	276,325	1,013	5,148	16,986	203,552	48,882	485,025
90 - 179 days	25,925	112,109	805	1,421	10,853	76,651	37,582	190,181
180 - 365 days	7,873	11,400	344	20	1,284	1,841	9,501	13,262
Over 365 days	54,687	7,704	27,663	1,645	23,496	2,744	105,847	12,093

37. RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd..)**37.2.3.2 Age analysis of past due based on Financial Assets (Rs.'000)**

As at 31 December 2018	Past due							Total Rs.
	Not past due Rs.	1-29 days Rs.	30-59 days Rs.	60-89 days Rs.	90-179 days Rs.	180-365 days Rs.	Over 365 days Rs.	
ASSETS								
Cash and Bank (Excluding Cash in Hand)	162,152	-	-	-	-	-	-	162,152
Other Financial Assets	90,389	-	-	-	-	-	-	90,389
Rentals Receivable on Lease and Hire Purchase Assets	3,174,437	1,317,415	759,884	305,191	183,364	31,945	106,929	5,879,164
Less : Impairment Charges	-	-	-	-	-	-	-	(239,927)
Loans and Advances	2,643,826	1,288,558	716,471	301,897	181,771	29,872	41,179	5,203,574
Less : Impairment Charges	-	-	-	-	-	-	-	(66,742)
Equity Instruments at Fair Value Through Other Comprehensive Income	80	-	-	-	-	-	-	80
Debt Instruments at Amortised Cost	532,884	-	-	-	-	-	-	532,884
	6,603,768	2,605,972	1,476,355	607,088	365,135	61,817	148,107	11,561,575

As at 31 December 2017	Past due							Total Rs.
	Not past due Rs.	1-29 days Rs.	30-59 days Rs.	60-89 days Rs.	90-179 days Rs.	180-365 days Rs.	Over 365 days Rs.	
ASSETS								
Cash and Bank (Excluding Cash in Hand)	72,205	-	-	-	-	-	-	72,205
Other Financial Assets	69,050	-	-	-	-	-	-	69,050
Rentals Receivable on Lease and Hire Purchase Assets	3,852,518	1,558,507	830,410	313,369	140,259	19,638	91,699	6,806,400
Less : Impairment Charges	-	-	-	-	-	-	-	(181,614)
Loans and Advances	2,208,012	1,079,797	586,311	220,538	87,504	3,125	26,240	4,211,527
Less : Impairment Charges	-	-	-	-	-	-	-	(32,052)
Financial Investments - Available for Sale	80	-	-	-	-	-	-	80
Financial Investments - Held-to-Maturity	425,094	-	-	-	-	-	-	425,094
	6,626,959	2,638,304	1,416,721	533,907	227,763	22,763	117,939	11,370,690

37.3 Liquidity Risk**37.3.1 Overview**

Liquidity risk is the risk that the Company may not be able to generate sufficient cash flow at reasonable cost to meet expected and or unexpected claims. It arises in the functions of lending, trading and investment activities. It includes both the risk of unexpected increases in the cost of funding assets due to unanticipated funding requirements and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

To manage Liquidity Risk diversified funding sources have been arranged. Additionally, future cash flows, funding requirement and liquidity is monitored on daily basis. The Company has a sound Contingency Funding Plan. There are committed lines of credit from Banks and Parent Company which could be drawn upon at short notice.

Notes to the Financial Statements (Contd.)

Year ended 31 December

37. RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd..)

37.3.1.1 Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities (Rs. '000)

As at 31 December 2018	Less than 1 Month Rs.	1 to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets							
Cash and Bank	214,689	-	-	-	-	-	214,689
Other Financial Assets	-	72,022	9,361	8,315	-	690	90,388
Rentals Receivable on Lease and Hire Purchase Assets	637,962	558,544	2,282,697	3,388,201	531,335	5,314	7,404,053
Loans and Advances	346,329	391,937	1,597,842	3,361,552	1,359,835	4,360	7,061,855
Financial Investments - Available for Sale	-	-	-	-	-	80	80
Financial Investments - Held-to-Maturity	418,300	51,188	118,954	30,135	40,920	-	659,496
Total Undiscounted Financial Assets	1,617,280	1,073,691	4,008,854	6,788,203	1,932,090	10,444	15,430,562
Financial Liabilities							
Bank Overdraft	47,708	-	-	-	-	-	47,708
Trade and Other Payables	575,147	44,642	18,000	-	-	106	637,895
Time Deposits	483,889	522,161	691,736	856,729	63,699	-	2,618,214
Amounts due to Related Parties	-	2,446,345	-	-	-	-	2,446,345
Interest Bearing Borrowings	33,924	104,918	279,550	1,968,927	2,656,817	-	5,044,135
Total Undiscounted Financial Liabilities	1,140,668	3,118,066	989,286	2,825,656	2,720,516	106	10,794,297
GAP	476,612	(2,044,375)	3,019,568	3,962,547	(788,426)	10,338	4,636,264
Cumulative GAP	476,612	(1,567,763)	1,451,805	5,414,352	4,625,926	4,636,264	-
As at 31 December 2017							
	Less than 1 Month Rs.	1 to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets							
Cash and Bank	139,657	-	-	-	-	-	139,657
Other Financial Assets	640	57,872	3,644	4,394	2,500	-	69,050
Rentals Receivable on Lease and Hire Purchase Assets	522,883	573,354	2,370,447	4,180,489	912,919	3,218	8,563,310
Loans and Advances	256,089	318,051	1,302,870	2,601,439	1,193,280	6,308	5,678,037
Financial Investments - Available for Sale	-	-	-	-	-	80	80
Financial Investments - Held-to-Maturity	3,360	-	402,337	133,894	59,475	-	599,066
Total Undiscounted Financial Assets	922,629	949,277	4,079,298	6,920,216	2,168,174	9,606	15,049,200
Financial Liabilities							
Bank Overdraft	54,323	-	-	-	-	-	54,323
Trade and Other Payables	519,799	43,417	-	20,152	-	71	583,439
Time Deposits	245,160	560,891	1,321,737	477,368	295,768	-	2,900,924
Amounts due to Related Parties	-	1,407,323	-	-	-	-	1,407,323
Interest Bearing Borrowings	1,123,611	382,718	1,187,272	1,447,210	377,735	-	4,518,546
Total Undiscounted Financial Liabilities	1,942,893	2,394,349	2,509,009	1,944,730	673,503	71	9,464,555
GAP	(1,020,264)	(1,445,072)	1,570,289	4,975,486	1,494,671	9,535	5,584,645
Cumulative GAP	(1,020,264)	(2,465,336)	(895,047)	4,080,439	5,575,110	5,584,645	-

The Asset and Liability Committee (ALCO) meets on a regular basis and discusses the liquidity profile of the operations and considers the dynamic liquidity impact based on the future funding requirements of the Company's operations.

37. RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd..)**37.4 Interest Rate Risk****37.4.1 Overview**

Interest rate risk is the risk that changes in market interest rates might adversely affect the Company's financial condition. It is the risk of potential variability in earnings and capital value resulting from changes in market interest rates. The risk can be classified as:

- Repricing Risk
- Basis risk
- Yield curve risk

The Company continuously monitors the behavior of interest rates to manage interest rate risk. The Company also manage the interest rate risk by having a balanced portfolio of fixed and variable rate borrowings. The Company also prepares static gap analysis and dynamic interest rate gap analysis on monthly basis to measure the risk.

The table below analyses the Company's interest rate risk exposure on its non-traded assets and liabilities. The assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or residual maturity dates.

35.4.1.1 Interest Rate Sensitivity Gaps (Rs. '000)

As at 31 December 2018	Less than 7 days	8 - 30 days	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Sensitive Assets							
Rentals Receivable on Lease, Hire Purchase and Auto loan Assets	192,761	302,276	638,452	938,318	1,781,618	6,922,795	10,776,219
Equity Instruments at Fair Value Through Other Comprehensive Income	-	-	-	-	-	80	80
Debt Instruments at Amortised Cost	17,701	401,735	50,000	-	41,974	21,475	532,885
Total Sensitive Assets	210,461	704,011	688,452	938,318	1,823,592	6,944,349	11,309,184
Sensitive Liabilities							
Bank Overdraft	47,708	-	-	-	-	-	47,708
Time Deposits	76,962	487,311	483,742	294,305	328,579	688,497	2,359,397
Amounts due to Related Parties	-	2,446,345	-	-	-	-	2,446,345
Interest Bearing Borrowings	-	33,924	95,597	85,284	180,000	3,036,828	3,431,632
Total Sensitive Liabilities	124,670	2,967,580	579,339	379,589	508,579	3,725,325	8,285,082
Gap	85,791	(2,263,568)	109,113	558,730	1,315,013	3,219,025	3,024,102
Cumulative Gap	85,791	(2,177,777)	(2,068,664)	(1,509,935)	(194,922)	3,024,103	-

Notes to the Financial Statements (Contd.)

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37. RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd...)

37.4.1.1 Interest Rate Sensitivity Gaps (Rs.'000) (Contd...)

As at 31 December 2017	Less than 7 days Rs.	8 - 30 days Rs.	1 - 3 months Rs.	3 - 6 months Rs.	6 - 12 months Rs.	Over 1 year Rs.	Total Rs.
Sensitive Assets							
Rentals Receivable on Lease, Hire Purchase and Auto Loan Assets	187,446	282,238	599,484	887,707	1,683,359	7,164,027	0,804,261
Financial Investments - Available for Sale	-	-	-	-	-	80	80
Financial Investments - Held-to-Maturity	7,729	-	-	325,000	71,433	20,932	425,094
Total Sensitive Assets	195,175	282,238	599,484	1,212,707	1,754,792	7,185,039	11,229,435
Sensitive Liabilities							
Bank Overdraft	54,323	-	-	-	-	-	54,323
Time Deposits	169,293	176,874	519,857	240,328	959,953	642,463	2,708,768
Amounts due to Related Parties	-	1,407,323	-	-	-	-	1,407,323
Interest Bearing Borrowings	-	1,106,076	356,611	435,888	677,195	1,765,275	4,341,045
Total Sensitive Liabilities	223,616	2,690,273	876,468	676,216	1,637,148	2,407,738	8,511,459
Gap	(28,441)	(2,408,035)	(276,984)	536,491	117,644	4,777,301	2,717,976
Cumulative Gap	(28,441)	(2,436,476)	(2,713,460)	(2,176,969)	(2,059,325)	2,717,976	

Note : Fixed Interest Bearing Assets and Liabilities have also taken into consideration in arriving at the Interest Rate Sensitivity Gaps.

37.4.1.2 Income impact from change in interest rates within one month

(Rs.'000)	Increase in funding cost 2018		Increase in funding cost 2017	
	10 bps	25 bps	10 bps	25 bps
P&L impact (Monthly)	(2,178)	(5,444)	(2,436)	(6,091)

37.5 Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people and systems, or from external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Controls include effective segregation of duties, access, authorization and reconciliation procedures and assessment processes, such as the use of internal audit.

Share Information

Stock Exchange

The Ordinary Shares of the Company are listed on the Diri Savi Board of the Colombo Stock Exchange.

Ordinary Shares as at 31 December 2018 : 20,000,000

(Stated Capital of the Company solely represents voting ordinary shares.)

Distribution of Shareholders

There were 3 registered shareholders as at 31st December 2018, distributed as follows.

Distribution of shareholders	As at 31st December 2018				As at 31st December 2017			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Shares								
1 – 1,000	1	0.01	1	0.01	1	0.01	1	0.01
Over 1,000,000	2	99.99	19,999,999	99.99	2	99.99	19,999,999	99.99
Total	3	100	20,000,000	100	3	100	20,000,000	100

Analysis of Shareholders

Resident/Non-Resident

Category	As at 31st December 2018				As at 31st December 2017			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Resident	2	90	18,000,001	90	2	90	18,000,001	90
Non-Resident	1	10	1,999,999	10	1	10	1,999,999	10
Total	3	100	20,000,000	100	3	100	20,000,000	100

Shareholders	As at 31st December 2018		As at 31st December 2017	
	No. of Shares	%	No. of Shares	%
Associated Motorways (Private) Limited	18,000,000	90.00	18,000,000	90.00
Trading Enterprises Company LLC	1,999,999	9.99	1,999,999	9.99
A A De Silva	1	0.01	1	0.01

Shareholders	As at 31st December 2018		As at 31st December 2017	
	No. of Shares	%	No. of Shares	%
Public	2,000,000	10	2,000,000	10
Controlled Companies	18,000,000	90	18,000,000	90
Total	20,000,000	100	20,000,000	100

Share Information (Contd.)

DIRECTORS' AND CEO'S SHAREHOLDINGS

Name	Position	No. of shares as at 31 December 2018	No. of shares as at 31 December 2017
Mr. T S A Fernandopulle	Chairman	-	-
Mr. B P Morris	Director/CEO	-	-
Mr. J D N Kekulawala	Director	-	-
Mr. A M Patrick (retired w.e.f: 14.07.18)	Director	-	-
Mr. A D Lakhani	Director	-	-
Mr. R Kassaby	Director	-	-
Mr. C W Cordery	Director	-	-
Total		-	-

SHARE PRICES FOR THE YEAR

31.12.2018

Rs.

Market price per share

Highest

Rs.22.40 *Not Traded

Lowest

Rs.22.40 *Not Traded

As at end

Rs.22.40 *Not Traded

KEY RATIOS

31.12.2018

31.12.2017

Dividend Per Share (Rs.)

0.00

1.65

Dividend Payout Ratio

0.00

0.09

Net Asset Value Per Share (Rs.)

116.16

100.27

Corporate Information

DATE OF INCORPORATION	: 23rd February 2006	INTEGRATED RISK MANAGEMENT COMMITTEE	: The Integrated Risk Management Committee of the Company was formed on 02.08.2011. Mr. T S A Fernandopulle Mr. A M Patrick - retired w.e.f : 12.07.18 Mr. B P Morris Mr. J D N Kekulawala Mr. A D Lakhani Mr. D P V Mendis - appointed w.e.f : 23.03.18 Mr. N Tillekeratne - resigned w.e.f : 05.03.18 Mrs. D Tillekeratne Mr. H N N K Perera Mr. S Fernando Mr. S U Thenuwara Mr. J T P Perera Mr. P R M Perera Mrs. R E Weerasinghe
DATE OF RE-REGISTRATION	: 27th June 2007	REMUNERATION COMMITTEE	: The Remuneration Committee of the Company was formed on 10.02.2011 Mr. J D N Kekulawala - appointed as Chairman w.e.f : 12.07.18 Mr. T S A Fernandopulle Mr. A M Patrick - Chairman (retired w.e.f : 12.07.18)
COMPANY REGISTRATION NO	: PB14PQ	RELATED PARTY TRANSACTIONS REVIEW COMMITTEE	: The Related Party Transactions Review Committee of the Company was formed on 29.02.2016 Mr. J D N Kekulawala - appointed as Chairman w.e.f: 12.07.18 Mr. T S A Fernandopulle Mr. A M Patrick - Chairman (retired w.e.f : 12.07.18) Mr. A D Lakhani - appointed w.e.f: 18.09.18 Mr. B P Morris - appointed w.e.f: 18.09.18
IMPORTANT DATES	: <ul style="list-style-type: none">• Formed as a Leasing Establishment in July 2006• Obtained Finance Company Licence in November 2008• Listed on the Diri Savi Board of the Colombo Stock Exchange w.e.f: 08th June 2011.		
PRINCIPAL ACTIVITY	: Hire Purchase Leasing Auto Loans Acceptance of Deposits		
STATED CAPITAL	: Rs.200,000,000/- (20,000,000 shares)		
LEGAL FORM	: Quoted on the Diri Savi Board of the CSE with Limited Liability		
BOARD OF DIRECTORS	: Mr. T S A Fernandopulle - Chairman Mr. B P Morris - Director/CEO Mr. A M Patrick -retired w.e.f : 14.07.18 Mr. J D N Kekulawala Mr. A D Lakhani Mr. R Kassaby Mr. C W Cordery - appointed w.e.f: 26.07.18		
COMPANY SECRETARY	: Mrs. Ruvini E Weerasinghe		
AUDITORS	: M/s. Ernst & Young Chartered Accountants		
BANKERS	: Bank of Ceylon Commercial Bank of Ceylon PLC Hongkong & Shanghai Banking Corporation PLC Nations Trust Bank PLC Peoples Bank Sampath Bank PLC DFCC Bank PLC Pan Asia Banking Corporation PLC National Development Bank PLC Union Bank of Colombo PLC Hatton National Bank PLC		
REGISTERED OFFICE	: No. 185, Union Place, Colombo 2		
AUDIT COMMITTEE	: The Audit Committee of the Company was formed on 10.02.2011 as a pre-requisite to Listing the Company on the CSE. Mr. J D N Kekulawala - appointed as Chairman w.e.f : 12.07.18 Mr. A M Patrick - Chairman (retired w.e.f : 12.07.18) Mr. T S A Fernandopulle		

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