

AMW Capital Leasing & Finance PLC
Annual Report 2016



Contents

Vision Mission and Corporate Values.....	1
Milestones of the Company.....	2
Chairman’s Message.....	4
Director / CEO’s Message.....	6
Board of Directors.....	8
Senior Management Team.....	11
Operational Review.....	13
Human Resource Engagement.....	15
Branch Network.....	17
Financial Highlights.....	19
Risk Management.....	21
Corporate Governance.....	30
Report of the Directors.....	50
Directors’ Statement on Internal Controls over Financial Reporting.....	51
Report of the Board Audit Committee.....	52
Report of the Integrated Risk Management Committee	53
Report of the Remuneration Committee.....	54
Report of the Related Party Transactions Review Committee.....	55
Directors’ Responsibility for Financial Reporting.....	56
Financial Reports.....	57
Share Information.....	96

Vision

To be the most trusted admired and profitable financial institution in Sri Lanka.

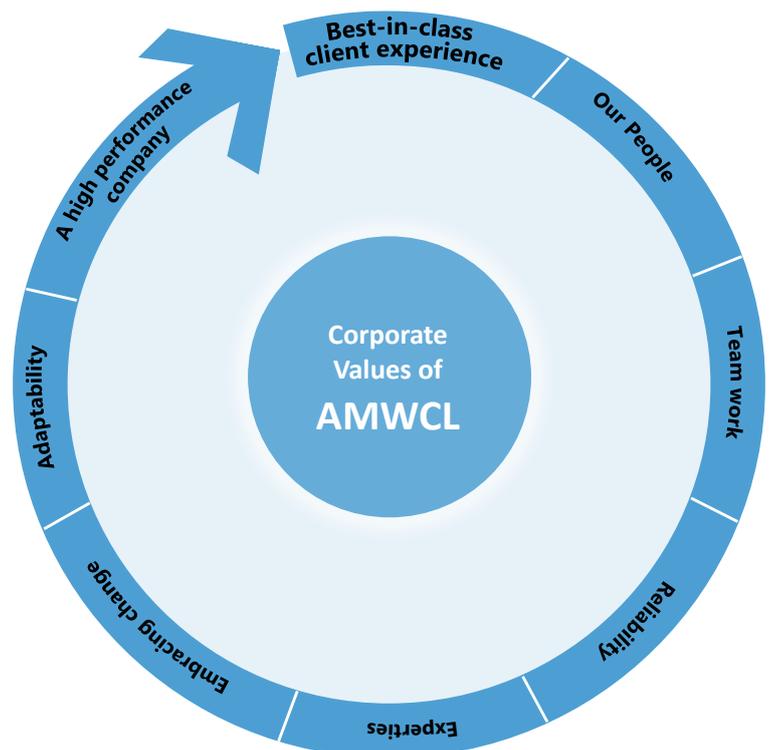
Mission

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

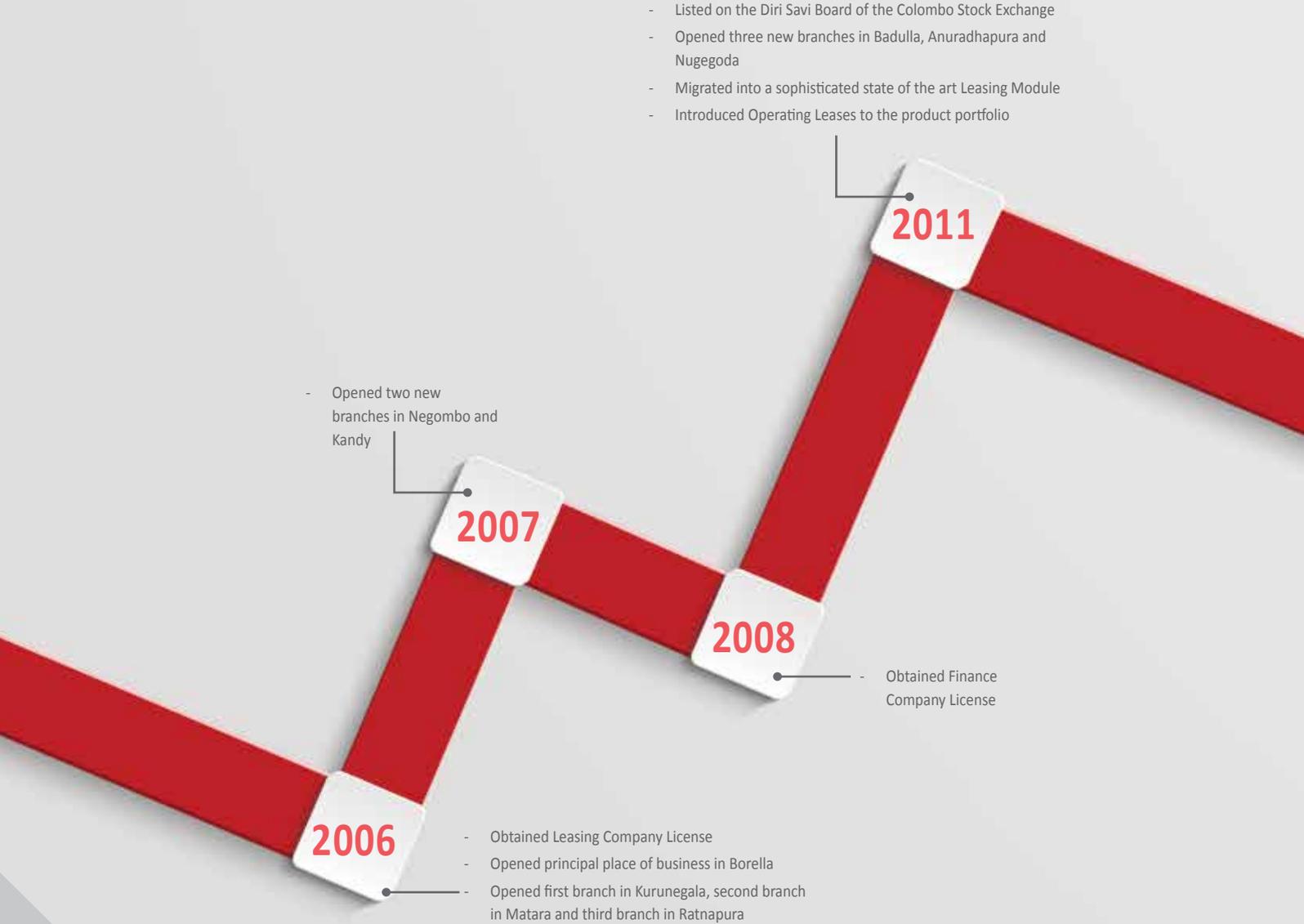
Corporate Values

- **Best-in-class client experience**
We provide timely, personalized and comprehensive solutions that create unique service experiences and earn our clients' loyalty.
- **Our people**
We attract and develop a diverse workforce comprised of committed and driven individuals that have a sense of urgency and an inherent motivation to succeed.
- **Teamwork**
We collaborate as one team to achieve our strategic objectives and goals.
- **Reliability**
We are committed to carrying out all tasks with accuracy, efficiency, honesty and integrity every day. The communities we serve, our customers, employees and shareholders can depend on us to remain a strong, locally-owned and operated and independent finance company.
- **Expertise**
We are committed to continuous improvement and never stop learning and use our resources and expertise to encourage positive change in our customers, ourselves and our community.
- **Embracing change**
We embrace change to find the best ideas, and to continuously improve and grow.

- **Adaptability**
We are willing to capitalize on the opportunities that arise, tailor our services to fit our customers and anticipate future needs.
- **A high performance company**
We are committed to excellence and are individually accountable for the achievement of measurable outcomes.



MILESTONES OF THE COMPANY





CHAIRMAN'S MESSAGE



“ Profit after tax increased by 49% to Rs. 343 million, while return on equity increased to over 20%. Despite aggressive asset growth of 17%, portfolio quality was maintained at a high level as measured by the non-performing loan ratio of 1.9% ”

CHAIRMAN'S MESSAGE (CONTD.)

It is with great pleasure that I present to you the Annual Report and Audited Financial Statement for the year ended 31st December 2016 of AMW Capital Leasing and Finance PLC. I am happy to report that our company recorded its highest ever profit of Rs. 343 million, despite economic headwinds and competitive challenges in the environment in which we do business. This profit is the result of careful planning, balancing risks and rewards appropriately, as well as professional execution of strategic and operation plans.

I am pleased to report that the company had another very successful year as described below, despite a more volatile and difficult environment.

While the global economy continues its gradual recovery from the recession of 2008, global politics was rocked by the Brexit vote in the UK and the election of President Trump in the US. Both watershed events seem to signal a turning point, as policy direction changes away from the globalization paradigm adopted since the fall of the Berlin Wall nearly three decades ago, to more inward looking and protectionist positions. Such trends if sustained, will be negative over the medium term for emerging economies including Sri Lanka.

In Sri Lanka, expectations of a sustained post war boom have not yet been realized, with GDP growth slipping below 5 % in 2016, with a similar outlook for 2017. Growth hit a speed bump in the form of a balance of payments challenge, as exports faltered while short term foreign debt service commitments increased. The government responded by tightening fiscal, investment and monetary policies, while adopting a less interventionist stance to protect the exchange rate. This policy tightening, combined with uncertainty regarding the implementation of taxation and monetary changes, would no doubt have contributed to the slowdown in investment and GDP growth. It is hoped that continuing fiscal discipline together with a package of economic reforms, including the divestment of non-strategic state owned enterprises and resumption of major infrastructure projects, will provide an impetus to growth in the coming years.

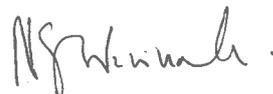
The company had a very successful year despite operating in a more difficult and volatile environment. Profit after tax increased by 49% to Rs. 343 million, while return on equity increased to over 20%. Despite aggressive asset growth of 17%, portfolio quality was maintained at a high level as measured by the non-performing loan ratio of 1.9%, which is far better than the industry average.

The CEO, Mr Brandon Morris and his management team are to be commended for this excellent performance.

Going forward, finance leasing companies are likely to face strategic challenges as market growth slows in an industry with over capacity and as regulatory capital requirements increase. Competitors are likely to take steps to diversify, to control costs as margins diminish and to look again at opportunities for consolidation. AMWCL is reviewing these changes and its own strategic responses.

I am confident that the board and management will be successful in positioning the company appropriately in changing circumstances and that it will sustain its growth trajectory over the long term.

I would like to take this opportunity to thank my fellow directors, the CEO, the management team and our parent company, Associated Motorways (Pvt) Ltd, for their invaluable contribution to the success of the company.



Nihal Senanayake Welikala
Chairman

21 February 2017

DIRECTOR / CEO'S MESSAGE



“ Our Non-Performing Loan (NPL) ratio of 1.87%, is undoubtedly one of the best in the industry ”

CEO'S MESSAGE (Contd.)

It was yet another promising year for AMW Capital Leasing and Finance PLC and I take great pleasure in presenting to you the Annual Report for the year ended 31st December 2016. As we celebrated our 10th Anniversary, we can look back with great pride and satisfaction at the bold measures taken in the previous years to develop our core business and deposit enlistment and thereby adding great value to all our stakeholders.

The Economy

Sri Lanka's economy grew by 4.4% in 2016, slowing from a 4.8%, a year earlier. When looking at the macro environment in 2016, the depreciation of the Rupee due to the fiscal policies of the government towards the latter part of the year, had a negative impact on most households, as the price of essential goods escalated due to fears of rising inflation. The inflation was recorded as 4.5% and the unemployment rate increased to 4.5% compared to 4.3% in 2015.

During the year 2016, financial sector performance was stable and healthy though in the last quarter, increased tariffs and restriction of the loan to value ratio on motor vehicles had a negative impact on the sector.

The Industry

Sri Lanka's non-banking finance sector (NBFI) comprises of 53 Licensed Finance Companies and Specialized Leasing companies with a network of 1,239 branches and it represents 7.3% of assets of the Sri Lanka's financial system.

The credit provided by the NBFI sector mainly by way of loans, grew rapidly in the year 2016 compared to year 2015. Further, the sector recorded profits of Rs. 22 billion and the capital funds increased by 16.9% during the first 8 months of 2016.

A restriction in the loan to value ratio (LTV) and increased tariffs on the importation of motor vehicles were witnessed during the last quarter of the year. The categories most affected due to these changes were the below 1000 cc new motor car segment and three wheelers. Due to these tight regulations by the government the automobile industry performance were truncated.

Company Performance

The company's performance was remarkable, despite an extremely challenging environment, in light of the drop in motor vehicle sales in the market. The reduction in motor vehicle sales in the parent company, severely impacted the company's core business strategy. In 2015 in house financing which comprised 76% of business volumes, decreased to 56% in 2016. Nevertheless, the company was able to shift its focus to "outside business" thereby achieving 99% of business volume, compared to the previous year.

Currently the company operates with a network consisting of 15 branches and 7 service centers, with one new branch opening at Kegalle and two new service centers opened at Panadura and Wattala during the year under review.

The total assets surpassed the Rs. 11 billion mark at the end of the financial year, recording a growth of 17.68%, compared to the previous year. The company achieved a profit after tax of Rs. 343.5 million and a profit before tax of Rs. 527.9 million, compared to Rs. 230.7 million and Rs. 389.7 million respectively in the previous year. A profit after tax growth of 49% is a remarkable achievement, considering the numerous challenges faced in achieving business volumes.

While executing the company's business strategy we were mindful of the importance of preserving and managing the quality of our lending portfolio. This we achieved successfully where our Non-Performing Loan (NPL) ratio of 1.87%, is undoubtedly one of the best in the industry. The industry average is 5.39% (as at 30th September 2016, Source: CBSL). This was an outcome of the continuous efforts made in maintaining stringent appraisal and monitoring techniques.

Fixed deposits continued to be an important source of funds. However, the increased interest rates resulted in this source being costly to the company. This resulted in a reduction in fixed deposits to Rs. 1.1 billion, compared to Rs. 1.8 billion increase in the previous year. We are however continuing with our thrust on increasing and diversifying our deposit base.

The Company achieved a marginal growth of 1.6% in net interest income and the cost-to-income ratio is a commendable 52.35%, derived through the company's efficient cost structure. This cost structure is incidentally better than most of our peer competitors.

The Return on Assets (ROA) and Return on Equity (ROE) were 5.11% and 20.77% respectively, indicating a performance in excess of industry averages.

Outlook

2017 will be a challenging year due to the revised LTV ratios & high prices of motor vehicles, negatively impacting the NBFI industry. In light of these, effective cost management, sales thrust and risk management will be key areas of focus by the company. We will also further fine tune our internal business processes, adopt strategies to exploit market opportunities and continuously train our staff to provide customers a superior service.

With the continuing support of our parent company, Associated Motorways (Pvt) Ltd., the guidance of the Board and the professionalism of my team, I am extremely confident that 2017 will be yet another successful year of sustainable growth for the company.

Appreciations

I respectfully acknowledge the contribution made by each and every stakeholder, enabling us to report the best ever performance in 2016. I am grateful to the immediate past Chairperson Mr. Tilak de Zoysa for the valuable advice and guidance provided. While welcoming the new Chairman Mr. Nihal Welikala, I would like to thank him and my colleagues on the Board for their guidance and contribution.

I sincerely thank our talented management team and every member of team Capital Leasing, for their dedication, commitment and diligent execution of tasks assigned. In conclusion, I would like to express my sincere gratitude to all our stakeholders for their loyalty and confidence placed in the Company.



Brandon Morris
Director/CEO

21 February 2017

BOARD OF DIRECTORS



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1. Mr. Nihal Senanayake Welikala *Chairman*

Mr. Nihal Welikala holds a Law Degree from the University of Ceylon.

He is also a Fellow of the Institute of Chartered Accountants, UK and a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.

Mr. Nihal Welikala has thirty years of experience in the Banking sector in Sri Lanka. During this period he has served as the Chief Executive Officer of Citibank, Colombo and the National Development Bank PLC.

Mr. Nihal Welikala is also a Director of NDB Bank, HDFC Maldives, Bartleet Transcapital Ltd, Bartleet and Company Ltd and Advisor to Ministry of Public Enterprise Development.

2. Mr. Brandon Morris *Director/CEO*

Mr. Brandon Morris counts over 25 years of Managerial experience, of which 19 have been in the Non-Banking Financial Sector (NBFI). Prior to joining AMW Capital Leasing & Finance PLC, Mr. Morris held key positions at L B 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 Jayewardenepura 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. Brandon Morris currently serves as the Vice Chairman of the Leasing Association of Sri Lanka and represents the Leasing Industry in the Ceylon Chamber of Commerce.

3. Mr. Samantha Aruna Bandara Rajapaksa *Non-Executive Director*

Mr. Samantha Rajapaksa is a Fellow member of the Institute of Chartered Accountants of Sri Lanka, the Chartered Institute of Management Accountants of UK, and a Member of the Chartered Institute of Marketing of UK. He also holds an MBA from the University of Sri Jayewardenepura.

He began his career at M/s. Ernst & Young. He went on to serve as Director/General Manager at Informatics International. Thereafter, he took on the appointment of Director/Chief Executive Officer of CF Venture Fund Ltd. He was also appointed as a Group Director of Central Finance Co. PLC during the same period. He thereon took a posting overseas as Senior Project Manager at AT&T Inc. USA

He returned to Sri Lanka in 2008 to take up the appointment as Group Director of Kshatriya Holdings PLC and thereafter joined as a Group Director of the Softlogic Group responsible for group business development and as Director/ Chief Executive Officer of Softlogic Communications Ltd handling the Nokia operations in Sri Lanka and the Maldives.

BOARD OF DIRECTORS (Contd.)



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Since April of 2012, He continues to serve as the Group Managing Director of Associated Motorways (Pvt) Ltd., which is today a fully owned subsidiary of the Al-Futtaim Group of the United Arab Emirates.

He also currently holds Directorships on the Boards of Asiri Hospitals Holdings PLC and Asiri Surgical Hospital PLC, where he also Chairs the respective Audit Committees.

4. **Mr. Avijit Majumdar** *Non-Executive Director*

Mr. Avijit Majumdar is a Chartered Accountant by profession being qualified by the Institute of Chartered Accountants of India.

He also holds a Bachelor of Commerce Degree from the University of Delhi, India.

Mr. Majumdar is the Finance Director of Automotive Division in Al-Futtaim Private Company LLC, UAE, since 2007. He joined the Al-Futtaim Motors, UAE, as the General Manager Finance in 1996. Al-Futtaim Motors is the largest operating subsidiary of Al-Futtaim Private Company LLC.

Prior to joining the Al-Futtaim Group he served as CEO for Sabco LLC in Oman; Finance & Development Manager with Bask Developments, Turks & Caicos Islands, BWI; and as Senior Manager Finance of Jumbo Electronics, Dubai.

Mr. Majumdar began his career in 1977 as a Management Trainee at the ITC Limited in India and in 11 years he was

appointed as the Regional Financial Controller of the Hotel Division of the Group. His tenure with the ITC group laid the foundation to a focused, analytical, system oriented working style.

5. **Mr. Stephen Martin Faulkner** *Non-Executive Director*

Mr. Stephen Martin Faulkner joined Al-Futtaim Group in January 2007 as the Integration Director of a new Regulated Consumer Finance joint venture between Al-Futtaim and GE Money, before assuming the role as Managing Director of the business in 2010.

He currently holds the role of Senior Managing Director Commercial & Banking responsible for the Al-Futtaim Groups Consumer Financing activities along with playing an active role in the M&A Business Development team.

Prior to joining the Group, he was with GE Consumer Finance division, where he held a number of senior level posts over his 17 year tenure. His last role within GE Money was as the Global Customer Retention and Remarketing Director operating across 32 countries. At various points in time during his career within GE, he was a member of various management committees responsible for global standards in Insurance, Responsible Lending, NPS and Lean Six Sigma strategies.

Prior to his role as Retention and Remarketing Director, he was based in London as the Insurance Director of GE Money UK & Ireland. From 1998 through 2000 he was based in Edinburgh as

BOARD OF DIRECTORS (Contd.)

a Functional Lean Six Sigma Black Belt, this was preceded by a 4 year stint as the UK Business Development Director.

Mr. Stephen Faulkner is a Board Member of AMW Capital Leasing and Finance PLC Sri Lanka, and acting Chairman of the Group Automotive Credit Committee and Al-Futtaim Finance Advisory Board.

6. Mr. Angelo Maharajah Patrick *Non-Executive Independent Director*

Mr. Angelo M. Patrick holds an MBA from the University of Colombo and is a Fellow Member of the Chartered Institute of Management Accountants (UK) and a Member of the Institute of Marketing (UK). He has held Directorates and Senior Management positions over the past 40 years in Sri Lanka, Indonesia and Canada.

He was the President of the Chartered Institute of Management Accountants, Sri Lanka Division in 1993-94 and represented Sri Lanka on the Global Council of CIMA in the United Kingdom for 3 years. He is a Lecturer and Examiner for the Postgraduate Diploma in Manufacturing Management in the University of Colombo. He was a Member of the Sri Lanka Accounting Standards Committee and the Corporate Governance Committee of The Institute of Chartered Accountants of Sri Lanka.

He is a Group Director of The Capital Maharaja Organization Ltd and Non-Executive Independent Director of AMW Capital Leasing & Finance PLC and Richard Pieris Exports PLC.

7. Mr. Trevine Sylvester Anthony Fernandopulle *Non-Executive Independent Director*

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 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 the 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 holds an MSc (Statistics) from London School of Economics University of London.

8. Mrs. Dilani Cornelia Yatawaka *Executive Director*

A Fellow Member of the Institute of Chartered Accountants of Sri Lanka, Chartered Institute of Management Accountants UK and the Institute of Certified Management Accountants of Sri Lanka, Mrs. Yatawaka was appointed to the Board of AMW Capital Leasing and Finance PLC in November 2011.

She is the Finance Director of AMW Capital Leasing and Finance PLC's parent company Associated Motorways (Pvt) Ltd and is also a Director of Associated Motor (Lanka) Co. Ltd and Associated Universal (Pvt) Ltd.

9. Mr. Kushan Arosha Wijewickrama *Executive Director*

Mr. Kushan Wijewickrama counts over 19 years of experience in Human Resources Management, working in Sri Lanka, India, Bangladesh and Malaysia. He held Management & Senior Management positions in Human Resources for over 10 years in Manufacturing, FMCG, UN & Telecommunications industries.

Having joined Associated Motorways (Pvt) Ltd in January 2013 as the Director Human Resources, he was appointed to setup Strategic HR within the organization and was also involved in the development of the Group HR Department. Subsequently in December 2013, considering his previous experience, 7 more departments were added under his purview. He was re-designated as Director - Human Resources and Shared Services. He was appointed to the Board of AMW Capital Leasing and Finance PLC in April 2015.

Prior to joining Associated Motorways (Pvt) Ltd, he was attached to Ericsson Malaysia as HR Manager based in Malaysia as well as overlooking Ericsson Sri Lanka. He functioned as an HR Consultant in the region, prior to which he served as the Head of People and Culture at Ericsson Telecommunications Lanka (Private) Limited.

He was the Head of Human Resources Development and Head of Corporate Social Responsibility at Finlay's Tea Estates Sri Lanka (Member of SWIRE Group) and was attached to Fonterra Brands Lanka (Private) Limited in the capacity of Organizational Development Manager.

He was attached to UNICEF (United Nations Children's Fund) as Human Resources Development Officer - Sri Lanka & Maldives. He was also at Lanka ORIX Leasing Company, a member of ORIX Group as Executive Group Human Resources.

Mr. Wijewickrama holds an MBA from Buckinghamshire New University, UK and a Bachelor of Commerce Degree from the University of Delhi, India as well as a National Diploma in Human Resources Management - NDHRM from the Institute of Personnel Management of Sri Lanka. He is a Member of the Association of Human Resources Professionals (AHRP).

10. Ms Hiruni Serasinghe *Company Secretary*

Ms. Hiruni Serasinghe was appointed as the Company Secretary of AMW Capital Leasing and Finance PLC in May 2016 and is the Company Secretary of AMW Group. She is an Attorney-at-Law of the Supreme Court of Sri Lanka and registered as Company Secretary with the Registrar General of Companies. She holds an MBA from Cardiff Metropolitan University, UK and Bachelor of Law from University of London.

SENIOR MANAGEMENT TEAM



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1. Mr. Pramuditha Mendis
General Manager

Mr. Pramuditha Mendis serves as the General Manager of the company. He has over 22 years of experience in the field of Leasing including 4 years in an overseas assignment. Mr. Mendis started his Leasing career with LOLC and was instrumental in obtaining PFI status for LOLC at ADB funded tea development refinance scheme, thus making LOLC, the first specialized leasing company to qualify for ADB funded credit scheme.

After serving LOLC for 11 years, he joined Saudi ORIX Leasing Company in K.S.A. and worked as the Senior Manager/ Deputy Region Head for 4 years. Having served as a Director of The Leasing Association of Sri Lanka (LASL), Mr. Mendis has experience in both SME (small and medium enterprise) and Corporate Credit and Marketing. He holds a Bachelor of Science Special Degree in Industrial Management from the University of Kelaniya.

2. Mr. Sanjaya Thenuwara
Deputy General Manager – Marketing

Mr. Sanjaya Thenuwara the Deputy General Manager-Marketing, counts over 20 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 10 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.

SENIOR MANAGEMENT TEAM (Contd.)

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 University of Colombo. He is also an Associate Member of the Chartered Institute of Management Accounts (CIMA- UK) and an Associate Member of the Institute of Bankers of Sri Lanka (IBSL). Mr. Fernando has 22 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. Hemantha Ratnayake

Head of Recoveries & Administration

Mr. Hemantha Ratnayake is the Head of Recoveries & Administration. He counts over 19 years' experience in the Leasing and Finance Industry. Mr. Ratnayake was the Senior Manager Recoveries & Collection of Asian Finance Ltd. He holds a Diploma in Credit Management (IBSL). He also served in the Sri Lanka Navy Communication Department, for more than 13 years and gained experience in International Marine Communications.

5. Mr. Chinthaka de Alwis

Head of Operations & Compliance

Mr. Chinthaka de Alwis the Head of Operations and Compliance has a diploma in Litigation Systems to the law. Mr. De Alwis has over 24 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 division, responsible for Internal and Information Systems Auditing processes of the Organization.

6. 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 19 years of experience in the finance industry, 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.

7. Mrs. Ivon Brohier

Senior Manager Finance

A Fellow Member of the Institute of Chartered Accountants of Sri Lanka and holds an MBA from the University of Colombo. She also holds a Bachelor of Science Special Degree in Management from the University of Sri Jayewardenepura.

Prior to joining AMW Capital Leasing and Finance PLC, Mrs. Brohier was attached to KPMG Ford Rhodes Thornton and Co. and was an Analyst in tax and regulatory affairs at the time of leaving the firm.

OPERATIONAL REVIEW

Leasing and Financing industry were undergoing turbulence during the year 2016 due to many factors including introduction of LTV values by the Central Bank of Sri Lanka and upward increase of import duty on motor vehicles. Total new motor vehicle registration has decreased to 487,548 units in 2016 which represents a drop of 25% compared to the year 2015. The registration of Brand New motor cars fell from 35,839 units to 19,644 during the year. It was a massive 65% drop compared to the year 2015. Since Sri Lanka's leasing/ financing industry is predominantly motor vehicle financing centric, all NBFIs were affected due to the fall in registration of new motor vehicles.

Government of Sri Lanka together with CBSL introduced a maximum Loan To Value (LTV) of 70% when financing a motor vehicle in September 2015, purely with the objective of curbing staggering import cost and unprecedented credit growth which was more or less consumer driven. However, the impact of this was fully felt in the year 2016 and this was one of the reasons for depleted demand for leases.

The aggressive encroachment by banks into motor vehicle financing segment remained strong during 2016 as well due to the excess liquidity the banks were having. Interest rates rose sharply during the year 2016. This not only had an impact on the interest cost of Finance Companies but also curtailed the demand for leases.

Despite all these factors the Industry NPLs had shown an improvement in the year 2016. The sector NPL as at end September 2016 stood at 5.39% compared to 6.06% in the previous year.

Despite all negative factors such as sluggish demand for leases, rising interest costs and stiff competition, the year 2016 was a good year for AMW Capital Leasing & Finance PLC. Total executions amounted to LKR 6.49 billion in 2016 and portfolio increased by 16.10% to LKR 10.60 billion. The company transacted with 7842 customers in 2016 as against 8,395 in 2015. Overall portfolio was more skewed towards motor cars financing, which represented about 71% of the total executions during the year. This portfolio concentration on motor car segment in the previous year was around 76%. Although the concentration on motor car segment is high, the company do not foresee any unwarranted risk since history speaks well on the portfolio quality of this market segment.

Regular Integrated Risk Management Committee (IRMC) meetings and Credit Committee meetings together with the recovery strategies formulated at the beginning of the year of which some are very much proactive, once again assisted the company to establish its position in terms of super quality portfolio among NBFIs. The total provisioning for impairment losses reduced to LKR 31.57 million in 2016 against LKR 47.74 million of the corresponding period of the previous year. The Gross NPL ratio improved to 1.87% from 2.17% in 2015. The relatively fewer number of repossessed vehicles, 175 in number for the whole year, well reflected the strong credit culture prevailed in the company.

The company expanded its distribution channels by opening a branch in Kegalle and two service centres in Panadura and Wattala during the year.

Fitch rating offered a higher rating of BBB+ from its previous rating BB- which endorses the sound and improved financial stability of the company.

All in all, the company's total assets increased by 17.6 % to LKR 11.33 billion during the year and PAT increased to LKR 343.48 million during the year 2016.

Income Earning Assets - Grew by 17.5%

Income earning assets increased to LKR 11.08 billion in 2016 compared to LKR 9.43 billion in the previous year. This indicates a 17.5% growth. The main contributory factor was the growth in Lease receivables and Auto Loans which increased from LKR 8.95 billion in 2015 to LKR 10.55 billion in 2016 (17.89% growth over the previous year).

Deposits

The Company rationalized its deposit base during the year 2016. More emphasis was given to retail deposits clients rather than rate sensitive institutional and corporate clients. Due to this, some large institutional clients withdrew their deposits and the deposit base stood at LKR 1.69 billion which shows a decrease amounting to LKR 1.13 billion (40.24%). Since time deposits became more expensive with the increase in interest rates, the company sourced more funds from other funding sources such as securitization and bank borrowings and benefit was passed on to the loyal customers.

Profit

Profit Before Tax (PBT) and Profit After Tax (PAT) increased to LKR 527.86 million and LKR 343.48 million respectively. The growth was mainly supported by prudently managed treasury function, lower impairment losses, lower cost of funds, increased other operating income and the growth in interest income resulted in higher executions.

Interest Income - Grew by 15.88%

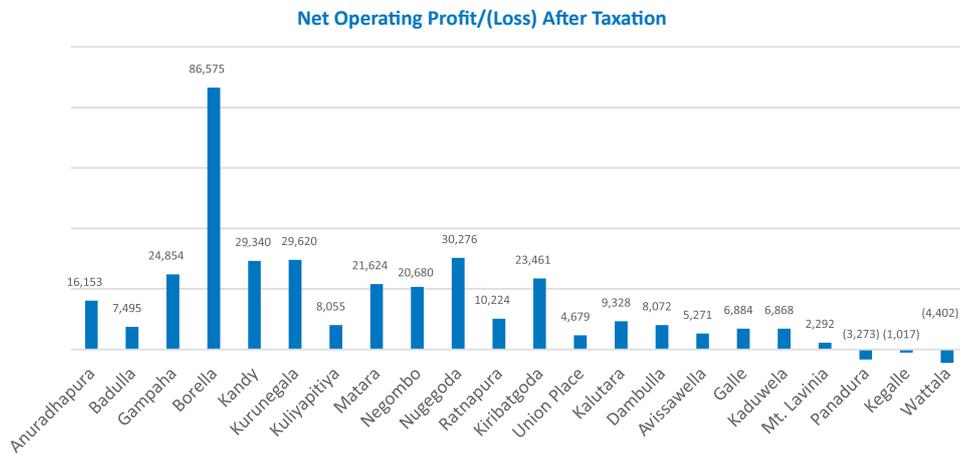
Interest income recorded a 15.88% growth. It increased from LKR 1.36 billion in 2015 to LKR 1.58 billion in 2016. The interest income earned from the lease portfolio showed a higher growth while interest income from loan portfolio too showed a fair growth.

Growth in Other Operating Income - Grew by 32.31%

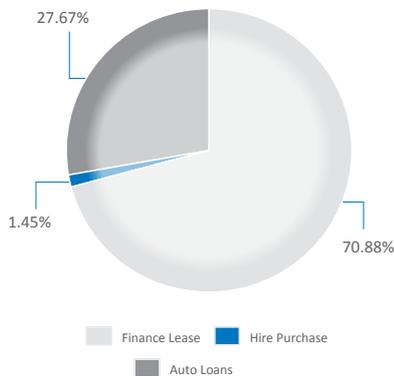
The other operating income mainly consists of default interest recovered, documentation fee, income from early settlements and insurance income. This increased to LKR 302.69 million in 2016 from LKR 228.78 million in 2015. Income received from additional charges decreased to LKR 38.91 million in 2016 from LKR 42.46 million in 2015 and insurance commission income increased to LKR 43.23 million from LKR 33.11 million in the previous year with the increased number of transactions. Income from early settlements increased to LKR 118.54 million from LKR 98.32 in the previous year.

OPERATIONAL REVIEW (Contd.)

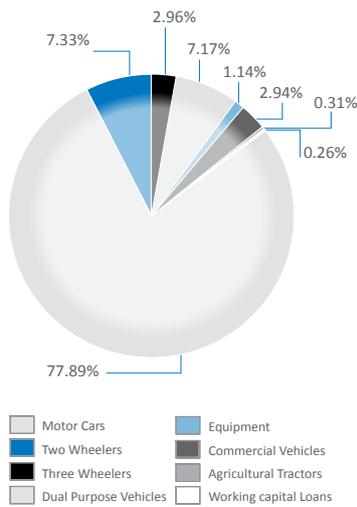
Distribution of PAT (Location wise)



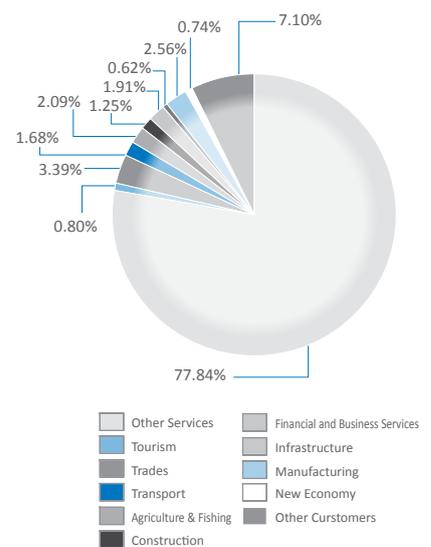
Exposure Based on Product Class



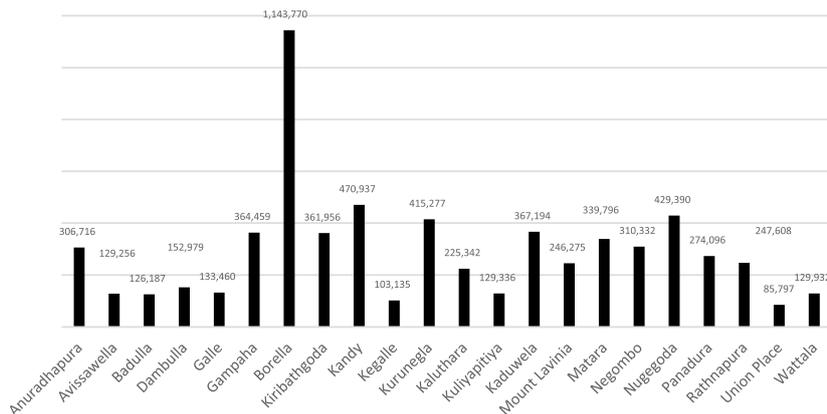
Exposure Based on Product Class



Exposure Based on Product Class



Branch Wise Executions



HUMAN RESOURCE ENGAGEMENT

Our team of diversified associates, with their dedication to service excellence play a vital role in the success of our business. They have proved that having people who are inspired and talented can make a significant difference in an organization especially in competitive and challenging market conditions.

At AMW Capital Leasing & Finance PLC we strive to deliver an unmatched employee experience through a wide range of world-class HR initiatives to ensure that our employees are engaged, continuously developed and, recognized for their contribution towards the organization.

AMW Capital Leasing & Finance PLC, we have created a culture that strives for better performance every day. Clearly defined and structured Performance Development Reviews have made our employees accountable for their performance which intern have motivated them to exceed the targets set for them.

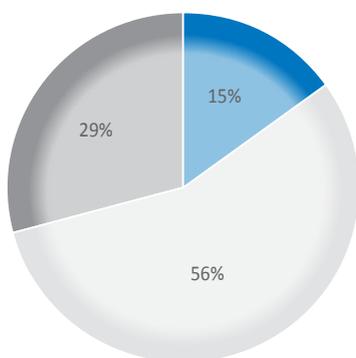
We believe that timely employee recognition leads to employee loyalty, longevity and job satisfaction. Our variety of programs including the monthly recognition programme and the Annual Star Awards programme have enabled our managers to recognize employees, who go above and beyond, and exemplify the organization values.

We recognize that a solid talent pool is key to our organization's future success. Our annual Talent Review Framework focus on identifying, developing, retaining and rewarding our best people. This process has also enabled us to align individuals' career interests with opportunities for growth, identify high potentials for accelerated development in preparation for more-senior-level roles and identify near-term successors for most-critical roles.

Manpower Statistics

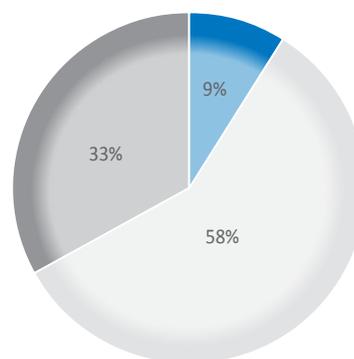
As at 31.12.2016, AMW Capital Leasing & Finance PLC's total cadre stood at 254 up from 211 as at 31.12.2015.

Total Cadre as at 31.12.2016



■ Managers & above
■ Executives
■ Non Executives

Total Cadre as at 31.12.2015



■ Managers & above
■ Executives
■ Non Executives

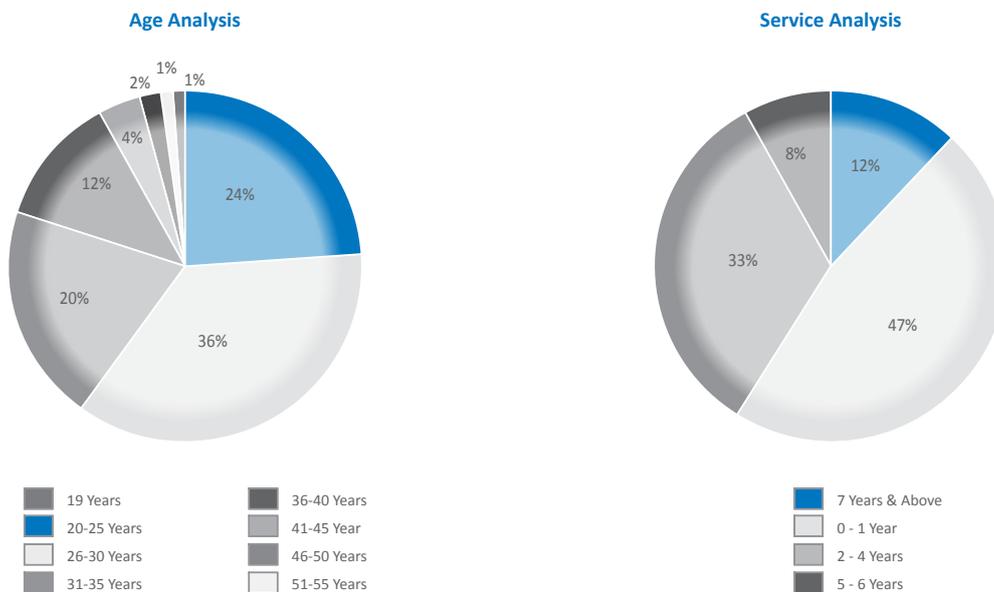
AMW Capital Leasing & Finance PLC strongly considers that the investment made in training and development of its people is a long term venture. As such, an array of local and foreign training is provided to enhance technical and functional skills. Some of the training programs are focused to meet the specific requirements of employees identified through regular performance reviews.

AMW Capital Leasing & Finance PLC's Senior Management took part in a three day workshop on 'Leaders for Growth' conducted at Al-Futtaim Learning Centre, Dubai, UAE. A residential training programme on 'Strategy into Action' for the leadership team of AMW Capital Leasing & Finance PLC was held in October 2016 which stimulated the teams in aligning the operations of the business to the organization vision. Special trainings on Risk Management and Credit Management was successfully conducted for the Recoveries and the Marketing Teams. Meanwhile selected employees participated in a number of training and development programs conducted by The Central Bank and reputed external training institutes. A few such programmes include, a programme on "Legal Aspects of Bank Lending", programme on "Lending against Pawn Broking", National Conference to stimulate 'Unleashed Thinking' to promote Entrepreneurship & Intrapreneurship, a programme on "Regulatory Framework Relating to Non-Bank Financial Institutions", Seminar on e-filing of corporate income tax returns, Symposium on AML/CFT for Financial Sector etc.

We strongly believe that introduction of new procedures, continuous improvements in processes, systems and technology will facilitate the transformation of AMW Capital Leasing & Finance PLC.

HUMAN RESOURCE ENGAGEMENT (Contd.)

As at 31.12.2016 employees' service and age analysis.



Employee Relations & Welfare Activities

At AMW Capital Leasing & Finance PLC we also make sure that our employees are well taken care of by providing them with a diverse range of benefits and privileges. Employee welfare and 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 enroll in programmes such as Zumba and Yoga, arranged in-house under the direction of expert instructors.

An event that has always been in the welfare event calendar is the programme arranged to recognize and encourage employees'

children who have excelled in their education and who have received special achievements in various fields such as sports, arts etc. Similarly, the 'children to work place' programme was highly successful this year as well, where, children of employees were given the opportunity to visit the work premises of their parents giving them a chance to understand the work role of their parents.

Our company's social calendar of the year include number of religious programmes which bring employees of diverse cultural backgrounds together. Blood Donation programme and the Annual Health Checkup programme has been successfully conducted this year as well. Other events such as the Avurudu Ulela, inter-department cricket tournament, Paduru Sajjaya etc. 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.

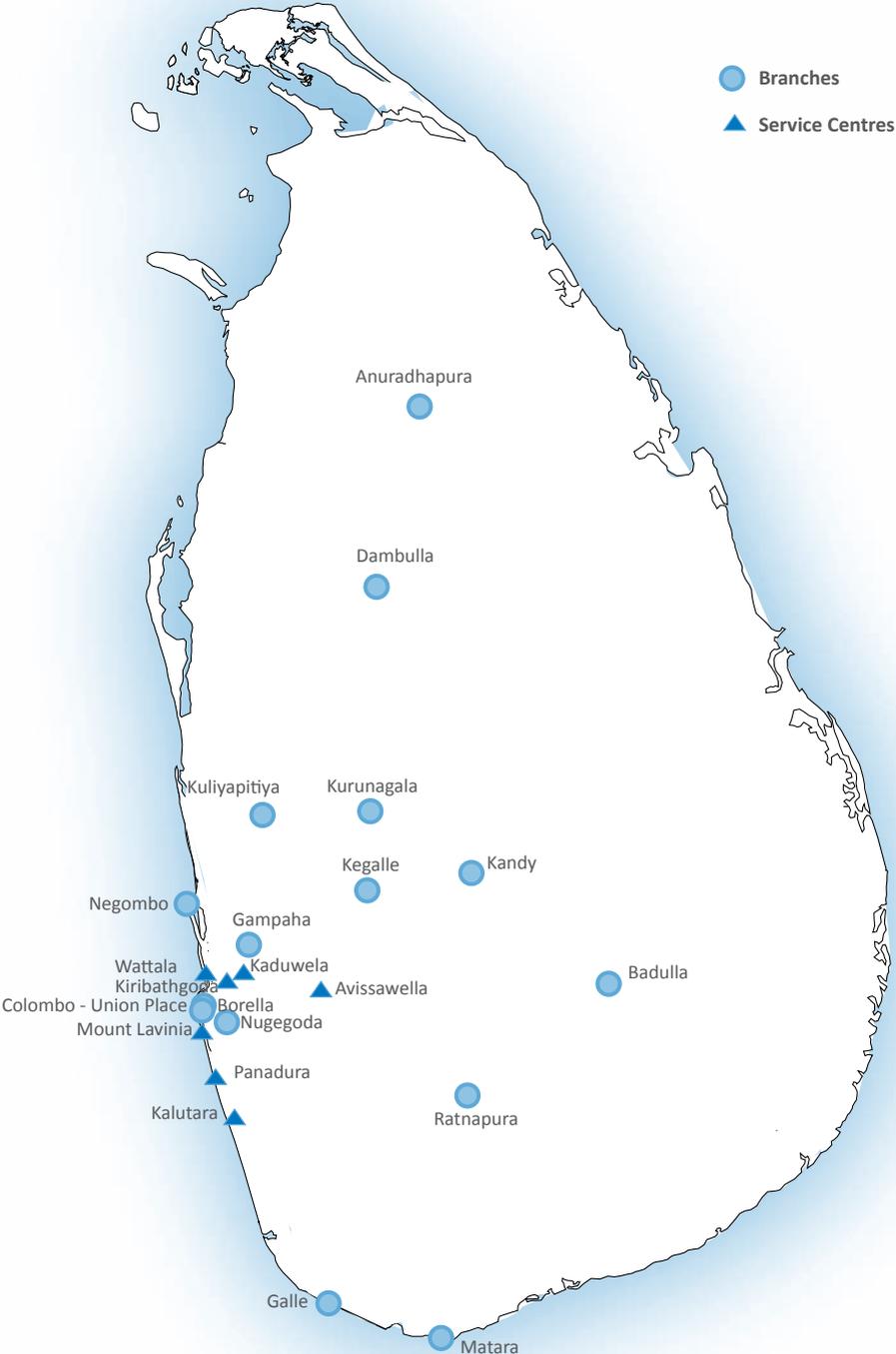
BRANCH NETWORK

Information of Company Branch Network and Service Centres

Location	District	Province	Address	Contact Person	Telephone	Fax	Type of Operation
Borella	Colombo	Western	AMW Capital Leasing and Finance PLC No. 445, Baudhaloka Mawatha, Colombo 08	Mr. Mahesh Karunathilake	011-2671371	011-2671272	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
Negombo	Gampaha	Western	AMW Capital Leasing and Finance PLC No. 262, Suzuki Maruti Showroom, Chilaw Road, Periyamulla, Negombo	Mr. Indika Jayamanne	031-7609608	031- 7609643	Branch
Kandy	Kandy	Central	AMW Capital Leasing and Finance PLC No. 400, Katugastota Road, Kandy	Mr. Dineeth Premachandra	081-7609608-43	081- 2212952	Branch
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
Matara	Matara	Southern	AMW Capital Leasing and Finance PLC No. 215E, Galle Road, Pamburana, Matara	Mr. Vipul Shantha	041-7609608	041-2220460- 5544	Branch
Badulla	Badulla	Uva	AMW Capital Leasing and Finance PLC No. 16A, Railway Station Road, Badulla	Mr. Tharanga Wedaarachchi	055-7609615-16- 17-18	055-7609619	Branch
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
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
Gampaha	Gampaha	Western	AMW Capital Leasing and Finance PLC No. 163/A, Ja-Ela Road, Gampaha	Mr. Eroshan Anuradha	033-7609608-640	033-7609644	Branch
Kuliyapitiya	Kurunegala	North Western	AMW Capital Leasing and Finance PLC No:463/A, Madampe Road, Kuliyapitiya	Mr. Sachith Bandaranayaka	037-7609650-51	037-7609658	Branch
Dambulla	Matale	Central	AMW Capital Leasing and Finance PLC No:22, Kurunegala Junction, Dambulla	Mr. Tharinda Samarawickrama	066-2285760-61- 62-63	066-2285764	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
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
Kiribathgoda	Colombo	Western	AMW Capital Leasing and Finance PLC No. 101, Kandy Road, Kiribathgoda	Mr. Chathurange Dasanayake	011-2908916- 17-18	011-2908914	Service Centre
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
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
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
Mount Lavinia	Colombo	Western	AMW Capital Leasing and Finance PLC No. 231, Galle Road, Mount Lavinia	Mr. Indimal Hewavitharana	011-2737425	011-2737632	Service Centre
Panadura	Kalutara	Western	AMW Capital Leasing and Finance PLC No. 18, Horana Road, Panadura	Mr. Dhanushka Weerasinghe	038-2230565	038-2230747	Service Centre
Kegalle	Kegalle	Sabaragamuwa	AMW Capital Leasing and Finance PLC No. 509, Colombo Road, Ranwala, Kegalle	Mr. Priyadarshana Dissanayake	035-2232903	035-2232893	Branch
Wattala	Colombo	Western	AMW Capital Leasing and Finance PLC No. 114, Negombo Road, Wattala	Mr. Devon Prins	011-2948736	011-2948705	Service Centre

BRANCH NETWORK (Contd.)

Information of Company Branch Network and Service Centres



FINANCIAL HIGHLIGHTS

Financial Highlights	Change%	2016	2015
Financial Performance (Rs.'000)			
Interest Income	16%	1,584,186	1,367,129
Interest Expenses	34%	803,426	598,672
Net Interest Income	2%	780,761	768,458
Net Operating Income	10%	1,057,019	958,264
Operating Expenses	(13%)	455,251	522,082
Profit Before Taxation	35%	527,861	389,751
Taxation	16%	184,373	159,080
Profit After Taxation	49%	343,488	230,671
Financial Position (Rs.'000)			
Borrowings	17%	9,680,087	8,277,589
Shareholders' funds	22%	1,655,054	1,354,585
Total Assets	18%	11,335,141	9,632,175

343Mn

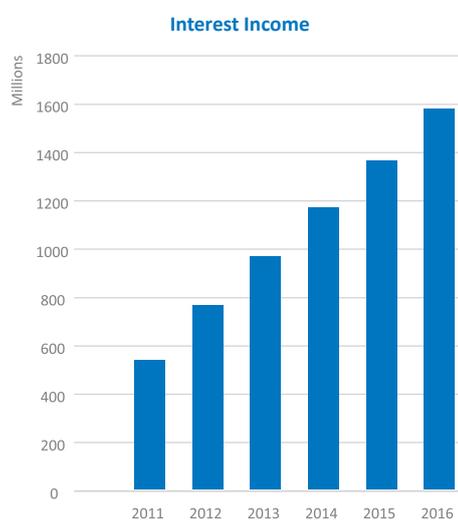
Net Profit

2016 : Recorded Net Profit of Rs.343Mn, an increase of 49 % over the previous year

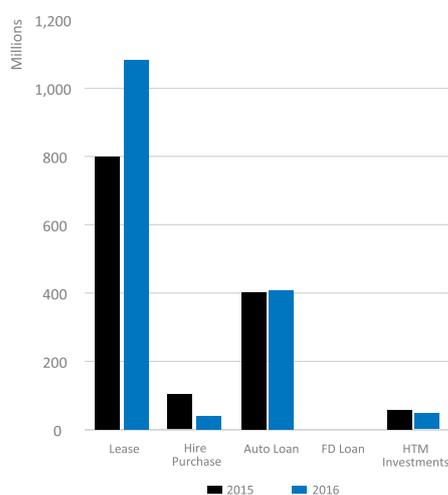
11,335Mn

Total Assets

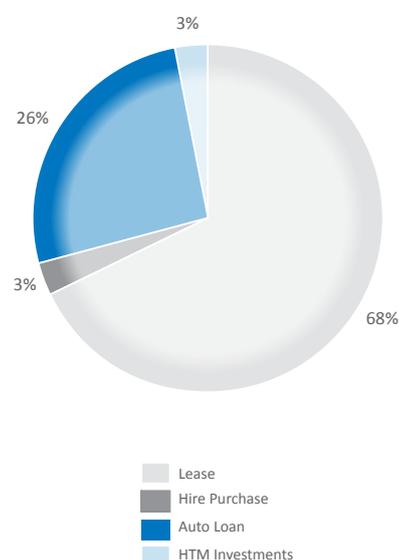
2016 : 18 % growth in Asset Base, supported by strong growth in Lease Assets and Loans and Advances



Interest Income 2015-2016

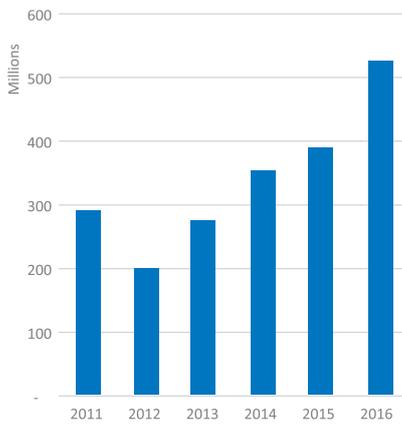


Interest Income Composition 2016

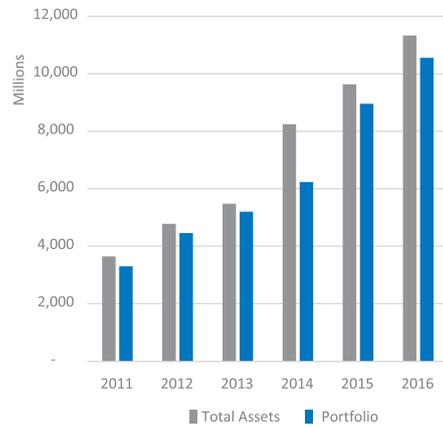


FINANCIAL REVIEW (Contd.)

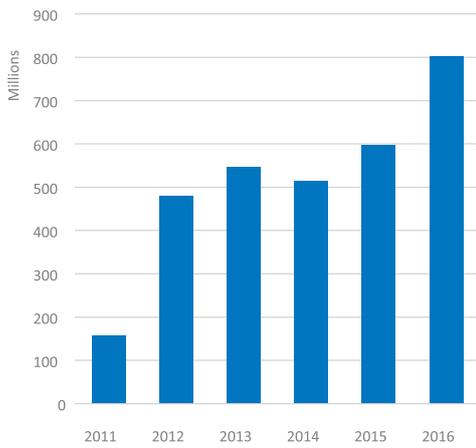
Profit Before Tax



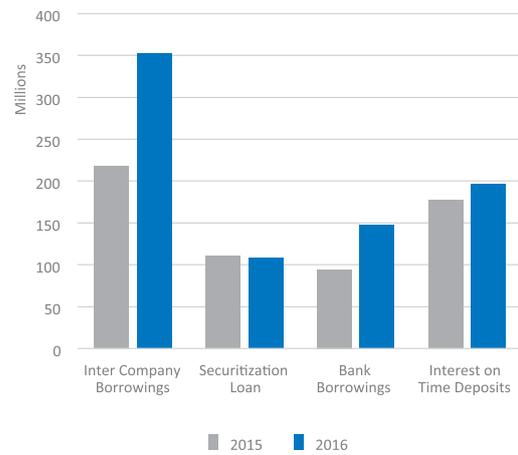
Total Assets Vs Total Portfolio



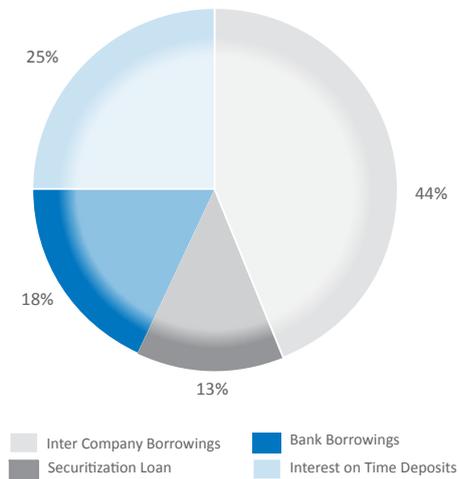
Interest Expense



Interest Expense 2015 - 2016



Interest Expense 2016



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 & 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, Company places significant emphasis on the adequacy of the institution's management of risk. The Company considers that risks 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. Whilst 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.



RISK MANAGEMENT (CONTD.)

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 will be 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 monthly updates on the key risks of the Company - including performance of the portfolio against defined goals, which is also presented to the Integrated Risk Management Committee (IRMC) and approves key risk policies, limits, 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. While Board of Directors are 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, will report to the CEO but also has direct access to the IRMC of the Board.

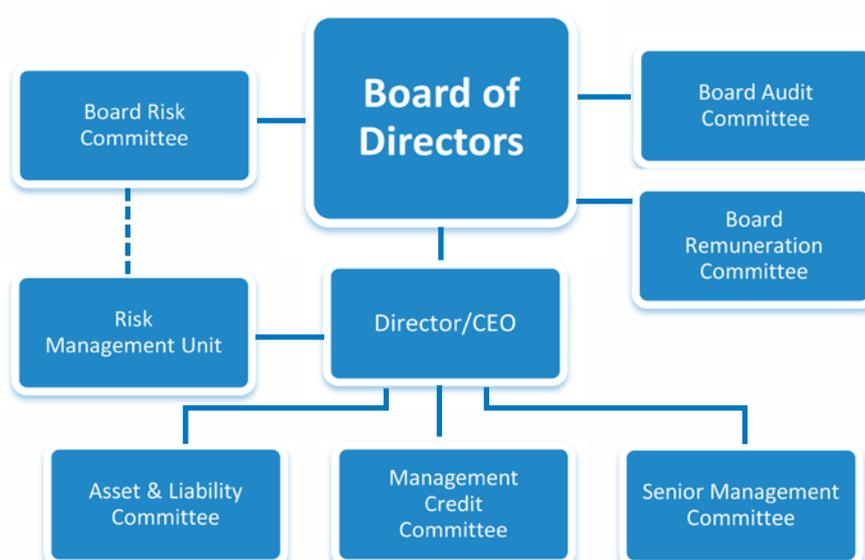
Senior management is responsible for implementing strategies in a manner that limits risks associated with each strategy and that ensures compliance with laws and regulations on both a long-term and day-to-day basis. Accordingly, management will be fully involved in the business activities and possess 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 consists of three Independent Non-Executive Directors, two Executive Directors including CEO, one Non-Executive Director, General Manager, Internal Auditor, Head of Risk, Senior Manager – Finance, Senior Manager – Treasury, DGM –Marketing and Head of Legal 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 Chairman 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 risks 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 stability 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 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 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 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 AMWCL's risk appetite, and set the limits and controls within which the Company can operate.

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 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.

Processes

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

RISK MANAGEMENT (CONTD.)

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 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 measures 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.
- reports and other forms of communication are consistent with 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 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 it's 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.

RISK MANAGEMENT (CONTD.)

The Company ensures that;

- it's 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 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 results are integrated into management decision-making processes for capital, funding, revenue management and credit risk strategy.

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 committee 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.

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 responsible for agreeing and formalization of lending policies/ guidelines. The primary lending authority is assigned to the loan originating function if the specific transaction conforms to pre-defined standardized lending criteria. The independent risk management function responsible for the sign-off for any exceptions from the lending standards on the individual transactions.

The credit approval process is through signatures whereby the transaction proposal is circulated and approval requires agreement between all the approving authorities concerned. 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 MANAGEMENT (CONTD.)

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 strictly adherence to the restrictions on the maximum loan to value (LTV) ratios as stipulated by the Central Bank of Sri Lanka. Post sanction monitoring is due 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 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.

AMWCL's credit portfolio is primarily made up of finance leases with over 70% based on the product class with cars dominating with over 77% exposure based on the asset class, which could be classified as low risk.

Product wise exposure (Rs. 'million)

Product	As at 31 Dec 2016		As at 31 Dec 2015	
	Exposure Rs. Mn	%	Exposure Rs. Mn	%
Finance Leasing	7,608.32	70.88%	6,436.90	70.49%
Hire Purchase	155.79	1.45%	345.03	3.78%
Auto Loans	2,970.44	27.67%	2,349.57	25.73%
Total	10,734.55	100.00%	9,131.50	100.00%

Exposure based on asset class as at Dec 31, 2016

Product	As at 31 Dec 2016		As at 31 Dec 2015	
	Exposure Rs. Mn	%	Exposure Rs. Mn	%
Motor Cars	8,360.83	77.89%	6,895.41	75.51%
Two Wheeler	786.65	7.33%	548.61	6.01%
Three Wheeler	317.58	2.96%	385.56	4.22%
Dual Purpose vehicles	769.55	7.17%	774.45	8.48%
Commercial vehicles	315.77	2.94%	304.19	3.33%
Working capital Loans	27.60	0.26%	9.23	0.10%
Equipment	122.79	1.14%	177.67	1.95%
Agricultural Tractors	33.78	0.31%	36.38	0.40%
Total	10,734.55	100.00%	9,131.50	100.00%

Despite the rapid expansion in the lending portfolio during last two years, the Company's NPL ratio was kept at a comparatively low level of 1.87% as at December 2016, as compared to the industry average of over 5.6% and maintained healthy capitalization of over 13%. The low non-performing ratio and the capital cushion reflects effectiveness of our credit policies and processes.

(Rs.'000)	2016	2015
Total Risk Weighted Assets	10,678.83	9,106,641
Capital	1,655.05	1,354,585
Capital Adequacy Ratio- Tier-I	15.49%	14.87%
Capital Adequacy Ratio- Tier II	15.49%	14.87%
Gross NPL	200.49	198.30
Gross NPL Ratio	1.87%	2.17%

RISK MANAGEMENT (CONTD.)

Liquidity Risk

Liquidity is the ability to raise cash sufficient to finance lending opportunities, meeting deposit withdrawals and timely honouring other liabilities 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. Company 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 the parental funding, bank borrowings and public deposits. To reduce dependence on parental and bank funding a fully-fledged deposit drive was undertaken with more proactive asset and liability management to take advantage of market liquidity and interest rates for better liquidity management. 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.

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. However, the company had been able to convert a significant portion of its funding lines to Long Term Fixed rate funding which had mitigated the mismatch risk in its balance sheet. 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.

Static Maturity Gap Analysis as at December 31, 2016 (LKR 'Thousands)

	Less than 1 month	1-3 months	3-12 months	1-3 Years	3-5 Years	Over 5 years	Total
Assets							
Interest Earning Assets	705,998	536,700	2,603,830	5,067,881	2,297,424	59,280	11,271,112
Non-Interest Earning Assets	-	80	-	-	-	63,949	64,029
Total Assets	705,998	536,780	2,603,830	5,067,881	2,297,424	123,229	11,335,141
Liabilities							
Interest Bearing Liabilities	4,593,603	615,297	2,094,424	1,609,923	407,657	-	9,320,904
Non-Interest Bearing Liabilities	-	138,082	-	-	-	221,101	359,183
Shareholders' Funds	-	-	-	-	-	1,655,054	1,655,054
Total Liabilities & Equity	4,593,603	753,378	2,094,424	1,609,923	407,657	1,876,155	11,335,141
Gap	(3,887,605)	(216,598)	509,405	3,457,958	1,889,767	(1,752,926)	-
Cumulative Gap	(3,887,605)	(4,104,203)	(3,594,798)	(136,840)	1,752,926	-	-

RISK MANAGEMENT (CONTD.)

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.

Interest Rate Sensitivity Gaps as at 31 December 2016 (LKR 'Thousands)

	Less than 7 days	8- 30 days	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total
Interest Sensitive Assets	134,827	395,644	536,780	1,060,010	1,543,820	7,411,939	11,083,020
Interest Sensitive Liabilities	165,488	3,529,766	615,297	727,594	1,366,831	2,017,580	8,422,555
Gap	(30,661)	(3,134,122)	(78,516)	332,416	176,989	5,394,359	2,660,965
Cumulative gap	(30,661)	(3,164,783)	(3,243,300)	(2,910,884)	(2,733,894)	2,660,465	-

The Company's short term negative interest rate gap of Rs.3.4 Bn is within the manageable level due to funding from Parent Company.

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.

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 Company's strategic objectives and corporate values are determined by the Board and these have been communicated to the staff.
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 A Board approved Business Plan is in place addressing the Company's overall business strategy. All identified risks have been taken into account in preparation of the Business Plan and incorporated in the strategy to achieve these measurable goals. Further a Board approved Risk Policy and Risk Management framework is also in place.
c) Identifying Risks and ensuring implementation of appropriate systems to manage risks prudently.	Complied The Board has delegated this function to its sub-committee, the Integrated Risk Management Committee (IRMC). The IRMC is tasked with defining risk appetite, identifying & managing the overall risk of the company which are reviewed by the Board on a regular basis.
d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	Complied The Board approved Communication Policy which covers all stakeholders is in place.
e) Reviewing the adequacy and integrity of the company's internal control systems and management information system.	Complied This function is delegated to the Audit Committee of the company. The Report of the Audit Committee is tabled each month at the Board Meeting.
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 Board Members including the CEO and functional heads have been identified and designated as KMPs by the Board as defined in the Sri Lanka Accounting Standards and as per the guidelines issued by the Central Bank of Sri Lanka for the purpose of Corporate Governance.
g) Defining the areas of authority and key responsibility for the Board and for key management personnel.	Complied Articles 95 - 103 of the Articles of Association defines the powers and duties of the Board of Directors.
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 Performance of the company is regularly discussed at Board Level and operational reviews at management level.

CORPORATE GOVERNANCE (CONTD.)

<p>i) Periodically assessing the effectiveness of its governance practices including –</p> <p>(i) The selection, nomination and election of directors and appointment of key management personnel;</p> <p>(ii) The management of conflicts of interests and</p> <p>(iii) The determination of weakness and implementation of changes where necessary.</p>	<p>Complied CBSL approval is sought prior to appointment of Directors.</p> <p>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.</p> <p>The Directors declare their interest wherever applicable and refrain from partaking in such decision.</p> <p>Effectiveness of this process is ascertained by their contribution at board meetings in their respective fields. Self-Assessment of Directors is carried out annually. KMP also declare their interest annually.</p>
<p>j) Ensuring that the company has an appropriate succession plan for key management personnel.</p>	<p>Complied A succession plan for key management personnel is in place.</p>
<p>k) Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.</p>	<p>Complied 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.</p>
<p>l) Understanding the regulatory environment.</p>	<p>Complied All Directions from Regulatory Authorities are circulated to the Board and all key management personnel. Contents are noted and where applicable appropriate decisions taken.</p> <p>A compliance report is tabled at monthly Board Meetings. All weekly, monthly and annual submissions are made to CBSL and other statutory authorities.</p>
<p>m) Exercising due diligence in the hiring and oversight of external auditors</p>	<p>In accordance with Group Policy. Re-appointment is at the AGM of the company.</p>
<p>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.</p>	<p>Complied The roles of Chairman and Chief Executive Officer (CEO) have been separate from inception as required by the Rule 7 (1) of this Direction.</p>
<p>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.</p> <p>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.</p>	<p>Complied A Board approved policy is in place to enable Directors in performance of their duties, to obtain independent professional advice from third parties whenever deemed necessary at the company's expense if considered appropriate.</p>
<p>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>	<p>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>

CORPORATE GOVERNANCE (CONTD.)

<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>	<p>Complied 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>
<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>	<p>The Board is aware of the need to inform the Director of Department of Supervision of Non-Bank Financial Institutions if such situation arises. If such a situation arises recommended action would be taken.</p>
<p>2.7 The Board shall include in the company's Annual Report, an Annual Corporate Governance Report complying with this Direction.</p>	<p>This report serves the said requirement.</p>
<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>	<p>Complied The directors carry out a self-evaluation annually. This information is available to the Board and records are kept.</p>
<p>3. Meetings of the Board</p>	
<p>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>	<p>Complied Board meetings are held at monthly intervals, at which the Company's performance is monitored on a regular basis, business strategies are planned, current market conditions are reviewed. The Board met 13 times during the year. 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> <p>In addition to the regular meetings, formal and informal communication between the Board Members takes place on an ongoing basis in the discharge of duty.</p>
<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.</p>	<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. ● Attendance – is monitored as per requirement of the Company's Articles. ● Minutes – Detailed Minutes are recorded of the proceedings of the meeting with special emphasis on decisions taken.
<p>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>	<p>Complied Date convenient to all directors is decided at the previous meeting and meetings are convened electronically giving due notice.</p>
<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>	<p>Complied 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>

CORPORATE GOVERNANCE (CONTD.)

<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.</p>	<p>Complied Mrs. Dayani de Silva resigned as the Company Secretary on 5 March 2016 and was succeeded by Ms. Hiruni Serasinghe as Company Secretary on 3 May 2016. During the interim period, Mrs. Ruvini Weerasinghe was appointed as Company Secretary from 5 March 2016 to 3 May 2016.</p> <p>Ms. Hiruni Serasinghe 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.</p>
<p>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.</p>	<p>Complied 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.</p>
<p>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.</p>	<p>Complied 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.</p>
<p>3.8 The Company Secretary shall maintain the minutes of Board Meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.</p>	<p>Complied 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</p>
<p>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:</p> <ul style="list-style-type: none"> (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. 	<p>Complied Company Secretary maintains detailed minutes of all Board Meetings to satisfy all requirements under this Direction.</p>

CORPORATE GOVERNANCE (CONTD.)

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.	As at end of Financial year, The Board of AMWCL comprised of Nine Directors of whom Three Directors were Independent Non-Executive Directors. (Mr. T S A Fernandopulle was appointed as Independent Non-Executive Director with effect from 26 October 2016 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.	None of the Non-Executive Directors have completed 9 years of service as at end of the financial year.
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 on 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.	The Board comprised of 3 Executive Directors (including the CEO) and 6 Non-Executive Directors (of whom 3 are independent).

CORPORATE GOVERNANCE (CONTD.)

<p>4.4 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> <ul style="list-style-type: none"> a) Has shares exceeding 2% of the paid up capital of the company or 10% of the paid up capital of another finance company; 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; c) Has been employed by the finance company during the two year period immediately preceding the appointment as a director; 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; e) Represents a shareholder, debtor, or such other similar stakeholder of the finance company; 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; <ul style="list-style-type: none"> (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; (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; (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>At end of Financial Year under review, the Board had 3 Independent Non-Executive Directors, thereby complying with this requirement.</p> <p>Mr. N S Welikala - Independent Non-Executive Director Mr. A M Patrick – Independent Non-Executive Director Mr. T S A Fernandopulle – Independent Non-Executive Director</p> <p>The Directors or their families or connected parties do not hold any shares in the Company.</p>
<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.</p>	<p>No Alternate Directors appointed.</p>
<p>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.</p>	<p>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.</p> <p>Their detailed profiles are given on Pages 8 to 10.</p>

CORPORATE GOVERNANCE (CONTD.)

<p>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.</p>	<p>As per Article 109 of the Articles of Association, this requirement is complied with.</p>
<p>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.</p>	<p>The Directorate for the year under review: Mr. T De Zoysa (Non-Executive Chairman) – retired w.e.f : 29.09.2016 Mr. N S Welikala (Independent Non-Executive Director) – appointed as Chairman w.e.f: 30.09.2016 Mr. B P Morris (Director/CEO - Executive Director) Mr. S A B Rajapaksa (Non-Executive Director) Mr. A Majumdar (Non-Executive Director) Mr. N Johnson (Non-Executive Director) – resigned w.e.f:24.08.2016 Mr. S M Faulkner (Non-Executive Director) Mrs. D C Yatawaka (Executive Director) Mr. A M Patrick (Independent Non-Executive Director) Mr. P S Jayawardena PC (Independent Non-Executive Director) – appointed w.e.f:29.02.2016 & resigned w.e.f:15.06.2016 Mr. T S A Fernandopulle (Independent Non-Executive Director) – appointed w.e.f:26.10.2016 Mr. K A Wijewickrama (Executive Director)</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>Article 94 of the Company's Articles of Association provides that Directors appointed shall be subject to election by shareholders at the first AGM.</p>
<p>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.</p>	<p>Changes in directorate are informed to the relevant authorities and also given in the Annual Report. The following Directors have resigned during the year under review: Mr. T De Zoysa – retired w.e.f: 29.09.2016 Mr. N D Johnson – resigned w.e.f : 24.08.2016 Mr. P S Jayawardena PC – resigned w.e.f:15.06.2016</p>
5. Criteria to assess the fitness and propriety of Directors	
<p>5.1 Subject to the transitional provisions contained herein, a person over 70 years shall not serve as a Director of a finance company.</p>	<p>Complied All Directors are below the age of 70 years as at 31 December 2016 Mr. T De Zoysa stepped down as a Director at the end of September, as he reached the age of 70 during the financial year ended 31 December 2016.</p>
<p>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 1995.</p>	<p>Complied 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>

CORPORATE GOVERNANCE (CONTD.)

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.	The Company's Articles empowers the Board to delegate its powers to committees upon such terms and conditions as the Board may deem fit.
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.	Specific tasks delegated are reviewed by Audit/Risk Committees and thereafter approved by the Board.
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.	Complied Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.
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.	Complied Mr. T De Zoysa was appointed as Chairman till he retired w.e.f 29.09.2016. The Board appointed Mr. A M Patrick as Senior Independent Director to counter the non-independent status. With effect from 30.09.2016, Mr. N S Welikala was appointed as Chairman who is an Independent Non-Executive Director.
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.	Complied The Company as a practice discloses relationships in the Corporate Governance Report. There is no financial, business, family or other relationships with related parties between Chairman, Chief Executive Office and any other member of the Board. The Directors or their families or connected parties do not hold any shares in the Company.
7.4 The Chairman shall: (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.	Complied The Board approved list of functions and responsibilities of Chairman includes providing leadership to the Board and ensuring the effective discharge of board functions. All key and appropriate issues are discussed by the Board in a timely manner
7.5 The Chairman shall be primarily responsible for the preparation of the Agenda for each Board meeting.	Complied The Company Secretary draws up an agenda approved by the Chairman prior to circulation to the Board.
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 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 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

CORPORATE GOVERNANCE (CONTD.)

<p>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.</p>	<p>Complied The Chairman Mr. N S Welikala is an Independent Non-Executive Director and does not engage in activities involving direct supervision of key management personnel or any other executive duties.</p>
<p>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.</p>	<p>Complied 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.</p>
<p>7.11 The Chief Executive Officer should function as the apex executive-in-charge of the day-to-day operations and business.</p>	<p>Complied 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.</p>
<p>8. Board appointed Committees</p>	
<p>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.</p>	<p>Complied 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.</p>

CORPORATE GOVERNANCE (CONTD.)

<p>8.2 Audit Committee</p> <p>a) The Chairman of the committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.</p> <p>b) The Board members appointed to the committee shall be Non-executive Directors.</p> <p>c) The Committee shall make recommendations on matters in connection with:</p> <p>(i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) The implementation of the CBSL guidelines issued to the auditors from time to time;</p> <p>(iii) The application of the relevant accounting standards; and</p> <p>(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> <p>d) The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p>	<p>Complied The Chairman of the Audit Committee is Mr. A M Patrick who is an Independent Non-Executive Director. He is a Fellow Member of the Chartered Institute of Management Accountants (UK). His Qualifications and experience are disclosed on Page 10 of this Annual Report.</p> <p>Complied All Members of the Audit Committee are Non-Executive Directors.</p> <p>Complied The Audit Committee meets on a regular basis 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> <p>(i) The Appointment of External Auditor for audit services provided in compliance with the relevant statutes.</p> <p>(ii) The implementation of the Central Bank Guidelines issued to Auditors from time to time.</p> <p>(iii) The application of the relevant accounting standards and</p> <p>(iv) The service period, audit fee and any resignation or dismissal of the Auditor.</p> <p>The engagement of the Audit Partner does not exceed 5 years.</p> <p>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>
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CORPORATE GOVERNANCE (CONTD.)

<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 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 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 The Committee has reviewed the financial information of the quarterly financials and annual audited accounts, prior to any disclosure requirements.</p>

CORPORATE GOVERNANCE (CONTD.)

<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 The Committee met the External Auditors in relation to the audit in the absence of the Executive Management on 29 January 2016 and 14 July 2016.</p>
<p>i) The Committee shall review the External Auditor's Management Letter and the management response thereto.</p>	<p>Complied The Committee reviewed the External Auditor's management letter for the financial year ended 31 December 2016 and the management responses thereto.</p>
<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>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>No resignations during the year.</p> <p>Complied Internal Audit reports directly to the Board Audit Committee and hence they are Independent and the audits are performed with impartiality and professional due care.</p>
<p>k) The Committee shall consider the major findings of internal investigations and management's responses thereto;</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>The meetings of the committee are held as required including meeting of External Auditors without the Executive Directors.</p>

CORPORATE GOVERNANCE (CONTD.)

<p>m) The Committee shall have:</p> <ul style="list-style-type: none"> (i) Explicit authority to investigate into any matter within its terms of reference; (ii) The resources which it needs to do so; (iii) Full access to information; and (iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. 	<p>The required authority and resources are available to the Committee and are expressly provided in the Terms of Reference of the Audit Committee.</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>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> <ul style="list-style-type: none"> (i) Details of the activities of the audit committee (ii) The number of audit committee meetings held in the year; and (iii) Details of attendance of each individual member at such meetings. 	<p>During financial year ended 31 December 2016, the Committee held 09 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>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 A Board approved whistle-blower code is in place.</p>
<p>8.3 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>The Integrated Risk Management Committee comprises of :</p> <ul style="list-style-type: none"> Mr. N S Welikala - Chairman Mr. A M Patrick Mr. P S Jayawardena PC – appointed w.e.f:29.02.2016 and resigned w.e.f:15.06.2016 Mr. T S A Fernandopulle - appointed w.e.f.26.10.2016 Mr. B P Morris Mr. S A B Rajapaksa Mrs. D C Yatawaka Mr. D P V Mendis Mrs. D I Brohier Mr. S Fernando Mr. H N N K Perera Mr. S Wickremesinghe Mr. A P Indika – appointed w.e.f:23.03.2016 Mrs. R E Weerasinghe - appointed w.e.f:12.08.2016 Mr. S U Thenuwara - appointed w.e.f.12.08.2016 <p>Matters discussed at IRMC level are referred to the Board for further action and recommendation.</p>

CORPORATE GOVERNANCE (CONTD.)

<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>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>
<p>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</p>	<p>Specific risks and limits are identified by relevant committees such as ALCO, Fixed Deposits, Credit, Recoveries.</p> <p>The Committee reviews the minutes of the ALCO and Credit Policy Committee on a regular basis.</p>
<p>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.</p>	<p>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.</p>
<p>e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.</p>	<p>10 meetings were held for the financial year ended 31 December 2016.</p>
<p>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.</p>	<p>The Committee takes collective decisions when managing the specific risk.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>The Compliance officer reports to the Audit and Risk Committees on the compliance of regulatory requirement and internal controls.</p>

CORPORATE GOVERNANCE (CONTD.)

9. Related Party Transactions	
<p>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.</p>	
<p>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.</p> <ul style="list-style-type: none"> 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. 	<p>Complied</p> <p>During the year under review, the Board appointed the Related Party Transactions Review Committee to ensure that the Company does not engage in related party transactions as stipulated in this Direction and to enable Directors to avoid conflict of Interest that may arise from any transactions with the Company.</p>
<p>9.3 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</p> <p>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>

CORPORATE GOVERNANCE (CONTD.)

<p>9.4 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</p> <p>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 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>The financial statements are prepared in accordance with the new Sri Lanka Accounting Standards (SLFRSs / LKASs) and the formats prescribed by the regulators.</p> <p>Audited financial statements are disclosed in the annual report, quarterly (unaudited) financial statements are sent to the CSE and posted on the CSE website.</p> <p>Such statements are published in the newspapers as required.</p>

CORPORATE GOVERNANCE (CONTD.)

<p>10.2 The Board shall ensure that at least the following disclosures are made in the Annual Report:</p> <ol style="list-style-type: none"> 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. 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. c) The External Auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31st 2010. d) Details of directors, including names, transactions with the finance company. e) Fees/ remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after Jan 1 2010. 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. 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. 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. 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. 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>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> <p>The total net accommodation provided to the close family members of Key Managerial Personnel is Rs. 2,937,770.13 and the total net accommodation provided to the close family members of Key Managerial Personnel as a % of Capital Funds is 0.18%.</p> <p>Aggregate value of remuneration paid to key management personnel is Rs. 73,964,216.89</p> <p>Deposits made - Rs. 64,210,000/-</p> <p>Accommodation Granted - NIL</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>
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CORPORATE GOVERNANCE (CONTD.)

Sec. Rules of the Colombo Stock Exchange (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.)	Level of Compliance
<p>7.10 Corporate Governance</p> <p>Statement confirming that at the date of the annual report that the company is in compliance with these rules.</p>	<p>The Company is in compliance with the Listing Rules of the Colombo Stock Exchange, as explained below.</p>
<p>7.10.1 Non-Executive Directors</p> <p>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.</p>	<p>As at 31 December 2016 the Board comprised 9 Directors of whom 6 were Non-Executive Directors.</p>
<p>7.10.2 Independent Directors</p> <p>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.</p> <p>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.</p>	<p>As at 31 December 2016, the Board comprised 3 Independent Directors from whom signed declaration of independence were obtained.</p>
<p>7.10.3 Directors disclosures</p> <p>Annual determination as to the independence or non-independence of each non-executive director.</p>	<p>The Board has determined the independent/non independent status based on the criteria set out by the CSE.</p>
<p>7.10.4 Remuneration Committee</p> <p>Shall comprise of a minimum of two Independent Non-Executive Directors of or Non-Executive Directors a majority of whom shall be independent, which ever shall be higher.</p>	<p>Majority of the Members of the Committee are Non-Executive Directors two of whom are independent as well. The Committee Members are as follows:</p> <ol style="list-style-type: none"> 1) Mr. A M Patrick - Independent Non-Executive Director (Chairman) 2) Mr. N S Welikala - Independent Non-Executive Director 3) Mr. P S Jayawardena PC - Independent Non-Executive Director (appointed w.e.f:29.02.2016 and resigned w.e.f:15.06.2016) 4) Mr. S A B Rajapaksa - Non- Executive Director 5) Mr. T S A Fernandopulle - Independent Non-Executive Director (appointed w.e.f:26.10.2016) 6) Mr. K A Wijewickrama - Executive Director (resigned w.e.f. 24.08.2016)
<p>7.10.5 Audit Committee</p> <p>Shall comprise of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, which ever shall be higher.</p>	<p>As at 31 December 2016, the Committee comprised 4 Non-Executive Directors of whom 3 were Independent.</p>

CORPORATE GOVERNANCE (CONTD.)

Meetings

The number of meetings of the Board, Board appointed sub-committees and individual attendance by members for the Financial Year Ended 31 December 2016 are given below.

Board Meetings

Names	Directorship Status	Number of Meetings
Number of meetings held		13
Mr. T De Zoysa (retired w.e.f:29.09.2016)	Chairman	10
Mr. N S Welikala (appointed as Chairman w.e.f:30.09.2016)	Independent Non-Executive Director	11
Mr. B P Morris	Director/CEO	13
Mr. S A B Rajapaksa	Non-Executive Director	12
Mr. A Majumdar	Non-Executive Director	09
Mr. N D Johnson (resigned w.e.f:24.08.2016)	Non-Executive Director	04
Mr. S M Faulkner	Non-Executive Director	11
Mr. A M Patrick	Independent Non-Executive Director	10
Mr. P S Jayawardena PC (appointed w.e.f:29.02.2016 and resigned w.e.f:15.06.2016)	Independent Non-Executive Director	04
Mr. T S A Fernandopulle (appointed w.e.f:26.10.2016)	Independent Non-Executive Director	03
Mrs. D C Yatawaka	Director	13
Mr. K A Wijewickrama	Director	11

Audit Committee

Names	Directorship Status	Number of Meetings
Number of meetings held		09
Mr. A M Patrick	Chairman	09
Mr. N S Welikala	Member	07
Mr. S A B Rajapaksa	Member	09
Mr. P S Jayawardena PC (appointed w.e.f:29.02.2016 and resigned w.e.f:15.06.2016)	Member	01
Mr. T S A Fernandopulle (appointed w.e.f:26.10.2016)	Member	01

CORPORATE GOVERNANCE (CONTD.)

Integrated Risk Management Committee

Names	Directorship Status	Number of Meetings
Number of meetings held		10
Mr. N S Welikala	Chairman	09
Mr. A M Patrick	Member	09
Mr. S A B Rajapaksa	Member	09
Mr. P S Jayawardena PC (appointed w.e.f:29.02.2016 and resigned w.e.f:15.06.2016)	Member	01
Mr. T S A Fernandopulle	Member	02
Mrs. D C Yatawaka	Member	10
Mr. S Fernando	Member	10
Mr. D P V Mendis	Member	10
Mrs. D I Brohier	Member	10
Mr. H N N K Perera	Member	10
Mr. S Wickramasinghe	Member	10
Mr. A P Indika (appointed w.e.f:23.03.2016)	Member	07
Mr. S U Thenuwara (appointed w.e.f:12.08.2016)	Member	03
Mrs. R E Weerasinghe (appointed w.e.f:12.08.2016)	Member	03

Related Party Transactions Review Committee

Names	Directorship Status	Number of Meetings
Number of meetings held		04
Mr. A M Patrick	Chairman	04
Mr. N S Welikala	Member	04
Mr. S A B Rajapaksa	Member	04
Mrs. D C Yatawaka (appointed w.e.f:24.08.2016)	Member	01

REPORT OF THE DIRECTORS

The Directors are pleased to present their Report for the Financial Year Ended 31 December 2016 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 95 in this Annual Report.

Independent Auditors Report

The Auditors Report on the Financial Statements is given on page 59 in this report.

Accounting Policies

The Accounting Policies adopted in preparation of the Financial Statements are given on pages 64 to 70.

Directors' Responsibilities for Financial Statements

The Statement of the Directors' Responsibilities for Financial Statements is given on page 56.

Stated Capital

The Stated Capital of the Company on 31 December 2016 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. T S A Fernandopulle was appointed as an Independent Non-Executive Director to the Board since the last Annual General Meeting.

In accordance with the Articles of Association Mr. S A B Rajapaksa 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 Accounts.

Directors' Remuneration

Details of the remuneration received by the Directors are set out in Note 24 to the Financial Statements on page 81.

Auditors

Messrs. Ernst & Young have expressed their willingness to continue in office as Auditors of the Company for the year ending 31 December 2017. 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



Ms. H Serasinghe
COMPANY SECRETARY
21 February 2017

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 ongoing 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 Division 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 pages xxxxx

- 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 and 2016 based on the feedback received from the external auditors, internal audit department, regulators and the Board Audit Committee.
- 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 2016 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 2016 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.

Their Report on the Statement of Internal Control over Financial Reporting is given on page xxx of this Annual Report.

By order of the Board



Angelo M. Patrick
Chairman-Audit Committee



Brandon Morris
Director/CEO



Samantha Rajapaksa
Director

21 February 2017
Colombo

REPORT OF THE BOARD AUDIT COMMITTEE

The Board Audit Committee currently comprises of three Independent Non-Executive Directors, Mr. Angelo Patrick as Chairman, Mr. Nihal Welikala and Mr. Trevine Fernandopulle along with one Non-Executive Director, Mr. Samantha Rajapaksa.

The AMW Company Secretary functions as the Secretary to the Committee.

Mr. Prasanna Jayawardena PC who joined the Board and the Audit Committee in February 2016 left the Board in June 2016 to take up a Judicial office. He was replaced by Mr. Trevine Fernandopulle who is a much respected Banker with wide experience locally and overseas. Mr. Fernandopulle was appointed to the Audit Committee on 26 October 2016.

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, the General Manager, the Senior Finance Manager, the Head of Risk and the Internal Auditor 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. Quarterly Internal Audit reports were presented to the Committee by the Internal Auditor 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 09 occasions during the financial year and the attendance at the meetings was:

Mr. A M Patrick	09
Mr. N S Welikala	07
Mr. P S Jayawardena PC	01
Mr. T S A Fernandopulle	01
Mr. S A B Rajapaksa	09



Angelo M. Patrick
Chairman - Audit Committee
21 February 2017

REPORT OF THE INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)

The composition of the Board appointed IRMC, as at the end of the Financial Year, is as follows:

Mr. Nihal Welikala
Independent Non-Executive Director (Chairman)

Mr. Angelo Patrick
Independent Non-Executive Director

Mr. Trevine Fernandopulle
Independent Non-Executive Director

Mr. Samantha Rajapaksa
Non-Executive Director

Mr. Brandon Morris
Director / CEO

Mrs. Dilani Yatawaka
Director

Mr. Pramuditha Mendis
General Manager

Mr. Sujith Fernando
Head of Risk & Compliance

Mr. Sanjeeva Wickramasinghe
Group Internal Auditor

Mrs. Ivon Brohier
Senior Finance Manager

Mr. Neluka Perera
Senior Manager - Treasury

Mr. Piyal Indika
Manager - Internal Audit Compliance

Mr. Sanjaya Thenuwara
DGM/Marketing

Mrs. Ruvini Weerasinghe
Head of Legal

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 detail under the "Risk Management" from pages 21 to 29 of this Annual Report.

Committee Meetings and Methodology

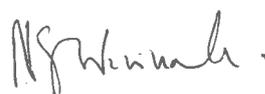
The IRMC met 10 times during the year ended 31 December and its deliberations and conclusions were reported to the Board of Directors on a monthly basis. The IRMC assists the Board of Directors in performing its oversight function in relation to different types of risks faced by the Company in its business 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 view, concurrence and /or specific directions.

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



Nihal Senanayake Welikala
Chairman
Integrated Risk Management Committee

21 February 2017

REPORT OF THE REMUNERATION COMMITTEE

The Board approved Remuneration Committee was formed in February 2011 and currently comprises of three Independent Non-Executive Directors, Mr. Angelo Patrick as Chairman, Mr. Nihal Welikala and Mr. Trevine Fernandopulle along with one Non-Executive Director, Mr. Samantha Rajapaksa.

Mr. Prasanna Jayawardena PC and Mr. Kushan Wijewickrama who were members of the Remuneration Committee resigned in June and August 2016 respectively. Mr. Trevine Fernandopulle was appointed as a Member to the Remuneration Committee in October 2016.

The composition of the Committee meets the requirements set out in the Listing Rules of the Colombo Stock Exchange. The profiles of the Members are set out on pages 8 to 10.

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 on 2 occasions during the year under review and the proceedings of the meetings were reported to the Board.



Angelo M. Patrick
Chairman - Audit Committee

21 February 2017

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Related Party Transactions Review Committee 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. Angelo Patrick as Chairman, Mr. Nihal Welikala together with Non-Executive Director, Mr. Samantha Rajapaksa and Executive Director, Mrs. Dilani Yatawaka.

Mr. Prasanna Jayawardena PC who joined the Board and the Related Party Transactions Review Committee in February 2016 left the Board in June 2016 to take up a Judicial office.

The AMW 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:

Mr. Angelo Patrick	04
Mr. Nihal Welikala	04
Mr. Samantha Rajapaksa	04
Mrs. Dilani Yatawaka	01

The purpose of the Committee as set out in its Charter is to provide an independent review and approval of all proposed Related Party Transactions.

The objectives of the Committee are:

1. Ensure the transparency and fairness to all Stakeholders of all transactions.
2. Ensure 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.

Related Party Transactions during the period from 1st January 2016

During the first and second quarters of the calendar year 2016, the Committee reviewed possible related party transactions and communicated its comments/observations to the Board of Directors. There were no non-recurrent or recurrent related party transactions that exceeded the respective thresholds set out in the Listing Rules of the Colombo Stock Exchange.

Details of other related party transactions entered into by the Company during the above period is disclosed in Note 30 to the financial Statements on pages 83 to 84.

Declaration

A declaration by the Board of Directors as an affirmative statement of the compliance with the Listing Rules pertaining to Related Party Transactions is given on Note 30 of this Annual Report.



Angelo M. Patrick
Chairman - Related Party Transactions Review Committee
21 February 2017

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 2016 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



Ms. H Serasinghe
COMPANY SECRETARY
21 February 2017

FINANCIAL REPORTS

Independent Auditors' Report.....	59
Statement of Financial Position.....	60
Statement of Total Comprehensive Income	61
Statement of Changes In Equity	62
Statement of Cash Flows	63
Notes to the Financial Statements	64 - 95

INDEPENDENT AUDITORS' REPORT



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Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF AMW CAPITAL LEASING AND FINANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of AMW Capital Leasing and Finance PLC, ("the Company"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

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

21 February 2017
Colombo

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 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

STATEMENT OF FINANCIAL POSITION

As at 31 December

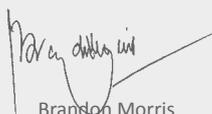
	Note	2016 Rs.	2015 Rs.
ASSETS			
Cash and Bank	3	116,553,569	49,960,730
Other Financial Assets	4	59,688,203	45,529,446
Other Non Financial Assets	5	11,931,324	32,800,693
Rentals Receivable on Lease and Hire Purchase Assets	6	7,593,019,922	6,623,236,113
Loans and Advances	7	2,965,897,522	2,333,194,105
Financial Investments - Available for Sale	8	80,400	80,400
Financial Investments - Held-to-Maturity	9	524,021,599	475,557,071
Property, Plant and Equipment	10	50,165,921	55,155,604
Intangible Assets	11	13,782,883	16,660,395
Total Assets		11,335,141,343	9,632,174,557
EQUITY AND LIABILITIES			
Liabilities			
Bank Overdraft	3	29,605,770	72,390,785
Trade and Other payables	12	898,348,996	736,599,841
Time Deposits	13	1,691,677,269	2,830,656,928
Amounts due to Related Parties	14	2,644,546,958	769,580,668
Interest Bearing Borrowings	15	4,056,725,490	3,653,258,645
Provision for Income Tax	16	138,081,580	5,295,006
Deferred Tax Liability	17	201,281,178	191,087,331
Employee Benefit Obligation	18	19,820,106	18,720,119
Total Liabilities		9,680,087,347	8,277,589,323
Equity			
Stated Capital	19	200,000,000	200,000,000
Retained Profit		1,376,641,506	1,093,347,112
Statutory Reserve Fund	20	78,412,490	61,238,122
Total Equity		1,655,053,996	1,354,585,234
Total Equity and Liabilities		11,335,141,343	9,632,174,557

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



Ivon Brohier
Senior Finance Manager

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the Board by.



Brandon Morris
Director/CEO



Samantha Rajapaksa
Director

Accounting Policies and Notes on pages 64 to 95 form an integral part of these Financial Statements.

21 February 2017
Colombo

STATEMENT OF TOTAL COMPREHENSIVE INCOME

Year ended 31 December

	Note	2016 Rs.	2015 Rs.
Interest Income	21	1,584,186,324	1,367,129,160
Less : Interest Expenses	22	(803,425,535)	(598,671,553)
Net Interest Income		780,760,789	768,457,607
Rental Income from Operating Leases		5,136,692	8,765,185
Other Operating Income	23	302,693,514	228,780,974
Total Operating Income		1,088,590,994	1,006,003,766
Provision for Impairment Losses		(31,571,971)	(47,740,160)
Net Operating Income		1,057,019,024	958,263,606
Less: Operating Expenses			
Administration Cost		(212,171,559)	(196,157,409)
Personnel Cost		(206,808,952)	(245,464,350)
Distribution Cost		(36,270,393)	(80,460,433)
Operating Profit before Value Added Tax (VAT) on Financial Services		601,768,119	436,181,414
Less: Value Added Tax on Financial Services		(73,907,339)	(46,430,423)
Profit Before Taxation	24	527,860,780	389,750,991
Taxation	25	(184,373,405)	(159,079,656)
Profit for the year		343,487,375	230,671,335
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Other Comprehensive Income net of tax			
Actuarial Gain/(Loss) on Employee Benefit Obligation		3,181,388	970,388
Total Comprehensive Income for the year net of tax		346,668,762	231,641,723
Earnings Per Share - Basic	26	17.17	11.53
Dividend Per Share	27	2.31	1.05

Accounting Policies and Notes on pages 64 to 95 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 Fund Reserve Rs.	Total Equity Rs.
Balance as at 01 January 2015		200,000,000	894,238,956	49,704,555	1,143,943,511
Profit for the year		-	230,671,335	-	230,671,335
Other Comprehensive Income net of tax		-	970,388	-	970,388
Dividend Paid	27	-	(21,000,000)	-	(21,000,000)
Transfers	20	-	(11,533,567)	11,533,567	-
Balance as at 31 December 2015		200,000,000	1,093,347,112	61,238,122	1,354,585,234
Profit for the year		-	343,487,375	-	343,487,375
Other Comprehensive Income net of tax		-	3,181,388	-	3,181,388
Dividend Paid	27	-	(46,200,000)	-	(46,200,000)
Transfers	20	-	(17,174,369)	17,174,369	-
Balance as at 31 December 2016		200,000,000	1,376,641,506	78,412,490	1,655,053,996

Accounting Policies and Notes on pages 64 to 95 form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

STATEMENT OF CASH FLOWS

Year ended 31 December

	Note	2016 Rs.	2015 Rs.
CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES			
Net Profit before Income Tax		527,860,780	389,750,991
Adjustments for :			
Interest Income on Held to Maturity Investments	21	(47,712,621)	(57,288,594)
Dividend Income	23	(65,000)	(60,000)
Retiring Gratuity - Charge for the year	18	5,679,182	5,554,612
Gain on disposal of Property Plant and Equipment	23	(7,691,294)	(3,818,351)
Loss on disposal of Property Plant and Equipment	-	-	-
Depreciation & Amortization	10 & 11	28,617,928	38,775,373
Operating Profit Before Changes in Working Capital		506,688,975	372,914,031
Increase / (Decrease) in Trade & Other Payables		161,749,155	254,220,872
(Increase) / Decrease in Other Financial Assets & Non Financial Assets		6,710,612	(25,424,403)
(Increase) / Decrease in Inventories		-	-
Net Investment in Lease, Hire Purchase and Loans and Advances		(1,602,487,225)	(2,717,879,760)
Net Cash generated from / (used in) Operations		(927,338,484)	(2,116,169,260)
Gratuity Paid	18	(160,606)	-
Income Tax Paid	16	(25,547,735)	(131,404,535)
ESC Paid	16	(12,150,666)	-
WHT Paid	16	(4,931,788)	(6,266,990)
Net Cash generated from/ (used in) Operating Activities		(970,129,279)	(2,253,840,786)
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES			
Dividends Received	23	65,000	60,000
Acquisition of Plant, Equipment and Intangible Assets	10 & 11	(21,579,434)	(23,498,910)
Sale Proceed from Disposal of Plant and Equipment		8,519,996	6,429,133
Net Investments made during the Year		(48,464,527)	1,343,715,089
Interest Received from Held to Maturity Investments	21	47,712,621	54,463,481
Net Cash generated from/ (used in) Investing Activities		(13,746,344)	1,381,168,793
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Dividends Paid	27	(46,200,000)	(21,000,000)
Loans Obtained	15	3,171,675,847	3,088,920,547
Loan Settlements made	15	(2,768,209,002)	(3,151,285,782)
Net Borrowing from Related Parties		1,874,966,290	(930,401,613)
Net Deposits from Customers		(1,138,979,659)	1,856,760,664
Net Cash generated from/ (used in) Financing Activities		1,093,253,476	842,993,817
Net Increase / (Decrease) in Cash & Cash Equivalents		109,377,854	(29,678,176)
Cash & Cash Equivalents at the beginning of the year		(22,430,055)	7,248,121
Cash & Cash Equivalents at the end of the year	3	86,947,799	(22,430,055)

Accounting Policies and Notes on pages 64 to 95 form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

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, Baudhaloka 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 2016 were authorised for issue by the Directors on 21 February 2017.

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 2.4.11. 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 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-32. 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 JUDGEMENTS, 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 estimation 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 ongoing 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 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 in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and Receivables that have been assessed individually and found not to be impaired, all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan and receivables portfolio (such as levels of arrears, probability of default, loss given ratio, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). The impairment loss on loans and receivables is disclosed in more detail in Note 6 & 7.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

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 17.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.4.1 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.

2.4.2 Recognition of Income

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. The following specific recognition criteria must also be met before revenue is recognised.

Expenses are recognised in the Income Statement 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 Income Statement.

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

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available for sale, interest income or expense is recorded using the EIR. EIR is the rate exactly discounts estimated future cash payment or receipt through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets and financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or

incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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.

2.4.3 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 substantively enacted, at the reporting date which is currently the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto.

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

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

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 10% 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.

2.4.4 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 derecognized.

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 de recognition 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.

2.4.5 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 derecognized.

Amortization

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

2.4.6 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

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

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 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.

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.

2.4.7 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, loans and receivables, held-to-maturity investments, available-for-sale financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. The financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables and unquoted financial instrument.

b) Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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 receivables 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

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

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

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of the Company's continuing involvement in it.

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.

d) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually

significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest income in the Income Statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the Income Statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement;

Increases in their fair value after impairments are recognised directly in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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, bank 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, 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.

2.4.8 Impairment of non-financial assets

Impairment losses impairment on inventories and Vat Receivables are recognised in the Income Statement in those expense categories consistent with the function of the impaired asset.

2.4.9 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 cash flow, cash and cash equivalents consist of cash and bank balances as defined above, net of outstanding bank overdrafts.

2.4.10 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. All actuarial gains and losses are recognized in the year they occur in the Statement of 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.

2.4.11 Provisions, Contingent Assets & Contingent Liabilities

Provisions are recognised 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 recognised as a finance cost.

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

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

2.4.12 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 2016.

SLFRS 15 – Revenue from Contracts with Customers

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 will become effective on 1 January 2018. The impact on the Implementation of the above Standard has not been quantified yet.

SLFRS 9 – Financial Instruments: Classification and Measurement

Introduction

SLFRS 9 – Financial Instruments, the standard that will replace LKAS 39 – Financial Instruments Recognition and Measurement for annual period on or after 1 January 2018, with early adoption permitted.

SLFRS 9 Implementation programme which has been set up by AMWCL to date primarily focuses on the GAP analysis with IAS 39, documenting Company accounting policy, developing the operating and system target operating models for the calculation of impairment. The Programme is currently steered by the Senior Finance Manager, Head of Risk Management, Senior Manager - Recoveries and is monitored by the Audit Committee of the Company.

In addition, an impact assessment of the classification and measurement requirements was also performed by the Company which has been set out below. The Programme also aims at appointing an Impairment Review Committee whose primary responsibilities include review, challenge and sign off the assumptions used and the results of Impairment and provision of second-line assurance for each key step in the process. Committee will also have a defined governance framework to operate over the impairment process once it becomes effective.

Classification and Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The LKAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and amortized cost. SLFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortized cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistently. Equity instruments that are not held-for-trading may be irrevocably designated as FVOCI, with no subsequently reclassification of gains or losses to the Statement of Profit or Loss. The accounting for financial liabilities will largely be the same as the requirement of LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL.

Such movements will be presented in OCI with no subsequent reclassification to the Statement of Profit or Loss, unless an accounting mismatch in profit or loss would arise.

Having completed its initial assessment, the Company is in the view that: The loans and receivables to other customers and securities purchased under resale agreements that are classified as loans and receivables under LKAS 39 are expected to be measured at amortized cost under SLFRS 9.

Impairment of Financial Assets

SLFRS 9 will also fundamentally change the loan loss impairment methodology.

The standard will replace LKAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach.

The Company will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Company is in the process of quantifying the potential impact on impairment by implementing SLFRS 9.

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.

Amendments and improvements to the standards but not effective as at 31 December 2016 are given below:

LKAS 7 – Disclosure Initiative – Amendments to LKAS 7

The amendments to LKAS 7 – Statement of Cash Flows are part of the ICASL's Disclosure Initiative and require an entity to provide disclosures that enable users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

Additional Disclosure will be made as per the requirements of the Amended Standards.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December

3. CASH AND BANK	2016	2015
	Rs.	Rs.
Cash in Hand	56,590,891	27,473,890
Cash at Bank	59,962,678	22,486,840
	116,553,569	49,960,730
Bank Overdraft	(29,605,770)	(72,390,785)
Cash & Cash Equivalents	86,947,799	(22,430,055)
4. OTHER FINANCIAL ASSETS	2016	2015
	Rs.	Rs.
VAT Receivable	9,983,478	11,428,187
Insurance Receivable on Lease and Hire Purchase	17,203,750	10,196,732
Insurance Receivable on Loans and Advances	5,143,726	2,856,706
RMV charges receivable	2,184,146	699,833
Staff Loans	1,563,000	1,577,500
Refundable Deposits	14,197,000	11,897,000
Operating Lease Rentals Receivable	53,664	-
Miscellaneous Receivables	9,359,439	6,873,488
	59,688,203	45,529,446
5. OTHER NON FINANCIAL ASSETS	2016	2015
	Rs.	Rs.
VAT Recoverable	-	22,982,120
Prepayment	11,931,324	13,723,628
	11,931,324	36,705,748
Less: Provision for Other Financial Assets	-	(3,905,055)
	11,931,324	32,800,693
6. RENTALS RECEIVABLE ON LEASE AND HIRE PURCHASE ASSETS		
6.1 Rentals Receivable on Lease Assets	2016	2015
	Rs.	Rs.
Receivable after five years		
Rentals Receivable	26,418,283	66,529,852
Unearned Income	(1,716,037)	(3,419,564)
	24,702,247	63,110,288
Receivable from one to five years		
Rentals Receivable	6,465,525,316	5,498,320,871
Unearned Income	(1,241,294,938)	(1,068,468,984)
	5,224,230,379	4,429,851,887
Receivable within one year		
Rentals Receivable	3,199,265,778	2,626,962,850
Unearned Income	(1,027,608,250)	(845,351,467)
	2,171,657,528	1,781,611,383
Overdue Rental Receivable		
Rentals Receivable	187,732,947	162,338,619
	187,732,947	162,338,619
Total		
Future Rentals Receivable	9,691,209,378	8,191,813,573
Overdue Rentals Receivable	187,732,947	162,338,619
Total Rentals Receivable	9,878,942,325	8,354,152,192
Unearned Income	(2,270,619,224)	(1,917,240,015)
	7,608,323,101	6,436,912,177
Less : Provision for Impairment Losses	(125,539,261)	(109,281,915)
Balance as at 31 December	7,482,783,840	6,327,630,262

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

As at 31 December 2016

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

6.2 Rentals Receivable on Hire Purchase Assets

	2016 Rs.	2015 Rs.
Receivable after five years		
Rentals Receivable	-	-
Unearned Income	-	-
Receivable from one to five years		
Rentals Receivable	46,824,162	171,290,354
Unearned Income	(5,479,854)	(25,196,571)
	41,344,308	146,093,783
Receivable within one year		
Rentals Receivable	82,619,169	188,696,161
Unearned Income	(14,640,901)	(45,564,407)
	67,978,268	143,131,754
Overdue Rental Receivable		
Rentals Receivable	46,470,503	55,805,800
	46,470,503	55,805,800
Total		
Future Rentals Receivable	129,443,331	359,986,515
Overdue Rentals Receivable	46,470,503	55,805,800
Total Rentals Receivable	175,913,834	415,792,315
Unearned Income	(20,120,755)	(70,760,978)
	155,793,079	345,031,337
Less: Provision for Impairment Losses	(45,556,998)	(49,425,486)
Balance as at 31 December	110,236,081	295,605,851
Total Rentals Receivable on Lease Assets and Hire Purchase Assets		
Future Rentals Receivable	9,820,652,708	8,551,800,088
Overdue Rental Receivable	234,203,451	218,144,419
Total Rentals Receivable	10,054,856,159	8,769,944,507
Unearned Income	(2,290,739,979)	(1,988,000,993)
	7,764,116,180	6,781,943,514
Less: Provision for Impairment losses (6.3)	(171,096,258)	(158,707,401)
Balance as at 31 December	7,593,019,922	6,623,236,113

6.3 Provision for Impairment Losses

	2016 Rs.	2015 Rs.
Balance as at 01 January	158,707,401	96,761,967
Provisions made during the year	12,388,858	61,945,435
Reversals made during the year	-	-
Balance as at 31 December	171,096,258	158,707,401

6.4 Capital Outstanding on Non Performing Assets as at 31.12.2016 amounts to Rs. 171,775,663/- (As at 31.12.2015 amounts to Rs. 166,492,114/-).

6.5 Motor Vehicles and Equipment are held as collaterals against Lease and Hire Purchase Receivables.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

As at 31 December 2016

7. LOANS AND ADVANCES

7.1 Instalments Receivable on Auto Loans

	2016 Rs.	2015 Rs.
Receivable after five years		
Instalments Receivable	8,969,388	3,245,882
Unearned Income	(644,742)	(146,845)
	8,324,646	3,099,037
Receivable from one to five years		
Instalments Receivable	2,609,168,817	1,879,120,397
Unearned Income	(555,721,613)	(348,148,822)
	2,053,447,203	1,530,971,575
Receivable within one year		
Instalments Receivable	1,264,981,229	1,073,834,666
Unearned Income	(415,931,612)	(310,866,995)
	849,049,617	762,967,671
Overdue Rental Receivable		
Instalments Receivable	59,614,143	52,532,143
	59,614,143	52,532,143
Total		
Instalments Receivable	3,883,119,433	2,956,200,945
Overdue Instalments Receivable	59,614,143	52,532,143
Total Instalments Receivable	3,942,733,576	3,008,733,088
Unearned Income	(972,297,966)	(659,162,662)
	2,970,435,610	2,349,570,426
Less: Provision for Impairment Losses (7.3)	(31,709,922)	(31,282,148)
Balance as at 31 December	2,938,725,688	2,318,288,278
7.2 Loans Against FD	27,171,834	14,905,827
Total Loans and Advances	2,965,897,522	2,333,194,105

7.3 Provision for Impairment Losses

	2016 Rs.	2015 Rs.
Balance as at 01 January	31,282,148	45,487,422
Provisions made during the year	427,773	(14,205,274)
Reversals made during the year	-	-
Balance as at 31 December	31,709,922	31,282,148

7.4 Capital Outstanding on Non Performing Assets as at 31.12.2016 amounts to Rs. 28,712,316/- (As at 31.12.2015 amounts to Rs. 31,900,195/-).

7.5 Motor Vehicles and Equipment are held as collaterals against Loans and Advances.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

As at 31 December 2016

8. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

	2016 Rs.	2015 Rs.
Unquoted Investments		
Equities	80,400	80,400
	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. FINANCIAL INVESTMENTS - HELD-TO-MATURITY

	2016 Rs.	2015 Rs.
Quoted Investments		
Government Debt Securities	59,890,389	57,943,320
Treasury Bills Repurchases	464,131,210	417,613,751
	524,021,599	475,557,071

10. PROPERTY, PLANT & EQUIPMENT

Cost	As at 01.01.2016 Rs.	Additions during the year Rs.	Disposals during the year Rs.	As at 31.12.2016 Rs.
Computer Equipment	34,895,471	8,613,686	-	43,509,157
Office Equipment	18,183,498	6,822,313	-	25,005,811
Furniture & Fittings	11,224,374	3,650,296	-	14,874,670
Motor Vehicles	1,660,000	-	1,575,000	85,000
Motor Vehicles on Hire	49,535,134	-	8,981,250	40,553,884
Fixtures	15,949,130	8,250,639	-	24,199,769
	131,447,607	27,336,934	10,556,250	148,228,291

Depreciation	As at 01.01.2016 Rs.	Charge for the year Rs.	On disposals Rs.	As at 31.12.2016 Rs.
Computer Equipment	20,078,438	5,921,248	-	25,999,686
Office Equipment	9,321,538	3,800,489	-	13,122,027
Furniture & Fittings	6,337,046	2,251,510	-	8,588,556
Motor Vehicles	1,648,667	11,333	1,575,000	85,000
Motor Vehicles on Hire	39,785,055	6,875,797	8,152,545	38,508,307
Fixtures	8,101,423	3,657,371	-	11,758,794
	85,272,167	22,517,748	9,727,545	98,062,370

Capital Work In Progress	As at 01.01.2016 Rs.	Additions during the year Rs.	Transferred during the year Rs.	As at 31.12.2016 Rs.
Capital Work In Progress	8,980,164	11,575,475	20,555,639	-
	8,980,164	11,575,475	20,555,639	-

Written Down Value	2016 Rs.	2015 Rs.
Computer Equipment	17,509,471	14,817,033
Office Equipment	11,883,784	8,861,960
Furniture & Fittings	6,286,114	4,887,328
Motor Vehicles	-	11,333
Motor Vehicles on Hire	2,045,577	9,750,079
Fixtures	12,440,975	7,847,707
	50,165,921	46,175,440
Capital Work In Progress	-	8,980,164
	50,165,921	55,155,604

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

As at 31 December 2016

10. PROPERTY, PLANT & EQUIPMENT (Contd...)

10.1 During the financial year, Company acquired Plant & Equipment to the aggregate value of Rs. 18,356,770/- (2015-Rs. 18,236,883/-). Cash payments amounting to Rs. 27,336,934/- (2015 - Rs.18,236,883/-) were made during the year for purchase of Plant & Equipment.

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

Rental receivable on Operating Leases,	2016 Rs.	2015 Rs.
Within one year	3,411,437	4,760,341
From 1 - 5 years	960,286	4,175,534
Total	4,371,723	8,935,875

11. INTANGIBLE ASSETS

	As at 01.01.2016 Rs.	Additions during the year Rs.	Disposals during the year Rs.	As at 31.12.2016 Rs.
Cost/Carrying Value				
Computer Software	68,553,542	3,222,664	-	71,776,206
	68,553,542	3,222,664	-	71,776,206

	As at 01.01.2016 Rs.	Amortization during the year Rs.	Disposals during the year Rs.	As at 31.12.2016 Rs.
Amortization				
Computer Software	51,893,147	6,100,176	-	57,993,323
	51,893,147	6,100,176	-	57,993,323

	2016 Rs.	2015 Rs.
Written Down Value		
Computer Software	13,782,883	16,660,395
	13,782,883	16,660,395

11.1 During the financial year, Company acquired Intangible Assets to the value of Rs. 3,222,664/- (2015 - Rs.5,262,027/-). Cash Payments amounting to Rs. Rs. 3,222,664/- (2015-Rs. 5,262,027/-) were made during the year for purchase of Intangible Assets.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

As at 31 December 2016

		2016	2015
		Rs.	Rs.
12. TRADE & OTHER PAYABLES			
Trade Creditors - Related (12.1)		395,779,903	284,524,586
- Non Related		106,627,790	29,771,640
Other Payables - Related (12.2)		63,946,174	44,034,942
- Non Related		331,995,129	378,268,673
		898,348,996	736,599,841
12.1 Trade Creditors - Related Parties		2016	2015
	Relationship	Rs.	Rs.
Associated Motorways (Pvt) Limited	Parent	395,779,903	284,524,586
		395,779,903	284,524,586
12.2 Other Payables - Related		2016	2015
	Relationship	Rs.	Rs.
Interest Payable - Associated Motorways (Pvt) Limited	Parent	32,569,056	10,234,339
Other Payable - Associated Motorways (Pvt) Limited	Parent	16,368,467	18,779,876
Other Payable - Orient Insurance Limited	Other Related Party	2,420,423	-
Insurance Payable - Orient Insurance Limited	Other Related Party	12,588,228	15,020,727
		63,946,174	44,034,942
13. TIME DEPOSITS		2016	2015
		Rs.	Rs.
Balance as at 01 January		2,745,781,248	937,665,404
Fixed Deposits during the year		881,359,093	2,269,711,980
Interest capitalized for renewals		33,635,283	29,691,240
Top up's (additions by customer to original deposit)		14,945,013	6,633,627
Withdrawals during the Year		(2,037,477,222)	(497,921,003)
Balance as at 31 December		1,638,243,415	2,745,781,248
Interest Payable		53,433,854	84,875,680
Total		1,691,677,269	2,830,656,928
14. AMOUNT DUE TO RELATED PARTIES		2016	2015
	Relationship	Rs.	Rs.
Associated Motorways (Pvt) Limited	Parent	2,644,546,958	769,580,668
		2,644,546,958	769,580,668

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

As at 31 December 2016

15. INTEREST BEARING BORROWINGS (Contd...)

15.3 Money Market Loan	As at	Loans Obtained	Repayment	As at	Term of the Loan	Interest Rate	Security Offered
	01.01.2016	and Interest Charged	Rs.	31.12.2016			
	Rs.	Rs.	Rs.	Rs.			
DFCC	500,410,959	502,157,668	500,719,312	501,849,315	Short Term	Based on Money Market Rates	Lease Portfolio and Corporate Guarantee from AMW
Union Bank	83,359,793	-	83,359,793	-	Short Term	6.75%	Lease Portfolio and Corporate Guarantee from AMW
	583,770,752	502,157,668	584,079,105	501,849,315			
15.4 Inter Company Loan	As at	Loans Obtained	Repayment	As at	Term of the Loan	Interest Rate	
	01.01.2016	and Interest Charged	Rs.	31.12.2016			
	Rs.	Rs.	Rs.	Rs.			
AMW Term Loan 1000M	713,296,518	47,370,911	299,123,288	461,544,141	48 months	Fixed Interest Rate 8.25%	Lease Portfolio
AMW Term Loan 1000M	734,121,004	47,607,640	299,305,936	482,422,708	48 months	Fixed Interest Rate 8%	Lease Portfolio
AMW Term Loan 800M	-	836,624,991	163,163,470	673,461,521	48 months	Fixed Interest Rate 12%	Lease Portfolio
	1,447,417,522	931,603,542	761,592,694	1,617,428,370			
15.5 Unutilised Funding Facilities	Rs.						
Type of Facility	Rs.						
Overdraft	125,000,000						
Overdraft / Money Market Loan	400,000,000						
AMW	855,453,042						
Short Term Loan	250,000,000						
	1,630,453,042						

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

As at 31 December 2016

16. PROVISION FOR INCOME TAX

	2016 Rs.	2015 Rs.
Balance as at 01 January	5,295,006	82,452,559
Provision for the year	175,532,754	68,798,346
Under/(Over) provision in respect of previous year	(115,990)	(8,284,374)
	180,711,769	142,966,531
Payments made during the year	(25,547,735)	(131,404,535)
Withholding Tax	(4,931,788)	(6,266,990)
ESC setoff against Income Tax	(12,150,666)	-
Balance as at 31 December	138,081,580	5,295,006

17. DEFERRED TAX LIABILITY

	2016 Rs.	2015 Rs.
Balance as at 01 January	191,087,331	92,105,767
Provision/ (reversal) made during the year	8,956,641	98,565,684
Charge/(Reversal) for the year through Statement of Other Comprehensive Income	1,237,206	415,880
Balance as at 31 December	201,281,178	191,087,331
The closing Deferred Tax Liability balance relates to the following		
Accelerated Depreciation for tax purposes	7,754,363	9,085,350
Future Rentals Receivable - Lease	199,076,445	187,618,017
Employee Benefit Obligation	(5,549,630)	(5,616,036)
	201,281,178	191,087,331

18. EMPLOYEE BENEFIT OBLIGATION

	2016 Rs.	2015 Rs.
Balance as at 01 January	18,720,119	14,551,775
Current Service Cost	3,807,175	4,099,435
Interest for the Year	1,872,012	1,455,177
Benefits Paid	(160,606)	-
Actuarial (Gain)/Loss	(4,418,594)	(1,386,268)
Balance as at 31 December	19,820,106	18,720,119

The Employee Benefit Liability is based on the actuarial valuation carried out as at 31 December 2016 by Messrs. Actuarial & Management Consultants (Pvt) Ltd., actuaries. The principal assumptions used in determining the cost of employee benefits were:

	2016	2015
Discount rate	11.50%	10%
Future Salary Increment	10%	12%

A sensitivity was carried out as follows.

	2016		2015	
	+1%	-1%	+1%	-1%
Effect on the present value of Defined Benefit Obligation				
One percentage point change in the discount rate	(1,006,796)	1,117,441	(1,387,559)	1,586,373
One percentage point change in the salary escalation rate	1,162,191	(1,064,494)	1,607,966	(1,434,601)

Information about Maturity Profile of the Defined Benefit Obligation

Future Working Life Time	As at 31.12.16					As at 31.12.15			
Within the next 12 months	2,913,314					1,460,610			
Between 1-2 years	3,829,404					2,716,895			
Between 2-5 years	6,098,860					4,776,536			
Between 5-10 years	4,297,532					3,984,329			
Beyond 10 years	2,680,995					5,781,749			
Total	19,820,106					18,720,119			
Average Future Working life Time	3.89	4.19	4.08	9.2	9.29	9.22	4.45	4.45	4.39
Average Past Service Years	7.4	5.46	6.14	8.96	6.41	6.37	2.46	2.46	5.83

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

As at 31 December 2016

19. STATED CAPITAL	2016	2015
Number of Ordinary Shares issued and fully paid	20,000,000	20,000,000
	2016 Rs.	2015 Rs.
Balance as at 01 January	200,000,000	200,000,000
Balance as at 31 December	200,000,000	200,000,000
	2016 Rs.	2015 Rs.
20. STATUTORY RESERVE FUND		
Balance as at 01 January	61,238,122	49,704,555
Transfers during the year	17,174,368	11,533,567
Balance as at 31 December	78,412,490	61,238,122
<p>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.</p>		
	2016 Rs.	2015 Rs.
21. INTEREST INCOME		
Lease	1,083,786,505	800,322,543
Hire Purchase	40,241,419	104,787,789
Term Loan	410,258,646	403,681,162
FD Loan Interest	2,187,133	1,049,072
Interest Income on Held to Maturity Investments	47,712,621	57,288,594
	1,584,186,324	1,367,129,160
	2016 Rs.	2015 Rs.
22. INTEREST EXPENSES		
Inter Company Loan	131,603,539	135,302,511
Inter Company Current Account	220,124,014	81,834,291
Securitization Loan	107,774,095	110,106,563
Bank Borrowings	147,463,518	94,136,582
Interest on Time Deposits	196,460,369	177,291,606
	803,425,535	598,671,553
	2016 Rs.	2015 Rs.
23. OTHER OPERATING INCOME		
Overdue Interest Income	71,986,031	38,123,514
Profit from Pre-Termination	118,543,822	98,328,601
Dividend income	65,000	60,000
Commission from Insurance	43,236,784	33,116,174
Income from additional charges	38,917,612	42,467,824
Bank Charges Claimed on cheque returns	935,699	1,124,757
Rental Income - Inter Company	1,440,000	1,560,000
Administration Income - Inter Company	2,700,000	2,415,000
VAS Commission Income	11,226,866	-
Miscellaneous Income	5,950,407	7,766,753
Gain on Disposal of Property, Plant & Equipment	7,691,294	3,818,351
	302,693,514	228,780,974

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

24. PROFIT BEFORE TAXATION

is stated after charging :

	2016 Rs.	2015 Rs.
Staff Salaries	154,745,810	121,548,034
Defined Contribution Plan Cost - E.P.F & E.T.F	24,456,394	19,587,834
Directors Emoluments	35,942,681	24,401,359
Auditors' Remuneration		
- Audit	1,216,100	1,166,100
- Non Audit	506,980	214,000
Management Fee	1,222,440	1,222,440
Defined Benefit Plan - Expense	5,679,187	5,554,612
Provision for Impairment losses	31,571,971	47,740,160
Depreciation & Amortization	28,617,928	38,775,373

25. INCOME TAX

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

	2016 Rs.	2015 Rs.
Current Income Tax		
Current Income Tax Charge (25.1)	175,416,764	60,513,972
Deferred Income Tax		
Deferred Taxation Charge / Reversal (25.2)	8,956,641	98,565,684
Income tax expense reported in the Income Statement	184,373,405	159,079,656

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

	2016 Rs.	2015 Rs.
Profit Before Tax	527,860,780	389,750,991
Aggregate Accounting Profit	527,860,780	389,750,991
Aggregated Disallowed Expenses	2,718,563,158	1,980,308,728
Aggregated Allowed Expenses	(2,619,521,246)	(2,124,351,340)
Adjusted Profit	626,902,692	245,708,379
Taxable Income	626,902,692	245,708,379
Income Tax at the rate of 28% on Taxable Income (2015-28%)	175,532,754	68,798,346
Under /(Over)provision in respect of previous year	(115,990)	(8,284,374)
Current tax on profit for the year	175,416,764	60,513,972
Deferred tax charge for the year	8,956,641	98,565,684
Tax expense for the year	184,373,405	159,079,656

At the effective Income Tax Rate of 34.9% (2015- 40.8%)

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

25.2 Deferred Tax	2016 Rs.	2015 Rs.
Income Statement		
Deferred Tax arising from		
Accelerated Depreciation for tax purposes	(1,330,987)	(1,534,241)
Future Rental Receivable	11,458,428	98,122,775
Employee Benefit Obligation	(1,170,800)	(1,957,420)
Provision for Impairment	-	3,934,570
	8,956,641	98,565,684
Other Comprehensive Income		
Actuarial Gain/Loss on Employee Benefit Obligation	1,237,206	415,880
	1,237,206	415,880
	10,193,847	98,981,564

Deferred Tax has been computed using the current tax rate of 28%. (2015-28%)

26. BASIC EARNINGS PER SHARE

26.1 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.

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

26.3 Basic Earnings Per Share	2016 Rs.	2015 Rs.
Amounts Used as the Numerators:		
Net Profit Attributable to Ordinary Shareholders	343,487,375	230,671,335
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
26.3 Basic Earnings Per Share	17.17	11.53

27. DIVIDEND PER SHARE

27. DIVIDEND PER SHARE	2016 Rs.	2015 Rs.
Declared and Paid during the year	46,200,000	21,000,000
Dividend Per Share	2.31	1.05

28. CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2016, the Company had no significant commitments and contingencies. (31.12.2015 - Nil)

29. 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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

30. RELATED PARTY DISCLOSURES

30.1 Transaction with Related Entities

	2016 Rs.	2015 Rs.
Associated Motorways (Pvt) Ltd -Parent		
Transactions during the period		
Management fees paid	1,224,480	1,224,480
Rent Paid	15,379,850	15,744,577
Interest Paid	351,727,553	217,136,802
Fees paid for repair services	301,709	873,460
Expense Reimbursements	14,206,500	15,537,060
Salary Reimbursements	6,122,400	6,122,400
Inter Company Loans Obtained and Interest Accrued	931,603,542	135,302,511
Loan Repayment	761,592,694	638,752,854
Inter Company Settlement for Vehicle	3,020,339,230	4,061,933,227
Promotional Expenses Paid	6,659,290	47,960,000
	5,109,157,247	5,140,587,371
Rental Income Received	1,440,000	1,560,000
Administration Income Received	2,700,000	2,415,000
VAS Commission Received	11,226,866	-
	15,366,866	3,975,000
	31.12.2016 Rs.	31.12.2015 Rs.
Amounts Due to		
Trade Creditors	395,779,903	284,524,586
Loans Payable	1,617,428,370	1,447,417,522
Current Account with parent	2,644,546,958	769,580,668
Interest Payable	32,569,056	10,234,339
Other Payable	16,368,467	18,779,876
	4,706,692,755	2,027,086,648

Associated Motorways (Pvt) Ltd has given following corporate guarantees on behalf of AMW Capital Leasing & Finance PLC as at 31.12.2016.

- (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) Pan Asia Banking Corporation PLC a Term Loan / Short Term loan facility amounting to Rs. 400 mn.
- (vi) National Development Bank PLC a Short Term loan facility amounting to Rs. 250 mn.
- (vii) Union Bank PLC a Short Term loan facility amounting to Rs. 500 mn.
- (viii) Securitization loan facility amounting to Rs. 750 mn.

Orient Insurance Limited - Other Related Company

Transactions during the Year

	2016 Rs.	2015 Rs.
Vehicle Hire Charges	6,366,833	5,818,344
Insurance Commission Income	20,596,626	16,052,417
Insurance Premiums Paid on Fixed Assets Insured	582,388	-
Proceeds on Sale of Vehicles	-	6,429,134
	27,545,846	28,299,895
	31.12.2016 Rs.	31.12.2015 Rs.
Amounts Due to		
Insurance Payable	12,588,228	15,020,727
	12,588,228	15,020,727
Fixed Deposit	217,201,096	216,726,024

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

30.2 Transactions with Key Management Personnel and Close Family Members of Key Managerial Personnel

Key management personnel include members of the Board of Directors and that of the Parent Company and ultimate parent company.

Mr. T. de Zoysa, Mr. B. P. Morris, Mr. N. D. Johnson, Mr. A. Majumdar, Mr. S. A. B. Rajapaksa, Mr. N. S. Welikala, Mr. A. M. Patrick, Mr. K. A. Wijewickrama, Mr. S. M. Faulkner, Mr. P. S. Jayawardena PC, Mr. T. S. A. Fernandopulle and Mrs. D. C. Yatawaka were Directors of the Company during the financial year ended 31 December 2016.

Mr. T. de Zoysa resigned the post of Chairman of the Company w.e.f 29.09.2016 and Mr. N. S. Welikala was appointed as the Chairman of the Company w.e.f. 30.09.2016.

Mr. P. S. Jayawardena PC and Mr. T. S. A. Fernandopulle were appointed as Directors of the Company w.e.f 29.02.2016 and 26.10.2016 respectively. Mr. P. S. Jayawardena PC resigned the Board w.e.f 15.06.2016. Mr. N. D. Johnson resigned the Board w.e.f. 24 August 2016.

Mr. S. A. B. Rajapaksa and Mr. A. Majumdar were also Directors of the Parent Company-Associated Motorways (Pvt) Ltd.

Transactions with Key Management Personnel	2016 Rs.	2015 Rs.
Key Managerial Persons' Remuneration	35,942,681	24,401,359
Deposit Made	74,500,000	25,500,000
Deposits Withdrawn	(21,493,838)	-
Amounts Due To Key Management Personnel	31.12.2016 Rs.	31.12.2015 Rs.
Fixed Deposits	87,390,457	27,045,104
Transactions with Close Family Members of the Key Management Personnel	2016 Rs.	2015 Rs.
Lease Rentals Received excluding taxes	-	117,680
Fixed Deposits Made	3,000,000	12,000,000
Fixed Deposits Withdrawn	(500,000)	(418,903)
Amounts Due From Close Family Members of the Key Management Personnel	31.12.2016 Rs.	31.12.2015 Rs.
Fixed Deposit	3,025,890	12,558,697

30.3 Terms and Conditions of Transactions with Related Parties

Transactions with related parties have been conducted under normal commercial terms.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

31. 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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest Income	1,083,786,505	800,322,543	40,241,419	104,787,789	412,445,778	404,730,234	-	-	47,712,621	57,288,594	1,584,186,324	1,367,129,160
Other Operating Income	134,366,435	94,032,257	16,033,814	21,543,329	79,982,914	64,469,111	-	-	72,310,351	48,736,277	302,693,514	228,780,974
Rental Income	-	-	-	-	-	-	5,136,692	8,765,185	-	-	5,136,692	8,765,185
Total Revenue	1,218,152,941	894,354,800	56,275,234	126,331,118	492,428,692	469,199,345	5,136,692	8,765,185	120,022,973	106,024,872	1,892,016,531	1,604,675,319
Unallocated Expenses											(1,364,155,749)	(1,214,924,328)
Profit Before Tax											527,860,782	389,750,991
Taxation											(184,373,405)	(159,079,656)
Profit After Tax											343,487,375	230,671,335
Segment Assets	7,509,799,401	6,371,393,318	111,662,523	296,449,833	2,976,184,974	2,321,144,984	2,131,651	9,750,079	-	-	10,599,778,550	8,998,738,214
Unallocated Assets	-	-	-	-	-	-	-	-	735,362,796	633,436,343	735,362,796	633,436,343
Total Assets	7,509,799,401	6,371,393,318	111,662,523	296,449,833	2,976,184,974	2,321,144,984	2,131,651	9,750,079	735,362,796	633,436,343	11,335,141,343	9,632,174,557
Segment Liabilities	6,898,849,089	5,979,302,231	111,676,790	276,539,816	2,509,387,288	1,994,262,835	67,761	-	-	-	9,519,980,928	8,250,104,882
Unallocated Liabilities	-	-	-	-	-	-	-	-	160,106,419	27,484,441	160,106,419	27,484,441
Total Liabilities	6,898,849,089	5,979,302,231	111,676,790	276,539,816	2,509,387,288	1,994,262,835	67,761	-	160,106,419	27,484,441	9,680,087,347	8,277,589,323

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

32. 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.

	Less than 12 months Rs.	2016 Over 12 months Rs.	Total Rs.	Less than 12 months Rs.	2015 Over 12 months Rs.	Total Rs.
Assets						
Cash and Bank	116,553,569	-	116,553,569	49,960,730	-	49,960,730
Other Financial Assets	45,761,203	13,927,000	59,688,203	34,215,444	11,314,000	45,529,444
Other Non Financial Assets	9,224,406	2,706,917	11,931,324	29,120,342	3,680,351	32,800,693
Rentals Receivable on Lease and						
Hire Purchase Assets	2,302,742,988	5,290,276,934	7,593,019,921	1,984,180,153	4,639,055,959	6,623,236,113
Loans and Advances	898,782,486	2,067,115,036	2,965,897,522	796,141,187	1,537,052,917	2,333,194,104
Financial Investments - Available for Sale	-	80,400	80,400	-	80,400	80,400
Financial Investments - Held-to-Maturity	464,131,210	59,890,389	524,021,599	417,613,751	57,943,320	475,557,071
Property, Plant & Equipment	-	50,165,921	50,165,921	-	55,155,604	55,155,604
Intangible Assets	-	13,782,883	13,782,883	-	16,660,395	16,660,395
As at 31 December	3,837,195,862	7,497,945,480	11,335,141,343	3,311,231,607	6,320,942,947	9,632,174,554
Liabilities						
Bank Overdraft	29,605,770	-	29,605,770	72,390,785	-	72,390,785
Trade & Other payables	898,348,996	-	898,348,996	736,599,841	-	736,599,841
Time Deposits	1,565,610,367	126,066,902	1,691,677,269	2,280,353,280	550,303,648	2,830,656,928
Amounts due to Related Parties	2,644,546,958	-	2,644,546,958	769,580,668	-	769,580,668
Interest Bearing Borrowings	2,452,558,490	1,604,167,000	4,056,725,490	1,743,358,645	1,909,900,000	3,653,258,645
Provision for Income Tax	138,081,580	-	138,081,580	5,295,006	-	5,295,006
Deferred Tax Liability	-	201,281,178	201,281,178	-	191,087,331	191,087,331
Employee Benefit Obligation	-	19,820,106	19,820,106	-	18,720,119	18,720,119
As at 31 December	7,728,752,161	1,951,335,187	9,680,087,347	5,607,578,225	2,768,992,662	8,277,589,323

33. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2016 Rs.	2015 Rs.	
Rentals Receivables	Securitization Loan	1,069,490,160	1,778,295,539	Rentals Receivable on Lease and Hire Purchase Assets
Rentals Receivables	Short Term Loan	845,959,361	946,725,151	Rentals Receivable on Lease and Hire Purchase Assets
Rentals Receivables	Term Loan	3,288,109,088	1,426,534,753	Rentals Receivable on Lease and Hire Purchase Assets

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

34. 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 2016		31 December 2015	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Rentals Receivable on Lease and Hire Purchase Assets	7,593,019,922	7,775,601,119	6,623,236,113	6,718,946,931
Loans and Advances	2,965,897,522	3,048,513,472	2,333,194,105	2,390,814,910
Financial Investments - Held-to-Maturity	524,021,599	523,833,193	475,557,071	482,554,597
Total Financial Assets	11,082,939,042	11,347,947,783	9,527,477,465	9,687,806,614
Financial Liabilities				
Time Deposits	1,691,677,269	1,698,951,928	2,830,656,928	2,791,633,732
Amounts due to Related Parties	2,644,546,958	2,596,984,108	769,580,668	769,580,668
Interest Bearing Borrowings	4,056,725,490	3,899,498,395	3,653,258,645	3,652,495,927
Total Financial Liabilities	8,392,949,718	8,195,434,432	8,062,486,867	8,022,700,953

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

	2016			2015		
	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	-	7,775,601,119	-	-	6,718,946,931	-
Loans and Advances	-	3,048,513,472	-	-	2,390,814,910	-
Financial Investments - Held-to-Maturity	523,833,193	-	-	482,554,597	-	-
Financial liabilities measured at amortised cost						
Time Deposits	-	1,698,951,928	-	-	2,791,633,732	-
Amounts due to Related Parties	-	2,596,984,108	-	-	769,580,668	-
Interest Bearing Borrowings	-	3,899,498,395	-	-	3,652,495,927	-

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

34. 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.

35. RISK MANAGEMENT OBJECTIVES AND POLICIES

35.1 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.

35.1.1 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, DGM Marketing, Group Internal Auditor, Senior Manager-Finance, Senior Manager Treasury, Head of legal and any other executive 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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

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

35.1.2 Assets and Liability Committee (ALCO)

ALCO is chaired by the Chief Executive Officer and has representatives from Director - Finance, General Manager, Deputy General Manager - Marketing, Head of Deposits, Senior Manager - 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.

35.1.3 Audit Committee

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

35.2 Credit Risk

35.2.1 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.

35.2.2 Portfolio analysis: Product wise

The lending portfolio is primarily made up of finance leasing with 70.88% of exposure, with hire purchase and auto loans being 1.45% and 27.67% respectively as at 31 December 2016.

35.2.2.1 Exposure based on Product class

Product	As at 31 Dec 2016		As at 31 Dec 2015	
	Exposure Rs.Mn	%	Exposure Rs.Mn	%
Finance Leasing	7,608.32	70.88%	6,436.90	70.49%
Hire Purchase	155.79	1.45%	345.03	3.78%
Auto Loans	2,970.44	27.67%	2,349.57	25.73%
Total	10,734.55	100.00%	9,131.50	100.00%

35.2.2.2 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 2016		As at 31 Dec 2015	
	Exposure Rs.Mn	%	Exposure Rs.Mn	%
Motor Cars	8,360.83	77.89%	6,895.41	75.51%
Two Wheeler	786.65	7.33%	548.61	6.01%
Three Wheeler	317.58	2.96%	385.56	4.22%
Dual Purpose vehicles	769.55	7.17%	774.45	8.48%
Commercial vehicles	315.77	2.94%	304.19	3.33%
Working capital Loans	27.60	0.26%	9.23	0.10%
Equipment	122.79	1.14%	177.67	1.95%
Agricultural Tractors	33.78	0.31%	36.38	0.40%
Total	10,734.55	100.00%	9,131.50	100.00%

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

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

35.1.2 Collections and recovery

The tables below shows the age analysis of the installments in arrears for all Financial Assets exposed to credit risk as at 31 December 2016. The amounts presented are gross receivable amounts.

35.2.3.1 Age analysis of past due based on product class (LKR Thousands)

As at 31 December 2016	Leases		Hire Purchase		Auto Loans		Islamic Finance		Total	
	Arrears	Capital Outstanding	Arrears	Capital Outstanding	Arrears	Capital Outstanding	Arrears	Capital Outstanding	Arrears	Capital Outstanding
1 - 29 days	24,617	1,533,320	748	19,846	10,187	627,581	-	-	35,552	2,180,747
30 - 59 days	32,769	596,854	2,304	21,506	15,376	289,431	-	-	50,449	907,791
60 - 89 days	18,929	167,016	1,944	12,003	7,114	66,829	-	-	27,988	245,848
90 - 179 days	16,194	72,255	1,950	4,651	4,775	26,557	-	-	22,920	103,463
180 - 365 days	67,624	12,698	19,190	-	6,327	1,873	-	-	93,142	14,571
Over 365 days	41,721	10,932	28,704	5,219	20,915	4,684	-	-	91,340	20,834

As at 31 December 2015	Leases		Hire Purchase		Auto Loans		Islamic Finance		Total	
	Arrears	Capital Outstanding	Arrears	Capital Outstanding	Arrears	Capital Outstanding	Arrears	Capital Outstanding	Arrears	Capital Outstanding
1 - 29 days	18,617	1,176,768	2,157	53,813	7,462	474,995	-	1,171	28,236	1,706,747
30 - 59 days	23,860	388,382	3,195	39,847	11,200	226,051	-	-	38,255	654,280
60 - 89 days	16,551	137,321	3,537	28,541	7,535	85,577	-	-	27,623	251,439
90 - 179 days	16,935	65,057	6,304	23,520	10,567	43,381	-	-	33,806	131,958
180 - 365 days	64,925	11,157	23,486	2,302	11,430	1,377	-	-	99,841	14,836
Over 365 days	35,755	15,571	24,828	4,929	7,649	4,017	-	-	68,232	24,517

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

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

35.2.3.2 Age analysis of past due based on Financial Assets (Rs. '000)

As at 31 December 2016	Neither Past due or Impaired Rs.	Past due but not impaired						Total Rs.
		0-29 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)	59,963	-	-	-	-	-	-	59,963
Other Financial Assets	59,688	-	-	-	-	-	-	59,688
Rentals Receivable on Lease and								
Hire Purchase Assets	5,051,121	1,578,531	653,432	199,893	95,050	99,512	86,575	7,764,115
Less : Impairment Charges	-	-	-	-	-	-	-	(171,096)
Loans and Advances	1,915,957	637,768	304,807	73,943	31,333	8,201	25,599	2,997,607
Less : Impairment Charges	-	-	-	-	-	-	-	(31,710)
Financial Investments - Available for Sale	80	-	-	-	-	-	-	80
Financial Investments - Held-to-Maturity	524,022	-	-	-	-	-	-	524,022
	7,610,831	2,216,299	958,240	273,836	126,383	107,713	112,174	11,202,669

As at 31 December 2015	Neither Past due or Impaired Rs.	Past due but not impaired						Total Rs.
		0-29 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)	22,487	-	-	-	-	-	-	22,487
Other Financial Assets	45,529	-	-	-	-	-	-	45,529
Rentals Receivable on Lease and								
Hire Purchase Assets	4,607,803	1,252,526	455,284	185,950	111,816	99,720	68,844	6,781,943
Less : Impairment Charges	-	-	-	-	-	-	-	(158,707)
Loans and Advances	1,473,870	482,457	237,251	93,112	53,948	12,172	11,666	2,364,476
Less : Impairment Charges	-	-	-	-	-	-	-	(31,282)
Financial Investments - Available for Sale	80	-	-	-	-	-	-	80
Financial Investments - Held-to-Maturity	475,557	-	-	-	-	-	-	475,557
	6,625,326	1,734,983	692,535	279,062	165,764	111,892	80,510	9,500,083

35.2.3.3 Non Performing Portfolio

As at 31 Dec	2016 Rs. Mn	2015 Rs. Mn
Non-Performing Portfolio	200.49	198.30
Total Advances	10,734.55	9,131.51
Non-performing %	1.87%	2.17%
Loan loss provisions	202.81	189.99

35.2.4 Impairment Assessment

For accounting purposes, the Company uses collective and individual impairment method and take account Probability of Default (PD) and Loss Given Default (LGD). 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 2016 amounts to Rs 202.81 Mn. (2015 - Rs.189.99 Mn.)

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

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

35.2.5 Fair Value of Collateral and Credit Enhancements held

The Company endeavors to obtain adequate collateral to secure its credit facilities. The Company continuously monitor 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 following Table shows the Fair Value of Collateral and credit enhancements held by the Company as at 31st December 2016.

	Maximum Exposure to Credit Risk Rs.	Net Exposure to Credit Risk Rs.
Cash and cash equivalents (excluding cash in hand)	65,744,861	65,744,861
Other financial assets	60,815,783	60,815,783
Loans and receivables	10,564,035,167	10,513,673,892
Financial investments - Available-for-sale	80,400	80,400
Financial investments-Held-to-maturity	524,021,599	524,021,599
	11,214,697,809	11,164,336,535

Carrying Value of Financial Assets as at 31 Dec	2016 Rs.	2015 Rs.
Other Financial Assets	59,688,203	45,529,446
Rentals Receivable on Lease and Hire Purchase Assets	7,593,019,922	6,623,236,113
Loans and Advances	2,965,897,522	2,333,194,105
Financial Investments - Available for Sale	80,400	80,400
Financial Investments - Held-to-Maturity	524,021,599	475,557,071

The Company endeavors to obtain adequate collateral to secure its credit facilities. The Company continuously monitor 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.

35.3 Liquidity Risk

35.3.1 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 2016

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

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

As at 31 December 2016	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	116,554	-	-	-	-	-	116,554
Other Financial Assets	303	44,230	1,229	11,527	2,400	-	59,688
Rentals Receivable on Lease and Hire Purchase Assets	528,487	578,564	2,409,037	4,701,661	1,810,689	26,418	10,054,856
Loans and Advances	183,154	235,185	928,085	1,827,079	787,433	8,969	3,969,905
Financial Investments - Available for Sale	-	80	-	-	-	-	80
Financial Investments - Held-to-Maturity	130,789	-	376,106	122,624	36,475	-	665,993
Total Undiscounted Financial Assets	959,286	858,060	3,714,456	6,662,891	2,636,997	35,388	14,867,077
Financial Liabilities							
Bank Overdraft	29,606	-	-	-	-	-	29,606
Trade and Other payables	815,616	40,633	42,072	-	-	28	898,349
Time Deposits	172,692	447,565	794,969	298,878	149,101	-	1,863,206
Amounts due to Related Parties	-	2,644,547	-	-	-	-	2,644,547
Interest Bearing Borrowings	48,134	1,025,719	1,521,470	1,745,231	-	-	4,340,553
Total Undiscounted Financial Liabilities	1,066,048	4,158,464	2,358,511	2,044,110	149,101	28	9,776,261
GAP	(106,762)	(3,300,404)	1,355,946	4,618,781	2,487,896	35,360	5,090,816
Cumulative GAP	(106,762)	(3,407,166)	(2,051,220)	2,567,561	5,055,457	5,090,816	
As at 31 December 2015							
	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	49,961	-	-	-	-	-	49,961
Other Financial Assets	5,758	26,232	2,225	4,599	6,715	-	45,529
Rentals Receivable on Lease and Hire Purchase Assets	418,284	498,899	2,057,506	3,899,703	1,769,909	66,530	8,710,831
Loans and Advances	149,275	223,099	758,708	1,417,958	463,744	3,246	3,016,030
Financial Investments - Available for Sale	-	80	-	-	-	-	80
Financial Investments - Held-to-Maturity	419,231	-	4,885	10,891	51,317	25,085	511,409
Total Undiscounted Financial Assets	1,042,509	748,310	2,823,324	5,333,151	2,291,685	94,861	12,333,840
Financial Liabilities							
Bank Overdraft	72,391	-	-	-	-	-	72,391
Trade and Other payables	608,867	37,005	90,497	-	-	231	736,600
Time Deposits	302,448	1,126,879	914,937	505,929	108,462	-	2,958,655
Amounts due to Related Parties	-	769,581	-	-	-	-	769,581
Interest Bearing Borrowings	670,709	264,581	939,779	1,835,050	409,196	-	4,119,315
Total Undiscounted Financial Liabilities	1,654,415	2,198,046	1,945,213	2,340,979	517,658	231	8,656,542
GAP	(611,906)	(1,449,736)	878,111	2,992,172	1,774,027	94,630	3,677,298
Cumulative GAP	(611,906)	(2,061,642)	(1,183,531)	1,808,641	3,582,668	3,677,298	

The Asset and Liability Committee (ALCO) meet 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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

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

35.4 Interest Rate Risk

35.4.1 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 monitor 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 (LKR 'Thousands)

As at 31 December 2016	Less than 7 days Rs.	8 - 30 days Rs.	1 - 3 months Rs.	3 - 6 months Rs.	6 - 12 months Rs.	Over 1 years Rs.	Total Rs.
Sensitive Assets							
Rentals Receivable on Lease,							
Hire Purchase and Auto loan Assets	134,827	256,512	536,700	785,010	1,493,820	7,352,049	10,558,917
Financial Investments - Available for Sale	-	-	80	-	-	-	80
Financial Investments - Held-to-Maturity	-	139,132	-	275,000	50,000	59,890	524,022
Total Sensitive Assets	134,827	395,644	536,780	1,060,010	1,543,820	7,411,939	11,083,020
Sensitive Liabilities							
Bank Overdraft	29,606	-	-	-	-	-	29,606
Time Deposits	46,851	121,096	426,742	289,287	442,955	364,747	1,691,677
Amounts due to Related Parties	-	2,644,547	-	-	-	-	2,644,547
Interest Bearing Borrowings	89,031	764,123	188,555	438,307	923,876	1,652,833	4,056,725
Total Sensitive Liabilities	165,488	3,529,766	615,297	727,594	1,366,831	2,017,580	8,422,555
Gap	(30,661)	(3,134,122)	(78,516)	332,416	176,989	5,394,359	2,660,465
Cumulative Gap	(30,661)	(3,164,783)	(3,243,300)	(2,910,884)	(2,733,894)	2,660,465	

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2016

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

35.4.1.1 Interest Rate Sensitivity Gaps (LKR 'Thousands) (Contd...)

As at 31 December 2015	Less than 7 days Rs.	8 - 30 days Rs.	1 - 3 months Rs.	3 - 6 months Rs.	6 - 12 months Rs.	Over 1 years Rs.	Total Rs.
Sensitive Assets							
Rentals Receivable on Lease,							
Hire Purchase and Auto loan Assets	99,635	225,070	494,566	702,110	1,258,940	6,176,109	8,956,430
Financial Investments - Available for Sale	-	-	80	-	-	-	80
Financial Investments - Held-to-Maturity	-	423,128	-	-	-	52,429	475,557
Total Sensitive Assets	99,635	648,198	494,646	702,110	1,258,940	6,228,539	9,432,067
Sensitive Liabilities							
Bank Overdraft	72,391	-	-	-	-	-	72,391
Time Deposits	91,275	204,883	1,114,545	618,011	251,638	550,304	2,830,658
Amounts due to Related Parties	-	769,581	-	-	-	-	769,581
Interest Bearing Borrowings	500,410	161,668	231,836	284,745	541,216	1,933,383	3,653,258
Total Sensitive Liabilities	664,076	1,136,132	1,346,381	902,756	792,854	2,483,687	7,325,888
Gap	(564,441)	(487,935)	(851,735)	(200,646)	466,085	3,744,851	2,106,180
Cumulative Gap	(564,441)	(1,052,375)	(1,904,110)	(2,104,757)	(1,638,671)	2,106,180	

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

38.4.1.2 Income impact from change in interest rates within one month

(LKR 'Thousands)	Increase in funding cost 2016		Increase in funding cost 2015	
	10 bps	25 bps	10 bps	25 bps
P&L impact (Monthly)	(3,177)	(7,944)	(1,052)	(2,631)

38.5 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 2016 : 20,000,000

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

Distribution of Shareholders

There were 3 registered shareholders as at 31 December 2016, distributed as follows.

Distribution of shareholders	As at 31 December 2016				As at 31 December 2015			
	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 31 December 2016				As at 31 December 2015			
	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 31 December 2016		As at 31 December 2015	
	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

Shareholding	As at 31 December 2016		As at 31 December 2015	
	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

DIRECTORS' AND CEO'S SHARE HOLDING AS AT 31 DECEMBER 2016

NIL

SHARE PRICES FOR THE YEAR

Market price per share
Highest
Lowest
As at end

31.12.2016

Rs.

Rs.22.40 *Not Traded
Rs.22.40 *Not Traded
Rs.22.40 *Not Traded

KEY RATIOS

Dividend Per Share (Rs.)
Dividend Payout Ratio
Net Asset Value Per Share (Rs.)

31.12.2016

2.31

0.13

82.75

31.12.2015

1.05

0.09

67.73

Corporate Information

DATE OF INCORPORATION	: 23rd February 2006	REGISTERED OFFICE	: No. 185, Union Place, Colombo 2
DATE OF RE-REGISTRATION	: 27th June 2007	AUDIT COMMITTEE	: Mr. A M Patrick - Chairman Mr. N S Welikala Mr. S A B Rajapaksa Mr. P S Jayawardena PC - appointed w.e.f : 29.02.2016 & resigned w.e.f : 15.06.2016 Mr. T S A Fernandopulle - appointed w.e.f : 26.10.2016
COMPANY REGISTRATION NO	: PB14PQ	INTEGRATED RISK MANAGEMENT COMMITTEE	: Mr. N S Welikala - Chairman Mr. A M Patrick Mr. B P Morris Mr. S A B Rajapaksa Mr. P S Jayawardena PC - appointed w.e.f : 29.02.2016 & resigned w.e.f : 15.06.2016 Mr. T S A Fernandopulle - appointed w.e.f : 26.10.2016 Mrs. D C Yatawaka Mr. P Mendis Mrs. D I Brohier Mr. H N N K Perera Mr. S Wickremesinghe Mr. S Fernando Mr. A P Indika - appointed w.e.f : 23.03.2016 Mr. S U Thenuwara - appointed w.e.f : 12.08.2016 Mrs. R E Weerasinghe - appointed w.e.f : 12.08.2016
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. 	REMUNERATION COMMITTEE	: The Remuneration Committee of the Company was formed on 10.02.2011 Mr. A M Patrick - Chairman Mr. N S Welikala Mr. S A B Rajapaksa Mr. P S Jayawardena PC - appointed w.e.f : 29.02.2016 & resigned w.e.f : 15.06.2016 Mr. T S A Fernandopulle - appointed w.e.f : 26.10.2016 Mr. K A Wijewickrama - resigned w.e.f : 24.08.2016
PRINCIPAL ACTIVITY	: Hire Purchase Leasing Auto Loans Operating Leases Acceptance of Deposits	RELATED PARTY TRANSACTIONS REVIEW COMMITTEE	: The Related Party Transactions Review Committee of the Company was formed on w.e.f : 29.02.2016 Mr. A M Patrick - Chairman - appointed w.e.f : 28.04.2016 Mr. N S Welikala Mr. S A B Rajapaksa Mr. P S Jayawardena PC - resigned w.e.f : 15.06.2016 Mrs. D C Yatawaka - appointed w.e.f : 24.08.2016
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 De Zoysa – Chairman - retired w.e.f : 29.09.2016 Mr. N S Welikala - appointed as Chairman w.e.f : 30.09.2016 Mr. B P Morris - Director/CEO Mr. S A B Rajapaksa Mr. A Majumdar Mr. N D Johnson - resigned w.e.f : 24.08.2016 Mr. S M Faulkner Mr. N S Welikala Mr. A M Patrick Mr. P S Jayawardena PC - appointed w.e.f : 29.02.2016 & resigned w.e.f : 15.06.2016 Mr. T S A Fernandopulle - appointed w.e.f : 26.10.2016 Mrs. D C Yatawaka Mr. K A Wijewickrama		
COMPANY SECRETARY	: Mrs. S D De Silva - resigned w.e.f : 05.03.2016 Mrs. R E Weerasinghe - appointed w.e.f : 05.03.2016 & resigned w.e.f : 03.05.2016 Ms. H Serasinghe - appointed w.e.f : 03.05.2016		
AUDITORS	: M/s. Ernst & Young Chartered Accountants		
BANKERS	: Bank of Ceylon Commercial Bank of Ceylon PLC Hongkong & Shanghai Banking Corporation Limited Nations Trust Bank PLC Peoples Bank PLC Sampath Bank PLC DFCC Vardhana Bank PLC DFCC Bank PLC Pan Asia Banking Corporation PLC National Development Bank PLC Union Bank of Colombo PLC Hatton National Bank PLC		

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